

## Domestic Resource Mobilization in Georgia

Over the past two decades, Georgia launched wide-reaching reforms to advance its Euro-Atlantic integration. The reforms sought to stamp out public-sector corruption, create an attractive environment for private investment, and strengthen the social safety net.

The country's tax and customs-related reforms had a major impact on Georgia's business environment and the overall economy. The reforms reduced the number of taxes from 21 to six, streamlined services, and introduced a range of IT-based services and tax/customs tools, among other achievements.

USAID helped the Ministry of Finance of Georgia launch major reforms in its tax and customs departments. The assistance resulted in several major achievements from 2005-2022, including:

- Simplified tax registration and forms and e-filing were introduced for all types of taxes.
  - Taxpayer registrations more than doubled between 2004 and 2009.
- Improved IT systems helped eradicate corruption in the tax and customs departments, which were united under the newly formed Revenue Service (RS).
  - A survey of several hundred businesses in 2005 reported that 39 percent of respondents said firms were *“expected to give gifts in meetings with tax officials.”*
  - In 2013, that number fell to .02 percent of respondents.
- A new tax payment system, known as the unified treasury code, went into force in 2015.
  - More than 100 treasury codes were replaced with a single code, allowing the RS to allocate taxpayers' payments according to the information they provide in their tax returns.
- A new corporate income tax model, based on Estonian experience, was introduced in 2017. The model only taxes distributed profits, allowing businesses to reinvest amounts payable for corporate income taxes (create new jobs, acquire productive assets, etc.).
  - As a result, reinvestment doubled in 2017, reaching approximately 1.65 billion Georgian Lari (GEL) and growing by an additional 67.3 percent in 2018.<sup>1</sup>
- The Value Added Tax (VAT) legislation/system was harmonized with European Union (EU) legislation in 2020, an obligation under the EU Association Agreement.
  - The harmonized legislation is expected to strengthen economic relations between the EU and Georgia.
- A new tax methodology online platform, [infohub.rs.ge](http://infohub.rs.ge), was launched by the RS in 2022.
  - The platform is expected to improve the business enabling environment by establishing consistent tax practices and enhancing tax predictability, thus reducing tax disputes and risks.

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<sup>1</sup> Source: Geostat data

A wider tax base and better taxpayer compliance have allowed Georgia to slash tax rates and offer tax reliefs/refunds for households and businesses:

- VAT tax was reduced from 20 to 18 percent in 2006.
- Corporate income tax went from 20 to 15 percent in 2008.
- The combined payroll tax burden on employers and employees for health and other social insurance was cut from 33 to 20 percent in 2005 and eliminated in 2009.
  - In 2009, a 20 percent personal income tax was introduced and remains in place.
  - The rate is five percent for some types of income, such as rental income from residential properties.
- Capital income withholding taxes were reduced from 10 to five percent in 2009.
- An automatic system for VAT refunds was introduced in 2019.
  - The system allows businesses to replenish working capital with an automatic refund of surplus VAT deposited direction in their bank accounts. In 2021, 1.831 billion GEL was refunded to businesses automatically, up from the 1.039 billion GEL in refunds in 2020.

Georgia's revenue mobilization increased from 10.9 percent of Gross Domestic Product (GDP) in 2003 to 24.2 percent in 2008<sup>2</sup> and has remained between 22 and 24 percent<sup>3</sup> ever since.

- The revenue mobilization created by more efficient and effective taxes has allowed the government to fund a modern social safety net, including:
  - A small, universal basic pension was introduced in 2006 to relieve the grinding poverty that disproportionately affected the elderly.
  - Government-paid health insurance with no copays, established for the poorest 20 percent of the population in 2007, expanded in 2014 to universal health care for the entire population.
  - Georgia's investment into social-welfare spending per GDP increased from six to 10 percent and education investment per GDP grew from 3.1 to 3.7 percent<sup>4</sup> between 2004 and 2017. Spending remained in this range in 2018-2021.

Due in large part to its friendly business enabling environment and low tax rates, Georgia continues to be a strong magnet for private foreign direct investment.

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<sup>2</sup> <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=GE>

<sup>3</sup> <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?end=2020&locations=GE&start=1995&view=chart>

<sup>4</sup> Ministry of Finance data