Perfection of the tax system and its impact on macroeconomic policy in Georgia

Tchiotashvili David¹, Chitadze Khaliana²

¹ Doctor of Economics, Professor; Gori State University, Republic of Georgia
² Doctor of Economics, Assoc. Professor; Gori State University, Republic of Georgia

Abstract.
In determining the macroeconomic policy of the state, in order to fulfill its goals and objectives, taxes and perfecting the tax system play a key role and represent one of the main instruments of the economic and financial policy of the state and can be considered as the leader of the country's macroeconomic policy. The aim of the paper is to discuss and analyze the role of the tax system and its subsequent reformation in the macroeconomic policy of the country, and in particular in the part of the fiscal policy, because through the tax and fiscal policy, the government of the country makes decisions in which direction it wants to develop the country's development strategy and define the macroeconomic policy. In terms of the sustainable development of Georgia and the implementation of the country's macroeconomic policy, the concept of economic development and the implementation of correct tax reforms in this regard, in the direction of perfecting the tax system, are important in the short and long term. Based on this, issues related to reforming and perfecting the tax system are one of the most important challenges of the country's economic policy and macroeconomic policy.

Keywords:
tax system
macroeconomic policy
fiscal policy
taxes
financial policy
Economic sustainability
Introduction

Determining the state's macroeconomic policy significantly depends on the flexibility of the tax system, the correctness and further reform of which is a determining factor of the country's development and sustainability, as confirmed by international experience.

Fiscal policy is a stabilizing tool of the country's state policy and macroeconomic policy, the goal of which is to increase tax revenues, stimulate the state's financial resources and reserves, ensure the sustainability of the state debt and further economic progress of the country, which in turn determines the short-term, medium-term and long-term development of the state. Fiscal policy has a significant impact on the daily life of society. Its goals and mechanisms are different for different periods of time and lead to conflicts between short-term and long-term goals. The strategic direction of fiscal policy is to minimize the discrepancy between short-term and long-term objectives.

For the perfection of the tax system and the implementation of the goals of the country's macroeconomic policy, it is important to strictly adhere to the principles of taxation, to further reform the tax system and to develop a tax and fiscal policy through which the goals and objectives set by the state will be solved, such as:

- Ensuring the tax competitiveness of the country in the world market;
- Increasing the efficiency of the tax system;
- Expansion of investment activity;
- Creation of tax factors stimulating the expansion and modernization of the economy and regulation of processes;
- Tax support and stimulation of innovative activities;
- Development of ecological economy.

Review and discussion

The economic development of the state and creation of a single powerful economic system is one of the important tasks of the country. Georgia has already taken a lot of steps forward in this direction, but continuous and sustainable development and still effective steps are taken into account, which in turn, together with the development of the economy, takes into account the socio-economic condition and well-being of the society, which, in addition to purely economic
characteristics, includes the safety of the society, which is the guarantor of democratic values.

An effective tax system significantly contributes to the implementation of the country's macroeconomic goals and sustainable fiscal policy. Based on this, the following important measures should be implemented in the medium and long term:

- Further reform, stability and sustainability of the tax system;
- unity of tax strategy and tactics;
- improvement of tax administration;
- Further liberalization and simplification of tax legislation in order to further improve the investment environment;
- creation of favorable conditions for the best initiatives and investments;
- Promotion of export industries and export growth.

By implementing the mentioned important measures and reducing the taxation rates to the optimum, the acceleration of the economic growth rate will be achieved and will most likely have a positive effect on the implementation of the country's further successful and effective macroeconomic policy. In this direction, the positive effect of the reform of the "Estonian model" of profit tax, which was introduced in Georgia in 2017 and is being successfully implemented, is often discussed. The introduction of the "Estonian model" of profit tax was a certain challenge for Georgia. The country's tax legislation and profit tax were mainly based on international experience, which allowed the country to implement changes on the example of developed countries, however, the "Estonian model" of profit tax was based only on Estonian experience, and whether it would be justified in Georgia was at some risk, since the further assessment of the challenges related to the reform was limited only to the experience of one country. At the same time, it should be taken into account that the expected result of the profit tax reform in the short and medium term is a decrease in budget revenues, which in turn is a challenge to maintain the optimal balance between the benefits from the reform and the decrease in revenues in Georgia. Through the "Estonian model" of profit tax, direct stimulation of investments and, accordingly,
Economic growth in the medium and long term is carried out.

All reforms should be carried out in a complex manner, and practice and experience allow us to better adapt the mentioned model to the Georgian reality. Correctly planned steps will contribute to further refinement and successful implementation of the reform. Based on this, it is worth noting the fact that the "Estonian model" of profit tax was introduced in Georgia in parallel with the existing model of profit tax, because certain benefits apply to taxpayers of different categories. The "Estonian model" of profit tax is particularly attractive for small and medium-sized businesses, due to the subsequent reinvestment of the funds they save. The aforementioned tax reform implemented in Georgia was positively evaluated by the World Bank.

Profit tax in Georgia and all developed countries is an important source of budget revenues. Accordingly, the reduction of this tax revenue was a painful process, because as a result of the reform, the share of the total tax burden in the total profit was significantly reduced, and in the first stage this figure was equal to 9.9%, which was about 6.5% less than the figure of the previous year. However, according to the data of 2022, the increase of the said tax revenues is observed again and amounts to 11%. In 2022, the tax revenues of Georgia according to the types of tax will look like this: Cart 1.

The graph shows that the share of profit tax in 2022 is 11%, and 55% of tax revenues are received in the form of indirect taxes: value added tax, excise duty and import tax. The largest share of direct taxes comes from income tax and is 29%. Property tax accounts for 3% of total tax revenues.

The reform of the profit tax leads to a decrease in tax revenues in the short term, while it leads to an increase in tax revenues in the long term. Its results significantly depend on the specifics of the country and subsequent reforms. The task of stimulating reinvestment should become the growth of business development in a certain period of time. Although the share of profit tax decreased from 13.20 percent to 7.60 percent of the total tax revenue in the first stage of the reform as a result of reinvestment in tax revenues, the exemption from taxation of undistributed profits for business
entities operating in Georgia reduced the tax burden. There is also an incentive to expand production through reinvestment. The mentioned model improves business access to financial resources; increases business activity and liquidity of business assets; the amount of capital available in the business increases; The business sector is becoming much more resistant to crises, foreign investments are increasing.

The negative effect and challenge of the profit tax reform is the reduction of budget revenues in the short and medium term, but in the long term, the profit tax reform will increase the volume of both domestic and foreign investments in the economy and thus encourage economic activity. Another challenge of the reform is that, in turn, it complicates tax administration and, accordingly, its accounting, since many controversial issues are added to the rules for establishing
and determining the reinvestment norm, which requires some additional study and refinement, since it is almost impossible to establish a uniform reinvestment norm for the country, and different fields and specific Enterprise tasks and goals are individual.

Access to financial resources is particularly difficult for small and medium-sized businesses, so the possibility of reinvesting tax-free profits becomes particularly important. Also, with the new customs code, Georgia became the first country in the region, which, together with the modern customs infrastructure, fully responds to the requirements and challenges stipulated by the European standards, which will be an important incentive for Georgian business in the European Union market, as well as for attracting investments from the European Union countries, which in turn is the main economic policy and macroeconomic policy of Georgia. is a landmark. It is impossible for Georgian business to establish a place in the EU market without additional financial costs. To increase export potential and implement effective macroeconomic policies, tax-free profits may be used to meet the needs of the EU market. Perfecting the tax legislation, bringing Georgia's tax legislation into line with the best international practices and further harmonization with the EU legislation, creating an attractive and stable tax environment for business development, is the main goal of the existing tax policy in the country, which in turn determines the direction of the country's macroeconomic policy. What is envisaged by the Partnership and Cooperation Agreement between the European Union and Georgia.

If we look at the dynamics of tax revenues in 2020-2022, the revenues received in the form of taxes in the joint budget of Georgia exceeded the forecast in all reporting years and according to the data of 2022 amounted to 17,385,944,341 GEL, which significantly exceeds the forecast at the beginning of the year. It should also be noted that Georgia ranks 28th in the world in terms of tax revenues. The funds mobilized in the budget in the form of taxes are characterized by a positive dynamic, even in the past years, which looks like this in the form of a graph: Cart 2
FINANCE AND CREDIT

Cart 2

Dynamics of tax revenues in 2020-2022

Revenues received in the form of customs taxes in the joint budget of Georgia have a 41% share in tax revenues in 2022 and according to years it looks like this: Cart 3

Cart 3

Dynamics of customs revenues in 2020-2022
Reducing the tax burden, stimulating investment activities, increasing the efficiency of tax administration, requires the creation and formation of an effective national concept of taxation. The issues related to the perfection of the tax system are one of the most important issues of the country's economic policy, particularly fiscal policy, and considering the economic tasks and challenges facing Georgia, the main directions of the country's tax system and macroeconomic policy should be economic stability and public welfare.

**Conclusion**

In terms of the sustainable development of Georgia and the implementation of the macroeconomic policy of the country, the concept of economic development and the implementation of correct tax reforms in the direction of perfecting the tax system in the short and long term are important. Therefore, issues related to the perfection of the tax system are one of the most important challenges of the country's economic policy and macroeconomic policy. The tax system plays one of the most important roles in market relations and is one of the main instruments of the state's economic and financial policy. It is also one of the most important levers in determining the country's macroeconomic policy and for fulfilling its goals and objectives, and can be considered as the leader of the country's macroeconomic policy. An effective tax system plays an important role in ensuring the sustainable development of the country's economy, creating a healthy business environment and solving social problems. Determining the state's macroeconomic policy significantly depends on the flexibility of the tax system, the efficiency of which is a determining factor for the development and sustainability of entrepreneurial activity, as evidenced by the experience of developed countries. The experience of taxation systems of national and foreign countries shows that there is no full-fledged and ideal tax system and that, in parallel with the current social and economic development in the country, the efforts of the state should be directed to its further improvement.

By reforming the profit tax, businesses can reinvest profits back into production, thus not paying profit tax...
This mechanism, in addition to promoting reinvestment, also prevents the outflow of capital from the macroeconomic point of view and full reinvestment of profits within the country. The tax system plays an important role in maintaining the economic stability of the country, improving the tax and customs administration and in the direction of integration processes with the European Union.

References: