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TRENDS IN THE HARMONIZATION OF VALUE ADDED TAX WITH EU REQUIREMENTS IN GEORGIA

The paper refers to such a topical issue of economic integration processes as optimization of indirect taxes, consideration and convergence of the interests of taxpayers operating in different countries.

The Association Agreement of Georgia with the European Union and the main reservations of the economic integration processes include the obligations of tax administration, transparency, exchange of information, cooperation in the protection of the principles of fair competition, including the sharing of experience in the fight against fraud and abuse of the value added tax (indirect taxation) system.

Their implementation, first of all, involves the harmonization of Georgian legislation with EU legislation and international legal instruments.

Since the signing of the Association Agreement, the provisions of indirect taxation in the Tax Code have been changed several times - the legislation has been refined and simplified. But among the taxes, the calculation of the value added tax is still the most difficult, and the main part of the losses, corruption or violations in the administration is related to this tax.

Now that the European Council has recognized the perspective of Georgia's membership in the Union, in order to ensure compliance with the status, there is a motivation to assess how close the field of current VAT regulation is to best practice and to determine the possibility of diverting the identified deviations.

From a pragmatic point of view, it is also important and noteworthy that the main source of revenues in the state budget of Georgia (90 %) are taxes, and among them, the value added tax has the largest specific share (40-45 %). The growth of the budget revenues to a significant extent depends on the dynamics of the growth of the country's foreign trade turnover. To the extent that Georgia is actively involved in international trade and economic relations, in order to mobilize funds in the state budget and gain competitiveness in the economy, it is necessary for taxes in the country, including VAT, to be fully harmonized with the tax regulations of EU member states.

Due to the mentioned relevance and main motivations, the authors focus on the experience of value added tax regulation in EU member states and Georgia. Based on empirical data, the paper argues that the maximum harmonization of VAT in Georgia with the requirements of EU countries will increase foreign trade turnover and contribute to the increase of tax revenues in the state budget.

Key words: *economic integration, legislative harmonization with the European Union, harmonization of indirect taxes.*

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ТЕНДЕНЦІЇ ГАРМОНІЗАЦІЇ ПОДАТКУ НА ДОДАНУ ВАРТІСТЬ ДО ВИМОГ ЄС У ГРУЗІЇ

Стаття стосується такого актуального питання процесів економічної інтеграції як оптимізація непрямих податків, врахування та зближення інтересів платників податків, що працюють у різних країнах.

Угода про асоціацію Грузії з Європейським Союзом та основні застереження процесів економічної інтеграції включають зобов'язання податкового адміністрування, прозорість, обмін інформацією, співпрацю у захисті принципів чесної конкуренції, включаючи обмін досвідом у боротьбі із шахрайством та зловживання системою податку на додану вартість (непрямого оподаткування). Їх реалізація насамперед передбачає гармонізацію законодавства Грузії із законодавством ЄС та міжнародно-правовими документами.

З моменту підписання Угоди про асоціацію норми непрямого оподаткування в Податковому кодексі неодноразово змінювалися –

законодавство уточнювалося та спрощувалося. Але серед податків усе ж найскладнішим є розрахунок податку на додану вартість, саме з цим податком пов'язана основна частина збитків, корупції чи порушень в адмініструванні.

Тепер коли Європейська Рада визнала перспективу членства Грузії в Союзі з метою забезпечення відповідності статусу, є мотивація оцінити, наскільки сфера поточного регулювання ПДВ є близькою до найкращої практики та визначити можливість перенаправлення виявлені відхилення.

З прагматичної точки зору також важливо і заслуговує на увагу те, що основним джерелом доходів державного бюджету Грузії (90 %) є податки, а серед них найбільшу питому вагу займає податок на додану вартість (40–45 %). Зростання надходжень до бюджету значною мірою залежить від динаміки зростання зовнішньоторговельного обороту країни. Оскільки Грузія бере активну участь у міжнародних торгово-економічних відносинах, для мобілізації коштів у державному бюджеті та підвищення конкурентоспроможності в економіці необхідно, щоб податки в країні, включаючи ПДВ, були повністю гармонізовані з податком норми держав-членів ЄС.

Зважаючи на зазначену актуальність та основні мотиви, автори зосереджуються на досвіді регулювання податку на додану вартість у країнах-членах ЄС та Грузії.

На основі емпіричних даних у статті стверджується, що максимальна гармонізація ПДВ у Грузії з вимогами країн ЄС збільшить зовнішньоторговельний оборот і сприятиме збільшенню податкових надходжень до державного бюджету.

Ключові слова: *економічна інтеграція, гармонізація законодавства з Європейським Союзом, гармонізація непрямих податків.*

Formulation of the problem: the global and integration processes in the modern world economy had a great qualitative and substantive impact on the

development and further deepening of international economic relations between countries, especially on the role and importance of taxes.

Georgia is an active participant in the processes of international trade and economic relations, and it is quite natural that it should have an appropriate tax system. Moreover, the aspiration to join the European Union requires further strengthening of cooperation with trade partner countries, development of a liberal foreign trade policy. reforms in the field of tariff policy and technical regulation. Among the tasks to be solved, one of the most important is the harmonization of the value added tax (VAT) with the European Union, which will contribute to the deepening of the international economic integration of Georgia, the volume of foreign trade turnover, and, accordingly, the increase of revenues in the state budget.

After the declaration of independence, a tax system based on market relations was created in Georgia, which developed in a short period of time, the number of taxes and tariffs were reduced to a minimum, the administration was simplified, improved and completely reorganized to electronic services. Services are tailored to the interests of the payers. Tax legislation is being harmonized with EU legislation and is being further refined, although there are still gaps. The purpose and main motivation of the research is to help eliminate these gaps.

Purpose: to promote the acquisition of competitive advantages in international trade and economic relations, the provision of revenue growth in the state budget, the harmonization of taxes applicable in Georgia, including the value added tax, with the EU tax system.

Analysis of studies and publications: the Association Agreement is, in fact, an action plan for Georgia's rapprochement with the European Union, which covers almost all areas of the country's political, social and economic life. It also includes a component of the Deep and Comprehensive Free Trade Area (DCFTA) and provides for important specific mechanisms for rapprochement with the European Union. The agreement contains the main provisions that ensure the harmonization of the value added tax applicable in Georgia with the requirements of the European Union.

The interest of scientific economists in researching issues related to tax harmonization has a long history.

Still, at the end of the last century, John R. McGowan; B. Anthony Billings (19) argues in the paper that in the US, along with consumer and other flat taxes, it is important to introduce a more fair, convenient and business-incentive-oriented value-added tax (VAT). Opponents criticize this tax and believe that: 1. VAT will turn into a money machine in the hands of the government; 2. Consumer tax in the form of VAT is regressive; 3. Consumer tax prevents the formation of the state tax base. A study based on revenue statistics from the Organization for Economic Co-operation and Development (OECD) has confirmed that VAT can be imposed without turning the government into a money machine. In the final part of the paper, it is justified that the countries of the European Union used VAT to replace indirect taxes and not to increase the total tax burden.

G. Bedianashvili, Yu. B. Ivanov, T. V. Paientko, Tax Reforms in Ukraine and Georgia (20): Changing Priorities, In the article, the authors have presented a systematization and comparative analysis of the results of tax reforms in Ukraine and Georgia. Factors and priorities of tax reforms in these countries are identified.

In a paper by Michael Keen, Sajal Lahiri, Pascalis Raimondos-Møller (21), it is argued that the resulting welfare effects of the harmonization of indirect taxes are related to the imposition of taxes according to the destination or origin principle. In the standard model of imperfect competition, the principle of destination taxation is preferred.

Yoshiaki Ohsawa (22) examines the impact of changes in the overall range of tax rates on tax revenues and the effects of geographic variation.

The paper by Pavel Semerad, Lucie Bartunkova (23) discusses issues related to the control of VAT tax fraud in small and medium-sized enterprises. Research has proven that the development of a control mechanism is beneficial to tax authorities, however, in many cases, it imposes a heavy burden on fair working auditing entities.

The work of Tomasz Strąka, Michał Tuszyński (24) presents a quantitative analysis of more than 360,000 private tax dispute rulings related to VAT as of 2020.

Krasnov A. et al. (12) The paper investigates that in the integration unions, the still existing differences regarding the tax rates prevent the further deepening of trade and economic relations between the countries. At the same time, measures to improve tax systems have been identified.

In the work of Amita Majumder, Ranjan Ray, Sattwik Santra (25), on the example of India, a tax system for goods and services is proposed, which, along with various indirect taxes, includes value added tax (VAT). The issue is discussed in terms of uniform tax rates and the imposition of identical taxes in the region. In 2017, India preferred to impose identical indirect taxes in the region. The paper's contribution to the development of the methodology for calculating spatial prices, according to which it is possible to distribute indirect taxes in relatively less developing countries, is important.

Attention is drawn to the issues of tax harmonization, including VAT, by the works of a number of world-renowned economists, including: Paola Conconi, Carlo Perroni, Raymond Riezman – «Is partial tax harmonization desirable?»; Steffen Osterloh Friedrich Heinemann – «The political economy of corporate tax harmonization – Why do European politicians (dis)like minimum tax rates?»; Ourania Karakosta, Christos Kotsogiannis, Miguel-Angel Lopez-Garcia – «Indirect tax harmonization and global public goods»; Kristian Behrens, Jonathan H. Hamilton, Gianmarco I.P. Ottaviano Jacques-François Thisse – «Commodity tax harmonization and the location of industry»; Kadomtseva S.V., Zolotareva Yu.O. – «Tax harmonization in the context of the development of international economic associations»; Christos Kotsogiannis, Miguel-Angel Lopez-Garcia, Gareth D. Myles – «The origin principle, tax harmonization and public goods»; Vander Lucas – «Tax harmonization and the principle of origin»; Christos Kotsogiannis, Miguel-Angel Lopez-Garcia – «On commodity tax harmonization and public goods provision»; Chi-Chur Chao, Eden S. H. Yu – «Environmental Impacts of Tariff and Tax Reforms Under Origin and Destination Principles»; Assaf Razin Efraim Sadka – «International tax competition and gains from tax harmonization»; Gebhard Kirchgässner, Werner W. Pommerehne – «Tax harmonization and tax competition in the European Union:

Lessons from Switzerland»; Yuriy Yurenev – «Overview of taxes in Europe: a comparative table of the main taxes for individuals and legal entities» and others.

Research methods: quantitative, qualitative, analysis and statistical data comparison methods are used in the paper, and based on empirical research, a research hypothesis is outlined, according to which the harmonization of value added tax with EU countries will increase Georgia's foreign trade turnover, and accordingly, budget revenues. It is justified that the maximum harmonization of VAT with the EU tax system will have a positive effect on the volume of foreign trade turnover, which, in turn, will contribute to the increase of revenues in the state budget.

The research proves that after the implementation of the association agreement, the budget revenues in Georgia increased.

Judgment of the main issue

The tax legislation of the Georgian state is mainly based on and fully shares the theoretical and practical experience accumulated in foreign countries. That is why, based on common principles, previously adopted, if changes are taken into account, the currently valid Tax Code of Georgia is basically in line with the tax systems of EU member states:

According to the Tax Code of Georgia, a tax is a mandatory, unconditional monetary contribution to the budget, which is paid by the taxpayer, due to the necessary, non-equivalent and gratuitous nature of the payment;

A two-level tax system operates in Georgia and includes state and local taxes;

Similar to EU member states, taxes in Georgia are divided into two groups, direct and indirect taxes;

Similar to the tax systems of many member states of the European Union, the basic principle of the tax legislation of Georgia implies the unconditional obligation of the taxpayer to pay the state and local taxes imposed by the Tax Code of Georgia, and it is not allowed to impose the obligation to pay the tax imposed and stipulated

in violation of the Tax Code on another person, or Payment of tax before the deadline established by the Code.

In order to create a healthy competitive environment and ensure the free movement of capital, EU member states have taken important steps in the direction of tax harmonization. But with regard to direct payments, it is still not possible to agree on projects and there are difficulties in this regard. In the member states of the European Union, there is a preference for companies to pay direct taxes according to their place of origin [10], however, in order to reduce taxes, businesses strive to pay taxes where favorable legal and economic conditions are created for this, therefore, the positions in this direction are different between the parties.

In 2014, Georgia signed an Association Agreement [1] between the European Union and the European Atomic Energy Union and their member states, which entered into force in 2016 and provided for cooperation in many directions in the context of trade and economic integration. Among them, in the field of taxation. According to the agreement, the Georgian state undertook that, except in exceptional cases, all fees and charges imposed or related to the export or import of products should not exceed the approximate cost of the services provided and should not represent indirectly the protection of local products or for fiscal purposes the import or export taxation.

According to the association agreement, Georgia undertook to harmonize the tax legislation with the EU legislation and international legal instruments within a certain period of time. In this direction, the most important among the urgent measures was to ensure the compliance of the value added tax with the requirements of the EU countries. Based on the agreement, Georgia shared the requirements of Council Directive 2006/112/EC of November 28, 2006 on the common system of VAT, while reserving the right to exempt from VAT the supply of goods and services that were exempt from VAT under the Tax Code of Georgia at the time the agreement entered into force. From taxation with The purpose of the association agreement is to further develop the tax system and administration of Georgia, to strengthen tax collection and control, to develop and implement tax fraud and tax

evasion mechanisms, to deepen cooperation between the parties and to share experience, in the fight against tax fraud, in particular, a possible carousel in the VAT administration system. Fraud was eliminated.

The association agreement, from the moment of its entry into force, within the framework of the tariff quota provided for the cancellation of all customs duties on products originating from the other party, and in case of imports exceeding the tariff quota, – the application of the customs duty rate corresponding to the preferential promotion regime. In addition, all parties were prohibited from imposing new customs duties on goods originating from the other party, different from those existing at the date of entry into force of the agreement, or increasing them. According to the agreement, the parties agreed to cooperate in the strengthening of good governance in the field of taxation, which envisaged the further improvement of economic, trade, investment and fair competition.

In order to implement the reform of the tax system as a whole, including indirect taxes, in order to determine the scope of VAT interest rates [5], it is very important for Georgia to study and share the experience of foreign countries, first of all, the EU countries.

The use of the VAT taxation system by the European Union states began in 1960. VAT is a supplement to the price of delivered (imported) goods and/or services rendered. The end user (importer) at the price increased by this tax when purchasing (importing) goods and/or services, while the obligation to pay in the budget rests with the supplier of goods (importer) and/or the service provider, who is called a VAT payer, pays it. VAT is levied on all commercial activities, including the importation of goods and services into a member state within the EU from another member state. Over time, VAT has become the main source of revenue for EU member states.

It became clear that the quality of Georgia's involvement and gaining competitive advantages in international markets depends to a significant extent on the further improvement of the country's tax system, protection of the balance between taxes [8], and in the direction of harmonization with the EU countries, the

necessity of VAT reform in accordance with international requirements was highlighted first.

In compliance with the main principles of the Association Agreement, since its introduction in Georgia, there have been periodic amendments to the VAT and the development of a mechanism for improving its administration.

Important changes in VAT were made in 2020 [3] in the direction of harmonization with the requirements of the EU countries, although even before that, in many cases, the provisions of the Tax Code of Georgia related to this tax were in compliance with the requirements of the European Union.

Compulsory registration as a VAT payer in Georgia is required of a person who is engaged in economic activity and whose total amount of VAT-taxable transactions carried out by him during any continuous 12 calendar months exceeds 100,000 GEL. A person is obliged to apply for registration as a VAT payer to the tax authority no later than 2 working days after the total amount of taxable transactions exceeds 100,000 GEL; In addition, a person is considered a VAT payer from the moment of performing the taxable operation, according to which the total amount of the taxable operation exceeds 100,000 GEL. Voluntary registration of a person as a VAT payer is allowed by the Tax Code of Georgia. The object of VAT taxation is: taxable operation; import; export; re-export; Temporary importation.

The VAT rate in Georgia is 18 % of the taxable turnover or the amount of goods imported. In the case of temporary import of goods – 0.54 % of the import amount for each full and incomplete calendar month of the stay of these goods in the customs territory of Georgia, but not more than 18 percent of the amount of temporary import in the case of temporary import of goods.

Based on the purposes of VAT, with the new changes introduced in the Civil Code, the following economic activities were defined: entrepreneurial activity; activities of the person providing goods/services; The use of the property was exempted from VAT in the case of receiving regular income and one-time operations of an irregular nature, except for the supply of non-residential property.

As a rule, activities carried out by public institutions are not considered economic, except for certain exceptions. Along with this, in order to limit the competition, the Government of Georgia will have the additional right to determine the list of activities, the implementation of which will be considered as economic activity.

According to the new amendment to the CCC, the VAT-taxable operation includes the supply of goods/services by a taxable person within the framework of economic activity on the territory of Georgia, as well as the import of goods. In addition, the supply of assets, including services, is no longer considered a VAT-taxable operation when the enterprise supplies all its assets, reorganizes or invests in capital. Temporary importation of goods is no longer considered a taxable operation. The free supply of goods is subject to VAT only if the relevant person has fully or partially deducted VAT from the expenses incurred. The provision of services free of charge is subject to VAT only if this activity does not derive from the purposes of the payer's activity or is provided for the personal benefit of the employee. Advances received on all types of continuous and regular services are subject to VAT, however, communication, telecommunication services, supply of electricity, gas, water and other similar goods are not subject to this tax.

In the case of delivery of goods for a term specified by leasing or on the condition of installments, the actual transfer of goods is considered as supply of goods for VAT purposes. Accordingly, the leasing operation will be taxed with VAT at the moment of the actual transfer of the goods.

According to the amendment, the determination of the place of provision of services will be based on two main principles:

A. In case of provision of services by a business (taxable person) to a business (taxable person), the place of service is considered to be the place of purchase of services;

B. The place of establishment of the supplier is considered as the place of service provision by the business (taxable person) to the consumer (non-taxable person).

Significant changes have been made to activities that cannot benefit from the right of deduction, but are exempted from VAT taxation. Unlike individual countries of the European Union, along with medical and educational activities, the supply of directly related and auxiliary services/goods has been exempted from VAT. However, ancillary services provided by insurance brokers and/or insurance agents will not be taxed along with insurance and/or reinsurance. The following are exempted from VAT taxation in the medical and educational field: services provided by a religious organization with personnel, including for the purpose of carrying out medical or educational activities; Provision of services/supply of goods by the organization in order to raise funds for medical, educational and separate social activities; supply of goods used only in exempted operations in the medical, educational, cultural, sports and social spheres, if the right to deduct VAT has not arisen on said goods; Goods for medical/medicinal purposes produced in Georgia, the list of which is determined by a subordinate normative act; Provision of services by an intermediary acting on behalf of another person, in case of international transportation of goods or participation in operations carried out outside Georgia.

Separate operations of goods delivery on the high seas, as well as marine and airship delivery, repair, conversion, maintenance, freight, lease, exempted from the right of deduction of VAT related to the transportation of goods, have been expanded and clarified. Supply, lease, repair or maintenance of equipment installed or used on the ship, etc.

With the changes implemented in the VAT, Georgia has exceeded the similar requirements of the EU countries in many components regarding the increase of business activity motivation. For example, if in Slovakia, France, Czech Republic, etc. In some countries of the European Union, medical and educational services/goods are taxed at reduced rates of VAT, in Georgia the mentioned goods and services are completely exempt from VAT taxation, in addition, the interest rate of VAT in Georgia (18 %) is close to the similar data of the European Union countries [16] (see. Table 1).

Table 1

Value Added Tax (VAT) interest rates in EU countries

country	Reduced rate	standard rate
Georgia	–	18
Austria	10 and 13	20
Belgium	6 and 12	21
Bulgaria	9	20
Germany	7	19
Denmark	–	25
Spain	4 and 10	21
Estonia	9	20
Ireland	4.8; 9 and 13.5	23
Italy	4; 5 and 10	22
Cyprus	5 and 9	19
Latvia	0; 5 and 12	21
Lithuania	0; 5 and 9	21
Luxembourg	3 and 8	17
Malta	5 and 7	18
Netherlands	6	21
Poland	5 and 8	23
Portugal	6 and 13	23
Romania	5 and 9	19
Greece	6 and 13	24
France	2.1; 5.5 and 10	20
Slovakia	10	20
Slovenia	9.5	22
Hungary	5 and 18	27
Finland	10 and 14	24
Sweden	6 and 12	25
Czechia	10 and 15	21
Croatia	5 and 13	25

Note: the percentages given in the table increase the cost of tax to be paid by the buyer of goods and services. If the value of the goods is 1000 GEL, in the case of Croatia, the amount to be paid including VAT will be: 1250 GEL ($1\ 000 + 1\ 000 \times 25\%$, or $1\ 000 \times 1.25$).

As can be seen from the data in the table, the member states of the European Union, except for Denmark, use reduced VAT rates along with the standard one.

In Germany, food products, books are taxed at a reduced rate of 7 % VAT, in addition, in the event that the income of a German company in the previous year is less than 17,000 euros, and in the current year it is less than 50,000 euros, it is considered that the enterprise belongs to a small enterprise and it has no obligation to be a VAT payer.

In Estonia, books, newspapers, medicines, housing are taxed at a reduced rate of 9 % VAT. In addition, 0 % rate is imposed on expo. Health care, insurance, etc.

are not taxed. Registration as a VAT payer is mandatory in the event that the trade transaction between individuals exceeds 40,000 euros. The obligation to pay VAT on foreign persons arises as soon as they carry out the first transaction.

In Slovakia, a reduced interest rate of 10 % of VAT is applied to the production of pharmaceutical and medical goods, as well as to certain food products and housing. Financial and insurance services are not charged. All individuals and legal entities engaged in economic activity on the territory of Slovakia and whose turnover during the previous 12 months is EUR 49,790 will be obliged to register as a VAT payer. Non-residents are obliged to register as a VAT payer before making a transaction.

In France, a reduced VAT rate of 2.1 % applies to certain medicines, periodicals, including: newspapers and magazines. The 5.5 % rate applies to food, books, art, movie tickets, and sporting events. 10 % rate on certain types of food products, restaurant business, farming and forestry, passenger transport. Legal entities are obliged to register as VAT payers.

In the Czech Republic, a reduced VAT rate of 10 % is applied to medicines, books, and newspapers. 15 % rate – for construction works related to social housing. The obligation to register as a VAT payer arises when the turnover of goods carried out on the territory of the Czech Republic exceeds 100,000 CZK during the previous 12 months. Voluntary registration is possible in the event that the company carries out taxation on the territory of the Czech Republic.

In Lithuania, the supply of goods by VAT payers registered in another EU member state and supplying products to a non-EU country is taxed at a 0 % VAT rate. The supply of goods outside the EU, the supply of goods to VAT payers registered in another EU member state is taxed at 0 %. A reduced rate of 5 % VAT is taxed on periodical publications, repairs of technical assistance and services for the disabled, state-reimbursed pharmaceutical preparations and medical care devices, and non-reimbursable prescription drugs. VAT is 9 %, books and non-periodical news publications are charged at a reduced rate; public transport services; Heating supply and hot water supply services in residential apartments. In Lithuania,

companies with a turnover exceeding EUR 45,000 are required to register for VAT. A foreign tax-paying legal entity that is present in Lithuania and purchases goods for other EU countries, the value of which exceeds EUR 14,000, is obliged to register as a VAT payer. Foreign companies will, in all cases, have an obligation to register as a VAT payer, while foreign legal entities can only register as a VAT payer through a fiscal agent. Direct registration is possible only if trade is carried out between EU member states.

In Latvia, services provided to diplomats and the supply of goods and services financed by foreign aid are taxed at a 0 % VAT rate. A reduced rate of VAT of 5 % is taxed on cleaned, cut and packaged food products that have not undergone thermal or other treatment related to freezing, salting or drying. Medicines, medical devices, specialized food for children are taxed at a reduced rate of 12 % VAT; public transport services; firewood and wood heating material used for family forestry; textbooks; original literary publications; Newspapers and other periodicals. Mandatory registration as a VAT payer is required for a person whose transaction value exceeds 40,000 euros during a 12-month period. Foreigners are obliged to register before making a transaction.

In Spain, international air and land shipments, gold trade are taxed at a reduced VAT rate of 0 %; At 4 % rate – bread, milk, books, medical goods, and at 10 % interest rate – items of primary consumption. Registration for VAT purposes is mandatory for all taxpayers who carry out VAT taxable operations in Spain.

In Italy, food products, beverages and agricultural products are taxed at a reduced VAT rate of 4 %, as well as individual e-books/e-periodicals; with 5 % interest rate – medical services, sale of edible herbs, as well as some marine, lake and river transport services; At a rate of 10 % – electric heating goods. Depending on the purposes of VAT payment, if the activity is carried out in the territory of Italy, the tax payer is subject to the necessary registration as a VAT payer.

In order to support the economy and business, it was important to establish the mechanism of the VAT refund system in Georgia, which became fully automated. The refundable excess calculated by the automatic refund program is

reflected in the personal bank account of taxpayers automatically, without submitting an additional request. In 2020, more than one billion GEL was returned using the automatic VAT refund program, which is 466 million. It exceeds the amount of VAT returned in 2019 by GEL³.

From 2021, a change was introduced in the tax legislation, according to which it is mandatory for companies to fill in the electronic register of hired persons. The formation of a new database provides for the collection of complete information about hired persons and is designed in accordance with the practice of various European countries. In addition, a new mechanism related to registration as a VAT payer was launched – «Qualified VAT payer status», which aims to improve the tax administration process, manage the risks of fraudulent schemes, as well as to reduce the non-targeted VAT registration and improper issuance of relevant documents. In 2020, the International Monetary Fund (IMF) conducted a diagnostic assessment of tax administrations at the Revenue Service. According to the results, 14 evaluation indicators are significantly improved⁴.

For «average» VAT payers, the estimated accrual mechanism has been implemented, which means that the tax authority records the tax for a specific tax period and reflects it on the main card of the personal accounting of the taxpayer who has not submitted the declaration for the relevant period within the period established by the law.

By studying the experience in the EU countries, it is clear that the operations subject to VAT include the supply of goods for commercial purposes in the territory of the member state; provision of services; Intra-Community transactions, including purchases between traders residing in different Member States. Although such operations are intra-EU transactions, they are treated as exports or imports; VAT is charged upon importation of goods after customs clearance procedures have been carried out, allowing the goods to be released into circulation, however, there are cases where goods destined for and imported from one Member State to another are

³ Source: Ministry of Finance of Georgia

⁴ Source: URL: www.tadat.org/home

exempt from VAT. In this case, the VAT is paid by the final consumer country of the goods, and the taxable person must fill out the customs document – SAD, which must contain information about the value of the goods, place, time of receiving the cargo, destination, price, weight.

The European Union, as one of the largest economic unions, contributes to the solid and dynamic development of its member countries. The basis of success is the formation of international markets. International integrative [12] unions, in turn, contribute to high competition between countries and relative stability of economic relations.

It is clear that large countries with high economic potential, taken separately, cannot form such markets [7]. According to economists, in order to establish a competitive economy and its further development, it is necessary that the total number of active users of the goods and services provided in the conditions of the integrated international market should be at least 250–300 million. Taking into account the mentioned conditions, based on the existing correlation between market formation and demand and existing technologies, in the modern world, ASEAH (Association of South East Asian Nations), whose population is more than 600 million, is functioning; South America – MERCOSUR (Mercado Comun del Sur), whose population exceeds 300 million. The European Union, whose population exceeds 510 million, is an integrated international union [8].

The open trade regimes formed over the years [9], including the integration union of the European Union, create a prerequisite for Georgia to supply goods and services produced on the territory of the country, including agricultural products, to the international market.

In order to further deepen and expand trade and economic relations, EU countries are trying their best to remove legal and economic barriers that prevent the development of trade relations both within the member states and outside the integration union, including the so-called with third countries. A clear proof of this is the statistical data, according to which the exports made by EU countries in 2019 accounted for 15.4 % of world exports and 13.7 % of imports. On the markets, the

influence of China and the USA is on the contrary increasing. The specific share of these countries in the world export of high-tech electronic products was almost equal – 16.2 %.

The dynamics of turnover of goods and services in EU countries looks like this (see Table 2).

Table 2

Dynamics of foreign turnover of goods and services in EU countries

years/indicators	2016	2017	2018	2019	2020
goods					
export	1867	1994	2060	2132	1932
import	1602	1772	1912	1940	1714
Foreign trade turnover	3469	3766	3972	4072	3646
balance	264	222	148	192	217
service					
export	854	931	988	1055	867
import	780	821	856	982	807
Foreign trade turnover	1635	1752	1844	2037	1674
balance	74	110	131	73	60

Source: URL: <http://eee-region.ru> (old address <http://region.mcnip.ru>).

From the data in the presented table, it can be seen that in 2016–2019 there was an increase in the export and import of goods and services by the EU countries. In addition, in 2019, compared to 2016, the rate of foreign trade turnover increased by 17.4 % in terms of goods delivery, and by 24.6 % in terms of service delivery. In 2020, in connection with the Covid-19 pandemic, in connection with the restriction of trade relations between EU countries and international partners, the rate of trade turnover for both products decreased compared to 2019 and amounted to: goods – 10.5 %; on services – 17.8 %.

Georgia is actively involved in trade and economic relations with the EU countries, however, according to the data of 2020, the data of the CIS and other countries still prevails in the foreign trade turnover of Georgia, although there are positive trends in the dynamics (see Table 3). As can be seen from the table, the foreign trade turnover of Georgia was 11352.8 million. USD, which is 14.8 % less than the previous year and is related to the economic recession caused by the Covid-19 pandemic.

Table 3

Foreign trade of Georgia by countries in 2020 (million USD)

countries	export	import	rotation
Georgia	3,342,142	8,010,665	11,352,807
between them:			
EU countries	697,107	1,846,724	2,543,830
Austria	1,452	58,175	59,628
Belgium	18,432	80,653	99,085
Bulgaria	312,377	110,373	422,750
Germany	61,760	405,624	467,384
Denmark	937	13,771	14,708
Spain	83,752	88,863	172,614
Estonia	5,565	5,264	10,829
Ireland	2,021	10,878	12,898
Italy	34,649	183,021	217,670
Cyprus	470	5,475	5,945
Latvia	9,486	24,626	34,112
Lithuania	35,689	34,371	70,060
Luxembourg	244	3,863	4,107
Malta	344	5,022	5,366
Netherlands	24,059	156,947	181,006
Poland	28,448	133,254	161,701
Portugal	244	13,041	13,285
Romania	20,440	119,625	140,065
Greece	5,866	41,426	47,292
France	32,952	152,712	185,663
Slovakia	1,207	11,865	13,072
Slovenia	4,138	25,767	29,905
Hungary	1,406	47,229	48,635
Finland	643	18,237	18,880
Sweden	616	16,231	16,847
Czechia	9,408	74,477	83,885
Croatia	505	5,933	6,438
CIS countries, total:	1,509,075	2,392,910	3,901,985
Other countries, total:	1,135,961	3,771,031	4,906,992

Source: The table was compiled by the authors based on the data of the Ministry of Economy and Sustainable Development of Georgia. URL: <http://www.economy.ge/?page=ecopolitic&s=12>

At the same time, exports decreased by 12 % and amounted to 3,342.1 million. US dollars, and imports decreased by 15.9 % and amounted to 8,010.6 million. in US dollars. In 2020, the negative trade balance of Georgia decreased by 18 % to 1,056 million USD, which amounted to 4,663.4 million USD. amounted to US dollars.

According to the data of 2020, the foreign trade turnover of Georgia-EU decreased by 18 % and reached 2,543.8 million. The US dollar, that is, made up 22.4 % of the total trade turnover. Export decreased by 12 % and amounted to 697.1 million. amounted to US dollars, while imports decreased by 20 % and amounted to

1,846.7 million. amounted to US dollars. Also, foreign trade turnover with the CIS countries decreased by 13 % and amounted to 3,901.9 million. GEL, or 34.3 % of the total trade turnover. Export decreased by 26 % and amounted to 1,509.1 million. USD, or 45 % of the total export. Import decreased by 2 % and amounted to 2,392.9 million. USD, or 30 % of the total import. In addition, the export of agricultural products increased by 2 %, i.e. 10.8 mln. It increased by US dollars and reached 628 million. amounted to US dollars. Export of industrial products increased by 38 %, i.e. 545.2 million. It decreased by US dollars and reached 881 million. amounted to US dollars.

The different dynamics of Georgia's foreign trade turnover can be seen according to the data of 2021. It is statistically proven that in 2021, the volume of foreign trade not only reached the pre-pandemic level of 2019, but also recorded a record volume of exports, domestic exports, imports and trade turnover. In 2021, compared to 2020, the foreign trade turnover of Georgia increased by 25.6 % and reached 14,315.6 million. amounted to US dollars. At the same time, exports increased by 26.9 % and amounted to 4,242.3 million. US dollars, and imports, 25.1 % and 10,073.3 million. amounted to US dollars. In 2021, the indicator of foreign trade turnover with the CIS countries increased by 24 % and amounted to 4,847.8 million US dollars. At the same time, exports increased by 34 % and amounted to 2,021.2 million US dollars, and imports by 17 % and amounted to 2,826.6 million US dollars.

It should be noted that despite the successful foreign trade relations with the EU and CIS countries, China, Azerbaijan, Russia, and Turkey remain the main partners for Georgia. 40.7 % of Georgia's exports and 37.5 % of its imports in 2020 came to these countries, including: China – 476.3 million US dollars, or 14.3 %; Azerbaijan – 441.3 million US dollars, or 13.2 %; Russia – 441.1 million US dollars, or 13.1 %. In terms of imports, Turkey – 1,407.0 million US dollars, or 17.6 %; Russia – 887.2 million US dollars, or 11.1 %; China – 708.7 million US dollars, or 8.8 % [17].

The convergence of the tax system of Georgia, including the VAT on goods/services, with the requirements of the EU countries, contributed to the increase in the volume of trade turnover, which, in turn, increased the mobilization of funds in the state budget in the form of taxes (see Table 4).

Table 4

Georgian state budget taxes (thousand GEL)

Name	2016	2017	2018	2019	2020
bills	7,986,750.3	8,991,307.4	9,695,962.2	9,665,567.6	9,364,779.4
Taxes on income, profits and capital gains	3,034,072.9	3,282,526.2	3,614,519.5	4,066,543.6	3,999,280.7
Taxes from individuals	1,978,136.4	2,525,970.7	2,877,895.1	3,200,254.7	3,079,840.1
income tax	1,978,136.4	2,525,970.7	2,877,895.1	3,200,254.7	3,079,840.1
Taxes from enterprises	1,055,936.5	756,555.5	736,624.4	866,288.9	919,440.6
Income tax	1,055,936.5	756,555.5	736,624.4	866,288.9	919,440.6
Taxes on goods and services	4,356,051.5	5,573,534.7	5,892,636.4	5,750,282.5	5,537,551.4
Universal taxes on goods and services	3,286,393.4	4,122,612.8	4,426,909.8	4,243,606.7	3,918,159.1
value-added tax	3,286,393.4	4,122,612.8	4,426,909.8	4,243,606.7	3,918,159.1
excise duty	1,069,658.	1,450,921.9	1,465,726.6	1,506,675.8	1,619,392.3
Taxes on foreign trade and foreign economic operations	70,040.6	71,618.9	73,416.9	79,073.8	74,369.0
Import tax	70,040.6	71,618.9	73,416.9	79,073.8	74,369.0
other taxes	526,585.3	63,627.6	15,389.4	-230,332.3	-246,421.7

Source: Ministry of Finance of Georgia/Source: Ministry of Finance of Georgia. URL: <https://www.matsne.gov.ge/ka/document/view/4734727?publication=2>

From the data in the table, it can be seen that in 2016–2018 there was an increase in the volume of VAT in the state budget revenues, by an average of 16.4 %. In 2019–2020, the revenues received in the state budget from VAT decreased by an average of 6.0 %.

The analysis of the economic processes taking place in Georgia in 2016–2021 proves that the increase in the budgetary revenues received from VAT in 2016–2018 was related to the changes made in the VAT administration part of the Tax Code of Georgia based on the association agreement. With these changes, the administration of VAT gradually came closer to the requirements of EU countries, which positively reflected in the dynamics of VAT. In 2020, the Covid-19 pandemic created economic problems around the world, including in Georgia, which significantly reduced trade turnover, therefore, reduced tax revenues in the state budget. In the same year 2020, fundamental changes in the direction of VAT administration in

Georgia created expectations that in 2021, i.e. after its implementation, tax revenues would increase, including VAT. In fact, the expectations were justified – all indicators of the state budget revenues of Georgia are exceedingly fulfilled, which indicates the positive dynamics of the changes made to the tax code of Georgia.

Conclusion

Thus, based on extensive analytical sources, we have reason to compare the research results and note:

In the processes of inevitable globalization and economic integration, administrative cooperation between countries, harmonization of tax legislation is necessary and serves the interests of common welfare. First of all, this process brings countries closer together, reduces tax competition, creates strong guarantees to avoid double taxation and gives business opportunities to develop. However, it is the only way to fight against tax fraud, as well as to exercise effective control over taxation and tax evasion.

It is noted that the harmonization of taxes by itself does not lead to an equalization of indicators or an immediate increase in economic development. But this is a necessary condition for the formation of a common market for goods (services, works), for the smooth movement of labor and capital.

The process of tax harmonization for the member states of the Union, as a rule, begins with the unification of the regulations for the calculation and payment transactions of indirect taxes related to the implementation of foreign trade.

As we have seen, EU countries' approaches to taxes and their regulation are still not identical, but there is a clear trend towards convergence. This process started with the harmonization of indirect taxes, including VAT regulations. This also happens in the European integration process of Georgia.

The study, analysis and assessment of the experience of the EU countries clearly proved that the convergence of the Georgian tax legislation with the EU VAT Directive and new changes in the VAT regulation based on the best international practices will improve the investment environment, contribute to the increase of

revenues in the state budget, reduce disputes and simplify the tax process. to fulfill obligations.

As a result of the changes in the Tax Code, the procedure for writing off goods and material values was simplified, as well as a new tax audit document was prepared, which will significantly simplify the process of administration of tax audit accounting and facilitate the implementation of risk-based audits, saving time resources for taxpayers. In order to improve electronic services, a remote format of tax dispute review was introduced, which, despite the pandemic, continued smoothly as usual.

It can be confidently asserted that VAT regulations based on the best international practices improve the investment environment, reduce disputes and simplify the fulfillment of tax obligations.

After the adoption of the change, it became obvious that⁵:

- The list of services that are not taxed outside of Georgia has been expanded;
- The operations exempted from the right of deduction from VAT related to the transportation of goods were expanded and clarified;
- Temporary importation of goods is no longer considered a taxable operation;
- Along with medical and educational activities, the provision of directly related and auxiliary services or goods is exempted from taxation;
- Medical educational and separate social activities for the purpose of raising funds by the organization are not taxed;
- The transfer of a sample of goods or a gift of small value is not taxed;
- Regulations related to VAT taxation of free supply of goods were simplified;
- A VAT-paying individual will no longer be limited to keep records using the cash method.

The convergence of the mentioned European integration process is a successful step. Subsequently, the more difficult, but also necessary, phase of harmonization of direct taxation of businesses and family farms will begin.

⁵Source: URL: <https://rs.ge/LawNewsArchive?newsId=266>

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