

## **SPECIAL TAX REGIMES IN TAXING SMALL AND MICRO BUSINESS ACTIVITIES: THEORETICAL APPROACHES AND PATENT TAX EXPERIENCE**

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### **Abstract**

Tax regulation of small business and self-employed individuals implies a great responsibility on behalf of fiscal authorities in their efforts to increase tax compliance and contribute, at the same time, towards business expansion within this sector. There is a large variety of approaches to taxing small and micro-enterprises in foreign practice. At the same time, policies of taxing different segments of the SME population should be selected carefully. Also it is important to measure effects of tax incentives. One of measures used by governments to promote small business activities is implementation of special tax regimes for some of business segments, which are based on simple rules for determining tax liability, as well as easy accounting and administrative tools. This article relates some of the countries' experience in designing simplified tax regimes based on entrepreneurial patent, including the Republic of Moldova. At the same time, there are emphasized disadvantages of the given regime in Moldova and related recommendations for a better fiscal policy.

**Keywords:** entrepreneurial patent tax, simplified tax regime, micro-enterprise tax, fiscal policy.

**JEL Classification:** H21, H32, H39.

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## 1. Introduction

In many countries fiscal policies include a robust toolkit of stimulants and tax incentives, which are promoted by fiscal authorities to encourage the taxpayers to start or enforce their business, while the primary objective followed is generation of higher tax revenues in future and not in present. Such policies invigorate economic growth and business development, but at the same time these incentives should be strictly monitored to achieve the expected effects.

The implementation of tax incentives, through their encouragement function, supposes the transfer of public budget revenues in some period in future, and, thus, reduces the capacity of state budget financing in present, that is why many experts and researchers qualify this revenues' postponement as a *budget expense*- also called *fiscal expense* (Loile, 1990).

In foreign practice the mechanism of implementation, addressability and monitoring procedure of incentives differs, but at the same time these peculiarities are totalized within a transparent and coherent system for taxpayers. Within the category of fiscal incentives are also included those incentives that are addressed to certain categories of organizations or economic activities – also known in foreign practice as *special tax regimes*. In this study the authors will relate a specific instrument used within the special tax regimes – *special tax regime in base of entrepreneurial patent fee*, which is broadly used in former socialist countries, including the Republic of Moldova, as well as in some of the EU countries.

Special tax regime is an important concept in modern tax system. In foreign practice, fiscal policies operate with the following notions like „*special system*”, „*special regime*”, „*preferential regime*” or „*simplified regime*” that suppose a specific mechanism of registration, payment and fiscal reporting for economic agents on a simplified basis and on special terms, in comparison with procedures within the general tax policy.

In foreign, practice, special tax regimes are implemented within a deliberate fiscal policy, while governments follow the objective to increase economic performances and financial potential of some groups of entrepreneurs. At the same time, it is worthy to mention that the general target followed by fiscal authorities is more familiarization of particular groups within business community (especially small companies, individual merchants, etc.) with legal

accounting requirements and bringing informal business into tax net in near future, than increasing tax revenues at present. In such a way costs incurred by governments for the implementation of these preferential tax regimes represent a certain type of investments for the creation of a tax culture within entrepreneurs and not instruments for the generation of short term budget revenues. It is obvious that special tax regimes will imply a certain pressure over the public budget once with the reduction of revenues. Still, foreign practice shows that these fiscal incentives favour long-run economic growth and contribute towards the sustainability of tax revenue (Câmpeanu et al., 2012). In foreign countries fiscal authorities strictly monitor the whole process of implementing fiscal incentives and their economic impact to exclude unreasonable use of incentives by certain groups of profitable entities that, in fact, distort economic significance of tax simplicity.

## **2. Literature review and methodology**

The speciality literature provides different theoretical and practical studies on the necessity and opportunity of fiscal incentives, the principles of their granting, the monitoring mechanism, and the assessment of the efficiency of incentives (Clark and Arnold, 2005) offered to business community. Governments have a complex set of incentives that are designed within the fiscal policy to achieve certain effects: to encourage certain sectors, such as research and development, to support small businesses, certain strategic producers or economic activities (Siakin, 2010), to encourage investment (Appelt, 2016), economic growth, as well as to stimulate structural changes in the whole economy (Hemming et al., 2002).

Besides the fact that the design of special tax regimes of entrepreneurs (for example, natural persons performing entrepreneurial activity and micro-enterprises) are:

- encouraging individuals performing some economic activities stipulated in law;
- supporting population from rural regions to create new working places;
- supporting certain categories of socially vulnerable groups for ensuring minimum subsistence level through starting business activities or strengthening the existent ones; also for giving them

possibility to pay social and medical contributions to have access to health services and a guaranteed pension, etc. (Timuş et al., 2016).

The whole set of legal provisions covering methodological and functional aspects of fiscal instruments that are applied within the design of special tax regimes usually are stipulated in the Tax Code of countries. Generally, there are no standard principles according to which a simplified tax system is designed, as governments implement different fiscal instruments and policies according to the economic strategy and specific needs of SMEs sector. Still, there can be summarized some elementary principles in implementing special tax regimes by foreign fiscal authorities:

➤ First principle expound the general objective followed by governments, that is fiscal education of small companies and individuals in terms of accounting and legal reporting requirements to facilitate the transition of this group of entrepreneurs into general tax system, when business grow. Generation of tax revenues is not a priority. Creation of a tax culture within the society is a must have priority in the process of designing the simplified tax regime and governments do not search ways for increasing short-term budget revenues.

➤ Second principle declares that tax simplicity should contribute towards reducing compliance burden for certain groups of entrepreneurs, usually through simple recordkeeping and some administrative requirements (usually individual entrepreneurs and micro-businesses).

➤ Third principle affirms that simplified tax regime should not act as a disincentive for business growth for other groups within business community. Therefore, its design should be coordinated with standard tax regime.

➤ Fourth principle is related to the process of designing special tax regime that should be realized after a deep analysis of economic situation of the whole country and analysis of special needs and problems of business segments. Thus, individual design approaches should be applied for different segments of the SMEs sector.

According to each country's legal norms simplified tax regimes cover a wide variety of procedures on registration, evidence, tax methods and techniques, forms of declaring the fiscal revenues and

other measures offered to micro-businesses and individuals who perform economic activity. One of forms used within tax simplicity is entrepreneurial patent (license for some of entrepreneurial activities stipulated in national legislation), which is widely implemented in some former soviet countries, as well as in some transition economies, like Bulgaria, Latvia, Poland, the Czech Republic, Slovakia, etc.

In Republic of Moldova trade in base of patent is very popular within the community of individuals who perform economic activity. This form of taxation is promoted by the Law on patent that was implemented in 1998 and offers possibility for individuals to purchase the right to perform economic activities allowed by law.

In Moldova the amount for purchased patent also includes social contributions (medical insurance and social insurance) and some local fees and the right to trade in base of patent is valid for one year. While Moldovan patent is not stipulated in national Tax Code, in other countries it is included within preferential tax regimes and legal provisions strictly define the whole set of rules, norms, tax rates, registration procedure, bookkeeping requirements, as well as the procedure of transferring to standard tax regime.

Simplified tax regime based on entrepreneurial patent highlights some dimensions with concrete impacts over national economy:

The socio-economic function of patent results from the government' support offered to a group of entrepreneurs to consolidate economic and financial capacity of economic activity and to facilitate transition to general tax regime in near future. At the same time, this tax regime ensures support for some social groups, regions or geographic zones in order to: launch economic activities or small scale activities, ensure minimal existence for some population categories (like pensioners, disabled persons, families with more children) and in this way contributes to reduction of management costs and improvement of fiscal administration.

The financial function of patent tax system results from concrete financial and fiscal incentives stipulated in the tax code or other legal provisions that are offered for some groups of taxpayers.

Most common advantages offered by entrepreneurial patent are:

- Predictability and transparency of tax burden, as well as low registration, bookkeeping and reporting costs for business owners;
- Simplicity in bookkeeping, supposing only registration of revenues and costs in a cash register. At the same time, fiscal declaration is not requested. This contributes to reduction of management costs in comparison to other forms of simplified regimes;
- The amount paid when purchasing patent replaces some taxes like income tax and usually is lower than the whole volume of payments within general tax system. At the same time, patent holders pay social contributions at lower rates.

As disadvantages of tax regimes based on patent can be mentioned:

- The whole system can be extremely unfair due to ignorance of the “ability to pay” principle within business community;
- Less profitable companies can be supposed to a risk of over-taxation (Iordachi, 2016).

The juridical dimension results from the whole set of legal provisions that regulate economic activity in base of patent, namely the procedure of registration and evidence, the subject and object of taxation, tax base, tax levy and tax enforcement mechanism, etc. Compliance criteria of entrepreneurs requesting the patent, types of activities, tax base, patent fees and methodology of tax applying are core elements that create the patent based tax regime. At the same time, models of application vary considerably from country to country and can be designed extremely simple, by fixing only one single amount for all micro-businesses, irrespective of business type and location. Other governments will develop a detailed list of micro-business activities with different patent amounts (Iordachi, 2016).

At the same time, the juridical dimension positions patent as a certificate or an official document that is strictly regulated in terms of specimens, which indicate the type of business activity, the time period for which it is valid and area of action.

Former Soviet countries monitor the effects as a result of implementing special tax regimes from three criteria: budget, economic and social efficiency (Cuterghina and Mingazinova, 2014).

The budget efficiency includes indicators, which compare fiscal costs suffered by the budget with the estimated volume of budget as a result of revenues' increase. In many cases these indicators are used within the R&D activity, agriculture, education, economic activities performed by socially vulnerable groups. The efficiency of implementing the entrepreneurial patent as tax incentive could also be analysed by means of budget efficiency indicators.

The economic efficiency is estimated by means of indicators, which reflect the dynamics of economic results like growth of: revenues, labour remuneration, fix capital, working places, as well as reduction of production cost.

Estimation of tax incentives by means of social effects refer to the analysis of indicators like: creation of new working places, engagement of socially vulnerable persons, improvement of quality of products and services offered growth of population welfare.

The methodology for analysing and assessing the effects and effectiveness of incentive mechanisms can be different. In their works, Clark and Arnold (2005) refer to the following effects calculated in applying tax incentives:

- 1st level effects- the direct influence of the incentives and preferences (I/P) granted on the increase of expenditures for research and development (R&D);
- 2nd level effects - impact on the level of results (increase of the sales share of the respective production);
- 3rd level effects - impact on macroeconomic indicators: GDP growth rate, productivity, additional spillovers.

Mohnen and Loxsin (2008), in their study, propose the following approaches and methodologies that would allow the assessment of the effects of tax incentives, namely:

- Economic efficiency. The coefficient of fiscal sensitivity - the ratio of the increase of expenditures for R&D to tax subsidies;
- Detailed cost-benefit analysis– comparison between costs suffered by budget as a result of renouncing on calculated revenues in comparison to additional revenues cashed as a result of business sector development (through sales volume, market growth of increase in consumption);

- Analysis of the overall balance: impact on wages; budget balance; trade liberalization.

In case of entrepreneurial patent this methodology is relevant for innovation activities.

### **3. International practice of applying special tax regimes in base of entrepreneurial patent**

In EU countries special tax regimes also represent an important role within economic and financial policies. Tax regimes that regulate economic activities performed by individuals in base of a document similar to patent (or license) are implemented in Bulgaria, Latvia, Lithuania, Poland, Hungary, Romania, Albania and other countries. There are offered a variety of simplified tax models (schemes) usually based on lump-sum taxes.

Legal tax codes (tax cards) in these countries expressly establish the criteria for offering such tax preferences for individuals or legal persons (registration procedure, annual tax declaration, simplified record keeping, limit of turnover, check issue) and all tax rates or scale of payments for the issued certificate.

In **Romania** forms of taxing income for small entrepreneurs are:

- Income tax from independent activities – 16%;
- Income tax for micro-enterprises – 1-3%;
- Tax for authorized natural persons.

The last regime (tax for authorized natural persons) is similar in some degree with the patent regime. The difference results from the way of registration, tax rate, accounting and declaration procedures. On 1<sup>st</sup> of January 2016, according to the Fiscal Code of Romania, the authorized person will pay 16% of the revenue it produces. However, this category of taxpayers has to pay compulsory contributions and certain social contributions (10,5% or 26,3% according to their option) that are calculated from net income. Also in addition to these social contributions, a 5,5% rate as social health insurance contributions is paid. Another provision is that the authorized person will no longer be able to choose the base on which

the social contribution rate will be applied, which will be calculated from net income achieved<sup>1</sup>.

In **Bulgaria**, patent based activity is allowed for 40 different categories of activity and all patent amounts with minimal and maximal levels are given in the *The Law on Local Taxes and Fees of Bulgaria*. Local governments establish the appropriate amount to carry out business activities in their area and the patent amount will be fixed in base of: economic importance of business for region, nature of activity, population density, etc. The annual turnover of the entity should not exceed 25500 EUR (equivalent 50000 BGN) and all revenues generated from patent activities should not be levied under the procedure of the Personal Income Tax Act<sup>2</sup>.

In **Poland** patent sums are determined in base of indicators like number of employees and location of business. The patent sums for some of micro-business activities in the *Polish Tax Card regime* are given in Table 1.

**Table 1**

**Payment sums for some of micro-business activities within the Tax Card regime in Poland, in 2014 (USD)**

Type of business	No. of employees	Business location (in number of inhabitants)		
		< 5000	5000-50000	>50000
Jewellery shop	0	136	149	149
	1	232	266	266
	2	348	388	388
Barber shop (ladies)	0	38	45	51
	1	103	116	129
	2	143	161	172
	3	172	185	201
	4	185	201	218
	5	225	257	291
Flower shop	0	161-218	177-278	218-356
	1	177-281	218-356	278-406
	2	218-356	278-406	375-507

Source: Iordachi (2016)

<sup>1</sup>Law 227/2015 on Tax Code. Official Monitor 688 from 10.09.2015. <http://www.monitoruljuridic.ro/monitorul-oficial/688/2015-09-10/>

<sup>2</sup>Local Taxes and Fees Act of Bulgaria, State Gazette No. 117/10.12.1997, in force as of 01.01.1998; Last Amendment - SG No. 102/ 21.12.2012, in force as of 01.01.2013

In **Latvia**, patent sums vary from 40 EUR - 100 EUR per month, depending on group of professions and type of activity. Thus authorized persons can perform economic activity in base of a patent in the following fields: craft, consumer services, floristics, photography services, beauty services, private household services, home care services and gathering of forest and meadow gifts for trade (Iordachi, 2016).

According to Latvian legislation, economic activity should not generate revenues above 10000 LVL (nearly 14000 EUR), also the beneficiary of the patent must not employ other persons and perform any other economic activity at the same time.

The analysis of experience in the Commonwealth of Independent States (CIS) shows that patent is used by government as support fiscal measure for small businesses and individuals that are just beginning their entrepreneurial activity. The target of introducing patent based simplified regime was motivating small entrepreneurs to activate in the legal field, by establishing simple rules for company's registration and liquidation, accounting and taxation, as well as creation of a sustainable base of taxpayers who will transfer to standard taxation regime when business extend and will ensure a long-run economic development.

All countries analysed during the 2009-2014 period adjusted their patent taxation regime and improved the regulatory and institutional framework, at the same time implementing in a different manner the design of the simplified tax regime. Russia and Kazakhstan have significantly improved patent regimes, which stipulate strict application criteria by natural persons and legal entities within the tax scheme and determine individual rates/payments for each type of taxpayer. Also in Russia several types of activities covered by patent were limited, as well as criteria for patent purchase in case of retail trade. At the same time, Russian legislation admits opting for other regimes, but also applying for several special regimes. Table 2 presents summary information on special tax regimes that are implemented in Russian Federation.

Table 2

Special tax regimes in Russian Federation

Tax elements	Simplified tax regime		Lump sum on estimated income	Patent tax system
<b>Taxpayers</b>	Companies and individuals, which conform to certain criteria		Companies and individuals, which perform certain activities	Individuals that perform certain activities
<b>Tax object</b>	Turnover	Revenues-costs	Presumptive income	Potential income
<b>Tax base</b>	Turnover	Net turnover	Estimated value of presumptive income	Estimated value of potential income
<b>Tax rate</b>	6%	5%-15%	15%	6%
<b>Period</b>	Yearly	Yearly	Quarterly	One month - year
<b>Tax evidence</b>	yes/fiscal declaration	yes/ fiscal declaration	yes/-	yes/-

Source: [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_28165/](http://www.consultant.ru/document/cons_doc_LAW_28165/)

The Taxation Code of the Russian Federation authorizes 63 types of activities that can be carried in base of patents, such as tailoring, hairdressing, photography; furniture repair, home; cleaning, transport etc. Generalized criteria for obtaining a patent are relatively similar (see Table 2) to those in other CIS countries. The fiscal electronic device is not mandatory, but it is necessary to provide the confirming documents, and the tax code should indicate the requisites included in the patent certificate. At the same time, the patent tax system is addressed only for individual entrepreneurs who employ no more than 15 persons.

In Belarus and Ukraine fiscal authorities operated with patent tax system for some economic activities until 2009-2011, but as a result of legal framework reformation, this taxation form was abolished. In Belarus, Fiscal Code doesn't stipulate patent as form of taxing small entrepreneurs and natural persons, other types of tax schemes being popular<sup>3</sup>.

Ukraine also abandoned the patent as one of taxation form. At present, the Ukrainian fiscal code stipulates only one tax simplified

<sup>3</sup>Tax Code of Republic of Belarus No. 71-3 from December 29<sup>th</sup>, 2009, <http://www.pravo.by/main.aspx?guid=6361>

regime based on the flat tax, which is addressed to different categories of taxpayers. All conformation criteria for applying to simplified tax schemes by Ukrainian entrepreneurs is given in table 3.

**Table 3**

**Simplified tax systems in Ukraine**

<b>Criteria</b>	<b>I CATEGORY</b>	<b>II CATEGORY</b>	<b>III CATEGORY</b>	<b>IV CATEGORY</b>
<b>Natural or legal person</b>	Natural	Natural	Natural	Farmers
<b>Maximal number of employers</b>	No employee	10	Unlimited	Unlimited
<b>Maximal annual revenue, UAH</b>	300 000	1 500 000	5 000 000	
<b>Specific activities</b>	Market retail trade and/or consumption services for population	Services and consumption services for flat tax payers or population; production and sale of goods; Restaurant activity	Trade/ services with companies of any legal status	Farmers whose share of agricultural products for the previous year is at least 75%
<b>Tax rate</b>	Up till 10% of minimal salary (3%, 5%)	Up till 20% of minimal salary	3% for VAT payers; 5% for non-WATT payers	
<b>Percentage of revenue</b>	15% from the amount had exceeds the fixed limit of revenues for the respective category; from revenues from non-registered activities or that are not stipulated in fiscal code			Depending on the number of used hectares
<b>Base for calculation</b>	Fixed rate, does not depend on revenues, being limited by fiscal code		Revenue from entrepreneurship activity	
<b>Fiscal electronic devise</b>	Not obligatory	Obligatory from 01.01.2016	Obligatory from 01.07.2015 Not obligatory only for sale of own products (except for food products)	

Source: in base of Tax Code of Ukraine No. 2755-VI, 07.10.2010, p.14, p. 267  
<http://www.elzvit.org.ua/law-base/> /налоговый-кодекс-украины /

The experience of foreign countries denotes that there are largely applied special tax regimes in base of entrepreneurial patent, but it is important to mention that the regime is designed in such a way to strictly control the value of net sales, or business activity on behalf of fiscal authorities. Also, trade activity is not included within the tax simplification. A relevant criterion for the Republic of Moldova should be a strictly monitoring by competent authorities within the process of implementing the entrepreneurial patent as tax incentive.

#### **4. Analysis of economic activity in base of entrepreneurial patent in the Republic of Moldova**

In Republic of Moldova, during those 18 years of promulgation of the Law on patent, legislative provisions have not been changed in terms of mechanism of registration, evidence and business management. At the same time, patent rates remained at the same amounts. The only small changes that were operated referred to types of patent-based economic activities<sup>4</sup>.

Also, another legislative change was implementation of Title X “Other taxes and fees” of the Tax Code for 2016, according to which private tax and entrepreneurial patent is regulated.

At present, patent owners pay the tax and social insurance contributions, which are included in the patent fee. Also registration procedure for patent owners is simple; their monitoring is limited only to registering at local authorities; there is no obligation of fiscal reporting on income received; no obligation of any other form of evidence; no statistical reports are required; no obligation to use cash devise<sup>5</sup>.

All these administrative and fiscal advantages for patent owners in Moldova not only create an impair competition among economic entities performing similar activities, but also lead to possibilities of tax evasion and abuse of patent use by some taxpayers.

Although patent owners do not have the right to engage personnel, often managers unofficially hire staff and lack of control on

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<sup>4</sup>*At present, the Moldovan legislation stipulates 48 types of activities covered by patent with different patent amounts.*

<sup>5</sup>*From 2017, according to Medium-term Budgetary Framework for 2017-2019 all entrepreneurs who want to activate in base of patent are obliged to possess cash devises.*

behalf of fiscal authorities does not allow detecting infringement situations.

At the same time, lack of fiscal and statistical evidence on the number of patent owners especially in rural regions does not allow to perform an analysis of the real volume of revenues obtained by patent owners per type of activity and per whole activity during one year<sup>6</sup>.

All data on number of issued and extended patents, as well as value of patent rates is accumulated at the State Principal Fiscal Inspectorate and table 4 presents statistics for some years.

**Table 4**

**Structure of payments from the issuance and extension of patents in the Republic of Moldova**

	2013	2014	2015	5 months, 2016
<b>1. Retail trade</b>	80,4%	81,3%	81,4%	80,3%
<b>2. Production of goods, execution of works and rendering services</b>	19,6%	18,7%	18,6%	19,7%

*Source: in base of data from State Fiscal Principal Inspectorate*

Data presented in table 4 highlight the structure of the current patent system from Moldova. About 73% of the number of registered/extended patents and 80% of payments transferred for registered/extended patents result from retail trade. Due to the fact that the financial performance of patent holders is not completely analysed on behalf of fiscal authorities, it is difficult to realize a comprehensive investigation on their real dimension and financial profile of economic activity. At the same time, data from the State Fiscal Principal Inspectorate show that all revenues cashed by budget from the issue and extension of patents registered an increase during 2013-2015 by 4% per year, including patents from trade activity (by 6% per year) that denote profitability of this activity.

At the same time, many patent holders perform seasonal works and for tax authorities it is very complicated to monitor if all patent holders respect the period for which the patent was issued.

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<sup>6</sup>According to law, the annual volume of turnover should not exceed 300 000 lei (nearly 13400 EUR/year).

The analysis made in this article, allows us to conclude that realization of patent-based activities in Moldova is too abusive and the actual model of taxing individuals needs to be improved. It is important for fiscal authorities to review and improve the legislative basis, firstly, the Fiscal Code, in which it would be appropriate to introduce provisions on special tax regimes that would stipulate all tax schemes offered to small entrepreneurs, including individuals. It is necessary to revise the actual patent model to ensure a fair competition for all economic agents and individuals through implementation of best foreign practices and adaption of other countries' special tax regimes to economic reality of Republic of Moldova. Also, it is appropriate to define natural persons that perform economic activities and benefit from certain tax incentives as authorized natural persons in the Fiscal Code of Moldova (like in Romania), in order to form the fiscal profile of legal entities.

The existent model of retail trade conducted in base of patent involves several shortcomings:

- Some patentees do not trade in base of documents that confirm the quality and origin of goods, thus consumers are supposed to a high risk of purchasing low quality goods;
- Some traders merchandise in unauthorized places and markets that do not fall the region for which the patent is valid;
- Patent holders largely abuse of the patent based tax system and hide the real value of turnover. Thus, the transfer of patent holders into the standard tax regime would be hard to accomplish by government.

The abuse of individuals of the patent tax system was also attested in foreign countries and this phenomenon created premises for improvement of tax design.

At present, the *Medium-term Budgetary Framework for 2017-2019* stipulates implementation of a revised tax mechanism for patent holders – free professionals in Moldova:

- I. A simplified financial reporting system with simple accounting rules;
- II. A preferential tax system, similar to SMEs with a 1% rate on turnover, but not less than 3000 lei per year;
- III. Obligation to use cash devise.

## **5. Conclusions**

In international experience patent tax is not clearly defined in national legislations. Alternatives to patent-based tax regime are emphasized through license taxes, annual revenue norms for certain types of business activities and payment sums for purchasing the right to activate in business are regulated by the Law on local taxes and fees, or can be stipulated in Income Taxes on Natural Persons Act. At the same time, local tax authorities always adjust legal framework for activities covered by simplified taxes in terms of application conditions, registration procedure, bookkeeping, as well as tax base, tax rates determination and differentiation per region, etc. The design of a small business tax system should be based on a solid data analysis of business sectors of economy and economic profiles of legal agents. This will increase the fairness of using tax incentives within business community. Policy makers should consider the segmentation of business community and, thus, treat each subgroup with different proper policies.

The Moldovan legal framework of trade activity performed by natural persons needs to be improved and the following recommendations are appropriate:

- Introduction of a new chapter in Fiscal Code of Moldova that would refer to special tax regimes, in which patent-based economic activities would be included besides other tax schemes;
- Establishing a simple procedure of registration and evidence of revenues for patent holders in retail trade activity;
- Offering the right to perform trade activity without a legal form of entrepreneurship. This possibility will allow a procedural simplification of accounting evidence and will encourage socially vulnerable groups to launch a business;
- Creation of a simple tax regime based on lump-sum (3-5%). As experience of other countries shows, for trade activities this rates are justified only for producers from some regions, or strategic sectors;
- Introduction of the obligation to use the fiscal electronic devise;

- Introduction of a simplified tax reporting procedures and the way of tax payment;
- Establishment of transparent and clear criteria for monitoring on behalf of fiscal authorities, as well as sanctions for non-compliance with the new legal framework.

An important moment within the process of applying tax incentives is monitoring by fiscal authorities of their efficiency. For this, each country establishes an individual method of measuring effects, depending on the type of special tax regime.

For the special tax regime in base of entrepreneurial patent it is also important to strictly monitor the effects by fiscal authorities in order to prevent or abolish fiscal evasion and tax fraud by some unconscious tax payers.

As a result of the analysis made in this work, we attest some common features in offering tax incentives in the Republic of Moldova and other countries. At the same time, in the Republic of Moldova a transparent and understandable methodology of estimating the effects of tax incentives lacks. That is why it is necessary to implement by the national fiscal authorities a system for estimating the effects from entrepreneurial patent's implementation as tax incentive in Moldova, which will be based on social effects' indicators. The given system will also allow identifying the sectors from which taxpayers could be transferred towards other tax regimes.

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  14. \*\*\* Medium-Term Budgetary Framework(2017-2019), approved by HG No.1011/26.08.2016. Available at: <http://mf.gov.md/files/files/CBTM%202017-2019.pdf>

15. \*\*\* Tax Code of Republic of Belarus nr. 71-3 from December 29, 2009. <http://www.pravo.by/main.aspx?guid=6361>.
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