

Problem

- Very low rate of tax collection, low level of efficiency and effectiveness
- Highly corrupted system
- Low level of self-compliance and tax declaration, high level of tax evasions
- Total miscommunication between Customs and tax services and mismanagement of activities
- Complicated tax policy, types of taxes and complicated administration – high cost for compliance
- Outdated tax policy, not reflecting the business operations and creating problems for compliance
- Complicated procedures, unclear legislation and instructions, too many double interpretations
- Politicized institution, frequently used as a tool for punishment
- Lack of service delivery, too many queues and problems with timely matching inquiries with the relevant personnel
- Lack of control in the administration, too many cases of manipulating with the documents
- No legal instrument for dispute resolution between taxpayer and tax authority, other than common courts
- No Institutional formation, corruption environment and demotivated professionals, no human resource management practices in place

Solution

- Customs and tax departments have been united under a single agency, State Revenue Service (RS) under the Ministry of Finance of Georgia
- Primary and secondary legislation have been changed – creating easy and simple tax code with low tax rates
- Administrative processes and procedures have been improved, reengineered and simplified through e-filing and e-procedures
- Front and back offices have been separated – the service center only receives/issues information, while information is processed by centralized units
- A multifunctional webpage has been created, allowing the taxpayer to obtain information on new developments as well as access to a personal taxpayer webpage in order to receive all services and conduct operations online
- The processing and administration have been improved by introducing a number of software applications:
 - *Digital Tax Accounting Card* – all information provided by the taxpayer is reflected in personal digital card, declarations and taxes
 - *Electronic Declaration* – declaration in electronic mode, has simplified the declaration procedure and ensures systematization of keeping and protecting information
 - *Electronic Tax Invoice* – VAT administration, along with provision of invoices is done electronically, eliminating falsification
 - *Electronic Way Bill* – full control over movements of goods within the entire country – it increased the number of realized goods and decreased the turnover of unregistered goods
 - *Digital Law Violations Protocol* – an analytical system to automatically identify tax evasions has been introduced

- *Digital System of Compulsory Measures* – automatic detection of outstanding taxes, generation of orders, exchange and nullification of information has been implemented
- *GPRS Cash Register* – due to implementation of new machines obtaining information on daily transactions from each register has become possible. Should the need arise, the program allows to receive information on an individual frequency
- *Excise Goods Control System* – a newly implemented marking system allows the execution of both paper-based and direct marking of excise and non-excise goods and the creation of a a single centralized system of data control and possession of real-time information regarding marking of local and imported production, control/monitoring, registration/curtailment of spoilage in production, protection of both the consumer and the manufacturer from distribution of falsified goods
- Centralized processing and analysis of unified data – due to the implementation of digital accounting cards and digital declarations, centralized processing and analysis of the data has become possible
- Risk Management Software – a risk control program has been created based on gathered information, which can be used to detect objects subject to inspection as well as define the risk level (low, medium and high)
- Alternative Audit – the risk control program also has made it possible to creation an alternative audit institution, which implies outsourcing the tax audit. Accredited auditing companies and individuals have the right to check enterprises that are in the category of low or medium risk level.
- Taxpayer Service Centers –the centers have been adjusted, equipped with new technologies and staffed with retrained personnel; the service’s territorial principle has been abolished. An accessible environment for servicing the taxpayers was created.
- Introducing the Local Officer’s institute – it provides all kinds of services, usually available at service centers on the spot, officers are not responsible for punitive measures or sanctions.
- Establishment of the Mediation Council – conducts examination of complaints made by taxpayers, while taxpayers themselves have a possibility to apply to the given council and review their complaints regarding the inspection’s materials.

Results

- Introducing the efficient tax policy, which is:
 - Easy
 - Simple
 - Low Rates
 - Universal (for 5 out of 6 types of taxes)
- Tax environment is competitive in regional and international level
- Increasing the tax collection rate, tax ratio to GDP has risen from 11.7% in 2003 to 21.6% in 2007, 24.8% 2013
- Decreasing the compliance cost for businesses, reduced the shadow economy and increased self-compliance - taxes are paid – the major source of revenue , 87.7% of total revenue (in 2013)
- Eliminating corruption in the system
- Implementation of electronic systems simplified and minimized costs in the taxpayers’ relations with the tax authority, while the authority itself processes information with much greater speed and efficiency.

Data is protected and forgery is out of the question. Mechanisms that allowed corruption have been expunged

- As a result of implementation of an alternative audit, five times more taxpayers undergo inspection and accrual taxes have doubled
- As a result of the reforms, the tax authority is no longer viewed to be a closed, waylaying, punishment-oriented body, however, has instead been transformed into an efficient authority which is oriented towards the taxpayers' interests