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THE TENDENCIES OF THE TAX SYSTEM DEVELOPMENT IN GEORGIA

The economy of the country greatly depends on the properly adopted and developed tax policy and tax system in order to achieve successful functioning and efficiency. The tax system generally always meets the certain tasks standing on the several stages of its development. This is expressed in the necessity of mobilizing all the government revenues in order to absorb debts. Only in the case of formation of the tax system which would fully correspond the social-economic issues it will become possible to achieve the stable development of the economy, industrial progress and improvement of the existing social problems. Usually, in all the countries, the principles of the tax system constructing are defined by the constitution and the tax code of the country which means that fulfilling the financial tasks standing before the state needs in its turn a flexible tax system.

Key words: tax system, budget, control, tax payer, tax policy, tax benefits, investment environment.

Formulation of the problem. The issues relating to the perfection of the tax system are and always will be the most important key issue of the economic policy of the country.

Generally, in every country perfection and development of financial relations are impossible without efficient tax system which is closely related to the development of the state. Respectively, the argument tax system can positively influence the national economy, eliminate the negative events and strengthen the development of the activities related with the entrepreneurship on the true legal basis and the strong and efficient taxation. The tax system in any country includes the legal status of the partners participating in the legally implied relations, their rights, obligations and responsibilities as well as the rules of introducing, implementing, changing and cancelling the mentioned relations.

The tax bills represent one of the main economical methods of administrating which can provide close ties between the common national interests, economic power and commercial interests of the economical units of the different forms. The tax bills are used to regulate the foreign trade and other economic activities and the relations between the enterprises of the all ownership forms with the state or local budgets.

Creating the optimal tax system represents one of the hardest issues of the economical science. It is a permanent issue of disputes and discussions between the political circles and representatives of the different businesses. Taking into consideration that the world economical science has yet not created the model of taxation which would be acceptable for everybody, we can say that the Georgian tax system as well is far from being perfect.

Analysis of the recent researches and publications. Several Georgian scientists and researchers have been working on the issues of the Georgian tax system such as: L. Kamarauli, L. Bakhtadze, N. Terashvili, V. Verulidze, Z. Rogava and others. In their publications these authors have analyzed and assessed the issues related to functioning of the Georgian tax system and gave their recommendations. Though, it is important to denote that the tax legislation of Georgia undergoes important changes

every year which is followed by essential changes in the rules of taxation and administration. Respectively, the tax system as an object of the scientific researches remains always actual. Thus our work deals with development and perfection of the taxation administrating system according the modern legislation changes.

Highlighting unresolved parts of a common problem. Usually, the tax system should be of multipurpose character. On the one hand the main part of the budget should be organized with help of the tax system and on the other hand it should represent a motivator for business activities, investments, expansion of production and correspondingly, future enlargement of the taxation basis or generally speaking, the tax system should represent the supporting and boosting mechanism for development and stimulation for economy.

It is well known that the tax system has two main functions: fiscal function and function of stimulation. Fulfilling the fiscal function is possible through the strict administration of payment but its effect will be of short-term and in the long-time perspective its efficiency would be under question without the stimulating tools. That is why it is critical for a viable tax system to find optimal interrelation between its mentioned two functions.

The taxation system and concessional tax treatment presently existing in Georgia do not fully realize its stimulating functions and sometimes breaks the principles of justice. Besides, the existing administrating rules provide guaranteed incomes to the budget but on the other hand hamper the development of business. In its turn, administration implies control over breaking the law. Thus, the more effective are the administrating rules the larger is the income flow to the budget. But the main fault of the Georgian rules of administration is that the efficiency of the tax payment control system is measured by the volume of the additional taxes and sanctions made during audit.

Besides the above mentioned, generally speaking, the level of knowledge of laws related to the tax and payment system is quite low among the population of Georgia. Large part of the population cannot adequately understand why it is necessary to pay taxes

as they consider that they do not receive appropriate well-being conditions. The problem is dramatized because of ambiguity of some paragraphs of the taxation system which allows some interpretations and the tax-payers often got confused.

The tax administration system of Georgia does not fit the real conditions existing in the country. Through many years it was adjusted to refilling the budget of the country and used strict economic sanctions. Some regulations have been liberalized through the recent years but the principle of justice is still defined as the sanctions rates for big, average and small tax-payers are equal.

Unfortunately, on the early stage of formation of Georgia as an independent country, in the transition period, part of the politicians and economists who participated directly in the process of development of the taxation policy and founding the taxation system, regarded the issues of the taxation system theory as unimportant. There always have been big efforts provided by the corresponding governmental structures trying to attract as much funds as possible to the budget from the enterprises and from the population. Thus, this policy did not have right theoretical basis. The essential features of effectiveness and perspectives of the incomes were not proven. Making variations and alterations to the tax payment code were and still are very frequent. Instability of the tax system of the country results in obstacles and opposition between the tax payer and the state.

It should be noted that in the period which followed the year 2004 the important changes were carried out in the direction of improving the organization of the tax system in Georgia. Namely, the service for the tax payers clearly got better, mechanism of the administration was refined and efforts of mobilizing the payments to the state budget appeared very successful. The results were clear. But it also must be noted that claiming the existing tax system and taxation policy to be ideal is far from reality. The practical influence the mentioned system has upon the economic development of the country and well-being of the large part of the population is not as considerable as desired. The existing system cannot ensure timely and maximal financing of the state programs; the financial resources for reliable and perfect financing of the social support also are not sufficient. Stability of the tax code was not achieved. The opposition between tax payers and the tax administrating continues till nowadays. It is the true fact that the tax system functioning in Georgia is not able to support stable development of the entrepreneurship and business.

Purpose of the article is to characterize the tax administrating system acting in Georgia to reveal its positive and negative characteristics and to design the directions for its perfection.

Presentation of the main research material. Studying and analyzing of the tax system showed that in the modern times, the worldwide practice shows that the most approved and popular methods for realizing the tax system are as follow:

- 1) make changes to the burden of taxes for the tax payers;
- 2) changes in the forms and means of taxation;
- 3) changes in the spheres of the certain taxes spreading;
- 4) introducing or abolishing the tax benefits;
- 5) differentiation of the tax shelters.

Influences of the taxation policy over the economy of the country are done by means of the several

special tools. Partial or total liberation of the payers from the tax payments is one of the means of the direct influence which are used by the state aiming to support development of the certain field of business or the branch of the economy in the regions which are economically less active through stimulation of the investments. As a rule, such tax shelters are used for some years [1, p. 21].

The following financial, economic and payment leveraging tools which can also be used for motivation are also: accelerated, temporary changes made to the general rules of the taxation, differentiation of the rates, payment rescheduling, creating the reserve and investment funds free from the tax payments.

The differentiation of the tax rates may be done according the certain branches of the business, regions, and categories of the payers. Existence of the tax rates provides flexibility of the tax legislation, as far as through its changes the state can effectively, in a short time, make changes of the priorities in the policy of regulations of the incomes [2, p. 426].

Imperfection of the existing tax system and tax legislation, undefined registration system of the tax payers conditioned violations in payments. The shortcomings of the payment system and policy caused the long budget crisis in the country.

It is proved that effective functioning of the economic system in any country greatly depends on how the tax system is organized. The tax system of Georgia is based on the strictly defined fiscal policy which means that it uses only the fiscal function of the taxes namely fulfilling the incomes of the state budget through the stable payments and in the centralized way that make the state the largest economical subject. At a glance, such tax system should be acceptable and realistic but one condition should be taken in consideration that the tax policy first of all must be strictly oriented which encourages attracting the tax payments to the budget but if it is not accompanied by using the regulative and simulative functions of the tax system, or in other words, by the formulated optimum of the tax payment rates, minimizing of the payment rates in some branches of the national economy then the taxable income will reduce and correspondingly, the deal of the payments to the budget incomes though at a glance in the absolute indexes the tendency of growth can be seen there [3, p. 163].

“The unbalanced budget is the main factor which in the 90ies of the last century provided enlarging of the taxation base, rate increasing, tax benefits decreasing, enlarging the number of the tax payers, using strict measures for regressive payment in order to increase the budget. Such measures should not be regarded as the rules of the taxation regulation system. Using the repressive means is a ruinous practice and it should not be used in the country which is socially oriented in the market economy” [4, p. 142].

The tax system reforms taking place in Georgia include not only the taxation policy but the direction of the tax administration. The new tax code began functioning in Georgia from the year of 2005 when the new tax code was introduced. Since then the number of tax payments reduced to 7 types instead of 22. The rates were also reduced: the income payment reduced from 20% progressive to 12% linear. The VAT rate decreased from 20% to 18% and social payments reduced from 33% to 20%.

From 2008, the tax payment for the total income of the enterprises reduced from 20 to 15%; the social

payment which was paid by the employer and the income payment paid by the employee were united and the income payment became 25%. In 2009, the income payment reduced to 20%. Reducing the rates were accompanied by reducing the number of kinds of tax payments and now we have only 6 kinds of taxes.

Besides that, beginning from 2008, the custom duties for imported goods were nullified which made Georgia a member of the group of the countries with the most liberal trade regime. Towards the aim of foreign trade favoring the liberal policy was pursued. Import taxes were abolished on all the goods except the agricultural products and construction materials and as for the mentioned productions, there are only three rates: 0.5% and 12%

In 2017 as well, a reform of one of the most important taxes was carried out implies that a company/enterprise will be imposed taxes for earned profits only in case of dividing the profits, otherwise they are freed of the taxes, including the case of reinvestment. The significant novelties are also introduced to the tax administration as well. Namely, the tax control will be carried out only by the taxation authority. Irrecoverable debts will be written off from the tax payers, the activities of which have not been fixed. Such instances can be divided in two groups.

1) The sum of the unpaid debts which occurred till the 1st of January 2011 will be written off totally.

2) The sum of the unpaid debts which occurred till the 1st of January of 2013 will be written off but only under the condition that the basic sum of the debt must be paid. Summing up, total volume of debts amounts to 2 milliard dollars and obligation for paying concerns approximately a hundred thousand legal entities.

Thought should be noted that despite the mentioned important methods, the reform almost did not concern the essence of the interrelations between the state and tax payers; the taxes, instead of the price of the services according to the paragraph 6 of the tax code still remains "the obligatory, unconditioned monetary contribution paid by the tax payers, on the basis of the obligatory, nonequivalent and non-reciprocal character of the payment" [5, p. 11].

This formulation denies the obligatory character of accountability of the state towards the tax payers thus giving the possibility to the state to manage the budget sums without accountability. During the assessment and analysis processes of the measures taken in order to enlarge the income sums, the state authorities should consider their influence upon the prices, stimulations and the macro-economic compendium as it is well known that resulting from the elasticity of the request and satisfaction processes, the tax payments are able to act in adequately different ways upon the several markets and economic sectors.

As for cutting the revenues from taxes, this is the important challenge for the reforms. It is possible to restore such balance is possible through increasing the taxes or reducing the budget expenditures, but only if this happens in a short time period, before the effect of the reforming results will come, concretely, before the business becomes active and before growth in economy starts.

Consequently, it is necessary to reform the Georgian tax system in complexity, taking into consideration that this system should finally provide economic independence, stability of the tax payments and financial security. It is also necessary to simplify the rules of taxation, to follow the principle

of justice, to abolish the benefits which are based on the credible reasons, to equalize the levels of the social-economic development on the whole territory of the country.

In the process of the social-economic development of the regions of the country the taxation mechanisms represent important means of influence. Much attention is paid to the development of the business activities but nevertheless there remain several unsolved problems which can be gradually settled through modernization of economy. In the recent years there were adopted serious measures relating to decreasing the burden of the taxes. For example in 2014 the burden was expressed in the economic sphere as 20.5% and it was decreased to 20%. Thus the corporative profit decreased from 9% to 8%. Despite such measures the state budget was comparatively balanced towards the GDP.

Reducing the income benefits causes sharp reducing of the state stakes in the newly produced values; it serves for financial stability of the economical subjects and increasing the activities areal for the business in the region. Despite this, the level of the tax burden hesitates in the different regions and economical spheres.

In the environment where the economy modernization takes place including the regional development, it becomes clear that it is necessary to develop the tax payment mechanism for the improved economy in the regions of the country. Usage of the economical means is not sufficient; unemployment is spread in the most parts of the country. This and other problems existing in the regions demand innovative activities. The diversity of the conditions and possibilities of the regional development demand rational approaches from the viewpoint of the economic policy.

Improvement of conditions of the local tax payments and fees should imply the mechanism for their including into the local budget. At present the mentioned fees represent the major part of the incomes. This is not only the effective usage of these means but it is a usual practice of the governmental regulations.

One more way of enhancing the budget incomes stability is to improve and refine the criteria for appointing the sources of the budget, which should be defined in the following way.

1) Distribution of the tax basis among the regions should be overviewed along with the central taxes which support economic stability.

2) In the modern period of time the government should support the development of the small businesses and enterprises.

3) To our mind, the income tax should be proportionally distributed between the state and local budgets.

4) One of the ways for enhancing the income basis is the system of the objective criteria, which will enable the real differentiation of the administrative regions according to the level of social-economic development.

The tax policy and mobilization of the taxes represent the unity of the government measures which are carried out with the aim to support the economic growth of the country, to eliminate the disproportion between the volume of production and credit solvency of the population. To lead the successful tax and budget policy demands taking into consideration such characteristics as stability and malleability, effectiveness, justice, simplicity, convenience, determining the rational limits of the tax burden.

Nowadays the national tax policy is not regarded as an untouchable attribute of the sovereignty of the country. It represents a part of the global processes thus it is absolutely necessary to provide conduction of the tax policy taking into consideration not only micro economical specific national policy but to consider also the economic characteristics of the partner countries which make investments and to know the international tax policy coordination by means of the compromises to the sphere of the sphere of coordination.

Conclusions. Aiming to macroeconomic stability and its further ensuring, implies considering the following measures: the tax system should be simple, clear, universal, fair, perfect and the rates should be optimal.

For the investigating environment to be further improved and to support the business activities the mechanisms of the tax management (fiscal management) will be refined and this measure will in its turn reduce the burden of corresponding to the regulations. The stability of the tax payment legislation will become more stable (avoiding making frequent changes to the code) and transparency.

To achieve these goals it is necessary: to regulate the interrelations between the center and the regions through regulating the budget relations in order to develop the unified normative- juridical basis and optimization of those relations between the center and the regions to achieve the unity between them; finish the process of merging of the responsibilities and powers between the state and local authorities; define the strict ties between the budget funds received through sharing and the level of development of the region.

Business activities liberalization require the corresponding measures for conducting the appropriate tax policy, such as: ease the Tax Code. It should be written in a simple and correct language, the paragraphs of the Code should not be contradictive, and they should not be either ambiguous or equivocal.

To reach major improvement in the tax policy it is necessary to further lessen the tax burden which can be done through lessening the tax burden on the job payment fund; lessening and differentiation of the income payment and VAT payment.

We suppose that it should not be obligatory to pay current payments of the profit taxes. In that case, during the year, the tax payers do not have a possibility to use its own financial resources. True, the budget would not receive any sum for a certain period but it will not lose either.

We also suggest that it is necessary to define new taxes concerning the financial transactions such as:

stocks, obligations, investment funds, shares, monetary market instruments, agreements, securities, loan agreements, derivative transactions and to prove their feasibility. Those new taxes if rationally used will be able to have an improving influence on the state finances.

We consider that it is desirable the amount of the fixed penalties and fines to be determined in the following way: to determine the upper and lower margins of an error; to define the deadline of the period of limitation beneficially to the entrepreneur. Our suggestion is to lower the fines to the index which at least could insure that it would not overbid the market percent of the loan.

As it turned out during the process of research, the tax exemptions quite often are not able to ensure stimulating a concrete sphere in order to increase the number of the payers with medium and low income. The instruments of that kind are mostly fit for the large businesses resulting in the problem of polarization – the rich grow richer and the poor grow poorer. We suppose that in order to improve the situation, it is necessary to select proper tools to influence the economical processes. The minor and medium enterprises should become the priorities. It is clear that if this kind of business does not develop properly, the middle class will not develop in the country.

Taking into consideration the results of the study of the main factors causing the low level of culture of payments in the country, we conclude that it is necessary that the mentality of the tax payers as well as the persons in charge of tax payments administration, raising the level of general knowledge of the legislation, eliminate the habits of influencing the tax policy using the political party affiliations fair distribution of the tax burden, refining and simplifying of the corresponding legislation, making it compliant with the international standards, taking the fair and effective measures within the tax payment control, give priority to the social benefits when spending the sums mobilized to the state budget, which will change the tax payers' views towards the inappropriate expenditures of the funds.

Fulfilling the above mentioned measures can importantly improve the environment to carry enterprising and investing in the country which will be expressed by such events as starting new businesses, enlarging and diversification of the existing ones, development of the small and medium businesses, enlarging the investment flows from abroad, raising the level of productivity as well as improving the positions of the country among the international ratings and assessments.

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ТЕНДЕНЦІЇ РОЗВИТКУ ПОДАТКОВОЇ СИСТЕМИ В ГРУЗІЇ

Резюме

Гладке та ефективне функціонування економіки країни залежить від податкової політики та податкової системи, яку впроваджує держава. На різних стадіях розвитку податкова система завжди вирішувала конкретні завдання, які б визначали, що треба мобілізувати державний дохід для покриття бюджетних видатків. Можна досягти сталого економічного розвитку, збільшення виробництва та пом'якшення наявних соціальних проблем у формі податкової системи, сумісної із соціально-економічними проблемами країни. Принцип побудови податкової системи в усіх країнах визначається конституцією та податковим кодексом, тому функціонування держави вимагає гнучкості самої податкової системи.

Ключові слова: податкова система, бюджет, контроль, платник податків, податкова політика, податкові пільги, інвестиційне середовище.

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ТЕНДЕНЦИИ РАЗВИТИЯ НАЛОГОВОЙ СИСТЕМЫ В ГРУЗИИ

Резюме

Гладкое и эффективное функционирование экономики страны зависит от налоговой политики и налоговой системы, которую внедряет государство. На разных этапах развития налоговая система всегда решала конкретные задачи, которые бы определяли, что нужно мобилизовать государственный доход для покрытия бюджетных расходов. Можно достичь устойчивого экономического развития, увеличения производства и смягчения существующих социальных проблемы в форме налоговой системы, совместимой с социально-экономическими проблемами страны. Принцип построения налоговой системы во всех странах определяется конституцией и налоговым кодексом, поэтому функционирование государства требует гибкости самой налоговой системы.

Ключевые слова: налоговая система, бюджет, контроль, налогоплательщик, налоговая политика, налоговые льготы, инвестиционная среда.