



## THE COUNTRY

### This Spring Moldova to Elect New Parliament and President

The year 2009 is very important for Moldova. April 5 was recently announced to be the likely day when Moldovans will elect their new 101-member Parliament. Once the Parliament will be elected, the parliamentarians will seek to appoint a President of the country. Whereas President Vladimir Voronin is currently completing his second 4-year consecutive presidential mandate, Moldovans are to expect a new individual to become our country's leader. Guesses and rumors became a new hobby for Moldovans who are interested in politics, as the candidacy of the future President is not obvious. Whereas electoral candidates, as a rule, seek to say what people will like to hear, and whereas one of the things all Moldovan politicians agree on is that Moldova is destined to join the EU, this means that the **overwhelming majority of the people of Moldova would like to see their country as part of the European Union**. We promise to keep you informed of electoral news.

### The Banker Magazine says that Moldova now Ranks 5th in the World in Financial Health

Instead of rewarding the most developed financial markets with high scores, The Banker's 2009 World Financial Health Index penalises countries that rely too heavily on financial leverage. The results, based on 25 indicators of financial and economic health, are qualified as shocking. According to The Banker's new financial risk model, **Moldova, Chile, Bolivia and Peru are less likely to be affected by the current financial crisis than the US, UK or Japan**. Moldova may be poorer, but with a far lower reliance on credit and just a fraction of the leverage of developed markets, it is more insulated from financial meltdown than any developed country. **The big surprise is that Moldova, with a gross domestic product (GDP) per capita of just \$1830, ranks fifth after Norway, Russia, Kuwait and Singapore**. Moldova is reported to have very low levels of debt (\$763 per capita, compared with the UK's \$171,000 per capita), and our banks have high capital-to-asset ratios of more than 17% and low levels of lending. According to the World Bank, banks in Moldova have extended loans worth just 35% of GDP, compared with the US, where domestic bank lending has reached 230% of GDP. Moldova pays just 2.8% of public sector revenues to service government debt, but Italy, for example, spends 11.9% of government revenues on interest payments.

## LEGAL NEWS

### Moldova-Cyprus Double Taxation Treaty Finally Enters into Play

The bilateral treaty between Moldova and Cyprus on the avoidance of double taxation and prevention of fiscal evasion in respect of taxes on income (Treaty) entered into force on 3 September 2008, while in respect of withholding taxes, the Treaty entered into force on 1 January 2009. The Treaty establishes withholding taxes on income derived by Cypriot residents from Moldovan residents that are lower than those established by default by the Moldovan Tax Code. The withholding tax on **dividends** payable by Moldovan companies to their Cypriot shareholders shall be **5%**, if the receiving shareholder holds at least 25% in the dividend-paying entity. In all other cases, the withholding tax shall be **10%** of the dividend payout. The withholding tax on **interest** and **royalties** to Cypriot payees shall not exceed **5%**.

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## Businesses to Observe New Gifts and Hospitality Rules in Interactions with Moldovan Public Officials

Two new laws regulating the activities of Moldovan public officials on the Code of Ethics of the Public Official and on the Public Office and the Status of Public Official, have entered into force as of 1 January 2009, replacing the old 1995 Law on Public Service.

The new Law on the Code of Ethics of the Public Official maintains the previous statutory restrictions on gifts, prohibiting public officials from accepting gifts, services or other benefits, except for the "symbolic signs of attention and souvenirs" according to the unanimously recognized norms of protocol and courtesy, if the value of such symbolic signs of attention or souvenirs does not exceed the amount of one minimum monthly wage in Moldova, which is currently set at MDL 600 Lei (about EUR 42) compared to MDL 400 in 2008. Additionally, the new law requires public officials to undertake certain measures to protect themselves when an undue benefit has been offered to them (e.g. by trying to identify the persons offering undue benefits and by reporting such attempts).

However, the new laws applicable from 1 January 2009 will no longer maintain the restriction on foreign travels contained in the old Public Service Law, under which public officials were prohibited from accepting invitations to go on business trips abroad on account of individuals or legal entities, except when such trips were envisioned by either an international agreement to which Moldova was a party, or by an agreement between the Moldovan governmental agency and the appropriate foreign public agency. Therefore, in accordance with the current general regulations on business trips, the Moldovan public officials will be able to go on business trips abroad on account of foreign or local companies, provided that participation in such business trips and the source of funding thereof has been approved by the Moldovan government agency (i.e. the official's employer) and/or by other competent authorities, as the case may be.

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## Code of Contraventions Restated

A contravention (*contraventie*), formerly known as an administrative violation (*contraventie administrativa*), is somewhat similar to a petty offence or, to some extent, a misdemeanor in the common law systems. A contravention is a breach of law that is not serious enough to be called a crime, but that nevertheless needs to be punished. Contraventions are most frequently sanctioned by way of fines, while contraventional incarceration shall be from 3 to 15 days of jail (i.e. not prison) time for one contravention or up to 30 days for two or more contraventions.

On 16 January 2009 the new Moldovan Contraventions Code has been published. The Code shall enter into force on 31 May 2009 and shall replace the previous Soviet Code of Administrative Violations enacted back in 1985, when the government had a somewhat different vision of law and order.

The Code establishes those acts which constitute contraventions and sets out the applicable penalties. For the first time the Code imposes penalties not only on the officers of companies that committed the contravention, but also on the company itself, in certain explicit cases. In particular, the Code regulates the treatment of contraventions in the following areas: elections, religion, employment, healthcare, land, copyright, and electricity, environmental protection, energy and construction, agriculture, transportation, road traffic, electronic communications and information technology, business, tax, customs and securities, government, stay in Moldova, consumer protection and product standards, public order and public security, military.

During the forthcoming issues of our newsletter we will aim to illustrate the most frequent business-related contraventions and explain how they are likely to be treated.

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## Corporate Income Tax in 2009

As of 1 January 2008 Moldova introduced the **0%** income corporate tax rate for all Moldovan businesses that intent to reinvest their profits. However, unlike before when dividends were tax-exempt, Moldovan dividend distributions are now taxed at **15%**. This tax regime shall continue throughout the 2009 fiscal year.

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## Payroll Taxes in 2009

Same as in 2008, employers shall have to withhold from their employees' salary payouts income tax at the rates of **7%** for the portion of the annual income not exceeding MDL 25,200, and **18%** - from the surplus earnings, only that the annual tax-exempt income that may be claimed by an individual has now been increased to **MDL 7,200** compared to MDL 6,300 in 2008.

In 2009 employers shall enjoy a 1% reduction on **social security contributions** on gross payroll from 24% in 2008 to **23%** (or even 22% for agribusinesses). Employers who where exemplary tax payers in 2008 and prove that in 2009 they paid 10% more social security contributions compared to 2008, shall even be entitled to only pay **20%** instead of 23%/22%.

The state now plans to recover that 1% reduction granted to employers by shifting the tax burden onto employees' salaries by way of **individual social security contribution** that shall now be withheld from salaries at **6%** compared to 5% in 2008.

Another must-do payment affecting employment relationships is the **mandatory health insurance contribution**. In 2008 employers had to pay 3% on top of gross payroll to the health fund, and an extra 3% were withheld from employees' salaries. This year it was apparently decided that 6% (3%+3%) was not enough for health insurance needs, so that the Parliamentarians increased these obligations by 0.5% on both sides, placing the Health Insurance Fund in expectation of 7% of gross payroll (**3.5%+3.5%**) in 2009 compared to 6% in the previous year. The medical profession and those seeking health insurance should be happy, but the largest mass of businesses and employees does not manifest much joy in connection with this 1% increase.

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