SOME ISSUES OF TAX INCOME IN GEORGIA

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Abstract
Tax reform was an important part of economic reforms in Georgia in the post-Soviet period. To date it has changed many times. This process continues at the present time. In the post-Soviet Georgia, there is a constant process of searching for an optimal tax policy option. Changes are occurring in tax management as well as in types and rates of taxation; both fixed and differentiated tax rates were enacted at various times; the number of taxes has decreased more than three times. Income tax and value added tax (VAT) occupy the leading positions in budget revenues, while the amount of profit tax is relatively modest.

In general, business development provides additional jobs and more taxes. In turn, a developed business makes more profit. Georgia is one of the leading countries in the business registration rankings, but successful business operations are related to ease of paying taxes.

In recent years, the Estonian experience has been used in Georgia: reinvested earnings are exempt from tax. This gave the business additional funds and strengthened its material base. Consequently, the budget revenues - the amount of profit tax - were reduced. Later, these "privileges" will be extended to large financial institutions, which are the main taxpayers of profits.

In Georgia, once the model, similar to the "Estonian model" of tax changes are fully enacted, it will be possible to fully evaluate the results obtained. Currently, within the framework of this paper, based on the existing official statistical materials, we will try to analyze the obtained results in advance.

Keywords: Georgia, Estonian model, profit tax, income and value added tax (VAT).

JEL Classification: H20, H24, H25, H29

I. INTRODUCTION

Since the restoration of independence, Georgia has gone through many difficulties from a socio-economic and political standpoint. About 20% of its territory is occupied. Nevertheless, the country has already become an associate member of the European Union with the support of its friendly countries. This also determined its development vector. The country has a long history of development, but the use of new methods were needed in which the country lacked relevant experience (Silagadze, A., Zubiashvili, T., 2016; Silagadze, A., Atanelishvili, and Silagadze, N., 2019).

The territorial integrity of the country is unfortunately violated, job opportunities are scarce, economic growth rates are still desirable, the scale of migration is large, the private sector is weak, the middle class has not been formed yet, poverty level is high, and so on (Ananiashvili I., and Papava V., 2014; Silagadze, A., 2018; Zubiashvili, Chikviladze and Silagadze, N., 2018).

Overall, Georgia's economy is still weak and its strengthening depends largely on the successful development of economic reforms: the use of national resources, doctrines, the astute use of transport corridors, human resources, geo-economic and geopolitical factors and foreign debt, foreign investment, involvement in integration processes, etc. (Zubiashvili, Chikviladze and Silagadze, N., 2018; Zubiashvili and Silagadze, L., 2016; Silagadze, A., Zubiashvili., 2015).

II. GENERAL ANALYSIS

This time, we will discuss one aspect of economic reform, namely the problem of liberalizing the tax system in Georgia.

Some steps were taken to ensure the attraction of foreign investors to Georgia and the sustainable development of the economy; these are:

1. The constitution of the country bans the introduction of new general state taxes (excluding excise tax) in the coming years, as well as raising their upper limit that can be done only through a referendum.
2. The constitution of the country has banned the introduction of new general state taxes (excluding excise tax) in the coming years, as well as raising their upper limit only through a referendum.
3. The number of taxes has been reduced and there are currently 6 types of taxes:
   3.1. General state taxes:
   - Income tax (natural person, 20%);
   - Profit tax (15%);
   - Value Added Tax (VAT, 18%);
   - Excise tax (differentiated);
   - Import tax;
   3.2. Local tax - as property tax (not more than 1% of taxable property value).

4. So called the Estonian model of tax reform was introduced to Georgia, according to which the refinanced amounts are exempt from profit tax and only distributed profits are subject to taxation.

In general, revenues and expenditures of the country's budget increased (Table 1). The difference between them is the surplus in the national currency. However, in the conditions of the rapid devaluation of the national currency, we cannot say the same when re-calculating budget in dollars. This is an important and painful issue for a country that largely depends on imports and has significant foreign debt. It is also painful for domestic consumers whose purchasing ability is diminishing.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>5.9</td>
<td>5.4</td>
</tr>
<tr>
<td>2009</td>
<td>5.3</td>
<td>5.4</td>
</tr>
<tr>
<td>2010</td>
<td>6.9</td>
<td>5.5</td>
</tr>
<tr>
<td>2011</td>
<td>7.6</td>
<td>5.8</td>
</tr>
<tr>
<td>2012</td>
<td>7.4</td>
<td>6.5</td>
</tr>
<tr>
<td>2013</td>
<td>8.1</td>
<td>6.7</td>
</tr>
<tr>
<td>2014</td>
<td>9.0</td>
<td>7.7</td>
</tr>
<tr>
<td>2015</td>
<td>9.7</td>
<td>8.2</td>
</tr>
<tr>
<td>2016</td>
<td>10.9</td>
<td>9.1</td>
</tr>
<tr>
<td>2017</td>
<td>11.8</td>
<td>9.7</td>
</tr>
<tr>
<td>2018</td>
<td>11.8</td>
<td>9.6</td>
</tr>
</tbody>
</table>

Computed: https://www.geostat.ge/ka/modules/categories/91/sakhelmtsifo-finansebis-statistika

Taxes represent the major share of Georgia's budget revenues. (Table 2).

<table>
<thead>
<tr>
<th>Year</th>
<th>TAXES:</th>
<th>a) Income tax</th>
<th>b) Profit tax</th>
<th>c) Value added tax (VAT)</th>
<th>d) Excise tax</th>
<th>e) Import tax</th>
<th>f) Property tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6,671.0</td>
<td>1,764.8</td>
<td>851.0</td>
<td>3,040.3</td>
<td>659.6</td>
<td>90.1</td>
<td>230.0</td>
</tr>
<tr>
<td>2013</td>
<td>6,659.3</td>
<td>1,934.2</td>
<td>806.5</td>
<td>2,847.8</td>
<td>722.3</td>
<td>89.4</td>
<td>230.0</td>
</tr>
<tr>
<td>2014</td>
<td>7,241.6</td>
<td>1,938.8</td>
<td>828.9</td>
<td>3,298.5</td>
<td>810.2</td>
<td>94.9</td>
<td>245.9</td>
</tr>
<tr>
<td>2015</td>
<td>8,010.8</td>
<td>2,223.2</td>
<td>1,025.2</td>
<td>3,286.4</td>
<td>870.7</td>
<td>69.2</td>
<td>290.2</td>
</tr>
<tr>
<td>2016</td>
<td>8,786.1</td>
<td>2,414.1</td>
<td>1,055.9</td>
<td>4,122.5</td>
<td>1,069.6</td>
<td>70.1</td>
<td>363.4</td>
</tr>
<tr>
<td>2017</td>
<td>9,778.9</td>
<td>2,918.9</td>
<td>756.6</td>
<td>4,122.5</td>
<td>1,450.9</td>
<td>71.6</td>
<td>394.8</td>
</tr>
<tr>
<td>2018</td>
<td>10,506.3</td>
<td>3,247.1</td>
<td>736.6</td>
<td>4,426.9</td>
<td>1,465.7</td>
<td>73.4</td>
<td>441.2</td>
</tr>
</tbody>
</table>


Following the introduction of the Estonian tax model, as expected, both the amount of profit tax and the profit tax rates compared to 2012 decreased in the budget. (Table 4).

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Taxes</th>
<th>Income tax</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>100</td>
<td>26.4</td>
<td>45.6</td>
</tr>
<tr>
<td>2013</td>
<td>100</td>
<td>29.1</td>
<td>42.8</td>
</tr>
<tr>
<td>2014</td>
<td>100</td>
<td>26.8</td>
<td>45.6</td>
</tr>
<tr>
<td>2015</td>
<td>100</td>
<td>27.8</td>
<td>43.8</td>
</tr>
<tr>
<td>2016</td>
<td>100</td>
<td>27.8</td>
<td>37.4</td>
</tr>
<tr>
<td>2017</td>
<td>100</td>
<td>29.9</td>
<td>42.1</td>
</tr>
<tr>
<td>2018</td>
<td>100</td>
<td>30.9</td>
<td>42.1</td>
</tr>
</tbody>
</table>


Compensation for the expected reduction of profit tax in the short period of time due to the increase in excise tax revenue has not yet occurred. Considering the fact that the principles of this model will soon apply to the main taxpayers - commercial banks as well, it will be necessary to seek even more new reserves to increase revenue. However, in the long run, refinancing funds left in the enterprises will play a positive role in the growth of budget revenues.
III. CONCLUSION

Thus, Georgia's economy, which has the status of an associated EU member, faces serious challenges, it must:
- introduce European standards,
- increase the competitiveness of the national product,
- increase the economic growth rates,
- attract more foreign investment,
- sharply increase export volume,
- strengthen the national currency,
- develop even more flexible tax policy,
- take advantage of the favourable geo-economic location,
- try to establish mutually beneficial, competitive relations with our neighboring countries, to take advantage of the possibilities of free trade regime with different countries, etc.

IV. REFERENCES