

**THE INFLUENCE OF TAX REFORMS IMPLEMENTED IN GEORGIA FOR ENTREPRENEURSHIP DEVELOPMENT****Iza BUKIA***PhD Candidate in Economics, Tbilisi State University, 0177, Georgia  
iza.bukia556@eab.tsu.edu.ge***Abstract**

*Georgia is one of the leading countries according to the reforms implemented in the region, which reflected in different ratings of the world, where Georgia occupies the leading positions. The paper reviews the changes in the direction of tax policy after 2010, which have a positive effect on the development of entrepreneurship.*

**Key words:** *Estonian model of profit tax, Georgia, Tax policy, Tax reforms.*

**JEL Classification:** *A10, A11, A19, H2, H25.*

**I. INTRODUCTION**

After Georgia moved to the market economy, various legislative initiatives helped promote entrepreneurship. Despite many difficulties, it has now leading positions in international ratings as business promotion and its simplicity, which is reflected in the improvement of business environment, growing investor interest, etc.

**II. GENERAL ANALYSIS AND RESEARCH RESULTS**

In order to facilitate small business in Georgia, the tax code periodically implemented various legislative amendments. As it is known, small businesses can not compete with large businesses, so they will have to pay the same tax on unequal conditions, thus, in 2011 the amendment was introduced into the Tax Code of Georgia, which provided for the support of low-income entrepreneurs, it is evident that they have been granted micro, small and fixed business status, which, in turn, included various benefits. Let us consider what each of them represented:

The status of micro business can be granted to a physical person who has not been employed by hired workers and independently engaged in economic activity, from which the total gross income received by him would not exceed 30,000 GEL during the calendar year. While the physical entity with micro business status did not pay income tax. If an entrepreneur physical person with a micro business status would be obliged to comply with the obligatory registration of the Value-Added Tax (VAT) payer, it was released from a special tax regime (Georgian Tax Code, 2010. As of December 07, 2018).

Small business status can be granted to an entrepreneurial person, the total income received from economic activity during the calendar year did not exceed 100,000 GEL. Its taxable income is taxable at 5 percent and 3 percent if: the entrepreneur's physical entity with small business status had the sum of 60 percent of the total revenue related to the gross revenue receipt (Except for the expenses incurred on the employee) and/or he worked only in the area of the special trade zone. In case, if the entrepreneur physical person with small business status, the obligation of compulsory registration of the Value-Added Tax (VAT) payer it was released from a special tax regime (Georgian Tax Code, 2010. As of March 12, 2011).

As for the fixed taxpayer status, it could be granted to a person who was not included in the Value-Added Tax (VAT) payer and exercised one or more of the taxes charged with a fixed tax. The types of activities of their taxable property were determined by the Government of Georgia. The fixed tax rate was determined by the Government of Georgia according to the types of activities - the taxable object - from 1 GEL to 2000 GEL or 3 percent of the income received from taxable activities (Decree N415. 2010). The entrepreneur with this status was also authorized except for the taxable activities to be exercised only by the Government of Georgia authorized to do so, and such activities will be taxed according to the general rule. In case, if any part of additional activity permitted for a fixed taxpayer, the person was obliged to register the Value-Added Tax (VAT) as a taxpayer or voluntarily undertake to register the Value-Added taxpayer (VAT) then this status will be canceled (Georgian Tax Code, 2010. As of December 31, 2011).

As regards the current status of these reforms and abovementioned taxpayers' status, the Tax Code of Georgia is as follows: requirements and conditions for entrepreneurial individuals with micro business and fixed status have remained the same, and for taxpayers with small business status has improved in 2018 and it is expressed as follows: on July 1, 2018, the amendment was made to the Tax Code and the gross income margin

increased from 100,000 to 500 000 GEL, while taxable income is taxed by 1% instead of 5%, however, 3% rate is taxable, if the gross income received from economic activity exceeded 500,000 GEL. A person with small business status will be taxed at the established rate from the beginning of the month (In case of carrying out a surpass of the total income of a limit of 500 000 GEL) to the end of the calendar year. However, small business status is canceled, If the total income received from the economic activity of the person in accordance with 2 calendar years, over 500 000 GEL during each calendar year. As regards VAT payer registration, it does not contradict the status of small business as it was in the first case (Georgian Tax Code, 2010. As of December 07, 2018).

Also, very important reform was implemented in the sense of profit tax in Georgia, which entered into force in 2017. The main essence of this reform is, that the firms can not afford the funds that will be used for reinvestment in the firm. Within this legislative amendment The profit tax model in Georgia has been replaced with a profit tax model operating in Estonia, however, the full analogue, of course, is not, because there are provided a number of factors, which is characteristic for legislation in Georgia and generally for tax policy. It is also worth mentioning, that the new model of the profit tax was not affected by the firms having certain activities (Commercial Bank, Credit Union, Insurance Organization, Microfinance Organization, Pawnshop, and the person who works in the systematic-electronic form of the totalizer in this part of the activity) and they stayed before the active profit taxpayers until 2023.

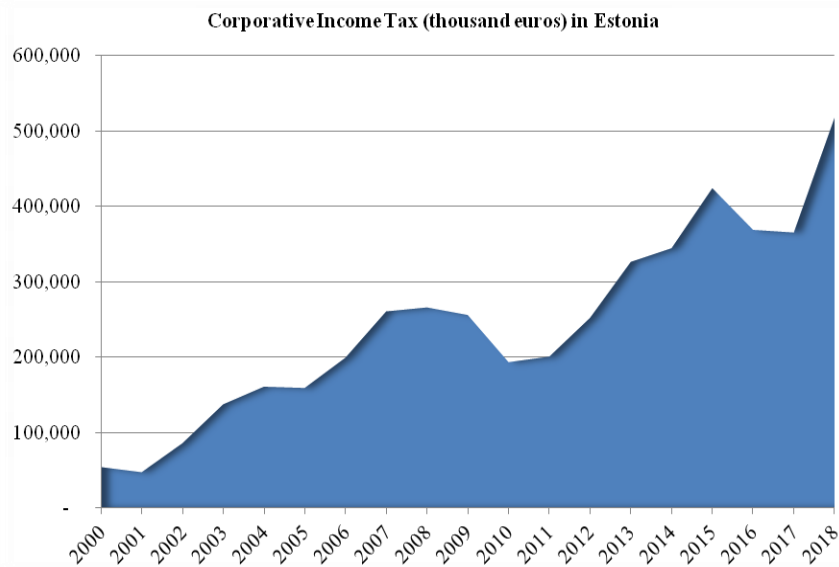
Distributed profit tax in Estonia it has already been working for 19 years and it is regulated by The Income Tax Act, which entered into force in 2000. Distributed profit tax is subject to taxation:

- Distributed profit;
- Payroll benefits of employees;
- Gift, donation and representation expenses;

Some expenses and/or deduction that are not related to the company’s entrepreneurial activities (Income Tax Act, Estonia, 1999).

It should be noted that the distributed profit tax and income tax rate is the same (20%), for that purpose, that to avoid to make a distributed profit tax as a wage, or on the other side, the risk of qualifying for the wages distributed profit. The characteristic of this model is as follows: Individual types of expenses is taxed. In particular, expense which is not related to economic activity, or is not documented, which is the prevention of distribution of profits through expenses. (This is expenditures by the law before 2017, which are not deducted from total income). According to that, calculations of a distributed profit tax does not require detailed analysis of individual revenue and the focus has been moved only on the control of the monetary payments. Its administration is easier. It is also important, that in a distributed tax model, whereas, company tax profit and financial profit are equal to each other. (Which is different from the Georgian model operating until 2017).

If we look at its results in Estonia, the approximate idea can be gained from the possible consequences on the long run. Revenues from the profit tax after the adoption of this model (2000) are dramatically reduced (See the Diagram), however, since 2003, it has reached the mark of the reform (1999 – 107 million). Here also should be considered the economic crisis in the post-reform period and as well as reduced profit tax rate from 26% to 20% (since the rate has already been 20% since 2015), which was held in Estonia in 2000-2017 (but in Georgia, in the introduction of this reform there has not been a change of the profit tax rate and is the same - 15%).



Source : Statistics Estonia – [www.Stat.ee](http://www.Stat.ee)

Let's now briefly consider, what is the essence of this model and what is the difference between existing and previous models in Georgia (Acting model until 2017 shall also remain for taxpayers with the above activity): As for the model of profit tax that is valid until 2017 in Georgia, the taxable profit of a resident enterprise was taxable profit (15%). It was defined as the difference between the taxable income of the taxpayer and considering the deductions by this Code. (Under the legislation acting until 2017, the company's financial profits and tax profits were not equal to each other). And according to the new model which came into force from 2017, the object of taxation for a resident enterprise is defined as follows (Rate remained the same -15%):

Distributed profit; (Distributed profit is profit, which is distributed by the enterprise as a dividend to its partner, in cash or non-monetary form)

Costs incurred or other payments, which is not related to economic activity;

Deliver the goods/services and/or provide cash for free;

The cost of representative expenditure of the amount exceeding the limit set by this Code. (Georgian Tax Code, 2010. As of December 07, 2018).

The purpose of this important legislative amendment is to promote entrepreneurs, develop their business and do not tax it, which will be used for reinvestment. This will, in turn, promote business expansion, which also guarantees the creation of new jobs. However, it should be noted that this legislative amendment reduced the budget revenues by about 400 million GEL per year (Bukia I., 2018). Therefore, not to have a place in the budget deficit, excise rate has increased on several products (Cikviladze M., Bukia I., 2017). However, this decision was made to promote entrepreneurs, because reinvestment allows firms to expand their business. This legislative amendment is intended for a long term and consequently, the results will be clear later. As we mentioned, this change is a part of the tax policy considered for a long term, its goal is to create a tax system that stimulates entrepreneurial activity, increase the volume of capital, improve the investment environment, because in turn, developed business and tax system are mechanisms for promoting economic development, which will be a major push for economic growth in the long term (Bukia I., 2018).

For taxpayers, in order to simplify the activity, the various treasury codes are broken down according to types of taxes and unified by taxes and entered into force on January 01, 2016, a single treasury code, where absolutely every type of payment is paid (Decree N407, 2015).

A very significant change came into effect from July 15, 2016, which implies the following: entrepreneurs who had too much money to pay, for the purpose of simplifying the return of these funds, automatic return service of overpaid amounts was introduced (Decree N232, 2015).

### III. CONCLUSIONS

All of the above mentioned, legislative amendments are a step forward for entrepreneurship development in Georgia and because of these reforms (as well as other reforms that do not apply to the tax sphere) Georgia occupies the leading positions in international ratings. Such as doing business, where Georgia holds the 6th place in the latest published ratings ([www.worldbank.org](http://www.worldbank.org)).

These reforms, which have been implemented in recent years in Georgia, is a step forward to encourage entrepreneurs. Because a number of reforms affected small businesses and encouraged by various benefits, so that they can take a significant share in the market with a large business. Part of the reform was also meant for those entrepreneurs, who want to expand their business and therefore, the funds that will be used for reinvestment will not be taxed. As well as unified treasury codes, where it is easy to pay the tax. Automatic service of returning over-paid funds, which is one of the most important and simplified procedures for entrepreneurs. All the above mentioned are important directions of Georgia's tax policy and Consequently, these reforms are a great promotion for entrepreneurs.

### IV. REFERENCES

1. Bukia I. (2019) *Supporting Tax Policy for Small Business in Georgia*, Journal "Economics and Business", N1. Tbilisi.
2. Bukia I. (2018) *The Estonian Model of Profit Tax – The Prospect of Economic Growth*, Journal "Economist", N3. Tbilisi.
3. Chikvilade M., Bukia I (2017) *The Impact of Increased Tobacco Excise Rates on Import and Tax Revenues*, II International Scientific Conference "Globalization Challenges in Economics and Business", Tbilisi.
4. Decree N415 of the Government of Georgia of December 29, 2010.
5. Decree N407 of the Minister of Finance of Georgia of December 07, 2015.
6. Decree N232 of the Minister of Finance of Georgia of July 27, 2015.
7. Erkomaishvili G. (2016) *Priority trends of economic policy development of Georgia*. Tbilisi.
8. Georgian Tax Code (2010) Tbilisi. (As of March 12, 2011)
9. Georgian Tax Code (2010) Tbilisi. (As of December 31, 2011)
10. Georgian Tax Code (2010) Tbilisi. (As of December 07, 2018)
11. Georgia Revenue Service - [www.rs.ge](http://www.rs.ge)
12. Income Tax Act (1999) Estonia - [www.riigiteataja.ee](http://www.riigiteataja.ee)
13. Statistics Estonia - [www.Stat.ee](http://www.Stat.ee)
14. World Bank Group - [www.worldbank.org](http://www.worldbank.org)