

GEORGIA'S TAX REFORM AND ECONOMIC GROWTH

GÜRCİSTAN'DA VERGİ REFORMU VE EKONOMİK GELİŞME EĞİLİMLERİ

НАЛОГОВАЯ РЕФОРМА ГРУЗИИ И ТЕНДЕНЦИИ ЭКОНОМИЧЕСКОГО РОСТА

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ABSTRACT

The theme of the topic is about developing economic conditions of the country without commerce, production and financial institutions, is impossible.

Small business is the basis of the economy of many states, due to its obvious advantages over other structural units of business.

The development of Small and medium sized enterprises in developed countries is underway at a high rate, with the government providing substantial assistance because small and medium businesses are the basis for the middle class formation of the population that constitute the stable development of the country's economy.

The main topic of research is to determine the factors affecting the economic development of the country. The objective of the research is the reforms carried out by the Georgian government. The aim and objective of the research is to reform the tax system in Georgia and state program "Produce in Georgia"

Analysis has been made to create a favorable environment for doing business, for direct foreign investment, liberalization of economy, reduction of administrative barriers and tax cargo, and improving public services.

The objective necessity of small and medium business support in Georgia and development of practical proposals is presented.

What is the role of entrepreneurial culture development, stimulating development of new enterprises and facilitating expansion of existing enterprises, how reform promotes the effectiveness of small and medium business functioning and how it reacts to the growth rate of GDP.

The strong and well-developed small and medium enterprises sector greatly contributes to exporting, innovations, as well as the potential for employment growth and job creation, and at the same time plays a special role in raising the welfare of the country.

Key words: Small business, tax reform, state program, economic growth, regional development.

ÖZ

Günümüzde bir ülkenin ekonomik gelişmesinin üretim ticarî ve malî kurumları olmadan gerçekleşmesinin imkânsız olması, bu araştırmanın güncel olduğunun bir göstergesidir. Küçük ölçekli girişimcilik, girişimciliğin diğer yapısal birimleriyle karşılaştırılınca kendisinin açık üstünlüğüyle birçok devletin ekonomik temelini oluşturmaktadır. Gelişmiş ülkelerde küçük ve orta ölçekli girişimcilik hızla ilerliyor.

İktidarlar, onu önemli ölçüde destekliyor çünkü küçük ve orta ölçekli girişimcilik, bir ülkenin ekonomisinin istikrarlı bir şekilde gelişmesinde esas olan orta direği oluşturur. Araştırmanın konusu, bu ülkenin gelişmesini etkileyen faktörlerin belirlenmesi ve Gürcistan hükümetinin yaptığı ekonomik ve vergi reformlarıdır.

Araştırmanın amacı, Gürcistan'da vergi sisteminde gerçekleştirilen reformların neticeleri ve "Gürcistan'da Üret" adlı devlet programının küçük ve orta ölçekli girişimcilik üzerine tesirinin incelenmesidir. Aynı zamanda bu reformun, girişimcilik kültürünün gelişmesine, yeni işletmelerin kurulmasına, mevcut olan işletmelerin geliştirilmesine, küçük ve orta ölçekli girişimciliğin üretimdeki etkinliğine ve bütün bunların gayrisafi millî hasılanın yükseliş hızına nasıl tesir ettiği incelemektir.

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Özel sektör tarafından yapılan yatırımlar bağlamında girişimci faaliyetlerin yaygınlaştırılması, ülke ekonomisini serbest hale getirmek, idari engelleri ve vergileri azaltmakla kamu hizmetlerini geliştirmek için gerekli analiz yapılmıştır. Gürcistan'daki küçük ve orta ölçekli işletmeleri destekleme konusundaki nesnel bir ihtiyaç ile pratik amaçlar için öneriler geliştirilmiştir.

Güçlü ve iyi gelişmiş küçük ve orta ölçekli girişimcilik sektörü, ihracat sahaları ve yeniliği büyük ölçüde destekleyip istihdamın ve yeni işyerleri açılma potansiyelinin artması yanında ülkenin refah düzeyinin yükselişinde de en önemli rol oynamaktadır.

Anahtar Kelimeler: Küçük işletmeler, Vergi Reformu, Devlet Programı, Ekonomik Büyüme, Bölgesel Kalkınma.

АННОТАЦИЯ

Актуальность темы заключается в том, что в современных условиях невозможно развитие экономики страны без торговли, производства и финансовых институтов.

Малый бизнес является основой экономики многих государств, благодаря своим очевидным преимуществам перед другими структурными единицами бизнеса, развитие малого и среднего предпринимательства в развитых странах идет быстрыми темпами, при этом правительство оказывает существенную помощь, поскольку малый и средний бизнес являются основой для формирования среднего класса населения, что составляет устойчивое развитие экономики страны.

Предметом исследования является определение факторов, влияющих на экономическое развитие страны. Объектом же исследования являются реформы, проводимые правительством Грузии.

Целью и задачей исследования является реформирование налоговой системы в Грузии и государственная программа «Производи в Грузии»: какова роль развития предпринимательской культуры, стимулирования развития новых предприятий и содействия расширению существующих предприятий, как реформа способствует эффективности функционирования малого и среднего бизнеса и как она реагирует на темпы роста ВВП.

Был проведен анализ, с целью содействия предпринимательской деятельности в условиях инвестиций со стороны частного сектора, либерализации экономики, снижения административных барьеров и налогов и улучшения государственных сервисов. Указывается на объективную необходимость для поддержки малого и среднего бизнеса в Грузии и разработку предложений практического назначения.

Сильный и хорошо развитый сектор малых и средних предприятий вносит значительный вклад в экспорт, инновации, а также в потенциал для роста занятости и создания рабочих мест, и в то же время играет особую роль в повышении благосостояния страны.

Ключевые слова: Малый бизнес, налоговая реформа, государственная программа, экономический рост, региональное развитие.

Introduction

Above mentioned problem is actual today. . Nowadays, it is impossible to develop the country's economic development without commerce, production and financial institutions. Business relations, which arise in this field, are called business, where small and medium business plays a important role.

Small business, as a result of its obvious advantages, is the basis for the economy of many states, not just from economic perspective but in many ways. First of all, because a small business is very sensitive and can quickly adapt to market demands. Secondly, it is much more mobile than large enterprises and can quickly rearrange new, modern technologies and technologies. Third - small business requires less capital to start and develop. Fourth and most important - small business employs an important part of the economically active population and creates the so-called "The "third layer" (middle class), which is a social-economic and political point of view for achieving the economic stability of the country.

The development of small and medium business in developed countries is underway at a high pace, and the government attaches great importance to such enterprises and provides substantial assistance because small and medium businesses are the basis of the middle class formation of the population, which is the stable development base of the country's economy.

The subject of research is to determine the factors affecting the economic development of the country. The objective of the survey is the reforms carried out by the

Georgian authorities as the reforms implemented in the tax system as well as for the purpose of promoting small business.

The aim and objective of the research is to reform the tax system in Georgia and state program "Produce in Georgia"

What is the role of entrepreneurial culture development, stimulating development of new enterprises and facilitating expansion of existing enterprises, how reform promotes the effectiveness of small and medium business functioning and how it reacts to the growth rate of GDP.

Methods

Research Methodology and Basic Study Issues are studied by Georgian and foreign scientists and practitioners of researchers in many ways. However, the development of small and medium business in many labor issues and the effectiveness of efficiency is mainly discussed in general context. The research process uses systemic analysis, synthesis, comparative and economic-statistical methods.

The use of these methods has been made possible to demonstrate the functioning and development of small and medium business, which has become the precondition for developing a set of measures for supporting this sector. Problems of theoretical, methodological and practical issues, regulation and promotion have been developed in Georgia.

Outcome

- Comparative analysis of small and medium business situation in Georgia and in developed countries;
- Analyzing government supports of small and medium business state programs in Georgia;
- Analysis of improvement of public services, creation of flexible environment for making business by using foreign investments, liberalization of economy, reduction of administrative barriers and tax cargo;
- Presentation of the objective necessity of small and medium business support in Georgia and development of practical purpose proposals.

Discussion

Entrepreneurial sector, especially small and medium enterprises, play an important role in the development of the economy, it also distinguishes employment growth and job creation, strong and well developed small and medium entrepreneurship sector significantly promotes export, innovation and at the same time plays a special role Increasing the level of affluence.

In developed countries (including the EU countries), small and medium enterprises have a large share of operating enterprises, creating more than 50% of the total turnover of the entrepreneurial sector and two out of every three jobs in the private sector. In the Organization for Economic Cooperation and Development (OECD), more than 99% of companies represent small and medium enterprises and average 2/3 of Gross Domestic Product (GDP). In emerging and transitional economies, small and medium enterprises represent more than 90% of the total number of enterprises, but their share in GDP is generally low - often less than 20% (sakhartvelos mtsire da sashualo metsarmeobis ganvitarebis strategia., 2016-2020 : 4).

On the basis of analysis the current situation of small and medium business development is determined and the objective necessity of development of this sector in Georgia.

The population of Georgia is about 3,729.6 thousand (according to the data of 2018), of which 58.31% (2,174.8 thousand people) live in the city and 41.69% (1,554.8 thousand people) in the village.

According to the demographic situation published by the National Statistics Office of Georgia in 2018, 65.4% of the total population of Georgia is from 15 to 64 years. In the beginning of 2018, 31% of the population live in Tbilisi, 13.6% in Imereti, 11.6% in Kvemo Kartli, 9.3% in Adjara, 8.4% in Kakheti and 26.1% in the rest of Georgia. The country's economic center will be diverted to Tbilisi, which unfortunately proves to be uneven for regional development (www.geostat.ge).

In recent years, Georgia has implemented significant economic reforms, the main purpose of which is to create a favorable environment for doing business and direct foreign investment, liberalization of economy, reduction of administrative barriers and tax cargo, improvement of public services,

In modern conditions, the main vector of state support for small and medium business was directed towards regulating tax administration. Tax administration and a system of payment are a crucial issue.

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As a result of the reform of the tax system in Georgia, the liberal tax system has been created as a result of the improvement of administrative mechanisms for successful investors and functioning of the state and taxpayers' unified electronic database. As a result of early and ongoing reforms, it is very easy to start business in the World Bank business doing index, Georgia's leading positions indicate that Georgia's economy has a very good index in all major areas. In spite of external risks, Georgia continues to maintain high levels of economic growth and the country is ranked 6th on the simplicity of doing business with the data of 190 countries, based on the World Bank and the International Finance Organization's 2019 'Business Doing Survey' (www.doingbusiness.org).

Nevertheless, economic growth in Georgia is not as quick. GDP growth rate is the most reliable and popular indicator of economic development in the country. If we look at the country's economic situation, Georgia's Gross Domestic Product (GDP) was dynamically rising until 2011, after 2011, when the country's GDP growth -7.2% reached, its dynamics began to decrease in 2012 to 6.4%. Growth in 2013 increased 3.4%, GDP growth was 4.6% and in 2015- 2.9% and in 2016 - 2.8%. In 2017 gross domestic product growth reached 4.8%.

In the GDP, the largest share of trade (17.1%) and industry (16.7%) belongs to the sector, followed by transport and communications (10.1%), construction (9.8%), state administration (8.5%), agriculture, forestry Fishing (8.0%), Real Estate, Lease and Customer Service (7.0%) and Health and Social Assistance (5.8%). Other sectors (16.9%) include: education; Social and personal services; Financial activity; Electricity, gas and water supply; Lease of their own home and hotels and restaurants.

For the purpose of determining the living conditions of the population and comparing it with different countries, it is often used for the GDP per capita per year, which is calculated in dollars. Georgia's GDP per capita is much lower than the average GDP per capita, which means that the level of living in Georgia is lower than the average global standard.

The Georgian government, which was conditioned by the state support policy of the business environment, decided to make a tax reform to accelerate GDP growth rate.

It should be noted that Georgia's tax legislation discusses the size of business size differently. Specifically, a number of changes have been made to tax legislation that define special taxation for taxpayers - micro business and small business status for individuals. It can be said that this was a kind of supportive, stimulating measure for entrepreneurial entities with this status or seeker (Tateshvili, 2014:31)

The named modes are considered as an alternative to income tax. Micro business status may be granted to a natural person who does not employ employed persons and independently performs economic activity, from which the total gross revenue earned by him does not exceed 30,000 GEL during the calendar year. Besides, it is prohibited to carry out the types of individual activities, the list of which is determined by the Government of Georgia in agreement with the Finance and Budget Committee of the Parliament of Georgia.

Micro business status is voluntary. For this purpose, a physical person should apply to the relevant tax authority, which will issue a micro business certificate. The physical entity with micro business status is exempt from income taxes; From current payments. It is not obliged to pay taxes at the source of payment, in case of reimbursement of services. Individuals with micro business status are exempt from the obligation to use cash registers.

It should be noted that the choice of special regimes for taxation of small entrepreneurs, except for a substantial reduction (or indefinite) of taxes, may result in revenue and expenditure tax code and avoid necessity of accounting in accordance with accounting standards.

In regard to the special regime of taxation tax, we think new problems are in terms of tax administration. The controls for the marginal lending limit for micro and small businesses are unclear when small and micro business professionals are exhausted from accounting documents and a large holder of micro business status is also exempt from the use of cash machines.

Since January 2018, the tax code has also come into force, "the Estonian model" of profit tax. The objective of the legislative innovation is to create favorable conditions for starting and developing business together with accelerating economic growth. However, the novelty is accompanied by some important questions, including whether the Estonian model will encourage GDP growth and what new challenges the country faces (sakhartvelos sagadasaxado kodekhsi).

In response to these questions, we analyzed the changes in the budgetary revenues of the country as defined by the new model, as the object of taxing the income tax, the dividend that is distributed by the enterprise in the form of a dividend, in cash or non-monetary form. Distributed profit divided into 4 parts:

1. Distributed profit;

2. Costs incurred or other payments that are not related to economic activity;
3. Delivery of goods / services and / or transfer of cash;
4. Representative expenses incurred in the amount exceeding the amounts set by the

Tax Code.

Reform does not refer to organizations (LEPLs, NNPs) and financial companies such as commercial banks, microfinance organizations, insurance companies, Lombards. The financial sector is planned to move from 2020 to the tax regime.

I think LEPLs and NNPs should not be united with the financial sector, especially the higher education institutions, whose "profit" is the actual cost of the next year. They are based on the state and are not distributing dividends.

In our opinion, it is necessary to select small and medium entrepreneurs, regardless of the legal form, which will not be created in the country without the development of the middle class.

An important issue of supporting small and medium businesses can be an attempt to establish the principle of mediation. According to this institution, the final result of tax inspection will not be sent directly to the taxpayer, who was forced to challenge the Income Service, then the Ministry of Finance and finally in court.

The payer can take the first stage of the mediation in the Audit Department, ie the ordinary auditor who inspects the project, after the project goes to the Mediation Board so that the decision is not in force. The Special Council of the Audit Department reads both sides as a concrete auditor and a taxpayer's reasoning. It must first create a healthy environment for the taxpayers, they should be convinced that they are looking at their problems objectively, they are also listening to arguments, and in case of impartiality, even consideration. In recent times, this system has had a positive impact on taxpayers and trusts as well as the absence of subjective approaches.

It is also noteworthy that strengthening prevention against tax violations, which provides consultation, providing information, introduction of innovations and recommendations for entrepreneurs. At the same time, the entrepreneur is determined to fix the defect in which the problem should be solved

Among the numerous instruments of state regulation, priority is given to regional economic policy, regulating revenues of regional budgets and implementing equitable transfer policy, as well as the state targeted programs, state orders and state investments in the region.

Analysis of the world's advanced experience in regional economic policy shows that there is still not a single common method of formation, each country pursues its own regional policy, based on its state interests and resources. The main leverage for realization of regional economic policy for almost all countries is the distribution of financial resources from the center of the regions, while its forms and principles are essentially different from each other.

Georgian government has started to promote the development of micro and small entrepreneurship in Georgia in the program "Produce Georgia" in order to increase economic activity in regions.

Micro and Small Entrepreneurship Promotion Program facilitates the activation of the regional population by promoting or promoting their business. With the help of financial assistance, the residents of the region will be able to start their own business, while the consulting component is provided to increase the knowledge of interested individuals in terms of doing business.

State program for micro and small enterprises within the framework of the grant competition is allowed as a business entity, the program had not received funding, and for the first time take part in it, as well - the businessman / entrepreneurs who had once been in the program for micro and small enterprises of the Forbord oba.

Participants must take several steps before financing:

- Fill up the online application
- Business Competition: To identify the authors of the best business community and train them to write business plans
- Business plan writing training: Authors of the best business do business trainings
- Competition for Business Plans: Winner participants identified as a result of competitive business plans will receive co-financing
- Co-financing - not more than 20 000 GEL

According to 2015-2018, within the framework of the "Produce Georgia" Agency, 5 313 projects have been supported, total volume of which is 50 million GEL and 22 949 474 GEL was issued as co-financing, with 8 412 beneficiaries participating.

Funded projects were distributed according to regions : (programa "atsarmoe sakhartveloshi")

#	Region	Project Quantity	Output	investment value Total investment
1	Adjara	596	4832633	6256936
2	Guria	316	2527951	3422332
3	Samegrelo / Zemo Svaneti	914	7033116	9174301
4	Racha-Lechkhumi / Kvemo Svaneti	702	4103081	5277779
5	Imereti	463	3530653	4723596
6	Samtskhe-Javakheti	800	5703692	7620421
7	Shida Kartli	463	3530653	4723596
8	Mtskheta Mtianeti	438	3442570	4474629
9	Kvemo Kartli	481	3990020	5205367
10	Kakheti	632	5622237	7477204

Assess the results of access to technical support and finances of the program "Produce Georgia" in 2018.

In order to evaluate the effect of the program, one of the ways of analyzing is to consider the total revenue and value added, the revenues received by beneficiaries, based on their place of registration, amounted to 1,309 million GEL, and analysis shows that the GDP in spite of this, is growing. However, this increase can not be considered as a result of subsidies issued only. GDP depends on different factors, and only subsidy can not affect the economy, if other economic indicators do not contribute to the growth of social welfare. The state support of small and medium enterprises should be involved in the process of state procurement, and we believe that tax benefits can be of some assistance at the initial stage but the stimulus task should be defined after the expiration of time such business is developing and switching to the overall mode. In the artificial way, there is no limit to circulation.

Together with the establishment of an institutional framework, the most important task is to improve and develop credit financial mechanisms for free entrepreneurship support. There are many reasons for today in Georgia, which makes it less accessible for the real sector of the economy, especially for small enterprises, financial resources. These are the reasons: lack of credits to the credits; High rate of loan interest; And so forth;

Competition promotes the growth of the country's economy, as the free competition favors the quality of goods and services as well as price regulation issues. It promotes innovations, product improvement and economic well-being of society

Georgia's trade balance is negative, meaning that the import of the country exceeds its exports. This indicates that it is difficult to replace imported products in certain sectors.

Small and medium enterprise policy and strategic directions in Georgia for strengthening small and medium enterprises and local and international markets for its competitiveness should be clearly defined strategic directions, despite the legislative and in general, improve the business environment, small and medium businesses in Sep. Two still faces difficulties in a number of areas, which negatively affects their competitiveness. Although there are already small and medium enterprises supporting institutions in Georgia, they need strengthening. It is advisable to further strengthen the newly established Entrepreneurship Development Agency for business purposes

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