



UPDATE

on Improving Tax Environment

The Belt and Road Initiative Tax Administration Cooperation Mechanism

EDITOR'S NOTE:

The strong desire for economic recovery after the COVID-19 pandemic has fired jurisdictions with the enthusiasm for enhancing business environment and they gradually adopted it as a national strategy. The business environment is the sum of the external environment involved in the life cycle of market players from entry, operating, to exit, including political, economic, rule-of-law, market, and tax factors. A jurisdiction's business environment is related to its investment attraction, foreign exchange and international competitiveness, and is an important economic soft power. The *Nur-Sultan Action Plan (2022-2024)* adopted by the Second BRITACOF has listed improving tax environment as one of the main topics and encouraged BRITACOM members to improve their tax environment by preparing taxation guidelines, optimizing procedures of tax law application, providing targeted services to taxpayers and improving taxpayers' compliance. To sum up, in order to facilitate the ease of tax business environment, a two-pronged approach from tax system and administration could be followed, i.e., reducing tax burden which hampers the operation and profitability of enterprises and enhancing tax administration capacity which mainly affects the experience and feelings of enterprises in tax-related aspects. The purpose is to encourage enterprises to focus on business development and minimize unnecessary losses in the process of operation, so as to effectively lift the burden on enterprises, stimulate their vitality, and promote economic growth.

The Special Edition of the BRITACOM Update on Improving Tax Environment is issued, aiming to provide a platform for BRITACOM Council Members, Observers, and other stakeholders to exchange views and share experience for improving tax environment and providing reference. Issue 1 is an article on tax reforms in Georgia. This article aims to share the experience of the major tax reforms in Georgia and highlights particularly three factors that we believe were and remain key to Georgia's success. These factors are efficient tax policy, simple administration

process and proactive communication with taxpayers.

Later we will share more experience of tax administrations from countries and regions and views of international organizations and tax experts with you. If you would like to provide material and experience to the Special Edition, please contact us via email secretariat@britacom.org or britacom@163.com.



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Tax Reforms for Better Tax Administration: Georgian Experience

Abstract: This article sets out to share the experience of the major tax reforms in Georgia, which is eventually recognized worldwide by reputable international organizations, including the International Monetary Fund, the World Bank and others. The article highlights, in particular three factors that we believe were and remain key to Georgia's success. These factors are: 1. Efficient tax policy; 2. Simple administration process; 3. Proactive communication with taxpayers.

Keywords: Single-window principal; e-filing; e-invoice; automatic VAT refund system; TADAT assessment; Doing Business

1. Introduction

Following the collapse of the Soviet Union in 1991, Georgia would struggle with two civil wars, poverty, economic and political instability, ever growing corruption, uncertain future, etc. In the conditions of country-wide stagnation tax system was of least importance. Situation was even worse when around 300 amendments were made to the tax legislation during the period between 1997 and 2003. Most of them were difficult or impossible to follow, both taxpayers and tax officers were to some extent forced or encouraged to engage in corrupt behavior. The year 2003 was a pivotal moment in the history of the country when a new government came into power. Tax system with its potential to encourage and support future economic development became one of the key pillars towards success. Real changes have started already in 2004 and never stopped since then.

Very ambitious initiatives and their efficient execution in a relatively short period of time won Georgia an international recognition of its achievements by international tax community. In 2018, for example, IMF, in its report "Balancing Act: Managing the Public Purse" singled out Georgia as a striking example of successful tax reforms. According to the report, the success is mainly conditioned on efficient tax policy and taxpayer-friendly administration process. In addition to the factors mentioned by the IMF, proactive communication with taxpayers, through various channels and forms of communication, can be seen as an important element to build a trustful and cooperative relations between tax administration and taxpayers. Experience has proven that, trust-based and cooperative relationship is a good motivator for compliance behavior.

2. Efficient Tax Policy

The first reformation of the tax policy of Georgia began in 2004, when the number of taxes administered back then were reduced from 26 to only 6, and rates for some of those kept valid were decreased as well. Among the taxes that have been abolished as the result of policy reform are social taxes and taxes on export.

Table 1: Tax rates before and after tax policy reform

Tax	Before	After
Personal income tax	20% progressive	20% flat rate
Corporate income tax (profit tax)	20%	15%
Value added tax	20%	18%
Excise tax	Imposed on various goods	Imposed on fuel, alcohol, tobacco and vehicle
Property tax	Different rates	Up to 1%
Customs tax (import tax)	0%, 12%, 20%, 32% and higher	0%, 5%, 12% (most of goods are zero-rated)

Source: Jandieri Gia (2019). Tax Reforms in Georgia 2004-2012.

Fundamental changes to the tax policy would serve several purposes, including to build an attractive tax environment that would encourage local companies to expand and attract foreign investments into the country; to curb corruption by bringing clarity to the tax legislation, and to cut taxes, so as to increase tax revenues.

Above measures were accompanied by other measures aimed to strengthen the impact of the former on tax behavior. Government sent a “no corruption” message to both tax officers and taxpayers through providing organizational clean-up and arrests of public officers, including big figures, for being involved in corruption cases.

Until 2003, government used to run budget deficit. Tax cut created chances for surplus budget for the first time over the years. Revenues collected were directed to provide better public services to the citizens. People have increased trust in government and are therefore more willing to comply with tax obligations. Trust and certainty drive better tax collections over the years to come.

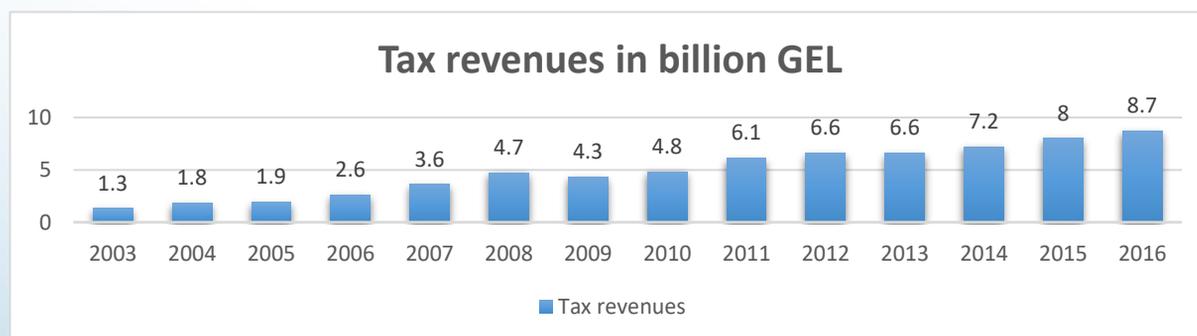


Figure1. Statistics on tax revenues for 2003-2016

The transformation process which was started in 2004 was being pursued in the following years up until today. Another notable fiscal reform, among others, that took place in 2017 was a fundamental change of corporate income tax (profit tax) regime, by introducing “Distributed Profit Tax” system, under which profit tax is paid only if corporate profits are distributed to shareholders. The aim of the new reform is to encourage business expansion and reduce tax burden.

As part of the commitment made towards Georgia’s EU integration, an appropriate amendment was introduced to the tax code of Georgia in order to bring it closer to the value added tax (VAT) directive of the European Union (EU). The goal is to improve investment environment, reduce the chances of disputes arising and simplify tax administration process by introducing the best EU practices in Georgia and promote cooperation between entrepreneurs working in Georgia and the EU.

3. Simple Administration Process

Administration process by all means plays a key role in good tax system formation. No tax policy reform can provide desired tax collection target if no efficient and result-oriented administration process is in place. In order to ensure a long-lasting effect of tax policy reforms started back in 2004, Revenue Service under the leadership of the government of Georgia has launched unprecedented projects towards tax administration simplification and digitization.

In the first place, it was decided to establish a Single-window concept for dealing with tax and customs matters (Revenue Service is a tax and customs administration). For that reason a memorandum of cooperation was concluded between several line ministries of Georgia, including Ministry of Agriculture, Ministry of Internal Affairs and Revenue Service of the Ministry of Finance of Georgia. The memorandum would give Revenue Service a mandate to perform those functions imposed by above agencies and thus create an environment in which tax issues are easily dealt with. For example, Revenue Service would provide passport control of tracks (performed by Ministry of Internal Affairs) or provide sanitary and phytosanitary control of plants and animals imported into the country and issue licenses and permissions for the admission of goods on the territory of Georgia (performed by the Ministry of Agriculture). Introduction of Single-window concept has helped taxpayers to save time (the most valuable resource) by dealing with only one entity for the fulfillment of tax and customs obligations.

In the second place, Revenue Service has introduced electronic tax system by developing taxpayer’s personal web-portal, electronic services for filing tax returns, issuance of e-VAT invoices and e-commodity waybills¹. Soon after, e-filing, e-VAT invoice and e-commodity waybill services were followed by introduction of other electronic applications and digital services,

¹Commodity waybill is a mandatory document to be attached to the goods transported from one point to another (from warehouse to the store or any other destination).

eventually totaling around 200 applications and 500 digital services. To enforce swift transition to the e-taxation, Revenue Service has made certain services paid. For example, in order to file paper-based tax returns, taxpayers had to pay 50 GEL service charges. Despite all expectations, demand for material tax returns has significantly decreased, and soon 99% of tax returns were filed electronically.

Gradual switch to the e-taxation system made it possible to collect most of tax sensitive information electronically and create e-database. E-database itself created a good root for the development of risk-based approach. In-house developed IT solutions assured accurate selection of taxpayers for tax audit, specification and expansion of tax risk criteria made it possible to narrow tax audit to subject auditing instead of comprehensive auditing. Further development of risk-based analysis, which remains strategic target of the Revenue Service, led to the introduction of the Automatic VAT Refund system. This system was launched in February 2019, underwent some modifications, and now runs in its full strength. The system allows low-risk taxpayers access to automatic VAT refund, once VAT return is verified and approved by the risk-based verification system. This automatic VAT refund system gained even greater importance in the event of COVID-19 pandemic. It is expected to support business and therefore national economy by increasing cash flow. According to the 2020 statistics, 34,153 VAT refund claims have been approved and paid with the total value of GEL928,327,011.

Other measures facilitating fast and comfortable tax administration may include:

- Single treasury code - taxpayers can enjoy using one single account for payment of all kinds of tax liabilities instead of 125 accounts they had before 2016;
- Service centers – although all tax obligations can be fulfilled electronically, for those who “are not friends” with electronic devices Revenue Service established service centers across the country, where taxpayers are assisted and advised on complying with their tax liabilities;
- RS CAR – It is a “service center on the wheels” that was introduced in 2016 to ease tax administration process for those living in the remote places, where Revenue Service has no representation. RS cars are equipped with all technological device required for the delivery of a wide variety of electronic services at spot.
- Mobile applications - as e-filing and e-invoicing are the most frequently used services, Revenue Service has developed specialized mobile applications for taxpayers that can be downloaded to the mobile device and applied even when no internet or computer is available.

RS CAR



Service Center



During the pandemic, Revenue Service has introduced remote tax dispute hearing via electronic means. E-hearing is believed to ensure business continuity of tax administration processes, safety of involved parties during the pandemic, as well as to save taxpayers time and financial resources. While implementing the project, it was vital to provide taxpayers with data protection and confidentiality, which is strictly followed. The system is using a video-conferencing platform that allows taxpayers to connect both via computers and phones. Taxpayers are duly notified and reminded of the time of the hearing through their e-pages as well as via SMS. In addition, they are provided with detailed instructions with regard to the use of the platform. Remote dispute resolution is gaining a rapid popularity among taxpayers from month to month. More and more of them express their positive attitude towards new approach. E-hearing of tax disputes has been institutionalized and envisaged under the Tax Code of Georgia and it will definitely be maintained after pandemic is over.

4. Proactive Communication with Taxpayers

Revenue Service for the interest of its taxpayer-friendly approach provides several communication channels in order to share changes to the tax legislation and other regulations with taxpayers.

For example, Revenue Service periodically conducts “Doors Open Days” in different regions/cities/towns, where detail discussions are held with taxpayers on issues of their concerns and interests. During the meeting taxpayers are informed of changes and amendments made to the tax legislation, additional explanations are provided regarding various provisions. The date and location for “Doors Open Days” meetings are announced in advance on Revenue Service webpage.

The other form of communication is Forum. This is an online alternative to “Doors Open Days”. Similar to “Doors Open Days”, taxpayers can raise questions and request clarifications. Frequently asked question are processed and analyzed by the Revenue Service back office and sample responses are developed and uploaded on Revenue Service webpage.

Webpage is another source of communication with taxpayers. Recently newly designed webpage equipped with additional functions was launched. Except for visual and content aspects, new webpage was enriched with new channel of communication called RS-chat. Feedback function

added to the webpage provides opportunity to leave comments or suggestions on how webpage could be improved.

Georgian Federation of Professional Accountants and Auditors holds regular evaluation of the Revenue Service's performance and compliance with law in respect of tax auditing and in the interest of private sector.

The Revenue Service conducts regular taxpayer satisfaction surveys to learn the attitude of taxpayers towards services provided by the Revenue Service. One of such surveys triggered change to the service centers' working hours to make it more comfortable and convenient for taxpayers.

5. Conclusion

Georgian experience proves that even those countries with poor economic, political, historical and tax background can start from scratch and achieve the goal. But, no goal can be achieved if there is no political will of the Government to initiate changes and readiness of the society to keep up with those changes. Over the past 17 years, Revenue Service many times challenged itself by making unpopular decisions, such as paid paper-based tax return forms, finding extraordinary solutions to the problems raised, even though most frequently those solutions would not get approval from the international organizations because of their incompliance with internationally acknowledged standards. But sometimes, country-specific solutions help to accelerate transformation process and achieve more at less cost.

Transparency and openness is another key feature of the Revenue Service as it takes an active participation in various international surveys and assessments, those helping to identify weaknesses and strengths of our tax system. Among others, IMF's TADAT assessment, conducted in 2016 for the first time, identified "use of modern information technology applications, good taxpayer service record and willingness to embrace innovation" as main strength of the Revenue Service, but it also revealed lack of "operational planning and performance monitoring", "very restricted access to bank account data", etc. Recommendations received from TADAT assessors made roots for many interesting and progressive projects in the years to come.

Efforts made through the years won Georgia and Revenue Service in particular recognition from other big name international organizations such as World Bank. "Ease of Doing Business" survey is clear demonstration of our success story providing that Georgia ranks 7th among 190 economies in the *Doing Business 2020* ranking.

Speaking of doing business, it is worth mentioning that for doing business survey purposes Revenue Service holds voluntary collaboration with "Big Four" companies,² who have a mandate to speak for a large population of taxpayers and voice their concerns and satisfactions.

² The "Big Four" companies refer to Deloitte LLP, Price Waterhouse Coopers, Ernst & Young and the KPMG LLP.

Collaboration is a good opportunity to discuss and exchange views and opinions on new reform projects initiated by the Revenue Service. This is another form of communication where revenue service gets feedback from business, while business in turn gets detail clarification on goals and objectives of the reforms.

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