

REPORT

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Snapshot: Three Years of Implementation of the 2% Mechanism in the Republic of Moldova

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LRCM

**LEGAL
RESOURCES CENTRE
FROM MOLDOVA**

REPORT

SNAPSHOT: THREE YEARS OF IMPLEMENTATION OF THE 2% MECHANISM I IN THE REPUBLIC OF MOLDOVA

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Table of Contents:

Executive summary	5
Abbreviations	8
1. Amendments to the 2% Regulation	9
2. Registration of organisations in the List of 2% beneficiaries	10
3. How did the 2% percentage designation take place in 2019?	13
4. Number of taxpayers who made the 2% designation	20
5. Taxpayers' profile	25
6. Beneficiaries' profile	27
7. 2% amounts	29
8. Top 2% beneficiaries in 2019	38
9. Territorial profile of the 2% mechanism	42
10. 2% information campaign	48
11. Potential of the 2% mechanism	52
Conclusions	55
Recommendations	57

Executive summary

The year 2019 was the third year in which individual taxpayers in the Republic of Moldova had the right to designate 2% of their income tax to a noncommercial organisation or a religious entity eligible to benefit under this mechanism.

The third year of implementation of the 2% mechanism shows a slower growth compared to 2018 in terms of the number of registered organisations, the number of taxpayers who chose to designate 2%, and the amounts received by beneficiary organisations.

In 2019, the third year of percentage designation, 731 non-commercial organisations (634 associations, foundations and private institutions and 97 religious denominations and their components) were included in the List of 2% beneficiaries. The number of organisations participating in the 2% mechanism increased with 23% compared to 2018, when 594 non-commercial organisations were registered (511 associations, foundations and private institutions and 83 religious denominations and their components). Of the total number of organisations included in the List of 2% beneficiaries, 504 (about 70%) received percentage designations, 85% of these (427) being nongovernmental organisations (NGOs), and about 15% (77) - religious entities, a result similar to 2018. The total number of organisations registered under the mechanism in 2018 represents slightly above 5% (likewise 5% in 2017) of the total number of such organisations registered in the Republic of Moldova as of December 2018.

In 2019, 35,937 taxpayers directed 2%, i.e. about 27% more compared to 2018. However, the increase in the number of taxpayers who directed 2% in 2019 is lower than that recorded in 2018, when the growth was about 34%. The number of taxpayers who directed 2% in 2019 is approximately 11% of the total number of taxpayers who submitted income tax declarations on time, which is lower compared to 2018 when it was about 13%. Of the total number of taxpayers who directed 2%, 68% were not required to file an income tax return, but chose to do so in order to direct 2%, this figure being higher than in previous years.

The number of 2% designations and the validated 2% amount increased in 2019 compared to previous years. After verifying compliance with the legal requirements, the State Tax Service validated the designations of **34,066 taxpayers** (about 95% of the total number of applicants) amounting to **MDL 7,691,666.3 (USD 429,942 / EUR 386,127)**. About 5% of taxpayers' designations (1,880) or 6% of the designated amount

(MDL 518,333.7) were not validated, the main reason being, as in previous years, unpaid income tax due by taxpayers for the current or previous years.

Overall, in three years of implementation of the 2% mechanism, the beneficiary organisations received the amount of MDL 16,143,952.26 (USD 902,400.9 / EUR 810,439.4).

Upon the validation of the 2019 designations, 89.5% of the amounts went to NGOs (MDL 6,882,518.50), and 10.5% - to religious entities (MDL 809,147.80). On average, in 2019 each taxpayer had designated about **MDL 228.5**, of which about **MDL 214.03** were validated. On average, each beneficiary organisation received about **MDL 16,290** as per the total amount directed, and about **MDL 15,261** - upon the validation of the 2% amounts.

From a territorial perspective, the main beneficiary of the 2% mechanism is Chisinau city. Most organisations to which 2% were designated are based in Chisinau, namely about 65% (329 out of 504 beneficiaries) of the total number of 2% beneficiaries in 2019, the other 35% are organisations based outside Chisinau. Only 29% of all taxpayers who directed 2% resided in Chisinau. Although they are numerically fewer than the taxpayers from other areas, they directed about 48% of the 2% amounts received by the beneficiary organisations, which means that they have higher incomes. Overall, in three years (2017-2019), taxpayers residing in Chisinau directed 48% of all 2% amounts, and those residing outside Chisinau – the remaining 52%.

Although the taxpayers residing in Chisinau city were numerically fewer (29%) and the amount directed by them was lower (48%) than that directed by taxpayers from other areas, the beneficiary organisations in Chisinau received the largest share of the designated amount - **MDL 6,210,446.56**, i.e. approximately 81% of the total validated amount. The organisations outside Chisinau received percentage designations in the amount of **MDL 1,481,219.74**, which is about 19% of the total validated amount. Overall, in three years (2017-2019), organisations based in Chisinau received **82%** of all 2% amounts, and those based outside Chisinau only **18%**.

The highest amount received by an organisation in 2019 was **MDL 1,776,704.38**, which is 23% of the total validated amount. The beneficiary of this amount is the Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova, which receives the highest amount of 2% designations for the third consecutive year.

A considerable share of the 2% designations goes to organisations that have connections with state institutions - they are created by former or current employees of state institutions and/or have connections with public persons. The number of these organisations is growing every year. The 2% amounts received by organisations that have connections with state institutions and/or public persons are increasing every year - in 2018 they grew by 78.3%, and in 2019 - by 21%. In fact, the increase of such designations largely contributed to the increase of the total 2% amount. The share of 2% designations received by organisations that have connections with state institutions and/or public persons is considerable - in 2017 it was about 50%, in 2018 - about 45%, and in 2019 - about 40%. Overall, in three years (2017-2019), the share of the 2% amounts received by these organisations was **43%**.

Unlike 2018, the most active period in which taxpayers filed income tax declarations and directed 2% was in **April** (in 2018 - in March). About 18,113 designations (55%) were made during this period. Most of the income tax declarations by which the percentage designation was made have been submitted in paper format or by means of rapid tax return (24,568 designations or 75% of the total number). At the same time, the number of taxpayers who directed 2% through **electronic tax declarations** increased by about 36% (8,133 designations or 25% of the total number).

The statistics for the first three years of implementing the 2% mechanism shows that the 2% mechanism is still in its early phase and that its potential is quite high. In 2019, only 2.8% of taxpayers who were entitled to make percentage designations did exercise this right and only 9% of the amount that could have been directed under the 2% mechanism was actually directed.

Abbreviations

2% Mechanism	Percentage designation mechanism
2% Regulation	Regulation on the percentage designation mechanism, approved by the Government Decision no. 1286 of 30 November 2016
CET15/CET18 Declaration	Personal Income Tax Declaration
CSOs	Civil Society Organisations
List of 2% beneficiaries	List of beneficiaries of the percentage designation mechanism published by the Public Services Agency
NGOs institutions	Public associations, foundations, private
PSA	Public Services Agency
Religious entities	Religious denominations and their components
STS	State Tax Service

1. Amendments to the 2% Regulation

On 18 January 2019, the Government approved a number of amendments¹ to the Regulation on the percentage designation mechanism². All competence related to the preparation and keeping of the List of 2% beneficiaries was transferred from the Ministry of Justice to the Public Services Agency (PSA), pursuant to the legislative amendments adopted in November 2018³. The application for registration in the List of 2% Beneficiaries can be filed both in writing and electronically. The Public Services Agency is required to inform the organisations already included in the list about any existing debts to the state budget and to give them 10 working days to pay the debt.

One of the approved changes concerns the notification of individuals wishing to make the percentage designation about any existing debts. At the time of submitting the income tax declaration, the taxpayer will be entitled to request from the tax operator information on the existence/absence of income tax related debts to the budget. The amendments also introduced the notification of taxpayers who directed 2% about the status of percentage directing through the mailbox in the taxpayer's personal electronic cabinet on the portal of the State Tax Service (STS). To be able to receive such notification, the taxpayer has to subscribe to electronic tax services.

The STS statistical report was completed with the following data - age of percentage designators, the number of designations made by filing the income tax declaration in the electronic and paper format, statistical data on the grounds for non-validation of designations and the number of invalidations per each ground, the total designated amount and the amount of non-validated designations. Beneficiary organisations will be able to request information on the number of individuals who have directed percentage designations to them and the locality of the designators.

¹ Government Decision no. 8 of 18 January 2019 amending the Regulation on the percentage designation mechanism, approved by Government Decision no. 1286/2016, https://www.legis.md/cautare/getResults?doc_id=112003&lang=ro.

² Government Decision no. 1286 of 30 November 2016 on the percentage designation mechanism, https://www.legis.md/cautare/getResults?doc_id=113591&lang=ro#.

³ Law no. 308 of 30 November 2018, <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=378516>.

2. Registration of organisations in the List of 2% beneficiaries

Registration process

In order to benefit from percentage designations in 2019, the third year of implementation of the percentage designation mechanism, non-commercial organisations and religious entities registered in the List of 2% beneficiaries between 3 and 30 September 2018. For the first time, the Public Services Agency, which in April 2018 took over the responsibility for registration of the organisations for the percentage designation mechanism, was in charge of registration of potential beneficiaries⁴. Since some of the PSA staff responsible for the processing of 2% applications are former employees of the Ministry of Justice (non-commercial organisations department), the process of registration for the mechanism was not affected, as the institutional memory and continuity of the process were ensured.

This conclusion can be confirmed by the opinion of the respondents to the questionnaire for the assessment of the percentage designation mechanism for organisations and civil society representatives, conducted in 2019. According to the respondents, the registration procedure was little complicated or not complicated at all: 88% of the respondents (versus 86% in 2018)⁵.

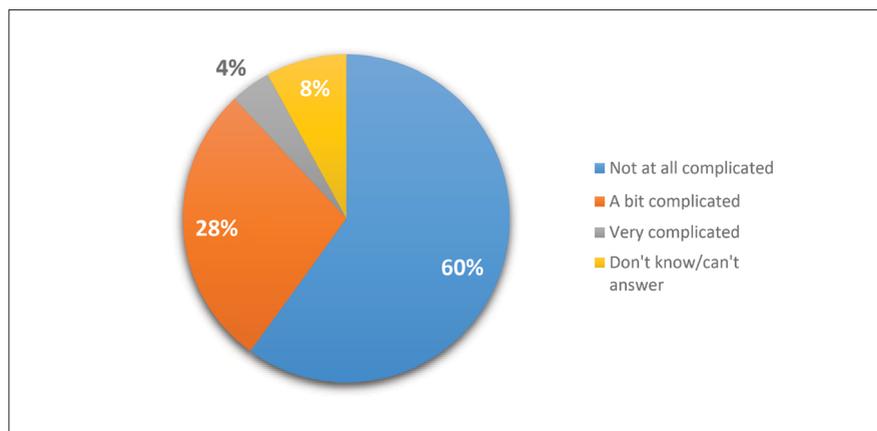


Figure 1. Perception of representatives of civil society organizations regarding the procedure of registration in the List of 2% beneficiaries

⁴ Amendments to the Law no. 837/1996 on public associations of April 2018.

⁵ LRCM „One Year of Implementation of the 2% Mechanism in Moldova”, June 2018, http://crjm.org/wp-content/uploads/2018/07/Raport_Un-an-de-la-implementarea-mecanismului-2_web.pdf.

Similarly to previous years, the organisations were able to submit the application for registration in the List of 2% beneficiaries both in person and by e-mail⁶. However, some non-commercial organisations reported that they were not able to register for the 2% mechanism online because the application was not confirmed by electronic signature. According to PSA representatives, this new requirement was imposed by the entry into force of the new Administrative Code. According to the Code, the application for registration in the List of 2% beneficiaries must meet the requirements provided for in art. (1) of this Code, namely, the petition (application) submitted electronically must be confirmed by the electronic signature. Thus, since 2019, non-commercial organisations wishing to register for the mechanism online, are required to obtain the electronic signature first.

Under Art. 76 para. (2) of the Administrative Code, the PSA allowed 5 calendar days in order for the organisations that had applied online for registration in the list of beneficiaries to remove these inconsistencies. Thus, the organisations applying for registration had the possibility to apply the electronic signature on the application or to apply to the mechanism by the classical method, directly, by signing and sending/submitting a paper application.

Another non-commercial organisation was not able to register in the mechanism because it had sent the application in electronic format on the last day of registration with the mechanism (September 30) after the closing of the PSA working program. The PSA received the electronic message at 18:02. The PSA motivated the rejection of the application by the provisions of the PSA By-laws, which lay down, among others, the working program of the PSA employees. The non-commercial organisation challenged the PSA's refusal in court, and the case is pending.

The PSA approach raises concerns in the light of the provisions of the Civil Code, which establishes in art. 388 para. (6) that "Documents delivered to the post or telegraph offices before 12:00 p.m. of the last day of the deadline shall be deemed submitted on time. Submitting the document by teletype, fax or any other means of communication is equivalent to submitting it to the post office". In our opinion, the phrase "by any other means of communication" also applies to electronic communication by e-mail, which is one of the advantages of the possibility to send the documents electronically. In this case, in order to avoid similar situations, the PSA should inform the potential beneficiaries about the limitations of the registration procedure or accept the submission of the electronic file beyond the working hours of the PSA employees. Pending the issuance of a final solution on this case, in order to avoid similar situations, the non-commercial

⁶ According to the information posted on the official webpage of the PSA, applications submitted online can be sent to the electronic address: dilud@asp.gov.md.

organisations should file the applications for registration with the mechanism before the deadline for application and during the working hours of the PSA (08:00 - 17: 00).

Publication of the List of beneficiaries of the percentage designation. Potential number of beneficiaries

In early January 2019, PSA published the list of beneficiaries of the percentage designation⁷. According to the list, in the second year of the mechanism implementation, 731 non-commercial organisations managed to register in the List of beneficiaries (compared to 594 in the second year of implementation of the mechanism - 137 organisations more or a 23% increase). The 2% Regulation provides that organisations included in the List of 2% Beneficiaries in previous years are automatically included in the List of 2% Beneficiaries by the PSA, provided that they have no debts to the national public budget for previous fiscal periods or have not requested exclusion from the 2% mechanism⁸. This would be the main cause of the increase in the number of organisations registered for the mechanism, in addition to the beneficiary information campaigns on the 2% mechanism, carried out by several CSOs.

The ascending trend of the number of organisations wishing to participate in the 2% mechanism is expected to continue in the coming years of mechanism implementation, considering that between 1 and 30 September 2019 (the fourth year of implementation) and 1- 30 September 2020 (fifth year of implementation) the number of organisations applying for registration with the mechanism increased steadily (Fig. 2).

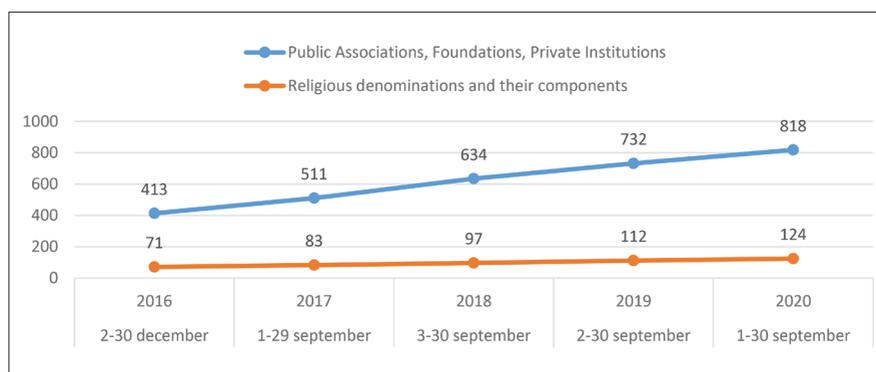


Figure 2. Comparative data
(CSOs registered for the mechanism in 2016-2020)

⁷ See: List of 2% beneficiaries for 2019, <http://asp.gov.md/ro/node/3963>.

⁸ GD no. 1286 of 30 November 2016 approving the Regulation on the percentage designation mechanism, pt. 6, <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=367801>.

Out of the total number of organisations registered in the third year of the mechanism, 634 were associations, foundations and private institutions and 97 - religious denominations and their components. The total number of organisations registered with the mechanism accounts for just over 5% (4% in 2017) of the total number of non-commercial organisations registered in the Republic of Moldova before December 2018. According to the State Register of non-commercial organisations, a total of 12,681 CSOs were registered in the Republic of Moldova at that time, of which approximately 419 registered in 2018⁹.

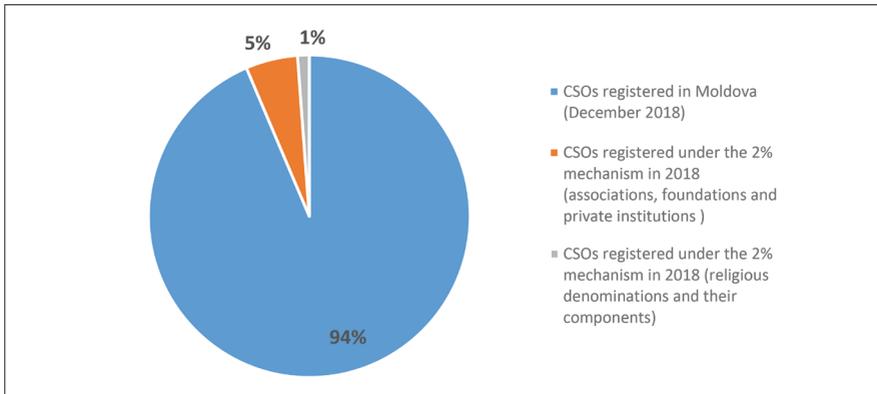


Figure 3. Share of organizations registered in the third year for the percentage designation mechanism in the total number of organizations registered in the Moldova in 2018

3. How did the 2% percentage designation take place in 2019?

Two forms instead of one

Following the tax reform implemented in autumn 2018 and the change in the salary tax thresholds, the Personal Income Tax Declaration Form (CET15) was updated and a new version of the form (CET18) was approved. Thus, in 2019, individual taxpayers submitted two income tax declarations with the STS: The CET15 Form or the Personal Income Tax Declaration for income earned between January and September 2018 and the CET18 Form or the Personal Income Tax Declaration for the income earned in October - December 2018.

⁹ USAID Report "Civil Society Organization Sustainability Index 2018", <http://crjm.org/wp-content/uploads/2019/10/Indexul-Sustenabilitatii-OSC-2018.pdf>.

How did the taxpayers find out about the 2% designation?

When interviewed about how they found out about the 2% mechanism, most respondents of the questionnaire developed by the Legal Resources Centre from Moldova (LRCM) on the assessment of the percentage designation mechanism said they had learned about the mechanism from the internet, including social media (15 respondents), mass media, including TV and radio (13 respondents) and training workshops, conferences and other outreach exercises carried out by the NGOs (12 respondents). Six respondents identified themselves as promoters of the 2% mechanism, while other respondents got the information at work. Another positive finding is that at least three respondents were informed about the mechanism by representatives of the State Tax Service. Although the questionnaire does not claim to be representative, its findings reflect a situation similar to the one in the first years of mechanism implementation¹⁰.

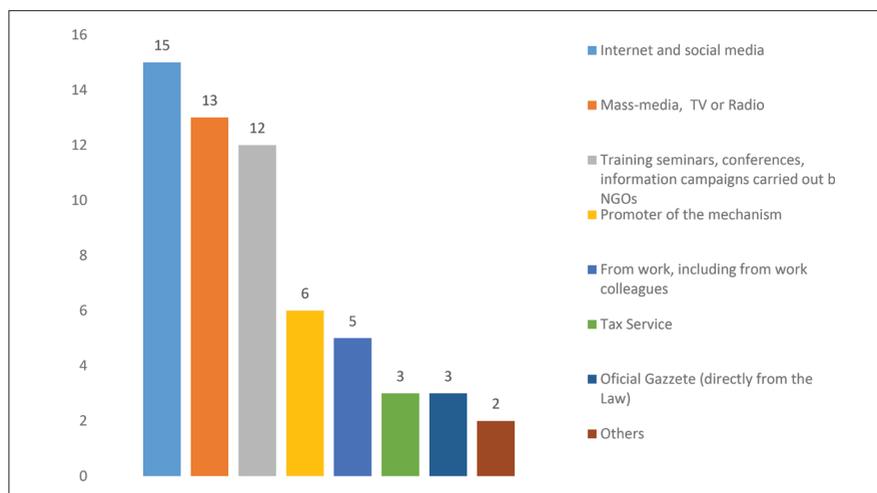


Figure 4. Sources of information about the possibility to direct 2% of the income tax (2019). Source: LRCM questionnaire

When did the taxpayers choose to make the percentage designation?

In the third year of implementation of the percentage designation mechanism, 34,066 taxpayers (compared to 28,388 or 20% more than in 2018) decided to exercise their right to designate 2% of income tax to support the activity of non-commercial organisations.

¹⁰ LRCM Report "One Year of Implementation of the 2% Mechanism in Moldova", Chisinau, 2018, p. 20, http://crjm.org/wp-content/uploads/2018/07/Raport_Un-an-de-la-implementarea-mecanismului-2_web.pdf. LRCM Report "Two Years of Implementation of the 2% Mechanism in Moldova", Chisinau, 2019, p. 16, https://crjm.org/wp-content/uploads/2019/09/Doi-ani-de-implementare-a-mecanismului-2_web_final-1.pdf.

It is important to underline that in 2018 the number of designations is not proportional to the number of taxpayers, given that in 2018 each taxpayer had to submit two income tax statements for the periods January - September and October - December 2018, for the reasons explained above. This is also the reason why in some cases the percentage designation was validated only for one of the two forms. More details on the number of effective designations in 2019, divided by months, are shown in the table below:

Table 1. Number of percentage designations made in 2019, divided by months

2019 period	Number of designations made		
	Total	Validated	Non-validated
January	8	8	0
February	763	748	15
March	19,891	18,977	914
April	36,227	34,490	1,737
May	8,471	7,779	692
14.04-02.05.2019 period	24,103	22,631	1,472
Total	65,360	62,002	3,328

Considering that the number of designations is almost double in 2019 due to the requirement to submit two income declarations, the data reflecting the number of percentage designations with a monthly breakdown were estimated based on the total number of designations. Therefore, most of the validated designations (over 50% of the total) were submitted in April 2019. More details are shown in the table below:

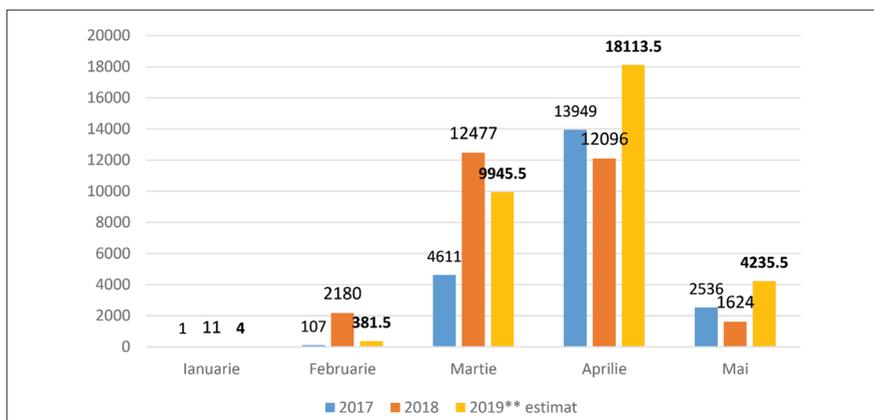


Figure 5. Comparative data on the number of 2% designations made in 2017-2019. Source: State Tax Service¹¹

The data show a positive development dynamics of the percentage designation mechanism. These data are particularly relevant for beneficiary organisations that decide when to run their 2% information and promotion campaigns.

What arrangements did the taxpayers choose for the 2% designation?

According to the 2% Regulation, the income tax declaration can be filled in any of the following three ways:

- (a) in person,
- (b) by post,
- (c) online, by applying the electronic signature.

According to the information provided by the STS, in 2019, most statements were submitted on hard copy or by the rapid declaration (49,135 designations or 75% of the total number). 16,225 designations (or 25% of the total number) were submitted through the electronic declaration¹².

¹¹ For 2019, the figures are estimated, as the taxpayers submitted two income tax statements following the implementation of the tax reform in the fall of 2018.

¹² State Tax Service, Reply no. 26-15/1-13/3104 of 24 February 2010 to LRCM's information request.

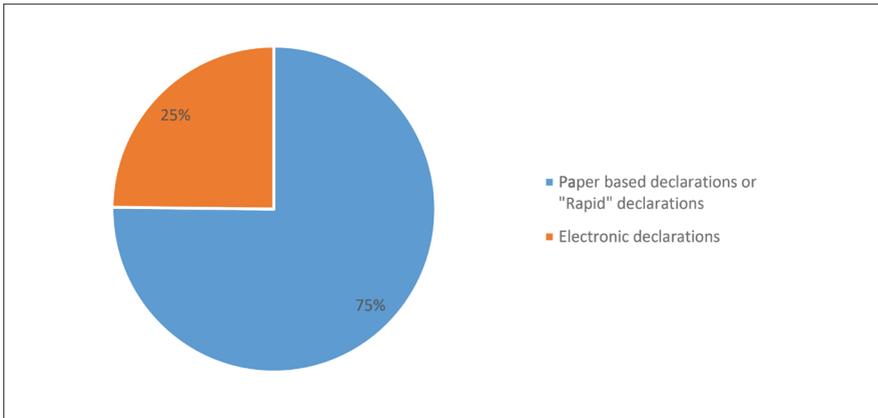


Figure 6. Format of the declaration chosen by taxpayers to make the 2% designations in 2019 (the third year of mechanism implementation)

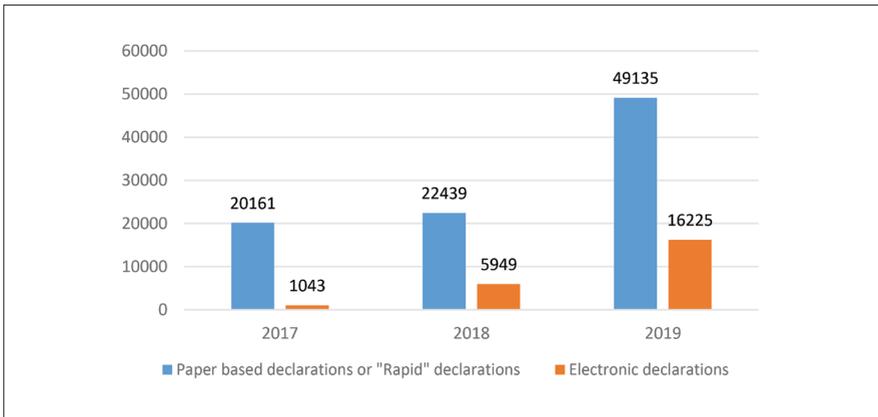


Figure 7. Format of the declaration chosen by taxpayers to make the 2% designations in 2017 – 2019¹³ Source: State Tax Service

The numbers suggest that in 2019 the number of statements submitted online grew by over 36% compared to 2018, these being submitted by taxpayers who did not go to the STS in person in order to file the income tax declaration. Thus, the number of electronic statements reached over 30% of the total number of submitted statements, showing a positive trend of development of the percentage designation mechanism in the Republic of Moldova.

¹³ The 2019 data show an estimated double number of percentage designations following the 2018 autumn reform.

Table 2. Comparative data on how the 2% amounts were designated in 2017 – 2019.

	2017	2018	+% compared to the previous year	2019 (estimated)	+% compared to the previous year
Declaration on a hard copy or rapid declaration	20,161	22,439	+11%	24,568	+9%
Electronic declaration	1,043	5,949	+470%	8,113	+36%

Taxpayers' experiences in the third year of implementation

Asked to speak about how their percentage designation took place in 2019, the respondents to the LRCM questionnaire shared various experiences, both positive and negative. While some respondents characterized the mechanism as simple, without any difficulties, others pointed to some irregularities that should be studied in detail. The answers were provided confidentially by the respondents. In particular, these refer to the reluctance of STS employees to consult taxpayers on the designation procedure, or even provision of some misleading information of beneficiaries about the mechanism. Some eloquent examples are briefly described below.

Positive experiences

„[...] I haven't encountered any difficulties”
 „[...] Any difficult issues have been explained to me, it is very simple”
 „[...] My colleagues made this designation by visiting the STS in person and they did not encounter any difficulties, as there are no queues in February, unlike in the last days of the CET18 presentation.”

Respondents in the LRCM's survey for beneficiary organisations and taxpayers on the assessment of the percentage designation mechanism

Negative experience

„[...] The Inspectorate employee printed the statement quickly. When I told him that I wanted to indicate a 2% beneficiary in the statement, he said: let us not waste paper....”

„[...]„The tax inspectorate said that 2% designation was possible for the Police Association only”

Respondents in the LRCM’s survey for beneficiary organisations and taxpayers on the assessment of the percentage designation mechanism

These concerns do not appear to be unfounded, especially in view of the beneficiaries of most designations (see the section “Top beneficiaries of percentage designation in 2019” and “Percentage designation amounts”). In this context, both for the CSOs participating in the mechanism and the representatives of the state authorities (especially the STS) should continue to ensure that taxpayers are properly informed about the mechanism, including about the possibility of confidential designation and the possibility to submit a new income tax declaration.

Possibility to make the percentage designation for justice professionals ... postponed to 2021

In 2016, the 2% Regulation included a restrictive provision according to which designations could only be made from the income provided in art. 88-90 of the Tax Code (wages, interest and service provision), although this was not provided by the Tax Code. This way, persons who, according to the law, had the right to designate, including individual entrepreneurs, lawyers, notaries, authorized administrators and mediators, were excluded from the designation mechanism. Although in 2017 this restriction was lifted, taxpayers engaged in professional and entrepreneurial activity were still not able to make percentage designations in 2019. In practice, this was not possible, because the sample income tax declaration submitted by these categories of taxpayers (DAJ17) did not include the 2% designation field, unlike the CET18 standard form for natural persons.

On 10 January 2020, following several advocacy measures implemented by CSOs, the income tax declaration form for persons working in the justice sector (DAJ17) was amended.¹⁴ However, according to the amendments, the persons practicing activity in the field of justice can make the designation only for the income obtained in 2020 (i.e. after 1 January 2021). Therefore, a right provided by the law was delayed by the STS for 4 years.

4. Number of taxpayers who made the 2% designation

Number of taxpayers who made the 2% designation

In 2019, the third year when individual taxpayers were entitled to make the 2% designation, the number of taxpayers who chose to designate 2% was 35,937¹⁵. This is an increase by about 27% compared to the number of taxpayers who made the 2% designation in 2018. At the same time, this increase is lower than the one recorded in 2018 compared to 2017, when it was about 34%.

Table 3. Number of taxpayers who made the 2% designation in 2017-2019

	2017	2018	+/- %	2019	+/- %
Total number of taxpayers who made the 2% designation	21,204	28,388	+33,8%	35,937	+26,5%

¹⁴ See the order of the Minister of Finance no. 9 of 15 January 2018 issued by the Minister of Finance no. 5 of 10 January 2020, in force since 17 January 2020 approving the standard form of the Income Tax Statement for persons working in the justice sector.

¹⁵ In 2018, due to the tax reform, taxpayers directed 2% by submitting two income tax statements: January - September 2018 and October - December 2018. For this reason, the number of taxpayers who designated 2% and the number of 2% designations are indicated separately in the STS report on 2% designation in 2019. For the purpose of this report, to make a comparison with the previous years, we will only analyse the number of taxpayers who made the 2% designation. STS Report on 2% results in 2019 is available here: https://www.sfs.md/raport_activitate_SFS.aspx?file=13240.

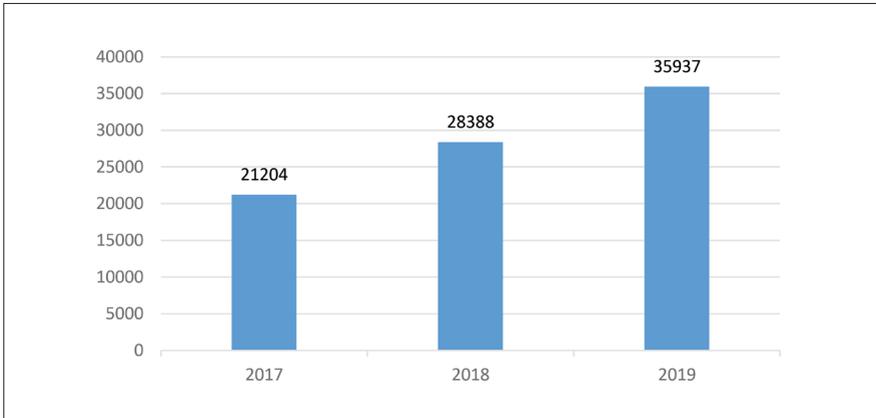


Figure 8. Number of taxpayers who made the 2% designation in 2017-2019

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

Although the number of taxpayers who made the 2% designation increased in 2019 compared to previous years, the ratio between the number of taxpayers who filed the income tax declaration and who made the 2% designation was 11.2% in 2019, i.e. remained the same as in 2017. The increase in 2019 was lower than in 2018, when it was 13.4%.

Table 4. Number of taxpayers who filed the income declaration and directed 2% of the income tax in 2017-2019

Year	No. of taxpayers who filed their income tax declaration	No. of taxpayers who made the 2% designation	%
2017	187,731	21,204	11,2%
2018	211,208	28,388	13,4%
2019	320,515	35,937	11,2%

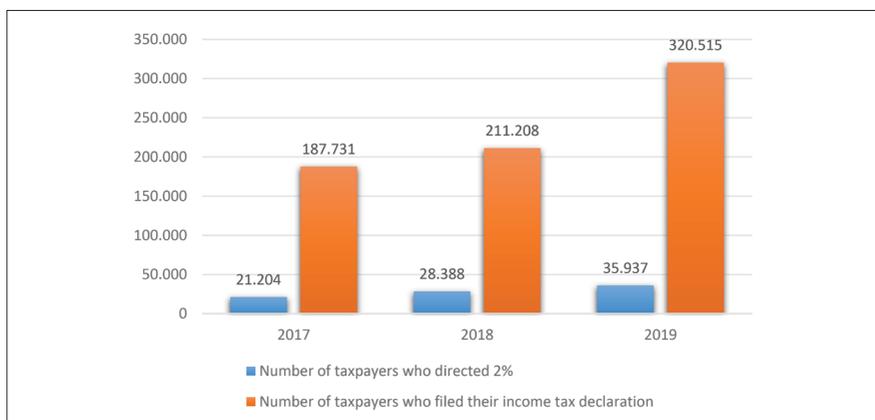
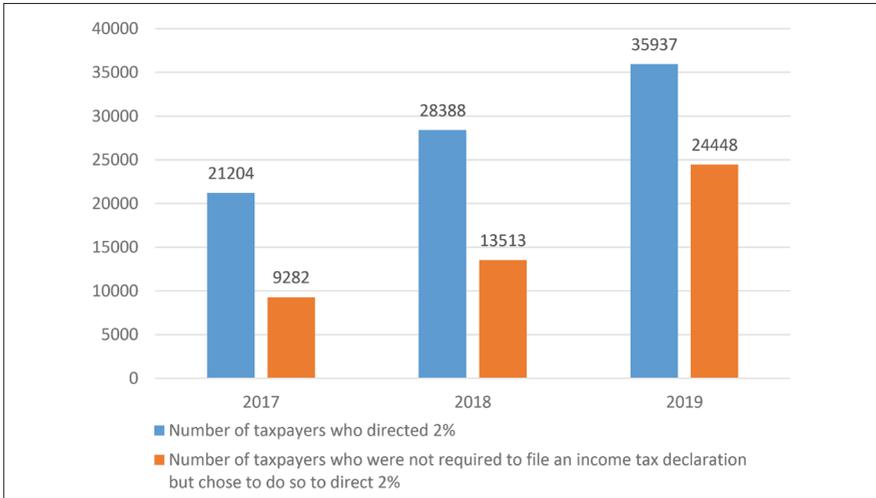


Figure 9. Number of taxpayers who filed the income declaration and directed 2% of the income tax in 2017-2019

The number of people who are not required to file an income tax declaration, but choose to do so specifically in order to make the 2% designation, is increasing every year. In 2019, 24,448 people made an additional effort to submit the income tax declaration in order to designate 2%, which is 68% of the total number of taxpayers who made the 2% designation, an increase compared to the previous years.

Table 5. Ratio of taxpayers who made the 2% designation despite not being required to file an income tax declaration in 2017-2019

Year	Number of taxpayers who made the 2% designation	Number of taxpayers who were not required to file the income tax declaration, but chose to do it in order to designate 2%	%
2017	21,204	9,282	43,8%
2018	28,388	13,513	47,6%
2019	35,937	24,448	68%



Number of validated and non-validated 2% designations

The number of non-validated 2% designations¹⁶ decreased for the third consecutive year. Out of the total of 35,937 designations made in 2019, 34,066 (about 95%) were validated by STS, and 1,880¹⁷ (about 5%) were not validated. The rate of non-validated designations decreased in both 2018 and 2019, which is a positive trend showing that people are better aware of the importance of checking the criteria for validation of the 2% designations made by them.

¹⁶ According to p. 20 of the 2% Regulation, the STS does not validate the percentage designation in the following cases:

- 1) the personal income tax statement for the tax period was filed after the deadline provided for by the tax legislation;
- 2) the beneficiary of percentage designation is not included in the updated List of beneficiaries, published by the PSA;
- 3) the individual taxpayer has income tax debts for fiscal periods other than the one in which the percentage designation was made;
- 4) the individual taxpayer has not paid the income tax declared from which the percentage designation was made;
- 5) the individual taxpayer has indicated more than one beneficiary in their income tax declaration for the respective fiscal period.

¹⁷ In 2018, following the tax reform, taxpayers designated 2% by submitting two income tax statements: January - September 2018 and October - December 2018. In case of some taxpayers, one designation was validated and another one was not. Therefore, the total number of taxpayers who made the 2% designation does not coincide with the number of taxpayers whose 2% designations were validated and whose designations were not validated.

Table 6. Number of validated and non-validated 2% designations in 2017-2019

Year	No. of taxpayers who made the 2% designation	No. of taxpayers whose 2% designations were validated	% of the total no.	No. of taxpayers whose 2% designations were not validated	% of the total no.
2017	21,204	16,182	76,3%	5,022	23,7%
2018	28,388	25,519	89,9%	2,869	10,1%
2019	35,937	34,066	94,8%	1,871	5,2%

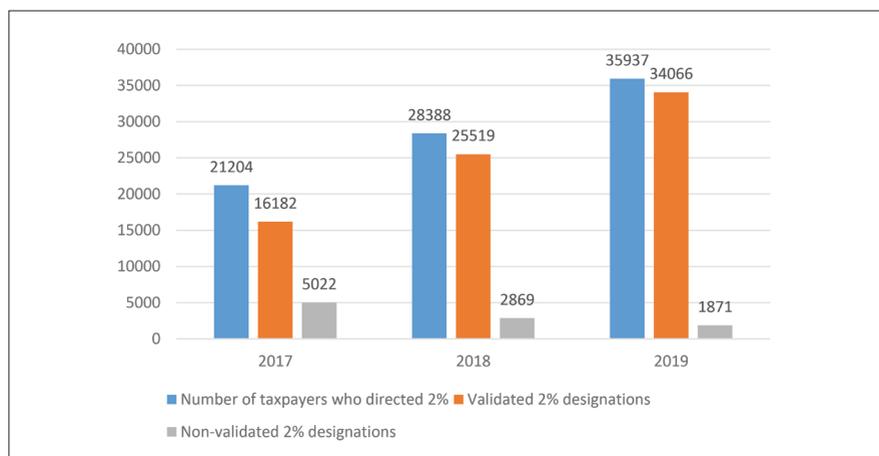


Figure 11. Number of validated and non-validated 2% designations in 2017-2019

According to the information published by STS, the reasons for not validating the 2% designations in 2019 were the following:¹⁸

- the beneficiary of the percentage designation was not included in the updated List of 2% beneficiaries;
- the individual taxpayer has debts to the income tax at the deadline for submitting the income tax declaration, established by the tax legislation.

¹⁸ For a 2% designation, several grounds for non-validation can be presented.

5. Taxpayers' profile

Taxpayers' profile by age

As in previous years, the most active taxpayers who made percentage designations in 2019 are between 31 and 50 years old, their number amounting to 19,669 total designations (58%) and 18,575 validated designations (55%). They are followed by taxpayers in the age group 51-70 (third position in 2018) with 8,985 total designations (26%) and 8,506 validated designations (25%). People aged 18 to 30 were less active than in previous years - 7,041 total designations or 21% and 6,759 validated designations or about 20%. The percentage designation mechanism was also used by taxpayers over 70 years of age (242 total designations and 226 validated designations - 1% of all designations).

Table 7. Number of taxpayers who made the 2% designation in 2019 by age group

Taxpayers' age	Number of designations made		
	Total	Validated	Non-validated
18-30	7,041	6,759	282
31-50	19,669	18,575	1,094
51-70	8,985	8,506	479
> 70	242	226	16
Total	35,967	34,066	1,871

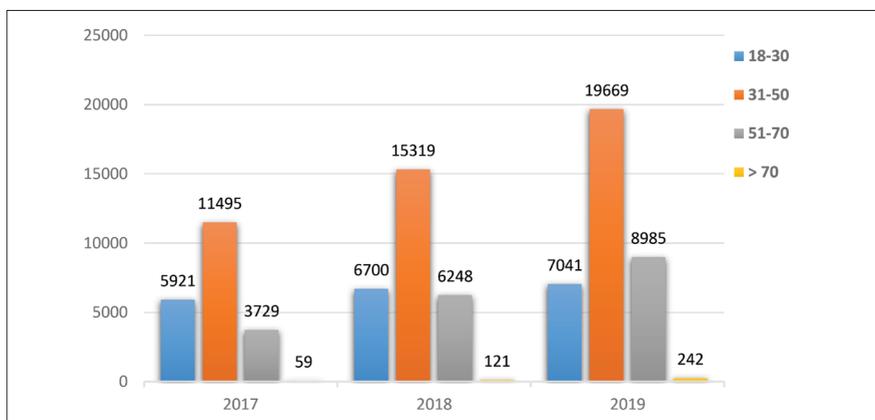


Figure 12. Comparative data on the number of taxpayers who made the 2% designation in 2017-2019 by age group

Taxpayer's profile by gender

According to the gender distribution of the taxpayers who made percentage designation, men were the most active in 2% designation - 20,994 designations in total (58%), of which 19,897 were validated (95%). Women designated in a smaller number - 14,973 total designations (42%), of which 14,170 were validated (95% of the total number of designations made by women).

Table 8. Number of taxpayers who made the 2% designation in 2019 by gender

Taxpayers' gender	Number of 2% designations		
	Total	Validated	Non-validated
Women	14,943	14,170	773
Men	20,994	19,897	1,898
Total	35,937	34,066	1,871

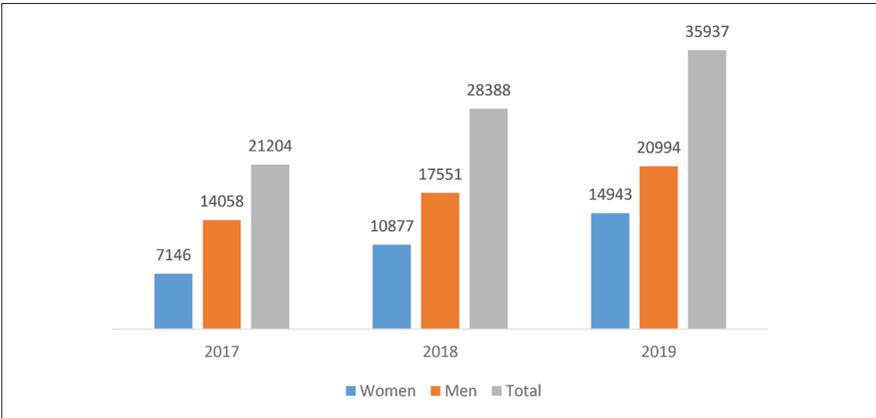


Figure 13. Comparative data on the number of taxpayers who made the 2% designation in 2017-2019 by gender

6. Beneficiaries' profile

Of the 731 organisations registered in 2019 in the List of 2% beneficiaries, 504 (70%) received percentage designations.



Figure 14. Number of beneficiaries of the percentage designation mechanism in 2019

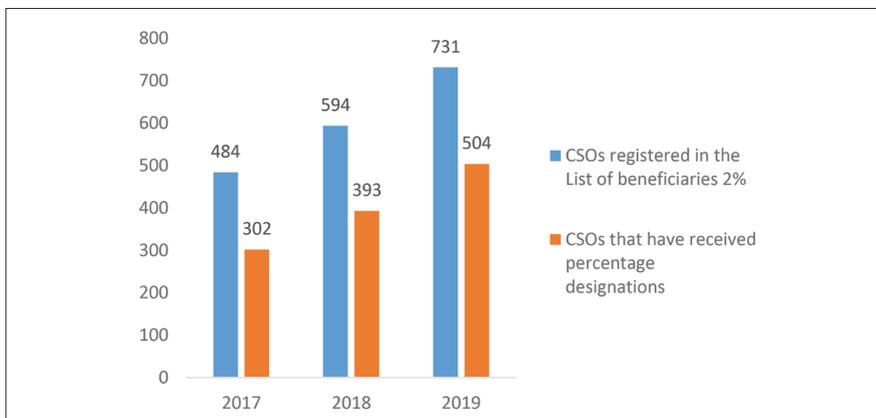


Figure 15. Comparative data on the number of beneficiary organisations in 2017-2019

Of the 504 organisations that received percentage designations in 2019, 427 are NGOs, accounting for about 85% of all beneficiaries, while 77 organisations are religious entities, i.e. about 15% of the total number of beneficiaries. The numbers are similar to those of the first two years of implementation (86% vs. 14% in the first year and 85% vs. 15% in the second year).

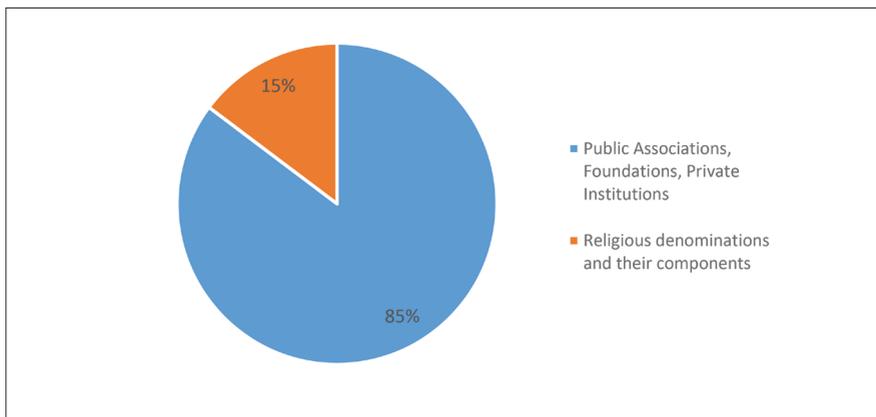


Figure 16. Categories of mechanism beneficiaries in 2019

7. 2% amounts

The total and validated 2% amount increased in 2019 compared to previous years. After checking the legal conditions, STS validated 2% designations in the amount of **MDL 7,691,666.3 (USD 429,942 / EUR 386,127)**. About 6% of the designated amount (MDL 518,333.7) was not validated, the main reason being, as in previous years, the presence of unpaid income tax debts by taxpayers for the current year or previous years.

Overall, in the three years of 2% mechanism implementation, the organisations received the amount of **MDL 16,143,952.26 (USD 902,400.9 / EUR 810,439.4)**.

After the validation of designations, in 2019, 89.5% of the amounts went to NGOs (MDL 6,882,518.50), and 10.5% - to religious entities (MDL 809,147.80). On average, in 2019, each taxpayer designated about MDL 228.5, of which about MDL 214.03 were validated. On average, each beneficiary organisation received about MDL 16,290 according to the total designated amount, and after the validation of the 2% amounts - about MDL 15,261.

Total 2% amounts, validated and not validated

In 2019, the third year of implementation of the 2% mechanism, the total designated 2% amount registered a positive growth trend. According to data provided by STS, the total 2% amount designated by taxpayers, before validation, was **MDL 8,210,000 (USD 458,915/EUR 412,148¹⁹)**, 26% more than in 2018. However, the increase in the total amount in 2019 stagnated compared with 2018, when a 57% increase was recorded.

The 2% amount actually received by the beneficiaries, i.e. the amount validated by the STS, amounted to **MDL 7,691,666.3 (USD 429,942 / EUR 386,127)**. In 2019, the validated amount was the highest of all 3 years, amounting to about 94% of the total designated amount, compared to 87% in 2018 and 68% in 2017. This was due to the fact that a much smaller amount was validated, i.e. taxpayers complied better with the 2% designation validation criteria.

The non-validated 2% amount constituted in 2019 **MDL 518,333.7 (USD 28,973 / EUR 26,021)**, which is only 6% of the total designated 2% amount. The rate of the non-validated amount decreased considerably in 2019 compared to 2018, when it accounted for 13% of the total designated 2% amount and with 2017, when it accounted for 32%.

¹⁹ According to the exchange rate of the National Bank on 2 May 2019 (last day when the 2% designation was possible in 2019), USD 1 = MDL 17.89 and EUR 1 = MDL 19.92, <http://bnm.md/>.

Table 9. Designated 2% amounts, validated and non-validated in 2017-2019

	Total designated amount	Validated 2% amount	% of the total	Non-validated 2% amount	% of the total
2017	4,140,868.43	2,821,243.60	68%	1,319,624.83	32%
2018	6,493,612.03	5,631,042.36	87%	862,569.67	13%
+/- % compared to the previous year	+57%	+ 99%	-	- 35%	-
2019	8,210,000	7,691,666.3	94%	518,333.7	6%
+/- % compared to the previous year	+26%	+37%	-	-40%	-

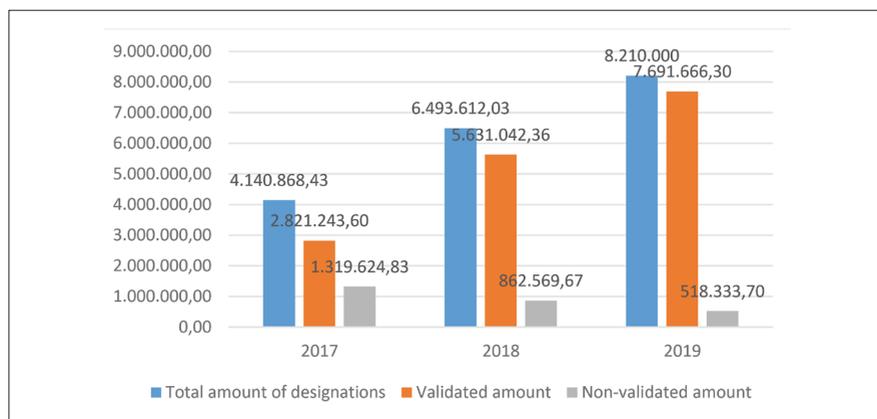


Figure 17. Designated 2% amounts, validated and non-validated in 2017-2019

Overall, in the three years of 2% mechanism implementation, the organisations received the amount of **MDL 16,143,952.26 (USD 902,400.9 / EUR 810,439.4)**.

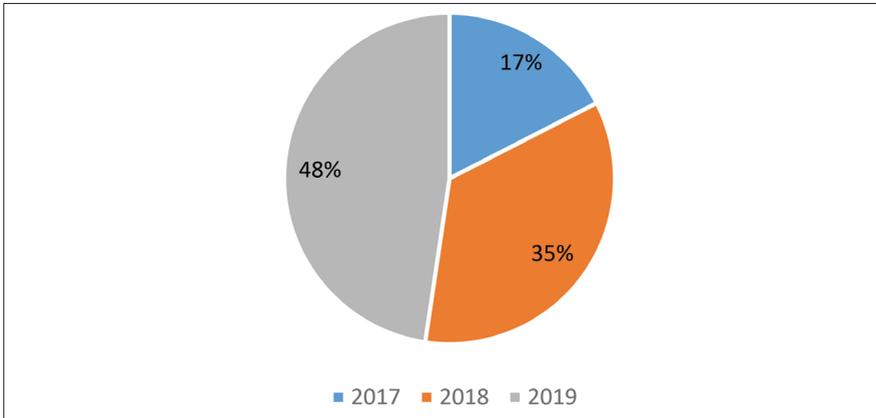


Figure 18. Total 2% amount validated and received by beneficiary organisations in 2017-2019

2% amounts by categories of beneficiaries

The beneficiaries of the percentage designations are either NGOs or religious entities registered in the List of 2% Beneficiaries. After the validation of the designations, in 2019, the NGOs received **MDL 7,691,666.30**, which is about 89.5% of the total 2% amount received by the beneficiaries. Compared to the previous year results, the amount increased by 33% - a much lower increase compared to 2018.

Religious entities received 2% amounts of **MDL 809,147.80**, which is 10.5% of the total validated 2% amount. This amount increased by about 75% compared to 2018. Although the amount transferred to religious entities is much lower than the amount designated to NGOs, their share increased more compared to the previous year (+75%) that the share of NGOs (+33%).

Table 10. 2% amounts received by beneficiaries in 2017-2019 by categories of beneficiaries

	Total 2% amount received by beneficiaries	2% amount received by NGOs	%	2% amount received by religious entities	%
2017	2,821,243.60	2,543,114.45	90%	278,129.15	10%
2018	5,631,042.36	5,168,081.41	91,8%	462,960.95	8,2%
+/- % compared to the previous year	+99%	+103%	-	+66%	-
2019	7,691,666.30	6,882,518.50	89,5%	809,147.80	10,5%
+/- % compared to the previous year	+37%	+33%	-	+75%	-

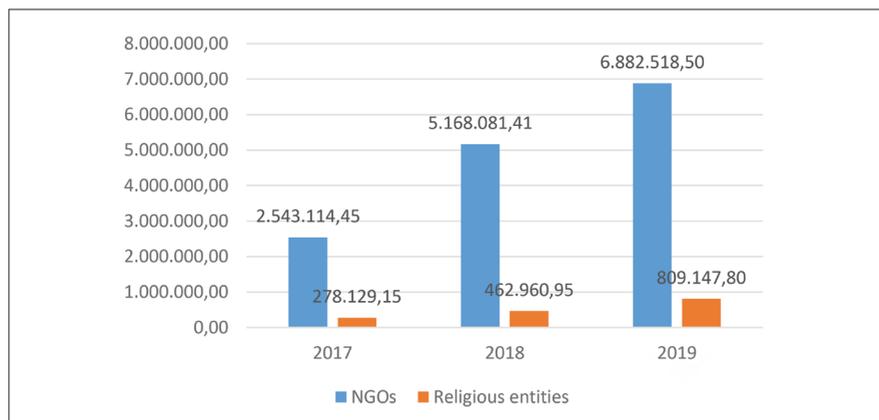


Figure 19. 2% amounts received by beneficiaries in 2017-2019 by categories of beneficiaries

Average 2% amount

On average, in 2019, each taxpayer designated about **MDL 228.5**, of which about **MDL 214.03** were validated. While the total average designated amount remained almost the same as in 2018, the average validated 2% amount increased due to the lower non-validation rate of the 2% amounts.

Table 11. Average 2% amount per taxpayer in 2017-2019

	2017	2018	2019
Average 2% amount designated by a taxpayer	MDL 195.29	MDL 228.74	MDL 228.45
Average validated 2% amount per a taxpayer	MDL 133.05	MDL 198.35	MDL 214.03

On average, each beneficiary organisation received about **MDL 16,290** according to the total designated amount, and after the validation of the 2% amounts - about **MDL 15,261** in 2019. Although the average total designated amount recorded a slight decrease due to a higher number of taxpayers who redirected 2% compared to 2018, the average validated amount received by a beneficiary organisation is higher than in 2017 and 2018. This is due to the fact that in 2019 a smaller amount was non-validated by the STS, compared to previous years.

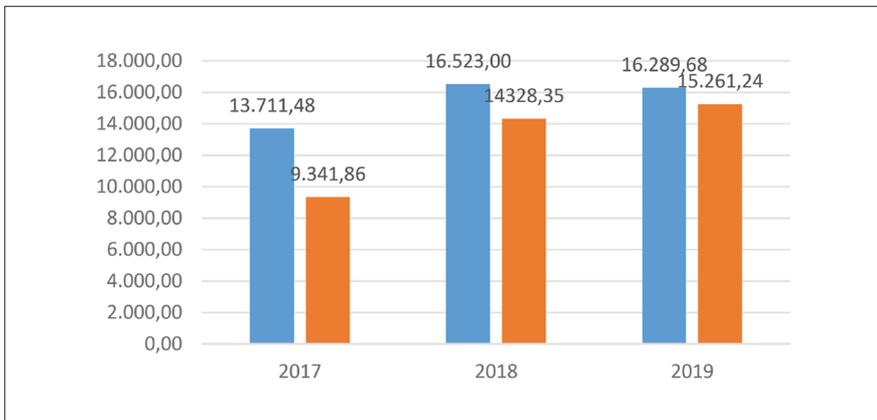


Figure 20. Average 2% amount per beneficiary organisation in 2017-2019

Highest and lowest 2% amount

The highest 2% amount received by an organisation in 2019 is **MDL 1,776,704.38**. The beneficiary of this amount is the Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova, which received the highest 2% amount for the third consecutive year. The amount received in 2019 accounts for about 23% of the total amount received by the beneficiary organisations, its rate decreasing from about 49% in 2017 and 30% in 2018, although the amount itself increased.

The smallest 2% amount - of **MDL 6.78** - was directed to the Socio-Cultural Association "DAR".

Table 12. 2% amount received by the Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova in 2017-2019

Anul	Total 2% amount received by beneficiary organisations	2% amount received by the Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova	% of the total amount received by the rest of the organisations
2017	MDL 2,821,243.6	MDL 1,374,555.89	48,7%
2018	MDL 5,631,042.36	MDL 1,691,298.75	30%
2019	MDL 7,691,666.3	MDL 1,776,704.38	23%

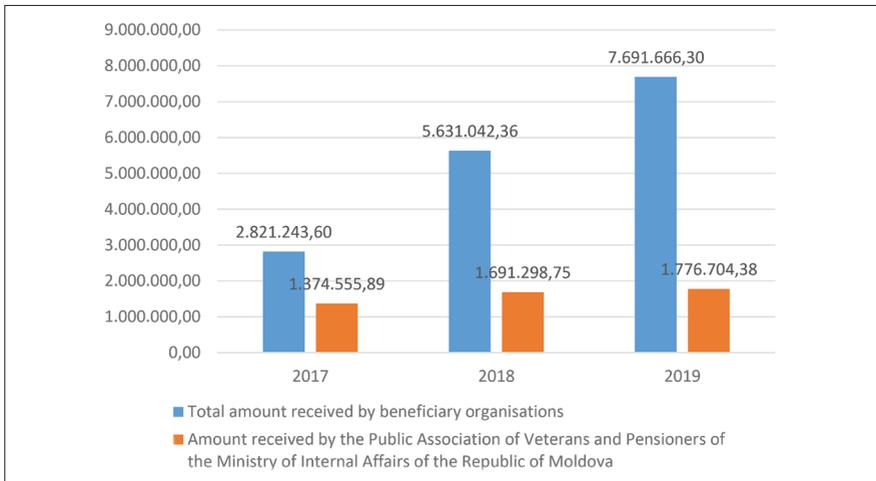


Figure 21. 2% amount received by the Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova in 2017-2019

2% amounts received by organisations that have connections with state institutions and/or public figures

A considerable fraction of the 2% amounts distributed to the beneficiary organisations go to organisations that have connections with state institutions - organisations established by former or current employees of state institutions - and/or that have connections with public figures.

The Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova is on top of the list, receiving the highest 2% amount for three years in a row. It is followed by the “Miron Shor” Foundation, the Association of Veterans and Pensioners of the Main State Tax Inspectorate “UNI-M”, the Association of Prosecutors of the Republic of Moldova and the Association of Veterans of the “Fulger” Special Forces Battalion (see more details in the chapter “Top 2% beneficiaries in 2019”). These organisations are on the list of 2% beneficiaries who received some of the largest 2% amounts.

The number of organisations that have connections with state institutions and/or public figures is increasing every year. While in 2017, only three of them received 2% amounts, in each subsequent year one more beneficiary organisation was added, to reach the number of five such organisations in 2019.

Table 13. 2% amounts received by organisations that have connections with state institutions and/or public figures in 2017-2019

Denumirea organizației beneficiare	2017	2018	2019
Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova	MDL 1,374,555.89	MDL 1,691,298.75	MDL 1,776,704.38
„Miron Shor” Foundation	MDL 282.03	MDL 472,716.15	MDL 441,611.00
Association of Veterans and Pensioners of the Main State Tax Inspectorate “UNI-M”	MDL 34,849.70	MDL 231,399.55	MDL 587,134.00
Association of Prosecutors of the Republic of Moldova	-	MDL 118,337.18	MDL 171,220.53
Association of Veterans of the Special Forces Police Battalion “Fulger”	-	-	MDL 65,934.55
Total	MDL 1,409,687.62	MDL 2,513,751.63	MDL 3,042,604.46

The 2% amounts received by organisations that have connections with state institutions and/or public figures are increasing every year. In fact, the increase in these amounts has largely contributed to the increase in the total 2% amounts:

- in 2018, the total 2% amount increased by 99%, while the increase for the organisations with connections with the state institutions and/or public persons was of about 78%;
- in 2019, the total 2% amount increased by 37%, while the increase for the organisations with connections with the state institutions and/or public persons was of about 21%;

The share of the 2% amounts received by organisations that have connections with state institutions and/or public figures out of the total 2% amount received by all beneficiary organisations is considerable - in 2017 it was about 50%, in 2018 - about 45%, and in 2019 - about 40%.

Table 14. 2% amounts received by organisations that have connections with state institutions and/or public figures, as a share out of the total 2% amount, in 2017-2019

	2017	2018	+/- %	2019	+/- %
2% amount received by all beneficiary organisations	MDL 2,821,243.6	MDL 5,631,042.36	+99%	7,691,666.30	+37%
2% amount received by organisations that have connections with state institutions and/or public figures	MDL 1,409,687.62	MDL 2,513,751.63	+78,3%	MDL 3,042,604.46	+21%
% of the total amount received by all organisations	50%	44,6%		39,5%	

Overall, in the three years of mechanism implementation, 2017-2019, the share of the 2% amounts received by organisations that have connections with state institutions and/or public figures was 43%.

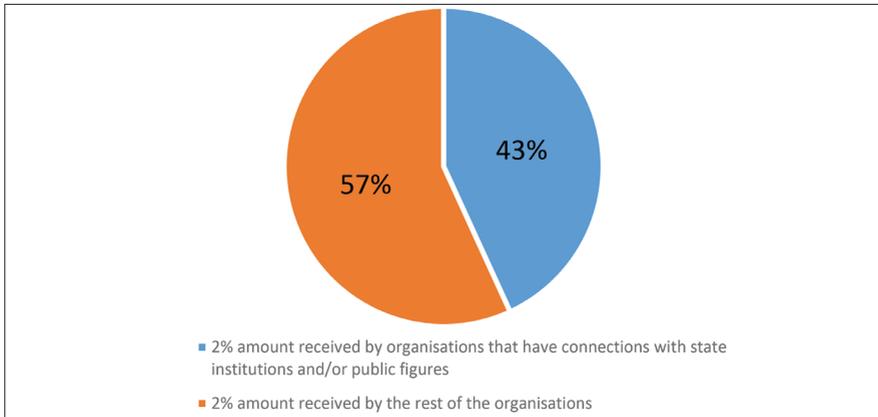


Figure 22. The ratio between the 2% amounts received by organisations that have connections with state institutions and/or public figures in 2017-2019 and the amounts received by the rest of the organisations

8. Top 2% beneficiaries in 2019

The ranking of percentage designation beneficiaries has had a constant leader for three consecutive years. In 2019, as in previous years, the Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova was the main beneficiary of the amounts directed under the 2% Law. The organisation received percentage designations in the total amount of MDL **1,776,704.38** (6% more than in 2018, when it received **1,691,298.75** and 30% more than in 2017, when it received MDL **1,374,555.89**). The association's main line of activity is the social protection of veterans and pensioners. The association has several primary organisations throughout the country and according to information available to the public, it has over 12,000 members²⁰. Unfortunately, the association does not have any website and no reports have been published to clearly describe what activities the organisation carries out. Although the Moldovan Legal Resource Centre sent a request to the Association of Veterans of MI for an interview, no answer has been received.

The second position in the ranking of the main beneficiaries in 2019 is held by the Association of Veterans and Pensioners of the Main State Tax Inspectorate "UNI-M". According to public information, the association's main field of activity is the social protection of the STS employees and pensioners. In 2019, the organisation received the amount of MDL 587,134.00 MDL (150% more than in 2018, when it received MDL 231,399.55 and 564% more than in 2017, when the organisation received MDL 34,849). This organisation does not have any website either and it is not present on social media. The LRCM sent a request for an interview, but no answer has been received.

The third position in the top of the beneficiaries is held by the "Miron Shor" Foundation, a philanthropic organisation affiliated to the former mayor of Orhei, now Member of the Parliament, Ilan Shor. In 2019, it received approximately MDL 441,661, slightly less than in 2018 when it received MDL 472,000 out of the amounts generated from the percentage designation. Compared to the organisations ranked in the first two positions, the "Miron Shor" Foundation has a website and is present on social media. However, the presence of the Miron Shor Foundation in the List of 2% Beneficiaries raises questions, in particular as to the eligibility of such organisation to benefit from the 2% mechanism. According to the 2% Law, the beneficiaries submit an affidavit on the same day when they apply for registration, stating that they undertake "*not to support the activity of any*

²⁰ See the official webpage of the Ministry of Interior: <https://mai.gov.md/node/57>.

political party, socio-political organisation or a candidate in elections", but according to the information displayed official Facebook page²¹, members of Shor Party, chaired by Ilan Shor, are most often engaged in the charity activities conducted by the Association.

More details on the top beneficiaries of the percentage designation, including the main areas of activity are available in the table below:

Table 15. Top beneficiaries of the percentage designation for the years 2017 - 2019

Rank	Year	Name	Main area of activity ²²	Amount (MDL)
1	2019	Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova	Social protection	1,776,704.38
	2018	Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova	Social protection	1,691,298.75
	2017	Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova	Social protection	1,374,555.89
2	2019	Association of Veterans and Pensioners of the State Tax Inspectorate „UNI-M”	Social protection	587,134.00
	2018	„Miron Shor” Foundation	Philanthropy	472,716.15
	2017	„Orange Moldova” Foundation	Philanthropy	125,279.68
3	2019	„Miron Shor” Foundation	Philanthropy	441,611.00
	2018	Association of Veterans and Pensioners of the State Tax Inspectorate „UNI-M”	Social protection	231,399.55
	2017	Public Association „Pro Moldova Social”	Sustainable development	64,566.70

²¹ See the official Facebook page of „Miron Sor” Foundation: <https://ro-ro.facebook.com/FondMironShor/>.

²² The areas of activity were identified by the authors of the report from the publicly available information and do not necessarily reflect all the directions and areas of activity of the respective organizations as provided for in their Articles of Association.

4	2019	Association of Prosecutors of the Republic of Moldova	Social protection/ Education	171,220.53
	2018	Association of Prosecutors of the Republic of Moldova	Social protection/ Education	118,337.18
	2017	Public Association „M. Eminescu”	Education	41,543.45
5	2019	Public Association Sports Club Football Club “Anina”	Sport	147,285.58
	2018	Foundation for the Development of Education and Science of the Republic of Moldova	Education	110,016.32
	2017	Public Association „Salvați viața”	Crowdfunding	38,896.35
6	2019	“Orange Moldova” Foundation	Philanthropy	124,101.53
	2018	Public Association “Chernobyl Society of Soldanesti District”	Social protection	107,657.71
	2017	Association of Veterans and Pensioners of the State Tax Inspectorate „UNI-M”	Social protection	34,849.70
7	2019	Public Football Association „Nistru-DIP”	Sport	105,164.65
	2018	Public Association „Forum”	Civic engagement	103,248.67
	2017	Religious community the Parish “Sfantul Dumitru” of the Orthodox Church of Moldova, based in Chisinau city	Religion	33,613.04
8	2019	Charity Foundation “Sfantul Gheorghe”	Charity	100,921.48
	2018	„Orange Moldova” Foundation	Philanthropy	87,462.53
	2017	Foundation for Ecological Development “EcoDava” of the Republic of Moldova	Ecology	32,580.51
9	2019	Public Association “FORUM”	Civic engagement	99,405.68

	2018	„IT Moldova” Foundation	Education	80,656.63
	2017	Public Association „Femeia și copilul – protecție și sprijin” (“ <i>Woman and child – protection and support</i> ”)	Social protection	30,900.15
10	2019	Foundation for the Development of Education and Science of the Republic of Moldova	Education	91,531.06
	2018	Medical and Social Philanthropic Foundation „Angelus Moldova”	Palliative care	75,354.32
	2017	Public Association „Soarta”	Charity	27,686.89

The analysis of the cumulative results for the first three years of implementation of the percentage designation mechanism shows the massive presence of social organisations. This is also characteristic of other countries in the region where the percentage designation mechanism has been in place for several years²³. At the same time, after analysing the list of beneficiaries receiving the largest amounts, we can see that these are organisations that have a direct connection with state authorities, being established by former or current employees of these institutions (MI, STS, General Prosecutor’s Office), or commercial companies (SA Orange, SRL Simpals, SRL Dufremol), which have a large number of potential employees. We assume that this situation is the result of the fact that the employers would have managed to convince their employees to direct 2% to their related NGOs. This can seriously affect the sustainability of the 2% mechanism, or the massive presence in the list of related organisations that operate in the corporate interest of their members, in the interests of the trade union or political platform, can discourage the taxpayers from supporting the activity of civil society organisations and affects the credibility of civil society organisations.

To improve the situation, additional assurances are needed that the percentage designation in several categories of employees is based on free consent and is not imposed by employers. In addition, STS tax inspectors need to be trained and be impartial in implementing this mechanism, without favouring certain organisations.

²³ Boris Strečanský, Marianna Török (ed.), „Assessment of the Impact of The Percentage Tax Designations: Past, Present, Future”, 2016, <http://taxdesignation.org/regional-synthesis-report/>.

9. Territorial profile of the 2% mechanism

In terms of territorial distribution, Chisinau city is the main beneficiary of the 2% mechanism. Most organisations to which 2% were directed are based in Chisinau, accounting for about 65% (329 out of 504 beneficiaries) of the total number of 2% beneficiaries in 2019, the other 35% are organisations based in other localities of the country.

Only 29% of all taxpayers who directed 2% had their residence in Chisinau. Although numerically less than taxpayers from outside Chisinau, they directed about 48% of the 2% received by the beneficiary organisations, which means they had earned higher income in 2018. Overall, for three years, between 2017-2019, taxpayers residing in Chisinau city directed 2% in proportion of 48%, and those residing outside Chisinau city - in proportion of 52%.

Although taxpayers residing in Chisinau were numerically fewer (27%) and the directed amount was lower than the one directed by taxpayers outside Chisinau (48%), the beneficiary organisations in Chisinau received the highest part of the amount - MDL 6,210,446.56, i.e. approximately 81% of the total validated amount. The organisations from the other localities received percentage designations in the amount of MDL 1,481,219.74, which is about 19% of the total validated amount. Overall, for three years, between 2017 and 2019, organisations based in Chisinau received 2% amounts in proportion of about 82%, and those based outside Chisinau - in proportion of 18%.

Taxpayers' profile by residence

Out of the 34,066 individual contributors that made validated designations in 2019:

- 9,827 taxpayers, i.e. approximately 29%, were residents of Chisinau;
- 1,826 taxpayers, i.e. approximately 5%, were residents of Criuleni;
- 1,358 taxpayers, i.e. approximately 4%, were residents of Balti.

As for the other localities of the country, 21,055 people made the percentage designation, i.e. 62%.

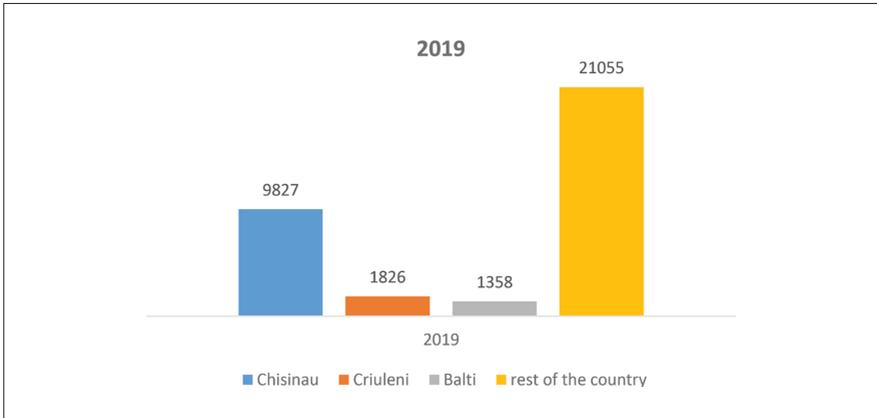


Figure 23. Number of taxpayers who made validated designations in 2019, by residence

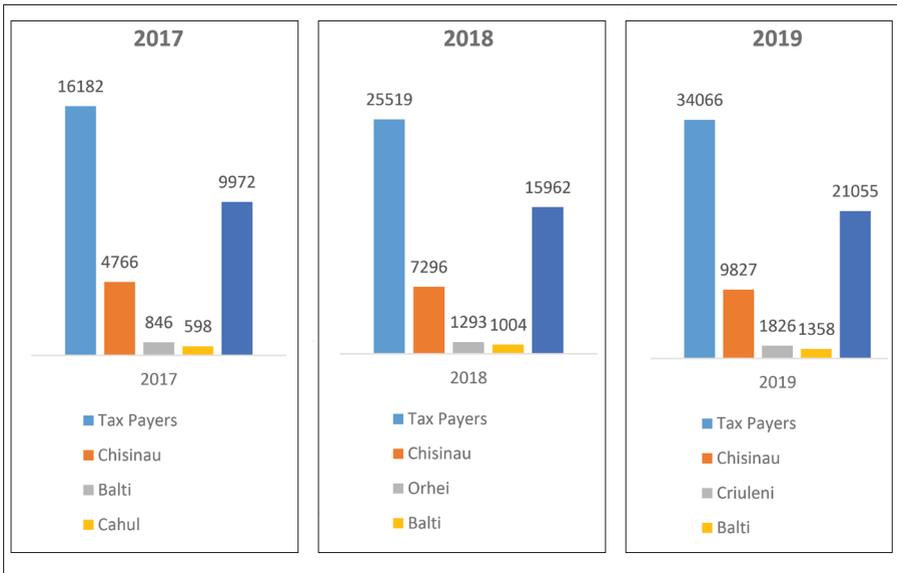


Figure 24. Comparative data on taxpayers who made percentage designations in 2017-2019 by residence

Most organisations to which 2% were transferred are based in Chisinau, which is about 65% (329 out of 504 beneficiaries) of the total number of beneficiaries of the percentage designation in 2018, another 35% reached the organisations registered in the other districts of the country.

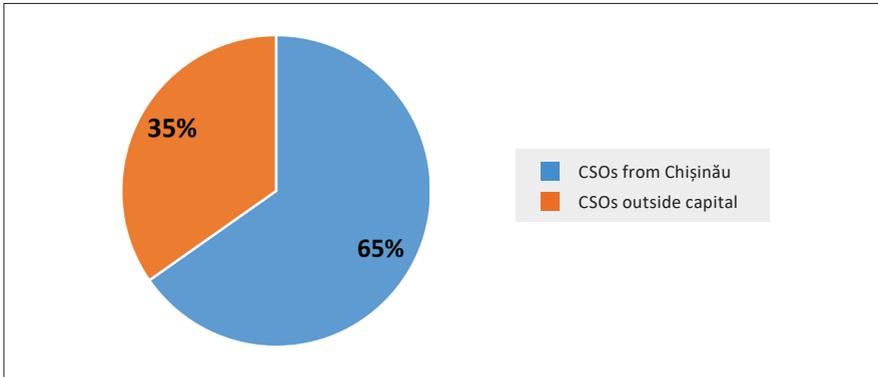


Figure 19. Number of beneficiary organisations in Chisinau and in other districts of the country in 2019

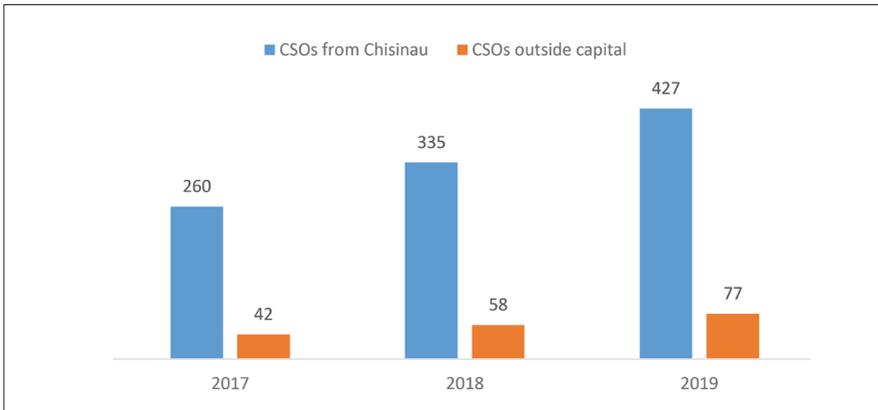


Figure 26. Comparative data on the number of beneficiary organisations in Chisinau and in other districts of the country in 2017-2019

2% amounts by taxpayers' residence

In 2019, about 48% of the 2% amount were directed by taxpayers residing in Chisinau, i.e. MDL 3,712,877.11. The amount increased by about 35% compared to the results of 2018.

Taxpayers outside Chisinau designated, after validation, the amount of MDL 3,978,789.19, i.e. about 52% of the total amount validated in 2019. The amount increased by 38% compared to 2018 results. This increase is higher than in the case of taxpayers residing in Chisinau (35%).

Table 16. 2% validated in 2017-2019 by taxpayers' residence

	Total validated 2% (MDL)	2% amount designated by taxpayers residing in Chisinau (MDL)	% of the total validated amount	2% amount designated by taxpayers residing in other districts of the country (MDL)	% of the total validated amount
2017	2,821,243.60	1,278,244.12	45,3%	1,542,999.48	54,7%
2018	5,631,042.36	2,751,008.61	48,9%	2,880,033.75	51,1%
+/- % compared to the previous year	+99%	+115%	-	+86,7%	-
2019	7,691,666.30	3,712,877.11	48,3%	3,978,789.19	51,7%
+/- % compared to the previous year	+37%	+35%	-	+38,2%	-
Total 2017-2019	16,143,952.26	7,742,129.84	48%	8,401,822.42	52%



Figure 27. Validated 2% amounts in 2017-2019 by taxpayers' residence

Overall, in three years, 2017-2019, taxpayers residing in Chisinau directed 48% of the 2% amounts, and those outside Chisinau - 52%.

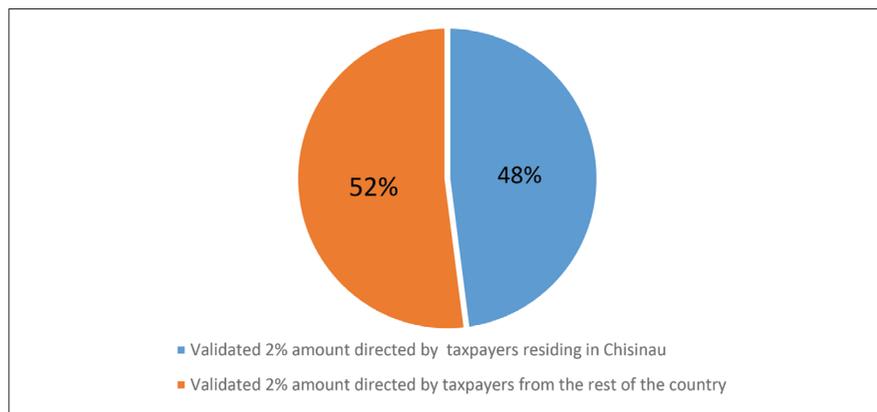


Figure 28. Ratio between validated 2% amounts by taxpayers' residence in 2017-2019

2% amounts by the residence of beneficiary organisations

In 2019, as in previous years, the beneficiary organisations in Chisinau received most of the amount - MDL **6,210,446.56**, i.e. about 81% of the total validated amount. The amount increased by 33% in 2019 compared to 2018.

The organisations from the other districts of the country received percentage designations in the amount of MDL **1,481,219.74**, which is about 19% of the total validated amount. The share of the amount received by organisations outside Chisinau city increased from 14% of the total amount in 2017, to 17% in 2018 and to 19% in 2019. Respectively, the rate of the amount transferred to organisations based in Chisinau city decreased by 2-3% per year. Compared to 2018, the amount directed to organisations outside Chisinau increased by 53% and increased more than the amount directed to beneficiaries from Chisinau in 2019 (+33%).

Overall, for three years, between 2017 and 2019, organisations based in Chisinau received amounts of 2% in proportion of about 82%, and those based outside Chisinau - in proportion of 18%.

Table 17. 2% amounts received by beneficiaries by residence of beneficiary organisations in 2017-2019

	Total validated 2% (MDL)	2% amount received by organisations based in Chisinau (MDL)	%	2% amount received by organisations based in other districts of the country (MDL)	%
2017	2,821,243.60	2,425,632.65	86%	395,610.95	14%
2018	5,631,042.36	4,660,086.47	83%	970,955.89	17%
+/- % compared to the previous year	+99%	+92%	-	+145%	-
2019	7,691,666.30	6,210,446.56	81%	1,481,219.74	19%
+/- % compared to the previous year	+37%	+33%	-	+53%	-
Total 2017-2019	16,143,952.26	13,296,165.68	82,3%	2,847,786.58	17,6%



Figure 29. 2% amounts received by beneficiaries by residence of beneficiary organisations in 2017-2019

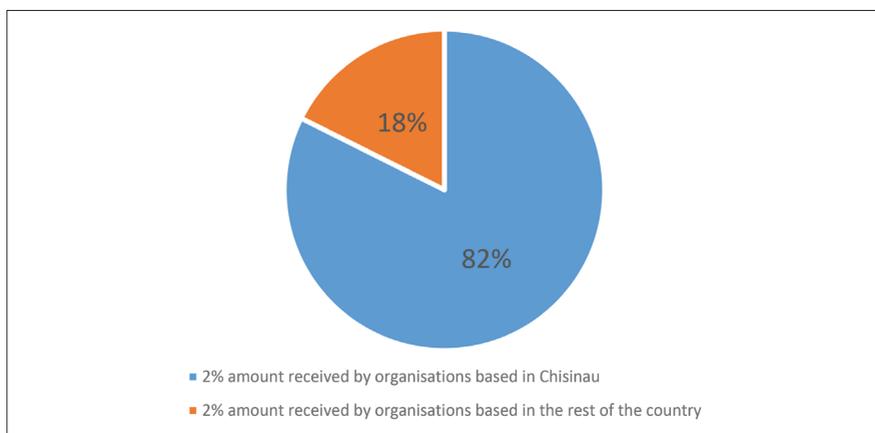


Figure 30. Ratio between 2% amounts received by beneficiaries by residence of beneficiary organisations in 2017-2019

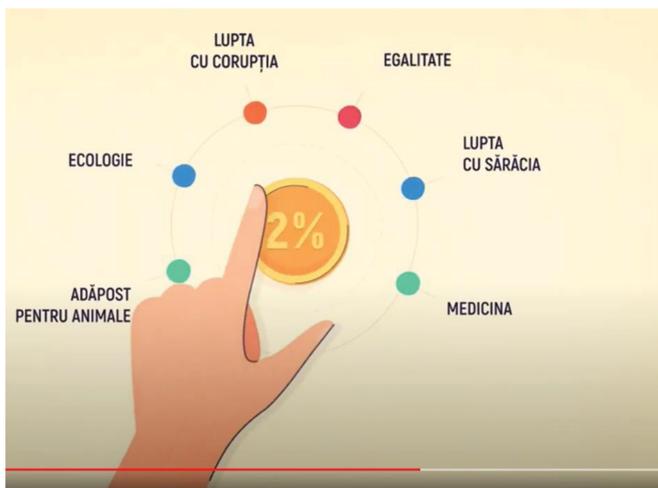
10. 2% information campaign

Although the main purpose of the “2% Law” is to ensure financial support to CSOs, another objective was to increase the visibility of CSOs. In countries where this mechanism is already in place, one of its benefits is that CSOs have begun to communicate more with the public about their mission and objectives. A successful 2% information campaign requires effective communication with the public, and many CSOs need to learn how to communicate about what they are doing.

In April 2019, the LRCM conducted a promotion campaign to encourage taxpayers to use the 2% designation mechanism when completing their income tax declaration. In particular, the members of the LRCM team posted updated information about the designation mechanism and procedure on the website www.2procente.info and on social networks, participated in TV and radio shows to promote the designation mechanism to different audiences, placed an announcement on the 2% mechanism on a popular news portal and distributed leaflets in Chisinau Central Park informing the capital's residents about this opportunity to support community development. With the support of an external donor, a video spot was broadcast on TV to popularize the 2% mechanism among taxpayers.



The LRCM team sharing promotional leaflets in the Central Park and at the National Library one week before the deadline for submitting income tax declarations (23 April 2019)



Advertising spot "Direct 2% and contribute to what matters to you!", available on the LRCM's YouTube channel at

https://www.youtube.com/watch?v=PePGcdyk_yM&ab_channel=CentruldeResurseJuridicediMoldova%28CRJM%29

Beneficiary organisations, in turn, organized 2% promotion campaigns. Some examples are shown below.



2% promotion campaign, CCF Moldova

<https://ccfmoldova.org/>



Promotion campaign, CNPAC

<https://www.cnpac.md/ro/>



Promotion campaign, Social Mission „Diaconia”

<https://www.diaconia.md/>



2% promotion campaign, Association of Independent Press (API)

<http://www.api.md/>

The experience of other states where the 2% mechanism has been implemented for several years shows that the efforts of organisations in the first years of implementation of the mechanism should be focused mainly on promoting the organisation's activity among taxpayers and conducting a comprehensive information campaign on the 2% mechanism. Although this aspect is not characteristic for the largest beneficiaries of the mechanism in the Republic of Moldova (a significant fraction of them do not even have a website or social media account), there were still non-commercial organisations that promoted both the mechanism and their own organisation.

The campaign to promote the 2% mechanism was also supported by the STS, which posted a series of information materials on the designation procedure on their official webpage²⁴.

11. Potential of the 2% mechanism

Although the percentage designation in the Republic of Moldova has been recording increasing trends, there still is a lot of room for the growth of the 2% mechanism, which has not yet managed to achieve its best performance in the Republic of Moldova compared to other countries where this mechanism is used. The number of people

²⁴ [https://www.sfs.md/Upload/LinkedPDF/2020%2004%2008%20Mecanismul%202%20procente%20explicat%20\(1\)1.pdf](https://www.sfs.md/Upload/LinkedPDF/2020%2004%2008%20Mecanismul%202%20procente%20explicat%20(1)1.pdf).

entitled to make a percentage designation is still very high compared to the number of those who actually made the 2% designation.

Thus, in 2016, 1,219,500 individuals in Moldova obtained taxable income and paid income tax²⁵. Of these, in 2017, the first year of 2% designation, only 21,204 redirected 2% of their income tax to a non-commercial organisation, which represents about **1.7%** of the total number of individuals who earned income, paid income tax and were entitled to designate 2% of the income tax. The income tax paid by individuals in 2016 is MDL 3,126,310,000²⁶. Therefore, in 2017, there was the potential to redirect 2% of this income tax amounting to MDL 62,526,200. The amount redirected by taxpayers in 2017 was MDL 4,140,868.43, which is about **6.6%** of the percentage designation potential.

In 2017, 1,207,500 individuals in Moldova earned taxable income. Of these, 28,388 chose to designate 2% in 2018, the second year of 2% designation, i.e. about **2.3%** of the total number of individuals who paid income tax and were entitled to redirect 2% of it. The income tax paid in 2017 is MDL 4,190,000,000²⁷. It shows that the potential of the percentage designation amount in 2018 was MDL 83,800,000. Out of this amount, the total amount of MDL 6,493,612.03 was designated in 2018, i.e. about **7.7%** of the percentage designation potential.

In 2018, 1,200,000 individuals in Moldova earned taxable income. Of these, 34,066 chose to designate 2% in 2019, the third year of implementation of the 2% mechanism, i.e. about **2.8%** of the total number of individuals who paid income tax and were entitled to redirect 2% of the income tax. The income tax paid in 2018 is MDL 4,530,000,000²⁸. Therefore, the potential percentage designation amount in 2019 was MDL 8,210,000. Out of this amount, the total amount of MDL 8,210,000 was designated in 2019, i.e. about **9%** of the potential 2% amount.

²⁵ National Bureau of Statistics, www.statistica.md.

²⁶ „Personal income tax in 2016” Report, State Tax Service, 30 May 2016, page 5, <http://www.fisc.md/Upload/LinkedPDF/impozitul%20pe%20venit%20PF%202016.pdf>.

²⁷ „Personal income tax in 2018” Report, State Tax Service, 24 May 2017, page 6, <https://www.sfs.md/Upload/Anexe/Conferin%C8%9Ba%2030.05.2019.pdf>.

²⁸ Idem, page 6.

Table 18. Potential of the 2% mechanism in the Republic of Moldova

	2% designation potential	2% designation	%
2017			
Number of taxpayers	1,219,500	21,204	1,7%
2% amount	MDL 62,526,200	MDL 4,140,868.43	6,6%
2018			
Number of taxpayers	1,207,500	28,388	2,3%
2% amount	MDL 83,800,000	MDL 6,493,612.03	7,7%
2019			
Number of taxpayers	1,200,000	34,066	2,8%
2% amount	MDL 90,600,000	MDL 8,210,000	9,06%

Conclusions

- **2% Mechanism.** The results of the third year of implementation of the 2% mechanism show an upward trend, albeit more moderate compared to 2018 in terms of the number of registered organisations, the number of taxpayers who chose to make the 2% designation, and amounts directed and received by the beneficiary organisations. Also, the number of non-validated designations and the non-validated 2% amounts decreased significantly in 2019, showing that more taxpayers comply with the conditions for validation of the 2% designation and are more aware of the existence of such mechanism.
- Although the 2% amounts obtained in the third year are higher than in previous years, the growing trend in 2019 was lower than in 2018. Although the 2% amount received by organisations is substantial, **the 2% mechanism is not sufficient in itself to ensure the financial sustainability of the non-profit sector.** The development of the mechanism requires constant measures to inform about and promote the 2% mechanism, both on the part of the beneficiary organisations and on the part of the authorities.
- **Taxpayers.** In 2019, some categories of taxpayers were further deprived of their right to make percentage designations, such as taxpayers who practice professional activities (lawyers, notaries, bailiffs, mediators) and entrepreneurial activity, although the limitations in the law were generally excluded. The exclusion from the 2% designation of persons who are entitled to do so under the law is not justified and has a negative impact on the capacity of the mechanism to serve as an indirect source of financing of the non-commercial sector.
- **2% Designations.** In 2019, just like in previous years, taxpayers who directed 2% reported various practices and experiences, both positive and negative. While some respondents characterised the mechanism as simple, easy to handle, others pointed out some deficiencies that should be studied in detail. In particular, they referred to cases when the State Tax Service employees were reluctant to provide guidance to taxpayers on the designation procedure or even mislead them about the beneficiaries of the mechanism. Additional assurances are needed that the 2% designation across multiple categories of employees is based on the free consent and is not imposed by their employers. In addition, the tax inspectors of the State Tax Service need to be trained and ensure impartiality towards this mechanism, without favouring any organisations.

- **Beneficiaries.** The analysis of the cumulative results for the first three years of implementation of the percentage designation mechanism shows an overall massive presence of organisations working in the social sector. At the same time, after analysing the list of beneficiaries that received the highest amounts, we can conclude that many employees of some organisations, including state authorities or commercial companies, directed 2% to NGOs related to these organisations. Thus, the main beneficiaries of the mechanism are organisations that are not very visible and known in the non-profit sector. This can seriously affect the sustainability of the 2% mechanism, otherwise, the massive presence in the list of related organisations that work in the corporate interest of their members, in the interests of the trade union or political platform, can discourage the taxpayers from supporting the activity of civil society organisations. At the same time, this affects the credibility of civil society organisations and of the 2% mechanism.
- A substantial fraction of the 2% amounts distributed to the beneficiary organisations are directed to organisations that have connections with state institutions - are established by former or current employees of state institutions - and/or those that have connections with public figures. Overall, between 2017 and 2019, the share of the 2% amounts received by organisations that have connections with state institutions and/or public persons was 43%. The number of such beneficiary organisations is increasing every year. These organisations did not disclose how they used the 2% amounts and the results they obtained.
- In terms of regional distribution, Chisinau city is the main beneficiary of the 2% mechanism. Although the 2% amounts and the number of beneficiary organisations are increasing in 2019 compared to the previous years, more effort is needed to increase awareness of the 2% mechanism both among organisations and taxpayers outside Chisinau.
- Although, in the opinion of the majority, the **procedure for registration of organisations in the List of 2% beneficiaries** is not complicated, for some organisations it may be difficult, while in the early years, the authorities should have a less formal approach. Further measures are needed to inform and promote the mechanism by both the beneficiary organisations and the authorities. More accessible information needs to be published on the websites of the authorities involved in the implementation of the 2% mechanism, and tax inspectors should be trained on the percentage designation mechanism. At the same time, the capacity of non-commercial organisations to run information campaigns needs to be improved.

Recommendations

- Organise campaigns for awareness raising and promotion of the 2% mechanism at the national and, especially, at the local level by **beneficiary organisations and by authorities**;
- Build the capacities of non-commercial organisations to carry out campaigns for awareness raising and promotion of the 2% mechanism, with a particular focus on regions outside Chisinau;
- Strengthen the authorities' role in informing about the possibility to participate in the percentage designation mechanism, and placing more detailed information about the 2% mechanism on the websites of the **State Tax Service** and that of the **Public Services Agency**;
- The **Public Services Agency** should explore the possibility of direct online registration for the List of 2% beneficiaries on the PSA's website, and allow the submission of documents in electronic format beyond the PSA working hours by the deadline (30 September, 23:59);
- The **Public Services Agency** should explore the possibility of drafting the List of 2% beneficiaries in a more accessible format, adapted also for mobile users (who access the List on the mobile phone) including the option of a field for searching beneficiary organizations from the list by name, taking into consideration the growing number of eligible organisations;
- The **State Tax Service** should instruct employees to inform individual taxpayers about the possibility of directing 2% to an organisation from the List of 2% beneficiaries and ensure the free consent of the taxpayer, as well as the confidentiality of the 2% designation;
- The beneficiary organisations that have connections with the state institutions and/ or public figures should be subjected to a thorough eligibility assessment in order to benefit from the 2% mechanism and the assessment of the proper use of 2% amounts both at the stage of registration in the List of 2% beneficiaries – by the **Public Services Agency** and after registration – by the **Public Services Agency** and **the Financial Inspection**. These organisations should be more accountable and transparent and publish the results of the 2% accumulations. It is important that the authorities' efforts are directed towards promoting the 2% mechanism rather than promoting organisations with which they have connections.

The Legal Resources Centre from Moldova (LRCM) is a nonprofit organization that contributes to strengthening democracy and the rule of law in the Republic of Moldova with emphasis on justice and human rights. Our work includes research and advocacy. We are independent and politically non-affiliated.

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