

RESULTS AND PROSPECTS OF THE REFORMING OF TAX SYSTEM IN GEORGIA IN ACCORDANCE WITH EU REQUIREMENTS

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Taxes are the main source of formation of the state budget of Georgia. 90% of the total amount accumulated in the country's budget is due to taxes. Value Added Tax (VAT) is approximately 45% of the tax structure, that is, up to 30% of income, up to 10% of income tax, and the rest is excise, import and customs duties. Taking into account the role and importance of taxes in the dynamic and stable development of the country, the article presents the opinions of the authors on the reforms of the Georgian tax system and the main directions for improving tax administration. The essence of the changes made to the tax legislation of Georgia was studied, analyzed and evaluated on the basis of empirical data; the possibility of mobilizing funds in the country's budget through the maximum harmonization of the tax system of Georgia with the best practices of the European Union was argued in this article. The authors develop the next point of view: the tax system of Georgia and its regulation are gradually approaching the European model, although certain norms of tax administration still need to be finalized. Also a full harmonization with the EU tax system is needed.

Key words: tax system, harmonization, best practice, tax regulation, European Union.

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The **goal** of the article is to increase state budget revenues by gradually bringing Georgia's tax system closer to the requirements of the European Union.

Research methodology: the authors of the article use quantitative and qualitative research methods; methods of statistical analysis and comparison of data. On the basis of an empirical study, a research problem was presented, according to which the harmonization of the tax system with the requirements of the European Union will contribute to the growth of Georgia's foreign economic trade balance, which in its turn will become a prerequisite for increasing state budget revenues.

Statement of the problem: world global processes have played a decisive role in the further deepening of trade and economic relations between countries. Georgia as an active participant in international market processes is deeply interested in the growth of foreign trade turnover. It is impossible to get positive results in this direction without harmonization of the current tax system with the requirements of the European Union.

After independence, a tax system based on market relations was created in Georgia, which developed in a short period of time; the number of taxes and tariffs was reduced to a minimum, and administration was simplified, improved and completely transferred to an electronic service. Services were tailored to the interests of taxpayers, but there are still problems, including the Estonian model of corporate income tax, which contains opportunities for legal tax evasion, and problems with VAT administration. In this regard, it is necessary to revise the current methodology for taxing profits.

We think that the easiest and most acceptable way to further improve the tax system in Georgia is through the implementation of the requirements of the Association Agreement [1] with the European Union, which applies to almost all areas of the political, social and economic life of the country. It also includes a component of DCFTA (Deep and Comprehensive Free Trade Areas) and provides important concrete mechanisms for convergence with the European Union.

Georgia actively participates in trade and economic relations with the EU countries. According to 2020 data, Georgia's foreign trade turnover is still dominated by the share of the CIS (The Commonwealth of Independent States) countries and other countries, although positive trends are observed in the dynamics (Table 1 – the table was compiled by the authors on the base of data from the Ministry of Economy and Sustainable Development of Georgia [4]).

As can be seen from the table, Georgia's foreign trade turnover amounted to USD 11,352.8 million, which is 14.8% less than a year earlier, and is associated with the economic downturn caused by the Covid-19 pandemic. At the same time, exports decreased by 12% and amounted to USD 3,342.1 million, while imports decreased by 15.9% and amounted to USD 8,010.6 million. In 2020, the negative trade balance of Georgia decreased by 18% to USD 1,056 million, which amounted to USD 4,663.4 million.

Table 1

Foreign trade of Georgia by countries in 2020 (millions of US dollars)

Countries	Export	Import	Turnover
Georgia	3,342,142	8,010,665	11,352,807
including			
EU countries	697,107	1,846,724	2,543,830
CIS countries, total:	1,509,075	2,392,910	3,901,985
Other countries, total:	1,135,961	3,771,031	4,906,992

According to 2020, the Georgia-EU foreign trade turnover decreased by 18% and reached USD 2,543.8 million, that is, it amounted to 22.4% of the total trade turnover. Exports decreased by 12% and amounted to USD 697.1, while imports decreased by 20% and amounted to USD 1,846.7 million. Also, foreign trade turnover with the CIS countries decreased by 13% and amounted to 3,901.9 million lari, or 34.3% of the total trade turnover. Exports decreased by 26% and amounted to USD 1,509.1 million, or 45% of all exports. Imports decreased by 2% and amounted to USD 2,392.9 million, or 30% of total imports.

It should be noted that, despite successful foreign trade relations with the EU and CIS countries, China, Azerbaijan, Russia and Turkey remain the main partners for Georgia. These countries accounted for 40.7% of Georgia's exports and 37.5% of imports in 2020, including: China – USD 476.3 million, or 14.3%; Azerbaijan – USD 441.3 million, or 13.2%; Russia – USD 441.1 million, or 13.1%. As to imports, Turkey – USD 1407.0 million, or 17.6%; Russia – USD 887.2 million, or 11.1%; China – USD 708.7 million, or 8.8% [4].

The convergence of Georgia's tax system with the requirements of the EU countries contributed to an increase in the volume of trade, which, in its turn, increased the mobilization of funds to the state budget in the form of taxes (Table 2 [3]).

Table 2

Taxes to the state budget of Georgia (thousand lari)

	2016	2017	2018	2019	2020
Taxes	7,986,750.3	8,991,307.4	9,695,962.2	9,665,567.6	9,364,779.4
Taxes on income, profits and capital gains	3,034,072.9	3,282,526.2	3,614,519.5	4,066,543.6	3,999,280.7
Personal taxes	1,978,136.4	2,525,970.7	2,877,895.1	3,200,254.7	3,079,840.1
Income tax	1,978,136.4	2,525,970.7	2,877,895.1	3,200,254.7	3,079,840.1
Corporate taxes	1,055,936.5	756,555.5	736,624.4	866,288.9	919,440.6
Income tax	1,055,936.5	756,555.5	736,624.4	866,288.9	919,440.6
Taxes on goods and services	4,356,051.5	5,573,534.7	5,892,636.4	5,750,282.5	5,537,551.4
General Taxes on Goods and Services	3,286,393.4	4,122,612.8	4,426,909.8	4,243,606.7	3,918,159.1
Value added tax	3,286,393.4	4,122,612.8	4,426,909.8	4,243,606.7	3,918,159.1
Excise duty	1,069,658.	1,450,921.9	1,465,726.6	1,506,675.8	1,619,392.3
Taxes on foreign trade and foreign economic operations	70,040.6	71,618.9	73,416.9	79,073.8	74,369.0
Import tax	70,040.6	71,618.	73,416.9	79,073.8	74,369.0
Other taxes	526,585.3	63,627.6	15,389.4	-230,332.3	-246,421.7

From the data in the table it can be seen that during 2016-2018, compared with each previous year, there is an increase in state budget revenues. In 2017, compared to 2016, budget revenues increased by 12.6%; in 2018 compared to 2017 – by 8%. The same trend is characterized by the growth of state budget revenues by types of individual taxes, which is directly related to the growth trend of Georgia's foreign economic turnover.

The dynamics of the turnover of goods and services in the EU countries is shown in Table 3.

Table 3

Dynamics of foreign trade turnover of goods and services in EU (billion euros)

	2016	2017	2018	2019	2020
Goods					
Export	1867	1994	2060	2132	1932
Import	1602	1772	1912	1940	1714
Foreign trade turnover	3469	3766	3972	4072	3646
Balance	264	222	148	192	217
Provision of services					
Export	854	931	988	1055	867
Import	780	821	856	982	807
Foreign trade turnover	1635	1752	1844	2037	1674
Balance	74	110	131	73	60

It can be seen from the table that during 2016-2019 there was an increase in exports and imports of goods and services by the EU countries. In addition, in 2019, compared with 2016, the rate of foreign trade turnover for the supply of goods increased by 17.4%, for the provision of services – by 24.6%. In 2020, due to the Covid-19 pandemic and due to the restriction of trade relations between the EU countries and international partners, the turnover indicator for both goods decreased compared to 2019 and amounted to: goods – 10.5%; services – 17.8%.

In order to further deepen and expand trade and economic relations, the EU countries are doing their best to remove legal and economic barriers that impede the development of trade relations both within the member states and outside the integration union, including the so-called third countries. Clear evidence of this is the statistics, according to which the export of EU countries in 2019 amounted to 15.4% of world exports and 13.7% of imports. In the markets, the influence of China and the United States, on the contrary, is increasing. The share of these countries in the world export of high-tech electronic products was almost equal – 16.2%.

CONCLUSIONS

Thus, based on empirical data, as well as various analytical materials, we have reason to compare the results of our study and note that in the process of inevitable globalization and economic integration, an increase in state budget revenues in individual countries, including Georgia, largely depends on the harmonization of tax legislation, which primarily contributes to the creation of a mechanism for avoiding double taxation, the fight against tax fraud and, importantly, the creation of an effective mechanism for controlling taxation and tax evasion at the international level.

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ПІДСУМКИ ТА ПЕРСПЕКТИВИ РЕФОРМУВАННЯ ПОДАТКОВОЇ СИСТЕМИ ГРУЗІЇ
ВІДПОВІДНО ДО ВИМОГ ЄС

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Податки є основним джерелом формування державного бюджету Грузії. 90% усієї суми, накопиченої у бюджеті країни, припадає на податки. Податок на додану вартість (ПДВ) становить приблизно 45% податкової структури: до 30% доходу, до 10% прибутку, інше посідає акцизний, імпорتنний і митний збори. Беручи до уваги роль та значення податків у динамічному та стабільному розвитку країни, у статті представлені думки авторів щодо реформ податкової системи Грузії та основних напрямів удосконалення податкового адміністрування. На основі емпіричних даних вивчено, аналізовано та оцінено сутність змін, внесених до податкового законодавства Грузії; аргументовано можливість мобілізації коштів у бюджеті країни за рахунок максимальної гармонізації податкової системи Грузії з найкращими практиками Євросоюзу. Автори розвивають думку про те, що податкова система Грузії та її регулювання поступово наближається до європейської моделі, хоча окремі норми податкового адміністрування все ще потребують доопрацювання та потрібна повна гармонізація з податковою системою ЄС.

Ключові слова: податкова система, гармонізація, найкраща практика, податкове регулювання, Європейський Союз.