EGAT/EG, PUBLIC FINANCIAL MANAGEMENT PROJECT

GEORGIA'S TAX SYSTEM FROM 30,000 FEET

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Overview

Outlook: Positive

Revenue Collection: Strong overall revenue effort.

Problems: PIT may place a significant burden on low-income taxpayers.

This document provides a high-level profile of the structure and performance of Georgia's tax system in fiscal year 2008-09 and provides a historical context of the tax system over the last eight years. Specifically, it examines tax system revenue effort, tax structure, and revenue performance based on a series of quantitative and qualitative indicators, and compares Georgia with other countries in Central Europe and Asia, other low-middle income economies, and the rest of the world.

The analysis is supplemented by several tables that provide information about the current tax structure and revenue performance of the corporate income tax (CIT), the personal income tax (PIT) and the Value-added Tax (VAT). Information is also provided on the performance of Georgia's tax system over the 2002-03 to 2008-09 period.

A comprehensive database of comparative data for nearly 200 countries can be found at www.collectingtaxes.net

Revenue Effort

"Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP. From this perspective, Georgia at 23.8 percent of GDP in 2008-09 is similar to the regional average value at 24.3 percent, and somewhat above the per capita income group and world average values at 19.5 and 19.8 percent of GDP respectively.

Over the past 7 fiscal years, Georgia's revenue effort as a share of GDP has risen from 12.8 percent of GDP in 2002-03 to 23.8 percent of GDP in 2008-09, with the main components of revenue growing steadily over the course of the period. This achievement was the result of greatly improved tax administration, a simplified tax code and procedures, better taxpayer services and infrastructure, and, most important, fewer taxes and lower rates.

About half of Georgia's improved revenue effort is attributable to VAT revenue, climbing from 5.5 percent of GDP in 2002 to 10.9 percent of GDP in 2008-09. Corporate and Personal Income taxes also grew with collection as a share of GDP rising from 1.1 percent of GDP to 2.9 percent of GDP and 1.9 percent of GDP to 5.8 percent of GDP, respectively.

Tax Structure

Georgia's Corporate Income Tax (CIT) rate, set at 15 percent of taxable corporate profits since 2008, is in line with the rest of the region but is well below income group (24.7 percent) and world average rates (25.3 percent).

Personal Income Tax (PIT) in Georgia is a flat tax with individual income taxed at a rate of 20 percent as of 2009. This rate is well below the average top statutory rate in the region at 35.2percent, in the low-middle-income group at 31.0percent and in the world at 29.6 percent.

There is no tax-free threshold for low-income earners in Georgia. The norm around the world, the region and the income group is to exclude from the PIT those individuals earning less than roughly one times per capita GDP.

While further analysis is needed, a significant burden on the poorest taxpayers in Georgia might be eliminated without significantly reducing PIT revenue.

The "tax wedge", or amount of tax imposed on labor at 20.0 percent, is comparable to regional and global average values and is well below regional comparator countries at 36.4 percent. A large tax wedge would encourage capital intensive investment and growth in employment would be less than with a smaller tax wedge. Since 2007, the government has effectively lowered the tax wedge on labor from 32 to 25 percent —a relatively low barrier to job creation compared to other countries in the region.

Georgia's Value Added Tax (VAT) rate at 18 percent is higher than the income group and global average values, at 15.1 percent and 16.7 percent respectively and lower than the regional average of 19 percent. In US dollar terms, the VAT threshold, or the level of annual turnover at which taxpayers must register and file regular VAT returns is $59,087, is relatively high – implying that fewer small enterprises must meet the administrative burden of VAT filings.

Revenue Performance and Productivity

Tax revenue performance in Georgia, at 23.8 percent of GDP in 2008-09, is strong when compared to income group and world average values.

Revenues from CIT, equivalent to an estimated 3.1 percent of GDP, are above the regional average but are lower than low-middle income and world averages. Measured on a revenue productivity basis--the portion of GDP in revenue that is mobilized for each point of tax rate--Georgia's revenue productivity of the CIT, estimated at .21 for 2008-09, is one and a half times the regional, income group, and world average values. Since the merger of the Customs administration and the Financial Police into the tax administration in April 2007 to create the Georgia Revenue Service, CIT productivity has significantly increased from its previous level of 0.13 percent during 2002-03. Improved administrative systems and procedures may have contributed to the improved performance of CIT collection.

Georgia's PIT collection, at 6.4 percent of GDP, is about double regional, income group and world average values. PIT revenue productivity, at 0.25 is significantly stronger than regional, income group and world average values. This significant difference from comparator groups may reflect, in part, improved coverage of the PIT and strengthened compliance measures for personal tax administration.

Collection of VAT at 11.5 percent of GDP is above regional, income group, and world average collection of VAT. VAT revenue productivity in Georgia at 0.60 is well above regional (0.46), income group (0.47) and world averages (0.41). Partly through base broadening of the VAT, Georgia has improved its VAT revenue productivity from 0.28 in 2002-03 to over 0.60 in the past two years.

Tax Administration Organization and Efficiency

Publicly available data on tax administration structure and performance are very limited and therefore no specific tax administration indicators are presented here.

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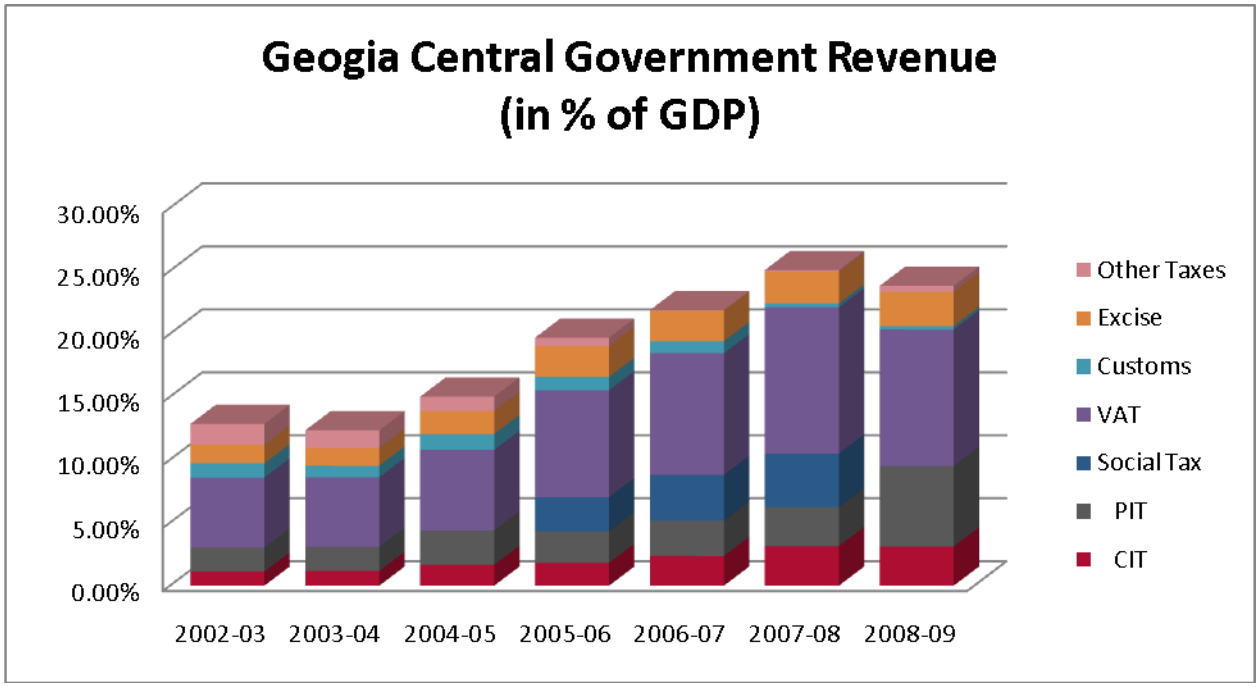
ANNEX: Georgia's Collecting Taxes Indicators

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Georgia	15	3.10	.21
Central Europe and Central Asia Region	15.83	2.74	.14
Low-Middle Income Economies	24.68	3.42	.14
World	25.32	3.33	.14

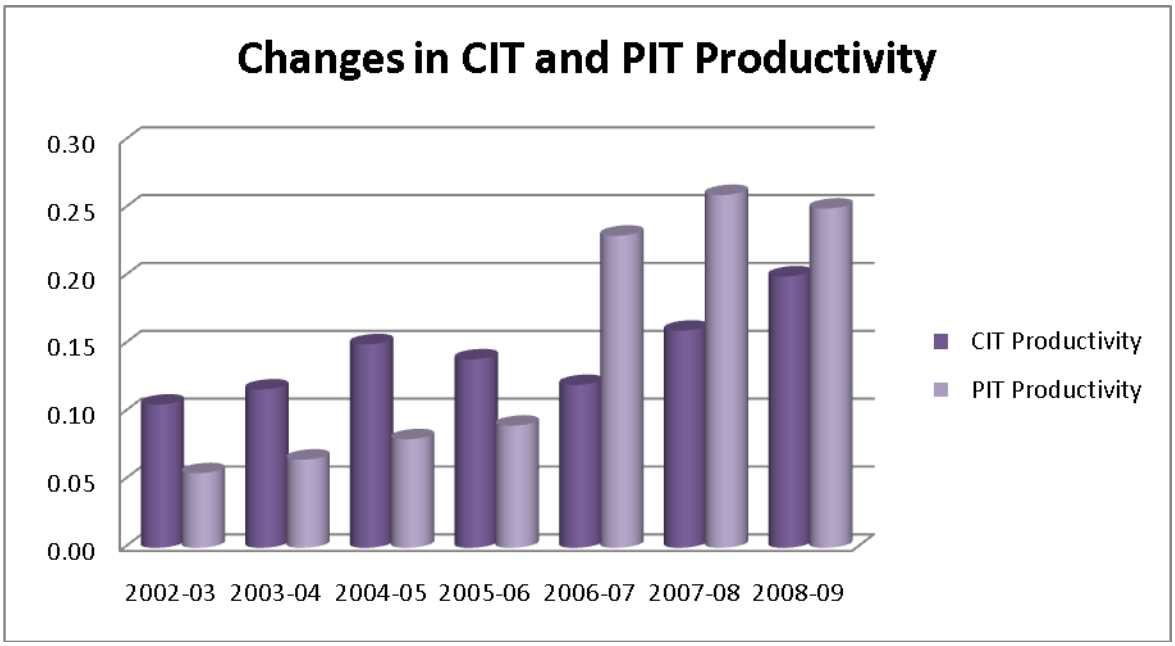
Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDP_{pc}	Maximum Tax Rate	Maximum Income Level (Multiple of GDP_{pc}
Georgia	20.00	.00	20.00	.00
Central Europe and Central Asia Region	13.34	1.08	19.37	2.16
Low-Middle Income Economies	11.35	1.28	26.76	10.36
World	11.69	.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Georgia	6.39	.25	.00	20.00
Central Europe and Central Asia Region	3.21	.19	26.72	36.37
Low-Middle Income Economies	2.48	.11	16.87	19.98
World	3.36	.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory Registration/ Filing (annual Turnover in USD)
Georgia	18.00	10.60	101.7	.60	59,087
Central Europe and Central Asia Region	19.00	8.62	69.53	.46	43,804
Low-Middle Income Economies	15.06	7.27	68.53	.47	41,954
World	16.67	6.33	63.11	.41	40,552



Source: Various IMF Reports and the Georgia Ministry of Finance



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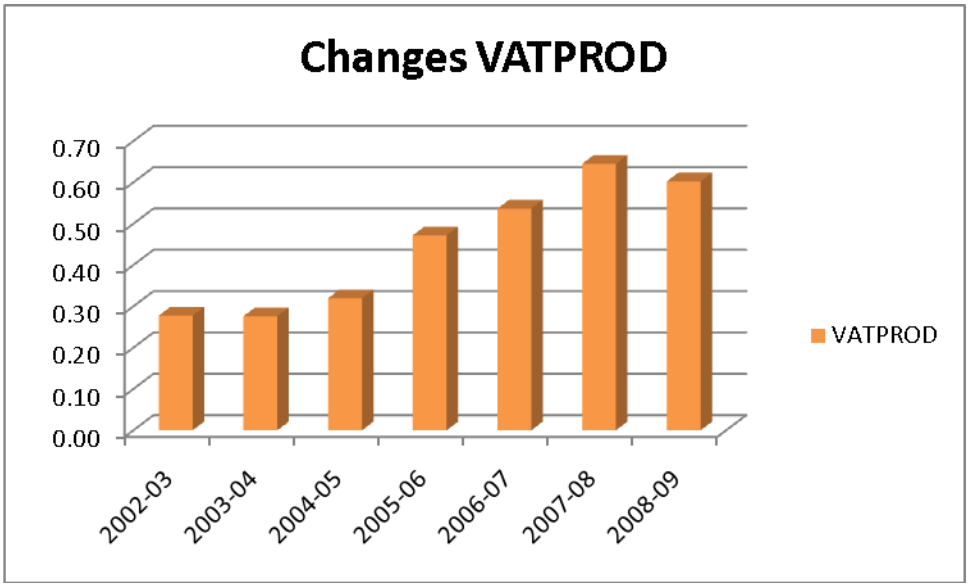

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