The Georgia Tax Simplification Project aimed to lower tax compliance costs and expand the tax base of micro and small enterprises. The project worked to reduce the administrative burden of paying taxes, streamline the tax appeal system, improve public awareness on tax reform, expand outreach to the tax-paying community, and help develop detailed transfer pricing rules and procedures to increase transparency in Georgia’s business environment. Project recommendations are reflected in the new tax code and legislation enacted since January 2011.

While intensive tax reforms implemented in Georgia since 2003 have improved the business environment, there was a discrepancy in the impact of reform on small versus large businesses. According to the 2008 Business Environment and Enterprise Performance Survey conducted by the World Bank Group and the European Bank:

- Simplified regimes introduced with World Bank Group support helped Georgian micro and small businesses achieve cost savings of around $15.8 million.
- New mediation procedures at Revenue Service resulted in businesses winning 47 percent of cases, compared to 10 percent before mediation. Firms partially won 28 percent of cases, compared to 20 percent before mediation.
- These results mean more companies will be willing to address concerns to Revenue Service.
- Implementation of taxpayer education system included 12 training events.
- Tax code amended in June 2012 to include a transfer pricing-related clause expected to improve tax revenues.

IN PARTNERSHIP WITH AUSTRIA, LUXEMBOURG, THE NETHERLANDS
for Reconstruction and Development, the percentage of medium and large firms that consider the tax administration a major obstacle decreased from 26 to 4 percent between 2005 and 2008. Over the same time period, this number increased among small businesses from 11 to 20 percent.

OUR ROLE

Investment climate teams of the Bank Group advised the Georgian government on a new tax code that was adopted in September 2010 and enacted the following year. The new tax code introduced special tax regimes for micro and small businesses. New regulations crafted with the help of the IFC-implemented project reduced the administrative burden and compliance costs, thus improving company operations. Simplified regimes can eliminate many of the labor and monetary costs associated with tax accounting and penalties for micro and small businesses, as well as other related costs.

This new legislation has allowed for a more transparent and equitable system in line with international good practice. An independent tax ombudsman’s office has even been created to support businesses.

The new tax code includes a good-practice appeals process that alleviates a previous bias in the process in favor of the government. The project helped support the introduction of new tax mediation procedures.

These new procedures have resulted in firms winning 47 percent of cases, as compared to just 10 percent prior to mediation. They have also improved the credibility of the Revenue Service.

Tax code reforms include a transfer-pricing clause and implementation of a good-practice tax audit system. Transfer pricing occurs when two related companies trade with each other. When they establish a price for the transaction, it is called transfer pricing. Abusive transfer pricing is illegal. An “arm’s length” price is the market price that would naturally result if two unrelated companies traded—this is usually considered acceptable for tax purposes.

The new transfer pricing clause in the Georgian tax code gives the Ministry of Finance the authority to determine how the arm’s length price is established so that the concept can be incorporated into the regime according to international good practice. This reduces the potential for economic double taxation or foregone revenues for the country. The project supported the government in development of secondary legislation, as well as production of detailed guidelines on the application of transfer pricing law and capacity-building of the Revenue Service staff.

The tax program in Georgia also benefitted from a taxpayer education campaign. The project helped organize 12 training events for 671 micro and small businesses to help them comply with the new tax code. Additionally, 3,746 copies of tax brochures were distributed through local Revenue Services offices nationwide.

“The new taxation system is comfortable for small businesses like mine”

NANA KURASHVILI
Entrepreneur

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