Tax Expenditure Report

Ministry of Finance of Georgia
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Acronyms

CIT	Corporate Income Tax
DPT	Distributed Profit Tax
DPCIP made	Distribution of profit which is exempted from profit tax, cost incurred, and payment
EU	European Union
FC	Foreign Currency
FIZ	Free Industrial Zone
GEL	Georgian lari
GEOSTAT	National Statistics Office of Georgia
GIR	Gross Income Received
GRS	Georgia Revenue Service
IMF	International Monetary Fund
IRP	Interest Rate Parity
ITE	Income Tax Expenditure
MoF	Ministry of Finance
PIT	Personal Income Tax
RIA	Regulatory Impact Assessment
SUT	Supply-Use Table
TP	Taxable Proportion
USAID	United States Agency for International Development
VAT	Value-Added Tax
VATE	Value-Added Tax Expenditure

Section I. Introduction

Tax incentives are used by countries to achieve certain economic, social, or environmental policy goals. Such goals include, for example, encouraging savings and investments, protecting domestic industry, promoting or hindering the production or consumption of certain categories of goods and services, stimulating employment, helping the vulnerable, and others. The use of such instruments implies a reduction in tax revenues. These forgone tax revenues are, in most cases, Tax Expenditures (TEs). A TE is the unearned government revenue arising from certain incentives, tax credits, exemptions, and special tax regimes, among others. In other words, a TE is a cost paid (indirectly) by society, favoring those who enjoy certain tax benefits, given that it is associated with a decrease in tax revenues that could have been used for alternative purposes.

A general definition of TEs is not enough to identify them. Based on international experience, it is possible to distinguish several specific criteria that make it easier to identify TEs in practice.[1] Five such criteria are particularly common in developed countries. A benefit would be classified as a TE if it: i) had a non-fiscal purpose; ii) could have been a direct state expenditure; iii) was diffused among a limited group of taxpayers; iv) reduced tax revenues; and v) represented a deviation from the standard (or statutory) provisions of the tax system (the "benchmark" tax system). Most developed countries apply only the fourth and fifth criteria[2].

TE analysis is an important step towards examining the economic and social implications of tax privileges and scrutinizing how relevant they are in achieving given macro- and/or socio-economic goals. To measure the cost of TEs, this Report uses the "revenue forgone" method, assuming that there is no change in taxpayers' behavior in response to the elimination of given TEs or tax administration. At first, the tax standard or "benchmark" system is defined. Regimes deviating from the benchmark can be considered as regimes resulting in TEs. In principle, TEs are associated with lower tax revenues. Thus, costing the impact of TEs on the budget is an important (and useful) task for fiscal policy planning purposes.

The benchmark tax system relates to the idea of a reference tax system against which the presence of TEs is evaluated. In member states of the Organization for Economic Co-operation and Development (OECD), various approaches[3] to determining the benchmark tax system are common, including the legal approach (under which a country's existing tax system forms the starting point for defining the benchmark). The definition of the benchmark tax system in Georgia applies this approach, based on models and principles recognized by the Georgian Tax Code.

[1] See USAID (2021).
[2] See OECD (2010).
[3] See Section IV and IMF (2018).

A TE is, therefore, an explicit concession that departs from what is considered a generally applicable tax provision under the existing tax law.

TEs can be classified as non-structural, structural, technical, and quasi-TEs.[4] The focus of this Report is on non-structural TEs. [5] This is the second[6] exercise the Ministry of Finance (MoF) has undertaken in terms of TE costing. Therefore, the focus will be on key, estimable TEs. This TE costing exercise aims to examine the main Value Added Tax Expenditures (VATEs) and Income Tax Expenditures (ITEs) from year 2018 onwards and make observations on trends in the magnitude/composition of these TEs.

This Report replicates and extends recent work by the IMF (Swistak et al. [2022]), following the recommendations within Gendron and Mylonas (2022). It, additionally, expands on the ITE costing exercise carried out by the United States Agency for International Development (USAID) (USAID, 2021), and an earlier VATE costing exercise carried out by the IMF (Swistak et al., [2020]). Thus, this Report updates previous estimates using the latest available data (e.g., for 2021) and makes several methodological updates/improvements, such as conducting a sensitivity analysis with respect to underlying costing parameters and assumptions for VATEs (Appendix 5) as well as ITEs (Appendix 6).

Data constraints might limit the accuracy of the results from the costing exercise. In relation to VATE costing, these include the small dimensions of the Supply-Use Tables (SUTs), data limitations regarding informality, and unclassified sectoral data in terms of 2-digit NACE codes.[7] In relation to ITE costing, these include missing/misreported tax return data and lack of sufficiently granular sectoral profitability data.

TE costing in this Report covers the period 2018-2021 (both for ITEs and VATEs). For ITEs, this Report conducts a costing exercise for the Corporate Income Tax (CIT), Distributed Profit Tax (DPT), Personal Income Tax (PIT) and other ITEs. The main findings from the TE costing exercise are as follows:

- Total estimated TEs amounted to 2,759 million Georgian lari (GEL) (4.6 percent of GDP) in 2021, less than in 2020 (5.2 percent of GDP) and 2019 (5.7 percent of GDP).
- VATEs account for most of the estimated TEs (around 90 percent of the total).
- VATEs increased from 4.5 percent (2018) to 5.2 percent (2019) of GDP, decreasing to 4.7 percent of GDP in 2020 and 4.1 percent of GDP in 2021.
- Total estimated ITEs stand at 0.5 percent of GDP in 2021 (but were higher - at 0.9 percent of GDP - in 2018, mainly due to the old CIT regime ITE).

[4] See Swistak et al. (2020).
[5] For a discussion of the different TE types, see Appendix 1.
[6] The first analysis of TEs performed by the MoF was written and attached as an appendix to the 2021 state budget law. See: www.mof.ge/5355 .
[7] See Swistak et al. (2022), pg. 28.

- The estimated (old) CIT regime ITE decreased after 2018 (0.4 percent of GDP) and is at 0.03 percent of GDP in 2021, mostly due to the phase-out of the regime.
- The total estimated PIT ITE decreased from 0.42 percent (in 2018) to 0.37 percent (in 2021) of GDP.
- This Report estimates the interest income ITE under four different calculation approaches, with estimates ranging between 0.05 percent and 0.07 percent of GDP.
- Other ITEs include those related to a person having the status of small business, under the 1 percent and 3 percent tax rates. For this item, this Report estimates the TE indirectly, by assuming different profit margins[8].
- Some results deviate from the previous estimates by the IMF and USAID, due to updated data and/or methodological changes.

This Report is structured as follows. The next section (Section II) describes the benchmark tax system for ITEs and VATEs. Section III presents the inventory of VATEs and ITEs. Section IV shows estimated TEs in Georgia for the 2018-2021 period, decomposed into ITEs and VATEs. The last Section (Section V) concludes. Appendix 1 expands on the definition of different TE classifications. Appendix 2 presents the full inventory of TEs. Appendices 3 and 4 include detailed descriptions of ITEs and VATEs. Finally, Appendices 5 and 6 provide information on data/methods and discuss sensitivity analyses for ITEs and VATEs, respectively.

[8] For more details, see Appendix 5.

Section II. The Benchmark Tax System

The benchmark tax system relates to the idea of a reference tax system against which the presence of Tax Expenditures (TEs) is evaluated (Heady and Mansour, 2019). In member states of the Organization for Economic Co-operation and Development (OECD), three approaches[9] to determining the "benchmark" tax system are common, namely:

The conceptual approach connects the benchmark tax system with the "normal" tax structure. The approach is built on the thesis of recognizing the "optimal tax system" as "normal" based on the theoretical understanding of macroeconomic (income, consumption) and tax system (e.g., value-added tax (VAT)) variables. Under the conditions of this approach, the "normal tax system", due to the scarcity of data and technical problems related to the use of purely theoretical concepts, often requires changes.

The legal (positive/regulatory) approach links the benchmark tax system to the applicable legislation. When using this approach, the applicable tax legislation of the country is the basis for determining the benchmark system. Accordingly, differential or preferential approaches compared to the current general regime of the existing tax legislation are a source of TEs.

The cost-subsidy approach considers as TEs only those tax benefits (or differential/preferential tax treatments) that are analogous to cost subsidies.

Many countries, Georgia among them, use a legal approach to define the benchmark tax system. In addition, some researchers, especially in developing countries, recommend the use of a legal approach, according to which the focus is on the practical (given in the tax legislation) rather than the theoretical understanding of income. In any case, the "benchmark" tax system should be limited to the benchmark features of headline taxes. In particular, the benchmark tax system should include general income and profit taxes, a simple consumption tax (for example, a standard, unified VAT), excise taxes, tariffs, and other small taxes.

The following two sub-sections describe the features of the Personal Income Tax (PIT) and Corporate Income tax (CIT) system and of the Value-Added Tax (VAT) that are considered as part of the benchmark tax system for the purpose of identifying the TEs included in this Report. The elements of the benchmark tax system include the benchmark unit of taxation, taxation period, tax base and tax rate (structure).

II.a Benchmark Tax System for Direct Taxes

The Georgian income tax belongs to the non-progressive tax model, which is prevalent across Eastern Europe. Taxable income of natural persons is taxed at a flat rate. Regarding corporate

[9] See IMF (2018).

income taxation, Georgia uses a different model. Profit tax is imposed only on the distributed profits or “deemed” profit distributions. The Distributed Profit Tax (DPT) regime does not apply to commercial banks, credit unions, insurance organizations, microfinance organizations, loan providers and oil and gas Companies until January 1, 2023, for which the standard accrual-based Corporate Income Tax (CIT) applies. The profit tax rate is a common statutory, non-differentiated tax rate. From this short description of the PIT and CIT regimes in Georgia, it is apparent that the general principle of the Georgian Tax Code is non-discrimination; mostly the same approach with unified tax rates is used.

Principles and methods of both TE assessment and design of the benchmark tax system as well as the experiences gained through these processes together with the tax legislation of Georgia allow us to establish the following system for estimating the PIT and CIT ITEs:

- Tax rates within the current tax legislation, adjusted by the relevant bilateral and international agreements shall be considered as the basic tax system. As regards the **(old) CIT regime**, until January 1, 2023, it will be regarded as part of the benchmark tax system along with the DPT.
- Any (other)[10] deviation from benchmark tax system, if it reduces tax revenue, shall be classified as a TE.
- Quantitative assessment of TEs shall be carried out pursuant to the “revenue forgone” approach.[11]
- Reporting of TEs shall be carried out annually.

By using this system, most deviations from the benchmark tax fall under the category of TEs and, if quantified, help boost fiscal transparency. Moreover, annual assessment of TEs frequently brings about the issue of evaluating the need and expediency of these TEs, thus, serving the global goal of efficient and equitable distribution of state resources.

The benchmark for the PIT and CIT systems, for the purposes of this Report, has the characteristics outlined below.

Unit of Taxation

The benchmark unit of taxation for the PIT is a resident natural person, as well as a non-resident natural person earning income from a Georgian source, while the benchmark unit of taxation for the CIT is the resident enterprise as well as a non-resident enterprise that conducts business

[10] Other than the ones stated under the first bullet point.

[11] The “revenue forgone” method quantifies the direct revenue loss associated with the tax provision under consideration, relative to the benchmark system. The benchmark system does not feature such a TE provision and thus serves as reference point in estimation. Estimates rely on a number of important assumptions. First, an estimation of TEs one measure at a time, other things equal. Second, absence of change in taxpayer behavior following the elimination of a TE. The methodology, therefore, ignores dynamic tax effects (see also Section IV as well as Appendices 5 and 6).

activities in Georgia through a permanent establishment and/or earns income from a Georgian source.

Taxation Period

- The benchmark taxation period for **PIT** is the calendar year.

- The benchmark taxation period for **DPT** in case of resident companies and permanent establishments of non-resident companies is the calendar month. The taxable period for the entities that continue to be taxed under the **(old) CIT** system remains the calendar year (Art. 135 of the Tax Code of Georgia).

Tax Base

- The benchmark tax base for **PIT:** income from employment is calculated from the income received as salary, without any deduction of expenses associated with earning of this income; for individual entrepreneurs conducting economic activity, the tax base is calculated as the difference between the income earned and the expenses incurred.

- The benchmark tax base for **DPT:** any profit distributions or "deemed" distributions from the worldwide income of resident companies and permanent establishments of non-resident companies, while reinvested or retained profits are not subject to (DPT (Art. 97 of Tax Code of Georgia). The taxable base is calculated by grossing up the taxable object by 0.85.

- The benchmark tax base for **(old) CIT**: For commercial banks, credit unions, insurance companies and oil and gas companies CIT is assessed from the amount received as the difference between the gross income earned during a calendar year and the deduction amounts envisaged by the Tax Code of Georgia (transitional regime until January 1, 2023). In addition to the above, non-resident entities are also subject to CIT on the sale of property in the territory of Georgia, which is not attributed to their permanent establishment in Georgia. In such case, CIT is imposed on the difference between the gross income earned from a Georgian source during a calendar year and the deductions prescribed by the Tax Code of Georgia.

Tax Rates

- In the case of the **PIT**, the benchmark tax rate for income from employment, capital gains, rental income and royalties is the flat PIT rate of 20 percent, without any allowance or standard deduction, while a standard 5 percent withholding tax applies to dividends and interest. The value of property received as a gift or inherited by first- and second-line heirs during a fiscal year is exempt. Income earned from foreign sources is exempt.

- The benchmark tax rate for **DPT** is 15 percent at the level of the company and 5 percent at the level of shareholders.

- The benchmark tax rate for **the (old) CIT** is 15 percent at the level of the company and 5 percent at the level of shareholders.

Avoidance of Double Taxation

- Relief from double taxation is considered part of the benchmark income tax system.

Taxation of Governmental Entities[12]

- Activity of public authorities, national regulatory and municipality bodies, which is directly related to the performance of the functions assigned to them under the legislation of Georgia, other than the delivery of paid services under a contract is not regarded as economic activity. Thus, activities other than the delivery of paid services under a contract, performed by such bodies, are not taxable under the DPT.

Benchmark ITE Items

The Tax Code contains 11 ITE benchmark items. Examples include foreign income earned by residents (item 4), and gifts and inheritances. Grants, state pensions, state compensation, state academic scholarships and other allowances were also included in the benchmark since it was not possible to differentiate between pensions from cumulative and refundable private pension schemes in the amounts of contributions made (benchmark) and other items, which should ideally be classified as tax expenditures.[13] Treatment of foreign income received by resident natural persons is regarded as benchmark because in 2009, Georgia adopted the territorial principle of taxation for personal income, thereby restricting tax liabilities of Georgian tax residents to income obtained from domestic sources. Regarding gifts up to GEL 1000, according to the Tax Code, these do not have commercial meaning, while inheritances are treated as a transfer of assets within a family and could be regarded as if there were change in owners resulting from this transaction. In addition to that, such transaction does not have commercial purposes. See Appendix 2 for a detailed list of ITE benchmark items (reference 4, 24.1, 24.2, and 34.1).

II.b Benchmark Tax System for the Value-Added Tax (VAT)

A benchmark system for the VAT includes, among other things, a single-rate VAT with a broad base. The target base of the VAT is the broadest measure of final consumption, both private and public. The VAT benchmark consists of all goods and services consumed in Georgia. On

[12] Article 9, (2) (a) of the Tax Code of Georgia.
[13] Article 82.1(b) of the Tax Code of Georgia.

the other hand, the benchmark excludes tax provisions that favor particular groups of individuals, particular business activities or the government.

Regarding VAT, the benchmark shall follow the principles of the European Union (EU) VAT Directive, to the extent that this Directive was transposed into Georgian tax law starting from 2021. This is because Georgia, under the Association Agreement (Article 285, Annex XXII, Indirect Taxation), had an obligation to approximate its VAT legislation to Directive 2006/112/EC – the EU's common VAT system[14]. There are certain articles of the Directive, which were not subject to obligatory approximation (for example, Georgia was not obligated to adopt the exemptions envisaged by the EU Directive). Georgia has a right to retain its tax exemptions.

Unit of Taxation

The VAT is intended to be borne by final consumers – in general, households.

Taxation Period

There is no specific benchmark taxation period relevant to the determination of VAT liabilities. The VAT is generally payable when a taxable supply is made or imported and remitted in accordance with the supplier's required filing frequency. In Georgia, the required filing/reporting frequency is one month.

Time of taxation for supply of goods/provision of services is the moment of supply of such goods and provision of such services. If payment for goods/services is made in advance, time of taxation is time of payment. There are also some other specific rules regarding time of taxation in different cases such as supply of telecommunication services or electricity/gas for which time of taxation is not later than the last day of each accounting period (month).

VAT taxation of the importation of goods shall be carried out in accordance with the customs legislation of Georgia at the time when customs obligations arise, and if the goods are not subject to import tax or are exempt from import tax, then at the moment when the goods would be assessed unless they were exempt from this tax.

Tax Base

The benchmark VAT base is consumption, broadly defined, and comprises all goods and services consumed in Georgia. As such, the benchmark for the VAT provides that the tax applies on a "destination basis" – that is, at the point of consumption in Georgia – and that it applies to

[14] See link to the recast Directive: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32006L0112

goods and services imported into Georgia, but not on goods and services exported from Georgia.

VAT-taxable transactions are the supply of goods or provision of a service for consideration, by a taxable person within economic activity in the territory of Georgia, and the import of goods. Supply of goods is the transfer of the right of ownership of disposing of tangible property. Provision of services shall be any activity that is not supply of goods. The import of goods is the placement of goods under the release for free circulation procedure under the Customs Code of Georgia[15].

Multi-stage System

The benchmark for VAT provides that the tax is imposed using a multi-stage system, under which the tax applies to the sales of goods and services at all stages of the production and marketing chain. At each stage of production, businesses can claim tax credits to recover the VAT paid on their business inputs, so that the VAT effectively only applies to the value-added at each stage. The fact that certain entities such as governments and non-profit organizations may not claim input tax credits to recover the VAT paid on inputs used to supply goods and services that are not subject to the VAT is also treated as part of the benchmark. This results in the VAT being effectively imposed on those entities in respect of the value-added at earlier stages in the supply of such goods and services.

The VAT deduction is the right of a taxable person to reduce the amount of VAT due by the amount of VAT directly assigned to the value of various components of charges related to the supply of goods/provision of services. Only a taxable person registered as a VAT taxpayer shall have the right to deduct VAT. If goods/services are intended or used for carrying out a VAT taxable transaction, a taxable person has the right to deduct VAT paid in respect of purchase of goods and services in Georgia, paid/payable at the import of goods and assessed in the case of VAT reverse charge. A taxable person can deduct VAT related to the charges borne with regard to the purchase of goods/services if the goods or services are used for provision of services/supply of goods outside Georgia, or if goods/services are used in the transactions exempted from VAT with the right of deduction; or for financial services/transactions if the customer is established outside of Georgia, or if these transactions are directly related to the goods that must be exported from Georgia.

Tax Rates

The benchmark rate structure for VAT is the standard rate that applies in any given year (18 percent since January 1, 2005).

Taxation of Governmental Entities

[15] Customs Code of Georgia, article 47.

Under Article 158 of the Georgian Tax Code, a VAT taxable person shall be considered any person who, at any place, independently performs any type of economic activity, irrespective of the purpose and result of the activity. However, activities of a public authority/municipality or of a legal person under public law if, when performing activities, it acts as a state body (exercises powers delegated to it by the state), even when a membership fee and other fees, or another payment is established for this activity, is not considered as conducting economic activity except for certain activities defined by the law. As a result, activities of public bodies are not taxed with VAT unless they are in competition with private sector, and they cannot claim VAT on inputs (purchases made by government bodies include VAT). Since these activities do not fall under the scope of the VAT, the non-taxation of public service bodies, which do not compete with the private sector, is not part of the VAT benchmark system.

Benchmark VAT Items

The Tax Code contains 18 VAT benchmark items. Examples include supplies or imports of gold for the National Bank of Georgia, supplies of passenger car carriage services linked to international transportation, and imports of goods for use by foreign diplomatic missions. In case of supply or import of gold for the National Bank of Georgia, these activities are regarded as financial instruments (as money). Thus, the Tax Code of Georgia envisages the exemption of such activities. In other two examples the decision to treat such activities as benchmark is based on internationally accepted principles and practices. Other benchmark items include provision of services or transfer of goods to the state/a municipality free of charge. Also, import of treasures and/or a movable property transferred into state ownership, supply of assets by an enterprise (over 50 percent of which is owned by the state and/or a municipality) and transfer of goods by legal entities under public law that implement projects defined by international agreements. See Appendix 2 for a detailed list of ITE benchmark items (reference 3, 4, 11, 12, 13, 14, 17, and 18).

II.c Categories for the Classification of Potential Tax Expenditure Items Outside the Benchmark

Any item included in the benchmark is not considered a TE. Other items include structural VAT items such as financial services exemption without right to deduction, small business exemption (mandatory registration threshold), international call termination services in mobile or fixed networks in Georgia (which are exempt with the right of deduction) and technical VAT items such as tax-exempt transactions within free industrial zones. It is debatable whether the VAT system would function without the small business exemption, since this would make administration complicated. In addition, it is not clear whether full taxation of financial services is feasible. However, Georgian tax legislation applies broad (even broader than the European, New Zealand and South Africa models) exemptions of financial services including services connected to this industry. See Appendix 1 for a discussion of the classification of TEs outside the benchmark as well as non-structural items.

Section III. Inventory of Tax Expenditures

This section presents and discusses the inventories of Income Tax Expenditures (ITEs) and Value-Added Tax Expenditures (VATEs). It also provides the reference for detailed descriptions of the TE items presented.

III.a Income Tax Expenditures

The Tax Code contains a total of 52 ITE items, which include a combination of income tax (IT) and profit tax (PT) items. Those items are deviations from the benchmark and therefore considered to be ITEs. Table 1 provides a list of ITEs as well as descriptions from the Tax Code, reference to Articles in the Tax Code, policy classification as TE, type of measure (exemption “EX” or reduced rate “RR”), and tax (income tax “IT” or profit tax “PT”). All items in Table 1 are regarded as non-structural TEs (see Appendix 1 for a discussion of non-structural TEs as opposed to other types).

From Table 1, we can see the priorities of Georgia while designing its tax policy. According to this table, several items are targeting financial instruments and operations, thus facilitating the development of activities in the field of financial markets. The structure of corporate ITEs shows another sizeable group of exemptions devoted to special zones, such as Free Industrial Zone (FIZ), Special Trading Company, Virtual Zone Legal Person, Special Enterprise, Agricultural Cooperative, High-Mountain Settlement, International Company, to promote the development of these areas, as well as economic sectors in Georgia and create jobs. Regarding ITEs, the Tax Code contains exemptions serving social, humanitarian, charitable and healthcare purposes, as well as promoting agriculture, tourism, and sports.

A description of ITEs is provided in Appendix 3 of this Report. The descriptions are organized and ordered using the reference numbers that appear in the first column of Table 1. The elements of information provided include the reference number, description from the Tax Code, year of implementation, objective, and beneficiary or beneficiaries.

Table 1. Income Tax Expenditure Inventory

Ref.	Measure	Tax Code Ref.	Policy	Type	Tax
1	Capital gains for assets owned > 2 years [residential apartment (house) and other personal property except ve	82.1(f), (f.a), (f.c)	TE	EX	IT
2	Capital gains for vehicles owned > 6 months	82.1(f), (b)	TE	EX	IT
3	Capital gains received from transfer of real estate to a partner natural person in exchange for share in enterpr	82.1(z)	TE	EX	IT
5	Interest earned from a licensed financial institution shall not be taxed at the source and shall not be included	131.5	TE	EX	IT/PT
7.1	Interest earned from a Free Industrial Zone (FIZ) Enterprise in a free zone shall not be taxed at the source and	131.9	TE	EX	IT
7.2	Dividends earned from a Free Industrial Zone (FIZ) Enterprise in a free zone shall not be taxed at the source ar	130.7	TE	EX	IT
7.3	Profit or distribution of profit earned by a Free Industrial Zone (FIZ) Enterprise from business permitted withi	99.1(m)	TE	EX	IT/PT
8	Profit (distribution of profit) earned from the supply of information technologies outside Georgia developed	99.1(p)	TE	EX	IT/PT
9	Distribution of profit earned by a tourist zone entrepreneur	99.1(q)	TE	EX	IT/PT
10	Distribution of profit earned by a special trading company from the conduct of permitted activities (except the	99.1(s)	TE	EX	IT/PT
11.1	Income gained by a resident legal person as interest for the loan securities issued before 1/1/2023 through a p	82.1(t^2)	TE	EX	IT
11.2	Income gained by a resident legal person from the supply of equity securities issued through a public offering	82.1(t^1), (t^3)	TE	EX	IT
12.1	Income earned by a non-resident as the interest from the loan securities issued by 1/1/2023 by a resident lega	99.1(l^2)	TE	EX	IT/PT
12.2	Income earned by a non-resident as a result of supplying equity or loan securities by a resident legal person th	99.1(l^1), (l^3)	TE	EX	IT/PT
13	Dividends received by a member of an agricultural cooperative from the cooperative before 1/1/2023 shall no	130.4^1	TE	EX	IT
14	Supply of agricultural produce made in Georgia as a result of agricultural activity between an agricultural coop	100.4(g)	TE	EX	IT
15	Distribution of profit earned by a high-mountain settlement enterprise for an activity carried out in the same	99.1(w), 82.1.z^8c	TE	EX	PT
16	Taxable income up to GEL 6 000 earned by a person with status of permanent resident in a high-mountain sett	82.2(c)	TE	EX	IT
17.1	Salary income received from a budgetary organization in a high-mountain settlement by a person with 3 or mo	82.2(a.f)	TE	EX	IT
17.2	50% reduction in income tax on salary income received from a budgetary organization in a high-mountain sett	82.2(a.f)	TE	EX	IT
18	Income received by a notary in the form of financial aid from the LEPL Notary Chamber of Georgia in a high-mo	82.1(z^7)	TE	EX	IT
19	A natural person having the status of a micro business shall not pay income tax	86	TE	EX	IT
20	Salary paid up to GEL 6 000 by a person having the status of a small business to a hired person that is not taxed	100.4(d), 94.4(a)	TE	EX	IT
21	Income earned by persons organizing gambling clubs, slot machine saloons, or betting houses (other than inco	82.1(z^2)	TE	EX	IT
25	Monetary award to sportsmen and their coaches for winning and/or taking podium places in Olympic Games, (	82.1(c)	TE	EX	IT
26	Alimony and the value of property (income) received by a natural person as a result of dissolution of marriage	82.1(d)-(e)	TE	EX	IT
27	Benefit received from a charity founded by the State within the scope of charitable activities.	82.1(b^1)	TE	EX	IT
28	Benefit received from a charitable organization for financing treatment and/or medical services expenses	82.1(b^2)	TE	EX	IT
29	Value of property received free of charge by a charitable organization by a registered socially vulnerable pers	82.1(z^3)	TE	EX	IT
30	Taxable of income of up to GEL 3 000 of citizens of Georgia who are war veterans	82.2(a.a)	TE	EX	IT
31	Taxable of income of up to GEL 3 000 a natural person awarded the title of "Kartvlis Deda" (mother of Georgia)	82.2(a.b)	TE	EX	IT
32	Taxable of income of up to GEL 3 000 a natural person who is a single mother or a person who has adopted a ch	82.2(a.c, a.d, a.e)	TE	EX	IT
33	Taxable income of up to GEL 6 000 earned by a person with a disability from childhood, as well as by a person v	82.2(b)	TE	EX	IT
36	Income received from lottery, the value of which does not exceed GEL 1 000	82.1(w)	TE	EX	IT
37	Income earned by a non-resident from a Georgian source as a result of risk insurance or reinsurance by a comp	82.1(q), 99.1(j)	TE	EX	IT/PT
38	Income earned by non-residents from leasing out the property that do[es] not belong to non-resident's perma	82.1(r), 99.1(k)	TE	EX	IT/PT
39	Income earned by supplying the surplus energy produced by a retail customer, as owner of a micro power plan	82.1(z^8d)	TE	EX	IT
40	Interest and surplus (capital gain) income from government debt securities or securities of the National Bank	82.1(s), (t)	TE	EX	IT
41	Income (capital gain) and profit distribution from government debt securities or securities of the National Bar	82.1(s), (t), 99.1(l)	TE	EX	IT/PT
42	As a result of renting out residential space to an organization for residential purposes, the income received by	81.2	TE	RR	IT
43	Surplus (capital gain) income gained from the provision [sale] of a rental apartment (house) and the land attac	81.3	TE	RR	IT
44	Surplus (capital gain) income gained from the provision [sale] of a vehicle shall be taxed at a rate of 5%	81.3	TE	RR	IT
45.1	Taxable income of a person having the status of small business shall be taxed at 1%, except under Article 90.2	90.1	TE	RR	IT
45.2	Taxable income of a person having the status of small business shall be taxed at 3% if gross income received fi	90.2	TE	RR	IT
46.1	Presumptive lump-sum tax according to the types of activity determined by the government of Georgia may b	95^3(a)	TE	RR	IT/PT
46.2	Presumptive lump-sum tax according to the types of activity determined by the government of Georgia is 3% (	95^3(b)	TE	RR	IT/PT
50	Bets received by a bookmaker arranged in a system-electronic form are taxed at 7% [on gross income without	309.16	TE	RR	IT/PT
51	Remuneration paid by a tourist enterprise to a natural person under a relevant contract shall be taxed at the ra	133^2	TE	RR	IT
52	Capital gain (effect of tax deferral effect) is not recognized in income	151	TE	EX	-
53	Income (other) earned by a non-resident from a Georgian-based source not attributed to the non-resident's P	134.1(e)	TE	RR	IT/PT
54	Royalty income earned by a non-resident from a Georgian-based source not attributed to the non-resident's P	134.1(b^1)	TE	RR	IT/PT
55	Taxpayer may fully deduct the value of fixed assets, except for those contributed to the entreprise's capital, ir	112.1	TE	RR	IT/PT

III.b Value-Added Tax Expenditures

The Tax Code contains a total of 66 Value-Added Tax Expenditure (VATE) items, which include a combination of exempt and zero-rated supplies. These items are deviations from the benchmark and, therefore, considered to be VATEs. Table 2 provides a list of VATEs as well as descriptions from the Tax Code, reference to Articles in the Tax Code, policy classification as TE, and type of measure (exemption “E” or zero rating “Z”). All items in Table 2 are regarded as non-structural TEs (see Appendix 1 for a discussion of non-structural TEs as opposed to other types).

The review of the list contained in Table 2 follows the same pattern as the ITE list above (Table 1), regarding priorities set by tax policy. The Tax Code of Georgia provides for exemptions mainly in the fields of financial operations/services, healthcare, pharmaceuticals, education, as well as agriculture, international transportation, energy, and tourism. A description of VATEs is provided in Appendix 4 of this Report. The descriptions are organized and ordered using the reference numbers that appear in the first column of Table 2. The elements of information provided include the reference number, description from the Tax Code, year of implementation, objective, and beneficiary or beneficiaries.

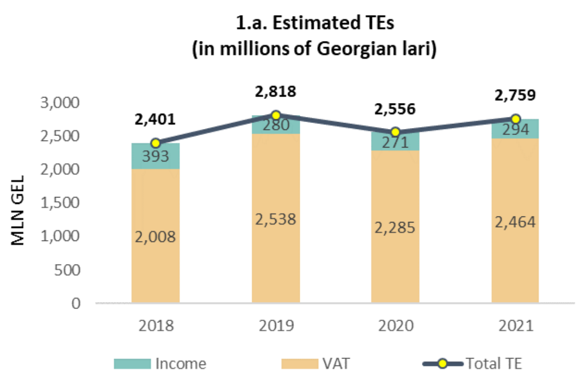
Table 2. Value-Added Tax Expenditure Inventory

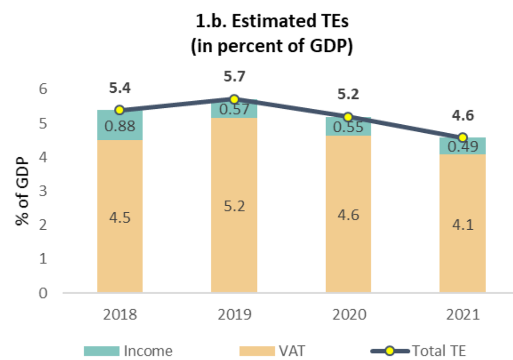
Ref.	Type	Measure	Tax Code Ref.	Policy
1	E	10-year VAT exemption for investors after the commencement of the construction envisaged by an agreement	SOM, 5(2)(a)	TE
2	E	Arts education and sports training services to natural persons under 18	170.1(g)	TE
3	E	Child and adolescent protection by the guardianship and custodianship authority	170.1(i)	TE
4	E	Diabetic bread, which is labeled as such at the time of supply	170.1(q)	TE
5	E	Educational services and provision of related ancillary goods and services, and tutoring	170.1(e)-(f)	TE
6	E	Goods originated or manufactured in an occupied territory of Georgia from the occupied territory to a person having the s	171.1(s)	TE
7	Z	Gratuitous provision of hotel accommodation for a maximum of 60 days in a year to the owner of hotel assets by a tourist	171.4(w)	TE
8	E	Import by a person selected by GRS for mandatory stamping/marking of excisable and non-excisable goods	173(z)	TE
9	E	Import of a motor car (NCNFEA 8703 and/or a motorcycle (including a motor bicycle) under the NCNFEA 8711)	173(g)	TE
10	E	Import of a vehicle provided for under NCNFEA 8703 10 110 (vehicles specially designed for travelling on snow, golf cars aı	173(m)	TE
11	E	Import of an electric bus (including electric minibus) provided under the NCNFEA codes 8702 90 90 (Other)	173(z9)	TE
12	E	Import of baby food products and/or child hygiene products	173(a.d)	TE
13	E	Import of diabetic bread marked as such	173(k)	TE
14	E	Import of excise stamps by GRS and/or by a person selected by GRS	173(i)	TE
15	E	Import of goods (magazines, newspapers, and printed music) specified under the codes 4901, 4902 and 4904 00 000 00 of N	173(l)	TE
16	E	Import of goods (newsprint, other paper and paperboard)	173(d)	TE
17	E	Import of goods (printed books, children's picture, drawing or colouring books (NCNFEA 4901 and 4903)	173(z8)	TE
18	E	Import of goods exempted from import tax under Book X, except for import of goods from a FIZ	173(y)	TE
19	E	Import of goods intended for therapeutic/pharmaceutical purposes	173(a.a)	TE
20	E	Import of goods necessary for a person with a disability since childhood and a person with distinct and significant disabilit	173(a.c)	TE
21	E	Import of goods provided for under a grant agreement by a grantor or grantee	173(z1)	TE
22	E	Import of goods provided under NCNFEA group 30 (pharmaceutical products)	173(b)	TE
23	E	Import of goods provided under NCNFEA group 961900 (sanitary towels, pads, tampons, napkins and liners for babies)	173(a.e)	TE
24	E	Import of liquorice roots and a variety of plant-based materials, natural resins, animal and vegetable oils and fats, etc. (se	173(e)	TE
25	E	Import of live animals, other animal products, vegetal products, mineral substances, fertilisers, pesticides, etc. (see 173(f	173(f)	TE
26	E	Import of motor vehicle chassis, bodies, parts and accessories, and agricultural machinery and equipment	173(o)	TE
27	E	Import of radiopharmaceutical agents ,wheelchairs and their parts and accessories, and various medical equipment and m	173(a.b)	TE
28	E	Import of yachts and other vesslels for pleasure and sports, rowing boats and canoes (NCNFEA group 8903)	173(h)	TE
29	E	Import to a port of the goods caught by a person carrying out fishing, which are not processed or were processed before s	173(z6)	TE
30	E	Importation of agrarian pesticides and agrochemicals, seed and plant materials of agricultural plants according to the list a	173(q)	TE
31	E	Importation of goods (other aircraft, including helicopters, aeroplanes) indicated under the NCNFEA Codes 8802 11 100 00	173(s)	TE
32	Z	International call termination services in mobile or fixed networks in Georgia	172.4(x)	TE
33	E	Lease of goods the supply of which is VAT exempt without the right of deduction under this Code	171.1(j)	TE
34	E	Lotteries and gambling services and games of chance except for those in which state owns over 50% interest	171.1(b)	TE
35	Z	Lotteries and gambling services and other games of chance by those lottery organisers in which State holds > 50% interest	172.4(r)	TE
36	E	Mandatory marking/stamping services of excisable and non-excisable goods by a person selected by GRS	171.1(m)	TE
37	E	Medical services and care, dental care and prosthetic services, and ancillary related goods and services	170.1(a)-(c)	TE
38	Z	Organized bringing of tourists by tour operators and supply of tourist products to them in the territory of Georgia	172.4(o)	TE
39	E	Personnel staffing services by religious organization for activities in 170.1(a), (e), (h), and (i)	170.1(l)	TE
40	E	Provision of ceremonial services, including a vehicle, related to a funeral	170.1(p)	TE
41	E	Provision of lecture courses through electronic media that are educational in nature and may come in a book	171.1(e)	TE
42	E	Provision of services by an organization in return for membership fee, and supply of directly related goods	170.1(j)	TE
43	E	Provision of services/supply of goods by organization exempt on basis of 170.1(a)-(e), (g)-(k) for fund raising	170.1(m)	TE
44	E	Restoration, rehabilitation, designing and research works on monuments of cultural or religious heritage, painting of cath	170.1(k), (s)	TE
45	E	Selling and printing services of magazines, newspapers, and printed music or advertising services by newspapers and mag	171.1(f)	TE
46	E	Services by passenger vehicles (except for taxis) with regulated prices on urban and interregional routes	171.1(k)	TE
47	E	Services on the basis of an agreement funded by a foreign organization for the liquidation of a natural disaster, accident o	171.1(u)	TE
48	E	Social services including provision of child-care services, early pre-school education, and care for sick, disabled and elderl	170.1(h)	TE
49	Z	Supply and/or importation of an electric bus (including an electric minibus) specified under the National Commodity Nom	172.4(z4)	TE
50	Z	Supply and/or importation of goods (books) specified under the National Commodity Nomenclature of Foreign Economic	172.4(z3)	TE
51	E	Supply by the Patriarchate of Georgia of crosses, candles, icons, books, calendars and other liturgical items used only for r	170.1(r)	TE
52	Z	Supply of (agricultural) products obtained from goods fully made in Georgia and indicated in National Commodity Nomen	172.4(u)	TE
53	E	Supply of a plot of land	171.1(c)	TE
54	E	Supply of a plot of land and an apartment/dwelling house to a natural person if the supplier supplies this property to a na	171.1(d)	TE
55	Z	Supply of agricultural produce produced in Georgia (other than the goods (eggs) indicated in National Commodity Nomen	172.4(t)	TE
56	Z	Supply of ferrous and/or non-ferrous scrap metals and ferrous and/or non-ferrous metal waste if the goods receiving part	172.4(z2)	TE
57	Z	Supply of Georgian goods to a duty free shop for sale and the sale of goods and/or provision of food services at that locati	172.4(m)	TE
58	E	Supply of goods (notebooks) indicated in the National Commodity Nomenclature of Foreign Economic Activities Code 482	171.1(p)	TE
59	E	Supply of goods and/or provision of services related to the equipment, machinery, vehicles, spare parts and materials int	171.1(v)	TE
60	Z	Supply of goods by a person having the status of special enterprise to the occupied territory of Georgia	172.4(l)	TE
61	Z	Supply of goods produced in Georgia and intended for therapeutic/medical purposes, or supply by a pharmaceutical ente	172.4(z6)	TE
62	E	Supply of goods provided for by Articles 173(a)-(n) of this code (VAT exemption of import of goods)	171.1(w)	TE
63	E	Supply of state-owned property on the basis of privatisation programme	171.1(h)	TE
64	E	Sweeping, cleaning and waste management services to a municipality in a populated territory	171.1(l)	TE
65	Z	Transportation, loading and storage services in relation to empty vehicles including containers and carriages used during t	172.4(i)	TE
66	E	Universal postal services performed within power delegated by the State and supply of national postage stamps	170.1(n)-(o)	TE

Section IV. Total Estimated Tax Expenditures in Georgia

This Report estimates tax expenditures (TEs) for Georgia during the 2018-2021 period (Figure 1). Total estimated TEs increased in nominal terms in 2021 but declined as a share of GDP. Specifically, total estimated TEs for 2021 amounted to 2,759 million GEL (4.6 percent of GDP), which is less than during 2018-2020 (above 5 percent of GDP). Total estimated TEs increased in 2019 to 2,818 million GEL (relative to 2018 when they amounted to 2,401 million GEL). This increase in total TEs was not only in local currency unit levels but also in percent of GDP (from 5.4 to 5.7 percent of GDP). After that, TEs declined to 5.2 percent of GDP in 2020 and 4.6 percent of GDP in 2021.

Figure 1. Georgia: Total Estimated TEs, 2018-2021





Source: GRS data, MoF calculations.

Source: GRS and GEOSTAT data, MoF calculations.

TEs estimated in this Report include Value-Added Tax Expenditures (VATEs) and Income Tax Expenditures (ITEs). In 2021, VATEs accounted for around 90 percent of total TEs (4.1 percent of GDP). ITEs, on the other hand, accounted for the remaining 10 percent (0.5 percent of GDP). It should be noted that ITEs declined in 2019 relative to 2018 (from 0.9 to 0.6 percent of GDP), while VATEs and, therefore, total estimated TEs increased. Estimated ITEs amounted to 294 million GEL in 2021, while estimated VATEs were at 2,464 million GEL that same year.

This Report replicates and extends recent work by the IMF (Swistak et al. [2022]). It, additionally, expands on the ITE costing exercise carried out by USAID (2021), and an earlier VATE costing exercise carried out by the IMF (Swistak et al., [2020]). Thus, this Report updates previous estimates using the latest available data (e.g., for 2021) and makes several methodological updates/improvements, such as conducting a sensitivity analysis with respect to underlying costing parameters and assumptions for ITEs (Appendix 5) as well as VATEs (Appendix 6). Estimates chosen from the sensitivity analysis and used throughout the Report include the following.

- **Interest Income ITE estimate**, assuming away interest rate parity (IRP) and adjusting for tax payment timing and the currency composition of deposits. The methodology applied here implies that deposits in national and foreign currencies have interest rates that mirror different levels of risk.

- **Small Business Status ITE estimate**, using a 6.22 percent profit margin assumption. This means that the average profit margin is calculated according to the turnover and profit data of the entire business sector. However, instead of the average profit margin during 2015-2019, this Report uses the average profit margin during 2016-2020. In terms of the sensitivity analysis, additional estimates are made based on the profit margin of the small business sector alone, as well as the average between the profit margins of the small business sector and the entire business sector.

- **VATE estimates**, assuming no informality. For the sensitivity analysis, the informal sector is considered under an alternative specification (see Appendix 6), where it is input-taxed only. As for the quantitative assessment of VATEs used in the main body of the Report, the TEs are calculated without taking into account informality, since the assessment of the informal sector is associated with additional difficulties, including data availability and precision.

IV.a Income Tax Expenditures

This Report estimates Income Tax Expenditures (ITEs) for the old Corporate Income Tax (CIT), Distributed Profits Tax (DPT), Personal Income Tax (PIT) and other ITE regimes.

The CIT is a tax collected from companies; the amount of tax liability is calculated based on net income that companies obtain from their business activity during the fiscal year. The general CIT rate is 15 percent. CIT payable is calculated as the 15 percent tax rate times net profits after the deduction of business expenses (including depreciation).

The DPT came into force on January 1, 2017. The DPT is applied to all types of businesses having a legal form, excluding commercial banks, insurance companies and micro-finance organizations, credit unions, pawn brokers, as well as companies receiving income from oil and gas operations and bookmakers operating with systemic-electronic forms. The latter are still subject to the (old) CIT regime until January 1, 2023. The main difference between the (old) CIT and DPT regimes is that the latter postpones taxation of corporate income until the distribution of net income in the form of dividends. DPT is calculated as the 15 percent tax rate times the amount of distributed profits.

The statutory tax rates under the current legislation, adjusted for the relevant bilateral and international agreements, should be considered as part of the benchmark (corporate) tax system in Georgia. Both regimes (old CIT and DPT) are in force until January 1, 2023, and should, therefore, be included under the benchmark for corporate income taxation.

PIT taxpayers in Georgia can be residents as well as non-resident individuals. Residents in Georgia are taxed based on income earned in Georgia or abroad, while non-resident individuals are taxed based on income earned within the Georgian territory. Personal income is taxed at a flat rate of 20 percent in Georgia, which this Report considers as the benchmark PIT system.

Given the above-mentioned characteristics of the income tax system in Georgia, this Report estimates selected ITEs for the period 2018-2021 (Table 3). ITEs estimated in this Report mainly relate to personal income taxation (on average, at around 0.4 percent of GDP during 2018-2021), and corporate income taxation (on average, at 0.06 and 0.2 percent of GDP for DPT and CIT respectively). Other items (e.g., small business status ITEs) are typically close to 0.02 percent of GDP and, hence, relatively immaterial.

Table 3. Georgia: Detailed ITE Estimates, 2018-2021

Table 3.a. ITE Estimates in Million GEL and Percent of GDP

Ref. (Table 1)	Provision	Description | Year	Million GEL				Percent GDP			
			2018	2019	2020	2021	2018	2019	2020	2021
		I. Personal Income:								
42,43,44	81.2, 81.3	Income from the Sale and Lease of Assets, of which:	7.02	6.19	5.35	6.13	0.02	0.01	0.01	0.01
42,43,44	81.2, 81.3	From Asset Sale	2.25	1.67	1.18	1.41	0.00	0.00	0.00	0.00
42,43,44	81.2, 81.3	From Asset Lease	4.77	4.52	4.17	4.72	0.01	0.01	0.01	0.01
Ref. for Prov. 82.1	82.1 (Residual)	Article 82, Part 1 (Miscellaneous)	102.81	100.01	85.19	160.88	0.23	0.20	0.17	0.27
Ref. for Prov. 82.2	82.2	Article 82, Part 2 (Miscellaneous)	3.53	2.42	1.91	1.49	0.01	0.00	0.00	0.00
21	82.1(z^2)	Income from organized betting in systemic-electronic form	0.26	0.13	0.05	0.05	0.00	0.00	0.00	0.00
19	86	Natural person with micro-business status	51.78	18.37	16.75	18.79	0.12	0.04	0.03	0.03
5	131.5	Interest Income from Licensed Financial Institutions	23.02	26.73	33.04	34.62	0.05	0.05	0.07	0.06
4	82.1(u)	Memorandum Item: Foreign Income earned by Residents	7.82	5.66	6.98	66.49	0.02	0.01	0.01	0.11
		Sub-Total, Personal Income (excl. Memorandum Items)	188.42	153.85	142.29	221.96	0.42	0.31	0.29	0.37
		II. Corporate Income:								
Ref. for Prov. 99	99	**II.A. Distributed Profit Tax (DPT), of which:**	31.59	25.84	32.25	42.81	0.07	0.05	0.06	0.07
	n.a.	Distributed profits, of which:	24.62	20.14	25.13	33.36	0.05	0.04	0.05	0.06
15	99.1(w), 82.1.z^8c	High-Mountain Settlement Enterprises	0.64	0.83	0.97	0.93	0.00	0.00	0.00	0.00
8	99.1(p)	Virtual Zones	1.01	3.95	4.98	6.45	0.00	0.01	0.01	0.01
7.3	99.1(m)	Free Industrial Zones	0.15	0.29	0.30	0.43	0.00	0.00	0.00	0.00
12	99.1 (l^1), (l^2), (l^3)	International Companies	0.30	0.38	0.21	0.44	0.00	0.00	0.00	0.00
9	99.1(q)	Tourist Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	22.52	14.69	18.67	25.11	0.05	0.03	0.04	0.04
	n.a.	Witholding on dividends, of which:	6.97	5.71	7.12	9.45	0.02	0.01	0.01	0.02
15	99.1(w), 82.1.z^8c	High-Mountain Settlement Enterprises	0.18	0.23	0.27	0.26	0.00	0.00	0.00	0.00
8	99.1(p)	Virtual Zones	0.29	1.12	1.41	1.83	0.00	0.00	0.00	0.00
7.3	99.1(m)	Free Industrial Zones	0.04	0.08	0.09	0.12	0.00	0.00	0.00	0.00
12	99.1(i)	International Companies	0.09	0.11	0.06	0.12	0.00	0.00	0.00	0.00
9	99.1(q)	Tourist Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	6.37	4.17	5.29	7.12	0.02	0.01	0.01	0.01
	Various	**II.B. Old Corporate Income Tax (CIT) Regime, of which:**	162.48	89.10	87.38	20.63	0.36	0.18	0.18	0.03
	n.a.	High-Mountainous Areas	0.08	0.04	0.00	0.01	0.00	0.00	0.00	0.00
	n.a.	Virtual Zones	0.06	0.06	0.09	0.08	0.00	0.00	0.00	0.00
	n.a.	Free Industrial Zones	0.97	0.22	0.06	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	161.37	88.78	87.23	20.54	0.36	0.18	0.18	0.03
9	99.1(q)	Memorandum Item: Entrepreneurial Entities of the Tourist Zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		Sub-Total, Corporate Income (excl. Memorandum Items)	194.07	114.94	119.63	63.44	0.43	0.23	0.24	0.11
		III. Other:								
50	309.16	Bookmaker bets in system-electronic form	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
45	90.1, 90.2	Person having the status of small business, of which:	1.12	3.35	3.36	4.69	0.00	0.01	0.01	0.01
45.1	90.1	Taxable at 1% rate	1.20	3.61	3.84	5.73	0.00	0.01	0.01	0.01
45.2	90.2	Taxable at 3% rate	-0.07	-0.27	-0.48	-1.04	0.00	0.00	0.00	0.00
46	95^3(a)-(b)	Presumptive lump-sum tax regime	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
55	112.1	Full deduction of assets, of which:	9.19	7.40	5.68	4.36	0.02	0.02	0.01	0.01
		Personal income	2.22	2.41	1.32	2.18	0.00	0.00	0.00	0.00
		Corporate income	6.97	5.00	4.36	2.18	0.02	0.01	0.01	0.00
		Sub-Total, Other	10.32	10.75	9.04	9.05	0.02	0.02	0.02	0.02
		Grand Total (I + II + III)	**392.81**	**279.54**	**270.97**	**294.45**	**0.88**	**0.57**	**0.55**	**0.49**

Table 3.b. ITE Estimates in Percent of Total Tax Revenue and Income Tax Revenue

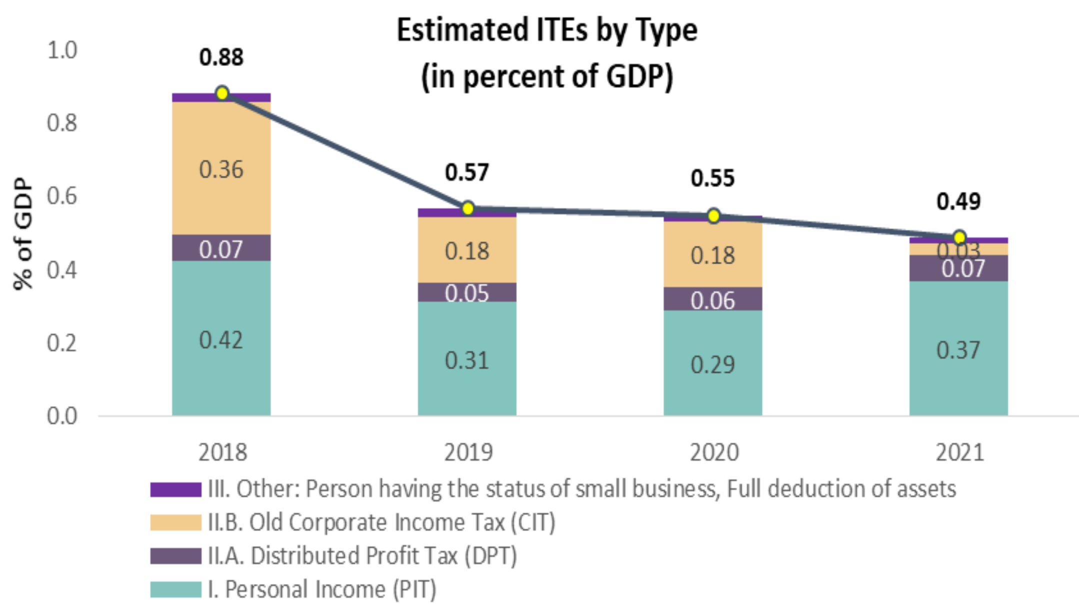
Ref. (Table 1)	Provision	Description | Year	Percent of Tax Revenue				Percent of Income Tax Revenue			
			2018	2019	2020	2021	2018	2019	2020	2021
		I. Personal Income:								
42,43,44	81.2, 81.3	Income from the Sale and Lease of Assets, of which:	0.07	0.06	0.05	0.05	0.18	0.14	0.13	0.13
42,43,44	81.2, 81.3	From Asset Sale	0.02	0.01	0.01	0.01	0.06	0.04	0.03	0.03
42,43,44	81.2, 81.3	From Asset Lease	0.05	0.04	0.04	0.04	0.12	0.10	0.10	0.10
Ref. for Prov. 82.1	82.1 (Residual)	Article 82, Part 1 (Miscellaneous)	1.03	0.93	0.86	1.40	2.58	2.30	2.01	3.36
Ref. for Prov. 82.2	82.2	Article 82, Part 2 (Miscellaneous)	0.04	0.02	0.02	0.01	0.09	0.06	0.05	0.03
21	82.1(z^2)	Income from organized betting in systemic-electronic form	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
19	86	Natural person with micro-business status	0.52	0.17	0.17	0.16	1.30	0.42	0.39	0.39
5	131.5	Interest Income from Licensed Financial Institutions	0.23	0.25	0.33	0.30	0.58	0.61	0.78	0.72
4	82.1(u)	Memorandum Item: Foreign Income earned by Residents	0.08	0.05	0.07	0.58	0.20	0.13	0.16	1.39
		Sub-Total, Personal Income (excl. Memorandum Items)	1.89	1.42	1.43	1.94	4.73	3.54	3.35	4.63
		II. Corporate Income:								
Ref. for Prov. 99	99	**II.A. Distributed Profit Tax (DPT), of which:**	0.32	0.24	0.32	0.37	0.79	0.59	0.76	0.89
	n.a.	Distributed profits, of which:	0.25	0.19	0.25	0.29	0.62	0.46	0.59	0.70
15	99.1(w), 82.1.z^8c	High-Mountain Settlement Enterprises	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02
8	99.1(p)	Virtual Zones	0.01	0.04	0.05	0.06	0.03	0.09	0.12	0.14
7.3	99.1(m)	Free Industrial Zones	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01
12	99.1 (I^1), (I^2), (I^3)	International Companies	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.01
9	99.1(q)	Tourist Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	0.23	0.13	0.19	0.22	0.56	0.34	0.44	0.52
	n.a.	Witholding on dividends, of which:	0.07	0.05	0.07	0.08	0.17	0.13	0.17	0.20
15	99.1(w), 82.1.z^8c	High-Mountain Settlement Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00
8	99.1(p)	Virtual Zones	0.00	0.01	0.01	0.02	0.01	0.03	0.03	0.04
7.3	99.1(m)	Free Industrial Zones	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	99.1(i)	International Companies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	99.1(q)	Tourist Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	0.06	0.04	0.05	0.06	0.16	0.09	0.13	0.15
	Various	**II.B. Old Corporate Income Tax (CIT) Regime, of which:**	1.63	0.82	0.88	0.18	4.08	2.05	2.06	0.43
	n.a.	High-Mountainous Areas	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Virtual Zones	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Free Industrial Zones	0.01	0.00	0.00	0.00	0.02	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	1.61	0.82	0.88	0.18	4.05	2.04	2.06	0.43
9	99.1(q)	Memorandum Item: Entrepreneurial Entities of the Tourist Zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		Sub-Total, Corporate Income (excl. Memorandum Items)	1.94	1.06	1.20	0.55	4.87	2.64	2.82	1.32
		III. Other:								
50	309.16	Bookmaker bets in system-electronic form	0.00	0.00	0.00	0.00	0.00	1.00	2.00	3.00
45	90.1, 90.2	Person having the status of small business, of which:	0.01	0.03	0.03	0.04	0.03	0.08	0.08	0.10
45.1	90.1	Taxable at 1% rate	0.01	0.03	0.04	0.05	0.03	0.08	0.09	0.12
45.2	90.2	Taxable at 3% rate	0.00	0.00	0.00	-0.01	0.00	-0.01	-0.01	-0.02
46	95^3(a)-(b)	Presumptive lump-sum tax regime	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
55	112.1	Full deduction of assets, of which:	0.09	0.07	0.06	0.04	0.23	0.17	0.13	0.09
		Personal income	0.02	0.02	0.01	0.02	0.06	0.06	0.03	0.05
		Corporate income	0.07	0.05	0.04	0.02	0.17	0.11	0.10	0.05
		Sub-Total, Other	0.10	0.10	0.09	0.08	0.26	0.25	0.21	0.19
		Grand Total (I + II + III)	**3.93**	**2.59**	**2.73**	**2.57**	**9.86**	**6.43**	**6.38**	**6.15**

Source: GRS and GEOSTAT data, MoF calculations.

The total estimated ITEs amounted to 294 million GEL in 2021. This amount was at 393 million GEL in 2018, and decreased to 280 in 2019 (mainly due to the old CIT ITE, which decreased from 162 to 89 million GEL) and to 271 million GEL in 2020.

Total ITEs were at 0.5 percent of GDP in 2021. Total estimated ITEs were at 0.9 percent of GDP in 2018 (mainly due to the old CIT regime), while in 2019 and 2020 they were at 0.6 percent of GDP (Figure 2). It should be noted, that, for 2021, PIT ITEs increased (from 0.3 percent to 0.4 percent of GDP), while the TE from the (old) CIT regime decreased significantly, from 0.2 percent to 0.03 percent of GDP. The above-mentioned reduction in TEs (63 million GEL) mainly comes from social work activities, whose TEs doubled in 2020 compared to the previous year. In 2020, in parallel with the increase in TEs from the social work activities sector, TEs from financial activities decreased (by 45 million GEL) and remained low in 2021.

Figure 2. Georgia: Total Estimated ITEs by Type, 2018-2021

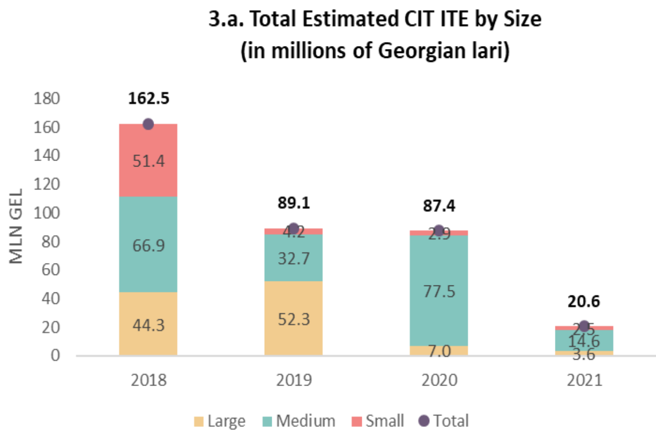


Source: GRS and GEOSTAT data, MoF calculations.

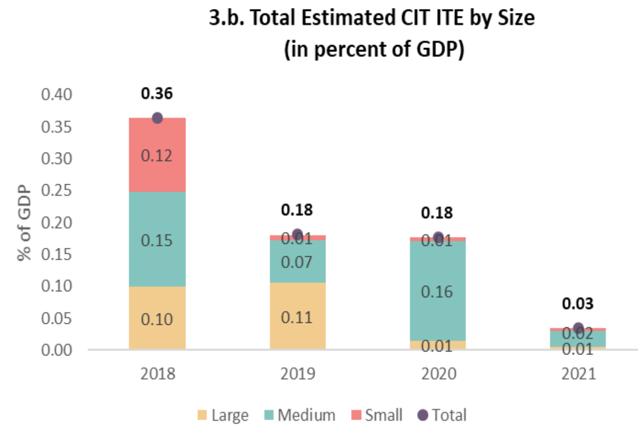
IV.a.1 Corporate Income Tax (CIT) (old regime)

The total ITE from the (old) CIT regime was 20.6 million GEL (0.03 percent of GDP) in 2021. During 2018-2020, the (old) CIT regime ITE amounted to 162.5, 89.1 and 87.4 million GEL, respectively. In 2018, the (old) CIT regime ITE was at 0.4 percent of GDP, but, in the following years, it decreased to 0.2 percent of GDP (2019, 2020), while in 2021 it decreased even more drastically to 0.03 percent of GDP (Figure 3).

Figure 3. Georgia: Total Estimated (old) CIT ITE by Taxpayer Size, 2018-2021



Source: GRS data, MoF calculations.



Source: GRS and GEOSTAT data, MoF calculations.

The (old) CIT regime ITEs for 2018-2021 are also analyzed by taxpayer category. These categories are defined by the order of the head of the Revenue Service N29355 - "On the determination, cancellation, and registration of the appropriate category of the amount for the taxpayer".

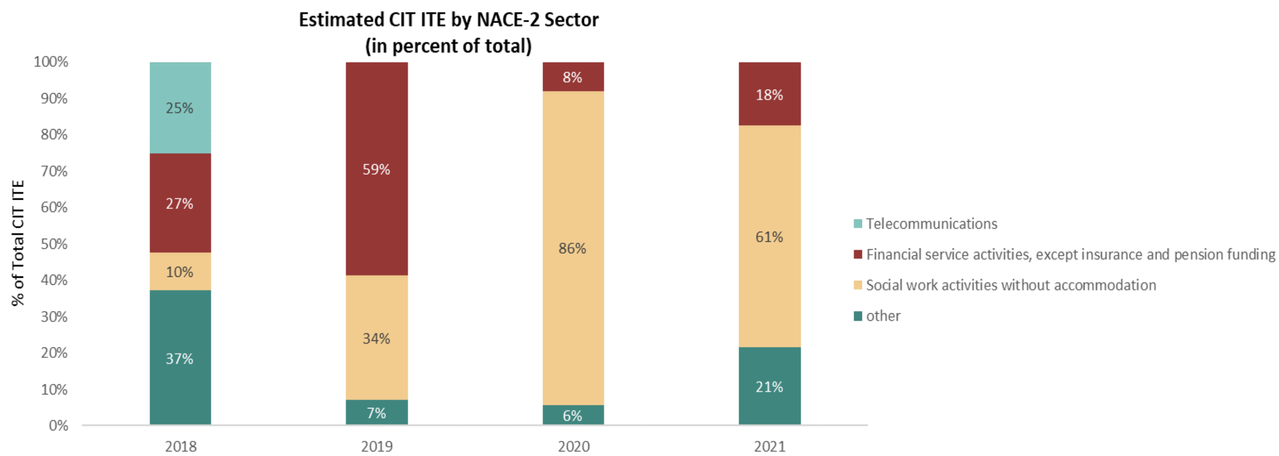
A large taxpayer is a person whose total declared turnover during the preceding 12 months is equal to or greater than 80,000,000 GEL. An average (or medium-sized) taxpayer is a person whose total declared turnover during the preceding 12 months is equal to or greater than 1,000,000 GEL. A small taxpayer is a person who has not been defined as a large or medium-sized taxpayer.

The (old) CIT regime ITE from medium-sized taxpayers was 14.6 million GEL (0.02 percent of GDP) in 2021. This is less than the estimates from previous years, but a larger share of the total ITE (compared to small and large taxpayers, together amounting to 6 million GEL, or 0.01 percent of GDP). In 2018, medium-sized taxpayers had the largest share (0.2 percent of GDP) of the (old) CIT ITE. Since 2019, the size of ITEs from large taxpayers increased from 44.3 million to 52.3 million GEL, which amounted to 0.1 percent of GDP. In the same period, the ITE from small taxpayers decreased from 0.1 percent to 0.01 percent of GDP, while the ITE from medium-sized taxpayers halved and amounted to 0.07 percent of GDP. In 2020, medium-sized taxpayers still accounted for the largest share, which amounted to 77.5 million GEL or 0.2 percent of GDP, while, at the same time, the share of large and small taxpayers equaled 0.01 percent of GDP. In 2021, taxpayer shares were relatively equally distributed by size.

Analyzing the (old) CIT ITE by NACE-2 sector, the Report notes that the top sectors were not many in 2021, as social work activities accounted for 61 percent of this ITE, while financial service activities, except for insurance and pension funding, accounted for 18 percent of the

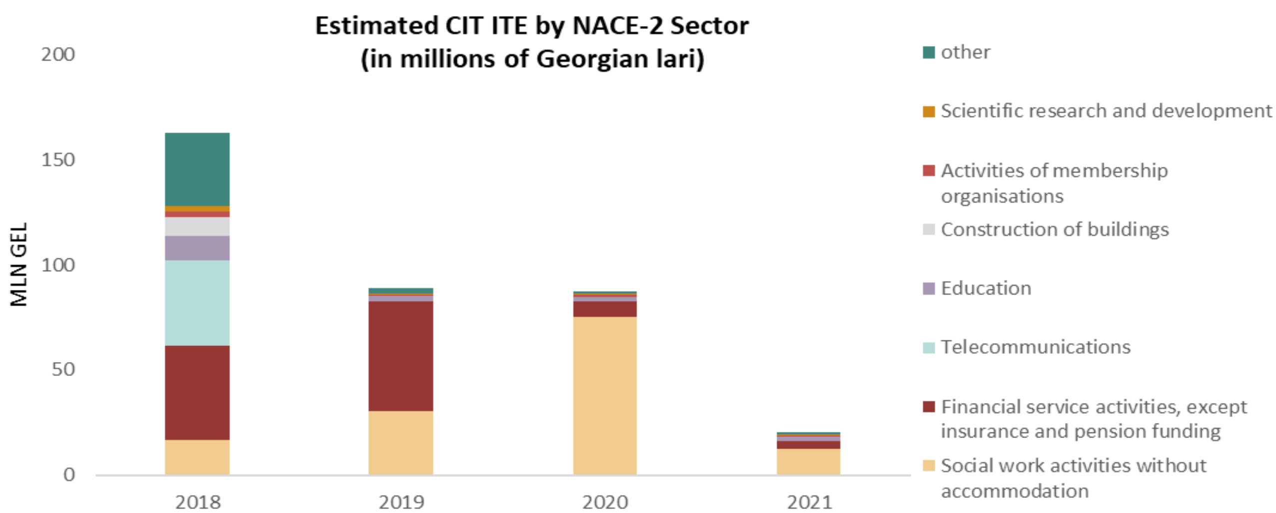
ITE. The top contributing sectors were relatively more numerous in 2018. Top contributing sectors in said year included financial service activities, except insurance and pension funding (27 percent), telecommunication (25 percent), social work activities without accommodation (10 percent), education (7 percent), and construction of buildings (5 percent). The sectoral composition of the (old) CIT regime ITE changed drastically in 2019: the contribution of financial service activities, except insurance and pension funding (59 percent) and social work activities (34 percent) increased more than twice relative to 2018. In 2020, social work activities escalated to 86 percent of the total (old) CIT ITE and financial service activities, except insurance and pension funding subsided to 8 percent.

Figure 4. Georgia: Estimated (old) CIT ITE by NACE-2 Sector, 2018-2021



Source: GRS data, MoF calculations.

Figure 5. Georgia: Estimated (old) CIT ITE by NACE-2 Sector, 2018-2021



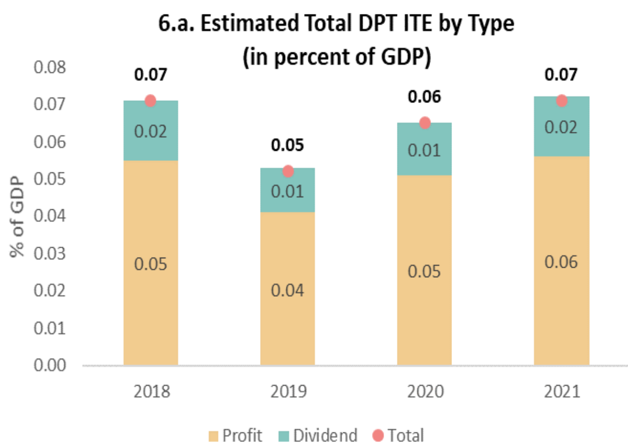
Source: GRS data, MoF calculations.

An analysis of the (old) CIT ITE by special regime (Free Industrial Zone, High-Mountain Settlement, International Company, and Virtual Zone), shows that no significant TE occurred during the estimation period under said regimes (the total across all special regimes amounts to less than 1 million GEL).

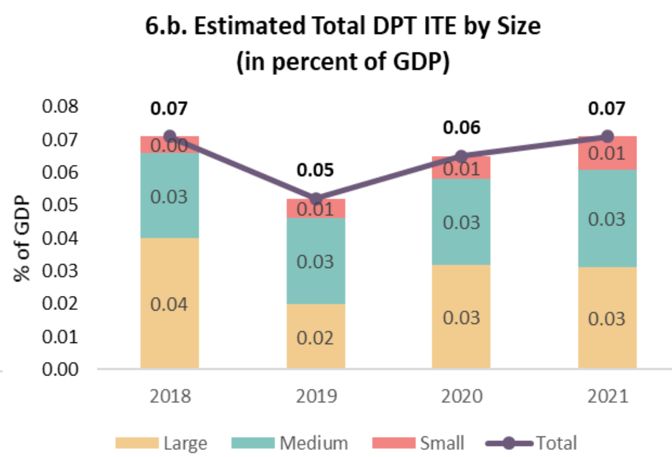
IV.a.2 Distributed Profit Tax (DPT)

The total estimated DPT ITE in 2021 was at around 42.8 million GEL (0.07 percent of GDP), which is higher relative to previous years. In 2018, it amounted to 31.6 million GEL, decreased in 2019 to 25.8 million GEL, and, in 2020, started to increase reaching 32.3 million GEL.

Figure 6. Georgia: Estimated Total DPT ITE by Type and Taxpayer Size, 2018-2021



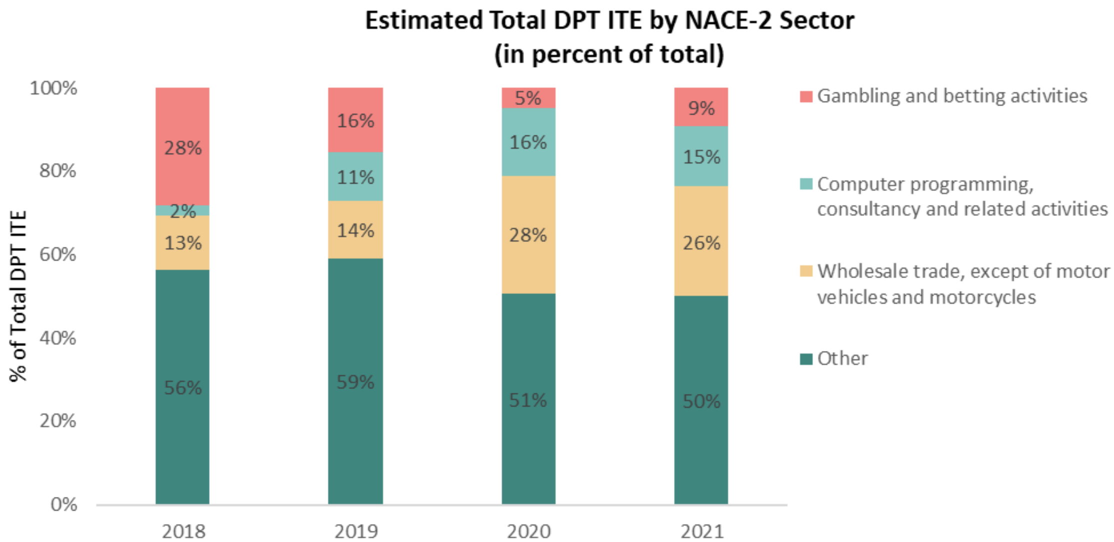
Source: GRS and GEOSTAT data, MoF calculations.



Source: GRS and GEOSTAT data, MoF calculations.

The total estimated DPT ITE is the sum of the DPT profit ITE and DPT dividend ITE. Overall, the DPT profit ITE amounted to 33.4 million GEL, while the DPT dividend ITE amounted to 9.4 million GEL in 2021 (0.05 percent and 0.02 percent of GDP, respectively). The estimated total DPT ITE varied between 0.05 percent and 0.07 percent of GDP during 2018-2021 (Figure 6). Large and medium-sized taxpayers' contributions to the total DPT ITE are almost equal, especially in 2020 and 2021 (0.03 percent of GDP each), while the DPT ITE from small taxpayers accounts only for 0.01 percent of GDP, on average, during the period 2018-2021.

Figure 7. Georgia: Estimated Total DPT ITE by NACE-2 Sector, 2018-2021



Source: GRS data, MoF calculations.

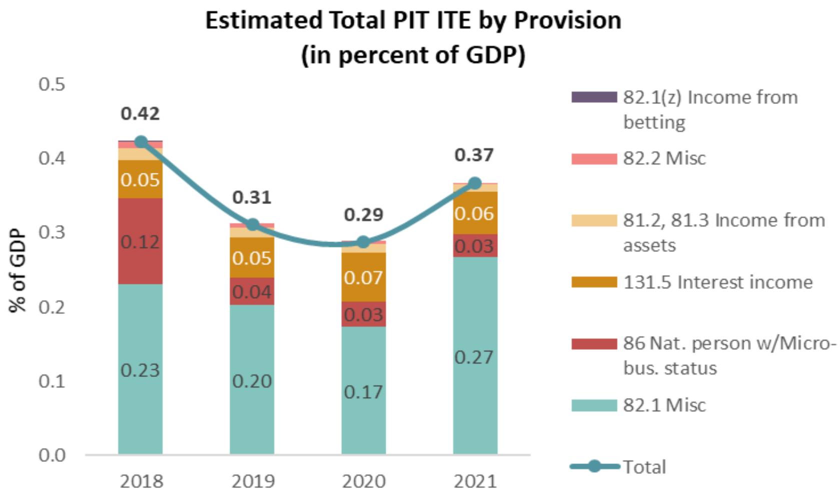
Sectoral shares in the total DPT ITE have changed slightly over the years and, for 2021, wholesale trade contributed the most to the ITE (26 percent), followed by: computer programming (15 percent), gambling (9 percent), and construction and warehousing (8 percent each) (Figure 7). In 2018, the following sectors contributed the most to the total DPT ITE: gambling (28 percent), wholesale trade (13 percent), warehousing (12 percent), and construction (11 percent). Together with the decline in the gambling sector's share in the total, the share of trade and computer programming increased in the following years.

Looking at the total DPT ITE by special regime, most of it came from Virtual Zones in 2021 (relative to other regimes). From 2018 to 2021, DPT ITEs from virtual zones increased from 1.3 to 8.3 million GEL (reaching 0.01 percent of GDP, which is, however, quite low in absolute terms).

IV.a.3 Personal Income Tax (PIT)

The total estimated PIT ITEs reached 222 million GEL (0.37 percent of GDP) in 2021, higher than in years 2019 and 2020. PIT ITEs in 2018 were at 188.4 million GEL (0.42 percent of GDP); PIT ITEs, then, started to decline, reaching 153.8 million GEL in 2019 and 142.3 million GEL in 2020 (0.3 percent of GDP in both years).

Figure 8. Georgia: Total Estimated PIT ITEs by Provision, 2018-2021

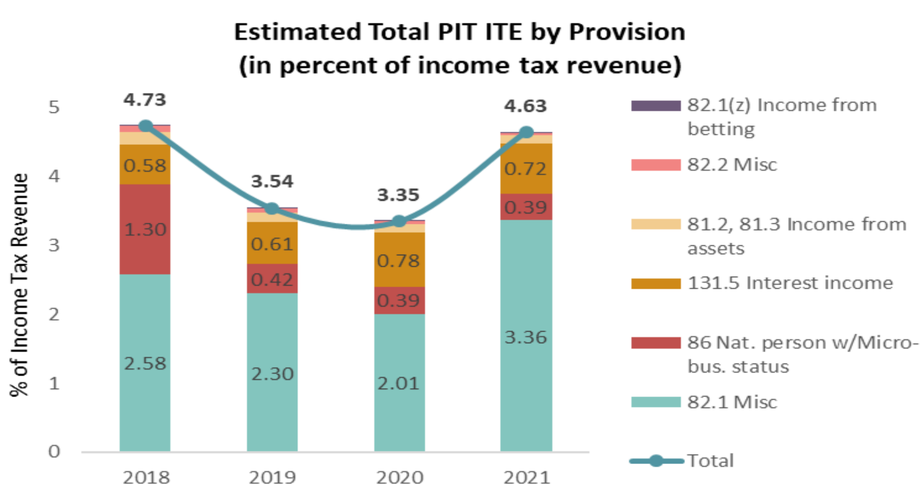


Source: GRS and GEOSTAT data, MoF calculations.

Note: The interest income ITE calculation considers absence of interest rate parity (IRP), uses the average GEL-USD exchange rate from the end of a given month to the 15th day of the following month, and accounts for deposits' currency composition (GEL, USD, EUR, other currencies).

PIT ITEs estimated by provision show which type of benefit (for example: benefits from gambling income, benefits from assets and interest income, benefits from the income of a natural person with micro-business status, etc.) is associated with given ITEs. The contributing provisions to total PIT ITEs vary little over the years. The main contributors in 2021 are miscellaneous (Article 82.1), interest income (Article 131.5), natural person with micro-business status (Article 86), income from assets (Article 81.2, 81.3) and, finally, income from betting (Article 82.1(z)) (Figure 8).

Figure 9. Georgia: Total Estimated PIT ITEs by Provision, 2018-2021



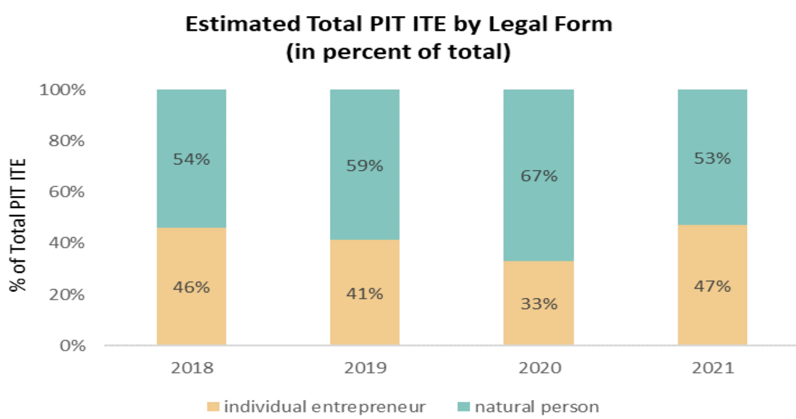
Source: GRS data, MoF calculations.

Note: The interest income ITE calculation considers absence of interest rate parity (IRP), uses the average GEL-USD exchange rate from the end of a given month to the 15th day of the following month, and accounts for deposits' currency composition (GEL, USD, EUR, other currencies).

As for PIT ITEs in 2018, the top contributor was miscellaneous (Article 82.1), representing 2.6 percent of total income tax revenue (0.2 percent of GDP), followed by natural person with micro-business status (Article 86) – 1.3 percent of total income tax revenue (0.1 percent of GDP), and interest income (Article 131.5) with 0.6 percent of income tax revenue (0.05 percent of GDP). As for 2021, the PIT ITE from interest income increased in terms of GEL, reaching 34.6 million, increased relative to the income tax revenue, amounting to 0.7 percent, while it declined as a percent of GDP to 0.06 percent. The PIT ITE from Interest income as a percent of GDP remained stable during 2018-2021 at around 0.05 percent-0.07 percent. For the estimation of the interest income ITE, this Report used different approaches and conducted sensitivity analyses based on each approach. Specifically, in its baseline specification for the interest income ITE, this Report assumed absence of interest rate parity (IRP)[16], which implies that national- and foreign-currency deposits have different interest rates (and, thus, carry different levels of risk). Also, it uses the average GEL-USD exchange rate from the end of a given month to the 15th day of the following month, and accounts for deposits' currency composition (GEL, USD, EUR, other currencies)[17]. Natural person with micro-business status (Article 86) stood at the same level – 0.39 percent of total income tax revenue (and the same 0.03 percent of GDP) in 2021. It should be noted that this ITE fell from 1.3 percent at first to 0.42 percent of total income tax revenue (0.04 percent of GDP) and then to 0.39 percent of total income tax revenue (0.03 percent of GDP) during 2019-2020 (Figure 9).

The estimated total PIT ITEs by legal form show that the share of ITEs relating to natural persons in total PIT ITEs increased from 54 percent to 67 percent from 2018 to 2020, but declined to 53 percent in 2021 (Figure 10).

Figure 10. Georgia: Estimated Total PIT ITE by Legal Form, 2018-2021



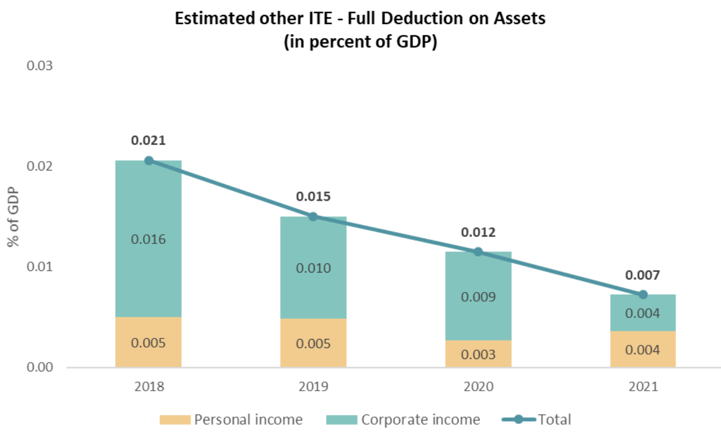
Source: GRS data, MoF calculations.

[16] Interest rate parity implies that deposits in national and foreign currency do not differ from each other in terms of riskiness.
[17] See Appendix 5 for further details.

IV.a.4 Other Income Tax

The total estimated other ITEs mainly consist of ITEs from the full deduction of assets (and the "small business status" regime, which the Report discusses in Appendix 5). These ITEs amounted to 4.4 million GEL (0.01 percent of GDP) in 2021. The total amount of other ITEs after 2018 decreased from 9.2 million GEL to 7.4 million GEL (in 2019), 5.7 million GEL (in 2020). The ITE from the full deduction of assets mainly came from the (old) CIT regime during 2018-2020, while, in 2021, the PIT and (old) CIT regimes contributed equally to this ITE.

Figure 11. Georgia: Estimated Other ITE - Full Deduction of Assets, 2018-2021



Source: GRS and GEOSTAT data, MoF calculations.

IV.b Value-Added Tax Expenditures

Value-Added Tax Expenditures (VATEs) for Georgia were estimated by the IMF for the period 2018-2020 (Swistak et al., 2022). This Report replicates said estimates and extends them to 2021 under specific assumptions. VAT is one of several indirect taxes, imposed as an addition to the price of goods/services paid by consumers[18]. The statutory VAT rate in Georgia is 18 percent. However, taxable products/transactions might be treated as exempt with or without the right to deduction (i.e., "zero-rated" or "exempt"). Exemptions and zero-ratings under the VAT can be considered as deviations from the benchmark of taxation at 18 percent and hence, treated as giving rise to TEs.

To cost VATEs, this Report uses the "revenue forgone" method. In other words, VATEs are calculated as the difference between the potential revenue in the absence of TEs and the estimated tax revenue (currently) raised in the presence of TEs. Equivalently, this stands for the estimated tax revenue increase upon hypothetical elimination of a given TE. This method

[18] Tax Code of Georgia.

assumes away behavioral responses and/or changes in taxpayer compliance/tax administration in relation to the removal of a given TE.

This Report estimates non-structural VATEs, given that these are relatively easier to rationalize and are oriented towards the achievement of given economic development and/or social policy goals. The MoF's first attempt at a quantitative assessment of the non-structural TEs arising from the VAT took place in 2020[19], and a TE analysis document was attached to the 2021 budget law. The current Report is an analysis of updated data for 2018-2021, which could be followed (in a separate publication) by a distributional analysis of VATEs as well as commentary on whether the initial TE goal was being achieved or not.

Treatment of the informal sector is key to accurate VATE costing. In this Section, the informal sector is not considered. However, the VATE sensitivity analysis (see Appendix 6) used several approaches where informality is also considered. In this sense, VATE costing can be conducted using different assumptions such as: i) no informal sector; and ii) informal sector assumed as input-taxed (i.e., exempt without the right to deduct) only[20]. As mentioned, VAT is applied using a standard 18 percent rate. Additionally, selected goods and services can be either fully exempt (without the right to deduction) or taxed under a rate of zero (exempt with the right to deduction). This Report defines the benchmark system as all goods and services being taxed at the 18 percent statutory VAT rate. Deviations from taxation at 18 percent will, therefore, be considered TEs for the purposes of this Report.

The VATE costing analysis in this Report is focused on selected sectors. It includes five exempt sectors (child-care services; educational services; gambling, lotteries and games of chance; health services and medical devices and supplies; and motor vehicles[21]) and two zero-rated sectors (agricultural products; and drugs and pharmaceuticals). VATEs from these sectors constitute the majority (55 percent during 2018-2021, on average) of the estimated VATEs in this Report (Table 4). At the same time, the sensitivity analysis provided in Appendix 6 analyzes the overall deviation from the VAT benchmark under no informality as well as under an informal sector (assumed as input-taxed only). In its baseline specification, the Report assumes no informality, unless otherwise indicated.

Because of the VATE costing approach applied here (see Appendix 6), it is more appropriate to consider each VATE separately, by sector. Total estimated VATEs are at 2,464 million GEL (4.1 percent of GDP) in 2021, which is lower than the levels during 2018-2020, in percent of GDP. Estimated VATEs increased from 4.5 percent of GDP in 2018 to 5.2 percent of GDP in 2019, while (together with the overall GDP contraction) they decreased again in 2020 (Table 4).

[19] This drew upon the analysis in Swistak et al. (2020).
[20] See Appendix 6.
[21] VATE costing exercise for this sector does not consider its treatment under the excise tax.

Table 4. Georgia: Estimates of Detailed VATEs, 2018-2021

Table 4.a. VATE Estimates in Million GEL and Percent of GDP

NACE-2	Ref. (Table 2)	Provision	Tax Treatment in Current Law | Year	Million GEL				% of GDP			
				2018	2019	2020	2021	2018	2019	2020	2021
			A. Exempt:								
88	3, 48	170.1 (i), (h)	Child care services	29.9	28.4	33.8	35.5	0.07	0.06	0.07	0.06
85	2, 5, 41	170.1 (e) - (g), 171.1(e)	Educational services	303.0	351.9	275.9	295.3	0.68	0.71	0.56	0.49
92	34	171.1(b)	Gambling, lotteries and games of chance	2.4	65.8	62.2	29.8	0.01	0.13	0.13	0.05
86	19, 20, 27, 37	173 (a.a, a.b, a.c), 170.1(a)-(c)	Health services and medical devices and supplies	327.6	379.6	287.4	304.6	0.73	0.77	0.58	0.51
29	9, 10, 26	173 (g), (m), (o)	Motor vehicles	46.5	51.6	64.3	56.7	0.10	0.10	0.13	0.09
			B. Zero-rated:								
01	52, 55	172.4 (u), (t)	Agricultural products	258.6	325.0	276.8	309.6	0.58	0.66	0.56	0.52
21	61	172.4 (z6)	Drugs and pharmaceuticals	191.9	235.3	258.0	240.9	0.43	0.48	0.52	0.40
			Sub-Total (A + B)	1,159.9	1,437.6	1,258.3	1,272.4	2.60	2.92	2.55	2.12
	All remaining Ref.	All remaining Provisions	C. Other sectors	848.1	1,100.7	1,026.9	1,192.1	1.90	2.23	2.08	1.99
			D. Grand Total (A + B + C)	**2,008.0**	**2,538.4**	**2,285.2**	**2,464.5**	**4.50**	**5.15**	**4.64**	**4.11**

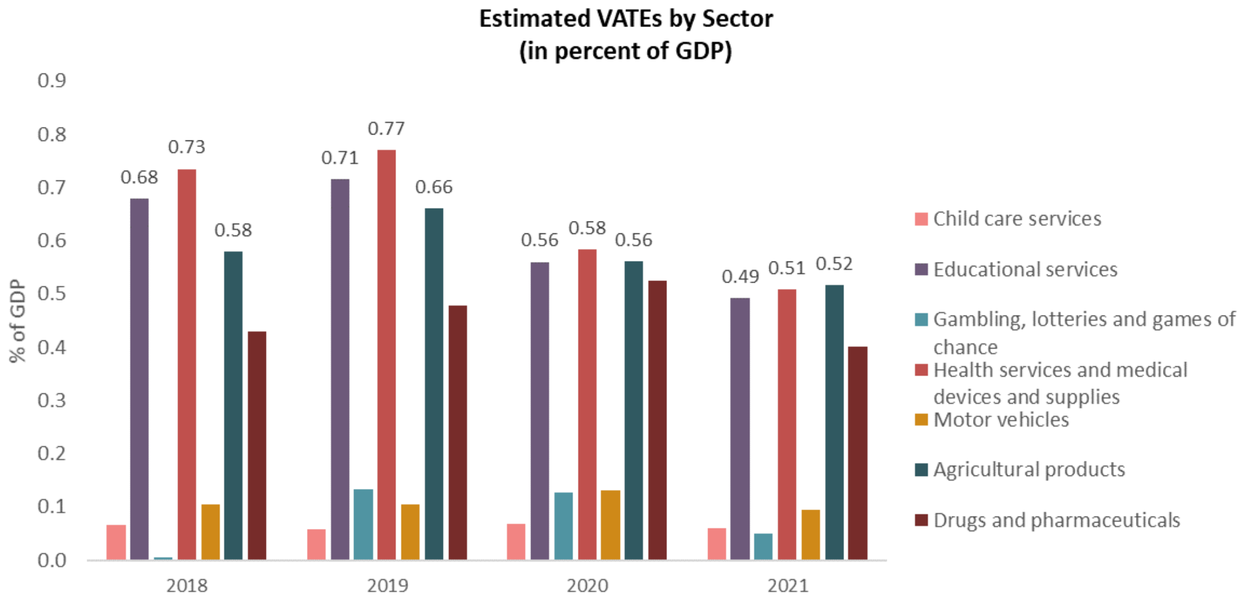
Table 4.b. VATE Estimates in Percent of Total Tax Revenue and VAT Revenue

NACE-2	Ref. (Table 2)	Provision	Tax Treatment in Current Law | Year	Percent of Tax Revenue				Percent of VAT Revenue			
				2018	2019	2020	2021	2018	2019	2020	2021
			A. Exempt:								
88	3, 48	170.1 (i), (h)	Child care services	0.30	0.26	0.34	0.31	0.77	0.61	0.89	0.87
85	2, 5, 41	170.1 (e) - (g), 171.1(e)	Educational services	3.03	3.26	2.78	2.58	7.76	7.61	7.27	7.20
92	34	171.1(b)	Gambling, lotteries and games of chance	0.02	0.61	0.63	0.26	0.06	1.42	1.64	0.73
86	19, 20, 27, 37	173 (a.a, a.b, a.c), 170.1(a)-(c)	Health services and medical devices and supplies	3.28	3.51	2.90	2.66	8.39	8.21	7.57	7.43
29	9, 10, 26	173 (g), (m), (o)	Motor vehicles	0.47	0.48	0.65	0.49	1.19	1.12	1.69	1.38
			B. Zero-rated:								
01	52, 55	172.4 (u), (t)	Agricultural products	2.59	3.01	2.79	2.70	6.62	7.03	7.29	7.55
21	61	172.4 (z6)	Drugs and pharmaceuticals	1.92	2.18	2.60	2.10	4.91	5.09	6.80	5.88
			Sub-Total (A + B)	11.62	13.31	12.68	11.11	29.70	31.09	33.14	31.04
	All remaining Ref.	All remaining Provisions	C. Other sectors	8.49	10.19	10.35	10.41	21.71	23.80	27.04	29.08
			D. Grand Total (A + B + C)	**20.11**	**23.50**	**23.03**	**21.52**	**51.41**	**54.89**	**60.18**	**60.12**

Source: GRS and GEOSTAT data, MoF calculations. Note: No informality assumed. Sectoral VATEs are calculated individually (other things equal), so the sum of all sectoral VATEs may not equal total VATEs in a given year.

Estimated VATEs are mostly concentrated in a handful of sectors: health services, agricultural products, educational services, and drugs and pharmaceuticals. VATE costing shows that these sectors contributed nearly half of all VATEs throughout 2018-2021. The agricultural products sector was the main contributor to total VATEs, with 310 million GEL (0.52 percent of GDP) in 2021, while health services and education amounted to 0.51 and 0.49 percent of GDP, respectively. The VATE from the drugs and pharmaceuticals sector was at 0.4 percent of GDP in 2021.

Figure 12. Georgia: Estimated VATEs for Selected Sectors, 2018-2021



Source: GRS and GEOSTAT data, MoF calculations.

Note: No informality assumed. Sectoral VATEs are calculated individually (other things equal), so the sum of all sectoral VATEs may not equal total VATEs in a given year.

The costing by sectors for 2018-2021 shows that the health services VATE amounted to 0.73 (328 million GEL) and 0.77 (380 million GEL) percent of GDP in 2018 and 2019, respectively, while it decreased to 0.58 percent of GDP in 2020 (287 million GEL) and 0.51 percent of GDP in 2021 (305 million GEL). VATEs decreased in each of the selected sectors in percent of GDP in 2021, but increased in terms of GEL for the health services, agricultural products and educational services sectors. A significant increase in VATEs is observed in the gambling, lotteries and games of chance sector after 2018, when VATEs increased from 2 million GEL (in 2018) to 66 million GEL in 2019, finally reaching 62 million GEL in 2020 (i.e., this VATE moved from 0.01 percent of GDP to 0.13 percent of GDP during 2018-2020). However, in 2021, this VATE declined to 30 million GEL (0.05 percent of GDP) (Figure 12).

Section V. Discussion and Conclusion

Tax Expenditures (TEs) are defined as departures from the benchmark tax system, and they often result in government revenue losses. The benchmark tax system relates to the idea of a reference tax system against which the presence of TEs is evaluated. The definition of the benchmark tax system in Georgia applies the “legal” approach, based on models and principles recognized by the Georgian Tax Code. A TE is, therefore, an explicit concession that departs from what is considered a generally applicable tax provision under the existing tax law.

The Tax Code contains a total of 52 Income Tax Expenditure (ITE) items and 66 Value-Added Tax Expenditure (VATE) items.

Given the socioeconomic objectives that often characterize preferential treatment under different tax regimes, it is crucial to analyze TEs arising from said treatment. The TE costing exercise included in this Report is a first step toward such analysis and aims to examine the estimated TEs for the VAT and personal/corporate income taxes since 2018, including via an analysis of the trends and composition of these TEs. This Report constitutes an improvement over the 2018-2020 TE costing carried out in the IMF and USAID Reports. Specifically, this Report considers updated data (including for year 2021) and a series of methodological improvements, which also helps explain some deviations in estimates vis-ჭ-vis past work on TE costing in Georgia. However, data gaps in certain respects (e.g., VATE costing for 2021) persist, which may limit the accuracy of some of the (more recent) results.

This Report separately estimates total Value-Added Tax Expenditures (VATEs) and Income Tax Expenditures (ITEs). ITEs were, in turn, divided into Corporate Income Tax (CIT), Distributed Profits Tax (DPT), Personal Income Tax (PIT) and other income tax TEs. The Report applies the “revenue forgone” method in estimating TEs, assuming that there is no change in taxpayers’ behavior in response to the elimination of given TEs or tax administration.

The Report also includes a sensitivity analysis of selected ITEs and VATEs. Estimates chosen from the sensitivity analysis used throughout the Report include:

- o Interest ITE estimate assuming away interest rate parity (IRP) and adjusting for tax payment timing and the currency composition of deposits.
- o Small Business ITE estimate using a 6.22 percent profit margin assumption.
- o VATE estimates assuming absence of informality.

Total estimated TEs amounted to 2,759 million GEL (4.6 percent of GDP) in 2021: less than in 2019 (2,822 million GEL or 5.7 percent of GDP), but slightly higher than in 2020 (2,565 million GEL or 5.2 percent of GDP in 2020), albeit only in nominal terms. Of the total 2021 TEs, 4.1 percent of GDP (around 90 percent) is attributed to VATEs, while just 0.5 percent of GDP (the remaining 10 percent) is attributed to ITEs. The sum of the (Old) CIT ITE and DPT ITE decreased more than four-fold since 2018 and amounts to 0.1 percent of GDP in 2021, while the total estimated PIT ITE slightly decreased from 0.42 percent (in 2018) to 0.37 percent (in 2021) of GDP.

As mentioned above, the first costing exercise by the MoF was conducted in 2020 and attached to the 2021 budget law. However, the document analyzed VATEs alone. Hence, this Report constitutes an improvement in the TE costing conducted by the MoF and includes not only VAT but also income (CIT and PIT) TEs. Future work by the MoF could focus on updates of TE costing figures for subsequent years, by enlarging the sample of TEs costed via consideration of additional TEs as well as by examining the distributional and socioeconomic implications of TEs (including by means of a Regulatory Impact Assessment (RIA) analysis).

Appendix 1. Tax Expenditure Classifications

Benchmark. The reference tax system for the purpose of TE evaluation. See discussion of benchmark in Section II for ITE (Section II.a) and VATE (Section II.b).

Structural. A structural measure is one whose main objective is internal to the tax system. Structural measures are implemented to improve the simplicity of the tax system or to allow for more efficient administration of the tax system. Examples of structural TEs include the mandatory VAT registration threshold, the exemption for domestic margin-based financial intermediation services, and the exemption of goods imported by foreign diplomats.

Non-structural. Non-structural measures are implemented to achieve economic development and social policy goals, including relief to households and firms, via VAT exemptions for health and education, housing, and supplies made to governments and agencies, income tax exemptions or reduced rates for particular types of income, investment allowances, and deductibility of certain non-operating expenses. Non-structural TEs lead to revenue losses but, often, they could be replaced by targeted direct government spending measures. This category will, therefore, include TEs to be costed (and potentially eliminated).

Technical. Technical measures clarify the benchmark and may include exemptions for transactions internal to partnerships, capital or investment transactions, or donations. Their existence may arise out of the legal approach to defining TEs. In principle, they would not lead to revenue losses.

Quasi-tax expenditure. Examples include the zero-rating of business inputs and supplies to exporters or other effectively zero-rated businesses such as international travel operations and free investment zones. In theory, these measures should not lead to revenue losses under the assumption of full compliance.

Appendix 2. Comprehensive Tax Expenditure Inventory Items

Table A.1. Benchmark ITE Items, 2021

Ref.	Measure	Tax Code Ref.	Type	Tax
4	Foreign income (including gain) received by a resident natural person	82.1(u)	EX	IT
6	Interest on debt securities issued in foreign country by a Georgian enterprise and listed shall not be taxed a	131.8	EX	IT
22	Income earned by non-resident while being employed at foreign diplomatic and other equivalent establishr	82.1(a)	EX	IT
23	Grant, state pension, state compensation, state academic scholarship, allowances or lump sum payments a	82.1(b)	EX	IT
24.1	Grant, state pension, state compensation, state academic scholarship, allowances or lump sum payments a	82.1(b)	EX	IT
24.2	Grant, state pension, state compensation, state academic scholarship, allowances or lump sum payments a	82.1(b)	EX	IT
24.3	Compensation received within the framework of a privatization program by a person having the status of a	82.1(m)	EX	IT
34.1	The value of property received as a gift or inherited by first or second line heirs during a fiscal year	82.1(g)	EX	IT
34.2	The value of property up to GEL 150 000 received as a gift by inheritance during a tax year by third or fourtl	82.1(i)	EX	IT
35	Value of property of up to GEL 1 000 received as a gift from a natural person during a tax year, except for th	82.1(h)	EX	IT
48	Interest paid by a non-resident permanent establishment or a resident shall be taxed at the source at the ra	131.1	RR	IT/PT

Table A.2. Benchmark VATE Items, 2021

Ref.	Type	Measure	Reference	Policy	Subject	Category
1	Z	Carriage of goods between points located in Georgia before placement under procedures for import, customs warehous	172.4(f)-(g)	BM	International	BM
2	Z	Carriage of goods placed under the export procedure, re-export, outward processing or transit procedure, or of those int	172.1(h)	BM	International	BM
3	Z	Goods and services intended for official use of a foreign diplomatic mission or equivalent representation	172,3	BM	International	BM
4	E	Import of gold to be transferred to the National Bank of Georgia	173(t)	BM	Government	BM
5	E	Import of goods by an international representation under conditions of international convention	173(z5)	BM	International	BM
6	E	Import of goods in accordance to a diplomatic and consular (international) agreement if goods were exempted from cus	173(x)	BM	International	BM
7	E	Import of goods intended for official use by a foreign diplomatic mission and for personal use of the personnel	173(z3)	BM	International	BM
8	E	Import of money (except for a collectible item or a coin with numismatic value) and of securities	173(n)	BM	Government	BM
9	E	Import of treasures and/or a movable thing transferred into state ownership	173(j)	BM	Government	BM
10	E	Importation of goods that are to be transferred to state and/or public organisations of Georgia for relief from a natural d	173(v)	BM	Government	BM
11	E	Importation of property of a diplomatic mission of Georgia or consular office abroad	173(w)	BM	International	BM
12	Z	Passenger and baggage carriage services and services directly related to such transportation, provided that the point of (	172.1(i)	BM	International	BM
13	Z	Supply of assets by an enterprise over 50% of which is owned by the state and/or municipality	172.4(b)	BM	Government	BM
14	Z	Supply of gold to the National Bank of Georgia	172.4(n)	BM	Government	BM
15	Z	Supply of goods outside Georgia, including goods taken home by tourists if value > GEL 600	172.4(e)	BM	International	BM
16	E	Supply of property transferred into State ownership and transfer (supply) of property on lease	171.1(g)	BM	Government	BM
17	Z	Transfer of goods and/or provision of services to the State and/or a municipality free of charge	172.4(c)	BM	Government	BM
18	Z	Transfer of goods by legal entities under public law that implement projects defined by international agreements	172.4(d)	BM	International	BM

Table A.3. Structural and Technical VATE Items, 2021

Ref.	Type	Measure	Reference	Policy	Subject	Category
1	E	Financial transactions / financial services	171.1(a)	TE	Business-other	S
2	Z	For the purpose of processing goods placed under the inward processing procedure, performance of the processing operations (de	172.4(y)	TE	International	S
3	E	Import of returned goods returned under Art. 107 the Customs Code of Georgia if goods were duty exempt	173(u)	TE	International	S
4	E	Importation of fuel contained in a standard tank connected structurally and technologically to the engine feed system of the moto	173(r)	TE	International	S
5	Z	International call termination services in mobile or fixed networks in Georgia	172.4(x)	TE	Business-other	S
6	E	Mandatory Registration threshold	165.1	TE	Business-small bus.	S
7	E	Easement services free of charge	171.1(x)	QTE	Government	T
8	E	Lease of goods the supply of which is VAT exempt without the right of deduction under this Code	171.1(j)	QTE	Business-FIZ	T
9	E	Services from a Free Industrial Zone enterprise to another enterprise of the same FIZ	171.1(q)	QTE	Business-other	T
10	E	Supply (distribution) of property by a partnership to its members(partners), if the members of the partnership are only natural pers	171.1(o)	QTE	Business-other	T
11	E	Supply by a natural person of hotel assets (26 superscript 1(1) of this Code) if a new owner takes over from the previous owner in a	171.1(n)	QTE	Business-other	T
12	Z	Supply by a tourist enterprise of hotel assets to another person for the purpose of receiving them back within two years	172.4(v)	QTE	Business-tourism	T
13	E	Supply of a partnership interest (the right of preliminary registration of title to property) if no property is attached/registered with	171.1(i)	QTE	Business-other	T
14	E	Transactions within a free industrial zone shall be exempt from value added tax	FIZ, 9(4)	QTE	Business-FIZ	T
15	Z	Transfer of the property of a person (except for money) to the State, to an autonomous republic or local self-governing unit within	172.4(s)	QTE	Government	T
16	R	Non-deductibility of input VAT on entertainment and hospitality expenses	178(a)	NTE	Business-other	S

Table A.4: Non-Structural VATE Quasi-Tax Expenditure Items, 2021

Ref.	Type	Measure	Reference	Policy	Subject	Category
1	E	Bringing foreign goods in a free industrial zone shall be exempt from value added tax	FIZ, 9(3)	QTE	Business-FIZ	N
2	E	Construction, installation, repair, restoration and other services financed with soft loans for rehabilitation of electricity	171.1(t)	QTE	Business-other	N
3	E	Import and/or supply of goods intended for the delivery on board for performing international civil flights, and fuels, lul	173(z7)	QTE	Business-other	N
4	E	Import of equipment and machinery, vehicles and spare parts, and materials intended for performing oil and gas operat	173(z4)	QTE	Business-other	N
5	E	Import of goods funded with a soft loan for the rehabilitation of the power sector, under an international agreement	173(z10)	QTE	Business-other	N
6	E	Import of natural gas for generation of electricity (for thermal power stations)	173(p)	QTE	Business-energy	N
7	E	Import of personal effects and household items for personal use by foreign citizens (and family members living with the	173(z2)	QTE	International	N
8	E	Import of raw materials and/or substances provided under NCNFEA groups 28-29 intended for therapeutic/pharmaceuti	173(a.a)	QTE	Business-other	N
9	E	Importation of natural gas (to thermal power stations) for generation of electricity	173(p)	QTE	Business-energy	N
10	Z	Provision of services by an intermediary in respect of services in Article 172.1	172.2	QTE	International	N
11	Z	Provision of technical services a ship when bringing goods to the Customs territory of Georgia	172.4(p)	QTE	International	N
12	Z	Railway container usage service if non-resident container in Georgia, or provision of service outside Georgia with a cont	172.4(j)-(k)	QTE	International	N
13	Z	Services provided in relation to imported goods if cost of services is included in taxable amount defined in according to	172.4(z5)	QTE	Business-other	N
14	Z	Supply of an aircraft with fuel and food	172.1(e)	QTE	International	N
15	Z	Supply of electricity and firm capacity, except for supply of electricity to consumers (for persons under the Law of Georg	172.4(z)	QTE	Business-energy	N
16	Z	Supply of foreign goods to a Customs warehouse, except as provide for in Art. 164[1](4) of this Code	172.4(q)	QTE	International	N
17	Z	Supply of fuel, lubricants and others intended on board of civil aircraft within borders of Georgia	172.4(h)	QTE	Business-other	N
18	Z	Supply of goods in high sea for passenger, commercial, fishing or rescue, or for the provision of a vessel, including battle	172.1(a)-(b)	QTE	International	N
19	Z	Supply of natural gas to thermal power stations	172.4(a)	QTE	Business-energy	N
20	Z	Supply, remaking, repair, maintenance, freight or lease of a vessel provided for by 172.1(a)-(b), including other services	172.1(c)-(d)	QTE	Business-other	N
21	Z	Supply, remaking, repair, maintenance, freight or lease of an aircraft, including other services	172.1(f)-(g)	QTE	Business-other	N
22	Z	Tranportation, loading and storage services in relation to empty vehicles including containers and carriages used durign	172.4(i)	QTE	Business-other	N

Appendix 3. Income Tax Expenditure Descriptions

Reference number: 1 **Description:** Exemption of capital gains for assets owned for more than 2 years [residential apartment (house) and other personal property except vehicles] **Date of enactment:** [Article 82.1. (f.a) – 2008; (f.c) – 13.06.97] **Objective:** Encourage earning of non-business income **Beneficiary-ies:** Natural persons
Reference number: 2 **Description:** Exemption of capital gains for vehicles owned for more than 6 months **Date of enactment:** [24.04.2007] **Objective:** Encourage purchase of newer vehicles **Beneficiary-ies:** Natural persons
Reference number: 3 **Description:** Exemption of capital gains received from transfer of real estate to a partner natural person in exchange for share in enterprise by way of liquidation, if owned for more than 2 years **Date of enactment:** [17.09.2010] **Objective:** Promote acquisition of partnership interest using immovable property in lieu of cash **Beneficiary-ies:** Natural persons
Reference number: 5 **Description:** Exemption of interest income earned from a licensed financial institution: such income shall not be taxed at the source and shall not be included in gross income of the person earning interest **Date of enactment:** [01.01.2009] **Objective:** Encourage saving in Georgian licensed financial institutions **Beneficiary-ies:** All but licensed financial institutions
Reference number: 7.1 **Description:** Exemption: interest earned from a Free Industrial Zone (FIZ) Enterprise in a free zone shall not be taxed at the source and shall not be included in gross income **Date of enactment:** [01.01.2011] **Objective:** Facilitation of financial transactions within a FIZ **Beneficiary-ies:** Persons receiving interest income from a FIZ
Reference number: 7.2 **Description:** Exemption: dividends earned from a Free Industrial Zone (FIZ) Enterprise in a free zone shall not be taxed at the source and shall not be included in gross income **Date of enactment:** [01.01.2011] **Objective:** Increase the attractiveness of investment in an FIZ Enterprise **Beneficiary-ies:** Persons receiving dividend income from an FIZ Enterprise
Reference number: 7.3 **Description:** Exemption of profit or distribution of profit earned by a Free Industrial Zone (FIZ) Enterprise from business permitted within the free zone **Date of enactment:** [10.04.2008] **Objective:** Increase the attractiveness of investment in an FIZ Enterprise **Beneficiary-ies:** FIZ enterprises

Reference number: 8 **Description:** Exemption of profit (distribution of profit) earned from the supply of information technologies outside Georgia developed by a legal entity of a Virtual Zone **Date of enactment:** [10.08.2010] **Objective:** Create an attractive business environment for IT business in Georgia **Beneficiary-ies:** IT businesses that operate in a Virtual Zone in Georgia
Reference number: 9 **Description:** Exemption of distribution of profit earned by a tourist zone entrepreneur **Date of enactment:** [31.12.2010] **Objective:** Promote development of tourist infrastructure, especially the building of hotels **Beneficiary-ies:** Tourist zone entrepreneurs
Reference number: 10 **Description:** Exemption of distribution of profit earned by a special trading company from the conduct of permitted activities (except the profit from the sale of a fixed asset owned for more than 2 years) **Date of enactment:** [13.10.2011] **Objective:** Promote re-export hum in Georgia **Beneficiary-ies:** Special trading companies in the Customs warehouse
Reference number: 11.1 **Description:** Exemption of income gained by a resident legal person as interest for the loan securities issued before 1/1/2023 through a public offering in Georgia and allowed for trading in a market **Date of enactment:** [17.09.2010] **Objective:** Promote the development of capital markets in Georgia **Beneficiary-ies:** Resident legal person investors
Reference number: 11.2 **Description:** Exemption of income gained by a resident legal person from the supply of equity securities issued through a public offering in Georgia and allowed for trading in a market **Date of enactment:** [17.09.2010] **Objective:** Promote the development of capital markets in Georgia **Beneficiary-ies:** Resident legal person investors
Reference number: 12.1 **Description:** Exemption of Income earned by a non-resident as the interest from the loan securities issued by 1/1/2023 by a resident legal person through a public offering in Georgia **Date of enactment:** [01.01.2009] **Objective:** Attraction of foreign capital **Beneficiary-ies:** Non-resident investors
Reference number: 12.2 **Description:** Exemption of income earned by a non-resident as a result of supplying equity or loan securities by a resident legal person through a public offering in Georgia and allowed for trading **Date of enactment:** [01.01.2009] **Objective:** Attraction of foreign capital **Beneficiary-ies:** Non-resident investors

Reference number: 13 **Description:** Exemption: dividends received by a member of an agricultural cooperative from the cooperative before 1/1/2023 shall not be taxed at source and shall not be included in gross income **Date of enactment:** [05.08.2013] **Objective:** Promote the development of agriculture **Beneficiary-ies:** Farmers that are members of agricultural cooperatives
Reference number: 14 **Description:** Exemption of income from supply of agricultural produce made in Georgia as a result of agricultural activity between an agricultural cooperative and its members, and/or services, before 1/1/2023 **Date of enactment:** [05.08.2013] **Objective:** Promote the development of agriculture **Beneficiary-ies:** Farmers that are members of agricultural cooperatives
Reference number: 15 **Description:** Exemption on distribution of profit earned by a high-mountain settlement enterprise for an activity carried out in the same settlement, for 10 years after status was granted **Date of enactment:** [16.07.2015] **Objective:** Facilitation of production activities in high-mountain regions **Beneficiary-ies:** High-mountain settlement enterprise
Reference number: 16 **Description:** Exemption of taxable income up to GEL 6 000 earned by a person with status of permanent resident in a high-mountain settlement from an activity in a high-mountain settlement **Date of enactment:** [16.07.2015] **Objective:** Facilitate settlement of natural persons to high-mountain settlements **Beneficiary-ies:** Natural persons having status of permanent resident in a high-mountain settlement or relocating to high mountain settlements
Reference number: 17.1 **Description:** Exemption of salary income received from a budgetary organization in a high-mountain settlement by a person with 3 or more children **Date of enactment:** [22.12.2004] **Objective:** Facilitate settlement of natural persons to high-mountain settlements **Beneficiary-ies:** Natural person households who are permanent residents or relocate to high-mountain settlements
Reference number: 17.2 **Description:** Exemption: 50% reduction in income tax on salary income received from a budgetary organization in a high-mountain settlement by a person with income up to GEL 3 000 with 1-2 children **Date of enactment:** [16.07.2015] **Objective:** Facilitate settlement of natural persons to high-mountain settlements **Beneficiary-ies:** Natural person households who are permanent residents or relocate to high-mountain settlements

Reference number: 18 **Description:** Exemption of income received by a notary in the form of financial aid from the LEPL Notary Chamber of Georgia in a high-mountain settlement or one where notary services were not available **Date of enactment:** [10.12.2015] **Objective:** Attract notaries to high-mountain settlements **Beneficiary-ies:** Notaries operating in high-mountain settlements
Reference number: 19 **Description:** Exemption: a natural person having the status of a micro business shall not pay income tax **Date of enactment:** [01.01.2011] **Objective:** Simplifying administration for GRS **Beneficiary-ies:** Micro businesses
Reference number: 20 **Description:** Exemption: salary paid up to GEL 6 000 by a person having the status of a small business to a hired person that is not taxed at source **Date of enactment:** [01.01.2011; 01.01.2011] **Objective:** Facilitate activities of small businesses **Beneficiary-ies:** Natural persons operating small businesses with the status of small business.
Reference number: 21 **Description:** Exemption of income earned by persons organizing gambling clubs, slot machine saloons, or betting houses (other than income earned from organized gambling in electronic form) **Date of enactment:** [24.06.11; exemption of the betting houses – 09.12.2011] **Objective:** Relieved of tax due to taxation under Article 81.3[1] **Beneficiary-ies:** Entrepreneur natural persons
Reference number: 25 **Description:** Exemption of monetary award to sportsmen and their coaches for winning and/or taking podium places in Olympic Games, Chess Olympiads, World and/or European championships, etc. **Date of enactment:** [11.10.2000] **Objective:** Promote sporting activities **Beneficiary-ies:** Sports teams
Reference number: 26 **Description:** Exemption of the alimony and the value of property (income) received by a natural person as a result of dissolution of marriage **Date of enactment:** [exemption of the alimony - 13.06.1997; exemption of the value of property received as a result of dissolution of marriage – 30.12.2004] **Objective:** Social policy to encourage compensations **Beneficiary-ies:** Recipient spouses
Reference number: 27 **Description:** Exemption of benefit received from a charity founded by the State within the scope of charitable activities **Date of enactment:** [12.12.2014] **Objective:** Relieve recipients from additional tax **Beneficiary-ies:** Recipients of charitable support

Reference number: 28
Description: Exemption of benefit received from a charitable organization for financing treatment and/or medical services expenses
Date of enactment: [12.12.2014]
Objective: Relieve recipients from additional tax
Beneficiary-ies: Recipients of charitable support in health care

Reference number: 29
Description: Exemption: value of property received free of charge by a charitable organization by a registered socially vulnerable person, or a person maimed or killed in war in Georgia and their families
Date of enactment: [08.11.2011]
Objective: Social policy of support
Beneficiary-ies: Socially vulnerable persons as defined above

Reference number: 30
Description: Exemption of taxable of income of up to GEL 3 000 of citizens of Georgia who are war veterans
Date of enactment: [13.06.1997; exemption of veterans of military operations in the territory of other states -20.09.2018]
Objective: Improvement of socio-economic condition of war veterans
Beneficiary-ies: War veterans

Reference number: 31
Description: Exemption of taxable of income of up to GEL 3 000 a natural person awarded the title of "Kartvlis Deda" (mother of Georgia)
Date of enactment: [13.06.1997]
Objective: Social policy for family support
Beneficiary-ies: Families of multi-child families

Reference number: 32
Description: Exemption of taxable of income of up to GEL 3 000 a natural person who is a single parent or a person who has adopted a child (for one year after adoption) or a person who has taken a child under foster care
Date of enactment: [Exemption of a single mother – 13.06.1997; exemption of a single parent – 09.06.2022; exemption of a person who has adopted a child -13.06.1997; exemption of a person who has taken a child under foster care – 22.12.2004]
Objective: Social policy for family support
Beneficiary-ies: Single parent or a person who has adopted a child

Reference number: 33
Description: Exemption of taxable income of up to GEL 6 000 earned by a person with a disability from childhood, as well as by a person with severe and persistent disabilities
Date of enactment: [13.06.1997; exemption of persons with severe and persistent disabilities – 17.09.2010; in both cases the threshold amount was up to GEL 3000; the threshold was amended to GEL 6 000 – 30.07.2013]
Objective: Social policy for family support
Beneficiary-ies: Person with a disability from childhood, as well as by a person with severe and persistent disabilities

Reference number: 36 **Description:** Exemption of income received from lottery, the value of which does not exceed GEL 1 000 **Date of enactment:** [17.09.2010] **Objective:** Administrative simplification **Beneficiary-ies:** Winners of prizes of up to GEL 1 000
Reference number: 37 **Description:** Exemption of income earned by a non-resident from a Georgian source as a result of risk insurance or reinsurance by a company, organization, or entrepreneur natural person **Date of enactment:** [PIT exemption - 17.09.2010; CIT exemption - 01.01.2009] **Objective:** Promote insurance and reinsurance activity in Georgia **Beneficiary-ies:** Non-resident businesses or non-resident natural person income recipients
Reference number: 38 **Description:** Exemption income earned by non-residents from leasing out the property that do[es] not belong to non-resident's permanent establishment in Georgia **Date of enactment:** [PIT - 17.09.2010; DPT – 01.01.2009] **Objective:** Facilitate availability of property under leasing contracts **Beneficiary-ies:** Non-resident businesses or non-resident natural person income recipients
Reference number: 39 **Description:** Exemption of income earned by supplying the surplus energy produced by a retail customer, as owner of a micro power plant to a distribution licensee **Date of enactment:** [30.06.2017] **Objective:** Promotion of micro power plants in Georgia **Beneficiary-ies:** Natural persons who operate micro power plants in Georgia
Reference number: 40 **Description:** Exemption of interest and surplus (capital gain) income from government debt securities or securities of the National Bank of Georgia, and of an international financial institution **Date of enactment:** [17.09.2010] **Objective:** Development of capital markets in Georgia **Beneficiary-ies:** Owners of securities that generate such income
Reference number: 41 **Description:** Exemption of Income (capital gain) and profit distribution from government debt securities or securities of the National Bank of Georgia, and of an international financial institution **Date of enactment:** [PIT - 17.09.2010; CIT- 26.01.2013] **Objective:** Development of capital markets in Georgia **Beneficiary-ies:** Owners of securities that generate such income
Reference number: 42 **Description:** Reduced rate: As a result of renting out residential space to an organization for residential purposes, the income received by a natural person who makes no deductions taxed at 5% rate **Date of enactment:** [15.05.2012] **Objective:** Encourage formalization of such rental activities **Beneficiary-ies:** Natural persons renting out as described above

Reference number: 43 **Description:** Reduced rate: Surplus (capital gain) income gained from the provision [sale] of a rental apartment (house) and the land attached to it, shall be taxed at a rate of 5% **Date of enactment:** [15.05.2012] **Objective:** Encourage formalization of such activities and simplify administration **Beneficiary-ies:** Natural persons selling property described above
Reference number: 44 **Description:** Reduced rate: Surplus income gained from the provision [sale] of a vehicle shall be taxed at a rate of 5% **Date of enactment:** [15.05.2012] **Objective:** Encourage formalization of such activities **Beneficiary-ies:** Natural persons selling property described above
Reference number: 45.1 **Description:** Taxable income of a person having the status of small business shall be taxed at 1%, except under Article 90.2 **Date of enactment:** [01.01.2011] **Objective:** Promotion of small business activity in Georgia **Beneficiary-ies:** Small businesses in Georgia
Reference number: 45.2 **Description:** Taxable income of a person having the status of small business shall be taxed at 3% if gross income received from activities exceeds GEL 500 000 **Date of enactment:** [01.01.2011] **Objective:** Promotion of small business activity in Georgia **Beneficiary-ies:** Small businesses in Georgia whose gross income exceeds GEL 500 000
Reference number: 46.1 **Description:** Reduced rate: Presumptive lump-sum tax according to the types of activity determined by the government of Georgia may be from GEL 1 000 to GEL 2 000 for an object of taxation **Date of enactment:** [30.12.2011] **Objective:** Simplification of compliance and administration **Beneficiary-ies:** Fixed taxpayers
Reference number: 46.2 **Description:** Reduce rate: Presumptive lump-sum tax according to the types of activity determined by the government of Georgia is 3% of revenue from taxable activity **Date of enactment:** [30.12.2011] **Objective:** Simplification of compliance and administration **Beneficiary-ies:** Fixed taxpayers
Reference number: 50 **Description:** Reduced rate: Bets received by a bookmaker arranged in a system-electronic form are taxed at 7% [on gross income without deductions] **Date of enactment:** [01.01.2011] **Objective:** Simplification of the calculation of taxable income **Beneficiary-ies:** Bookmakers as described above

Reference number: 51 **Description:** Reduced rate: Remuneration paid by a tourist enterprise to a natural person under a relevant contract shall be taxed at the rate of 5% of the amount taxed at source **Date of enactment:** [24.12.2014] **Objective:** Promotion of investment in hotels **Beneficiary-ies:** Tourist enterprises
Reference number: 52 **Description:** Exemption: Capital gain (effect of tax deferral effect) is not recognized in income **Date of enactment:** [01.01.2011] **Objective:** Promotion of participation in companies' capital **Beneficiary-ies:** Persons participating in companies
Reference number: 53 **Description:** Reduced rate: Income (other) earned by a non-resident from a Georgian-based source not attributed to the non-resident's PE shall be taxed at source without deductions at rate of 10% **Date of enactment:** [01.01.2005] **Objective:** Capturing income not defined elsewhere **Beneficiary-ies:** Non-resident persons receiving income from Georgian sources
Reference number: 54 **Description:** Reduced rate: Royalty income earned by a non-resident from a Georgian-based source not attributed to the non-resident's PE shall be taxed at source without deductions at rate of 5% **Date of enactment:** [15.05.2015] **Objective:** Promote access to foreign intellectual property for Georgian residents **Beneficiary-ies:** Non-resident persons receiving royalty income from Georgian sources
Reference number: 55 **Description:** Option: Taxpayer may fully deduct the value of fixed assets, except for those contributed to the entreprise's capital, in the tax year into which the fixed assets are put in service **Date of enactment:** [01.01.2011] **Objective:** Facilitation of investment in long-term fixed assets **Beneficiary-ies:** Taxpayers that elect this option

Appendix 4. VAT Tax Expenditure Inventory Descriptions

Reference number: 1
Description: Ten-year exemption for investors after the commencement of the construction
Date of enactment: [02/11/2010]
Objective: [Attraction of investments in tourist sector]
Beneficiary-ies: [Hospitality Sector]

Reference number: 2
Description: Exemption of arts education and sports training services to natural persons under 18
Date of enactment: [01.01.2005]
Objective: Encourage pursuit of arts and sporting activities
Beneficiary-ies: Natural persons under 18

Reference number: 3
Description: Exemption of supply of goods and services related to child and adolescent protection by the Guardianship and Custodianship Authority
Date of enactment: [01.01.2021]
Objective: Promote provision of state services
Beneficiary-ies: Guardianship and Custodianship Authority

Reference number: 4
Description: Exemption of diabetic bread, which is labeled as such at the time of supply
Date of enactment: [01.01.2005]
Objective: Social support for diabetics
Beneficiary-ies: Natural persons

Reference number: 5
Description: Exemption of educational services and provision of related ancillary goods and services, and tutoring
Date of enactment: [01.01.2005; 01.01.2021 in case of tutoring services]
Objective: Social policy to reduce cost of education
Beneficiary-ies: Students in educational institutions as defined by the Legislation on Education

Reference number: 6
Description: Exemption of goods originated or manufactured in an occupied territory of Georgia from the occupied territory to a person having the status of a Special Enterprise
Date of enactment: [01.01.2019]
Objective: Promote economic ties with the occupied territories and facilitate sale of goods from the occupied territory to Georgia
Beneficiary-ies: Special enterprise

Reference number: 7
Description: Zero rating of gratuitous provision of hotel accommodation for a maximum of 60 days in a year to the owner of hotel assets by a tourist enterprise
Date of enactment: [25.06.2012]
Objective: Encourage development of hotel industry in Georgia
Beneficiary-ies: Owner of hotel room in building

Reference number: 8 **Description:** Exemption of import by a person selected by GRS for mandatory stamping/marking of excisable and non-excisable goods **Date of enactment:** [28.12.2011] **Objective:** Reduce compliance and administrative costs **Beneficiary-ies:** Enterprise engaged in mandatory stamping/marking of excisable and non-excisable goods
Reference number: 9 **Description:** Exemption of import of a motor car (NCNFEA 8703 and/or a motorcycle (including a motor bicycle) under the NCNFEA 8711) **Date of enactment:** [17.11.2017] **Objective:** Simplify administration on hard-to-value goods since majority of cars imported in Georgia are used **Beneficiary-ies:** All importers
Reference number: 10 **Description:** Exemption of import of a vehicle provided for under NCNFEA 8703 10 110 (vehicles specially designed for travelling on snow, golf cars and similar vehicles **Date of enactment:** [29.12.2015] **Objective:** Simplify administration on hard-to-value goods since majority of cars imported in Georgia are used **Beneficiary-ies:** All importers
Reference number: 11 **Description:** Exemption on import of an electric bus (including electric minibus) provided under the NCNFEA codes 8702 90 90 (Other) **Date of enactment:** [12.12.2018] **Objective:** Encourage environmentally sound practices **Beneficiary-ies:** Commercial importers
Reference number: 12 **Description:** Exemption on import of baby food products and/or child hygiene products **Date of enactment:** [07.08.1997] **Objective:** Social policy in favor of families **Beneficiary-ies:** Households
Reference number: 13 **Description:** Exemption of import of diabetic bread marked as such **Date of enactment:** [01.01.2005] **Objective:** Social support for diabetics **Beneficiary-ies:** Natural persons
Reference number: 14 **Description:** Exemption of import of excise stamps by GRS and/or by a person selected by GRS **Date of enactment:** [01.01.2011] **Objective:** Reduce compliance and administrative costs **Beneficiary-ies:** Enterprise engaged in mandatory stamping/marking of excisable and non-excisable goods

Reference number: 15 **Description:** Exemption of import of goods (magazines, newspapers, and printed music) specified under the codes 4901, 4902 and 4904 00 000 00 of NCNFCA **Date of enactment:** [01.01.2011] **Objective:** Social policy to encourage literacy and knowledge (to support printing media) **Beneficiary-ies:** Natural persons
Reference number: 16 **Description:** Exemption of import of goods (newsprint, other paper, and paperboard) **Date of enactment:** [01.01.2005] **Objective:** Support printing industry **Beneficiary-ies:** Businesses
Reference number: 17 **Description:** Exemption of import of goods (printed books, children's picture, drawing or coloring books (NCNFEA 4901 and 4903) **Date of enactment:** [30.12.2004] **Objective:** Social policy to encourage literacy, knowledge, and development **Beneficiary-ies:** Households
Reference number: 18 **Description:** Exemption of import of goods exempted from import tax under Customs Code Book X, except for import of goods from a FIZ **Date of enactment:** [not in force yet] **Objective:** Approximation of EU Import Directive **Beneficiary-ies:** Legal and natural persons that import goods under Book X
Reference number: 19 **Description:** Exemption of import of goods intended for therapeutic/pharmaceutical purposes **Date of enactment:** [01.01.2018] **Objective:** Social policy to reduce cost of medical services **Beneficiary-ies:** Health care institutions, which are entitled to this tax benefit
Reference number: 20 **Description:** Import of goods necessary for a person with a disability since childhood and a person with distinct and significant disability **Date of enactment:** [01.01.2018] **Objective:** Social policy to reduce cost of medical devices **Beneficiary-ies:** Natural persons
Reference number: 21 **Description:** Exemption of import of goods provided for under a grant agreement by a grantor or grantee **Date of enactment:** [07.08.1997] **Objective:** Promotion of grant financing **Beneficiary-ies:** Grantees (natural persons and organizations) as registered under the Law of Grants

Reference number: 22 **Description:** Exemption of import of goods provided under NCNFEA group 30 (pharmaceutical products) **Date of enactment:** [11.08.2000] **Objective:** Social policy to reduce cost of pharmaceutical products **Beneficiary-ies:** Importers of pharmaceutical products
Reference number: 23 **Description:** Exemption of import of goods provided under NCNFEA group 961900 (sanitary towels, pads, tampons, napkins, and liners for babies) as per joint order of Ministry of Displaced Persons from Occupied Territories, Labour, Health and Social Affairs **Date of enactment:** [01.01.2018] **Objective:** Social policy to reduce cost of sanitary products **Beneficiary-ies:** Importers of sanitary products
Reference number: 24 **Description:** Exemption of import of liquorice roots and a variety of plant-based materials, natural resins, animal and vegetable oils and fats, etc. (see 172(e) for list of NNCFEA codes) **Date of enactment:** [11.08.2000] **Objective:** Reduce of cost of plant-based preparations **Beneficiary-ies:** Manufacturers of plant-based preparations
Reference number: 25 **Description:** Exemption of import of live animals, other animal products, vegetal products, mineral substances, fertilisers, pesticides, etc. (following the list of NCNFEA codes in Tax Code (2021), Art. 173(f)) **Date of enactment:** [04.06.2003] **Objective:** Promote agriculture **Beneficiary-ies:** Farmers
Reference number: 26 **Description:** Exemption of import of motor vehicle chassis, bodies, parts and accessories, and agricultural machinery and equipment **Date of enactment:** [01.01.2006] **Objective:** Promotion of agriculture **Beneficiary-ies:** Farmers
Reference number: 27 **Description:** Exemption of import of radiopharmaceutical agents, wheelchairs and their parts and accessories, and various medical equipment and materials (see Tax Code, Article 173(c) for list of NCNFEA groups) **Date of enactment:** [01.01.2018] **Objective:** Social policy to reduce cost of such goods **Beneficiary-ies:** Importers of such goods
Reference number: 28 **Description:** Exemption of import of yachts and other vessels for pleasure and sports, rowing boats and canoes (NCNFEA group 8903) **Date of enactment:** [29.05.2012] **Objective:** Promote water sport activities **Beneficiary-ies:** Households

Reference number: 29 **Description:** Exemption of import to a port of the goods caught by a person carrying out fishing, which are not processed on the ship, or at the dock **Date of enactment:** [01.01.2021] **Objective:** Promote fishing **Beneficiary-ies:** Households
Reference number: 30 **Description:** Exemption of importation of agrarian pesticides and agrochemicals, seed, and plant materials of agricultural plants according to the list according to an ordinance of the Government of Georgia **Date of enactment:** [01.01.2011] **Objective:** Promote agriculture **Beneficiary-ies:** Farmers
Reference number: 31 **Description:** Exemption of importation of goods (other aircraft, including helicopters, aeroplanes) indicated under the NCNFEA Codes 8802 11 100 00, 8802 12 100 00, 8802 20 100 00, 8802 30 100 00 and 8802 40 100 00 and/or of the goods intended for them (for civil aviation) **Date of enactment:** [14/08/2007] **Objective:** Development of civil aviation in Georgia **Beneficiary-ies**: Airlines
Reference number: 32 **Description:** Zero rating of international call termination services in mobile or fixed networks in Georgia **Date of enactment:** [01.01.2015] **Objective:** Relief of tax given the presence of the telecommunications excise taxes **Beneficiary-ies:** Consumers and businesses
Reference number: 33 **Description:** Exemption of lease of goods the supply of which is VAT exempt without the right of deduction under this Code **Date of enactment:** [01.01.2010] **Objective:** Promotion of financial leasing pursuant to exemption of financial intermediation services **Beneficiary-ies:** Financial lessees of cars, airplanes, technical equipment
Reference number: 34 **Description:** Exemption of lotteries and gambling services and games of chance *except* for those in which state owns over 50% interest **Date of enactment:** [03.01.2012] **Objective:** Balance between licensing fee and domestic taxation **Beneficiary-ies:** Consumers of gambling services
Reference number: 35 **Description:** Exemption of lotteries and gambling services and games of chance except for those in which state owns less than 50% interest **Date of enactment:** [10.2011] **Objective:** Balance between licensing fee and domestic taxation **Beneficiary-ies:** Consumers of gambling services

Reference number: 36 **Description:** Exemption of mandatory marking/stamping services of excisable and non-excisable goods by a person selected by GRS **Date of enactment:** [01.01.2011] **Objective:** Reduce compliance and administrative costs **Beneficiary-ies:** Enterprise engaged in mandatory stamping/marking of excisable and non-excisable goods
Reference number: 37 **Description:** Exemption of medical services and care, dental care and prosthetic services, and ancillary related goods and services **Date of enactment:** [01.01.2021 and 01.01.2008] **Objective:** Social policy to reduce cost of services **Beneficiary-ies:** Consumers of such services
Reference number: 38 **Description:** Zero rating of the organized bringing of tourists by tour operators and supply of tourist products to them in the territory of Georgia **Date of enactment:** [22.12.2004] **Objective:** Promotion of tourism **Beneficiary-ies:** Consumers of tourism services and products
Reference number: 39 **Description:** Exemption of the personnel staffing services by religious organization for activities in 170.1(a), (e), (h), and (i) **Date of enactment:** [01.01.2021] **Objective:** Facilitate social and caritative activities **Beneficiary-ies:** Religious organizations **Reference number:** 40 **Description:** Exemption of the provision of ceremonial services, including a vehicle, related to a funeral **Date of enactment:** [01.01.2011] **Objective:** Reduce cost of services on compassionate grounds **Beneficiary-ies:** Families of the deceased
Reference number: 41 **Description:** Exemption of the provision of lecture courses through electronic media that are educational in nature and may come in a book **Date of enactment:** [01.01.2011] **Objective:** Social policy to promote access to educational materials **Beneficiary-ies:** Consumers of such materials
Reference number: 42 **Description:** Exemption of the provision of services by an organization in return for membership fee, and supply of directly related goods **Date of enactment:** [01.01.2021] **Objective:** Not charging VAT on membership fees **Beneficiary-ies:** Members of Organization

Reference number: 43 **Description:** Exemption of provision of services/supply of goods by organization exempt on basis of 170.1(a)-(e), (g)-(k) for fund raising **Date of enactment:** [01.01.2021] **Objective:** Reduce cost of supplies to conduct fund-raising activities **Beneficiary-ies:** Non-profit organizations
Reference number: 44 **Description:** Restoration, rehabilitation, designing, and research works on monuments of cultural or religious heritage, painting of cathedrals **Date of enactment:** [06.08.2008; 07.08.1997 for church restoration] **Objective:** Simplify administration by relieving state of VAT payments **Beneficiary-ies:** State
Reference number: 45 **Description:** Exemption of selling and printing services of magazines, newspapers, and printed music or advertising services by newspapers and magazines **Date of enactment:** [07.08.1997] **Objective:** Support of Printing media **Beneficiary-ies:** Readers and publishers of print media
Reference number: 46 **Description:** Exemption of services by passenger vehicles (except for taxis) with regulated prices on urban and interregional routes **Date of enactment:** [07/08/1997] **Objective:** Social policy to support ridership **Beneficiary-ies:** Consumers of such services
Reference number: 47 **Description:** Exemption of services on the basis of an agreement funded by a foreign organization for the liquidation of a natural disaster, accident or catastrophe, with the aim of humanitarian aid **Date of enactment:** [01.01.2011] **Objective:** Exemption of various humanitarian foreign-financed projects so that VAT is not paid from the funds of such projects **Beneficiary-ies:** State of Georgia
Reference number: 48 **Description:** Exemption of social services including provision of child-care services, early pre-school education, and care for sick, disabled and elderly **Date of enactment:** [01.01.2005] **Objective:** Promotion of social policy **Beneficiary-ies:** Households
Reference number: 49 **Description:** Zero rating of the supply and/or importation of an electric bus (including an electric minibus) specified under the National Commodity Nomenclature of Foreign Economic Activities Codes 8702 90 90 **Date of enactment:** [12.12.2018] **Objective:** Encourage environmentally sound practices **Beneficiary-ies:** Commercial importers

Reference number: 50
Description: Zero rating of the supply and/or importation of goods (books) specified under the National Commodity Nomenclature of Foreign Economic Activities Codes 4901 and 4903 00 000 00, and of an electronic book; also, rendering of sales and printing services for the goods
Date of enactment: [30.12.2004]
Objective: Social policy to encourage literacy, knowledge, and development
Beneficiary-ies: Households

Reference number: 51
Description: Exemption of the supply by the Patriarchate of Georgia of crosses, candles, icons, books, calendars, and other liturgical items used only for religious purposes
Date of enactment: [07.08.1997]
Objective: Promote faith
Beneficiary-ies: Purchasers of such goods

Reference number: 52
Description: Zero rating of the supply of (agricultural) products obtained from goods fully made in Georgia and indicated in National Commodity Nomenclature of Foreign Economic Activities Codes 0201, 0203 11 – 0203 19, 0204 10 000 00 – 0204 23 000 00, 0204 50 110 00 – 0204 50 390 00 (including, chopped/minced meat (forcemeat)), as well as supply of cheese made as a result of industrial processing of products obtained from animals living in Georgia and also supply of goods (shell-less nuts) indicated in National Commodity Nomenclature of Foreign Economic Activities Code 0802 22 000 00
Date of enactment: [19.03.2012]
Objective: Promote agriculture
Beneficiary-ies: Farmers

Reference number: 53
Description: Exemption of the supply of a plot of land
Date of enactment: [07.08.1997]
Objective: [Promotion of land privatization]
Beneficiary-ies: [Current/Potential Owners of Land]

Reference number: 54
Description: Exemption of the supply of a plot of land and an apartment/dwelling house to a natural person if the supplier supplies this property to a natural person to a first-line heir of a natural person in the scope of state social policy
Date of enactment: [17.06.2016]
Objective: Promotion of home ownership
Beneficiary-ies: Owner-occupiers and renters of residential property

Reference number: 55
Description: Zero rating of the supply of agricultural produce produced in Georgia (other than the goods (eggs) indicated in National Commodity Nomenclature of Foreign Economic Activities Codes 0407 00 190 00 ,0407 00 300 00 and the goods under subheading 0207 11(gallus domesticus, uncut, fresh or frozen)), before their industrial processing (change of commodity code)
Date of enactment: [19.03.2012]
Objective: Promote Georgian agriculture
Beneficiary-ies: Farmers

Reference number: 56 **Description:** Zero rating of the supply of ferrous and/or non-ferrous scrap metals and ferrous and/or non-ferrous metal waste if the goods receiving party can be identified. Further, it is considered that the goods receiving party has received a VAT deduction according to the accounting period of supplying goods **Date of enactment:** [13.07.2017] **Objective:** Promotion of recovery of used metals **Beneficiary-ies:** Purchasers of scrap metals
Reference number: 57 **Description:** Zero rating of the supply of Georgian goods to a duty-free shop for sale and the sale of goods and/or provision of food services at that location **Date of enactment:** [11.07.2007] **Objective:** Promotion of tourism and export **Beneficiary-ies:** Tourists
Reference number: 58 **Description:** Exemption of the supply of goods (notebooks) indicated in the National Commodity Nomenclature of Foreign Economic Activities Code 4820 20 000 00 **Date of enactment:** [07.08.1997] **Objective:** Promotion of education **Beneficiary-ies:** Consumers of notebooks
Reference number: 59 **Description:** Exemption of the supply of goods and/or provision of services related to the equipment, machinery, vehicles, spare parts, and materials intended for performing oil and gas operations in Georgia **Date of enactment:** [28.07.2002] **Objective:** Promote the oil and gas sector in Georgia **Beneficiary-ies:** Oil and gas operators in Georgia
Reference number: 60 **Description:** Zero rating of the supply of goods by a person having the status of special enterprise to the occupied territory of Georgia **Date of enactment:** 01.01.2019] **Objective:** Promote economic ties with the occupied territories and facilitate sale of goods from the occupied territory to Georgia **Beneficiary-ies:** Special enterprise
Reference number: 61 **Description:** Zero rating of the supply of goods produced in Georgia and intended for therapeutic/medical purposes, or supply by a pharmaceutical enterprise of its own pharmaceutical products **Date of enactment:** [04.07.2019] **Objective:** Promotion of domestic manufacturing sector **Beneficiary-ies:** Domestic producers

Reference number: 62
Description: Exemption of the supply of goods provided for by Articles 173(a)-(n) of this code (VAT exemption of import of goods)
Date of enactment: [Date of entry into force of relevant tax benefit]
Objective: Social policy to support health care and pharmaceutical sector
Beneficiary-ies: Domestic distributors of such goods

Reference number: 63
Description: Exemption of the supply of state-owned property on the basis of privatization program
Date of enactment: [07.08.1997]
Objective: Promote investment
Beneficiary-ies: Investors

Reference number: 64
Description: Exemption of the sweeping, cleaning and waste management services to a municipality in a populated territory
Date of enactment: [01.06.2011]
Objective: Reduce cost of services
Beneficiary-ies: Ratepayer residents

Reference number: 65
Description: Zero rating of transportation, loading and storage services in relation to empty vehicles including containers and carriages used during transportation
Date of enactment: [22.11.2011]
Objective: Promotion of international trade
Beneficiary-ies: Operators of International Cargo

Reference number: 66
Description: Exemption of universal postal services performed within power delegated by the State and supply of national postage stamps
Date of enactment: [01.01.2021]
Objective: Reducing the cost to the consumer
Beneficiary-ies: Consumer of such services

Appendix 5: ITE estimation data and methods, and sensitivity analysis

5.a Data and Methods[22]

5.a.i Old CIT Regime ITE

The ITE for the (old) CIT regime is straightforward to calculate, since it is directly observable in GRS tax return data. The ITE is the sum of profit (income) exempt from taxation (as this is reported under Box/Cell 34 in the GRS CIT tax return data), multiplied by the CIT rate of 15 percent.

The tax return data enables an analysis of the old CIT regime ITE by NACE 2-digit sector, taxpayer size and fiscal (sub-)regime.

5.a.ii DPT Regime ITEs

To estimate total DPT ITEs, this Report separately considers the ITE from the exemption of: i) distributed profits; and ii) dividend withholding taxes. ***Distribution of profit which is exempted from profit tax, cost incurred, and payment made (DPCIP)*** is available from the GRS data. The dividend withholding tax is calculated by multiplying DPCIP by the dividend withholding tax rate, since DPCIP is derived after the payment of profit tax. To estimate the profit tax ITE, first, the Report grosses up DPCIP by dividing it by 100 percent minus the profit tax rate and, then, multiplying it by the profit tax rate to calculate the distributed profits part of the DPT ITE. Analytically:

$$DPCIP = total\ profit - total\ profit * tax\ rate(p)$$

$$Total\ DPT\ ITE = \frac{DPCIP}{100percent - tax\ rate(p)} * tax\ rate(p) + DPCIP * tax\ rate(d)$$

DPCIP data is taken from GRS DPT tax returns (Box/Cell 22), the profit tax rate is 15 percent and the dividend withholding tax rate stands at 5 percent. GRS tax return data enables the decomposition of the DPT ITE by NACE 2-digit sector, taxpayer size and fiscal (sub-)regime.

[22] This section is based on Swistak et al. (2022) and follows the recommendations within Gendron and Mylonas (2022).

5.a.iii PIT ITEs

This Report calculates PIT ITEs for the following items (as well as the interest income ITE, which is described below):

- Income from the Sale and Lease of Assets, of which:
    - From Asset Sale
    - From Asset Lease
- Article 82, Part 1 (Miscellaneous)
- Article 82, Part 2 (Miscellaneous)
- Income from Organized Betting in Systemic-Electronic Form
- Natural Person with Micro-Business Status

The Report also costs a Memorandum Item (Foreign Income Earned by Residents), which does not strictly result in a PIT ITE, due to the territoriality principle (Swistak et al., 2022).

Revenues forgone arising from ***Article 82.1 (Miscellaneous), Article 82. 2 (Miscellaneous)*** *and* ***Memorandum Item: Foreign Income Earned by Residents*** are calculated as the portions of exempt income under these categories multiplied by the statutory PIT rate of 20 percent. The exempt income portions are defined as: i) the difference between Box/Cell 15 and the sum of Boxes/Cells 16, 17 and 18 for ***Article 82.1 (Miscellaneous)***; ii) Box/Cell 37 for ***Article 82. 2 (Miscellaneous)***; and iii) Box/Cell 17 for ***Memorandum Item: Foreign Income earned by Residents***.

As for the ***Income from Organized Betting in Systemic-Electronic Form,*** gross income (Box/Cell 40) received by a person organizing a betting house in a systemic-electronic form (which is taxable at a 5 percent rate of gross income received (GIR)) is multiplied by the statutory PIT rate of 20 percent. From this, the difference between the GIR and income tax, withheld at source, subject to deduction (Box/Cell 40 minus Box/Cell 42) multiplied by the 5 percent tax rate is subtracted.

A similar procedure is used for the calculation of the PIT ITE relating to the ***Natural Person with Micro-Business Status*** provision. First, gross income under this special tax regime (Box/Cell 2, Annex A) is multiplied by the statutory PIT rate of 20 percent. Then, the difference between gross income (Box/Cell 2, Annex A) and exempted income (Box/Cell 3, Annex A) multiplied by the specific tax rate applicable under this regime according to tax return data (Box/Cell 1, Annex A) is subtracted from the former figure to obtain the PIT ITE.

The ITE from the provision for ***Income from the Sale and Lease of Assets*** is estimated in a similar fashion. First, gross taxable income (Box/Cell 4, Annex B) is multiplied by the statutory PIT rate of 20 percent. Subsequently, the difference between gross (Box/Cell 4, Annex B) and exempt (Box/Cell 5, Annex B) income is multiplied by the specific tax rate applicable under this regime according to tax return data (Box/Cell 6, Annex B) is subtracted from it. Further decomposition into the ITEs ***from Asset Sale*** *and* ***Asset Lease*** is carried out using aggregated data from the GRS' PIT collections under each of these sub-provisions.

Tax return data is obtained from the GRS, the statutory PIT rate is 20 percent, specific tax rates for natural persons range between 0 and 5 percent and specific tax rates for income from the sale and lease of assets range between 5 and 20 percent. Data from the GRS also allows for heterogeneity analysis by NACE 2-digit sector, taxpayer size, legal form and sub-regime.

5.a.iv ITE from the Full Deduction of Assets

To estimate the ITE from the full deduction of assets, one must consider the discounted payments for fully deducted assets under a straight-line depreciation schedule, which this Report defines as the benchmark system. To estimate the deviation from the benchmark, this Report assumes a useful life of 5 years for assets subject to PIT and 10 years for assets subject to CIT. Firstly, total fully deducted assets are divided by the useful life years under each tax. The difference between the full deduction amount and deductions according to the benchmark yields current untaxed income.

For PIT assets, to calculate unreceived benchmark income tax revenues, deductions according to the benchmark are multiplied by the standard 20 percent PIT rate and discounted using an appropriate discount rate (assumed to equal the average interest rate on 5-year government bonds in 2019) from the second year onwards. The sum of these discounted values yields total unreceived benchmark income tax revenues. Afterwards, the total estimated ITE from this item is calculated as the difference between the unreceived current income tax revenues and the unreceived benchmark income tax revenues.

In the case of CIT assets, the ITE from the full deduction of assets in calculated in the same way, using the corresponding useful life (10 years), CIT rate (15 percent) and appropriate discount rate (i.e., the average interest rate on 10-year government bonds in 2019). The total ITE from the full deduction of assets is calculated as the sum of the ITEs from the full deduction of assets subject to PIT and CIT.

Data for the estimation of the ITE from the full deduction of assets is taken from the Georgia Revenue Service (GRS), the PIT rate is 20 percent and the CIT rate is 15 percent. Discount rates are assumed to equal the average interest rates on the 5 (for PIT assets) and 10 (for CIT assets)-year government bonds in 2019 (taken from the National Bank of Georgia (NBG)). These amount to 7.79 and 9.04 percent respectively.

5.b Sensitivity Analysis

5.b.i Interest Income ITE

The interest income ITE (Article 131.5) is not directly observable. To estimate it, this Report calculates monthly interest income on the stock of deposits and multiplies it by a tax rate of 5 percent and, then, by 12 to annualize the ITE. To evaluate the robustness and sensitivity of its estimates, this Report calculates the monthly interest income from the stock of deposits under four approaches.

The first approach was proposed by Swistak et al. (2022), based on USAID (2021). This approach assumes that interest rate parity (IRP) between GEL-denominated deposits and deposits denominated in foreign currency (FC) holds. Since IRP is assumed, the total stock of deposits denominated in GEL (calculated as the sum of GEL and FC deposits) is multiplied by the monthly interest rate applicable to GEL-denominated deposits.

Under the second approach, this Report assumes away IRP. In other words, rather than assuming that the real interest rate (adjusted for the exchange rate) is the same for GEL- and FC- denominated deposits, this method divides deposits into two parts (GEL-denominated and FC-denominated deposits in USD). Subsequently, the GEL and USD deposit interest rates are, respectively, used to calculate monthly interest rate income by deposit type.

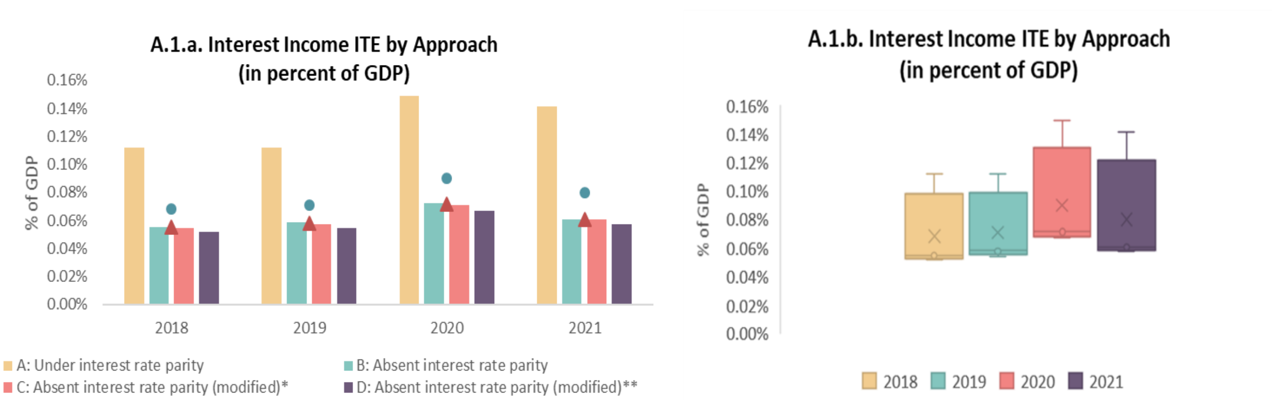
Under the third approach, this Report incorporates the timing of the Georgian tax system's liability payment schedule, in addition to assuming away IRP. Since income taxes must be paid from the start of the month until the 15th day of that month and payment is only made in GEL, individuals holding deposits in FC must first convert their interest income into GEL to pay taxes. Therefore, in any given month, the interest income ITE should be calculated as the previous month's interest income converted into GEL applying the exchange rate as of the first 15 days of the current month. In practice, last month's interest income from USD-denominated deposits is first converted into GEL applying the average GEL/USD exchange rate for the first 15 days of a given month and a tax rate of 5 percent is, subsequently, applied. By taking the simple average exchange rate during the first 15 days of the month, this Report implicitly assumes that tax payments are distributed equally among the first 15 days of the month.

Under the fourth approach, this Report further decomposes FC-denominated deposits into deposits denominated in USD, EUR, GBR and other currencies. Interest rates for USD-, EUR-, and GBR-denominated deposits are directly obtained from the NBG. For deposits denominated in other currencies, this Report uses a weighted average effective interest rate, based on data for deposits denominated in currencies other than the ones mentioned above.

For the calculations, data on deposits held by individuals, as well as interest and exchange rates are taken from the NBG. This Report treats interest income as capital income. Thus, the applicable tax rate is set at 5 percent. This is different from the 20 percent tax rate used in USAID (2021).

All four approaches were used in the Report's sensitivity analysis. As expected, since the FC-denominated share of deposits is much higher than the GEL-denominated one, the first approach (assuming IRP) yielded the largest interest income ITE. The ITE decreases with each successive approach (Figure A.1). In 2021, the interest income ITE under IRP was 85.2 million GEL (0.14 percent of GDP, 0.74 percent of tax revenue), while, when decomposing deposits by currency, this ITE decreases more than two-fold to 34.6 million GEL (0.06 percent of GDP, 0.3 percent of tax revenue). The fourth (and most sophisticated) approach (absence of IRP, adjusting for the timing of tax payments and the currency composition of deposits) is chosen as the baseline/preferred approach for the calculation of the interest income ITE in this Report.

Figure A.1 Sensitivity Analysis of Interest Income ITE, 2018-2021



Source:

** Average GEL-USD exchange rate from the end of a given month to the 15th day of the following month.*
**Average GEL-USD exchange rate from the end of a given month to the 15th day of the following month, modified with currency decomposition - GEL, USD, EUR, Other.

NBG and GEOSTAT data, MoF calculation.

5.b.ii "Small Business Status" ITE

The ITE linked to "small business status" (Articles 90.1 and 90.2) can be calculated indirectly, applying different profit margin assumptions for taxable enterprises. To estimate profit margins, USAID (2021) uses turnover and profit data from GEOSTAT for all enterprises and calculates an average profit margin for the period 2015-2019 of 6.36 percent. Since taxable income for enterprises under "small business status" must not exceed 500,000 GEL, profit margins taken across all enterprise sizes (large, medium, small) can differ from the actual profit margin figure for enterprises with "small business status". To check the sensitivity of the ITE to profit margin assumptions for small business status enterprises, this Report calculates alternative profit margins, by using output and profit data for small-sized[23] enterprises and by averaging these estimates.

Data on the turnover and profits of business enterprises is taken from GEOSTAT business sector publications[24]. The income tax rate is 20 percent.

Table A.5. Profit Margins for the Overall Business Sector

Date	2016	2017	2018	2019	2020	**Average 2016-2020**
Turnover	64,081.8	71,740.3	86,625.2	109,024.4	114,348.5	
Profit	4,179.6	6,002.5	5,925.8	6,999.8	3,350.0	
Profit margin	6.5 percent	8.4 percent	6.8 percent	6.4 percent	2.9 percent	**6.2** percent

Source: GEOSTAT data, MoF calculations.

Table A.6. Profit Margins for Small-sized Enterprises

Date	2016	2017	2018	2019	2020	**Average 2016-2020**
Turnover	21,785.7	22,970.6	25,179.2	27,454.1	27,169.3	24,911.8
Profit	1,866.3	1,747.1	2,517.9	3,415.4	2,981.2	2,505.6
Profit margin	8.6 percent	7.6 percent	10.0 percent	12.4 percent	11.0 percent	**9.9** percent

Source: GEOSTAT data, MoF calculations.

Table A.7. Average Profit Margins

Date	2016	2017	2018	2019	2020	**Average 2016-2020**
Profit margin	7.5 percent	8.0 percent	8.4 percent	9.4 percent	7.0 percent	**8.1** percent

Source: GEOSTAT data, MoF calculations.

According to the calculations of this Report, the profit margin lies between 6.2 and 9.9 percent. This Report used all 3 estimates of profit margins to document the sensitivity of the ITE for "small business status enterprises", which consists of enterprises taxed at a 1 percent rate and enterprises taxed at a 3 percent rate. Also, unlike USAID (2021), this Report used data during the period 2016-2020 (while USAID (2021) used data during the period 2015-2019). This is why the profit margin figures for the business sector as a whole differ between the two publications

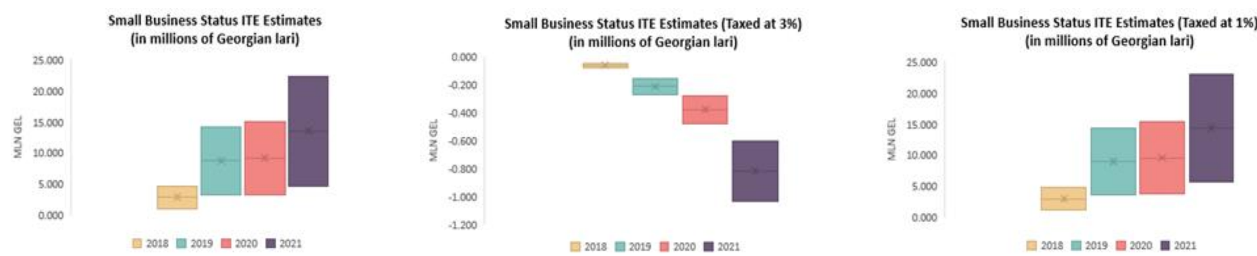
[23] Small-sized enterprises are defined as enterprises whose yearly taxable income does not exceed 500,000 GEL. See: https://rs.ge/PersonsTaxFAQ-en?cat=4&tab=1

[24] See: https://www.geostat.ge/en/single-categories/105/business-sector-in-georgia

(6.36 percent in USAID (2021) and 6.22 percent in this Report – see Table A.5). For the headline TE costing exercise, this Report uses its the average profit margin estimate for 2016-2020 (i.e., 6.22 percent).

In 2021, the ITE from enterprises that are taxed at 1 percent varied between 5.7 million GEL (under a 6.2 percent profit margin assumption) to 23.0 million GEL (under a 9.9 percent profit margin assumption). On the other hand, for the enterprises taxed at 3 percent, the TE varied between -1.0 million GEL (under a 6.2 percent profit margin assumption) to -0.6 million GEL (under a 9.9 percent profit margin assumption). From this analysis, it is evident that the TE from enterprises taxed at 1 percent is quite sensitive to profit margin assumptions (Figure A.2). Therefore, the size of the actual ITE may be different relative to the estimates of this Report, depending on the accuracy of the profit margin assumptions considered here. Moreover, for "small business status" enterprises taxed at 3 percent, the ITE is very modest and remains negative across specifications. All in all, it can be concluded that a positive TE is not expected in this case (unless the actual, observed profit margins are materially different relative to the profit margin assumptions considered in this Report).

Figure A.2. Sensitivity Analysis of Small Business ITE, 2018-2021



Source: GEOSTAT data, MoF calculations.

Appendix 6: VATE estimation data and methods, and sensitivity analysis

6.a Data and Methods[25]

To estimate the cost of VATEs, Supply-Use Tables (SUTs) are used. The SUTs contain information on 88 sectors at the NACE-2 level of aggregation and are symmetric in nature (accommodating 88X88 commodity-industry matrices). Also, data from the VAT registry and tax returns are used to calculate the share of taxable, exempt and zero-rated turnover by NACE-2 code as a matrix of taxable proportions (TP). The TP matrix is, then, mapped to each SUT NACE-2 sector. In calculating sectoral VATEs, the following additional assumptions were imposed:

- 100 percent zero-rating (exemption with the right to deduct) of agricultural and pharmaceutical products (NACE-2 codes 01 and 21 respectively);
- 100 percent exemption (without the right to deduct) of childcare services, educational services, gambling lotteries and games of chance, health services and motor vehicles (NACE-2 codes 88, 85, 92, 86 and 29 respectively).

In the VATE model applied by the MoF, the VAT tax base is determined using the SUT "Use" matrix. Concerning fully taxable items, the standard rate of 18 percent was applied to the household and government consumption final demand vectors. Since VAT exemptions apply to intermediate goods, the intermediate input matrix is used to calculate the tax base of exempt items. For zero-rated items, the tax liability with regard to final demand is set to zero. Given that different expenditures in the SUTs are subject to differential VAT treatment (and linked across sectors), the model applies the TP matrix to adjust the expenditure data downwards and reflect the effective VAT tax bases in each sector. The tax base is further adjusted downwards via application of the "export gross down" (1-minus the proportion of each commodity that is exported) to intermediate input expenditures used for the production of exempt supplies (since these are eligible for claims of input tax credits and should, therefore, not be part of the VAT base).

VAT revenues are calculated via the following formula:

$$VAT\ revenues_t = \sum_{i=1}^{m}\sum_{j=1}^{n} Use_{ijt} * Tax\ proportion_{ijt} * VAT\ rate_{ijt}$$

where:

- $\boldsymbol{VAT\ revenues_t}$ is the baseline value-added tax revenue for Georgia in year $\boldsymbol{t}$
- $\boldsymbol{i}$ is the row number, which represents the commodity

[25] This section is based on Swistak et al. (2020) and follows the recommendations within Gendron and Mylonas (2022).

- j is the column number, which represents the industry or the final demand category
- m is the number of commodities (=88)
- n is the number of industries (=88) and final demand categories
- $\boldsymbol{Use_{ijt}}$ is the expenditure information from the Use matrix of the SUT, either intermediate inputs into production or final demand in year t
- $\boldsymbol{Tax\ proportion_{ijt}}$ is the proportion of expenditures subject to taxation related to either intermediate use (for inputs into the provision of exempt commodities) or household/government consumption (for fully taxable inputs into the provision of taxable commodities) in year t
- $\boldsymbol{VAT\ rate_{ijt}}$ is the VAT rate that applies to a specified commodity and/or industry (=18 percent in Georgia) in year t

As mentioned above, VATE estimates were calculated using the "revenue forgone" method.[26] This means that the Model computes the amount by which VAT revenue increases following removal of a given VATE (holding all other VATEs constant) as the difference between the VAT revenues in absence of the VATE minus the VAT revenues under the VATE. In addition to this, the Model compares the current VAT revenue collections against the "benchmark"-level VAT revenues (in this case, the VAT revenues collected assuming all items are fully taxable at the standard rate of 18 percent).

The Model's estimates depend largely on underlying assumptions concerning the classification of SUT sectors as fully taxable, exempt, or zero-rated. To the extent that the TP matrix obtained from the VAT return data at the NACE-2 code level is inaccurate or overly aggregated, this could bias the results produced by the Model. The methodology applied by the Model also ignores behavioral impacts or changes in compliance stemming from the potential removal of VATEs.

For the sensitivity analysis, the model allows for incorporation of the informal sector (see sub-Section below). This is done by introducing the share of informal output in a given sector into the total output of that sector. With the introduction of the informal sector into the VATE analysis, it is possible to estimate VATEs assuming the informal sector is input-taxed only.

Data for the construction of the TP matrix (i.e., the amount of VAT turnover by NACE-2 sector and state/treatment) is acquired from the Georgia Revenue Service (GRS).

The SUTs and informal sector output data are taken from GEOSTAT. The SUTs are produced with a one-year lag (i.e., they are published at the end of December of the year following their reference year). To tackle this data availability issue, missing SUTs have to be constructed

[26] This approach entails comparing the current and benchmark tax treatment for the items in question, assuming away taxpayer behavioral responses and changes in tax administration. It is, thus, relatively less demanding from a methodological standpoint compared to other methods of TE costing. See, for example Government of Australia (2007).

using available national accounts data. The 88X88 SUT for 2021 was compiled based on said data, macroeconomic accounting identities and average ratios of sectoral to total output as well as ratios regarding sectoral interlinkages from the 2018-2020 SUTs.

By design, the Supply table looks like Table A.8 below:

Table A.8. Example of Constructing Supply Table

CPA 2008 / NACE 2, 2 digit code	Sector 1 Sector 2 Sector 3	Total output	Trade and transport margins	Taxes on products	Subsidies on products	Import, total	Resources, total
Product 1 Product 2 Product 3							
Total		(1)	(2)	(3)	(4)	(5)	1+2+3+4+5

Total output, taxes, subsidies and imports (cell numbers 1, 3, 4, 5 in Table A.8), i.e., the lower outer layer of the frame, are available from national accounts statistics. Knowing total output, taxes, subsidies and imports, it is possible to fill in the "inner" part of the Supply table by using the historic averages of ratios of each sector/product to the corresponding totals. Data on total trade and transport margins is not usually available in a timely fashion, but, by design, the trade and transport margins total must equal zero. However, to fully construct the Supply table, sectoral trade and transport margins were estimated in two stages, since the above-mentioned methodology cannot be extended to construct the vertical axis of trade and transport margins. This is because the vertical axis of total resources is not available and its total equals zero.

So, in the first stage, relative trade and transport margins were estimated as:

$$\frac{share\ of\ trade\ and\ transport\ margins\ in\ total\ resources}{Total\ output + Total\ taxes - Subsidies + Imports}$$

Solving the formula above, the vector of economy-wide trade and transport margins is obtained as the product of the 2018-2020 average relative trade and transport margins and the denominator of the fraction above. Subsequently, it is possible to construct the vector of total resources by taking the sum of total output, trade and transport margins, taxes on products, and imports, after subtracting subsidies on products.

A similar approach is applied to construct the Use table. The simplified version of Use table looks like Table A.9 below:

Table A.9. Example of Constructing Use Table

CPA 2008 / NACE 2, 2 digit code	Sector 1 Sector 2 Sector 3	Intermediate consumption, total	Final consumption expenditure	Export, total	Gross capital formation	Final uses	Use, total
Product 1 Product 2 Product 3							
Total		(1)	(2)	(3)	(4)	(2+3+4)	Total Supply

Data for total final consumption, exports, and gross (fixed) capital formation is available from national accounts statistics. Total intermediate consumption can be directly estimated, since information about total supply is already available from the Supply table. According to national accounting identities, total supply must equal total use, so by subtracting final use from total use, total intermediate consumption is derived. To fill in the “inner” part of the table, the same methodology as for the Supply table is used. In other words, the 2018-2020 average ratios to the corresponding totals (the lower outer layer) is used to estimate sub-sectoral uses.

For the abovementioned calculations, the Report relies on annual 88X88 SUTs for the period 2018-2020. Average 2018-2020 data is used considering the fact that one (e.g., the latest) year’s numbers might not be entirely representative (not least because of the COVID-19 pandemic). Moreover, as 88X88 SUT data is available only for three years (2018, 2019, 2020), the best option was to take an average of these years (i.e., use as much of the available information as possible) and estimate 2021 according to that. Upon publication of the actual 2021 SUT, the relevant data will be used and the 2021 VATE estimates included in this Report will be updated accordingly.

6.b Sensitivity Analysis

The informal sector can be treated in different ways for the purposes of VATE estimation. Considering that the informal sector has a double-digit percent contribution to total output (around 13 percent[27] for 2018-2020), it would be worthwhile to estimate VATEs under exclusion of the informal sector. The sensitivity analysis in this Report, thus, uses two different approaches for the calculation of the total estimated VATEs.

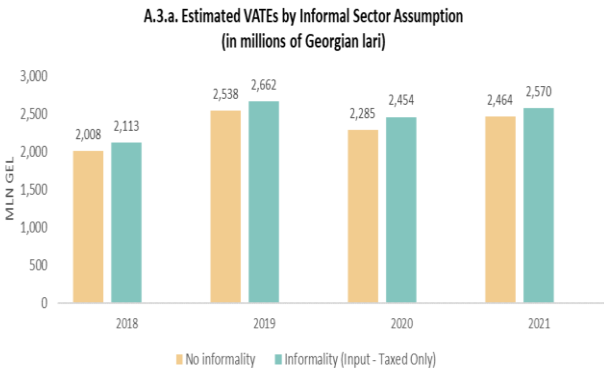
The first approach assumes no informality in the economy.

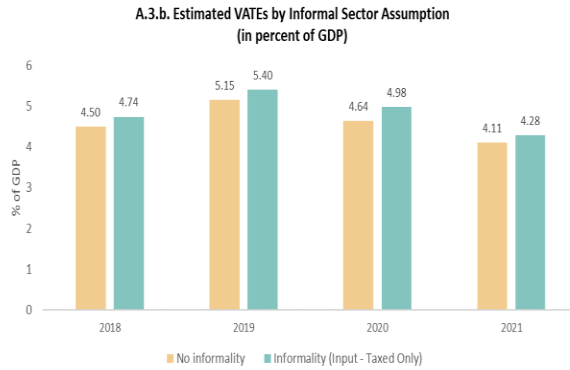
The second approach treats the informal sector as input-taxed only, meaning that the informal sector would be exempt without the right to deduction.

The overall deviation from the benchmark is subsequently analyzed under the different assumptions. The magnitude of this deviation varies between 2,464 million GEL (no informality) and 2,570 million GEL (input-taxed informality) for 2021, which is between 4.09 percent and 4.27 percent of GDP in 2021 respectively (Figure A.3).

[27] National Statistics Office, SUT tables. See: https://www.geostat.ge/en/modules/categories/632/supply-and-use-tables-new

Figure A.3. Georgia: Estimated VATEs under Different Informal Sector Assumptions





Source: GRS and GEOSTAT data, MoF calculations.

Source: GRS and GEOSTAT data, MoF calculations.

Total estimated VATEs decrease from 4.50 percent of GDP in 2018 to 4.09 percent of GDP in 2021 under the no-informality assumption. On the contrary, VATEs decrease from 4.74 (in 2018) to 4.27 (in 2021) percent of GDP under the input-taxed only informality assumption. Overall, total VATEs do not change much based on whether the informal sector is considered in their estimation.

Thus, absence of informality was considered as the default approach in terms of the VATE costing exercise of this Report (see Section IV.b). This is a more conservative approach compared to input-taxed informality. As such, it provides an upper-bound estimate of VATEs in Georgia. According to said approach, VATEs increased from 2,008 to 2,464 million GEL but decreased relative to GDP (from 4.50 to 4.09 percent of GDP) in 2021 (compared to 2018) respectively.

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