



Ministry of Finance of Georgia



# TE Report– Tax Policy

February 2023

# Tax Expenditure Report



## Involved Parties:

- Tax Policy and Macro Teams
- IMF Missions
- USAID support

## As a result:

- The first TE report was drafted in Georgia covering 2018-2021 years;
- Unique experience gained;
- Solid foundation was created for future report updates.

# Benchmark Tax System for CIT



## Benchmark system for CPT:

- Estonian Model of Corporate profit taxation with flat 20% rate;
- Classic model which is still used for financial institutions;
- Taxation period – calendar month;
- The benchmark tax base for DPT: any profit distributions or “deemed” distributions from companies, while reinvested or retained profits are not subject to tax. The taxable base is calculated by grossing up the taxable object by 0.85;
- Deemed distribution includes free delivery of goods/services and/or transfer of funds; representation expenses paid in excess of a limit or loans above threshold;
- Examples of ITE items are foreign income earned by residents and gifts and inheritances, Grants, state pensions, state compensation, state academic scholarships .



# Benchmark Tax system for VAT

- The VAT benchmark consists of all goods and services consumed in Georgia – the final consumption taxed at single rate – 18% (broad base);
- 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 it was transposed into Georgian tax law starting from 2021;
- Taxation period - reporting month of supply of such goods and provision of such services or moment of advance payment;
- Taxation of government entities.

# Benchmark VAT Items

- Supplies or imports of gold for the National Bank of Georgia - money;
- supplies of passenger car carriage - services linked to international transportation;
- imports of goods for use by foreign diplomatic missions - internationally accepted principle;
- provision of services or transfer of goods to the state/a municipality free of charge;
- Supply of goods by state entities that implement projects defined by international agreements.
- Any item included in the benchmark such as exemption of educational or medical services is not considered a TE.



## Other TE items

- Other items include structural VAT items such as:
  - ❑ financial services exemption without right to deduction;
  - ❑ small business exemption (mandatory registration threshold);
  - ❑ 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;
- it is not clear whether full taxation of financial services is feasible.

Thank you for your attention