



## The European Model of Progressive Salary Taxation

Nicu Şargu<sup>1</sup>

**Abstract:** This article presents an applied theoretical research on the application of the progressive taxation system used in a member country of the European Union such as Germany on the budget revenues of the Republic of Moldova. The aim of the research was to estimate the impact of budget revenues by modeling the progressive taxation system. Achieving the goal was summarized by the objectives set by researchers on the synthesis and analysis of theoretical approaches to income in the form of wages and the identification of elements of taxable income. At the same time, the information and statistics on the forms of budget receipts in the form of income tax of individuals from the Republic of Moldova and a member country of the European Union such as Germany were presented and analyzed.

**Keywords:** gross salary; net salary; guaranteed minimum wage; average salary on the economy; income tax

**JEL Classification:** E62; E63; E65; E66; F63; G38; H61; H68

### 1. Introduction

In the context of market economy relations, special attention must be paid to the efficiency of the use of factors of production, because both their quantity and quality have an essential influence on the economic and financial results obtained by an institution as a result of its activity. A key element in labor relations is the issue of labor remuneration. By this is meant not only the fair appreciation of work, but also the sufficiency of funds for physical survival. The involvement of the factors of

---

<sup>1</sup> PhD in progress, Doctoral School of the Academy of Economic Studies of Moldova University, Republic of Moldova, Address: str. Banulescu-Bodoni 61, MD-2005, Chisinau, Republic of Moldova, Corresponding author: nicu.sargu@mail.ru.

production in the economic activities determines, as an objective necessity, their reward. Thus, the human factor is rewarded with a salary. Salary is an economic category, but also a legal one. Salary means the price of work performed under the individual employment contract expressed, usually in cash. Thus, in legal terms, a normative framework has been institutionalized on the basis of which work for another is performed on the basis of a contract concluded between equal partners, one of which offered his work and the other his payment, under the conditions agreed upon. The right to pay, the corollary of the right to work, has become one of the fundamental human rights enshrined, in most constitutions of democratic countries, in labor codes.

Today, in the conditions of the market economy, it has been concluded that the notion of labor in combination with the other factors of production, capital and nature, has a special significance. Work is the conscious and voluntary activity of man engaged in the production of goods. Thus work is value-creating, but it itself has neither value nor price. It follows that in the labor market the worker sells to the entrepreneur not labor, but labor power. So the price of the work of the worker is the salary, which according to Turgot and Quesnaz, is the amount that provides what is strictly necessary for the existence and maintenance of his family.

The issue of wages has been a constant concern, therefore according to Adam Smith, the salary is the only income based on work and must correspond to the minimum of consumables necessary for the employee and his family. In this context, he said that a man must always be able to make a living from his work, and his salary must be at least sufficient to support him. The salary must in most circumstances be the same, even slightly higher than that, otherwise it would be impossible for the employee to start a family, and the life course of such a person could not last more than a generation.

Management of tax administration in Republic of Moldova The basic purpose of tax administration is collecting the correct amount of tax due with a minimum spending budget for both the administration and the taxpayers.

Presumptive taxation involves the usage of indirect instruments to estimate tax liability, which is realized in a different manner in comparison with the usual rules that are based on the taxpayer's accounts.

Once the salary is obtained, as it is considered a taxable income, there is a need to declare and tax it. Gaston Jeze considers that “the tax is a pecuniary benefit, claimed by authority, definitively and without consideration, in order to cover public expenses”, and Lucien Mehl and Pierre Beltrame define the tax as a pecuniary benefit, claimed by the public authority of to natural and legal persons, according to their contributory capacities and without determined consideration, mainly for covering public expenditures and, incidentally, for interventionist purposes of public power”. Webster's Encyclopedic Unabridged Dictionary of the English Language

defines tax as “an amount of money required by the government for its maintenance or for certain facilities or services levied on income, property, sales, etc.” The same view is shared by American economist Alvin Hansen, who says that “taxes are, so to speak, prices set by coercion for government services.” According to the Fiscal Code of the Republic of Moldova, the tax is a mandatory payment free of charge, which is not related to the performance of certain and concrete actions by the authorized body or by the person responsible for it for or in relation to the taxpayer who paid this the payment . The obligatory nature of taxes must be understood in the sense that their payment to the state is a burden imposed on all natural or legal persons who earn income from a certain source or possess a certain kind of wealth for which, according to the law, they owe tax.

## **2. Taxation of Salary Income in the Republic of Moldova**

At present, the national economy is facing a very wide range of problems. These include the procedure for taxing personal income, withholding tax and accounting. The income tax from the population is the largest and most massive type of recruitment of the means of the population in the state budget. This fact always determines the considerable role of the personal income tax in the public budget of the Republic of Moldova.

According to the Remuneration Law No. 847 of 14.02.2002, the salary is defined as “any reward or gain assessed in cash, paid to employees by the employer or by the body empowered by him, under the individual employment contract, for the work performed or what to be executed”.

The minimum wage in the real sector is regulated by the provisions of Law no. 1432 of 28.12.2000 on the method of establishing and re-examining the minimum wage. It stipulates that in enterprises, organizations, institutions with financial autonomy no employer, regardless of the type of ownership and the form of legal organization, can pay his employees below the minimum wage.

Also, this amount cannot be reduced either by collective agreement or by individual employment contract. According to the payroll law, the minimum wage does not include allowances, bonuses, compensation and incentive payments. The size of the minimum wage is established according to several macroeconomic parameters - indicators of economic development, the level of the average wage in the national economy, the forecast inflation rate, the consumer price index, the volume of gross domestic product, labor productivity, etc.

The amount of the minimum wage in the real sector is established annually by the government, after negotiations and consultations with employers and trade unions, and is published in the Official Gazette. It is calculated for a full work schedule

averaging 169 hours per month. Thus, from January 1, 2021, the minimum guaranteed amount of salary in the real sector (for enterprises, organizations, institutions with financial autonomy, regardless of the type of property and the form of legal organization, hereinafter - units) is set at 17.37 lei per hour or 2935 lei per month.



**Figure 1. The Evolution of the Guaranteed Minimum Wage**

*Source: elaborate by the author*

A study by Eurofound (European Foundation for the Improvement of Living and Working Conditions) found that many countries in the world, including the European Union, have abandoned or are in the process of abolishing the concept of the minimum wage given that it is outdated and does not reflect the real costs of a decent living. In the UK, for example, the concept of a living wage designed to provide a decent income for a decent life for employees and their families is introduced and regulated by law.

According to the provisions of art.15 let. a) of the Fiscal Code, the total amount of income tax is determined in 2021, for individuals in the amount of 12% of the annual taxable income.

At the same time, in accordance with the provisions of art. art. 33, 34, 35 of the Fiscal Code, each taxpayer (resident individual) is entitled to income tax exemptions. Exemptions represent the minimum amount of income of a resident of the Republic of Moldova who is not subject to income tax and is granted to the basic workplace of the workers where their workbook is kept. The types, sizes and codes of exemptions are shown in the following table:

**Table 1. How to Determine the Category of Exemptions Granted**

The type of exemption	Exemption Code	The amount of the exemption			
		The year 2020		The year 2021	
		Per year	Per month	Per year	Per month
1	2	3	4	5	6
Personal exemption	P	24000 lei	2000 lei	25200 lei	2100 lei
Major personal exemption	M	30000 lei	2500 lei	30000 lei	2500 lei
Exemption for husband / wife	S	11280 lei	940 lei	Anulată	
Major Exemption for husband / wife	SM	18000 lei	1500 lei	18900 lei	1575 lei
Exemption for dependents, except for children with disabilities	N*	3000 lei	250 lei	4500 lei	375 lei
Exemption for disabled persons from childhood	N**	18000 lei	1500 lei	18900 lei	1575 lei

*Source: elaborate by the author*

Only resident individuals who have an annual taxable income of less than 360,000 lei, except for the income provided in art. 901 Fiscal Code, have the right to a personal exemption in the amount of 25,200 lei per year.

The exemption category is obtained by combining all the exemption codes granted to the given worker. In order to determine the size and category of the exemption to be granted to the worker, the person must not later than the date set for starting work as an employee, must submit to the employer an Application for the grant of exemptions from income tax deducted from the salary to which he is entitled, attaching to it the documents certifying this right.

The income tax is calculated and withheld at the time of directing the income for payment from the taxable income through the relation:

**Taxable income = Gross windfall - Exemptions - Social security contribution**

The social security contribution rates or the social fund are as follows:

24% - for employers of the private sector, higher education institutions and medical institutions;

29% - for employers of budgetary authorities / institutions and self-managed public authorities / institutions, with the exception of higher education institutions and medical institutions;

32% - for private sector employers, higher education institutions and medical institutions (\* persons working in special working conditions);

39% - for employers of budgetary authorities / institutions and public authorities / institutions for self-management, except for higher education institutions and medical institutions (\* persons working under special working conditions).

In order to determine the taxable income of the amount of the exemptions and the number of months from the beginning of the period when the worker considers himself employed, as well as to calculate the income tax to be withheld from source of employee payments (including bonuses, employee employee Personal record of income in the form of salary and other payments made by the employer for the benefit of the employee for the management year, as well as the income tax withheld from these payments.

The employer is obliged until March 1 of the fiscal year following the one in which the payments were made to remit to the employee, for the benefit of which the salary payments were paid, Information on the income calculated for the benefit of the natural (legal) person and income.

The income tax return is drawn up by the independent citizen. If the taxpayer (individual) intends to change his permanent residence from the Republic of Moldova to another country, he is obliged to submit a declaration on income tax for the entire period of the year in which he was resident, ie is in the country, but the income tax will be paid no later than the date of exit from the Republic of Moldova.

The citizen is entitled to submit the declaration even in those cases in which for the calendar year he has not fully used the personal exemption to which he is entitled, he has paid or withheld the income tax in the amount exceeding the tax obligation, ie in those cases. in which it is necessary to reimburse (refund) from the budget the amount of income tax paid in addition.

According to the statistical data presented by the State Fiscal Service, during 2020, the amount of declared income of individuals was 15133.68 million lei, and the amount of withholding tax of individuals was 1232.99 million. lei, at the same time it should be mentioned that the amount of declared income of individuals with an income higher than 1 mln. lei amounted to 9694.4 million lei, and the amount of withholding tax of individuals with an income higher than 1 million. lei amounted to 611.1 miln lei.

### **3. Taxation of Income in the Federal Republic of Germany**

The tax system in Germany is highlighted primarily by the fact that it is based on an impressive level of both economic development and the development of social security for its citizens. The taxable product by which the income of individuals is taxed is also called income tax in Germany. The legal basis for this tax is the Income Tax Act promulgated on April 16, 1997, later amended by Article 1 of the Tax

Relaxation Act of March 24, 1999, and the Income Tax Implementation Order of June 18, 1997, as amended. of Article 2 of the Law of March 24, 1999. The beneficiaries of this tax are: the federal government, the governments of the Länder and the municipalities. Since 1998, the distribution rates of this type of tax revenue have been stable at 42.5% for the federal and state governments, and the difference of 14% for municipalities. The payers of this tax are individuals domiciled in the German state, but also residents of Germany, who are subject to taxation of their total income.

Under German law, the guaranteed minimum wage from 1 July 2021 is EUR 9.60, recorded in the employment contract and signed by both parties, employer and employee, but the net salary depends not only on the amount of income earned and the family situation of the employee, but also the tax class.

Income tax is levied where there is a profit, income or profit - for example, income tax, which is withheld from income earned by employees, and paid from their profit by self-employed persons. There is also the business tax paid to local governments and the income tax paid by companies, which are deducted directly from the salary by the employer and transferred to the tax administration. The payroll tax and the so-called "solidarity tax", a surcharge applied to the payroll tax to finance the costs of German reunification. At the same time, being a member of one of the two great Christian churches, the tax for the church will be withheld, which the state collects, but passes it on to the churches, which can then decide on their own use.

Germany is a country with a well-organized tax system that serves as a model for many countries. Its approaches are closely linked to the needs of the population and the state. There is no doubt that taxes in Germany are high, they make up 80% of the total state budget revenue, which makes them seen as the main instrument of economic development.

Income tax, calculated in relation to gross income, increases progressively from 14% to 45% as follows:

- income starting with the value of 9744 euro / year for singles and 19488 euro / year for families is taxed at 14%;
- incomes starting with the value of 57052 euro / year for singles and 114104 euro / year for families are taxed with 42%;
- income starting with the value of 274613 euro / year for singles and 549226 euro / year for families is taxed at 45%.

All employees who earn more than 450 euros per month are included in a tax class, which is 6 in number, but they do not depend on the activity carried out or the size of the gross salary but only on the family situation of the employee.

**Table 2. Tax Classes**

Tax class 1	Includes all people who are not married: single, divorced, widowed or living separately. Upon the death of the spouse, the surviving spouse will not automatically be classified in class 1. In the first two years after death, he / she may apply for classification in tax class 3.
Tax class 2	This class offers benefits for divorced or unmarried employees who raise one or more children on their own. At least one of the children must live with him.
Tax class 3	Class 3 taxation presupposes, on the one hand, that the employee is married and, on the other hand, that the partner agrees to be classified in class 5 and to pay higher taxes. This class is suitable for families in which one of the spouses earns much more or is the only one who has income.
Tax class 4	This class is for married employees with close salaries, spouses both having class 4. A combination with class 3 or 5 is not possible.
Tax class 5	Class 5 tax classification is possible only in combination with class 3. It presupposes that the employee is married and both spouses agree to be included in this class. The employee in this class will pay higher taxes and will have a lower salary.
Tax class 6	This class is assigned to people who have a second or third job and who have another class for the main job. Class 6 involves a higher payroll tax because many of the deductions that can be made to other classes cannot be made here.

*Source: elaborate by the author*

Usually, in German job offers, the gross salary is specified, because depending on the employee and the tax class in which the employee falls, the net salary can vary greatly.



**Table 3. Net Salary According to Tax Class**

<b>Gross salary</b>	<b>Class 1</b>	<b>Class 2</b>	<b>Class 3</b>	<b>Class 4</b>	<b>Class 5</b>	<b>Class 6</b>
1200 euro	939 euro	957 euro	951 euro	957 euro	827 euro	784 euro
1400 euro	1066 euro	1096 euro	1117 euro	1066 euro	906 euro	868 euro
1600 euro	1181 euro	1220 euro	1277 euro	1181 euro	983 euro	945 euro
1800 euro	1292 euro	1335 euro	1436 euro	1292 euro	1065 euro	1030 euro
2000 euro	1406 euro	1449 euro	1596 euro	1406 euro	1160 euro	1129 euro
2200 euro	1519 euro	1564 euro	1729 euro	1519 euro	1258 euro	1225 euro
2400 euro	1631 euro	1676 euro	1856 euro	1631 euro	1353 euro	1318 euro
2500 euro	1686 euro	1732 euro	1919 euro	1686 euro	1399 euro	1363 euro
2600 euro	1740 euro	1788 euro	1980 euro	1740 euro	1444 euro	1408 euro
2800 euro	1849 euro	1898 euro	2102 euro	1849 euro	1533 euro	1495 euro
3000 euro	1956 euro	2006 euro	2220 euro	1956 euro	1619 euro	1580 euro
3500 euro	2216 euro	2270 euro	2503 euro	2216 euro	1833 euro	1794 euro
4000 euro	2467 euro	2524 euro	2789 euro	2467 euro	2046 euro	2008 euro

*Source: elaborate by the author*

The net salaries indicated in table no. 3 are calculated for persons without children and without taking into account the tax for the church which is not obligatory for persons of Orthodox religion.

Germany belongs to the group of countries whose task is to ensure the social security of its citizens. Therefore, employees who work under an employment contract can count on additional tax exemptions if they have children.

Anyone working in Germany can apply for the child allowance, which is granted by the German Family Office, and the condition is that they are under the age of 25 (they must study by then). However, if you do not use an allowance, you are entitled to a deduction.

This relief is divided into two parts:

1. Freibetrag für das Existenzminimum des Kindes - for both parents it is currently 5,172 euros;
2. BEA-Freibetrag - in other words, the free amount for the needs of childcare - is 2640 euros.

If the child's parents calculate separately, each of them can deduct half of this amount when submitting the tax return.

The Germans also come up with the Kinderbetreuungskosten proposal. This means that you can deduct the costs associated with caring for a child up to the age of 14 or without age restrictions. This applies to children with disabilities. As part of childcare, it is possible to deduct, among other things, the costs for a nursery / kindergarten or the payment of a nanny. However, the tax office accepts deductions

of 2/3 of the amounts indicated on the invoices. Parents can deduct up to 4,000 euros. If the child is over the age of 25 and is still supported by their parents, they are also entitled to a tax deduction. These are the so-called exceptional costs. 9408 euros can be deducted for children living in Germany.

#### 4. Modeling the Tax System Progressively

According to the statistical data presented by the State Fiscal Service, during 2020, the amount of declared income of individuals was 15133.68 million lei, and the amount of withholding tax of individuals was 1232.99 million lei, at the same time is mentioned that the amount of declared income of individuals with an income of more than 1 million lei was 9694.4 million lei, and the amount of withholding tax of individuals with an income of more than 1 million lei was 611.1 million lei, which constitutes 49.6% of the total revenues.

**Table 4. Personal Income Tax Receipts for 2020**

According to the tax legislation of the Republic of Moldova in force		
Total income tax collected	1232,99 mln lei	100 %
Income tax collected by persons with incomes <1 mnl lei / year at a rate of 12%	621,89 mln lei	50,4 %
Income tax collected on persons with income > 1 million lei / year at a rate of 12%	611,1 mln lei	49,6 %

*Source: elaborate by the author*

Modeling the progressive tax system in Germany, in accordance with the available statistical data on budget revenues in the Republic of Moldova, we form two categories as follows:

- revenues up to 1 million lei / year at 14%;
- revenues starting with the value of over 1 million lei / year at a rate of 42%.

Therefore, starting from the statistical data on the receipts made related to the personal income tax of the Republic of Moldova and applying the modeled tax categories, it is possible to estimate how the receipts will change in the budget.

**Table 5. Estimation of Budget Revenues According to the Progressive Model**

Conform modelului progresiv din Germania		
Income tax collected by persons with incomes <1 million lei / year at 14%	725,53 mln lei	25,33 %
Income tax collected on persons with income > 1 million lei / year at 42%	2138,85 mnl lei	74,67 %
Total estimated income tax	2864,38 mln lei	100 %

*Source: Elaborated by the author*

According to the data estimated in table no.5, it is worth mentioning that the share of income tax collected by persons with incomes > 1 million lei / year, is preponderant and constitutes 74.67%, compared to the data in table no. 4 where according to statistical data 2020 with revenues > 1 million lei / year is only 49.6%.

**Table 6. Divergences between Earned and Estimated Earnings**

	According to the tax legislation of the Republic of Moldova in force	According to the progressive model in Germany	Differences (+;-)	
	mln lei	%	mln lei	%
Income tax collected of persons with incomes <1 mln lei / year	621,89	725,53	+103,64	+16,6
Income tax collected for persons with income > 1 million lei / year	611,1	2138,85	+1527,75	+250
Total estimated income tax	1232,99	2864,38	+1631,39	+32

*Source: Elaborate by the author*

From the data of table no.6 it is worth mentioning that the progressive model of taxation would increase the revenues to the budget by 32%. Therefore, from the calculations made, it can be mentioned that the impact of the application of the progressive model in terms of box office receipts would be positive, but the net salary of taxpayers would suffer.

## 5. Conclusions

Proportional taxation (the single rate in our country) expresses a manifestation of the principle of equality before taxes, maintaining a constant ratio between income and tax, but at the same time violates the principles of fiscal equity because it does not take into account the fact that the contributory power increases with the increase of the incomes realized by different social categories.

Any change in the tax rate, whether it is a single rate or a VAT rate, must be made on the basis of a cost-benefit analysis so that the impact on key macroeconomic indicators, including the budget deficit, can be identified.

## References

- \*\*\* (1997) Fiscal code no. 1163 - XIII of April 24, 1997. In: *Official Gazette of the Republic of Moldova* no. 62 of September 18
- \*\*\* (1997) Law on the administration of income tax and for the implementation of titles I and II of the Fiscal Code no. 1164-XIII of April 24, 1997 in: *Official Gazette of the Republic of Moldova* no. 62 of 18.09.1997;
- \*\*\* (2007) Accounting law no. no.113 - XVI from 27.04.2007. in: *Official Gazette of the Republic of Moldova* no. 90 - 93 from 29.06.2007;
- \*\*\* (2021). *Law on the state budget for 2021*.
- Brezeanu, Peter (1999), *Taxation, concepts, models, theories, mechanisms, policies and practices Fiscal, Bucharest Economics*.
- Burada, Corneliu (2001). *Harmonization between accounting and taxation*. Economic Independence Publishing House, Pitesti.
- Cobzari, Ludmila & Șargu, Nicu Constantin. (2021), Criminal prosecution activity and investigations on economic crimes assigned to the state fiscal service. *Symposium of Agriculture and Food engineering*. October 21-22, 2021, Iasi. Iasi, Romania: Iasi University of Life Sciences, p. 66.
- Cojocar, Maria & Rotaru, Lilia (2014). Management of tax administration in the Republic of Moldova. In: *Studia Universitatis Moldaviae (Exact and Economic Sciences Series)*. no. 2 (72), pp. 109-114.
- Cretu, Carmen Mihaela, & Nuță, Florian Marcel (2011). *Taxation and Fiscal Policy*. Danubius University Publishing House, Galați
- Hîncu, Rodica (2005). *Collective of authors Fiscal methods and techniques (university course)*. ASEM publishing house, Chisinau.
- Iordachi, Victoria & Tirlea, Mariana-Rodica (2016), Use of presumptive taxation in facilitating small business tax compliance. *Economics and Sociology*. no. 3, pp. 11-19.
- Manoli, Mihail & Zlatina, Natalia. (2016). The theory and practice of value added tax in the context of European integration. *Modern development issues of the European Union and the relations between the Republic of Moldova and the EU*. November 24-25, Chisinau. Chisinau: Cavaoli Printing House, 2016, pp. 124-130.
- Nuță, Alina Cristina; Nuță, Florian Marcel & Aurelian, Constantin. (2020). *Elements of applied direct taxation*. Galati: "Danubius" University Publishing House.
- Zlatina, Natalia (2016), Rules and techniques for the recognition and measurement of accounting debts and tax implications. *25 years of economic reform in the Republic of Moldova: through innovation and competitiveness towards economic progress*, Vol. 4, September 23-24, 2016, Chisinau. Chisinau, Republic of Moldova: ASEM Publishing and Printing Department, pp. 106-111.