



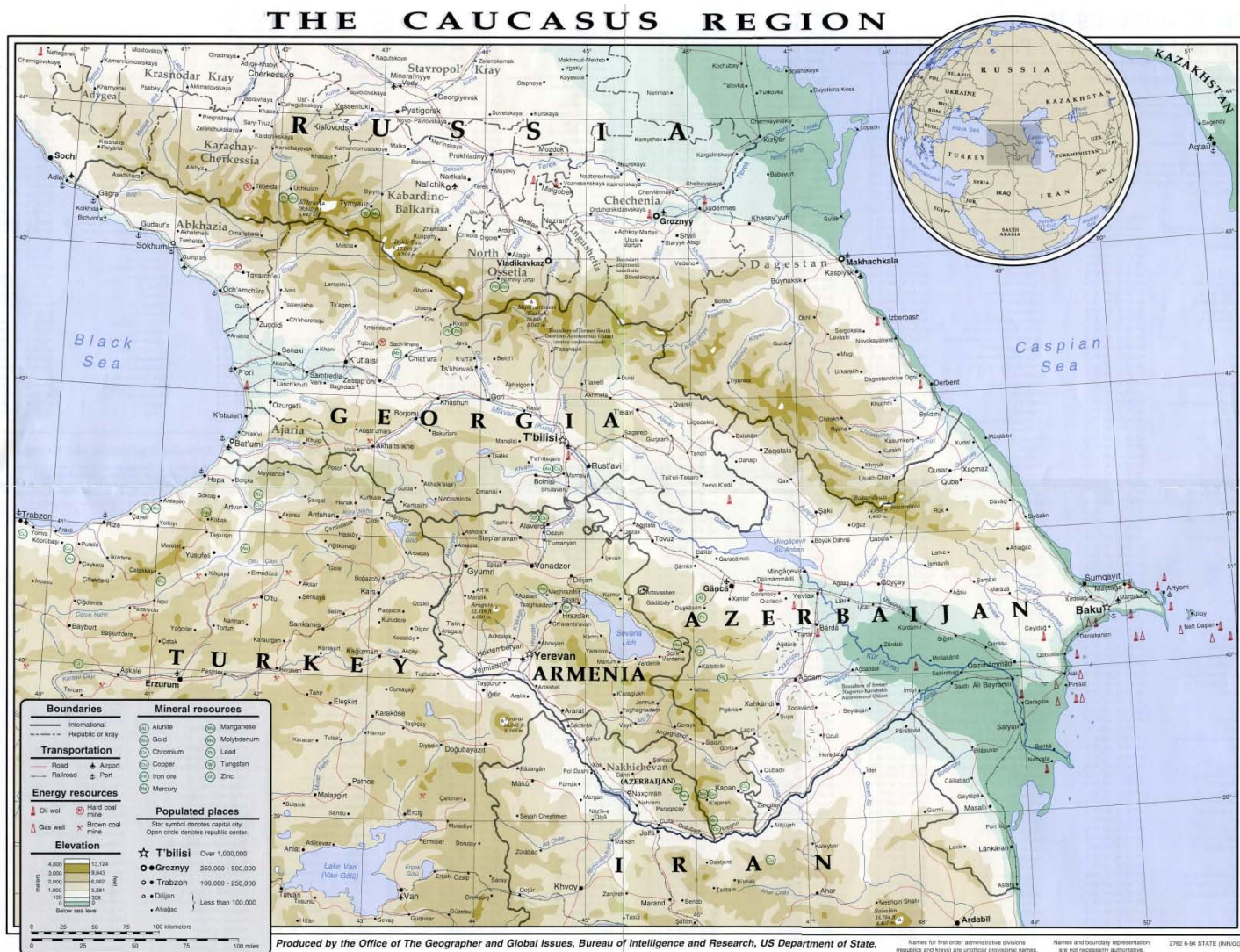
Tax Reforms in Georgia

Taxing Low Income Taxpayers

Georgian Chamber of Commerce and Industry



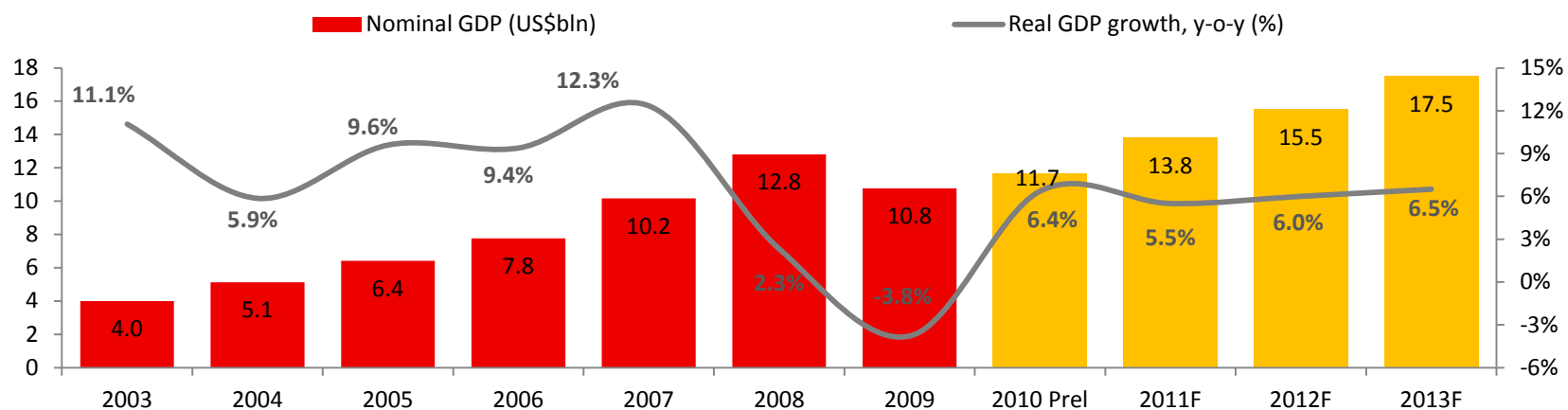
Country Map



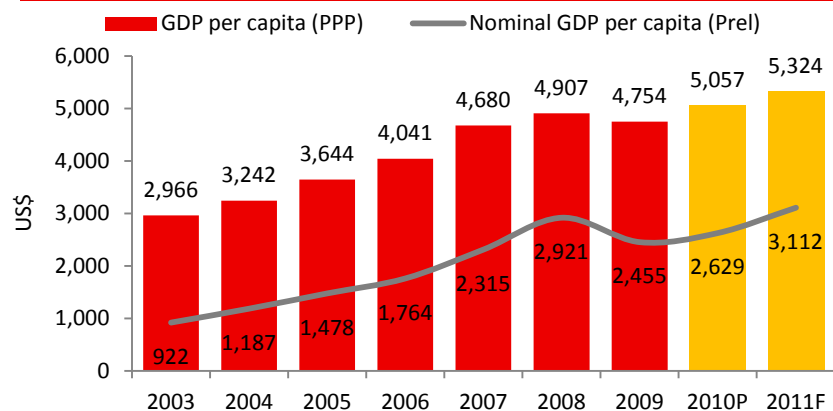


Economy Overview

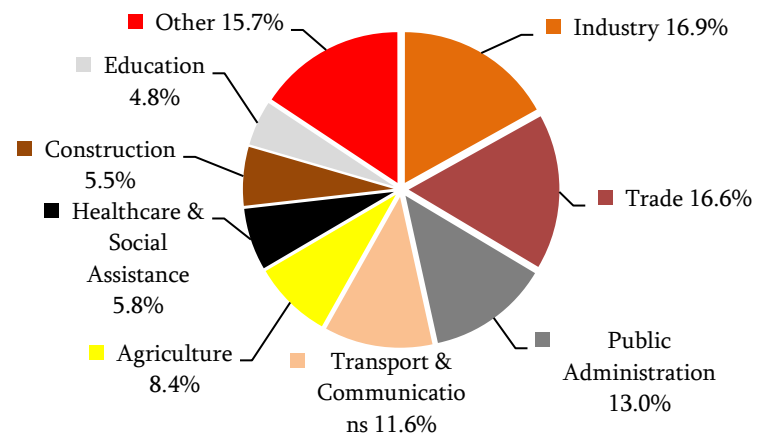
GDP



GDP Per Capita – PPP and Nominal



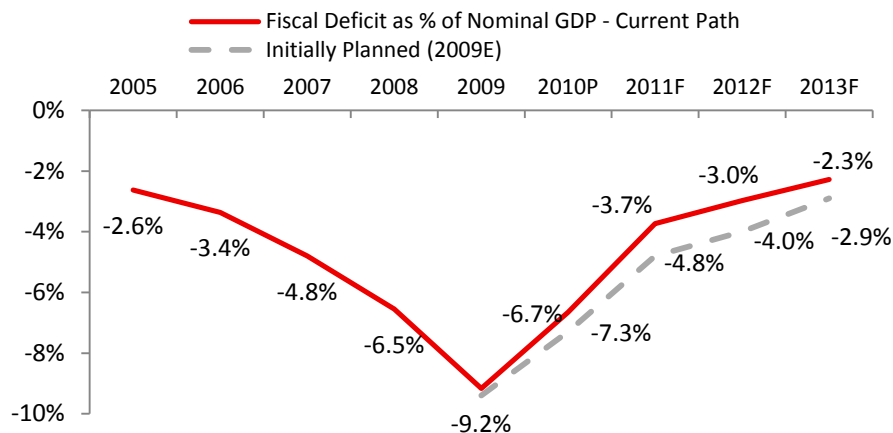
Components of Nominal GDP



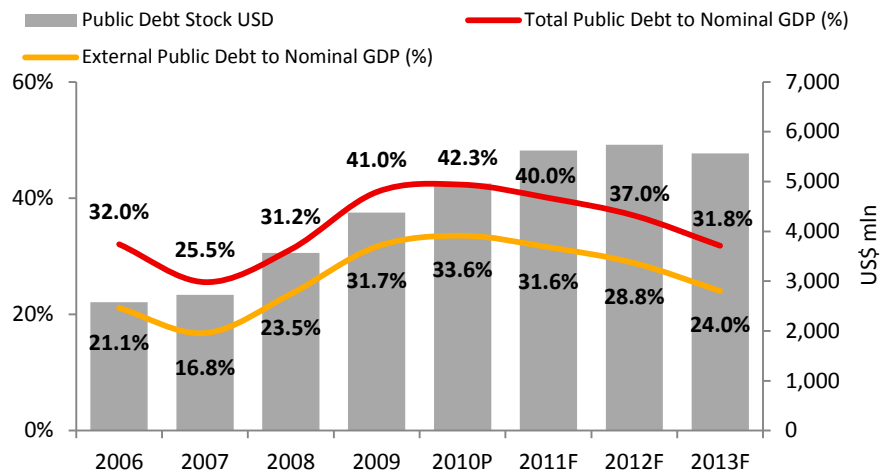


Resilient Economy

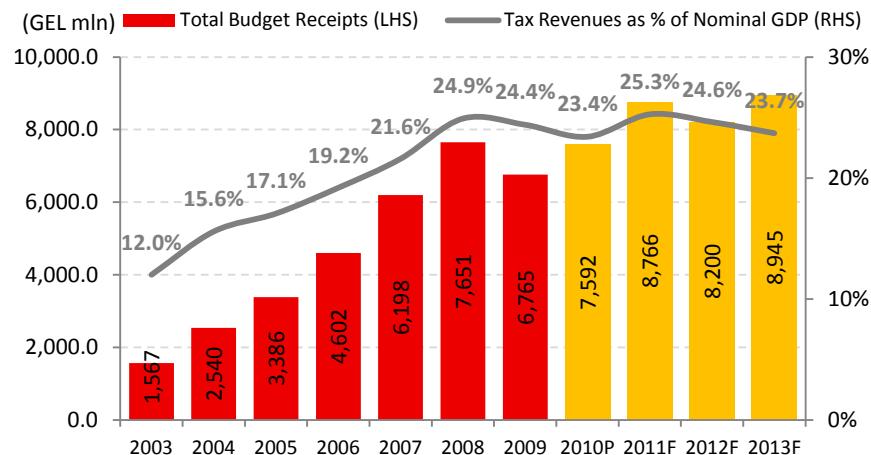
Consolidated Budget Deficit



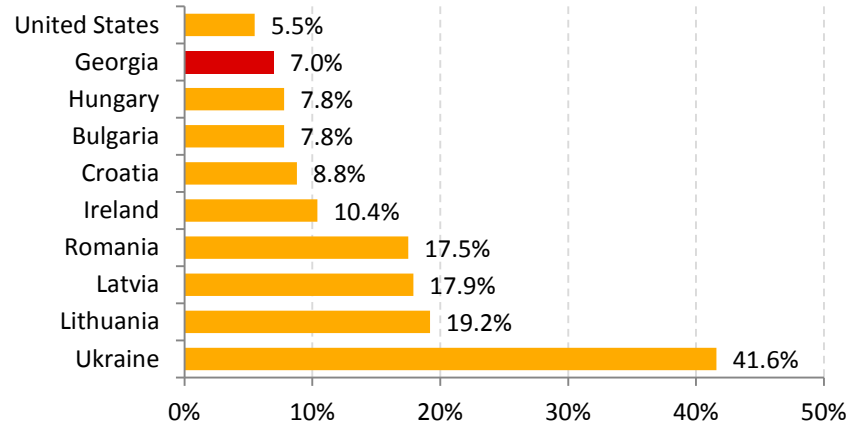
Debt Indicators: Below the Prudential Thresholds



Consolidated Budget Revenue Performance



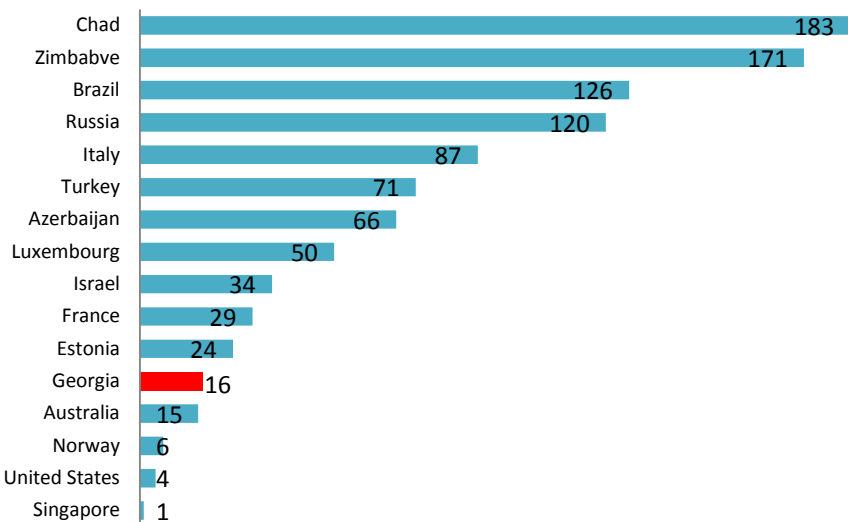
NPLs as % of Total Loans – IMF GFSR 2010



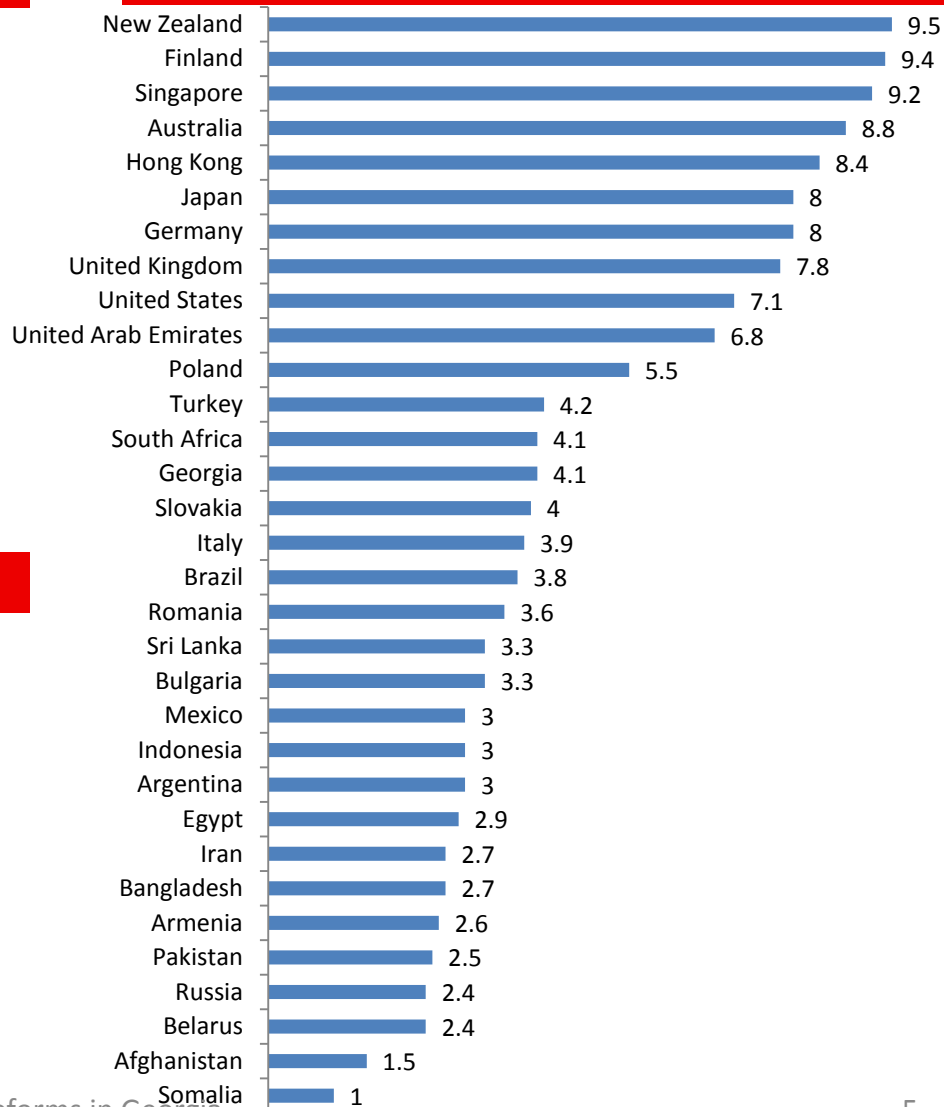


Liberal Economy and Market Environment

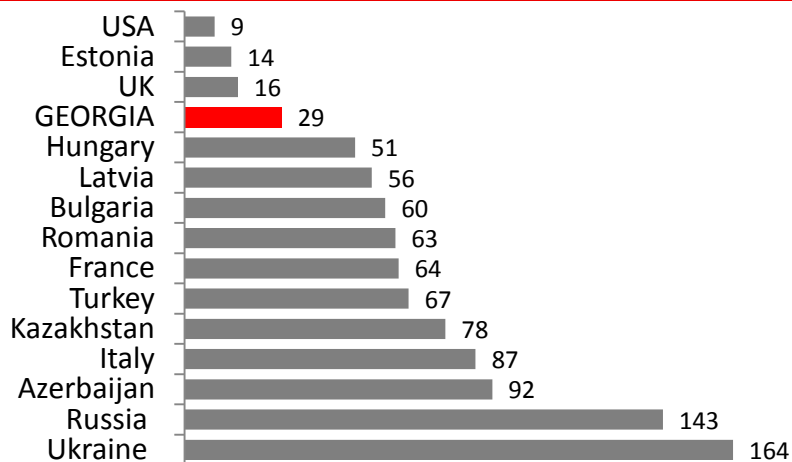
Ease of Doing Business, 2011 (WB-IFC Doing Business Report)



Corruption Perception Index, 2011 (TI)



Economic Freedom Index, 2011 (Heritage Foundation)



Georgian Chamber of
Commerce and Industry

Tax Reforms in Georgia



Business Registry Reforms

One Day Company Incorporation

Setting up a business in Georgia is a straightforward process. Procedures are simple and efficient, based on a transparent system that promotes the establishment of new enterprises. In fact, the registration process takes only 1 day to complete.

Starting a Business i

DB 2012 RANK **7** DB 2011 RANK **8** CHANGE IN RANK **+1** [View details »](#) [View methodology »](#) [Compare all economies »](#)

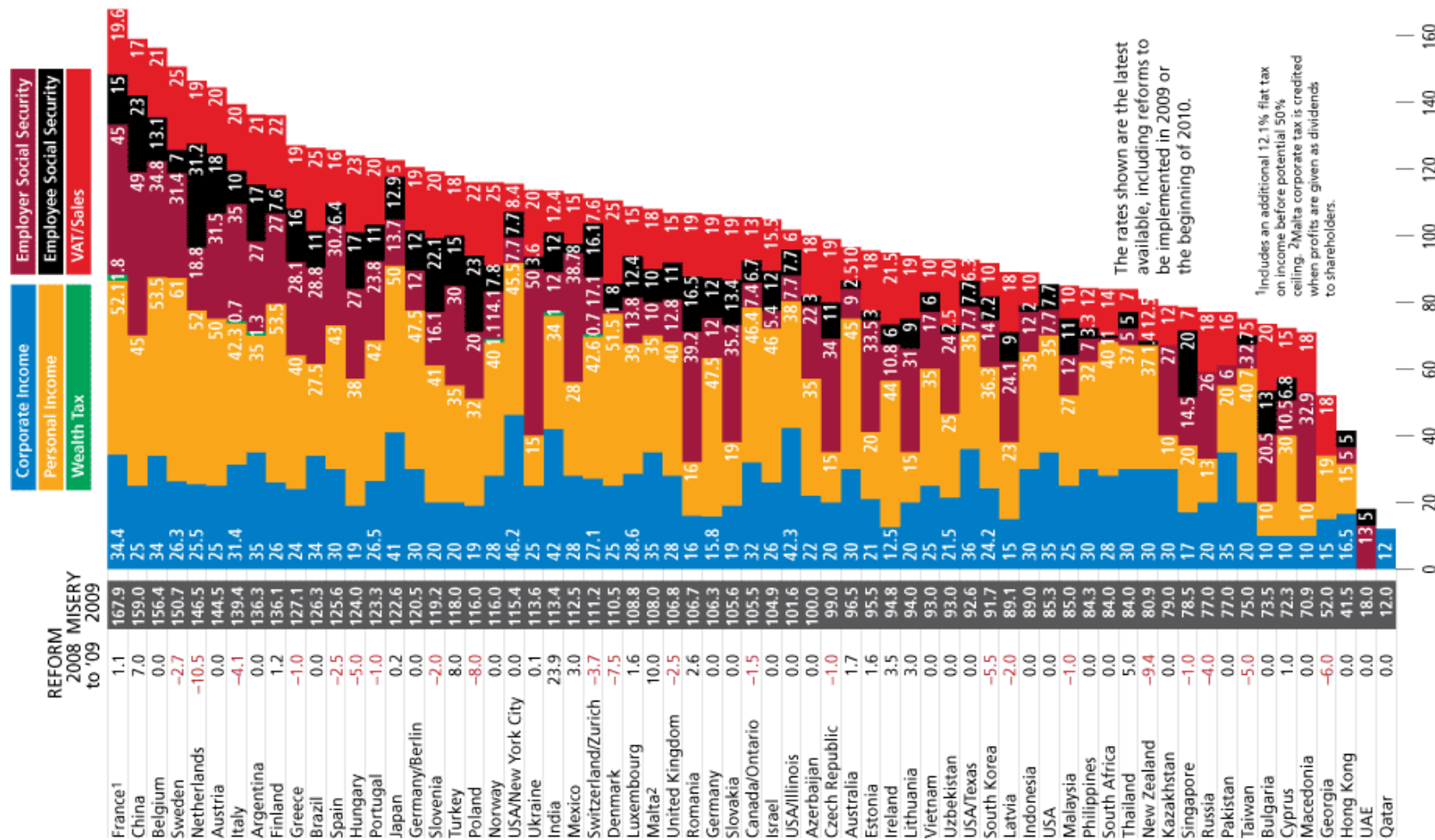
Indicator	Georgia	Eastern Europe & Central Asia	OECD
Procedures (number)	2	6	5
Time (days)	2	16	13
Cost (% of income per capita)	4.3	8.3	4.7
Paid-in Min. Capital (% of income per capita)	0.0	10.0	14.1

No.	Procedure	Time to Complete	Associated Costs
1	Pay the registration fee and register the company with the Entrepreneurial Register and obtain an identification number and certificate of state and tax registration	1 day	GEL 100 (regular registration) or GEL 200 (expedited registration) + GEL 1 (bank charges)
2	Open a bank account	1 day	no charge



Tax Burden Index

- According to 2009 Tax Misery & Reform Index, release by Forbes Business & Financial News, Georgia is the fourth least tax burden country after Qatar, UAE and Hong Kong



The rates shown are the latest available, including reforms to be implemented in 2009 or the beginning of 2010.

¹Includes an additional 12.1% flat tax on income before potential 50% ceiling. ²Malta corporate tax is credited when profits are given as dividends to shareholders.



Tax Reform

	'04A	'05A	'06A	'07A	'08A	'09A	'10A
Number of Taxes	21	7	7	7	6	6	6
VAT (TO>100,000)	20%	20%	18%	18%	18%	18%	18%
Income Tax	12-20%	12% flat	12% flat	12% flat	Social Tax + Income Tax 32% 25%	Social Tax + Income Tax 20%	20%
Social Tax	33%	20%	20%	20%	-	-	-
Corporate Profit Tax	20%	20%	20%	20%	15%	15%	15%
Dividend & Interest Income Tax	10%	10%	10%	10%	10%	5%	5%

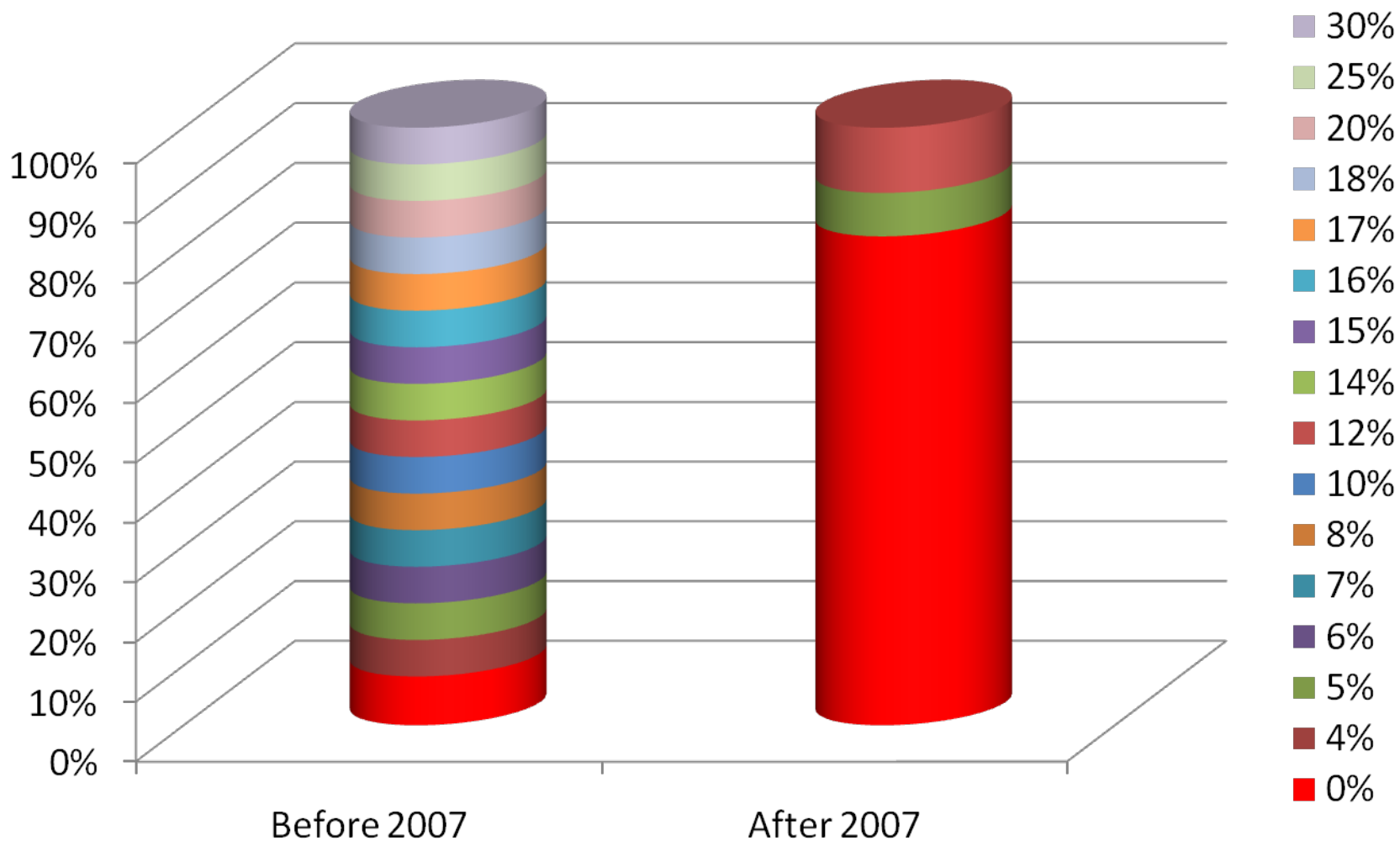
- No payroll tax or social insurance tax
- No capital gains tax
- No wealth tax, inheritance tax or stamp duty

- Foreign-source income of individuals fully exempted
- Tax rates reduction timetable has been further accelerated in 2008

Note: since 2005 7 taxes were left out of 22 and from 2008 only 6 are imposed



Simplified Import Tax





Tax Reforms

- Phase I: 2004-2007
 - Fight against corruption
 - Eliminating red tape
 - Deep cut
 - Basic institutional changes
- Phase II: 2007-2009
 - Improving institutional capacity
 - Implementing collection enforcement reforms
 - Further reduction of tax burden
- Phase III: 2010-2011
 - Deep and comprehensive policy reform
 - Finishing customs reforms
 - Prioritizing services
 - Sharp reduction in tax compliance costs through IT enhancement



Tax Reforms Phase 1

- Drastically reduced formal tax burden (elimination of 15 type of taxes, lowering the rates and leaving them all flat);
- Removing all unnecessary and ineffective intervention from the Government into private businesses;
- Adoption of simple and fair rules of play and warranty its follow up from every single entity;
- Bringing tax and customs agencies under the ministry of finance;
- Phase I resulted into tax collection growth from the budget tax revenues of 12% to GDP in 2003 to 21.6% to GDP at end of 2007



Tax Reforms Phase 2

- Institutional transformation – creation of the Revenue Service
- Upgraded infrastructure – major renovation of the customs checkpoints and tax service centers
- Setting up comprehensive IT solutions for tax collection – creation of taxpayers united database (tax+customs), ASYCUDA, etc
- In 2008 corporate income tax reduced from 20% to 15%
- Payroll taxes (PIT and social tax) merged into one and W.A. tax rate reduced from 27% to 25%
- In 2009 reforms carried out towards reduction of tax burden:
 - Income Tax rate reduced from 25% to 20%
 - Tax rates for dividends and interest payments reduced from 10% to 7.5%
 - Creation tax free regimes for industrial zones and warehouses



Tax Reforms Phase 3

- New tax code based on the best international practices;
- Introduction of internationally accepted methods and practices;
- Introduction of different taxation regimes for taxpayers according to their needs - SMEs;
- Further elimination of bureaucratic barriers;
- Sharp reduction in tax compliance costs through IT enhancement – www.rs.ge – e-services
- Final shape of Georgian customs – risk based, minimal human interference, streamlined clearance (10 minutes rule)

Effective Management and Improved Administration



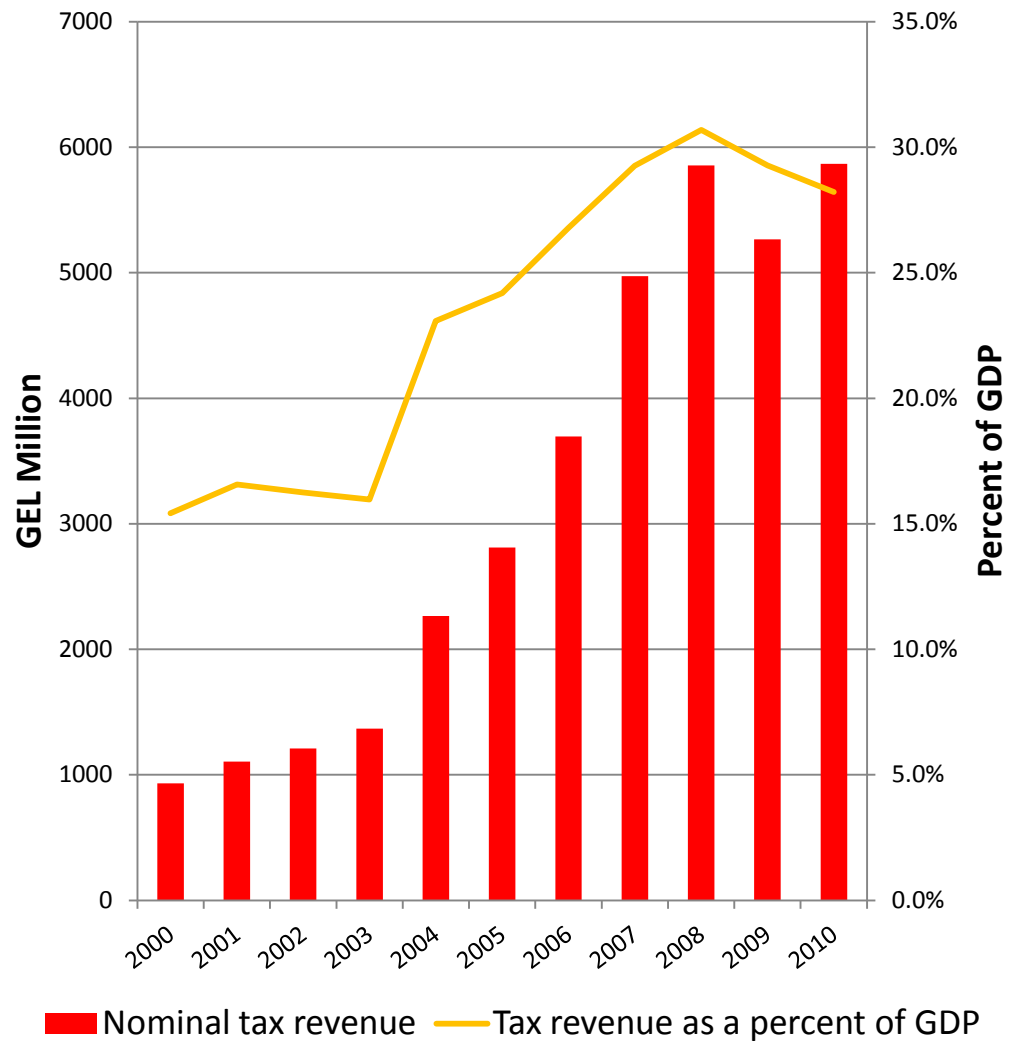
Effectively functioning public institutions and rule of law led to a dramatic reduction of informal activities

	Before Tax Reform	After Tax Reform
Number of taxes	22	6
Potential tax revenue as a percent of GDP	40-45%	28-30%
Actual tax revenue as a percent of GDP	15.6%	23.4%
Compliance Rate	35%	78-85%

Note: *Compliance Rate (Actual tax revenue/Potential tax revenue) increased due to Tax Code legislation, improving tax administration and reduced corruption level in tax services, decreased inefficiency.*

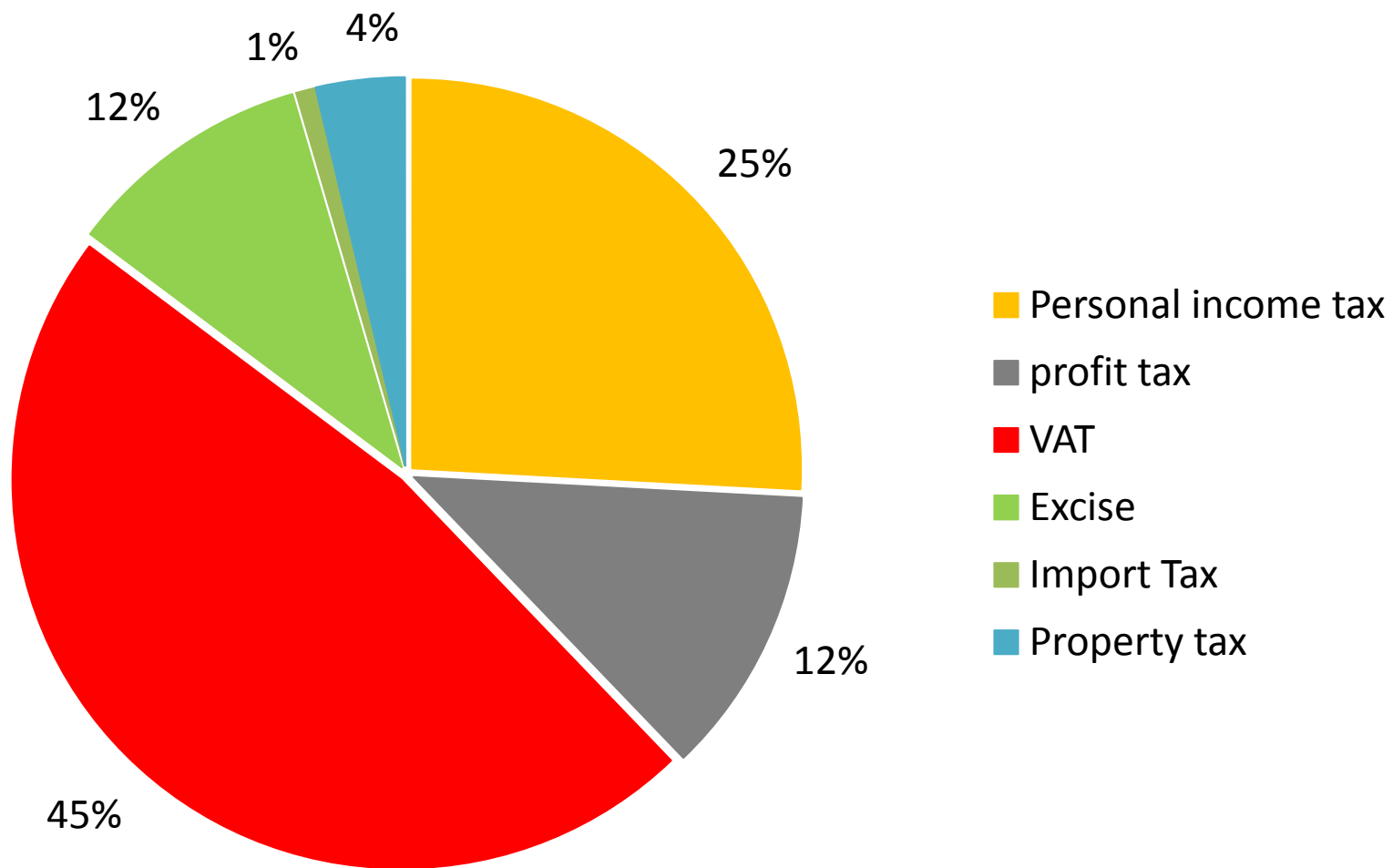
Effective Management and Improved Administration

At the same time better administration and simplified business regulations provoked rapid growth of tax revenues





Composition of Tax Revenues Year 2010





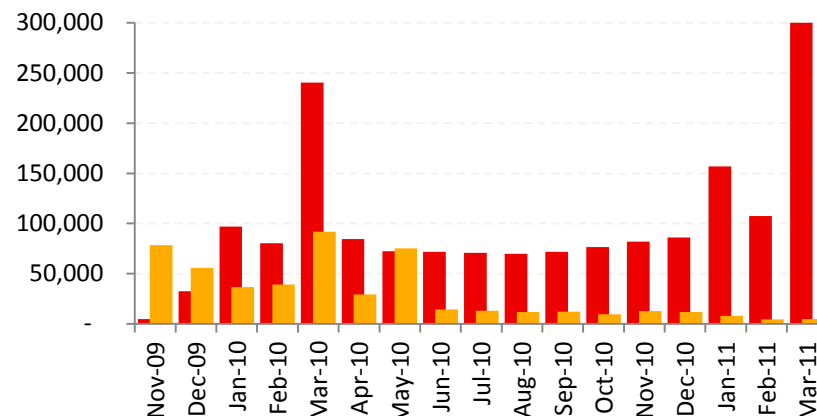
Easy Tax Compliance – Electronic Filing

Electronic Filing of Tax Returns

- E-filing of tax returns is one of the key MOF electronic services reducing tax compliance costs and facilitating voluntary payment of taxes.
- E-filing increases accuracy and efficiency, decreases taxpayer burdens, enhances voluntary compliance, and reduces SRS administrative costs.

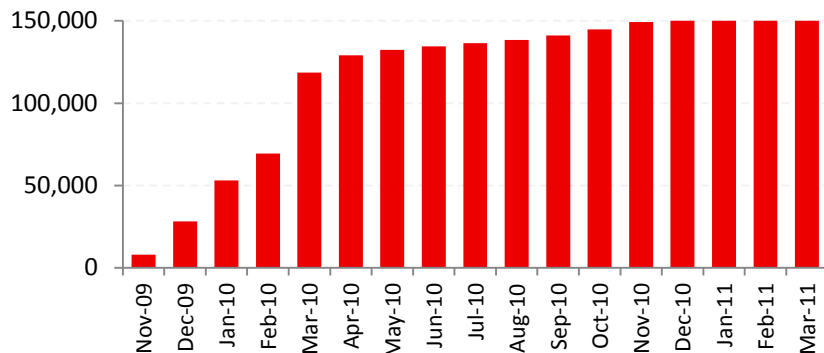
Monthly Declaration Statistics

■ Number of e-filings ■ Number of hard copy declarations



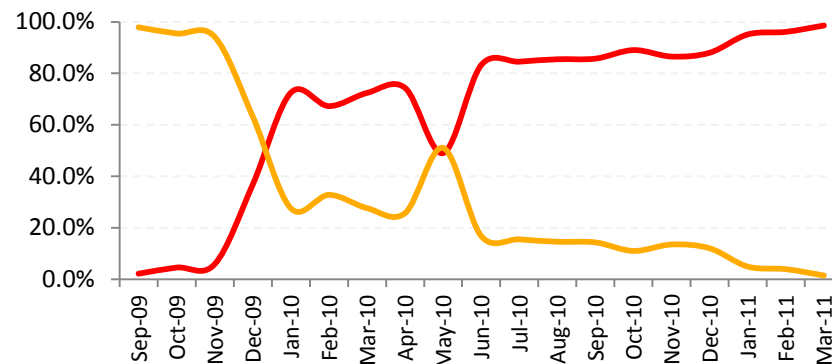
e-filing: Number of Registered Users

■ Number of Registered Users



e-filing vs. hard copy declarations

— Share of e-filing — Share of hard copy declarations





Final Steps

- Cement public trust towards Tax System;
- Formation of Stable and Sustainable Tax environment;
- Encouraging business legalization;
- Simplification of legal Provisions – Removing ambiguities;
- Reduction of Tax Compliance burden – Simplification of Tax Administration;
- Evenly distribution of tax burden;
- Using the best international tax practices, EU directives.



Unification/Merger of Tax and Customs Codes

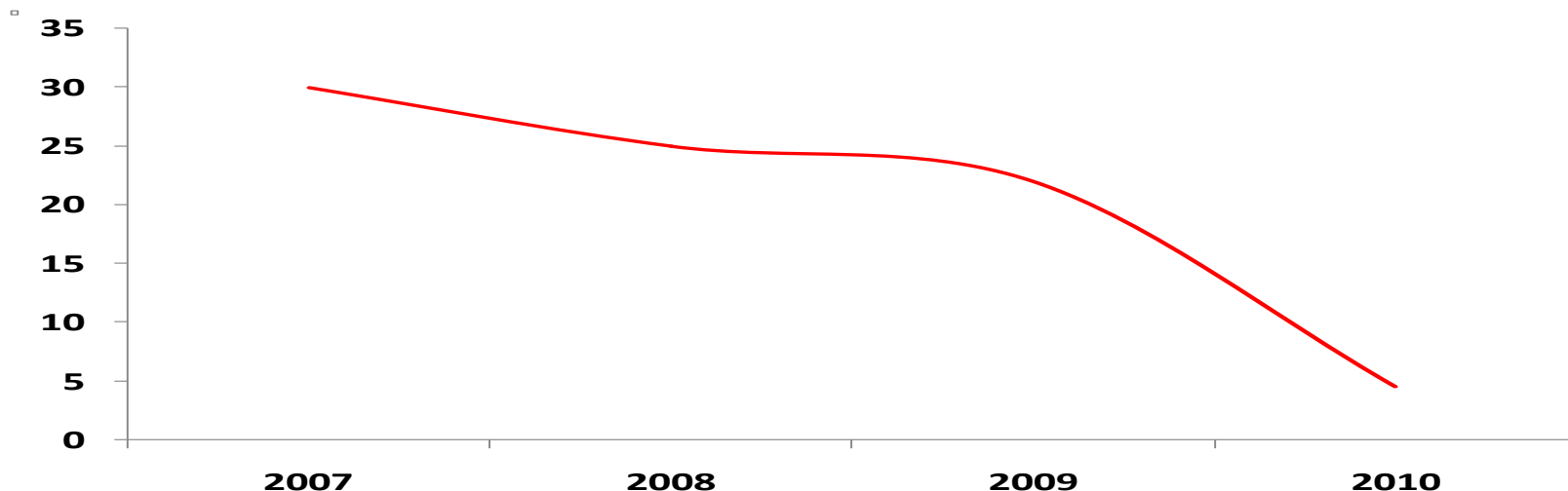
- Incorporated Tax and Customs Code unifies taxpayers tax and customs assets/liabilities, by which companies can transfer excess amount available on tax card to cover customs liability and contrary;
- Incorporated Tax and Customs Code is more Systematic & User-Friendly
 - Simplified Reporting Procedures, especially by E-filing
 - Consolidated Tax Profile for Customs & Tax Issues
 - Less Bureaucratic System to Navigate
 - More Fair Regulation Implemented
 - Quicker Resolution to Administrative Issues
 - Easy Resolution to Overpayments
 - More Flexibility in Managing Liabilities and Cash Flows
 - Reduces Administrative Burden of Compliance
 - Reduce Taxable Income & Pay less Taxes



Customs Reform - Customs Clearance

- Creation of united tax and customs administration
- New Tax code
- Creation of Fair Administration
- Creation of Reliable Service
- Transparency
- Customers oriented customs - formulated and regulated basis with customers, negotiating groups with customers - prevention instead of punishment - partnership instead of inspection

Time Line for Documentary Checks





Customs Reform - Customs Clearance (con't)

Customs Clearance Zone - a large clearance centre , covering several hectares with special parking area for hundreds of trucks.

- Air, land , railway and sea cargo clearance
- Advance declaration - Advanced review and preparation of documents
- On-line electronic declaration ; digital signature
- Invoice translation
- Expertise
- Bank Service
- Examination - using X-ray cargo inspection system in case of red corridors
- Transportation of goods to the place of destination
- 24/7 regime.
- It is possible to postpone the service fee payment for 5 days (30 days for “Gold List” members) upon clearance of the goods in the customs clearance zones.

Customs Reform - Customs Clearance (con't)



Border Crossing Points

- Standard procedures: average 15 min.
- Red corridor: average 45 min.
- Green corridor: average 5 min.
(passport data registration control and customs procedures)



Advance Declaration Case

Customs Clearance Zones

- Standard procedures: average 15 min.
- Customs Clearance Zone (CCZ employee fills in export declaration based on the documents provided by the exporter)
- Red Corridor: up to one hour

Payment of Customs Clearance Fees and Import Duties are postponed by 5 days



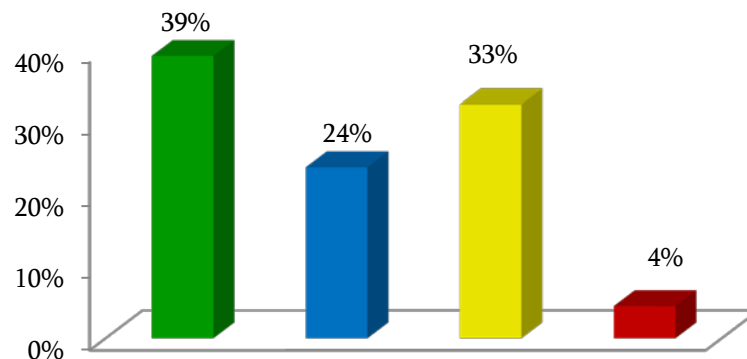
Risk Based Customs Control

Relevant color corridors selected by customs risk management Software for each customs regime
(1st quarter of 2011)

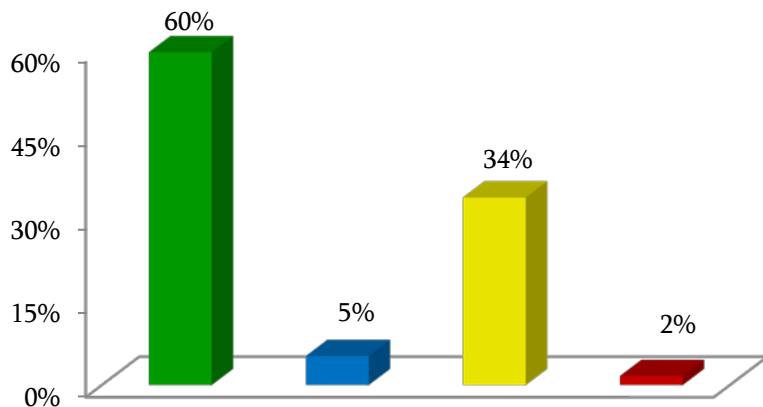
Meanings of Color Corridors

- Green corridor - *Immediate release without examination*
- Yellow corridor - *Documentary check*
- Red corridor - *Physical examination on of goods and documents*
- Blue corridor - *Examination at a later stage (post audit)*

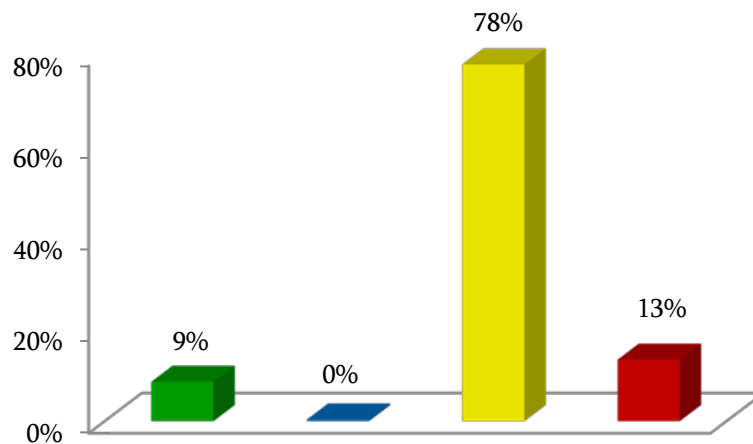
Import



Export



Warehouse





Customs Risk Management

- New system of declared goods' checks implies risk-based customs control mechanism which greatly diminishes time needed for customs clearance of cargo.
- There were higher chances of corruption before as 100% of goods were physically examined by a customs officer.
- Now the customs risk management software decides which goods have to be checked based on predetermined selection criteria. Therefore, importers need only from 5 to 45 minutes to go through all customs clearance procedures.
- Customs risk management system eliminates any chance of concluding deals between a customs officer and an importer and this is an effective mechanism against corruption. It also saves administrative resources.
- Goods go through 4 different color corridors (program uses 4 colors: blue, green, red and yellow for different types of customs control) – almost the same approach is used for human movement.
- There are several risk profiles in the system in order to prevent import of non-declared goods, manipulation with HS codes and to protect intellectual property rights.
- Under Customs Risk management system it is possible to offer simplified customs clearance procedures to organizations associated with low customs risk such as government agencies and diplomatic organizations.



Tax Burden Allocation

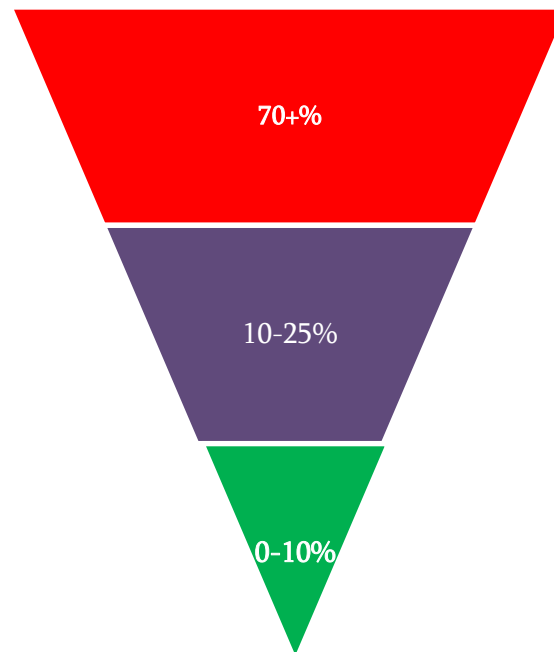
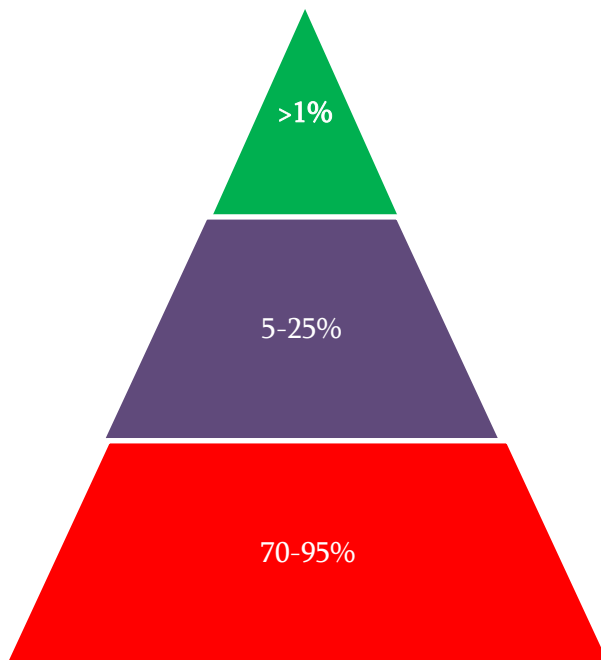
Share of Registered Taxpayers

Share in Tax Revenues

Large Business

Medium Business

Small Business



Special Status for SMEs - Micro Business



Micro Business Status

- Micro business - entity with income less than to GEL 30,000 (all sub-sectors)
- Micro Business is exempted against any tax
- Expected results:
 - Employment
 - Reduction of poverty through self-employment
 - Full legalization of business

Small Business Status

- Small business - Entity with income less than GEL 100,000
- Taxation Procedures:
 - In regular case is fully exempted from VAT
 - Or it is taxed with one single (+import and property taxes if applicable) turnover tax;
 - Tax rate of 3% or 5% of income/fixed amounts for different sectors/0% for Primary Agriculture;
 - In case of 5% Tax Rate - runs only simple "purchases and sales journal" and cash registers;
 - In case of 3% Tax Rate – entity must provide invoices for at least 60% of its income.
 - Removing requirements of book keeping in conformity with international standards.



Thank You!

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