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[The Georgian Tax System in the Context of the European Neighborhood Policy \(ENP\)](#)

Eurasia Foundation and the Heinrich Böll Stiftung are sponsoring three roundtables on Georgian compliance with the European Neighborhood Policy (ENP), the results of which will be disseminated to Georgian policymakers in the form of an action plan. The most recent roundtable surrounded the lagging updates to the Georgian tax scheme and the major problems plaguing the current system. As it stands currently, there is a 12% income tax and 20% social tax, but Saakashvili claims he will lower the combined tax to 25% in the upcoming year.

According to the roundtable participants, the Georgian tax code as it currently stands is fundamentally flawed and easily lends itself to abuse and manipulation. In the Western context, taxpayers enter into a contract with the government whereby their tax contributions are expected to bear fruit in the forms of social services and infrastructure upkeep. The taxpaying scheme should be a mutually beneficial endeavor. This vision, panel participants argued, has not yet fully arrived in Georgia. Taxpayers still distrust the state and often are unsure where these tax revenues go and tax-dodge by concealing their income streams. To their credit, the Ministry of Finance created a Revenue Office to control the process of tax code reform and the performance of the newly established tax department but their independence and capabilities are questionable.

A major concern of the EU is Georgia's policy of double taxation. Extra taxes - above and beyond the normal tax percentage - are levied for cleaning up garbage and other miscellaneous governmental responsibilities. It is unclear to many citizens why these services aren't covered by the initial tax.

Additional complaints center around surprise extrajudicial visits to "audit" private organizations and charge fees for "illegal actions" or fraud without disclosing the details of their investigation. When organizations or individuals appeal to the Revenue Office for clarification over the "investigation" or ambiguous rules, they often don't get a clear answer. While the tax department is investigating, it will freeze the organizations' bank accounts indefinitely, effectively paralyzing their operations for no discernable reason. To add insult to injury these organizations are then charged for the tax agencies' time regardless of whether or not any fraud occurred. All of these behaviors are worsened by governmental intrusion on the tax paying process.

Roundtable participants felt that as long as the Ministry of Finance has the authority to interpret the tax code as they see fit, the human factor and susceptibility to corruption will perpetuate the current inadequacies of the system.