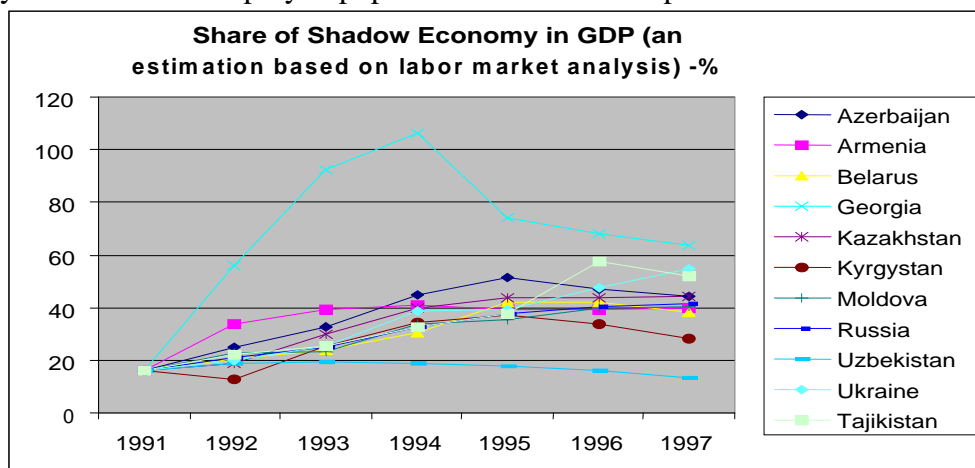


Source: ECONOMIC SURVEY: *Moldova in Transition*, Center for Strategic Studies and Reforms, N1, Chisinau, July 1998

3.5 Shadow economy

The shadow economy in transition countries, especially in NIS, differs to some extent from shadow economies in developed countries. This is manifested in the fact that the state sector is very active in realizing shadow economic transactions, often the state property is used for obtaining unofficial personal gains by the state employees. A clear divide between the official and nonofficial sectors is absent, the labor force of the underground sector includes high skilled professionals. The shadow economy in NIS countries grew up so substantially not only because of the economic decline, but also as a result of involving in the privatization process of new objects – land, assets of enterprises, etc.

It is possible that the shadow economy phenomenon has an anti-cyclic character and grows up, even faster in countries experiencing economic decline. Methods of estimation of the shadow economy's volume of output are bound to be not fully accurate and give a very approximate picture of the real situation. Moreover, the results will differ depending on the method used. Therefore, for making an international analysis of the degree of presence of this phenomenon, it is necessary to use the same methods of estimation and to take averages for every country. In this study a labor force market analysis on the information on NIS countries was used. The specific of the method lie in underestimation of shadow economy parameters. Thus, utilization of monetary methods would produce far graver results. Furthermore, the utilization of the same method for the Republic of Moldova on the basis of the scriptic number of employees instead of employed population leads to a 7-8 per cent increase in the results.



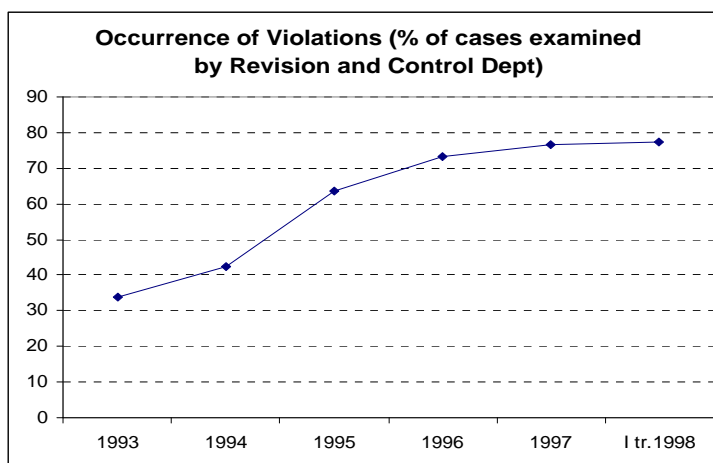
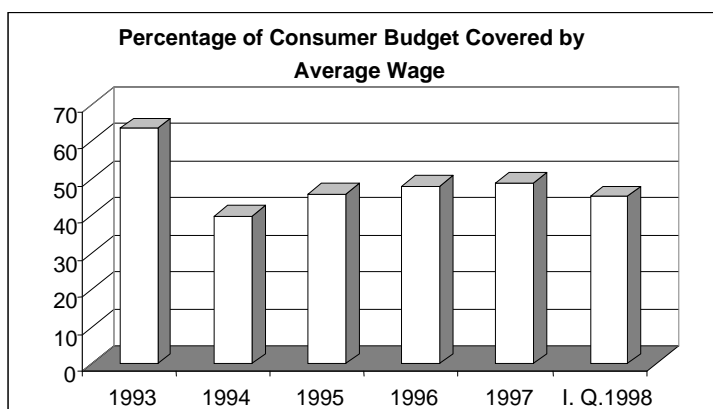
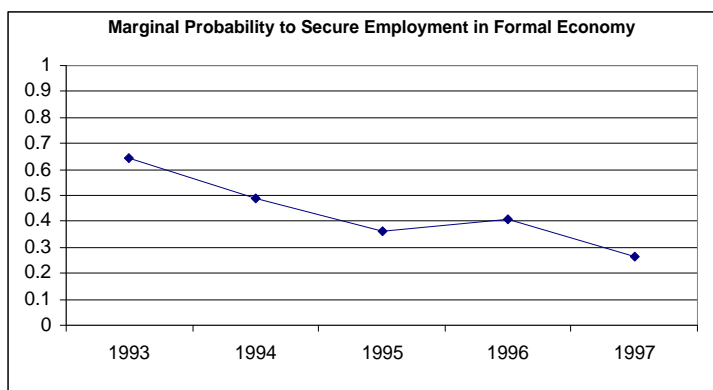
Starting with 1994-1995 the share of the shadow economy began to diminish in a number of countries. This can be explained not as much by some essential regulating measures made by the state, as due to the launch of the stabilization process in those countries resulting in diminished share of the shadow economy in the official one. A case in point is Georgia. During 1991 – 1994, the number of employed diminished from 2.5 to 1.75 million persons (by 30 per cent), growing up to 2.1 million persons in 1997.

For the Republic of Moldova the, 1997 economic relaunch (GDP growth by 1.3 per cent) was too small, therefore the rate of the shadow economy in comparison to the official one is in continuing growth. The discrepancy between unemployment and vacancies grows up and, as result, the marginal probability to find a job in the formal sector of the economy grows up.

The situation of the employed in the formal sector is discouraging too. The registered revenues of less than 3 per cent of population (5 per cent of urban population and 1.9 per cent of the rural one) cover the consumer basket. The share of the average wage in the consumer basket (40 per cent) remains still too small for a long run to allow the population to survive, staying only in the formal sector of the economy. This “pushes” a growing share of population to the shadow sector.

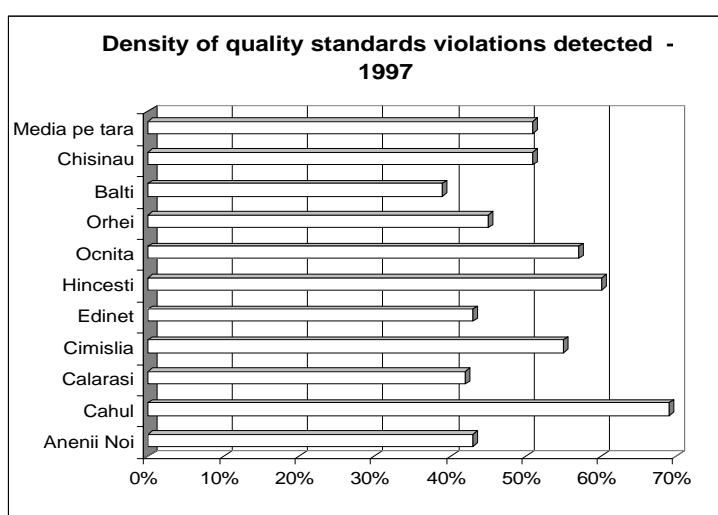
The spread of the phenomenon of shadow economy is accompanied by the growth in crime, fall of economic and financial discipline, quality of goods and services. Thus, during the first quarter of 1998, the number of crimes, including the economic ones, grew up by 5.3 per cent in comparison to the last year. According to some estimates, the daily income of the drug- business in Balti amounts to about 2 million lei. Losses of power grew up from 10 per cent of the total consumption in 1990 to more than 30 per cent in 1997, constituting daily 300 thousand lei, according to some evaluations.

The growth of illegal export-import transactions’ volume is worrisome. Thus, according to Romanian data (“Curierul National) the volume of Moldovan sugar exports to Romania exceeded by 1.8 times (450 Th. tons) the officially recorded volume of production of sugar on the territory of the Republic Moldova. Generally, a big part of this sugar is produced in the Ukraine, and is fraudulently certified as originated from Moldova, with the aim of gaining advantages from the trade agreement between Romania and Moldova. The comparison between Russian and



Moldovan official statistics sources indicates that the sparkling wine exports of Moldova exceed 1.6 times the Moldovan production; more than this, after passing the border prices grow up 2.4 times. In the Russian statistics the imports of Vermut – wine from Hungary and Bulgaria disappeared – since, as they pass the customs, they are being registered as Moldovan wines, thus giving the violators the advantages of the Moldo-Russian agreement. A practical absence of a border between the right side of Moldova and the territory of Transnistria and the existence of two different fiscal systems on this territory implies considerable losses to the state budget of Moldova. Thus, the absence of a value added tax on the territory of Transnistria implies paying the custom duties on the territory of Transnistria, coming to the right side of r. Nistru as local goods, avoiding paying the VAT (in average 20 per cent), aggravating the situation in the budget and creating an *unhealthy competition to the local goods*.

Production and marketing of fake or uncertified goods is a component of the shadow economy. It has a double negative impact: on health of population and worsening of Moldova's prestige in the external market. The *Department for Standards, Metrology and Supervision of Moldova*, having as its most important direction the protection of consumers rights through state control and supervision of normative documents, firstly, referring to the populations health and life security, the environment protection and growth of goods and services quality, made a number of controls in 1997. The results of the department's work indicated, that during 2,226 checks made 1,129 violations were detected (51 per cent - in 1997 and 47 per cent in 1996). The share of deviations from required standards amounted 61 per cent (in 1996 – 48 per cent). A regional goods and services quality differences is observed . On average, there are



established violations (deviations of quality standards, faking, or absence of necessary documentation) for meat – foods in about 52 per cent, for canned vegetables and fruits – in 77 per cent of cases, alcoholic beverages – 39 per cent, electric appliances – 67 per cent, for the commodities for children, the deviation rate reached 74 per cent, services -63 per cent.

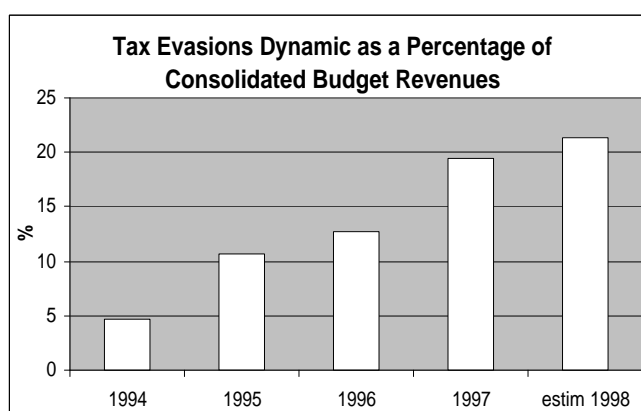
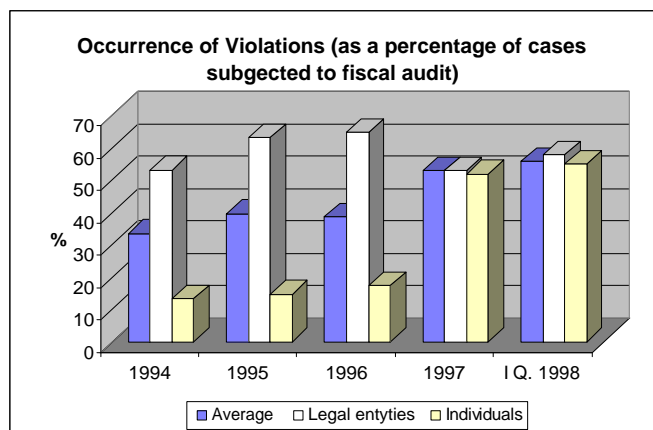
A worrying sign is the quality of imported goods. The Republic of Moldova, being a small open economy, promotes a policy of liberalization of external trade. In many cases, the imported goods create a serious competition for the local ones often easily substituting them, and discouraging the local production. Having competitive prices, these goods often are of bad quality and are harmful for population's health. Thus the density of negative results for imported goods is bigger than the average in the country and reached 79 per cent in 1997 against 86 per cent in 1996. In the case of detection of this cases of law violation, the aforementioned Department prohibits the trade of these goods. The mass information of the population regarding the quality of goods, including the imported ones could offer to consumer the possibility of choosing between price and quality, and, possibly, could contribute to the reviving of local production.

Placing emphasis on the quality of goods is an obligatory condition for a stable economic development and the country's prestige. With the aim of consolidation of the country's relation with other countries and collaboration with different international organizations, according to the decision of the General ISO (International Standards Organization) Assembly, the Republic of Moldova represented by the Department for Standards, Metrology and Supervision became a correspondent member of ISO in 1997. Agreements of collaboration in the field of standardization with Lithuania, the Ukraine, Azerbaijan, Uzbekistan were signed. The preparation for the entrance of the Republic of Moldova into the WTO was completed. For the Republic of Moldova, it is important that these kinds of agreements be signed with the basic partners in export-import transactions.

Year 1997 and the first quarter of 1998 were marked by a decline in the economic and financial discipline. The data of the Department for Revision and Control show that the density of violations in the total number of control continues to grow, the prejudice per economic unity grew up from 3.3 thousand lei in 1997 till 6.9 thousand lei in the first quarter of 1998, almost doubled. According to our estimation, in 1998 it is expected the total prejudice to reach about lei 90 millions in 1998. According to the information of *the Main State Fiscal Inspection*, in 1997, 17,541 (I quarter 1998 – 4614) units from 219,180 (respectively, 234,025) were exposed to fiscal control, in 9,233 (I quarter 1998 – 2,601) cases violations were detected. Additional payments were calculated in the volume of lei 290.3 million (in I quarter 1998 – 44.8), including fines lei 163.7 (22.5) million. In the course of the analyzed period, a practical leveling in the density of violations among legal entities and individuals took place.

The evaluation of the proportions of tax evasion in the Republic of Moldova in 1997 – I quarter of 1998 was done on the basis of the information contained in "The Report regarding the results of control activity of the respecting the legislation and other payments" of the Main State Fiscal Inspection, depending on the share of checked taxpayers and the detected sum of evasions (see following tables). The calculations showed a slow down of the tax evasion process in the first quarter 1998. In the structure of tax evasion, LTDs, stock companies and cooperatives of all kinds predominate.

The compensation of losses detected by the inspectors of the Main State Fiscal Inspection occurs in very slow pace. Thus, while in 1996 there was collected 19.09 per cent of the established sum, in 1997 – only 13.7%, and in the first quarter 1998 - 15.6%.



Evaluation of tax evasion in the Republic of Moldova - 1997 (Th.lei)

	Total	Subjected to audits	Density of control.	Violation detected	Density of violation.	Suppliment. payments	Detected evasions	Average evasion	Benefit from evasion	Efficacy of evasion	Fines	Collected total	Collected %	Collected fines	Collected fines %	Total Evasions
Total legal entities and individuals	219180	17541	0.08	9233	0.53	290300.9	126631.3	7.22	103398.4864	445.05	163669.6	39909.7	13.75	23213.6	0.14	537408
Legal entities -total	173801	11524	0.07	6085	0.53	280576.1	121990.6	10.59	103386.8004	555.73	156585.5	38547.4	13.74	22418.4	0.14	502394
including:																
state enterprises	1407	773	0.55	559	0.72	32855.8	15685.1	20.29	-2365.74	-13.11	17170.7	8124.7	24.73	4378.2	0.25	28550
joint enterprises	38	10	0.26	9	0.90	466.5	248.8	24.88	126.04	102.67	217.7	33.6	7.20	26.3	0.12	945
renting enterprises	64	16	0.25	10	0.63	123.9	77.2	4.83	46.23	149.23	46.7	13.8	11.14	8.8	0.19	309
cooperatives of all kinds	3109	1012	0.33	839	0.83	45645.8	23641.7	23.36	8783.69	59.12	22004.1	5613.4	12.30	3804.9	0.17	72630
from them kolchozes	367	317	0.86	274	0.86	29226.6	15277.3	48.19	-9967.47	-39.48	13949.3	3965.9	13.57	2643.6	0.19	17687
LTDs	21869	3618	0.17	2323	0.64	66720.6	30721.3	8.49	19683.07	178.32	35999.3	6445.2	9.66	4049.5	0.11	185695
stock companies	4888	1815	0.37	1408	0.78	84221	33329.1	18.36	2056.37	6.58	50891.9	11640.7	13.82	6509.5	0.13	89759
enterprises with foreign invest.	1298	183	0.14	140	0.77	9794.5	5831.7	31.87	4450.81	322.31	3962.8	992.4	10.13	613.3	0.15	41364
social organizations	3387	313	0.09	146	0.47	2769.3	1719.9	5.49	1463.98	572.05	1049.4	202.8	7.32	95.2	0.09	18611
banks	29	11	0.38	9	0.82	5992.3	2647.9	240.72	374.96	16.50	3344.4	4754.8	79.35	2578.1	0.77	6981
insurance companies	103	13	0.13	6	0.46	161.4	62.8	4.83	42.43	208.28	98.6	31.6	19.58	24.6	0.25	498
associations, concerns	473	111	0.23	80	0.72	23076.8	3785.2	34.10	-1630.29	-30.10	19291.6	296.6	1.29	113.9	0.01	16130
other unions																
farmers	133606	2577	0.02	41	0.02	194.7	61.4	0.02	57.64	1534.99	133.3	37.9	19.47	15.2	0.11	3183
budget institutions	2316	827	0.36	386	0.47	1203.2	302.8	0.37	-126.84	-29.52	900.4	295.8	24.58	186.1	0.21	848
other legal entities	1214	245	0.20	129	0.53	7350.3	3875.7	15.82	2392.32	161.27	3474.6	64.1	0.87	14.8	0.00	19204
Individuals - total	45379	6017	0.13	3148	0.52	9724.8	4640.7	0.771265	3351.246253	259.8966	5084.1	1362.3	14.00851	795.2	0.156409	35014
individual enterprises	45194	5995	0.13	3128	0.52	9681.7	4620.6	0.77	3336.32	259.78	5061.1	1378.2	14.24	787.6	0.16	34833
collectiv societies	148	15	0.10	14	0.93	32.1	17.4	1.16	14.15	434.83	14.7	11.5	35.83	7.6	0.52	172
socien.with unlim.responsib.	37	7	0.19	6	0.86	11	1.7	0.24	-0.38	-18.31	9.3	0	0.00	0	0.00	9

Estimation of tax evasion in the Republic of moldova - first quarter 1998 (Th. Lei)

	Total	Subjected to audits	Density of control.	Violation detected	Density of violation.	Suppliment. payments	Detected evasions	Average evasion	Benefit from evasion	Efficacy of evasion	Fines	Collected total	Collected %	Collected fines	Collected fines %	Total Evasions
Total legal entities and individuals	234025	4614	0.02	2601	0.56	44879.00	22385.50	4.85	21809.05	616.20	22493.50	6962.6	15.51	4523.00	20.11	365373.67
Legal entities -total	185770	2184	0.01	1267	0.58	43613.90	21803.70	9.98	21290.95	1038.09	21810.20	6708.1	15.38	4345.20	19.92	354048.07
including:																
state enterprises	1403	150	0.11	98	0.65	4209.70	2378.60	15.86	1928.53	107.12	1831.10	1321.5	31.39	1126.70	61.53	22247.84
joint enterprises	97	3	0.03	3	1.00	28.70	6.70	2.23	5.81	163.70	22.00	0	0.00	0.00	0.00	216.63
renting enterprises	63	4	0.06	1	0.10	123.90	123.80	30.95	115.93	368.43	0.10	0	0.00	0.00	0.00	1949.85
cooperatives of all kinds	3130	238	0.08	160	0.67	4158.40	1765.40	7.42	1449.20	114.58	2393.00	667.6	16.05	495.00	20.69	23217.24
from them kolchozes	313	63	0.20	50	0.79	2864.40	1128.40	17.91	551.86	23.93	1736.00	73.2	2.56	52.40	3.02	5606.18
LTDs	22486	871	0.04	546	0.63	10403.90	5109.60	5.87	4706.60	291.97	5294.30	1313	12.62	784.60	14.82	131910.98
stock companies	4904	406	0.08	287	0.71	23853.70	12047.40	29.67	10072.56	127.51	11806.30	3118.9	13.08	1771.60	15.01	145518.35
enterprises with foreign invest.	1372	32	0.02	22	0.69	556.70	268.10	8.38	255.12	491.20	288.60	167.5	30.09	106.60	36.94	11494.79
social organizations	3682	23	0.01	9	0.39	32.10	27.50	1.20	27.30	3403.65	4.60	11.9	37.07	6.90	150.00	4402.39
banks	37	2	0.05	1	0.50	-62.40	0.50	0.25	3.87	-28.71	-62.90	7.7	-12.34	7.70	-12.24	9.25
insurance companies	94	1	0.01	1	1.00	0.40	0.20	0.20	0.20	1150.00	0.20	2.9	725.00	2.70	1350.00	18.80
associations, concerns	478	25	0.05	19	0.76	54.40	17.10	0.68	14.25	125.25	37.30	38.9	71.51	19.20	51.47	326.95
other unions																
farmers	144460	234	0.00	27	0.12	2.80	1.90	0.01	1.90	10447.91	0.90	3.7	132.14	3.70	411.11	1172.97
budget institutions	2283	182	0.08	84	0.46	280.60	137.80	0.76	115.43	129.01	142.80	295.8	53.20	186.10	130.32	1728.56
other legal entities	1281	13	0.01	9	0.69	94.80	42.90	3.30	41.94	1089.79	51.90	1.3	1.37	3.90	7.51	4227.30
Individuals - total	48255	2430	0.05	1334	0.55	1265.10	581.80	0.24	518.09	203.31	683.30	254.5	20.12	177.80	26.02	11325.60
individual enterprises	47211	2419	0.05	1326	0.55	1250.10	572.40	0.24	508.35	198.41	677.70	252.8	20.22	176.20	26.00	11171.38
collectiv societies	150	9	0.06	6	0.67	10.80	7.30	0.81	6.65	256.64	3.50	1.5	13.89	1.50	42.86	121.67
socien.with unlim.responsib.	31	2	0.06	2	1.00	4.20	2.10	1.05	1.83	168.75	2.10	0.2	4.76	0.10	4.76	32.55

Fight against tax evasion as a way to ameliorate the budget deficit problem.

At present, one of the main state problems is the budget deficit. The study of traditional macroeconomic theories regarding budget deficit allows us to make a conclusion. Budget deficit implies shrinking of savings and investments, diminishing of capital stocks, which, in its turn, slows down economic development. In the long run this implies a rapid growth of the external debt, and current account balance deficit. According to these theories the state debt presents an additional burden for next generations, but for the Republic of Moldova – even for the current generation.

According to the Ricardian macroeconomic theory (less traditional), the state budget deficit is just a substitution of current debts by future growing taxes. The adherents of this theory consider the negative effects of the budget deficit on the country's economic development would not be essential. With regard to the Republic of Moldova, it is clear that the socio-economic condition will not allow the population to make these savings. Therefore the conclusions of the Ricardian theory will not be valid in the case of Moldova.

It is clear that the amelioration of this situation becomes more difficult and it is necessary to elaborate concrete measures. Amongst the most traditional ways of amelioration in this situation at least five could be used:

- financing the budget deficit out of supplementary credits;
- seignorage, or gains from money emission;
- tax growth;
- reduction of state expenditure;
- fight against tax evasion.

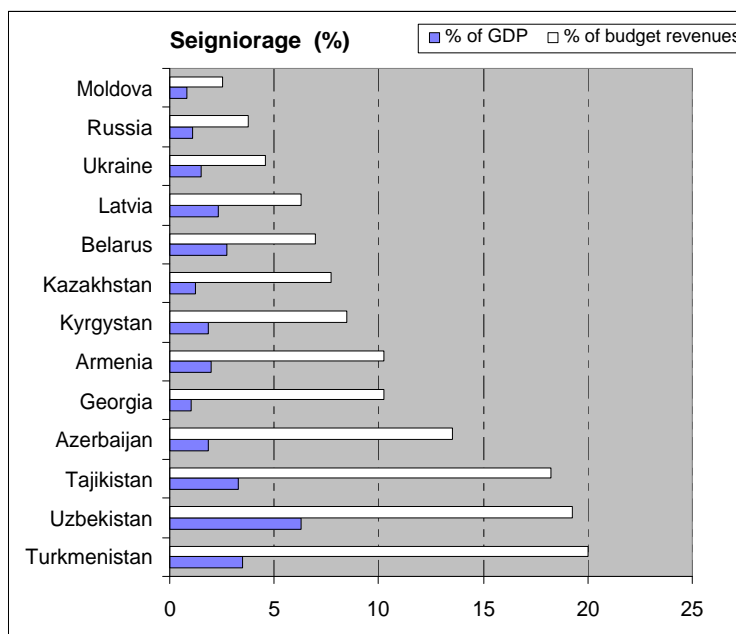
Unfortunately, the first way, that one of *financing the budget deficit out of supplementary credits* was overutilised during the last years, and as a result the external debt of the country grew up to 64 per cent of GDP in 1997. The continuation of this practice could be too dangerous for the economic stability of the country.

The seignorage or gaining revenues from the emission of additional sums of money is also problematic. The data of the National Bank of Moldova show that since the introduction the national currency, the money aggregate MO grew up more than 8 times achieving a sum of 972.06 million lei at the end of 1997. The “pressing” of this process could cause an inflation growth with all negative consciences.

Obtaining a growth in the budget revenues *raising taxes*

will be doubtful too. First, our calculations show that the increase of the fiscal burden by one per cent will result in a 2-3 per cent growth of tax evasion. Secondly, the traditional macroeconomic models show that this will shrink the production and GDP. That is why this measure could be unacceptable for the condition of Moldova.

The reduction of the Government expenditure can be partially used in the short run to ameliorate the budget deficit problem, but it is a difficult way, from both social considerations and economic ones. The traditional macroeconomic models show that that the diminishing of Government expenditures will cause the fall of GDP, or this measure could solve the problem



for a short time, but could be discouraging the economic growth.

Another way of solving the problem is *the fight against tax evasion*. Being prevalent in the society, the phenomenon of tax evasion presents a considerable reserve, a potential source of additional incomes for the budget. For a country like the Republic of Moldova a partial *fighting against tax evasion could be the most efficient way of solving the budget deficit problem, but the diminishing of the tax evasion in bigger proportions could create possibilities to ease the tax burden and stimulate the production.*

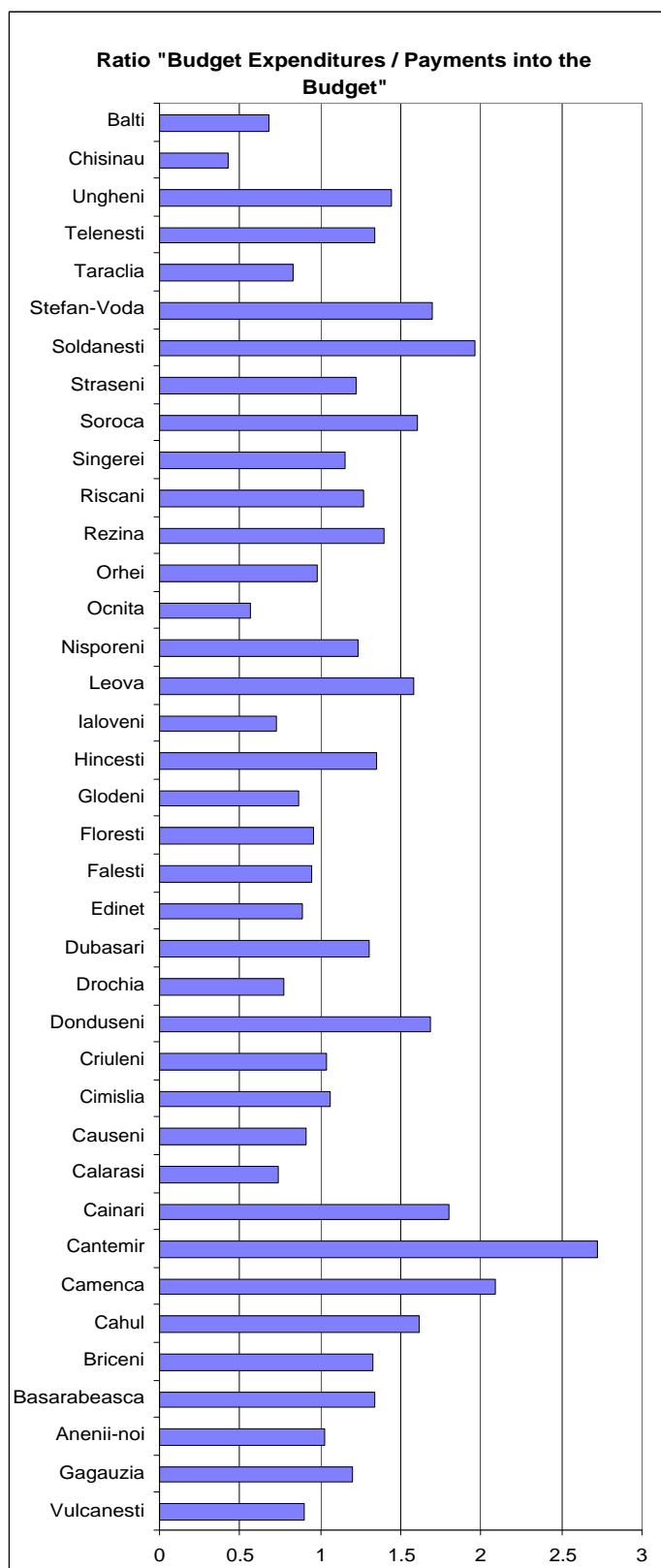
Among the causes of tax evasion phenomenon, a heavy and nonuniform tax burden, weakness of control institutions, and the existence of an overdriven system of fiscal facilities could be mentioned.

Even if the formal tax burden in the Republic of Moldova fluctuates during the last years in limits of 3—33 per cent, this figure is formed due to the fact that the tax burden for one part of economic agents exceeds 50 per cent, but the other part does not pay taxes.

Probably, one of the causes of tax evasion's phenomenon spread is lack of interest of the local authorities in fighting it. The ratio "budget expenditures / payments into the budget" varies substantially from one locality to another other (from 0.43 in Chisinau till 2.72 in Cantemir county). On one hand, the possibility to cover the local needs with finances from the state budget does not stimulate local administration to maximize tax collection. On the other hand, the realization by the local authorities of the fact that a big share of tax collection on the territory will be spent in other regions creates indifference to tax collection and facilitates other kind of agreements between local authorities and taxpayers.

Another cause of tax evasion spread is the weak activity of fiscal institutions. Thus, the share of economic agents subjected to fiscal audits diminished from 32.3 per cent in 1994 to 8 per cent in 1997, and 1.9 per cent in the first quarter of 1998, which facilitates evasions.

In this study a basic *model of tax evasion* was examined. The following assumptions lie at the base of the model: the taxpayer is an amoral person and evades paying taxes when this is economically advantageous; the tax inspector is an absolutely honest person who objectively

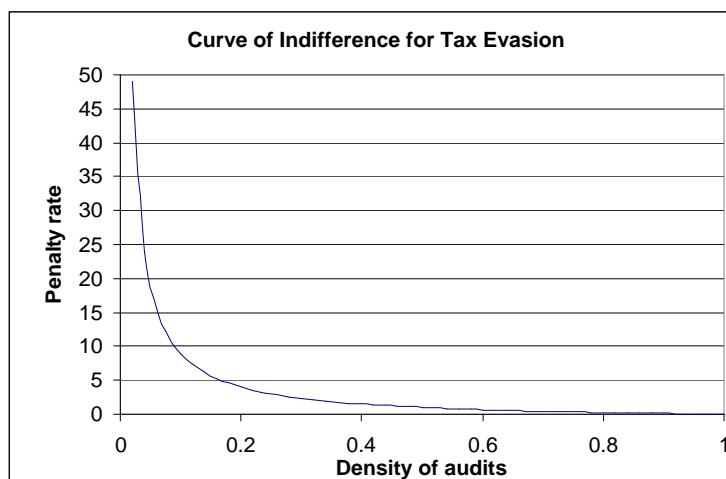
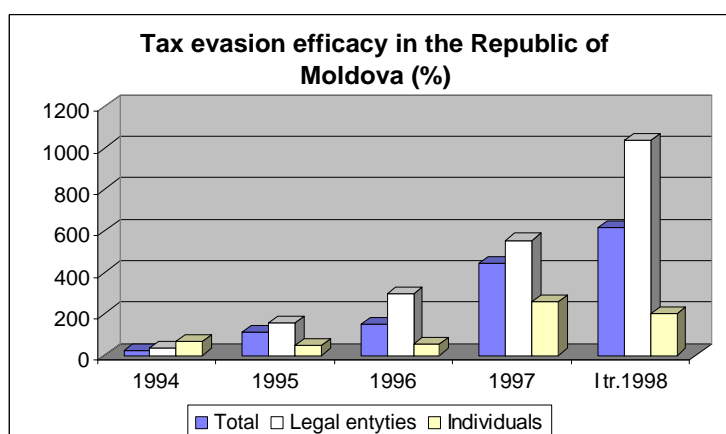


records all the violations of the fiscal legislation in his reports; the inflation rate is zero. The condition when tax evasion is considered to be economically advantageous means that the gain from tax evasion exceeds the expected losses in the case of detection by the fiscal auditors. In this case the gain from tax evasion is the tax evasion sum itself. The expected losses from tax evasion are the sum of tax evasion which will need to be reimbursed and penalty (fine) in the case of being caught corrected to the probability of being caught in tax evasion. The total net benefit from tax evasion was calculated being equal to the difference between the gains and expected losses.

The calculation made by the Main State Fiscal Inspection showed that for the majority of the taxpayers' categories the benefit from tax evasion is positive, which means that there exist favorable conditions for tax evasion and the phenomenon will grow. In 1997, only state enterprises, budget institutions and kolkhozes were exceptions. The net benefit for legal entities amounted lei 103.5 million in 1997 and lei 21.2 million in the first quarter 1998. The net benefit of individuals - lei 3.4 million in 1997, lei 0.6 million in the first quarter 1998, and the total for the Republic of Moldova estimated at lei 107 million in 1997 and lei 22 million in the first quarter 1998.

For the numerical evaluation of the degree of tax evasion advantage a notion of "tax evasion efficiency" was defined as a ratio of the net benefit to expected losses. The calculation showed that this indicator grew up extremely fast during the last years and reached in 1998 a level of 1000 per cent for legal entities.

To fight this phenomenon, it is necessary to create the conditions that would reduce the economic efficacy of tax evasion to zero and would make the taxpayers indifferent to tax evasions. These conditions could be created by manipulating with the penalty rate and the probability of being caught in tax evasions (density of controls). The calculations allowed to obtain the *curve of indifference to tax evasions*. It presents the multitude of combinations between the penalty rate and the density of fiscal controls, which discourages the tax evasion, for which the efficacy of tax evasion is equal to zero.



We can see that the sensibility of these indicators is very strong. The surface under the indifference curve presents the multitude of combinations of penalty rates and densities of controls for which the tax evasion is efficient (the efficacy is positive). For the reduction of the phenomenon of tax evasion, the choice of the kind of control regime is important. The calculation showed that the efficacy of tax evasion does not depend on their volume. In space the dependence between penalty rate, density of controls and the efficacy of tax evasions forms a hyperboloid. The multitude of combinations under the zero level describes control regimes of fiscal inspections which discourages the tax evasion.

The analysis of the real information regarding the penalty rates and densities of fiscal audits corresponded to the sector where the evasions are efficient. Thus, for the density of audits created in 1997 amounting 8 per cent the penalty rate needed to be not 100 – 130 per cent, as it really was, but 1,150 per cent (!). And conversely, if the penalty varied in limits of 100-130%, then the density of fiscal controls had to be 43-50 per cent of all taxpayers. Besides, given the fact that collection of penalties is going very hard, it is necessary to make other measures to fight tax evasion.

First suggestion in this direction is the need to develop an ample study of the phenomenon. This study should include economic, sociological, juridical and psychological aspects. The problem is that the social - economic conditions created in the ex -socialist zone facilitate the avoiding of paying taxes. There exist economic models in the world practice

which prove the fact that as long as the person realize that the tax evasion is widespread and he lives in an dishonest ambiance, he concludes that his tax evasion will not change a lot the general situation, and essentially – his own benefits. As a result, he will decide to hide a part of his incomes.

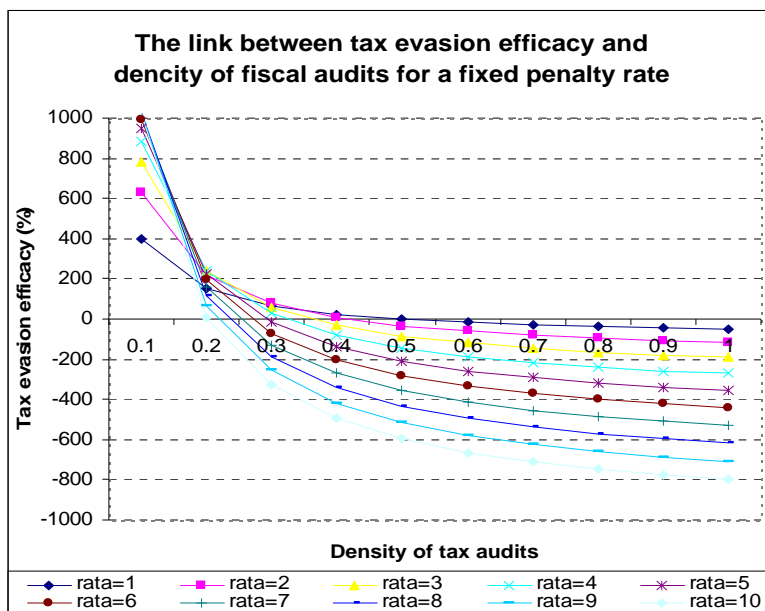
There are studies that prove the fact that the bigger is the income, the more he will be subject to tax evasion. The population having big incomes, who should, in principle, contribute the most of the budget revenue, will evade paying taxes in bigger proportions. In *countries with a dishonest ambiance, the progressive tax system does not work efficiently. Formation of a state with a big share of medium size income population is the base of tax collection stability.*

Another aspect of tax evasion. *Studies of the psychological aspect of the tax evasion show that independent of the real dimension of incomes, persons who complain about small incomes, about unfairness in evaluation of their work and aptitudes are more disposed to evade paying taxes, taking advantages from the state services to all population. That is why insufficient informing of the population regarding real incomes in society predispose to supplementary evasions. The information of the population regarding the buying capacity of the average wage, including various kinds of services and education in various countries could be beneficial.*

As a solution for the creation of a more favorable ambiance and amelioration of financial discipline, sociologists and psychologists propose the creation of various *educational programs of tax honesty*. According to the authors of these programs, education and moral appeal could have, probably, a better effect than high penalties.

Rise of the state authority in the public opinion can serve as a cheaper way of fighting tax evasion. Such educational programs could work more efficiently if being promoted by non – Government organization, and financed by the state. They need to maximize the utilization of mass media and include the explanation of the following aspects:

- the tax system, in principle, is not bad and differs little from similar systems in the developed countries;
- the majority of taxpayers nevertheless pay their taxes;



- a convincing description of main directions of expenditures and explanation of their importance;
- description of possible consequences of tax evasion, including the personal risk and institutional consequences of an excessive punishment from the state;
- promoting a negative attitude to tax evasion, explanation of the fact that any tax evasion results simply in the tax burden's growth, and harms the rest of population.

Regretfully, especially in the countries having lower fiscal discipline, this educational work is not practiced at all.

Another aspect of tax evasion is that *the maturity of tax evasion reimbursement* is too long. Basically, the tax debts form a dead burden, which pushes more and more to the shadow economy not only the small businessmen, but also big enterprises, which resort to different manipulations with foreign accounts "run away" from this burden. Some studies of this phenomenon show that for easing this burden of taxes, which will never be paid anyway, a tax amnesty could be declared. *Negative and positive aspects of tax amnesty* could be distinguished.

The positive effects of the declaration of a tax amnesty include the following:

- *amnesty could offer a possibility to collect a part of tax debts, which in other case could not be collected;*
- the amnesty encourages honest declaration of incomes;
- amnesty makes the society more able to control its future, because the possibility of getting out from the shadow economy and entering the official one appears;
- amnesty makes possible to declare that a mistake was made, but now conditions for changing the behavior are created;
- amnesty can serve as transition to a new, softer tax regime, because when the Government fails systematically in promoting its tax policy, this could signify about a too heavy tax burden;

The negative effects are summarized in the fact that if this kind of amnesty is repeating, the population gets used to the fact that in any case they will be forgiven for breaking the law, this could undermine the authority of the Government and diminish the financial even more.

With regard to the Republic of Moldova, the utilization of different forms of tax amnesties becomes a too often used practice. In general, the population expects regular debt forgiveness, that is why it is necessary to examine carefully the possibility to continue this practice, or to declare clear that this amnesty is the last one and later the control work will be done with greater severity.

Fighting tax evasion needs to be done by all ways: economic, legal, administrative and educational.

The economic measures could include:

- increased fines and frequent inspections by fiscal institutions to such an extent that to make tax evasion unprofitable;
- wider and more active use of bankruptcy legislation;
- freezing enterprises' debts, deblocking of bank accounts and finding ways of cutting debts by taking into account the non-objective ways of their formation;
- diminishing the tax burden (the last one to be done only after accomplishing the others);

Legal measures would include:

- development of a legal system to promote economic measures;
- simplification of enterprise “shut-down” procedures for those that cannot prove their being in operation over an established period of time;
- implementation of the management law and means of its enforcing, providing management administrative and penal responsibility for not paying taxes and other payments due to the state;

Administrative measures would include:

- creation of a body endowed with functions and powers sufficient enough to fight tax evasion, including the right for investigation and application of administrative sanctions, to promote a single policy with regard to the investigation, discovering and penalizing people breaching the financial discipline;
- strict delimitation of functions of control institutions;
- building the prestige, quality and incentives of fiscal control institutions;
- ensuring transparency and free access of large parts of the population to the decisions made by state authorities, which might be an efficient measure of fighting corruption.

Educational measures:

- development of an awareness raising program explaining the implications of tax evasion on people’s welfare, educating a negative attitude towards this phenomenon. This program is likely to be more efficient if conducted by non-governmental organizations and financed by the state;
- psychological education of economic agents with regard to the increase of severity on the part of fiscal control institutions via all available information channels (mass-media), explaining the positive effects of such measures, including eventual lightening of the tax burden.

Implementation of these measures could serve as first steps in fighting the parasitical phenomenon of tax evasion and could permit solving the problem of budget deficit, external debts, transition of the economy to a more civilized, stable, attractive for the international organizations and investors stage.