



TAX POLICY DIRECTIONS AND IMPLEMENTED REFORMS IN GEORGIA

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Abstract

Modern trends in the economy have brought forward the role of entrepreneurs. Therefore, it is necessary to implement a proper tax policy to encourage entrepreneurs. The article discusses and analyzes the current state of tax policy in Georgia, also the formation of a tax policy stimulating the development of entrepreneurship. On the basis of a survey of entrepreneurs, it is analyzed how much the goal of this or that reform was justified. To assess the impact of the implemented reforms, all relevant categories of entrepreneurs, who are the target group for the given reforms, have been selected. In the mentioned study, both positive and negative effects of the reforms can be seen, taking into account specific characteristics. This research allows relevant agencies to take into account the negative aspects of the implemented reforms, which were revealed based on the survey of entrepreneurs. And, in the case of positive factors, develop more in the mentioned direction.

Keywords: Entrepreneurship, Georgia, Reforms, Tax policy, Taxation

INTRODUCTION

The development of entrepreneurship is of great importance for the economic success of the country. The decisions developed and implemented as a result of the tax policy can have a significant impact on it. The strategy of entrepreneurship development is highly dependent on the existing tax system in the country and its functioning mechanism. Therefore, it is important

to analyze each tax legislative change not only at the theoretical level, but also to identify its consequences from the point of view of entrepreneurs and compare them. This study will allow us to clearly see the results of the theoretical analysis, how far it is justified for entrepreneurs in practice.

Since 2011, a new tax code has been implemented in Georgia, which is still valid today. However, legislative changes are periodically implemented based on the economic and tax political needs of the country, which must respond to the requirements of the market economy. As U. Churchill said "there are no good taxes", but taxes should ensure both the protection of state interests and the mobilization of funds in the budget, which are subsequently used for various socio-economic needs, at the same time it should be optimal for business entities and should not become a heavy burden for them.

A rational tax policy and properly selected taxes are the basis for an effective business environment in the country that encourages entrepreneurial entities to start and develop business, and this, in turn, is the basis for mobilizing the optimal level of taxes in the country's budget.

The period of 2011-2022 is taken as the research period of the results of the reforms carried out in Georgia. Accordingly, research reforms include the analysis of important reforms implemented in the given period.

LITERATURE REVIEW

Many theories and approaches have been developed by scholars over the years about taxes, their rates, and the impact of tax policies. where researches around the mentioned issue are presented in different directions. The approaches or theories proposed by them are interesting, which can be summarized chronologically as follows: It is definitely worth mentioning the Tunisian researcher Ibn Khaldun (1332-1406), in his famous work "Muqaddimah" (1377), important ideas in the field of economics are given in various directions, such as economic growth, taxes, etc. (Gegeshidze, 2010). The purpose of our study is his ideas in terms of taxes, where he offered us his observations on taxes and tax revenues, which later formed the basis of the famous American economist Arthur Laffer curve. According to Ibn Khaldun, "it is known that at the beginning of the dynasty, taxation yielded a large revenue from small levies. At the end of the dynasty, the taxation received little revenue from the great levies."

Mercantilists (D. Locke, T. Hobbes) emphasized the importance of taxes in the functioning of the state and believed that it should be a permanent source of income. They also tried to separate direct and indirect taxes and their advantages from each other, both in terms of

entrepreneurship, and which object of taxation would be acceptable for the state - land or property (Putkaradze, 2012).

William Petty (1623-1687), who was a representative of classical political economy and one of the founders, he created many important works, however, in terms of taxes "A Treatise of Taxes & Contributions" (1662), where he emphasized the fairness of the tax system meaning. He also noted that trade was not a source of wealth, so he advised the state to move from trade to production.

François Quesnay (1694-1774), who was a representative of physiocracy, believed that agriculture was the only source of added value, and that is why the object of taxation should be only those revenues obtained from land. He was an opponent of mercantilist ideas and believed that the source of wealth was not the circulation of goods, but production. However, it is significant here that the physiocrats did not consider production in general, but only in terms of agriculture (Asatiani, 2004).

The most important is the representative of classical political economy Adam Smith's (1723-1790) theories and approaches in economics. He opposed both mercantilists and physiocrats with his theories. His views on tax policy and taxation are significant for our research. He believed that the state should have an orderly tax system, where the tax amount, terms and rules would be determined in detail. Here he definitely believed that the administration of tax collection should be done with as little expenditure as possible on the part of the state. In his view, relatively low tax rates would provide more revenue because it would be easier for entrepreneurs to pay it. All of the above is given in his most important work: "An Inquiry into the Nature and Causes of the Wealth of Nations" (1776). This work is also valuable for the importance of interrelationship of a number of economic and political decisions. According to him, the state should intervene as little as possible in the economy, which is known as its "invisible hand" status.

David Ricardo (1772-1823) is one of the most important figures in the history of economics. Like Adam Smith, he is a representative of classical political economy and made a great contribution to its development. In terms of taxes, his most important work is *On the Principles of Political Economy and Taxation* (1817). According to Ricardo, the tax increase ultimately leads to an increase in the price of services and products.

John Maynard Keynes (1883-1946), the greatest British economist, is the author of various important theories and laws. His famous work *The General Theory of Employment, Interest and Money* (1936) coincided with the period after the great economic crisis. He believed that the state should necessarily intervene in the country's economy in order to regulate it (Mekvabishvili, 2016). This book contained some kind of advices to help the country recover

from the economic crisis. In order to increase employment, production and the economy in general, he believed that there should be an increase in the solvent demand, which in turn could be achieved by reducing taxes and/or increasing government spending, or by taking both actions simultaneously (Asatiani, 2004). In terms of taxes, it is necessary to highlight the micro-level definition of Keynes' theory of effective demand, which refers to the solvent demand from enterprises or business subjects, while the macro-level definition of this concept includes consumer spending and investments (Mekvabishvili, 2016). The essence of this theory lies in the fact that taxes are an important tool in the regulation of both social relations and macroeconomic balance. In his opinion, in case of high rates, the tax base is unstable. He was in favor of having progressive tax rates because, in his opinion, this would ensure the mobilization of more revenue in the budget and economic development would be improved through this tax policy. If a person with a higher income was taxed at a higher tax rate than a subject with a lower income, it would represent a fair taxation policy (Mekvabishvili, 2016). In general, Keynesianism focuses on the role of taxation where it affects the economy through aggregate demand.

Arthur Cecil Pigou (1877-1959) tax system and its administration, which would be developed by the state, should be aimed at the welfare of society and believed that taxes should not harm the population. This is given in his work "The Economics of Welfare". He also attached great importance to determining the optimal ratio of taxes and government spending. The essence of Pigou's tax is that those who pollute the environment, to cover his expenses. "In the presence of Pigou's tax, the direct cost of production is equal to its social cost" (Quéré et al., 2016). The famous economist Paul Samuelson (1915-2009) proposed the need to integrate two different concepts – monetary and credit policy and budgetary and fiscal policy.

It is worth noting the "supply theory", which was a kind of counter-evidence to Keynes' "effective demand" theory where demand and supply collided. In general, the theory of supply implies stimulating economic growth by reducing taxes and regulations, i.e. an increase in production ensures economic growth. The mutual dependence between the tax burden and entrepreneurial activity connection is given here. The main directions of this theory are: tax, regulatory and fiscal policy. According to Milton Friedman (1912-2006), it was necessary to reduce taxes in order to make the economy more developed. According to this theory, consumers would be able to benefit from a large supply of low-priced goods and services, which would in turn promote employment. This concept, known as monetarism, discusses the role of the state in regulating the management of the economy where the effectiveness of minimal state intervention is justified. According to supply side theorists, tax cuts were considered among many other measures needed to stimulate the economy. It should be noted here that the

opinions of supply theory representatives were based on the Laffer effect. According to Friedman, it was unacceptable to establish high tax rates, and he considered it acceptable to have a system with proportional tax rates. What would actually be the reason for attracting more revenues to the state budget. It should be noted here that he had a very interesting initiative, that in order to eliminate poverty, he developed the so-called The idea of a "negative income tax", according to which low-income subjects should not be taxed by income tax and should be subsidized, However, this view also had its critics, because in their view it was unfair in the sense that the taxes paid by certain entities should be directed to other entities in the form of subsidies (Mekvabishvili, 2016). Friedman's view on the system of social contributions and its amount is as follows, that in his opinion "it is not the job of the state to dictate to people what part of their income they should devote to their own or someone else's old age" (Quéré et al., 2016).

It is important to highlight Arthur Laffer (1940), who proposed the so-called Laffer's curve (1974), where there is a theoretical relationship between tax rates and tax revenues. It should be noted that Arthur Laffer refers to two famous scientists Ibn Khaldun and John Maynard Keynes in connection with the postulates or ideas of this curve. The essence of the Laffer curve lies in the fact that at the initial stage, when tax rates (averaged) increase, tax revenues also increase, although this increase proceeds to a certain equilibrium point of the curve, and after crossing this given point, tax revenues decrease in the wake of increased tax rates. In short, entrepreneurs have a negative reaction to increased tax rates, and therefore they do not want to produce products. It should be noted here that this model also has opponents who do not share Lafer's approach, because in many cases the somewhat controversial mathematical data of his curve, which is displayed graphically, as well as the time factor, etc., cannot be justified. Due to the fact that the economic situation is different for every country, the approval of the provisions of the given curve is often impossible or not justified. However, in the case of countries with post-communist capitalism, the existence of the Laffer effect has become clear (Ananiashvili et al., 2003). E. Balatsky's opinion regarding the Laffer curve is also significant, where he notes based on his research that there are two equilibrium tax rate points on this curve, which in one case shows the maximum of the gross domestic product, and in the other case shows the maximum of budget revenues. Therefore, it is desirable to distribute the tax pressure evenly, and it is necessary to select the optimal tax rate by the state, which provides both production stimulation and budget revenue provision.

It is important to note the work of Georgian scientists Vladimir Papava and Yuri Ananiashvili "Taxes, demand and supply: Laffer-Keynesian synthesis" (2009). Based on this synthesis, the function of taxes is studied at the macro level. The necessity of the synthesis of

the mentioned models arose from the one-sided approach of the given theories in relation to taxes, where in the first case (Keynesian) the supply was not taken into account, and in the second case the demand. In the classical macroeconomic equilibrium model by Vladimir Papava and Yuri Ananiashvili, the average tax rate is taken instead of the price level as the main determinant factor of joint demand and joint supply. This paper discusses the impact of taxes, their rates or different tax systems on the level of employment and macroeconomic balance. Based on this synthesis and as a result of the consideration of various options, the scientists present the conclusion that the determination of the optimal tax rate does not guarantee that the maximum amount of tax revenues will be mobilized in the budget and or the possibility of recording a high rate of employment. Of the equilibrium options discussed in this book, "only the introduction of an optimal average tax rate cannot by itself increase the level of employment and initiate the transition to the appropriate equilibrium of potential output. In the conditions of the Laffer-Keynesian synthesis, joint demand plays an important role in raising economic activity and achieving full employment, together with the taxation regime" (Papava & Ananiashvili, 2009).

According to the American economist Robert King (1951), who is a representative of the theory of rational expectations, if the state decides to reduce taxes, then it will be forced to balance it with borrowed funds, which will ultimately lead to an increase in taxes in the future. This mentioned will be the basis for reducing the joint demand. This statement is known in economics as the Barro-Ricardo theorem (Mekvabishvili, 2016).

If we look at the taxation practices of different countries of the world, it becomes clear that the level of taxation is relatively high in developed countries and on the contrary. This conclusion is derived from the fact that in developed countries, along with the increase in income, the demand for such public services as: health care, education, infrastructure, etc. increases. The aforementioned requires an increase in expenses and taxes on the part of the state. When we talk about optimal taxation, in this case we mean a tax structure where the alternative is given between efficiency and fairness.

RESEARCH METHODOLOGY

In this study, both the works of scientists on taxes and the data of various international rating organizations are reviewed. Induction and deduction methods are used. Various statistical data have been collected, both published by state agencies and the results of research conducted by the author. The analysis of the results of the mentioned research is compared with the theoretical expectations.

The period of 2011-2022 is taken as the research period of the results of the reforms carried out in Georgia. The research about the reforms implemented in the mentioned period was ongoing from June 2022 to February 2023. The questionnaire included 21 questions (see Questionnaire <https://forms.gle/RNXCTiHCo7esN3L48>) to collect data on the status and activities of taxpayers/entrepreneurs, as well as their views on issues such as: All implemented major tax reforms, factors hindering entrepreneurial activity, reinvestment issues, opinions on desired legislative changes, identifying the tax with the greatest burden, identifying priority business areas, deficiencies of the existing tax system, The impact of each tax reform directly on their activities, etc. The survey format was a Google Forms created survey that was sent to entrepreneurs by email (The mentioned emails are public information that can be found on the www.yell.ge website), The research was also posted on social networks - linkedin.com and facebook (in a special Facebook group where entrepreneurs and their representatives/accountants are members), A certain number of entrepreneurs were also interviewed in the form of a telephone survey. Due to the fact that the research was presented with rather difficult questions and also a number of issues were related to topics such as reinvestment, etc., a certain number of entrepreneurs refused to participate in the research, and in the end, 510 entrepreneurs took part in the research and fully expressed their opinion on the presented questions. It should be noted here that the tax reform survey presented a number of questions that could be answered by taxpayers of any status, such as: Factors hindering entrepreneurial activity, reinvest, desired legislative changes, identifying the tax with the greatest burden, priority business areas, deficiencies of the existing tax system and etc. However, attention should also be drawn here to the fact that for the purpose of the validity of the research on tax reforms, answering some questions required the fulfillment of certain conditions, which were accordingly taken into account in the research. For example, if the taxpayer was not a VAT payer, he would not have responded to the reforms presented in the mentioned topic. Also, the entrepreneurs with relevant statuses answered only about the reforms related to their statuses (eg: VAT payer, small business status, etc.), etc.

RESULTS AND DISCUSSION

Business environment and tax system in Georgia

Tax policy can have a significant impact on the development of entrepreneurship. Based on this, the state develops different strategies that ensure what taxes should be applied in the country, what should be their scope, principles of taxation, which areas need to be encouraged with certain tax benefits, etc. All the above factors have a great influence on entrepreneurship and its development. In general, the actions implemented by the country's tax policy, the

existing tax system and taxation principles in the country should be optimal and appropriate in relation to the existing business environment.

In order for the executive government to develop an optimal tax policy, it is necessary to consider not only domestic but also macroeconomic factors. It is important to first develop a tax system that will be tailored to entrepreneurs and the tax burden will not be large for them, but at the same time, this system should be a guarantee that the optimal amount of tax revenues will be mobilized in the country's budget. The tax rates are important, so that there is no attempt to evade tax payment on the part of the entrepreneurs, and they have the willingness to pay the tax voluntarily. The tax system naturally periodically undergoes changes (in some cases radical) and this should be based on the economic needs of the country, and it is also desirable that during various changes, the successful reforms of developed countries, which will be in line with the country's priorities, are taken into account. In order for the tax system to be more or less effective, it is necessary that it be stable, flexible, easily administered, etc.

Georgia is in a leading position in Europe with its tax policy, which is confirmed by numerous international rankings. For example, according to the ranking of the World Bank, the country is in the 2nd position in terms of ease of doing business, which is an unconditionally positive event. In terms of the ease of paying taxes, Georgia is one of the outstanding ones. It was included in the list of countries that offer updated tax code and by-laws to taxpayers, and mostly electronic services are offered for ease of interaction with the tax authority (World Bank Group, 2020).

The following are the main directions of tax policy in Georgia: giving certain benefits to taxpayers through the granting of different statuses, as well as introducing a preferential model of profit tax for certain categories of taxpayers (in order to facilitate the expansion of their business), reducing tax rates, reducing sanctions for tax offenses, electronic services Use with tax authorities in different directions, etc. This is done in order to help taxpayers to start a new business or expand the existing one, to simplify the relationship with the tax authority, etc. As for the structure of the Tax Code in Georgia, taxes are divided into state and local taxes. General state tax includes: a) income tax; b) profit tax; c) value added tax (VAT); d) excise duty; e) Import tax. And the property tax belongs to the local tax. The majority of the revenues of the Georgian budget consist of taxes (approx. 90%). From the taxes mobilized in the budget, mostly from the first three taxes, VAT has the largest share, income tax also has a significant share, and excise tax is in the third position. This means that any legislative changes that will be related to this tax should be accepted with special caution, as it can have a very large impact on budget revenues.

Several agencies have been established in Georgia, which are committed to promoting and supporting the development of small and medium-sized businesses, both in terms of financial, legal and business planning. Entrepreneurship Development Agency - "Enterprise Georgia": The mentioned agency has very important goals and functions for the development of small and medium businesses. Among the goals, it is worth noting raising the competitiveness of the private sector, promoting start-up entrepreneurs, etc. Among the functions of the agency, the following can be distinguished: facilitate access to finance for entrepreneurs, help in relations with financial institutions, provide marketing assistance, provide consultations on various issues, such as: export, various market requirements and obligations, etc. They also provide consultations in the direction of business planning, in order to develop them properly. An important function of this agency is to help entrepreneurs to adapt to the requirements of the Deep and Comprehensive Free Trade Area Agreement (DCFTA). The mentioned agency also conducts trainings in terms of improving entrepreneurship skills. Georgia's Innovation & Technology Agency: Among the main goals of this agency are: promotion of innovation-based economy development, creation and implementation of modern technologies, the so-called innovation-based Promotion of Start-Up development and increasing competitiveness, Promotion of collaboration between representatives of the scientific direction and business representatives. Among the agency's functions, it is important: adaptation to the requirements of the Deep and Comprehensive Free Trade Area Agreement (DCFTA), like the above-mentioned agency, promoting the development of modern technologies, development of appropriate infrastructure for innovation, Covering the territory of the country with high-speed Internet, Support for knowledge-based innovative projects, etc. Small and medium-sized businesses are also supported by the European Union and various international financial institutions (EBRD, etc.) in the form of targeted programs.

Directions and theoretical analysis of tax reforms carried out in Georgia

Based on the fact that the new tax code came into force in Georgia in 2011, the period of 2011-2022 is taken as the research period of the results of the reforms. Accordingly, research reforms include the analysis of important reforms implemented in the given period. Let's briefly consider the main directions of the reforms:

The following can be distinguished as the main directions of tax policy in Georgia: providing certain benefits to taxpayers through the granting of various statuses, as well as the introduction of a preferential model of profit tax for certain categories of taxpayers (in order to facilitate the expansion of their business), lowering tax rates, reduction of existing sanctions for tax violations, Use of electronic services with tax authorities in various directions, etc. This is

done in order to help taxpayers to start a new business or expand the existing one, to simplify the relationship with the tax authority, etc.

In 2011, special taxation regimes came into force in the Tax Code of Georgia, which provided for the support of entrepreneurs with low joint income, which was manifested in the fact that they were granted the status of micro, small and fixed businesses, which in turn provided various benefits.

The status of micro business could be granted to an individual who did not use the labor of hired persons and was independently engaged in economic activity, from which the total income received by him during the calendar year did not exceed 30,000 GEL. And an individual with micro business status did not pay income tax. If an entrepreneurial natural person with the status of a micro-business, who faced the obligation of mandatory registration as a value added tax (VAT) payer, he would leave the special taxation regime (Tax Code of Georgia. 2010. As of March 12, 2011).

As for the status of a fixed tax payer, it could be granted to a person who was not a value added tax payer and carried out one or more activities subject to a fixed tax and the types of activities of their taxation object were determined by the Government of Georgia. The fixed tax rate was determined by the Government of Georgia depending on the type of activity - on the object of taxation - within 1-2000 GEL or 3% of the income received from the taxable activity. The entrepreneur with the given status was also entitled, in addition to the activities subject to a fixed tax, to additionally carry out only the activities permitted by the Government of Georgia, such activities would be taxed in the general manner. In case, in the part of the additional activities allowed for the fixed tax payer, the person incurred the obligation to register as a value added tax (VAT) payer or was voluntarily registered as a value added tax payer (VAT), then the given status would be revoked (Tax Code of Georgia. 2010) as of January 1, 2012).

Small business status in Georgia was defined by the Tax Code and came into effect on January 1, 2011 to provide certain benefits to taxpayers with relatively low joint incomes. After the introduction of the status, an additional change was made in 2018 for the benefit of taxpayers. However, with the mentioned change, it can be said that the state budget has lost certain revenues, and certain risk factors have also been created, which may further reduce the state's revenues. Initially, when the small business status was introduced in the tax legislation (2011), it could be granted to an entrepreneurial individual whose total income from economic activities (The Government of Georgia has the right to prohibit the implementation of separate activities, within the scope of which the status of small business cannot be granted to an entrepreneurial individual) did not exceed 100 thousand GEL during a calendar year, and

taxable income was taxed at 5%. If an individual entrepreneur with the status of a small business had documents confirming the expenses of 60% of the total income (except for the salary expenses charged to employees), it was taxed at 3%. If the taxable income of an entrepreneur with the status of a small business exceeded 100 thousand GEL, then he had the obligation to register as a VAT payer, which in turn meant the cancellation of the status of a small business (Tax Code of Georgia. 2010. As of March 12, 2011). On July 1, 2018, the Tax Code was amended and the joint income limit for small businesses increased from 100 thousand GEL to 500 thousand GEL. Taxable income is taxed at 1% instead of 5%, however, it is taxed at the rate of 3% if its total income from economic activity exceeds 500 thousand GEL. A person with the status of a small business is taxed at the prescribed rate from the beginning of the relevant month (in case of exceeding the limit of 500 thousand GEL of joint income) to the end of the calendar year. However, the status of a small business is canceled if the joint income received from economic activities of a person exceeds 500 thousand GEL in each calendar year, according to two calendar years. As for VAT registration, it does not conflict with the small business status, as it was in the first case (Tax Code of Georgia. 2010. As of July 1, 2018). Therefore, it can be said that those entrepreneurs who have been granted the status of a small business have received pronounced benefits as a result of the measures taken by the tax policy, which were manifested both by increasing the joint income limit and by reducing the rate of taxable income. As for the types of activities, in the case of the implementation of which the granting of small business status is prohibited, and the said status is revoked for a person who already has small business status, the following are: 1. Activities that require licensing or a permit, except for the activities provided for in Article 24, Clause 261 of the Law of Georgia "On Licenses and Permits" ("Permit to transport in the capital of Georgia by light vehicle - taxi (M1 category)"); 2. Activities, the implementation of which requires significant investment (production of excise goods); 3. Implementation of foreign exchange operations; 4. Medical, architectural, lawyer or notary, auditing, consulting (including tax consultants) activities; 5. Gaming business; 6. Provide (an organization, business, etc.) with staff. 7. Production of excise goods (Resolution N415. 2010).

As for the risk factors that may emerge after this legislative change and that may further reduce tax revenues in terms of income tax, they are as follows: In the service sector, for example, in the construction business, persons who are employed in repair services can obtain the status of a small business, which is not included in the list of prohibited activities, And the employer (in this case, the construction company) will no longer be taxed with income tax, that is, instead of 20% (income tax), they will be taxed with 1% (small business status). Therefore, we can conclude that it is quite a big risk that the budget will receive less income from income

tax than it is planned. Also, we can consider the lack of information as a risk factor, which is expressed in the following: Taxpayers with the status of small business have the right not to indicate in the declared information (return) about the balances of goods and material stocks, as well as about the mark up, etc. Due to the fact that it already has an informational character and there are no mandatory fields, which in turn will make it difficult for the Revenue Service to collect information about taxpayers (within the scope of small business status activities) and control accordingly. In the developed countries of the world, small business has a large share in the business sector both in terms of income and employees, therefore, much attention is paid to its development. However, the share of small businesses in Georgia is insignificant so far (approx. 6%), but, nevertheless, support for small businesses in Georgia is growing with various legislative changes that provide for various types of benefits, such as the introduction of micro, small and fixed statuses, and accordingly, Giving different types of benefits according to statuses.

The mentioned tax policy, which implies both an increase in the joint income limit and a reduction in the rate of taxable income for entrepreneurs with small business status, is naturally a great incentive for this category of entrepreneurs. However, it is also necessary to observe the dynamics, whether any additional risk factor will be revealed after this legislative change, which may prevent the mobilization of taxes in the state budget. Therefore, the above-mentioned risk factor (which can affect the income tax) should be an object of observation in the dynamics, because the already expected reduced income in the budget (approx. 40 million) should not decrease even more.

Most of the budget of Georgia consists of tax revenues, therefore it is very important to carry out such legislative changes, which on the one hand will be tailored to business and entrepreneurs, and on the other hand, will contribute to the mobilization of budget funds. Therefore, it is very important to consider the change regarding the replacement of the current model of profit tax with the Estonian model of profit tax, which applies to the majority of entrepreneurs (entered into force on January 1, 2017). The above-mentioned change is a kind of challenge for the economy of Georgia, because the budget revenues in terms of profit tax decrease by about 400 million GEL per year. However, it is a great incentive for entrepreneurs, because they are allowed not to be taxed on reinvested profits, which guarantees business expansion. Naturally, it is not an exact analogue of the model operating in Estonia, although there is a great similarity in terms of taxation. This model has been operating in Estonia since 2000, and as expected, income from profit tax decreased sharply, but since 2003, it has exceeded the pre-reform mark (1999 - 107 million), and by 2018, it already exceeded 500 million (Statistics Estonia – www.Stat.ee). Also important is the fact that in the distributed tax

model (Estonian model of profit tax), the company's tax profit and financial profit are equal to each other (which is different from the Georgian model valid until 2017, because before that the company's financial profit and tax profit were not equal to each other). The profit tax model, which entered into force in 2017, is certainly not an exact analogue of the model operating in Estonia, as a number of factors specific to the legislation and general tax policy in Georgia should be taken into account. Therefore, according to the given model (the rate remained the same - 15%), the object of taxation for a resident enterprise is determined as follows: 1. Distributed profit (distributed profit is profit that is distributed by the enterprise to its partner in the form of a dividend, in monetary or non-monetary form); 2. incurred expenses or other payments that are not related to economic activity; 3. free delivery of goods/services and/or giving cash; 4. Representative expenses incurred in an amount greater than the threshold amount established by this Code. As for commercial banks, credit unions, microfinance organizations and lending entities, the object of taxation with profit tax for them remained the same, That is, the difference between the total income received during the calendar year and the amounts of deductions provided for by this Code. However, from 2023, the profit tax rate for banking institution , credit union, microfinance organization, loan granting entity will be 20% (Taxable profit) (Tax Code of Georgia. 2010. As of april 15, 2023).

The purpose of this important legislative change is to support entrepreneurs to develop their business and not to tax the funds that are used for reinvestment. This, in turn, will contribute to the expansion of business, which will also guarantee the creation of new jobs.

In the short term, it has a negative effect, as the budget revenues in terms of profit tax are reduced. This may lead to a budget deficit, to overcome which it is necessary to reduce expenses, and this fact should be taken into account in the case of Georgia, to what extent the state can overcome the budget deficit. In the case of Georgia, before the introduction of the new model, the share of profit tax in the budget revenues fluctuated between 12-13% (approximately 800-900 million GEL), which greatly affected the total tax revenues. After the implementation of the Estonian model, according to the results of 2017, the share of profit tax in tax revenues is 7.7% (756 million GEL), and the annual profit tax is approximately 300 million GEL. It is reduced by GEL. In order to cover the mentioned deficit, the government of Georgia periodically increased the excise duty rates on various goods.

The main direction of the tax policy is also the liberalization of tax sanctions and fair administration. In this direction, the Code has been amended several times. For example, we can cite the reduction of sanctions for such offenses as:

A) Violation of the tax declaration (return) submission deadline - where, as of 2011, the sanction was 5% of the chargeable amount for each late full and incomplete month, with a maximum of

30% of the chargeable amount, but at least in the amount of 200 GEL. Which later in 2016 reduced the minimum amount limit to 50 GEL, and as of 2019, if the delay does not exceed two months, then 5%, and if it exceeds two months, then 10%, and the limit of the minimum amount has been canceled (Tax Code of Georgia. 2010. with the conditions of 2011-2016-2019-2023).

B) Tax reduction in the tax declaration (return) - in this case, as of 2011, the sanction was defined as 50% for an amount reduced to 50%, for a reduction of 50% or more, the sanction was 75% of the chargeable amount, and a reduction of tax by more than 25,000 GEL was already subject to criminal liability. As for the situation in 2016, here already the tax reduction, which was caused by the change in the moment of origination of the obligation, 10% of the amount was determined as a sanction, and in other cases 50%, And the limit of the amount of the reduced tax for giving in criminal liability has been raised to 50,000 GEL. As for the situation in 2019, in this case there was a differentiation of the reduced tax amount and if the reduction of the payable amount does not exceed 5% of the payable amount, then 10% is determined as a sanction, and if the reduced tax amount exceeds 5%, but does not exceed 20%, then 25% of the tax amount is determined as a sanction. And in order for the taxpayer to be held criminally responsible for the reduction of taxes, the minimum threshold was raised to 100,000 GEL, that is, the risk of the entrepreneur being held criminally responsible for the reduction of taxes was reduced as much as possible, because the minimum threshold was increased quite a bit. It should be noted here that from January 1, 2019, an amendment was introduced, which stipulates that "the total amount of fines applied as a result of a tax audit in accordance with this article (reduction of tax in the tax declaration (return)) should not exceed the amount of taxes charged to be paid as a result of this tax audit" (Tax Code of Georgia. 2010. with the conditions of 2011-2016-2019-2023).

C) In terms of tax audits, an important change was introduced from January 1, 2019, which provides for the following "50 percent of the fines charged as a result of the tax audit are canceled if the tax debt arising from the tax audit is recognized and the taxpayer, within 30 days of submitting the tax request, has fully paid the taxes and 50 percent of the fines as a result of the tax audit" (Tax Code of Georgia. 2010. As of January 1, 2019).

D) Violation of the rules of use of the cash register - The article of this offense includes many types of sanctions according to different parts, however, let's consider the main part, which refers to the absence of a control cash register and/or its non-use. As of 2011, not having a cash register resulted in a fine of 500 GEL, and for each subsequent repetition, a sanction of 5,000 and 10,000 GEL. Failure to use the cash register will result in a fine of 500 GEL in the first case, and a sanction of 1500 and 2500 GEL in each subsequent case. As of 2016, not having a cash register and not using it was fined 200 GEL, despite its repeated occurrences, which is

maintained even as of 2019. It should be noted here that when determining the given offense, the tax officer has the right to define a "warning" as a sanction, except in repeated cases (Tax Code of Georgia. 2010. with the conditions of 2011-2016-2019-2023).

In order to simplify activities for taxpayers, treasury codes divided by types of taxes were combined, and from January 1, 2016, a unified treasury code came into force, where absolutely all types of taxes are paid, and for taxpayers it is not divided by types of taxes.

From February 15, 2019, a very important change came into force, which provides for an automatic refund service (for entrepreneurs) of the excess amount in the value added tax (VAT) (the recommendation of the IMF was mentioned). This, in turn, simplifies relations with the tax authority for entrepreneurs, and the return of excess is carried out in a short period of time. Based on the mentioned change, taxpayers have the opportunity to automatically recover the overpaid amount in VAT, which has arisen since January 2019 and which is fixed on the basis of submitted value added tax (VAT) returns. It should be noted here that during the study of the submitted declarations (return), certain risk factors are considered in automatic mode, and after passing the given stage, approximately 90% return to automatic mode, and 10% are subjected to additional study, based on the discovered risks. After the analysis, the existing request can be transferred to the VAT refund card and/or subject to correction. It should be noted that this reform is very large-scale and also important for entrepreneurs.

Let's discuss the excise tax changes from 2015 to the present day, because as you know, the excise tax is the only tax whose change and tax rates can be changed by the government's decision without a referendum, which is provided for by the Organic Law "On Economic Freedom" Since 2015, the excise rate on tobacco in the Tax Code of Georgia has been changed several times. The changes affected not only the fixed rate of excise duty, two other types of tobacco products were defined by the commodity code and the so-called ad valorem tax, which is determined as a percentage, in relation to the selling price of the goods (including the fixed rate of excise duty and VAT). The first part of the changes, which came into effect on January 1, 2015, affected only two categories of tobacco (filtered and unfiltered cigarettes with tobacco content). From July 1, 2015, an additional tax (ad valorem tax) of 5 percent of the selling price of tobacco was introduced in relation to filtered and unfiltered cigarettes. From January 1, 2016, the change affected the rate set for all types of tobacco products, and the additional tax (ad valorem tax) was 10% instead of 5%. It can be said that the most significant changes have been implemented since 2017 - the excise tax rate has been increased again on tobacco products, while the excise tax (ad valorem tax) has remained at the level of 10%. Since July 2017, two new commodity codes have been added to tobacco products. As for the additional tax (ad valorem tax), its rate has been increased since January

2019, and in this case it was divided into two categories: it became 30% for filtered cigarettes and 10% for non-filtered cigarettes. If we compare the excise rates existing before 2015 and those valid for 2019, we get that the rate increase varies from 75 to 200 percent depending on the type of tobacco. The highest increase, 200% was recorded for unfiltered cigarettes, and 127% increase for filtered cigarettes. It is worth noting the 10%-30% ad val tax, which did not exist before. As we can see, the greatest pressure was exerted on the types of tobacco products, the consumption of which is the most common, namely: filtered and non-filtered cigarettes. And by the end of 2019 (November), the advance tax for both types of cigarettes became 30%, that is, from 2015 to 2023 (which is determined as a percentage of the selling price of the goods, including the fixed rate of excise duty and VAT), the ad valorem tax increased from 5% to 30%.

It should be noted here that there are several risk factors that may occur due to the increased excise tax. Most of the given activity (tobacco production/sale) can be transferred to the shadow economy and lost revenues in the budget, there may also be attempts to import goods from border regions without excise duty, bypassing customs, that will worsen the current situation in the given field and encourage entrepreneurs to hide their income. Therefore, if the marginal amount of a certain tax rate is reduced and/or a certain preferential tax model is introduced (for example, the Estonian profit tax model), it is desirable to balance the expected budget deficit by expanding the taxable base of the existing tax, and not by increasing the excise tax rate on certain products. Expanding the taxable base can be considered an optimal decision, because according to the Organic Law “On Economic Freedom” in Georgia, introducing a new type of general state tax, other than excise, or increasing the upper limit of the existing rate according to the type of general state tax, other than excise, is possible only through a referendum (Organic Law “On Economic Freedom”. Article 1). Therefore, it is not possible to balance with a slight increase in another tax rate (which in some cases is a more optimal decision than expanding the taxable base).

As for the taxation of advances with value added tax (VAT), the aforementioned legislative amendment came into force on January 1, 2017. Let's consider the difference between the legislation in force before 2017 and the amended legislation in this regard, what this amendment provides for and how it affected entrepreneurs: According to the Tax Code of Georgia valid until 2017, the operations subject to VAT included the supply of goods and/or the provision of services (on the territory of Georgia) within the framework of economic activity, where The amount of the taxable transaction was defined as the amount of compensation received or acceptable by the VAT payer, and the time of its implementation was the moment of the delivery of goods or the provision of services. And, when using the building-structure of own production as the main means, the amount of the taxable operation was defined as the value of

the assets determined by the Tax Code of Georgia, and the moment of putting the main asset into operation was considered as the time of the taxable operation (Tax Code of Georgia. 2010. As of July 16, 2016).

As for the situation after the change, the supply of goods and/or the provision of services carried out within the framework of economic activity (on the territory of Georgia) are included in the operations subject to VAT, during which the amount of compensation received or receivable by the VAT payer is defined as the amount of taxable transactions, and the time of its implementation was considered the moment of delivery of goods or rendering of services, When using the building-structure of own production as the main means, the amount of the taxable operation is determined by the value of the assets, which includes the costs of their purchase, production, construction, installation and erection, as well as other costs that increase the value of assets. But in this case, a change has been added in the sense that during the determination of the amount of the taxable operation, the received compensation amount is taxed, and the time of carrying out the taxable operation is determined no later than the moment of payment of the compensation amount or part of the amount of the goods to be delivered and/or services to be provided, if payment is made before delivery of goods and/or service (Tax Code of Georgia. 2010. As of May 24, 2019). For example: If the entrepreneur works in the field of construction, The funds received by him from the sale of apartments were taxed only when the apartment was put into operation (which in many cases was protracted, because putting the apartments into operation involved many different procedures), But with this legislative change, the funds received by the building owner are considered an advance and are taxed at the time of receipt (Regardless of whether the apartment is handed over or not in operation). It should be noted here that in the case of an advance, it is necessary to identify the purpose of payment of the mentioned amount (by agreement or tax document), namely: "The amount paid by the person will be considered as a compensation amount and the transaction will be subject to VAT if all the following conditions are met at the time of receipt of the amount: a) goods to be delivered/services to be provided are defined; b) the quantity or volume of goods to be delivered or services to be rendered is determined; c) the cost of goods to be delivered/services to be provided is determined; d) the specified goods to be supplied/services to be rendered are a VAT-taxable or exempted operation" (Decree N996. 2010). In the event that the above conditions are not fully met, but nevertheless the amount is paid in advance based on the agreement of the parties, on which a VAT tax invoice is also issued, in this case also the time of VAT taxation is the moment of receiving the compensation amount (even though the goods/services have not yet been delivered). If we look at this reform from the point of view of the construction sector, in this case I think it is the right approach. Nevertheless, this reform

applies to all spheres of activity, and therefore, this reform has a negative impact on the activities of entrepreneurs. It should be noted here that the mentioned legislative reform does not refer to the provision of such goods and/or services, which are performed periodically, and the amounts paid according to the given periods are not considered as advances.

Therefore, in the case of VAT taxation of advances, it is worth noting that if the time of the taxable operation changes, it should be analyzed in terms of activity. Because in many cases, the received reform is correct in terms of several activities, but its distribution to all entrepreneurs equally, represents an obstacle for entrepreneurs;

The most important of the taxes in Georgia is value added tax (VAT), which ranks first in taxes in budget revenues. Consequently, any legislative changes or new projects that are directly or indirectly related to a given tax have a particular impact on the budget and its revenue in terms of taxes. Therefore, it is interesting to review the draft law, which came into force on January 1 of the 2021, which deals with value added tax (VAT). This change was conditioned by the Association Agreement between Georgia and the European Union, which provided for the harmonization of the VAT legislation in force with the EU legislation. Based on of this draft law, the tax legislation on VAT and the basic principles of this tax have been fundamentally changed in Georgia.

A brief legislative excursion around the key tax reform related to value added tax (VAT) reform, the basic principles of pre-existing VAT and the legislation in force since 2021, we will see the following key differences: First of all, who is a person paying VAT, according to the current legislation, it is any person who independently carries out any kind of economic activity in any place, regardless of the purpose and result of this activity (Tax code of Georgia. 2010. As of September 26, 2021). Under the legislation in force until 2021, VAT payers were differentiated into seven different types, namely: A) a person registered as a VAT payer; B) a person who is obliged to register as a VAT payer; C) a person who imports or temporarily imports goods into Georgia, only for this import or temporary import, without the obligation to register; D) a non-resident (except for a natural person who is a citizen of Georgia), who provides services without registration as a VAT payer in Georgia and a permanent establishment of a non-resident registered for tax purposes in Georgia, only for this service and is subject to reverse charge; E) a person who, within the framework of a measure for securing the fulfillment of a contractual obligation, transfers the subject matter of the claim (goods) to the creditor only for this transaction and is subject to reverse charge, without the obligation of registration; F) a person whose goods are sold within the framework of a measure to secure the payment of tax arrears or for the purpose of repaying other monetary obligations (other than sanctions imposed by criminal and administrative rules) by auction, direct sale or otherwise,

only for this operation, without obligation to register; G) a person whose custodial property is sold in accordance with the Law of Georgia on Insolvency Proceedings, only for this transaction, without the obligation to register (Tax code of Georgia. 2010. As of September 20, 2020). In case of VAT taxable transactions, the current legislation stipulates: A) supply of goods by a taxable person on the territory of Georgia in exchange for remuneration within the framework of economic activity; B) the provision of services by a taxable person in the territory of Georgia in exchange for remuneration within the framework of economic activity; C) Import of goods (Tax code of Georgia. 2010. As of September 26, 2021). As for the list of VAT taxable transactions before the change, it was very broken down and detailed, which also included VAT taxation facilities (A) a taxable transaction; B) import; C) export, re-export; D) Temporary importation and taxable transactions included the following (which in turn was also concretized in different cases): A) supply of goods and / or services within the framework of economic activity on the territory of Georgia; B) use of goods / services purchased with VAT for non-economic activities (except for the case of free delivery of goods and / or services free of charge to a state and / or municipality by a legal entity under public law), if the taxpayer has received VAT deduction for these goods / services; C) in case of cancellation of registration as a VAT payer, the balance of goods on which the payer has received a VAT deduction; D) Use as a fixed asset an own production building; E) Acquisition of services or goods from the enterprise and / or partnership in exchange for a share in individual ownership (in this case the removal and / or registration of property is considered as delivery of property by the partnership); F) return of fixed assets to the lessor by the lessee upon expiration or early termination of the lease agreement; G) moment of revocation of the status at the expiration or early termination of the status of a tourist enterprise (Tax code of Georgia. 2010. As of September 20, 2020). It is noteworthy that under the legislation in force until 2021, the VAT taxable transaction was a temporary import, which is no longer a taxable transaction under current legislation, this change makes it much easier for entrepreneurs to operate, who used the given service. Such operations included, for example, the leasing of equipment by a construction company from a non-resident. This operation was considered a temporary importation and was consequently taxed with VAT. According to the current legislation, this transaction is no longer included in the list of taxable transactions. The above differences concerned only the definition of a VAT payer and VAT taxable transactions. Naturally, there are changes in the VAT legislation in other directions as well, the existing legal records around it are very extensive and detailed, which naturally includes determining the amount, time and place of VAT taxable transaction, as well as other regulatory rules around a given tax. Which complicates the detailed discussion of legislative changes in a given format. However, there are a number of directions that have not changed substantially, for example:

VAT rate (18%), its mandatory registration requirements (From the date of exceeding the total amount of GEL 100,000 taxable goods supply/service transactions performed by a taxable person during any continuous 12 calendar months, who must apply to the tax authority no later than 2 working days for registration as a VAT payer) and grounds for deregistration. However, there is some change in taxable transactions, which determines a turnover of 100,000 in VAT. It should also be noted that unlike the current version of VAT until 2021, definitions of terms specifically for VAT purposes have been added to this legislative package and added a new taxable transaction - voucher transactions.

The main essence of this tax reform is to support the integration processes with the EU and to bring it closer to the EU VAT Directive. Therefore, amendments were made to the Tax Code of Georgia and the VAT regulatory provisions were formulated in a new edition. This reform has been implemented based on approaches of international best practice, which aims to improve the investment environment, reduce disputes and simplify the fulfillment of tax obligations. To summarize the main directions of the reform, it is as follows: The list of services that are not taxed outside of Georgia is expanding. More specifically, in basic cases it is considered as a place of service where the recipient of the service (taxable person) is based; Expands and clarifies transactions exempt from VAT related to the transportation of goods; Temporary importation of goods is no longer considered a taxable transaction; In addition to medical and educational activities, the supply of services and goods directly related to and auxiliary related to it is exempt from taxation; Medical educational and separate social activities will not be taxed by the organization in order to raise funds; Will not be taxed on the delivery of a sample of goods or a gift of small value; Regulations related to VAT taxation of free delivery of goods are simplified; Natural person paying VAT will no longer be restricted from accounting by cash method (Revenue Service of Georgia, 2020).

However, it is also noteworthy to note the fact that tax legislative changes in general have a somewhat difficult impact on business, and this is especially the case when it comes to the most important tax. An example of this is one of the tax legislative changes related to the addition of VAT taxable transaction, which was implemented in 2017. It concerned the determination of the time of VAT on one of the transactions, in particular, the determination of the time of taxation of the amounts received in advance with VAT. The reform given by the entrepreneurs surveyed was rated as the most negatively impacted reform for business. The above research, which was conducted by me (Bukia, 2019), was related to tax reforms and their impact on business and entrepreneurship. The study included an assessment of the satisfaction of entrepreneurs with the various tax reforms and the impact of these tax reforms on business, which revealed both positive and negative tax reforms. It is the tax reform carried out within the

framework of VAT, which added to the VAT taxable transaction - determination of the time of taxation of advances, had the most negative impact on the activities of entrepreneurs, where the percentage distribution of opponents of this reform was 61%. As expected, the given legislative reform caused a pronounced dissatisfaction on the part of entrepreneurs. In this case, the given change with the right approach was distinguished in the context of several specific activities (e.g. in the context of the construction sector), however, since the existing reform has been extended to all taxpayers of full value added tax (VAT) regardless of the type of activity, it was naturally assessed negatively by the surveyed entrepreneurs. It is important to optimally determine the time of each VAT object / operation and taxation, as there is no impediment and no extra barrier for the entrepreneur. However, on the other hand, also a significant reform that has affected the given tax is the system of automatic return of overpaid amounts in value added tax (VAT), which was launched for entrepreneurs on February 15, 2019. The given reform is important in the sense that taxpayers who have certain amounts of excess in the given tax they can be returned within 24 hours without any bureaucratic procedures, which simplifies the relationship for entrepreneurs with the Revenue Service, both in terms of time and simplicity of procedures, and naturally, it has a positive impact on their activities, which is also confirmed by the evaluations of the entrepreneurs participating in the study. These two simple examples also show how important each component is in the implementation of tax reform, especially since it relates to the most influential tax in terms of budget revenues (Bukia, 2021).

Also, a significant reform has been implemented in the field of value added tax (VAT) in 2021, which refers to a new mechanism for registration as a VAT payer, this is "the status of a qualified VAT payer", which aims to improve the tax administration process, manage the risks of fraudulent schemes, as well as reduce VAT registration and illegal issuance of relevant documents. Through this mechanism, certain criteria are selected, after which the taxpayer is granted the status of a qualified VAT or non-qualified VAT payer. The given criteria are as follows:

- A person newly registered as a VAT payer shall be considered an unqualified VAT payer from the moment of registration as a VAT payer.
- A person with the status of a qualified VAT payer shall be automatically revoked the status of a qualified VAT payer and granted the status of an unqualified VAT payer no later than the 15th day of the month following the relevant month, through a special program. If he / she does not have a transaction on the personal taxpayer's registration card during any 12 consecutive calendar months (In this case, no transaction is taken into account, according to which the amount spent on the personal taxpayer's registration card is equal to 0).

- A person with the status of a qualified VAT payer will be automatically revoked the status of a qualified VAT payer through a special program and granted the status of an unqualified VAT payer if he / she is not registered with a valid bank account number according to the information in the Revenue Service.
- A person with the status of a qualified VAT payer with a recognized tax debt as defined by a tax authority will have his / her status as a qualified VAT payer revoked and granted the status of an unqualified VAT payer.
- For an unqualified VAT payer, the decision to grant or refuse the status of a qualified VAT payer is made by an authorized person of the tax authority (including in case of an application by an interested person), under the rules established by the Head of the Revenue Service.
- The restriction specified in Article 563, Paragraph 1, Subparagraph “c” of the Instruction approved by the Order №996 of the Minister of Finance of Georgia “On Tax Administration” of 31 December 2010 (based on the order of the Head of the Revenue Service and according to the methodology approved by him. Decree N996) The restriction will apply to a person registered as a VAT payer In case of granting the status of unqualified VAT payer, during the period of validity of the mentioned status.
- For the reporting period or issue on which the tax authority has carried out the tax audit or accrual, the program should be limited to the issuance of the tax invoice / tax document in the above period / periods. This is allowed in case the taxpayer submits an application to the Revenue Service and the relevant arguments, which will be examined by the Audit Department and no later than 3 working days after the relevant decision is made, the taxpayer will be allowed to issue the relevant tax invoice / tax document by the rules established by the Minister of Finance of Georgia.
- Subscription of the given documents is allowed in case of application by the taxpayer to the Revenue Service and submission of relevant documents, which will be reviewed by the Debt Management Department and no later than 3 working days after the relevant decision is made, the taxpayer will be allowed to issue the relevant consignment note, tax invoice by the rules established by the Ministry of Finance of Georgia (Decree N25697. 2021).

This mechanism is one of the levers to prevent VAT fraud, which is a key tax problem in both Georgia and European countries in terms of VAT. In 2018, the VAT Gap in the EU was €140 billion, equating to a total revenue loss across the EU of 11%. The 2020 year’s report also forecasts a potential increase in VAT revenue losses in 2020 due to the effects of the coronavirus pandemic on the global economy. The loss is forecast to be €164 billion in 2020 (European Commission, 2020).

On February 16, 2022, according to the order N3751 of the head of the revenue service, a change was made regarding the procedure for issuing/confirming various tax documents (tax invoice, bill of lading, tax document) intended for certain categories of taxpayers and the said change entered into force on March 01, 2022.

As we know from the previous changes, the category of VAT payer was divided into two groups - qualified and non-qualified VAT payer. This status has a certain meaning in the part of the mentioned change. As we know, the basis for granting the status of non-qualified VAT payer is: a) registration of the taxpayer as a VAT payer; b) if a person with the status of a qualified VAT payer does not record an operation on the personal registration card of the taxpayer during any continuous 12 calendar months (In such a case, the operation, according to which the amount recorded on the personal registration card of the taxpayer is equal to 0, is not taken into account); c) if the person with the status of a qualified VAT payer, according to the information available in the Revenue Service, does not have a valid bank account number; d) Decision of the head of the revenue service. It is significant that in the case of a taxpayer's appeal, the decision to grant or refuse to grant the status of a qualified VAT payer to a non-qualified VAT payer is made by an authorized person of the tax authority, in accordance with the procedure established by the head of the revenue service (unless he doesn't have a bank account). In the event that the status of non-qualified VAT payer is granted only for the reason that the taxpayer does not have a valid bank account in the tax administration information system of the Revenue Service, as soon as the said account is registered in the given system, the status of non-qualified VAT payer will be automatically removed.

Regarding the recent reform regarding the limitation of subscription/confirmation of various tax documents, based on the mentioned reform, transfer of the taxpayer to the special rule of using the tax invoice can be carried out both voluntarily and in a mandatory manner, although it is also possible based on the decision of the head of the revenue service.

Voluntary transfer of the taxpayer to the special rule of using the tax invoice is carried out based on the application submitted by him from the authorized website of the Revenue Service (except when the taxpayer has been assigned the status of a non-qualified VAT payer based on this instruction) and, the transfer of the taxpayer to the special rule of using the tax invoice is carried out in a mandatory manner, if the recognized tax debt of the taxpayer amounts to or exceeds 50,000 GEL.

It is significant that if the person transferred to the special rule of tax invoice use has been granted the status of a non-qualified VAT payer, the right to use the special rule of tax invoice use is preserved. However, the transfer of a person with the status of an unqualified tax payer to the special rule of using the tax invoice is not carried out.

One of the main goals of the said change is to prevent incorrect credit of VAT and/or any kind of fraud in this regard. Therefore, on the basis of the electronic tax invoice issued by a person using a special rule, VAT credit is calculated in the event that after issuing the tax invoice, the amount of the corresponding VAT has been paid into the budget: by the supplier (seller) and/or by the recipient (buyer) - on behalf of the supplier (seller). In addition, if it is paid by the supplier - on the basis of the electronic tax invoice, VAT can be calculated by the supplier (seller) within the amount paid in the budget, only after programmatically activating (marking) the relevant tax invoice; And if it is paid by the receiver (buyer) on behalf of the supplier (seller), then after identifying the paid amount, at which time the electronic tax invoice is activated automatically. Here, the fact is also important that in order to identify the amount paid by the receiver (buyer) on behalf of the supplier (seller), only the payment made from the bank account shown in the information card is taken into account.

As for the special rule adopted as a result of the said reform, the grounds for its termination are: a) Application submitted from the authorized website of the Revenue Service, at which point the use of the special rule is automatically terminated and b) the recognized tax debt is less (50,000 GEL) than the amount provided for, at which point the use of the special rule is terminated automatically;

However, regardless of the general rules, the head of the revenue service is authorized, regardless of the requirements of the instruction: a) to grant/not to grant/cancel the status of a qualified VAT payer/non-qualified VAT payer to the taxpayer or b) to transfer/not to transfer/terminate the taxpayer from the tax invoice the right to benefit from the special rules of use. There are also some additional important details:

- As we know, the mandatory transfer of the taxpayer to the special rule of using the tax invoice is carried out if the recognized tax debt of the taxpayer amounts to or exceeds 50,000 GEL. However, within the scope of the tax debt on which a tax agreement has been signed, the transfer to the special rule of using the tax invoice does not apply within the period determined for the fulfillment of the conditions specified by the said agreement, as well as on the debt on which the agreement on the deferred payment of recognized tax debt has been signed.

- The status of non-qualified VAT payer will not be granted, nor will the person be transferred to the special rule for using electronic tax invoices, who, in accordance with the order N996 of the Minister of Finance of Georgia, has been defined as a large taxpayer by the tax authority, as well as in accordance with the Organic Law of Georgia "Local Self-Government Code" Public law legal entity, non-entrepreneurial (non-commercial) legal entity established by the state, state government bodies or local self-government bodies.

- The taxpayer does not have the right to issue a tax invoice/tax document in the given period/periods for the reporting period or issue on which the tax authority has carried out a tax audit or assessment. It is allowed only if the taxpayer submits an application to the revenue service with appropriate arguments, which will be studied by the audit department, and within 3 working days after the appropriate decision, the taxpayer will be given the opportunity to issue the appropriate tax invoice/tax document, established by the Minister of Finance of Georgia according to the rule.

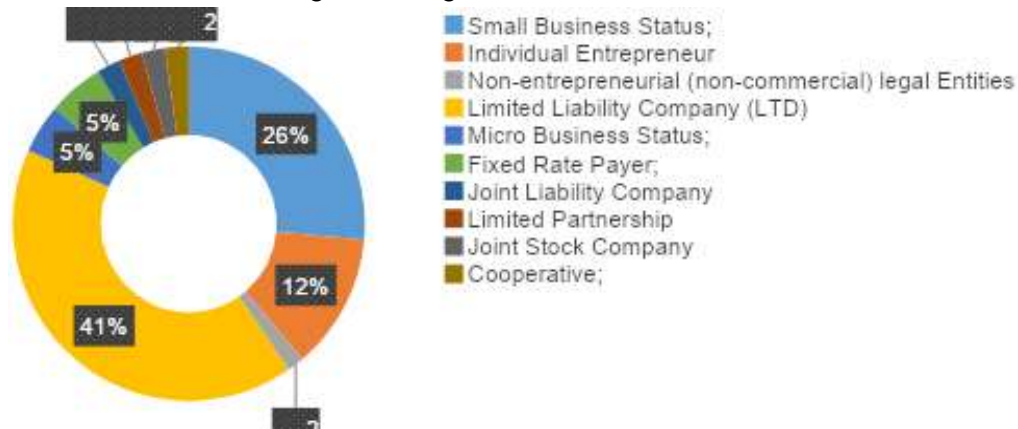
Immediately after the issuance of the "Property Seizure" order, the right of the taxpayer to issue a bill of lading, tax invoice, and tax document is restricted for operations to be carried out after the issuance of the order, in order to ensure the prohibition of disposal of property provided for by the Tax Code of Georgia. Unless the taxpayer submits an application and relevant documents to the Revenue Service, which will be examined by the Debt Management Department, and within 3 working days after the appropriate decision is made, the taxpayer will be given the opportunity to issue the corresponding bill of lading, tax invoice, established by the Minister of Finance of Georgia according to the rule.

RESEARCH RESULTS

In order to analyze the impact of the current tax system and the implemented reforms on the development of entrepreneurship, author conducted a study and interviewed 510 entrepreneurs/taxpayers. The questions were related to the implemented reforms as well as the desired legislative initiatives, the circumstances hindering their activities, etc. It is worth noting that the entrepreneurs could record their answers in the survey as follows: either choose one or several of the given options, or additionally record their answer, which was not given in the questionnaire. Entrepreneurs could also express their opinion regarding various legislative initiatives and express their opinion about additional actions to be taken in this or that field. On the basis of the research, very interesting results were obtained, which clarified the problems of entrepreneurs, both the positive and negative impact of the implemented legislative changes on their activities, various initiatives were expressed that, in their opinion, will help entrepreneurs to develop. Consider the result of each question and analyze how it matches the theoretical expectations.

First of all, let's review the legal forms of interviewed entrepreneurs. Representatives of all legal forms of the target group were represented in the interviewed entrepreneurs. Most of the interviewed entrepreneurs were limited liability companies (LTD) and entrepreneurs with small business status (see figure 1).

Figure 1. Legal Form and/or Status



Source: own study

During the research, the type of activity is important, in which field the entrepreneur operates, because the implementation of reforms also depends on the type of activity. The types of activities were grouped into 8 main areas: Trade; Field of medicine; Services; Financial sector; Production; Agriculture; Construction; Tourism (see figure 2). It should be noted that some companies have different types of activities. The largest share in the survey is represented by representatives of trade, services and tourism. It is also interesting in which area of the country the interviewed entrepreneurs do business. The entire territory of Georgia was represented in the questionnaire. Naturally, the largest share comes from the capital of the country – Tbilisi (see figure 3). In the study, there are representatives of entrepreneurs who conduct business simultaneously in different territories.

Figure 2. Type of activity

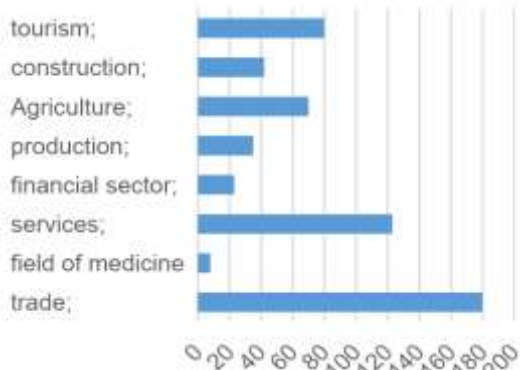


Figure 3. Actual place of business



Source: own study

Now let's discuss directly the research questions related to the implemented tax reforms, the theoretical analysis of which is given above. At the first stage, let's consider reforms with

positive and negative impact from the point of view of entrepreneurs. In the survey, both the implemented main reforms were proposed, as well as the entrepreneurs could identify such a reform that was not presented in the questionnaire.

Among the reforms with a positive impact, as expected, the reform of the Estonian model of profit tax has the largest share (38%). The share of other reforms with a positive impact is presented in the study accordingly (see figure 4):

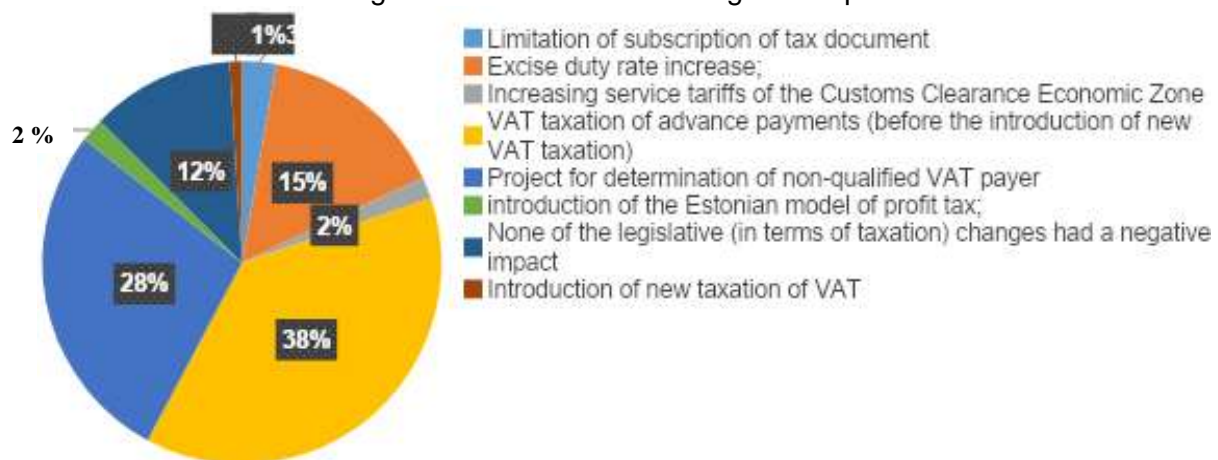
Figure 4. Tax reforms with a positive impact



Source: own study

As for tax reforms with a negative impact, the research principle was the same as for reforms with a positive impact. The results were distributed as follows: Entrepreneurs rated it as the reform with the most negative impact (38%) – „VAT taxation of advance payments (before the introduction of new VAT taxation)“. Other reforms with a negative impact are represented by the following percentage distribution (see figure 5):

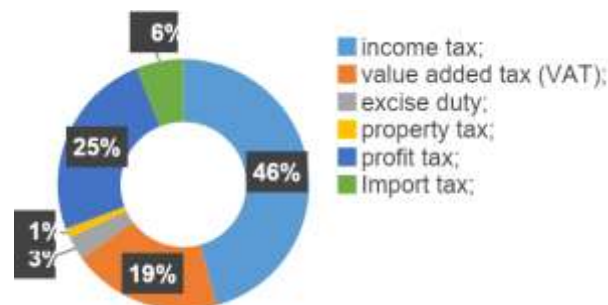
Figure 5. Tax reforms with negative impact



Source: own study

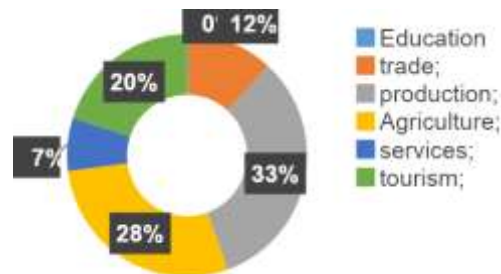
The opinion of entrepreneurs regarding the reduction of existing tax rates in Georgia was also interesting for the purpose of the research (the Tax Code of Georgia defines 6 types of taxes). According to them, which tax rate reduction could have a positive impact on their activities (see figure 6), in this part, the reduction of the income tax rate has the largest share (46%). It is also important, in the opinion of entrepreneurs, which field of development is a high priority in Georgia (see figure 7). As for the priority area that needs development from the point of view of entrepreneurs, it is production (33%).

Figure 6. Which tax rate reduction would you like to see that could have a positive impact on your business?



Source: own study

Figure 7. Which area of development do you consider a priority?



Source: own study

Due to the fact that entrepreneurs are the target category for the tax authority, their views on possible and/or desirable tax reforms are of great interest. The opinions presented in the survey were grouped thematically and presented in 8 groups in the study. The desired initiatives for entrepreneurs are presented as follows:

- Increasing the VAT threshold of 100,000 GEL (38%);
- The right to fully qualify the funds given to charity as expenses (4%);
- Repeal of the law on determination of non-qualified VAT payer (5%);

- To remove the ban on registration as a small entrepreneur - medical, architectural, lawyer or notary, auditing, consulting (including tax consultants) activities (5%);
- Reduction of tax sanctions (10%);
- Introducing a different model of overtime work in the restaurant sector (15%);
- To add activities that will have the right to receive the status of fixed activities (6%);
- Implementation of state support measures during competition with imported agricultural products (18%).

When we consider the research, it is necessary to discuss such an issue as the hindering factors for small entrepreneurs, because the given category is represented by a quantitatively large share (Despite the small financial stake). Despite a number of measures taken by the state, which were aimed at providing them with both financial and technical support, it is natural that it is not intended for the full number of entrepreneurs, and this remains a challenge for a number of entrepreneurs. The research showed that "Insecurity of business interests" (25%) has the largest share of the hindering factors, and "Uncompetitive environment in the market" (21%) and "Lack of communication with entrepreneurs" (21%) are represented as important hindering factors with equal importance. In general, the hindering factors for small entrepreneurs are as follows (see figure 8):

Figure 8. Factors hindering the activity of small entrepreneurs



It is also important, in the opinion of entrepreneurs, what are the shortcomings of the tax system and/or legislation, which make their activities more or less difficult. The following direction was identified around the issue as the most impeding factor: "Volatility as the law changes frequently during the financial year" (33%). The direction represented by the second position - "For small businesses, it is difficult to understand the legal records without an accountant/specialist" is also an important hindering factor (28%). The factors hindering the development of small entrepreneurship are as follows (see figure 9):

Figure 9. Deficiencies in the tax system and/or legislation

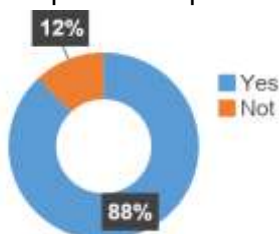


Source: own study

In this study, issues were also presented for a specific target group. Such as: entrepreneurs with the status of small/micro/fixed business, VAT payers, taxpayers of the Estonian model of profit tax, etc.

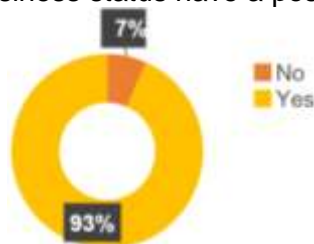
First of all, it is interesting for entrepreneurs with small business, how positively influenced by such reforms as: the introduction of small / micro and fixed statuses, as well as the increase of the maximum joint income limit for entrepreneurs with small business status. In both cases, tax reform has a pronounced positive effect on entrepreneurs (see figure 10 and figure 11):

Figure 10. Has the introduction of the status of micro/small and fixed rate payers had a positive impact on your business?



Source: own study

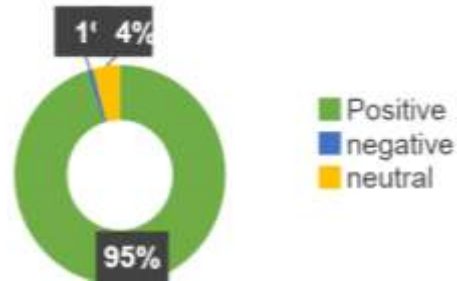
Figure 11. Does increasing the maximum limit of joint income (up to 500 thousand GEL) for taxpayers with small business status have a positive effect on your activity?



Source: own study

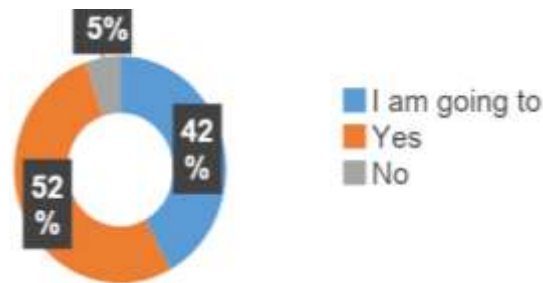
Also an important reform is the Estonian model of profit tax, which came into force in 2017. This reform is focused on such main directions as exempting reinvestment from profit tax to help entrepreneurs to expand their business. The research of the mentioned target group showed the following results, that the given reform has a positive effect for entrepreneurs and they used the main advantage of this reform and reinvested (see figure 12 and figure 13):

Figure 12. How does the introduction of the Estonian model of profit tax affect your business?



Source: own study

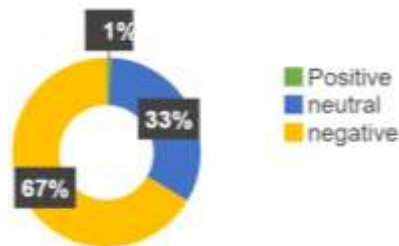
Figure 13. After the introduction of the Estonian profit tax model, have you reinvested?



Source: own study

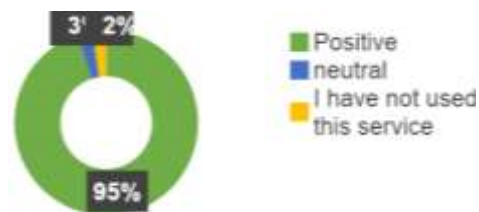
The next target group in this study are VAT payers. For the tax payers with the given status in the study, the research focus was on some of the major reforms implemented around the tax in question. Initially, before the new VAT taxation came into force, one of the changes was made in terms of VAT when advance payments became a VAT taxable transaction. For the majority of respondents, the said reform had a negative impact. However, it is important to emphasize here that this reform is the right decision for the construction sector's activities, although due to the fact that this reform was applied to all activities indiscriminately, it caused an overall negative impact (see figure 14). As for one of the most large-scale reforms in the direction of VAT, which was related to the service of automatic return of excess VAT, this reform was identified by entrepreneurs as a reform with a very positive impact (see figure 15).

Figure 14. What is the impact of VAT taxation of advance payments on your business?
(before the introduction of new VAT taxation)



Source: own study

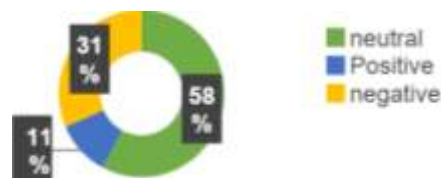
Figure 15. What is the impact of the automatic VAT excess refund service?



Source: own study

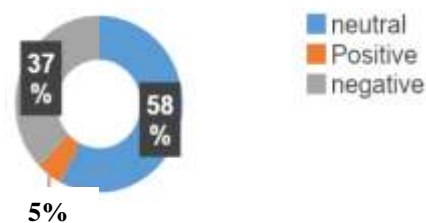
As for the new taxation of VAT, which came into force in 2021, the said reform turned out to have a neutral effect on the majority of entrepreneurs (see figure 16). Additionally, the reform of determining the non-qualified VAT payer was named as a reform with a neutral impact (see figure 17). However, it should be noted that for a third of the surveyed entrepreneurs, both of the above reforms have a negative impact.

Figure 16. What impact does the introduction of new VAT taxation have on your business?



Source: own study

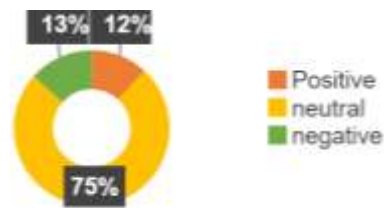
Figure 17. How did the reform of determining the non-qualified VAT payer affect your work?



Source: own study

At the end of the study, I will focus on the following reforms, namely: the introduction of a special rule for the use of invoices and an increase in excise tax rates, mostly on tobacco products. The introduction of a special rule for the use of invoices turned out to be neutral for most entrepreneurs (see figure 18). As for the increase in excise duty rates, there was almost an even split between neutral and negative impacts, although for most there was a neutral impact (see figure 19). However, one factor to be considered here is that the increase in the excise duty rate was recorded on selected products, and the neutral impact also proves that not all excise tax payers were affected by the said change.

Figure 18. What was the impact of the introduction of a special rule for the use of invoices on your work?



Source: own study

Figure 19. How has the increase in excise duty rates affected your business?



Source: own study

CONCLUSION

The reforms given above, which have been implemented in Georgia in recent years, are a step forward to support entrepreneurs. Because a number of reforms have touched small businesses and encouraged them with various benefits so that they can take a significant share of the market together with large businesses. Also, part of the reform was aimed at those entrepreneurs who want to expand their business, and therefore, the funds that will be used for reinvestment will not be taxed. Also unified treasury codes - from several treasury codes, only one unique code is left, where it is possible to pay tax easily. Automatic refund of overpaid VAT, which is one of the most important and simplified procedures for entrepreneurs. Liberalization of tax sanctions. All of the above are important directions of Georgia's tax policy, and accordingly, the mentioned reforms are a great support for entrepreneurs. For example, it is enough to look

at the results of the automatic VAT refund system: It is the VAT refund system designed to support the economy and business, through which the refund surplus calculated by the automatic refund program, is automatically reflected in the personal bank account of the taxpayer, without any additional request, has become one of the most positively impacted tax reform and simplification. In 2020, using the automatic VAT refund program, more than one billion GEL was returned, which is 466 million GEL. In GEL more than the amount of VAT was refunded in 2019 (Revenue Service of Georgia. (2020). As for the latest data, 2.3 billion GEL was returned to businesses through the automatic VAT refund system in 2022 alone. Only in the current year (7 months) 1.3 billion GEL in this tax was automatically returned to the tax payers. (www.mof.ge).

The following can be distinguished as the main directions of tax policy in Georgia: Giving certain benefits to taxpayers through the granting of various statuses, also introducing a preferential model of profit tax for certain categories of taxpayers (to facilitate the expansion of their business), lowering tax rates, reduction of existing sanctions for tax violations, use of electronic services with tax authorities in various directions, etc. This is done in order to facilitate taxpayers/entrepreneurs to start a new business or expand the existing one, to simplify the relationship with the tax authority, etc.

Although most of the implemented reforms have a positive effect, a number of recommendations developed on the basis of the conducted research should be considered here:

✓ The research showed that the tax payer/entrepreneurs in Georgia are pressured by the income tax rate. However, it should be noted that not only in the region, but also in Europe, Georgia has one of the lowest tax rates. However, it is possible to consider their desire in this section and to review the possibility of reducing the current rate, But this issue requires an in-depth study of which topic can be compensated (it is also possible to balance by increasing the taxable base in the same tax) the possible reduction of the existing tax rate, so that the budget deficit does not occur to some extent.

✓ Based on the research, among the reforms with negative impact, the reform with the most negative impact has already been corrected by the implemented legislative change, and the reform with a negative impact on the second place (which provides for granting the status of non-qualified VAT taxpayers to entrepreneurs), One factor to consider here is that VAT fraud is the object of the state's attention, which is not only a problem of Georgia, but also one of the main problems of the countries in the territory of the European Union in terms of value added tax. Therefore, the mentioned program aims to insure certain risks in this direction from the side

of the state. The existing negative attitude on the part of the entrepreneurs may not be taken into account by the tax policy makers at this stage.

✓ Among the shortcomings of the tax legislation, most of the interviewees mentioned frequent changes in the legislation, which is naturally a hindering factor for entrepreneurs/taxpayers, and naturally this issue should be considered by tax policy agencies.

✓ Difficulty in accessing financial resources and insecurity of business interests are among the hindering factors for entrepreneurs. Naturally, it cannot include the number of entrepreneurs in the country, but it is worth noting that there are two agencies in Georgia that are responsible for supporting entrepreneurs in terms of access to financial resources (and not only). Namely: the first agency is: "enterprise georgia" - whose goals are for the development of small and medium-sized businesses, increasing the competitiveness of the private sector, promoting start-up entrepreneurs to facilitate their access to finance, to help in relations with financial institutions, to provide marketing assistance, to provide consultations on various issues. The mentioned agency also conducts trainings in terms of improving entrepreneurship skills.

As for the second agency, the Georgia Innovation & Technology Agency, its main goals are: promotion of innovation-based economy development, creation and introduction of modern technologies, the so-called innovation-based start-up entrepreneurs/companies. Promotion of Start-Up development and increase in competitiveness, promotion of collaboration between representatives of the scientific direction and business representatives. Promotion of the development of modern technologies, development of appropriate infrastructure for innovation, coverage of the territory of the country with high-speed Internet, support of innovative projects based on knowledge, etc. It is also the function of both agencies to help businesses adapt to the requirements of the Deep and Comprehensive Free Trade Area Agreement (DCFTA).

Therefore, in this part, important steps have been taken by the state, although it is also possible that the regulations of lending by the financial sector will be reviewed and appropriate financial resources will be given to entrepreneurs interested in financing requests in a simplified manner.

As for the vulnerability of business interests, the Georgian National Competition Agency was created to eliminate this problem, the main purpose of which is to protect business interests.

As for implications, this study shall be a recommendation for tax policy makers in Georgia (Given the limitation).

As for the limitations, the results of the mentioned research cannot be generalized to the country as a whole, because despite the large number of respondents, there are many more

entrepreneurs in the country, therefore, a nationwide survey of entrepreneurs may give us different results. It should also be noted that while conducting this research, information was collected only by me, without the involvement of third parties. Also, the issue is very sensitive and therefore a certain number of entrepreneurs refused to participate in the research.

As for the direction of future research, it is desirable to survey a larger number of entrepreneurs, as well as to observe the dynamics of the implemented reforms.

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