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Date Inteligente SRL(iData) is an active member of the Alliance of Small and Medium Enterprises in Moldova (AIM)

To the attention of: American Chamber of Commerce in Moldova

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Final Report

I. Methodology: this study is based on the following research methods:

- Assessment of the laws in force and other relevant documents that are publicly available
- In-depth interviews with all meal vouchers operators
- In-depth interviews with 4 large merchants – representing both the retail sector and restaurants.
- Interviews with 41 representatives of companies awarding meal vouchers to their employees.
- Interviews with 111 employees of companies that award meal vouchers.
- Calculations based on the data provided by the State Tax Service by means of an official request, public data regarding the financial statements from National Bureau of Statistics, the State Tax Service and the National Bank of Moldova.

II. Assessment of the impact of applying 6%+18% tax quotas on meal vouchers beginning from 1st January 2020 on the National Public Budget.

According to the State Tax Service, in 638,701 meal vouchers were issued in June 2019, their value being around 25.55 million lei¹. According to the data provided by operators and confirmed by merchants, no dynamics was recorded after June 2019, neither of increase nor decrease of the number of awarded meal vouchers. Thus, we would like to analyze 3 scenarios:

A. Status-quo. This scenario implies preservation of the current state of affairs, when meal vouchers are tax exempted. According to this scenario, the value of meal vouchers issued annually would be 306.6 mil lei, considering that the monthly volumes remain the same. According to the data provided, upon request, by the State Tax Service, the VAT share in the merchants' sales is around 14.65%². From the additional calculations, resulting from the publicly available financial data of the merchants, it was estimated that the share of the corporate income tax and the

¹The number of vouchers multiplied by 40 de lei – the average between the minimum and the maximum values of a meal voucher.

²The maximum would have been 16.67% by applying the VAT rate=20% for all products. However, there are food products subject to 8% and HoReCa services subject to VAT=10%, which make the average VAT share smaller. The quantitative and qualitative studies have confirmed that the employees spend the meal vouchers mainly in stores and less in restaurants and cafés.

taxes related to salaries in the sales volume is around 4%³, although in some companies this share is 7%. Further on we shall use the value of 4% for calculation. Thus, it results that from 100 lei spent through meal vouchers, the government collects 18.65 lei from VAT, corporate tax and taxes related to salaries, only from the merchant side. During in-depth discussions, merchants mentioned that this share could be even 22-24%. Even if we consider the minimum threshold of 18.5 lei, it results that the **government collects 57.18 mil lei annually** from the sales generated by payments with meal vouchers. Collections increase by at least 4 lei for 100 lei spent at merchants, if we add another level in the value chain, either a producer or another intermediary company that delivers the products to the merchant. By adding this level, we shall obtain revenues of **69.45 mil lei annually** to the state budget. In reality, the number of levels can be larger, but we shall not go further into this.

B. Applying 24% tax on meal vouchers. The quantitative study has shown that 62% of the companies are certain they will stop giving meal vouchers to their employees and only 25% are certain that they will continue to do it. Assuming that 38% of the companies and 38% of the vouchers remain in circulation (it may be less), the value of the meal vouchers issued throughout one year would be 116.51 mil lei. In this case, we calculate two benefits for the budget:

- **24% tax or 27.96 mil lei annually**
- **18.65% indirect taxes from the merchant or 21.73 mil lei annually**

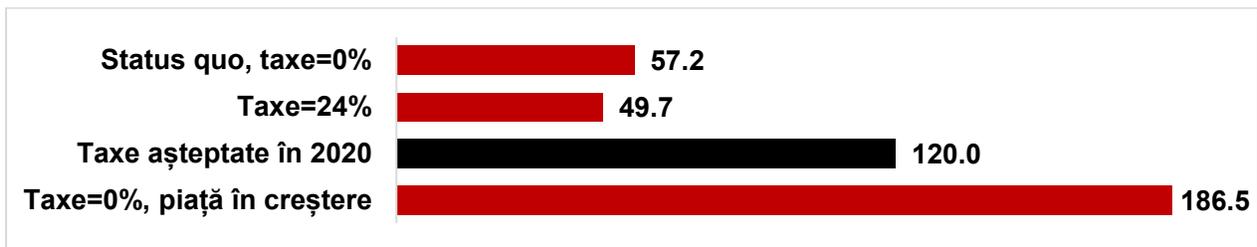
Total: 49.69 mil lei annually.

C. No change to current context in order to allow the development of the meal vouchers market and that it reaches maturity. If the number of employees benefitting from meal vouchers increased up to a little over 100 thousand and the value of meal vouchers issued throughout one year reached 1 billion lei, then only from the merchant taxes **186.5 million lei** would be collected to the budget annually. According to the operators' estimation, this increase could be achieved within 2-3 years, if meal vouchers are not subject to tax and no discussions will be raised regarding their taxation.

Conclusions: Only the scenario C, while not applying any tax on meal vouchers and allowing the development of the meal voucher market, would allow achieving the goal of generating additional revenue amounting to 120 mil lei to the state budget. Moreover, the scenario B (applying the 24% tax) would lead to the decrease of the annual revenues to the budget by 7.5 mil lei, compared to scenario A (status quo, tax=0%).

Figure 1. Annual revenues to the National Public Budget, according to the scenarios A, B and C and compared to the objective of the Ministry of Finances of 120m.

³Of this 4%, the corporate tax represents around 0.5%, taxes related to salaries – 3.5%.



However, if we consider that the meal vouchers' value is distributed within a value chain containing several layers and that taxes are calculated at various stages, at least in terms of corporate tax and taxes related to salaries, this difference of 7.5 million lei becomes even greater. Thus, the impact analysis shows that applying a 24% tax to meal vouchers would lead to the decrease of collections in the budget, compared to the current state of affairs and recommends encouraging the development of the market.

III. Additional arguments, based on the quantitative and qualitative studies within the assessment of employers' and employees' perception of meal vouchers

The meal vouchers' market is currently a very small one, considering the number of users, the number of issued vouchers and their value, as well as from the point of view of revenues generated by the issuing companies. For example:

- In the period of May-August 2019, the turnover in the retail sector exceeded, each time, 5 billion lei monthly. Thus, the share of the meal vouchers' value is around **0.5% of the retail turnover**. Even comparing the turnover of the merchants accepting meal vouchers at the moment, the value of the meal vouchers does not represent a significant share, which is normal, because meal vouchers are only a supplement to the salary.
- The number of employees receiving meal vouchers varies between 30 thousand (according to the data provided by the Ministry of Finances) and 50 thousand (estimations of operators, which also include employees who do not receive meal vouchers regularly). Thus the **share of the employees who receive meal vouchers, among the occupied population is between 3.3% and 5.5%**, which is very little. Operators have estimated, during in-depth interviews, that within 2-3 years a share of 33%, and maximum around 50-60% may be reached.
- **The maximum monthly value of meal issued vouchers does not exceed 12.6% of the value of the national average salary**. Considering that meal vouchers do not replace the official salary, they contribute to the increase of the employees' incomes, also ending up as indirect taxes in the budget.
- **Less than 10% of the employees receive paper meal vouchers**. The others use electronic cards or mobile applications for spending meal vouchers. Thus, the use of meal vouchers has encouraged employees to pay by card more often, this being confirmed also by the faster increase of the value of banking transactions during the last 12 months compared to the increase of the number of bank cards. Thus, more persons use the card to make payments, rather than withdrawing cash.

- **Meal vouchers have changed the consumption habits of the employees.** Half of them (49%) spend more for lunch than they previously did, namely they eat better, while 55% go to the market for food products more rarely than before. **Therefore, meal vouchers contribute to the increase of the demand for HoReCa services.**
- **Employees are more motivated not to be absent from work, due to meal vouchers.** This is valid for 55% of the employees. For others, the motivation is intrinsic.
- **Employees prefer to receive meal vouchers, rather than an additional amount to the salary which is subject to tax accordingly.**
- **Employees would prefer receiving meal vouchers (900 lei) rather than cash (700 lei),** which proves that the implementation of meal vouchers would be a method for several companies to lower the undeclared salaries, while the money through the meal vouchers would go directly to the economy, since they will be used in official business units. Moreover, 75% of the employees believe it is completely unacceptable to receive undeclared salaries.
- The great majority or **73% of the employers consider that meal vouchers are attractive in terms of tax, because they are exempted from it.**
- The satisfaction level regarding the use of meal vouchers is a very high one among employees, and also among employers. **51.2% of the employers and 46.9% of the employees are extremely satisfied (score 10 out of 10) with this system.**
- If they had to choose between meal vouchers, canteen and lunch offered through a catering company, **90.1% of the employees would prefer to receive meal vouchers,** in general, because they can be spent in a flexible manner.
- Before the implementation of meal vouchers, more than half of the employees (53.2%) had lunch on their own, while 41.4% - had lunch from home. (*Note: at this question, respondents were able to give multiple answers*).
- Commercial banks issuing meal vouchers on card support have mentioned in the qualitative study that the number of salary projects concluded between them and companies have increased, as well as the number of cards and transactions. Merchants have confirmed that more persons pay by card, especially because of using the meal vouchers' card.
- Employers would agree with taxation of meal vouchers, but only by maximum 12%. Around one third of the employers would not agree with vouchers' taxation, under any circumstance.

IV. General conclusions:

- The meal vouchers' market is a very small one, in terms of volume and coverage of the occupied population, and the taxation of meal vouchers would practically lead to their disappearance, because the demand for vouchers would decrease suddenly beginning with January 2020.
- The best solution for the budget is to encourage the development of the meal vouchers' market, to exceed at least 1 billion lei annually and later to gradually apply the tax, but not more than 12%. Operators estimate that 5 years would be a reasonable period for the market formation.

- Operators, employees, employers and merchants are happy with the implementation of meal vouchers. For 2 operators, this represents their main business, for others who are banks – it is an opportunity to attract new customers, for the employees – it is an additional source of income, for employers – it is an opportunity to incentivize their employees, and for merchants – it is an additional source of revenue.

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