

# Medium-term Revenue Strategy (MTRS)



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## 1. Introduction

### 1.1 Importance of medium-term plan

This document serves as a guide for medium-term measures aimed at enhancing budget revenues. These measures may include policy reforms, improvements in administrative efficiency, refinement of the legal framework, and harmonization with EU legislation.

In both the medium and long term, fiscal policy outcomes are shaped not only by the government's discretionary decisions but also by various internal and external factors that may introduce vulnerabilities.

To ensure fiscal stability, it is essential to identify potential risks that could lead to revenue fluctuations and develop a robust revenue strategy capable of mitigating or offsetting these risks.

The document addresses key challenges that may arise for the budget in the medium and long term. It also highlights programs, policy directions announced at different times, and internationally assumed obligations that significantly influence future budget expenditures. Moreover, the document examines broader economic trends that may exert additional pressure on fiscal sustainability in the future.

### 1.2 Overview of the Existing Legal Framework - Fiscal Rules

To successfully formulate and implement a medium-term revenue strategy, it is crucial to analyze the legislative framework that establishes the parameters within which strategic goals can be set.

The main regulatory act in the field of taxes is the [Tax Code of Georgia](#), which, in accordance with the Constitution of Georgia, establishes the general principles governing the formation and functioning of the tax system. It outlines the legal status of the taxpayer and the authorized body, defines types of tax offenses, specifies responsibilities for violating tax legislation, addresses the appeal process for unauthorized actions of the authorized body and its officials, and regulates legal relations associated with fulfilling tax obligations.

Another regulatory document in this domain is the [Budget Code of Georgia](#), which defines the system and fundamental rules related to the movement of budget funds at various levels of state administration.

When developing a medium-term revenue strategy, it is crucial to thoroughly consider the foundational document that delineates the primary directions and constraints within the overarching legislative framework pertaining to budget revenues. This document is the Organic Law of Georgia "[On Economic Freedom](#)", which upholds the principle that "Freedom is a basic principle of economic policy that is expressed in small government, responsible macroeconomic policy, and low taxes".

Within the various quantitative and qualitative indicators outlined in the mentioned organic law, it is essential to highlight the following points, which define crucial rules for policymakers when planning future revenue policies:

- From the date this Law enters into force, the introduction of a new type of national tax, except for excise tax, or the introduction of an increase in the upper margin of the rate according to the type of national tax, except for excise tax, shall be permissible only through a referendum;

- The introduction or modification of a tax that is an alternative to an existing tax or replaces it without increasing the tax burden shall not be considered as the introduction of a new type of national tax or as an increase in the upper margin of the rate;
- The modification of the rate of tax according to the tax type within the existing marginal rate shall not be considered as the introduction of a new type of national tax or as an increase in the upper margin of the rate either;
- The tax progressivity principle or methodology/tax regime may not be the subject of a referendum;
- The Government of Georgia has the right to demand a temporary increase in taxes, but for not longer than three years. In such a case, a referendum shall not be held.

It is important to note that only the Government of Georgia has the authority to initiate the appointment of a referendum. Additionally, the mentioned article will remain valid until the end of 2029.

The mentioned fiscal rules constitute significant constraints for planning the medium-term budget strategy. Every strategic decision should be made with these limitations in mind, as they restrict flexibility, particularly in the realm of tax policy.

## 2. Key Objectives and Trends in the Strategy

The medium-term revenue strategy aims to ensure that:

- To achieve **stability in public finances**, the goal is not only to sustain planned state projects but also to identify funding sources for new initiatives;
- In relation to the projects of a specific sector, the search for resources should consider **economic efficiency**. This means minimizing losses without causing a significant disruption to the economic balance in other sectors;
- The measures taken should comply with **EU legislation** or/and preferably contribute to harmonizing this space.

Considering both the aforementioned principles and the main trends and challenges discussed below, **the primary objective of the current medium-term revenue strategy is to sustain the level of tax revenue relative to GDP in the medium and long-term.**

According to the budget framework of Georgia, the formation of budget revenues may arise from tax revenues, other revenues, and grants.

As depicted in Diagram 1, **tax revenues** constitute the largest portion of budget revenues. The magnitude of tax revenues is influenced by both the tax rate and the number of taxpayers. It is noteworthy that in recent years, the percentage of tax revenue relative to GDP has remained relatively stable. Despite recorded increases in profit and value-added taxes, both in nominal and percentage terms, these changes have not resulted in a significant proportional shift in budget revenues. However, looking ahead, noteworthy are the changes implemented in the financial sector and gambling, which are anticipated to raise the tax-to-GDP ratio by approximately 1.0 percentage points in the coming years.

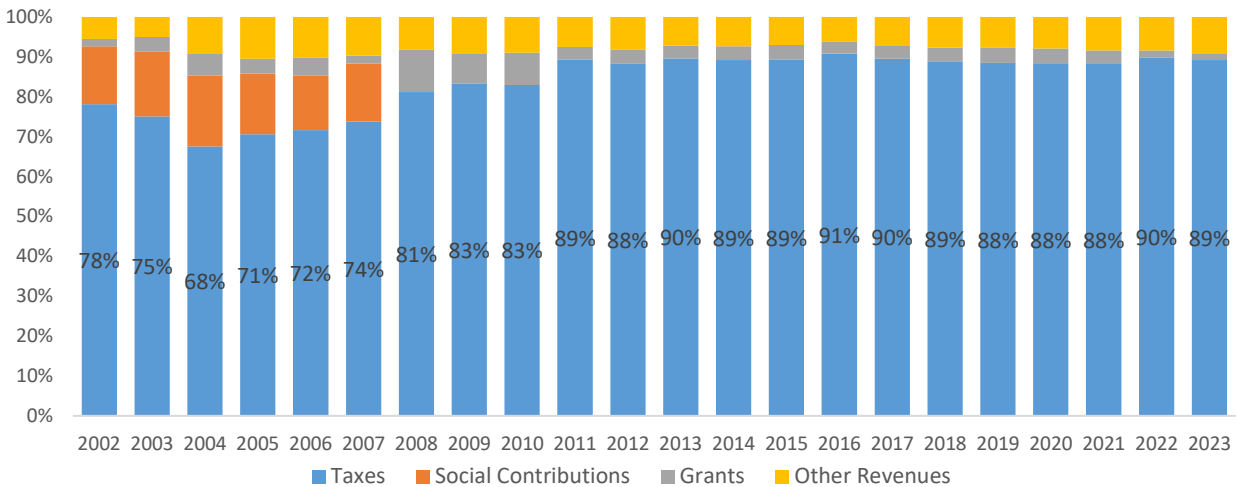


Diagram 1. Decomposition of budget revenues (Source: Ministry of Finance)

According to Figure 1, the second source of budget revenues by size is other revenue, including various types of licenses, permits, fees, interest, sanctions, or profits from state-owned enterprises. The structure of other revenue has remained stable in recent years, and although its components are diverse, they constitute only a small portion of budget revenues.

The third source contributing to budget revenue formation is grants, which hold a relatively insignificant position in the overall revenue. Its primary function lies in reform orientation, international partner relations, and serving as a technical support component rather than a substantial budget revenue source. In practice, as the country develops, this component gradually diminishes, playing a smaller role in overall budget revenues.

In the long-term, various budget indicators are expected to encounter significant challenges. The primary trend in this regard is the population aging process, primarily driven by the increasing proportion of the population reaching retirement age. The consequence of this is as follows:

- The proportion of the economically active population decreases, consequently reducing the number of taxpayers. This puts **pressure on the volume of taxes** and may result in a decline in the tax-to-GDP ratio.
- The population of retirement age is increasing, which will result in **a rise in social and pension costs**.

In addition to the challenges posed by the age structure of the population, it will be essential to maintain a stable level of certain types of expenses during the medium-term budgetary process, including:

- Article 45<sup>1</sup> of the Budget Code stipulates that: "It is mandatory to prepare and approve the draft state budget in such a way that, according to the functional classification of the unified consolidated budget of Georgia, the amount of funding in the field of education is not less than 6% of the projected nominal gross domestic product for the year to be planned." This provision will come into force from 2028, and there is a requirement to achieve and sustain 6 percent of the GDP spent on education in the medium-term.

- According to the NATO standard, it is also necessary to control defense spending to ensure that its share in GDP will be maintained at around 2 percent.

Considering all the above, it is expected that for the medium and long-term period, other things being equal, besides the potential increase in expenses due to various factors, achieving a stable level of income may become a significant challenge.

Therefore, it is possible to determine the main goals of the medium-term revenue strategy, which, first, involves keeping tax revenues **as the most important source of budget revenues at least at the same level (or increasing) as a percentage of GDP.**

### 3. Analysis of Current Situation

As underlined above, the decomposition of the total budget revenues shows that, according to historical data, the main source of budget revenues was tax revenues. Therefore, the measures carried out in this direction of tax policy are particularly important and will be the focus of this medium-term strategy. However, due to the specific tax system of Georgia (the limitations of the fiscal rules), it is also relevant to concentrate on other non-tax measures.

The review of tax revenues from 2003 to 2008 shows a significant increase in taxes both as a share of total budget revenues and as a ratio to GDP. This increase is mainly related to the improvement achieved in the direction of accounting, as well as to the simplification of the tax system and various reforms implemented in the tax policy in Georgia during the mentioned period. As a result of the reforms, the tax base has increased, driven by economic growth and the integration of many economic agents from the “shadow” economy. Along with the expansion of the tax base, tax administration has also improved significantly. As a result, the share of taxes has increased from 11 percent to 25 percent of GDP during 2003-2023. It should be noted that within this period, there was an increase in the share of income, profit, and value-added taxes with respect to GDP. The share of these taxes to the total taxes has increased from 54 percent in 2003 to 83 percent in 2023, indicating their significance.

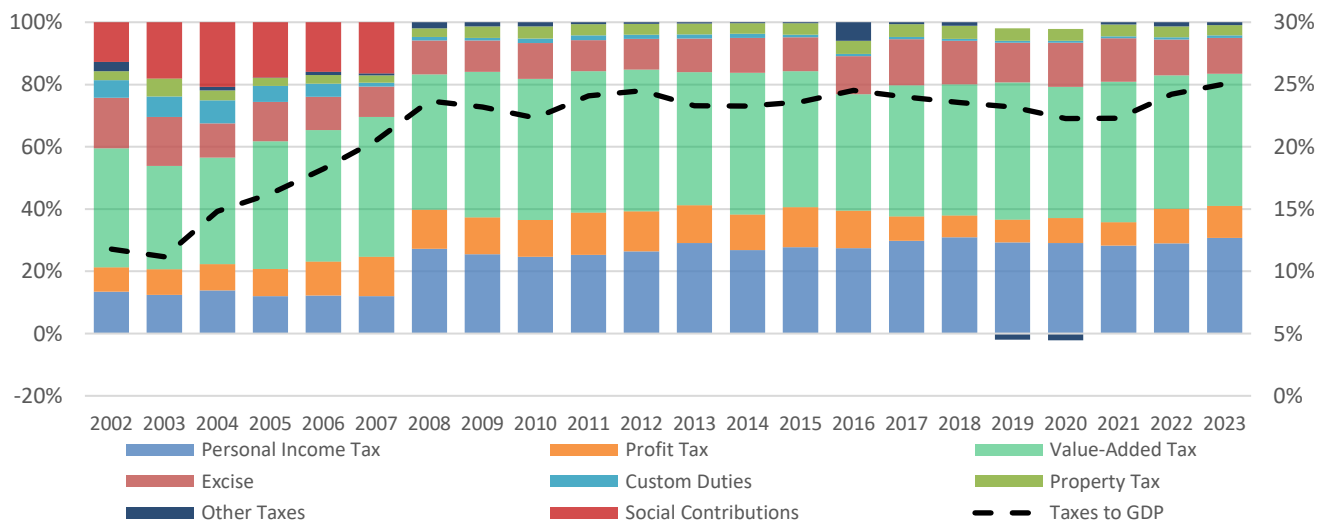


Diagram 2. Decomposition of Tax Revenues and its share to GDP (Source: Ministry of Finance)

After the reforms implemented in the 2000s, the tax-to-GDP ratio stabilized and averaged at 24 percent. The composition of taxes was also stable, with few exceptions. Since 2017, the Estonian model of the profit taxation for the non-financial sector has been implemented in the country, resulting in a decreased profit tax by 28 percent compared to 2016. However, at the same time, this reduction was compensated by an increase in excise tax rates on certain goods, and as a result of all actions, the ratio of the taxes to GDP has not changed significantly and continued to move at around 24 percent.

From 2020, during the period of the COVID-19 pandemic, there were certain challenges regarding tax mobilization and its composition. As it can be seen from the Table 1, during the pandemic, a decrease in the taxes to GDP ratio was mainly due to a decrease in profit<sup>1</sup> and personal income taxes in 2020-2021. During this period, in addition to the fact that the economic activity decreased and unemployment rates increased due to the numerous imposed restrictions, there were also the tax measures aimed at combating the pandemic. Certain benefits were established for profit, personal income and property tax payers that had an additional impact on the reduction of tax revenues from these taxes.

Under the condition of the economic activity disruptions, the turnover and the received benefits of imports and almost all sectors of the whole economy have decreased. Besides, the value-added tax also experienced a significant decrease. However, unlike the personal income tax, its ratio to GDP has not changed significantly.

Taxes	2019		2020		2021		2022		2023	
	mln GEL	% of GDP	mln GEL	% of GDP	mln GEL	% of GDP	mln GEL	% of GDP	mln GEL	% of GDP
Personal Income Tax	3,483	7.1%	3,327	6.8%	3,776	6.3%	5,034	7.0%	6,071	7.7%
Profit Tax	866	1.8%	919	1.9%	1,015	1.7%	1,930	2.7%	2,018	2.6%
Value-Added Tax	5,239	10.6%	4,837	9.8%	6,030	10.0%	7,453	10.4%	8,387	10.6%
Excise	1,507	3.1%	1,619	3.3%	1,869	3.1%	2,010	2.8%	2,270	2.9%
Custom Duties	79	0.2%	74	0.2%	86	0.1%	126	0.2%	151	0.2%
Property Tax	474	1.0%	434	0.9%	511	0.9%	604	0.8%	648	0.8%
Other Taxes	(230)	-0.5%	(246)	-0.5%	94	0.2%	229	0.3%	186	0.2%
<b>Total Taxes</b>	<b>11,418</b>	<b>23.2%</b>	<b>10,964</b>	<b>22.3%</b>	<b>13,380</b>	<b>22.3%</b>	<b>17,386</b>	<b>24.2%</b>	<b>19,733</b>	<b>25.0%</b>

Table 1. Tax Revenues during 2019-2023 (Source: Ministry of Finance)

In 2020-2021, despite the reduction in the tax-to-GDP ratio, this indicator began to grow from 2022 and approached pre-pandemic levels.

When considering the ratio of tax revenues to GDP in a regional context, Georgia's performance is competitive, often surpassing many of the countries discussed below. Since 2008, this indicator has consistently exceeded the average for Central, Southern, and Eastern European countries, unlike in Western European nations, though it still lags behind some, particularly those in South-Eastern Europe. According to the most recent data (2022-2023), Greece stands out with 28.1% (2023), followed by Kosovo at 26.8% (2023), Croatia at 26.7% (2022), and Serbia at 26.3% (2022).

The aforementioned difference may be attributed to variations in tax systems, as well as to the planned and acceptable national tax burdens. A decrease in this indicator was observed across all countries in

<sup>1</sup> Considering the peculiarities of the profit tax, its amount is partially still attributable to the economic activity of the previous year. This accounts for the reduction as a percent of GDP in 2021 compared to 2020

2020. However, in some of these countries, the tax burden began to rise again from 2021, returning to pre-pandemic levels.

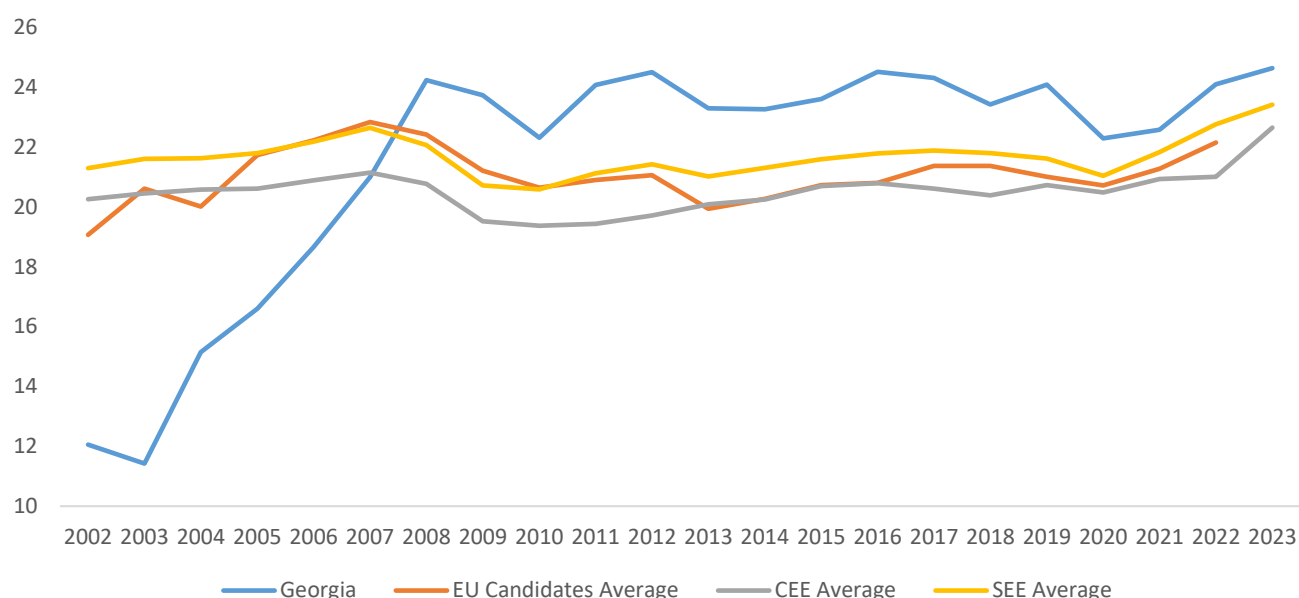


Diagram 3. Tax Revenues as a share of GDP (Source: Ministry of Finance, IMF)<sup>2</sup>

It is worth noting that, taking into account the tax reforms carried out in 2022-2023 that mainly affected the rules of the financial sector profit tax and gambling taxation, it is expected that the tax-to-GDP ratio in Georgia will be in the range of 25-26 percent in the medium-term. This ratio is still better compared to the average of abovementioned countries and will be behind (worse) than only a few countries.

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual						Forecast				
Revenues	26.5%	26.2%	25.2%	25.2%	27.0%	27.5%	28.4%	28.2%	27.8%	27.6%	27.6%
Taxes	23.6%	23.2%	22.3%	22.3%	24.2%	24.6%	25.7%	25.8%	25.5%	25.5%	25.5%
Grants	0.9%	1.0%	0.9%	0.8%	0.5%	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%
Other Revenues	2.0%	2.0%	2.0%	2.1%	2.3%	2.3%	2.2%	2.1%	1.9%	1.8%	1.8%

Table 2. Consolidated Budget Revenues as percent of GDP (Source: Ministry of Finance)

However, it should also be taken into consideration that despite the abovementioned trend of taxes, significant challenges may occur in terms of expenses for maintaining the share of expenses on the sector with respect to GDP and, in some cases, increasing it. As mentioned above, in this regard, healthcare, education and defense expenses are worth noting.

Healthcare expenditures are characterized mainly by an upward trend from 2013 to 2021, which reached its maximum during the pandemic period, while in 2023, as a result of a reduction in pandemic-related spending and increased economic activity, the indicator amounted to 2.3 percent.

<sup>2</sup> CEE- Central and East Europe, EU-European Union, SEE-South and East Europe



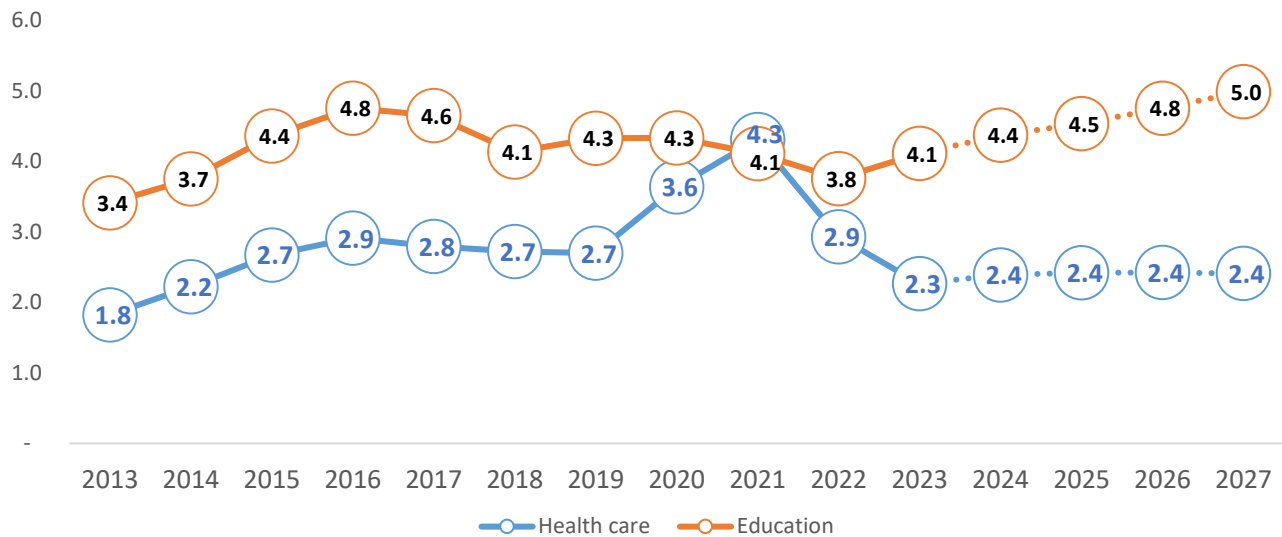


Diagram 4. Healthcare and Education share to GDP (Source: Ministry of Finance)

With the end of the pandemic and increased economic activity, healthcare spending will rise in absolute terms. However, its relative share is expected to remain stable in the medium term, staying around 2.4%.

Regarding education spending, similar to healthcare, the ratio of education spending to GDP has been increasing since 2013 and remained stable since 2018. However, due to the countercyclical policies implemented in response to high economic growth in the post-pandemic period, the growth rate of education spending lagged behind that of nominal GDP. As a result, the relative indicator has decreased slightly, although its permanent growth is expected in the medium term.

## 4. Needs and Expectations

As mentioned above, population aging may become a significant challenge for fiscal sustainability in Georgia in the medium and long-term.

In Georgia, like many other countries, the so-called population aging process is underway. This is a process in which the share of the elderly population in the totals is gradually increasing, creating a significant pressure on budget spending in the next few decades. In this regard, the most notable spending components are healthcare and pensions.

There is already a growing trend of sharp population aging in Georgia, and this process is irreversible. Currently, there is one elderly person for every four working-age persons. According to the analysis of the long-term fiscal stability of the Ministry of Finance, there may be one elderly person for every two or three working-age persons by 2074.

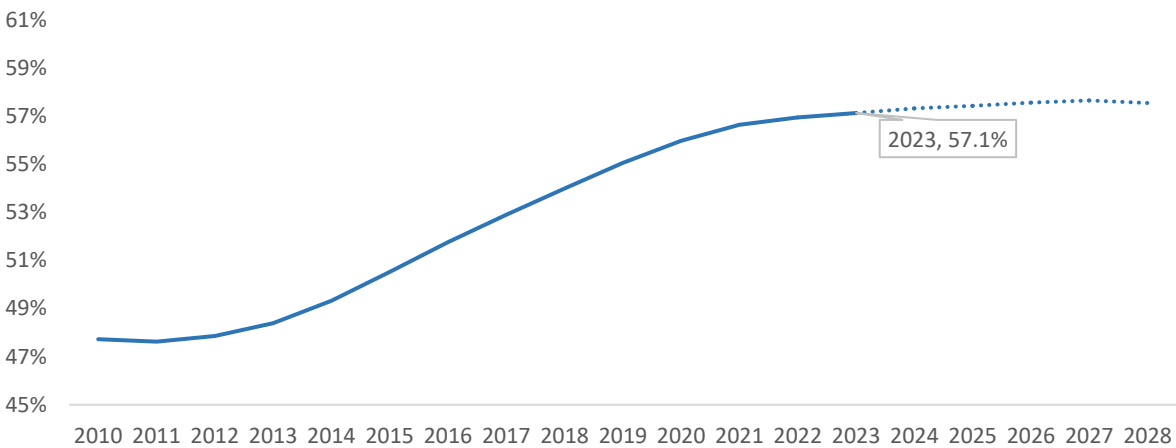


Diagram 5. Dependency Ratio (Source: Geostat, UN, Ministry of Finance Calculation)<sup>3</sup>

As seen in Diagram 5, the so-called dependency ratio, calculated as the ratio of the sum of the population under 15 and above 65 over the population between the ages of 15 and 65, is constantly increasing, and its further growth is expected in the medium-term.

Considering that spending on healthcare services for the elderly is higher than spending on the young population<sup>4</sup>, the aging process will have an impact in two directions: (i) it will increase social costs, and (ii) it will also be a significant challenge in terms of healthcare costs for the country.

According to Diagram 4, the ratio of education spending to GDP is projected to reach 5.0 percent by 2027. However, as stated above, the Budget Code requires this ratio to reach 6 percent by 2028, creating the need for further increases in spending in this area.

All of the challenges discussed above indicate the need to take certain measures in the medium-term to increase revenues or mobilize resources and/or distribute them effectively.

The following chapter provides various types of measures designed to alleviate the underlined problem and prepared to achieve the set goals. The main purpose of these measures is to mobilize budget revenues more efficiently and **maintain its ratio to GDP at least at a constant level**.

## 5. Strategies and Measures for Achieving the Established Objectives

To address the above-mentioned needs in the medium term and effectively manage the challenges associated with revenue mobilization, it is essential to consistently implement targeted measures in the area of revenue management and ensure ongoing monitoring.

To this end, efforts are being made to refine the legislative framework and advance the harmonization process with European standards. However, periodic changes with a significant impact on budget revenues may occur.

<sup>3</sup> For calculations, the methodologies and sources outlined in the Long-term Fiscal Risks Analysis document of the Ministry of Finance are employed

<sup>4</sup> OECD data is utilized in the Long-term Fiscal Risks Analysis Document, revealing that, on average, spending on healthcare for individuals above 65 is four times higher than spending on healthcare for individuals between 15-65

Moreover, continuous work is being carried out on administrative measures, which helps maintain the health of the revenue system and safeguard the revenue mobilization process, even under conditions of policy invariance.

This chapter outlines the existing measures in tax and customs policy and administration that are currently underway and planned for continuation in the medium term. It also highlights new measures that, after thorough analysis and development, could be implemented in the medium term.

## **5.1 Tax and Customs Policy Measures**

### **5.1.1 Corporate Income Tax/Personal Income Tax**

To enhance budget revenues and ensure fair taxation, amendments were made to the Tax Code of Georgia, introducing changes to the CIT/PIT rates applicable to Profits made by an organizer of a slot machine salon and/or an organizer of games of chance in the systemic and electronic form, as well as the change of the tax rate envisaged for the dividends paid. In particular, income/profit received by an organizer of a slot machine salon and/or an organizer of games of chance in the systemic and electronic form is taxed at a rate of 20%, instead of the previously applicable 15%; In addition, dividends paid by these persons are taxed at source of payment at a 0% rate, instead of the previously applicable 5%.

### **5.1.2 Property Tax Reform**

Property tax reform is underway, aiming to align the property taxation with the international best practices, which will ensure promotion of investment and facilitation of economic growth. It is noteworthy, that current property tax system is characterized by certain shortcomings and cannot respond to the existing challenges. In particular, the existing system does not provide enough incentives to stimulate the use of land in economy. In addition, the complexity, ambiguity and vagueness of the method for calculation of the taxable base makes the system of tax administration inflexible. Moreover, certain property tax exemptions are outdated and cannot respond to the existing challenges, nor serve the purpose for which the particular exemption was introduced. Therefore, it is necessary to analyze these rules and adapt them to the current challenges. At this stage the regulatory impact assessment of the reform is being prepared.

### **5.1.3 Excise**

To fulfill the assumed international obligations, reduce access to cigarettes and thus promote a healthy lifestyle, amendments were made to the Tax Code of Georgia, resulting in an increase of the excise rate on cigars, cigarillos, filter cigarettes/non-filter cigarettes and products to be used for inhalation without combustion process. Accordingly, excise on specific tobacco products was increased by 15/20 tetri and set as follows:

- for the cigarettes specified under the Foreign Economic Activity Nomenclature code 2402 20 the excise rate of 1.9 GEL per 20 pieces,
- for cigars specified under the Foreign Economic Activity Nomenclature code 2402 10 000 01 – 2.1 GEL per piece,
- cigarillos specified under the Foreign Economic Activity Nomenclature code 2402 10 000 02 – 2.4 GEL per 20 pieces,
- for products specified under the Foreign Economic Activity Nomenclature code 2404 11 000 00 – 1.85 GEL per 20 pieces/ 1 piece,
- for liquids specified under the Foreign Economic Activity Nomenclature codes 2404 12 000 00 and 2404 19 900 00 – 1.2 GEL per 1 ml.

These amendment are expected to increase budget revenues.

It is noteworthy that, based on the association agreement, the tax legislation of Georgia on tobacco and tobacco products with regard to the excise structure is fully harmonized with the legislation of the EU (Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco). As for the rate of excise, Georgia should ensure approximation to the EU rates within a certain period of time. This implies additional increase in applicable excise rates on tobacco products, which will lead to a significant increase in revenues of the state budget from these products. However, a sharp and immediate increase in the rate may lead to problems related to smuggling, thus gradual increase is envisaged.

Efforts are also ongoing to implement the Council Directive 2003/96/EC of 27 October 2003 “On restructuring the Community framework for the Taxation of Energy Products and Electricity” into the Georgian Legislation. Georgia has committed itself to this obligation within the framework of the Association Agreement with the EU. While fiscal effects are expected to be minimal, the focus is on legislative harmonization with the EU.

#### **5.1.4 Customs Code**

The new Customs Code of Georgia, which is harmonized with the customs legislation of the EU, provides for the existence of administration mechanisms that allow the customs authority to effectively carry out customs control. The continuous improvement of these mechanisms, consistent with the amendments made to the EU customs legislation, contributes to the mobilization of budget revenues.

#### **5.1.5 Base Erosion and Profit Shifting project (BEPS)**

As a member of the inclusive framework on BEPS since 2016, Georgia is actively implementing the minimum standards under the BEPS project. Within this framework and with the view to implement the BEPS action 6, on June 7 2017, Georgia signed the “Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting” (MLI). This convention is in force for Georgia since July 1st 2019 and applies to 34 agreements out of 58 agreements signed by Georgia and entered into force. In 2023-2024, efforts continued to extend the MLI to all DTA’s in force with

Georgia, aiming at ensuring the quick implementation of a number of measures related to tax treaties, updating the international taxation rules, as well as reducing opportunities for tax evasion by multinational enterprises.

### **5.1.6 Taxation of the Digital Economy**

Since 2017, Georgia is actively involved in the work carried out by the OECD regarding the taxation of the digital economy. On 8 October, 2021, along with 135 jurisdictions, Georgia joined the Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy.

In order to fulfill this obligation, on February 15, 2023, a pilot program for the implementation of the Pillar 2 (Global Anti-Base Erosion Rules (GloBE –Pillar Two)) of the taxation of digital economy was launched. Within the framework of this project and with the help of the OECD, an analysis of the Georgian tax legislation was carried out and the impact assessment of the GloBE rules was prepared.

### **5.1.7 Optimization of Tax Expenditures**

Tax expenditure estimation involves quantitatively assessing the costs and budgetary losses resulting from tax incentives and reduced tax rates. Since 2022, the Ministry of Finance has initiated an annual estimation of corporate income, value-added, and personal income tax expenditures. This estimation document is included as an annex to the budget document and is made publicly available for interested stakeholders and the general public.

Following the estimation of tax expenditures, it is essential to evaluate their impact by assessing effects on specific sectors and the broader economy. Impact evaluation and analysis, coupled with alternative policy assessments, should serve as the basis for optimizing future tax expenditures, thus improving the effectiveness of tax revenue mobilization. It is important to note that optimizing tax expenditures does not necessarily require their partial or complete abolition; achieving optimal outcomes may involve various measures.

## **5.2. Tax and Customs administration measures**

Georgia Revenue Service is constantly focused on providing most favorable environment for increasing voluntary compliance related to fulfillment of tax and customs obligations. In parallel with expanding the institutional capacity of the organization and improving services, The process of managing tax risks in the sphere of compliance with the law is constantly being strengthened, which includes sharing the experience of tax and customs administrations of different countries and close cooperation with partner international organizations in order to use modern standards to deal with such global challenges as tax avoidance, import of goods bypassing customs control, etc.

Georgia Revenue Service's current strategy (2021-2024) mainly focuses on increasing compliance with the law in terms of fulfilling tax and customs obligations, developing and sustaining the organization's institutional capabilities, as well as on international cooperation.

In recent years, Georgia Revenue Service has implemented numerous successful reforms. The programs and projects initiated within the framework of these reforms still have the potential to increase efficiency in the future, however, in parallel with this, additional opportunities to increase tax compliance are being continuously sought.

### **5.2.1. Raising compliance regarding tax and customs obligations**

#### **Automatic VAT refund system**

The VAT Refund and prompt access to free cash by businesses are vital for the effective conduct of economic operations. At the same time, failure to refund of overpaid taxes and the accumulation of debts to taxpayers present significant fiscal risks. Based on the aforementioned, the proper operation of this system is essential not only for taxpayers but also to the state's financial system. The VAT refund system aims at providing additional benefits to taxpayers in the most automated manner possible.

The automatic VAT refund system takes into account modern approaches to risk management in VAT taxation and provides simplified VAT refund procedures. At the present stage, under the automatic refund system, overpaid taxes are automatically refunded to the payer's personal bank accounts, without submitting/registering any request.

#### **Strengthening the tax risk management process in terms of compliance**

In order to strengthen the tax risk management system in terms of compliance, Georgia Revenue Service has implemented a tax risk management methodology, which has been developed in accordance with the risk management standards established by the Organization for Economic Cooperation and Development(OECD), The International Monetary Fund(IMF), and the International Organization for Standardization(ISO). Its goal is to have a structured approach in Georgia Revenue Service, which will ensure the country's tax risks are reduced while increasing tax revenues.

The tax risk management process includes the coordinated action of various structural units of Georgia Revenue Service. The tax risk management process is led by The Risk Management Council, a deliberative body formed by the order of the head of the Georgia Revenue Service.

#### **Tax administration program for large taxpayers**

The advantages of having services focused on administering a small group of large taxpayers are undeniable. This is confirmed by the fact that most tax administrations of the countries of the Organization for Economic Cooperation and Development (OECD) have established special structural units for this purpose. Accordingly, one of the most important directions considered by Georgia Revenue Service was the improvement of the processes supporting the voluntary compliance of large taxpayers (creating a favorable environment).

Taking into account best practices, a business process was developed, which is based on the concept of differentiated response using the so-called Risk Differentiation Framework (RDF).

The primary goal of differentiation is for Georgia Revenue Service to allocate more resources and time to large taxpayers with high and medium tax risk, while providing maximum compliance support and monitoring the current level of risk for basic and low-risk taxpayers.

### **Tax Debt Management reform**

The tax debt management reform aims to improve the timely payment rate and reduce the volume of accumulated tax debts, using modern and efficient tax debt management mechanisms. According to the new concept, the debt management process is based on communication with taxpayers identified based on predetermined indicators as well as on the selection/implementation of appropriate measures to ensure payment of recognized debts, taking into account the solvency of taxpayers with debts.

## **5.2.2 Institutional capacity building and international cooperation**

### **Creating a Data Warehouse and Expanding Analytical Capabilities**

Currently, Georgia Revenue Service has implemented the appropriate infrastructure and created a structural unit whose main function is to gather information from various sources available in the Georgia Revenue Service, place it in a data repository, and provide convenient access to it. The data processing and analysis system also identifies, collects, and analyzes third-party data required for tax administration. This helps strengthen the analytical capabilities of the service and make strategic and operational decisions based on reliable information.

### **Country by country reporting (CbCR)**

Primary legislation has been adopted under Action 13 of the BEPS Action Plan (Transaction Valuation Documentation and Country by Country Reporting), and in 2023, draft secondary legislation was prepared in cooperation with the OECD and internal procedures is being implemented. . After completing the procedures Georgia Revenue Service will receive information envisaged by the Action 13, which will allow GRS to assess the BEPS related risks of multinational enterprise groups. Furthermore, it is worth noting that currently Georgia does not have any multinational enterprise group with an annual consolidated revenue of EUR 750 million or more. Primary legislation has been adopted within the framework of Action 13 of BEPS Action Plan (Transaction Valuation Documentation and Country by Country Reporting), and in 2024, in cooperation with the OECD, The ministry of Finance of Georgia developed and approved secondary legislation “Multinational Enterprise Group Reporting Rules”.

Internal procedures are actively being carried out by Georgia Revenue Service in order to implement the exchange of reporting process. The “Rules for the Exchange of information for Tax Purposes within the Framework of the Convention on Mutual Administrative Assistance in Tax Matters of January 25, 1988, other International Treaties and/or Agreements of Georgia” have been updated, with additional instructions on the exchange and appropriate use of multinational enterprise groups accounts.

The organization for Economic Cooperation and Development (OECD) has approved a confidentiality assessment report, which is one of the requirements for implementing Action 13 of the Base Erosion

and Profit Shifting (BEPS) project. Work is being performed with partner jurisdictions to technically support the exchange process.

After the procedures are completed, Georgia Revenue Service is expected to receive the information provided by Action 13, beginning from January 1,2025, which will make it possible to assess the BEPS risks associated with multinational enterprise groups. Furthermore, it is worth noting that Georgia currently does not have any multinational enterprise groups with an annual consolidated group revenue of EUR 750 million or more.

### **Automatic Exchange of Information (AEOI)**

In order to join automatic exchange of information on financial account, on November 9,2022, the “multilateral Agreement of Competent Authorities on Automatic Exchange of Information on Financial Account” was signed, for the implementation of which amendments were made to the laws of Georgia, and on April 5,2023, Order no. 125 of the Minister of Finance of Georgia was adopted. As a result, Georgia exchanges financial information of residents with respective jurisdictions in accordance with the Common Reporting Standard (CRS.)

In 2024, information envisaged by the CRS was successfully exchanged with part of the jurisdictions that are signatories of agreement.

It is expected that tax transparency and information exchange will increase budget revenues.

### **Joint Border Crossing Point – “Ipek Yolu”-“Silk Road” Project**

Work on the “Joint Border Crossing Point of Georgia and the Republic of Azerbaijan – “Ipek-Yolu” – “Silk Road” project is ongoing within the framework of the “Agreement between the Government of Georgia and the Government of the Republic of Azerbaijan on customs crossing points on the State Border of Georgia and the Republic of Azerbaijan” of September 29, 2021. This joint customs checkpoint will contribute to the development of the transit and logistics capabilities of the countries and will further strengthen the transport and trade ties of the region. In addition, the new customs checkpoint, based on the principles of joint management, will avoid duplication of customs control procedures when crossing the border, which, in turn, will reduce the time spent on customs formalities and increase cross-border trade flows.

### **Involvement in EU fiscalis and EU customs programs**

Agreement on Georgia’s participation in the European Union’s fiscalis and customs programmes have been signed as part tax and customs cooperation between the European Union and Georgia. Best practices are shared among tax administrations within the framework of the fiscalis programme, as well as the programme facilitates the national implementation of EU tax legislation.

Involvement in the customs program will contribute to the simplification of international trade procedures and the development of new and efficient services based on modern technologies.



### **Status of an Authorized Economic Operator (AEO)**

Under the Association Agreement, Georgia has undertaken a legal obligation to gradually align its customs procedures with European regulations. Furthermore, these regulations also include implementing the concept of an Authorized Economic Operator (AEO), which is based on a partnership between the customs and business. The holder of the Authorized Economic Operator status will benefit from various simplifications/benefits and will continue to work closely with customs to guarantee the security of the global supply chain.

The Revenue Service has issued certificates to companies registered in Georgia, verifying the Authorized Economic Operator (AEO) status. The AEO status allows companies to benefit from certain simplified customs formalities (AEOC) as well as grants the right to benefit from certain security and safety-related benefits (AEOS). The holder of the Authorized Economic Operator (AEO) status has the right to hold both types of authorizations simultaneously.

### **Digital Customs**

The Revenue Service has made significant efforts to develop the following areas: digitizing customs formalities, electronic data exchange, replacing physically submitted documents with their electronic versions. The successful cooperation with relevant agencies of other countries in the field of electronic data exchange related to international trade is also worth of noting. Digital customs ensures simplification of formalities for taxpayers, decreasing the time needed for customs formalities, creation of a comfortable environment for businesses and strengthening the risk based customs control.

In order to improve the process of fulfilling obligations under customs legislation, modern mechanisms and systems for data processing and analysis are being implemented, which enhance the feedback system for decision-making, execution, and control results. In cooperation with relevant agencies of partner countries, the area of preliminary data exchange related to international trade will be expanded, which is a crucial condition for the fast and safe movement of cargo and for strengthening customs control capabilities.

In order to strengthen the mechanisms for detecting, preventing and averting customs violations, the modern information system for electronic licensing for strategic goods “STRATLINK” has started to operate in real time, through which a business operator, after authorization on the Revenue Service website, has the opportunity, to fill out an application for a permit for dual-use goods. After submitting the complete information required for issuing a permit, the Customs Department will issue a permit, which will be sent to the permit applicant via the Revenue Service website.

The Revenue Service has begun to automate customs procedures using machine learning and robotization technology. In order to facilitate international trade and simplify customs control procedures, a number of customs formalities have been automated, and work is also underway to automate the export procedure.

## **New Computerized Transit System (NCTS) and Accession to the European Union Common Transit (CTC) and the Simplification of Formalities in Trade in Goods (SAD) Conventions**

The New Computerized Transit System (NCTS) has been implemented at the national level in the Revenue Service and it is planned to launch the program internationally in order to fully realize the benefits provided for by the Conventions, including the movement of goods under a single customs document within the customs territory of each Contracting State to the Convention.

Based on the technical part of the Association Agreement – the “Deep and Comprehensive Free Trade Area” Agreement (DCFTA), Georgia has undertaken the obligation to accede to the “Common Transit Convention” (CTC) and the “Single Administrative Document” (SAD) conventions between the European Union and Georgia, as defined in the Association Agenda.

The convention will enter into force and apply to international operations from 1 February 2025.

### **5.3 Non-tax Measures**

As mentioned above, in addition to taxes, the sources of budget revenue include grants and other revenue. The underscored, so-called non-tax revenues, differ in nature and purpose from taxes, and decisions regarding them are accordingly made in a distinct context and for different purposes.

#### **5.3.1 Grants**

As emphasized above, as a country develops, the share of grants tends to decrease, playing a smaller role in budget revenues.

In this regard, Georgia is no exception, and the grants component is expected to be an even more insignificant source of budget revenues in the medium-term. Nevertheless, it still serves specific functions, such as providing access to certain concessional loans and addressing various topical issues related to public finance. It should also be noted that the grant component would play an important role in the medium-term concerning green finance measures in Georgia.

#### **5.3.2 Other Revenues**

As previously mentioned, other revenues are quite diverse and encompass three main items: revenues from properties, revenues from the sales of goods and services, and sanctions and fines. Approximately half of these revenues are derived from property-related sources.

Regarding the **revenues from property**, the state treasury will persist in its active liquidity management policy, and a significant amount of funds is anticipated to be mobilized in the state budget from this source in the medium-term.

The mobilization of dividends from state-owned enterprises and the interest receivables from loans to state entities will also continue to be prioritized in the state budget in the medium-term.

The transfer of profit received by the National Bank will continue into the budget in the medium-term. This aspect is characterized by volatility and depends on changes in various macroeconomic parameters and global trends.

Work on the mining sector has started and will persist in 2024 with the objective of enhancing the fiscal framework. This effort includes studying the effectiveness of introducing a royalty system in this sector. In this context, the implementation of the royalty system is planned, contingent upon its ability to regulate this subsector, enhance the predictability of revenues mobilized from the sector, and prove financially advantageous for the state budget.

As for the article on the **sales of goods and services**, its primary components include licenses, permits, and various types of fees. Changes in the components included in this article are not anticipated in the medium-term, and it is expected to be maintained at average 0.2 percent of GDP in the medium-term, like the previous years.

The article on **sanctions and penalty interests**, in fact, serves a completely different function compared to one of the budget revenue sources. Its purpose is to prevent from various types of problems, and any changes, introductions, or cancellations are not related to issues associated with public finance management. Therefore, the existing strategy or any planned change cannot be considered as part of the medium-term revenue strategy.

One of the growing and significant components in the revenues recorded under the category of other revenues is the so-called **road usage fee**, which constitutes a fixed charge for transit vehicles. Considering the increased and constantly growing transit potential of Georgia, the changes implemented in this direction are noteworthy.

The road usage fee was GEL 200 in the period from 2011 to 2022. However, from June 2022 onwards, it increased to GEL 350, resulting in a significant fiscal impact along with increased traffic flows. At this stage, there are no planned changes in the rules or rates of the road usage fee in the medium-term perspective.

## 6. Conclusion

This document aims, together with the analysis of the current situation, to reveal the medium-term requirements of the Georgian economy. Furthermore, it considers current trends and actual or potential needs that must be addressed during the expenditure allocation. Among these are the following:

- Spending on education should be increased to 6 percent of GDP in the medium-term;
- Spending on defense, as percentage of GDP, should be maintained at least 2 percent in the medium-term.

Moreover, disclosing possible risks is an essential step in the fiscal policy planning and implementation process of the medium-term strategy, as these risks may serve as the foundation for economic fluctuations if no steps are taken to mitigate them. Therefore, the document emphasizes the facts that the economically active population has been declining, and the elderly population has been increasing, consequently escalating the necessity of pension costs and placing an additional burden on taxes.

To sustain fiscal stability while addressing current vulnerabilities, it is crucial to analyse the planned measures for the medium-term and current initiatives for revenue mobilization. Therefore, this

document highlights the reforms and measures designed to serve this purpose. These measures encompass tax and customs policy measures, as well as tax and customs administration measures, and non-tax measures.

As the ultimate outcome of the listed planned or ongoing reforms, the focus is on achieving a tax policy with enhanced administration and improved effectiveness. This measurable result anticipated is an increase in revenue mobilization.