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# BUSINESS' ATTITUDES TOWARDS THE TAX SYSTEM IN GEORGIA

USAID GOVERNING FOR GROWTH (G4G) IN GEORGIA

06 APRIL 2016

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# DATA

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# ABSTRACT

The attitude of all surveyed companies towards the work and services provided by the Revenue Service (RS) was mostly positive, though the majority of the companies expressed their wish that the Tax Legislation be improved. Out of those surveyed, 80% would prefer that the Tax Code be simplified (ambiguous provisions shall be amended so that they leave no space for misinterpretation) and the number of taxes and their rates be decreased. More than half (55%) perceived the tax burden as average. However, the companies that must pay value added tax (VAT), profit and import taxes, perceived the taxes as heavy burdens. While interpreting the given results, it should be considered that Georgia has the lowest tax burden rate in the region<sup>1</sup>.

The frequency and time allocated for the tax audits and the number of fines received had no negative influence on the general evaluation of the system by the companies. Only two cases were mentioned where the companies had to pay a higher amount because of the audit. However, the existing<sup>2</sup> and desired frequencies (once every three or more years) of the tax audits and ongoing control activities were at odds.

Stability was an important factor for the companies. The enterprises that assumed the Tax Code had changed less during the past year evaluated the work of the RS more positively.

The services offered by the RS were evaluated positively. The most popular services among the enterprises were: The hot line (2 299 999), the e-mail and service center, as well as pre-declaration of goods in the customs clearance zones (CCZs) and customs clearance by text messaging. The rate of usage of remaining services was relatively low.

It should be noted that the evaluations described above did not really differ among the small, medium, and large-sized enterprises. The difference was more noticeable in the involvement of the enterprises, rather than in their attitudes. The analysis showed that small and medium-sized individual entrepreneurs were less involved in the tax legislation changes and they were less likely to participate in the tax legislation changing process. During the Open Days carried out by the RS it became apparent, that they were the least active in appealing the fines imposed on them and the tax legislation-related trainings and seminars were less available to their staff.

Finally, it should be noted that 14% of the surveyed companies were involved in export and 39% were involved in the import of goods. Very few companies involved in export applied the trade regime foreseen by the Deep and Comprehensive Free Trade Area (DCFTA), which was caused by low interest towards this trade agreement. Forty-six percent of the exporting companies said that they were not interested in the DCFTA trade regime. Unfortunately, it was not possible to determine the reason for the lack of interest towards DCFTA within the scope of the present research.

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<sup>1</sup> <http://www.forbes.com/global/2009/0413/034-tax-misery-reform-index.html> [http://www.photius.com/rankings/tax\\_burden\\_country\\_ranks\\_2009.html](http://www.photius.com/rankings/tax_burden_country_ranks_2009.html)

<sup>2</sup> Mostly once a year. Although, there are more frequent cases as well. It shall be taken into account that ongoing control activities, the frequency of which are naturally higher than the frequency of audit, are also included.

## ACRONYMS

<b>CAPI</b>	Computer Assisted Personal Interviewing
<b>CCZ</b>	Customs Clearance Zone
<b>CRRC</b>	Caucasus Research Resource Center
<b>DCFTA</b>	Deep and Comprehensive Free Trade Area
<b>DK/RA</b>	Don't Know/Refused to Answer
<b>G4G</b>	Governing for Growth in Georgia
<b>GDP</b>	Gross Domestic Product
<b>LLC</b>	Limited Liability Company
<b>ODK</b>	Open Data Kit
<b>RS</b>	Revenue Service
<b>SME</b>	Small and Medium Enterprises
<b>USA</b>	United States of America
<b>USAID</b>	United States Agency for International Development
<b>VAT</b>	Value Added Tax

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# INTRODUCTION

The aim of this research was to study the attitudes and perceptions of Georgian businesses towards the tax system in the country. It covered the following topics: Evaluation of the work of the Revenue Service (RS) of Georgia, the level of applying the services provided by it, tax-inspecting practices, and analysis of other key aspects of cooperation between the RS and businesses.

A total of 1033 companies participated in the survey. The companies were divided into small, medium and large enterprises and the data is representative for each of these groups. The companies for the study were randomly selected from the list of companies registered in Georgia provided by National Statistics Office of Georgia. This was done without any consideration of their location or their previous relations with tax inspection (i.e. having or not having problems with the RS). The study results are based on aggregated data analysis and show the general picture of the country in terms of how Georgian businesses view the RS and tax-inspecting practices in general.

The results of the research showed that the majority of companies were content with the work performed by the RS. The main problems that companies had were connected to issues of general importance (e.g. cutting of overall taxes), rather than to the work of the RS itself. A few cases reported problems with tax inspection; however, the nature of these problems could not be explored in-depth within the study. Further research needs to be focused on these problematic cases so as to explore the nature of the problems these companies experience related to the RS and tax inspection policies.

Moreover, while reading this report it should be taken into account that it is not a legislation review or a desk study analyzing existing practices, but a survey report. Therefore it shows the perceptions of Georgian companies rather than the reality, which may differ from their perceptions.

The research was conducted by the Caucasus Research Resource Center (CRRC) upon the initiative of the USAID “Governing for Growth (G4G) in Georgia” project. Field work took place between September 21 and November 13, 2015. The survey was conducted through interviews and CAPI (Computer Assisted Personal Interviewing). For a detailed description of the methodology used in the research, please see appendix A.

# 1. DESCRIPTION OF THE COMPANIES

*Georgia is a country with a developing economy. Development of the private sector is one of the main objectives. The share of businesses engaged in industry is very low. The majority of companies are engaged in trade and service provision. Despite the governmental strategy, the development of SMEs is still a problem. Although the number of SMEs increased, their share in employment, Gross Domestic Product (GDP) and total turnover is still low.*<sup>3</sup>

We begin by presenting the results of the research with the general description of the companies that, as the analysis will show, is the reflection of the general situation in the country. The surveyed companies were divided into three groups according to their profit and the number of employees. These groups were small, medium and large-sized businesses.<sup>4</sup> Medium and large-sized companies were almost equally presented in the survey (41% and 38% respectively), while small companies represented 21% of all surveyed companies.

41% of surveyed companies were medium-sized, 38% were large and 21% were small. The majority of them (78%) were Limited Liability Companies. Surveyed companies were mostly involved in trade and service provision activities.

In terms of legal status, the surveyed enterprises were more or less homogenous. The majority of them (79%) were Limited Liability Companies (LLCs). Individual enterprises represented a small share (15%). As for the general fields of activity, surveyed companies were mostly involved in trade (44%) and service

provision (40%), while the rest (16%) represented the industrial sector.<sup>5</sup>

Apart from trade, which was the dominating field, the majority of the companies were engaged in provision of different services (11%), food production (7%) and construction works (6%) (see Diagram 1). A small group of companies had additional fields of activity. Construction works was leading among them as it was named by 4% of the companies as the additional activity. For detailed information on additional fields of activity, see Appendix B.

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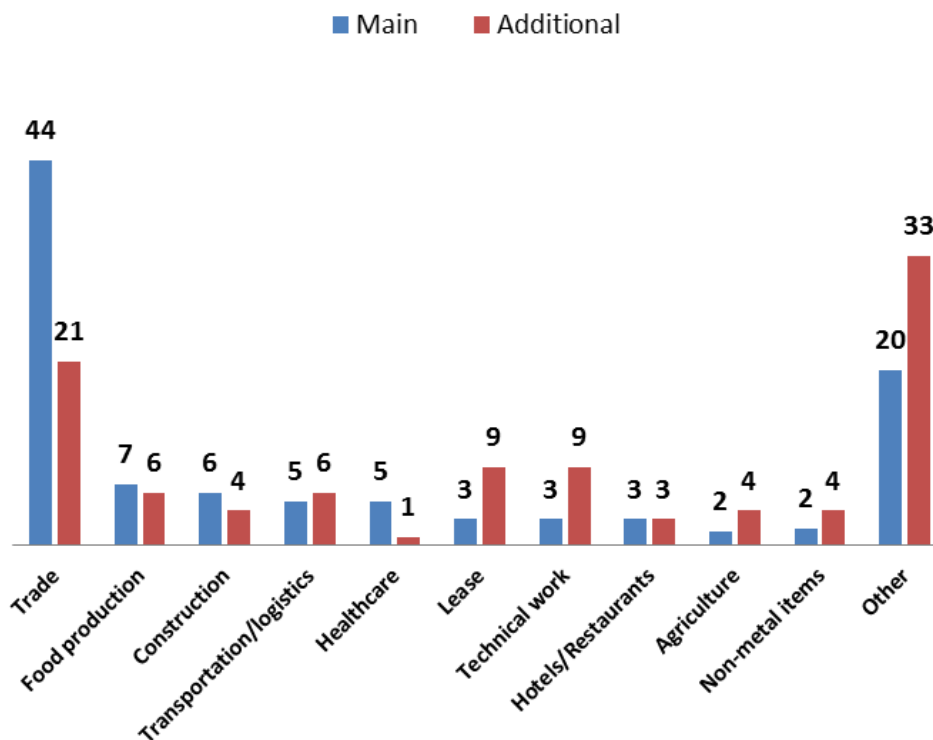
<sup>3</sup> [http://geostat.ge/?action=page&p\\_id=211&lang=geo](http://geostat.ge/?action=page&p_id=211&lang=geo)

<sup>4</sup> According to the methodology of National Statistics Office of Georgia, division of the enterprises by size is performed based on the following principle: Large business – turnover 1,500,000 GEL or more or 100 or more employees; medium business – average turnover from 500,000 to 1,500,000 GEL or 20 to 100 employees; small business – turnover up to 500,000 GEL or up to 20 employees.

<sup>5</sup> In trade field are grouped those companies which named “trade” as the direct field of their activity; in “service” group we mean the companies, which named other services as the field of their activity (for detailed information see Appendix B).



**Diagram 1: Distribution of companies according to the fields of activity (%)**



There was a statistically significant<sup>6</sup> link between the size of the company and the field of activity. For example, in the field of trade, medium (40%) and large (40%) companies prevailed, mainly based on the fact that this field implied import as well. Mainly small (44%) and medium (41%) companies were representing hotel and restaurant businesses. The situation was the same in the transport and logistics field, where small and medium enterprises made up 44% and 40% of the total respectively.

The majority of individual enterprises were, as expected, small and medium-sized companies, while LLCs were mainly medium and large-sized companies. Individual enterprises were mainly engaged in different types of trade, while LLCs were more prevalent in other types of services. The vast majority (95%) of the companies was not members of any business-unions and 90% had no special status. Only 53 companies were members of business associations and with particularly low participation among small (6) and medium (11) sized businesses.<sup>7</sup>

Human Resources and Financial Issues

In 2014, in almost all (97%) surveyed companies, 1 to 6 persons had been engaged in accounting and tax issues. In particular, in 57% of the companies only one person was performing these tasks.

There was a logical link between the size of the company and the size of the administrative team: 86% of small enterprises had only one employee in the finance department, medium enterprises typically had 4 employees, while the large companies had more than 4.

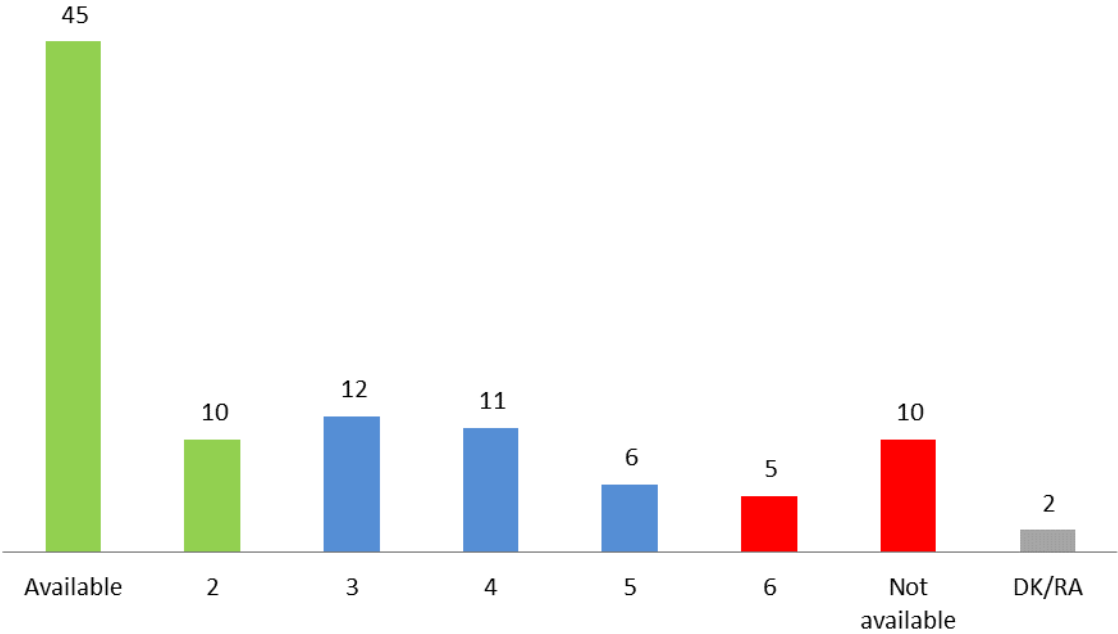
Forty-five percent of the companies said that their employees could always participate in the meetings, conferences and trainings on tax issues (see Diagram 2). The latter were mainly medium and large size LLCs.

In the majority (97%) of companies, 1 to 6 persons were engaged in accounting and tax issues. Conferences and training programs on tax issues for these employees were available, yet most companies (60%) still thought that their employees required professional development in accounting and tax issues.

<sup>6</sup> Chi square (1, N=1017)=48.04, p= .001

<sup>7</sup> Only one enterprise out of all surveyed companies was a member of Small and Medium Business Association

**Diagram 2: Availability of conferences and training programs on tax issues for the companies (%)**



The small percentage (10%) of the companies, that said abovementioned events were not available for them at all, were mostly small and medium-sized individual enterprises in the fields of trade and services. While only 15% of the surveyed companies said that the possibility of participation in conferences and training programs on tax issues were not available, most companies (60%) also thought that their employees required professional development in accounting and tax issues. Further research is necessary to determine why the enterprises did not participate in such events if they believed that it was necessary and available for them.

If we sum up the general overview of the companies, the distribution according to the fields of activity reflects the general situation in the country. As for the low involvement of companies in business associations, it is disadvantageous for businesses, considering that with membership to these associations; companies can advocate for their interested on a broad scale and improve business perspectives for themselves.

## 2. GENERAL EVALUATION OF THE TAX SYSTEM

Georgian tax legislation reform had been carried out twice in the last decade. The first profound reform took place in 2005 as a result of which only six out of 21 existing taxes were retained and the rates of these taxes reduced. The reduction was so tangible that Georgia ranked fourth in the Forbes Tax Misery Index.<sup>8</sup> Another new Tax Code entered the force in January 2011, but did not include any changes in tax rates. In 2014 according to the World Bank Simplicity of Taxes Index Georgia ranked 38<sup>th</sup> out of 189 countries that was a significant improvement in comparison with 2007, when Georgia ranked 104<sup>th</sup> in the same rating.<sup>9</sup>

Against the backdrop of mentioned facts, this chapter will analyze the perception of tax burden and the attitude of the enterprises towards different types of taxes in detail. A separate section will review the degree of companies' involvement in changing the tax legislation and how well informed they are about the ongoing process.

Only 4% of surveyed companies stated that they would change nothing in tax legislation. Approximately 40% would decrease the number of taxes and 27% would decrease the rates of taxes. According to 22% percent the Tax Code needs simplification.

A general analysis revealed that companies' attitude towards tax legislation was less positive. For example, on the question "Which changes would you make to the Georgian tax legislation in the first

<sup>8</sup> Transparency International Georgia, 2010

<sup>9</sup> <http://www.doingbusiness.org/data/exploretopics/paying-taxes>

place” only 4% stated that they would change nothing. The rest of the companies proposed more comprehensive changes. In particular, approximately 40% would decrease the number of taxes and 27% would decrease the tax rates. A comparatively lower number (22%) considered that it was first necessary to simplify the tax administration. These results might be explained by the fact that the tax payment culture is still in the development phase in Georgia and indicates the necessity of increasing civil responsibility from the business’ side. At present there are only six types of taxes in force in the country: income tax (20%), profit tax (15%), value added tax (VAT) (18%), import tax (0%, 5% or 12%), property tax (not more than 1% - for enterprises), and excise tax (rate of which varies in accordance with the excise products).

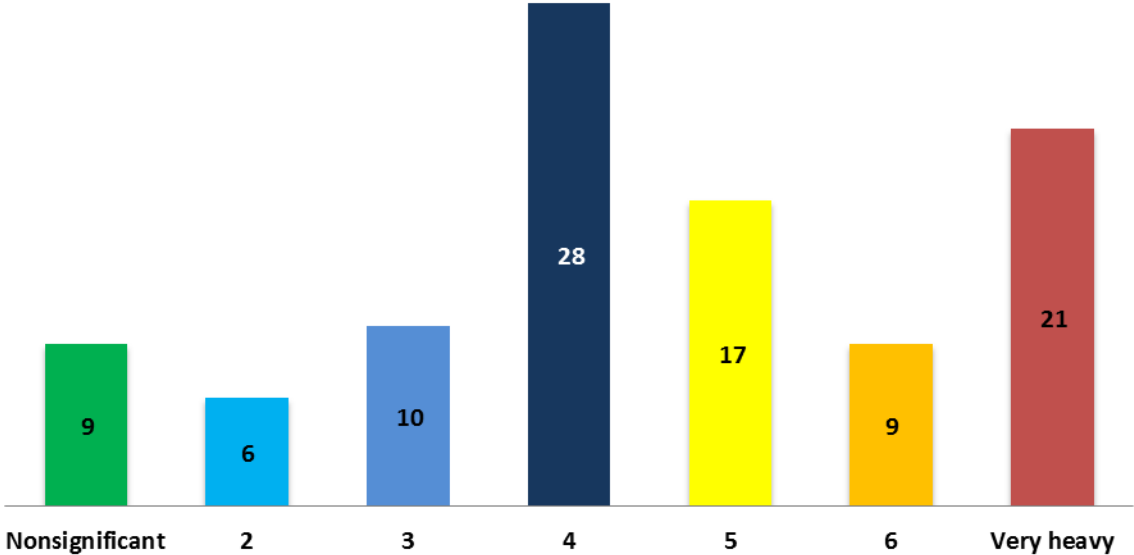
Georgia is considered to have liberal tax legislation, but despite this, companies expressed a need for the system to be simplified even more.

In-depth analysis of the tax legislation changes offered by the companies showed the following: Companies interested in the simplification of the Tax Code mainly implied changes, such as abolition of transitional provisions and simplification of ambiguous provisions. The urgency of this issue was mentioned in research conducted previously, according to which each main article of the Tax Code had two or three different interpretations that increased the possibility of mistakes.<sup>10</sup> The results of the current research proved that the issue was still a problem in Georgia.

As for specific taxes, the idea of decreasing or abolishing the flat tax for profits and determining the tax on a sliding scale according to the company’s profit level was especially common in the comments provided by the companies. As it will be presented below, the profit tax is an especially acute topic for enterprises.

According to the official data, tax burden (the ratio of taxes to the GDP) in Georgia is one of the lowest. According to a Forbes rating, Georgia is the 4<sup>th</sup> among the most tax friendly states with low taxes.<sup>11</sup> As for the companies surveyed, Diagram 3 shows that taxes in Georgia were perceived mainly as a medium (28%), heavy (26%) and very heavy (20%) burden. Half (49%) of those that perceived the taxes as heavy burden were engaged in trade. The companies engaged in the following fields of activity talked about the gravity of taxes: transport/logistics, hotels and restaurants, food production (see Diagram 4). No correlation between the tax gravity perception and companies’ legal form or size was observed.

**Diagram 3: Tax gravity perception among the companies (%)**



<sup>10</sup> Transparency International Georgia, Georgian Tax System review, 2010

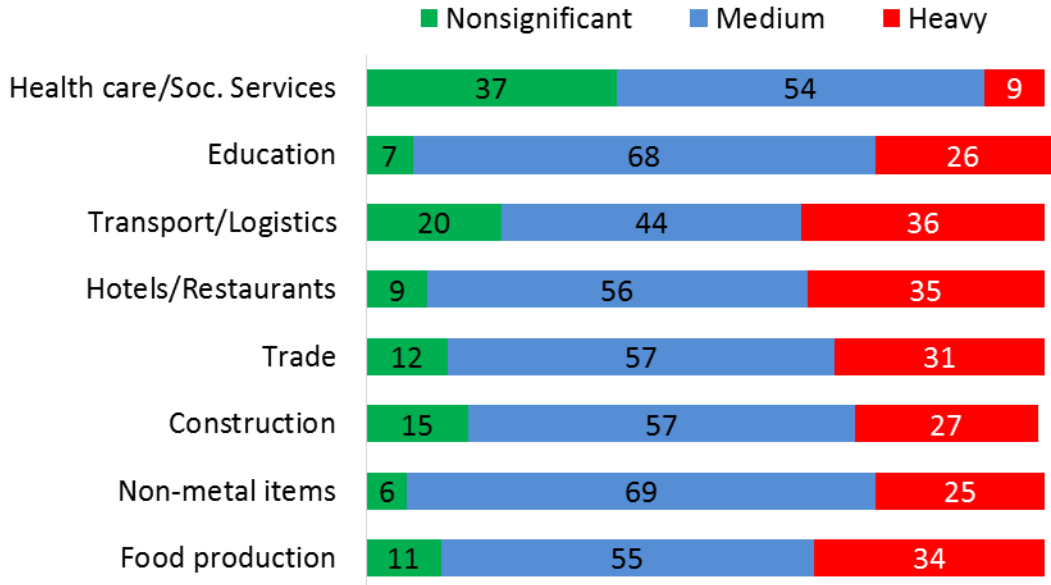
<sup>11</sup> <http://www.forbes.com/global/2009/0413/034-tax-misery-reform-index.html>

Besides the field of activity, the type of the tax paid had a statistically important<sup>12</sup> influence on the perception of tax burden gravity. If we compare companies paying specific taxes and those that have not paid these taxes, we will see the average estimation of tax burden among the companies that paid the profit, VAT and import taxes, is much higher than of those companies that have not paid these taxes in 2014.

Taxes in Georgia were perceived mainly as medium (28%), heavy (26%) and very heavy (20%) burden. Interestingly, the rate of those companies, who perceived the taxes as heavy burden, was especially high among the companies that paid the profit, VAT and import taxes

Interestingly, there was a similar attitude towards all major taxes. However, a similar trend was not observed among the excise tax payers, the rate of which had increased in the past year. Thus, the issue required further research.

**Diagram 4: Perception of Tax burden gravity according to the fields of activity (%)**



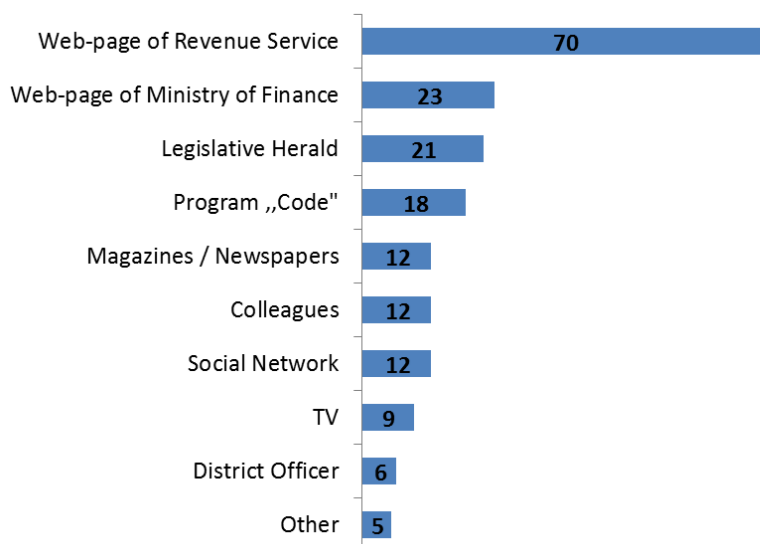
Tax Legislation and Companies

For the majority of companies surveyed (80%), information about the legislative changes implemented in the Georgian Tax Code was available. As Diagram 5 shows, the most popular source of information was the RS website. The Ministry of Finance website, the Legislative Herald of Georgia and the electronic portal "Code" were important sources of information as well. Preferred sources of information did not differ in accordance with the size or revenue of the companies.

Participation of the companies in the process of discussing tax legislation was limited. The majority of companies (95%) had not discussed tax legislation during the past two years. Companies involved in such discussions were large-sized enterprises mostly involved in trade. It seemed that small enterprises had limited access to the discussions. However, it should be noted that this was not a unique phenomenon for Georgia. As a rule, large businesses were much more actively involved in such processes. It should also be noted that membership in a business associations did not have any special effect on participation in the process of discussing the tax legislation. In particular, out of 53 companies that were members of business associations, only 10 said that they had taken part in such discussions.

<sup>12</sup> VAT - Chi square (2, N-1023)=28.52, p= .000  
 Profit Tax - Chi square (2, N-1023)=12.51, p= .002  
 Import Tax - Chi square (2, N-1023)= 8.07, p= .018

**Diagram 5: Sources of information about the tax legislation (%)**



On the other hand, if the companies were participating in the above-mentioned process, then, in most cases, their opinions were taken into account. For example, the companies participating in the process of legislation discussions said that in most cases (70%) their opinions were partly or fully taken into account. For those not participating, the majority (70%) thought the decisions taken are fully or partially justified.

As for the frequency of changes in the tax legislation, the image was less homogeneous. Enterprises were divided: one group thought the legislation changed often (63%) and a second group thought the legislation changed less frequently (37%). It should be noted that the representatives of the second group were more positive about their cooperation with the RS and its work in general than those who thought that the legislation changed frequently.

The above-mentioned echoes other studies in the field. In 2011, the first year the new Tax Code came into force, 25 amendments were introduced to it, an average of two changes per month. During the last five years, a total of 57 amendments were made. Some experts believe that the number and pace of these changes is confusing for the companies, especially taking into account the fact that the changes are not always clear and easy to understand. This may create the grounds for involuntary violations of law and an increase in fines.<sup>13</sup>

In conclusion, despite the internationally recognized liberal tax policy, companies' attitudes towards the country's tax legislation were more negative than positive. The reason for this was the frequent changes in the Tax Code and ambiguous provisions, as well as the number of different taxes and their rates. The result echoed that in general businesses supported tax reductions (and in some cases the abolishment of taxes).

Although the opinion of companies that participated in the tax legislation changing process was taken into account, the number of such companies was very small. Especially the small and medium-sized businesses were not represented in the process. However, this did not necessarily mean that this segment was left out. It should be mentioned that the concept of a "special tax regime" was specially introduced to cover the companies having the status of micro, small and fixed taxpayers. These taxpayers did not actually have to keep the accounts and, therefore, had a simplified administration. Due to this reason, their interest in the process of tax legislation might not be high.

### **3. COMPANIES ATTITUDES TOWARDS THE WORK OF THE REVENUE SERVICE**

In 2007, the Customs and Tax Administrations united to create the RS, which performs the duties of these two agencies. New services like Personal Tax Advisor and District Tax Officers were introduced. Electronic services have become the priority, the best example of which was the website of the RS: rs.ge.

<sup>13</sup> Korchilava R. Economic and Psychological Aspects of Rising the Efficiency of Tax Administration, 2014

Special attention during the research was paid to the evaluation of the abovementioned services. This chapter summarized and exhibits the companies' attitudes towards the RS in general and the different aspects of its activity.

The companies assessed the RS activity quite positively. In particular, 60-70% of the companies positively evaluated the RS's cooperation with the companies, as well as its work in general. As it was mentioned in the previous chapter, the positive evaluation was linked to the way the enterprises perceived the frequency of changes in the tax legislation. Besides, the vast majority (91%) of the businesses said that they could talk freely to the RS about their problems.

### Most Popular Services

The rate of utilization of the services provided by the RS was quite high. In particular, only 5% of the surveyed companies said that that had not used any of the services during the last 2 years.

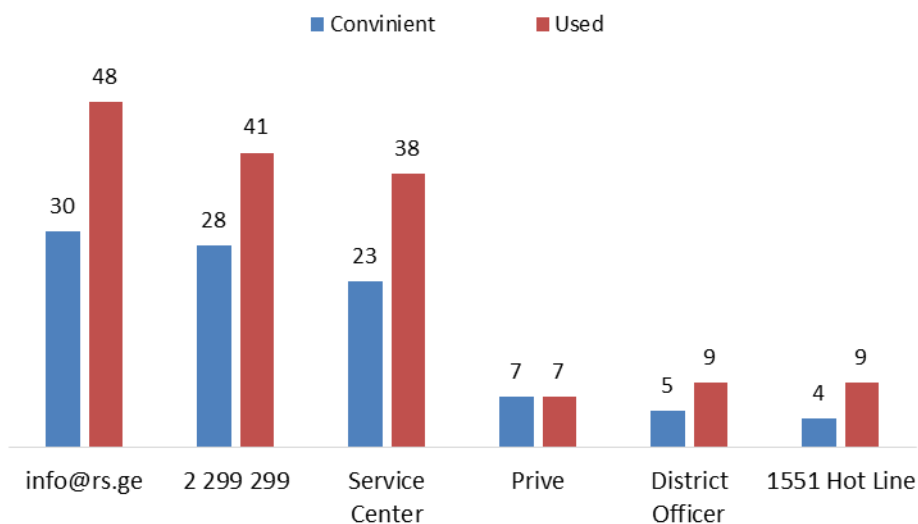
The companies named e-mail (info@rs.ge) (30%), the Information Call Center (28%) and service-centers (23%) were among the most convenient services. Little difference between the LLCs and individual entrepreneurs was observed in services utilization. The only difference is that large companies with more than 5,000,000 GEL profit used the Personal Tax Advisor (*Privé*) service more than other companies did. Sixteen percent of the large companies said they applied this service.

Only 5% of the surveyed companies said that had used none of the services provided by the RS. Among the most convenient and useful services were e-mail (30%), the Information Call Center (2 299 299) (28%) and service-centers (23%). Main reasons of satisfaction were complete answers and prompt service.

As Diagram 6 shows, the companies mainly used the services that were listed as most convenient. Therefore, the e-mail, information call center and service center services can be seen as the most popular services according to both parameters. The rate of using the rest of the services was low. However, the Personal Tax Advisor (*Privé*) service, which is available only to large taxpayers and therefore has low frequency usage, could be explained by the abovementioned specification of the service and not by its poor quality. In other words, low frequency of use of *Privé* is logical and expected due to the specificity of the service and does not imply insufficiency. This was confirmed by the fact that the frequency of use of this service was equal to the frequency of satisfaction (both 7%), and as it will be shown later, there were no companies dissatisfied with this service among *Privé*'s users.

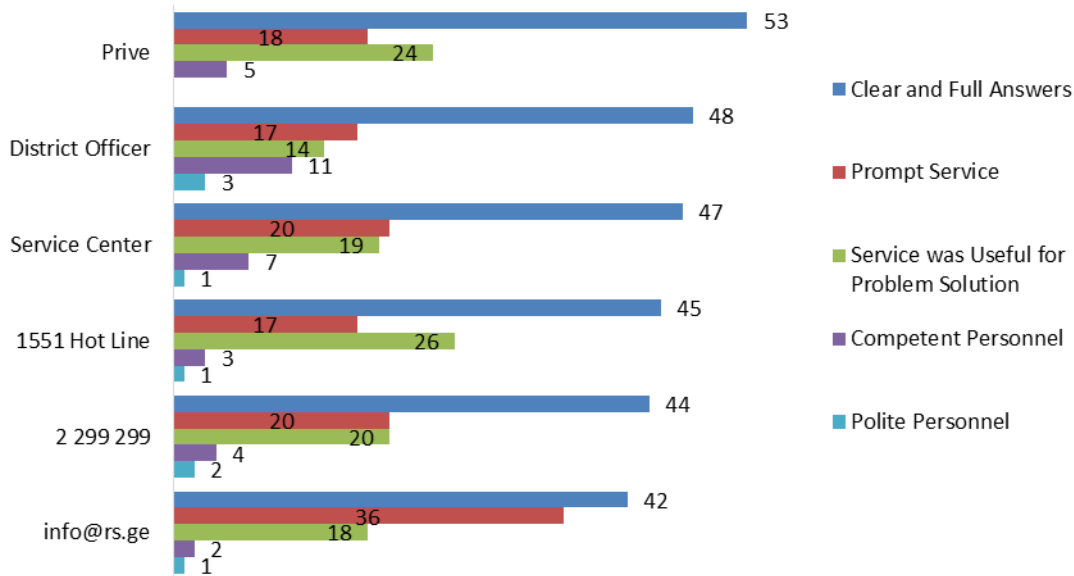
If we further inspect the evaluation of each service, we can see that despite the level of usage, all of them were quite positively evaluated. The rate of "quite satisfied" or "satisfied" among the specific service user enterprises ranged between 90% to 96%. Three main reasons of satisfaction were: clear and complete answers to the questions, prompt services (timesaving) and the possibility of solving the specific problem. If we look specifically at the reasons for satisfaction, clear and complete answers were named most frequently. Accordingly, the latter was leading in evaluating each service (see Diagram 7).

**Diagram 6: Evaluation of the services provided by the RS by the companies (%)**



Dissatisfaction with the services provided by the RS was expressed by a very small proportion (6%) of enterprises. As expected, dissatisfaction was most prevalent for the services that were the most commonly used. For example, 29 companies named reasons of dissatisfaction with [info@rs.ge](mailto:info@rs.ge), 15 companies with Service Centers, 11 companies with an information Call Center (2 299 299), 6 companies with the hot line and two companies expressed dissatisfaction with the District Officer (it should be noted that only small proportion (9%) of the surveyed companies ever used the District Officer service). The main reasons of dissatisfaction were staff incompetence and incomplete answers. None of the companies expressed dissatisfaction with the Personal Tax Advisor. For detailed information, see Appendix B, Tables 31-46.

**Diagram 7: The reasons of satisfaction with the services (%)**



### Open Day

Open days organized by the RS were not very popular among the companies. In the last two years, only 31% of surveyed companies had attended such events. Lack of information cannot be considered as the reason for absence as only 2% said that they had heard nothing about the open day. However, of those who attended the event, 76% said that the information received there was quite extensive.

As for prospective activities, representatives of all of the groups expressed desire to attend events on tax issues organized in the near future: 95% those who have already attended, 77% of those who did not attend and 75% of those who learned about such event during the survey.

### Tax Refunds

In the last two years, only 3% (31 companies) requested a refund for overpaid taxes. Twenty-one percent of companies did not receive any refund, while the majority received a full or partial refund.<sup>14</sup> With the exception of three cases, the refund was paid within three months from the request date. This indicates that with few exceptions, the overpaid amount is paid back within the term set by the law.

It should be noted that almost a third of companies that requested refunds (9 companies), believe this request is the reason for the cameral inspection of their company.

The companies expressed very positive attitude towards the RS. Although the level of usage of some services was low, which was expected because of the specific nature of their activities, all of them were positively evaluated. As for the Open Day, only 31% of the companies attended them during the last two years. Given that the awareness level of the Open Day was high, we can assume that the rate of attendance was explained by the lack of interest in such events.

<sup>14</sup> One of the surveyed companies says that it is still waiting for the answer regarding the refund of overpaid amount requested in 2014

## 4. TAX INSPECTIONS

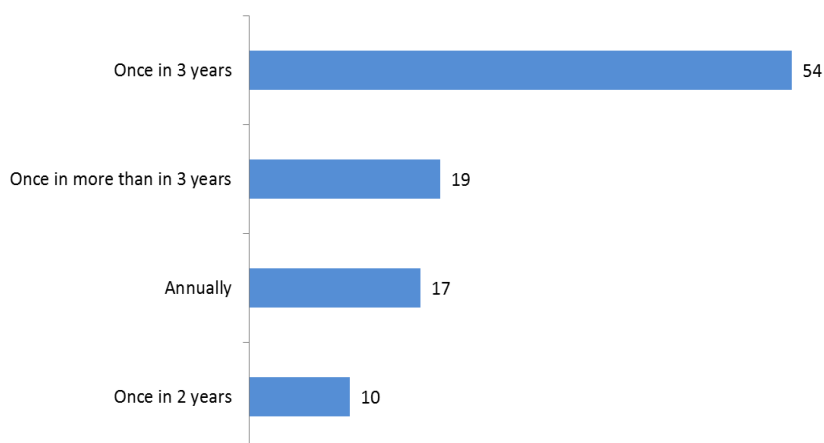
Tax inspections were one of the most poignant and sensitive issues for businesses. The duration of the inspection and delays in the process were named as the worst problems. This chapter studies the nature of the tax inspections in companies (frequency, types, etc.) and their results (whether fines were charged or not, how the companies reacted to it and what the mechanisms were for solving the litigation). On the basis of the above mentioned, we can conclude how much tax inspections hinder the companies' activities.

According to the current Tax Code, field inspections of the company must not last for more than five months. Three of the five months are the audit term, which can be prolonged for two more months or suspended temporarily based on a special decision. Therefore, in some cases, the process of inspection can last for more than a year.

Most of the companies did not welcome frequent tax inspections. For example, 4% of surveyed companies thought that the type of business they run should not be inspected at all. If given the choice, they would choose the most infrequent period possible for inspections (see Diagram 8).

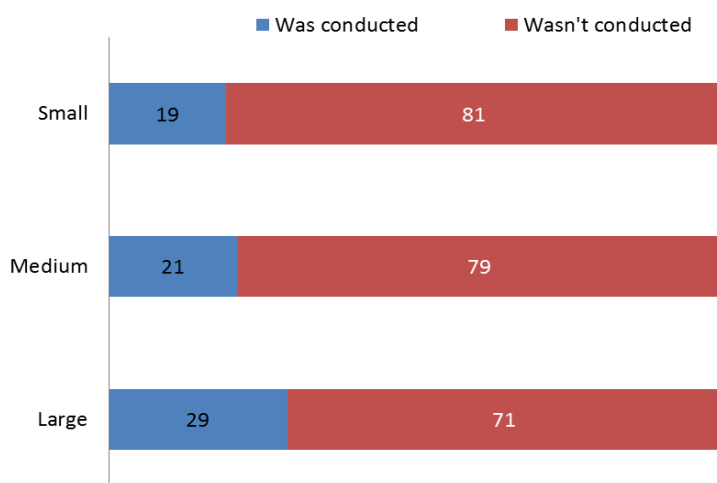
In 2014, different types of tax inspections were conducted in 23% of all surveyed companies. Diagram 9 shows that inspections took place mostly in large companies. Analysis of the companies by the income shows the same. If we group the companies by their incomes, we will see that income exceeds 5,000,000 GEL in 41% of inspected businesses.

**Diagram 8: What shall be the frequency of tax inspections in your company? (%)**



During 2014 inspections has been conducted only in 23% of surveyed companies. Among them, field inspections had not been conducted in 50% and in 40% field inspections had been conducted only once. In 11 companies field inspections had been conducted twice or more frequently during 2014. Importantly, the majority of the companies (71%) positively evaluated the competence of the inspectors.

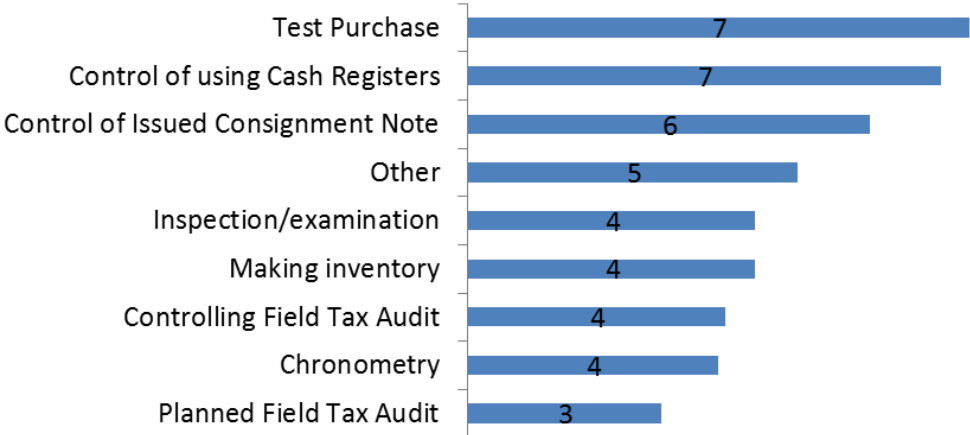
**Diagram 9: Frequency of tax inspections in the companies of different size**





As for the other types of inspections, Diagram 10 shows that the control purchase was the most frequent type of inspection conducted in the surveyed companies in 2014.

**Diagram 10: The average quantity of different types of inspections per year**



As it was mentioned in introductory chapter, the duration of the tax inspection is regulated by the Tax Code. Therefore, it is interesting to see what is the average number of days spent on the tax inspections. There is a statistically significant<sup>15</sup> difference in the average days of inspections among different sized companies. The average number of days of inspections in small companies is 17 days, yet in medium-sized companies it increases up to 23 days and in large companies up to 35 days (see Diagram 11).

Different types of tax inspections were conducted in 23% of all surveyed companies. Forty-four percent of conducted inspections were field inspections. Inspections in small companies lasted for 17 days, in medium-sized companies up to 23 days and in large companies up to 35 days

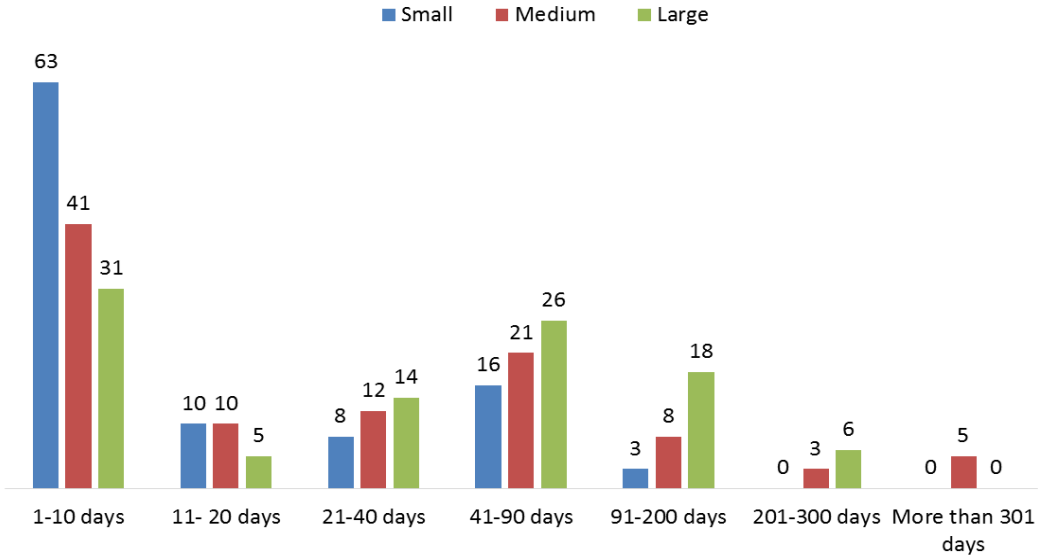
In accordance with the five-month period of the audit, these inspection lengths were fully consistent with the law. However, it should be noted that there were 11 cases in which the number of days spent on the inspection totaled between 200 to 364 days. There was also a statistically significant<sup>16</sup> difference in the number of days of inspections between the companies' with different legal forms: If the average length of the inspection of the individual entrepreneurs was 8 days, in case of LLCs this index was 32 days.

In 12% of the companies (30), going through some kind of tax inspection, the inspections were suspended. In majority of the cases, the suspension took place only once. Although, there were several cases in which the process was suspended two to five times. As it was already mentioned in the introductory chapter, these kinds of suspensions were the causes of prolongation of inspection, which was an unpleasant process for the businesses.

<sup>15</sup> t (94) = -3.06, p<0.05

<sup>16</sup> t (8) = -2.42, p <0.05

**Diagram 11: Average quantity of inspection days according to the size of the companies (%)**



In general, majority of surveyed companies reported that tax inspections had no negative impact on their work. Only 12 companies said that their activities were temporarily stopped in 2014 as a result of inspections and only two companies reported that the fine increased because of the missed deadline as a result of interruption of inspection. Therefore, we can conclude that for Georgian companies, perceived tangible negative results of the inspection process are very few.

What is the Cost of Tax Inspection for the Company?

Tax payment obligations were imposed on almost half (47%) of the companies inspected in 2014. Fines ranged from 100 to 600,000 GEL. Fines varied significantly in small businesses (about 3000 GEL) on the one hand, and medium and large companies (average of 7000 GEL) on the other.

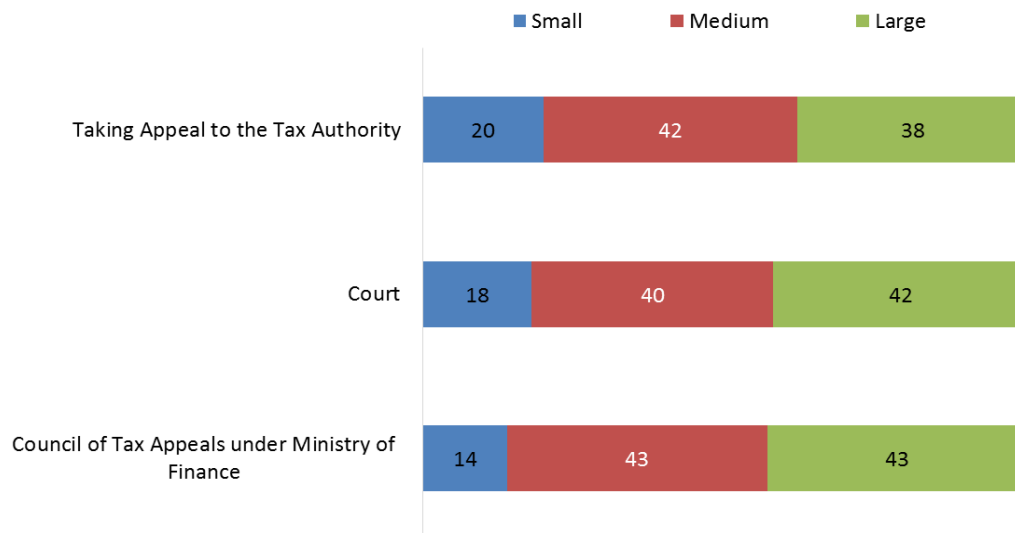
Only 12 of all surveyed companies said that as a result of inspections their activities were temporarily stopped. Only in two cases, the fine increased because of the interrupted inspection.

Forty-one percent of the companies appealed against the fines imposed by the tax authorities in 2014. If we compare the companies which have appealed and those who did not, we will see that the average rate of fines was much higher in the group of litigants (9500 GEL) than in the second group (5100 GEL). This suggests that higher the fine, the more motivated the company is to

appeal. In the case of 60% of appeals, the RS Council of Tax Appeals made the decision within one month, which is in full compliance with the law, which states the Council shall make the decision within 65 days. Almost half of the companies (49%) evaluated the work of the Council of Tax Appeals as fairly objective or very objective.

We can assume that the companies' faith in the fairness and objectivity of public institutions was quite high. For example, none of companies named bribes or other unofficial mechanisms as ways of solving their problems with the RS. In addition, as it was mentioned earlier, 91% of companies said that they could talk openly about their problems with the RS.

**Diagram 12: Dispute resolution mechanisms according to the company size (%)**



The companies used the RS's and the Ministry of Finance's Dispute Resolution Service or court equally to appeal fines. As Diagram 12 shows, the mechanisms of appeal did not significantly vary according to the company sizes. However, small companies were less likely to appeal compared to medium and large businesses. In addition, as we can see from the graph, small enterprises appealed the least. The survey data gave us no opportunity to establish the cause of the lower activity level of small companies. However, taking into account that the fine imposed on small businesses was less than those imposed on medium and large-sized businesses, we can assume that the trial-related costs were financially disadvantageous for them. Another considerable fact was that the tax authorities, in contrast with taxpayers, were tax exempt and could start the litigation without any payments.

Forty-one percent of the companies appealed against the fines imposed by the tax authorities. The higher the fine, the more motivated the company was to appeal. However, small companies were passive in this issue.

If we go back to the question asked in the beginning of this chapter, we can conclude that in most cases tax inspection procedures are carried out in accordance with the law and have no tangible negative effects on the activities of the enterprises. There were occasions when the inspections lasted longer than allowed and the companies had to stop their activities, but the number of such cases is insignificant.

## 5. IMPORT AND EXPORT-RELATED ISSUES

According to the data of the National Statistics Office of Georgia<sup>17</sup>, since 1995 the foreign trade balance in Georgia has been negative, indicating that the country imports more than it exports. In academic circles, a trade deficit is not seen as a definitely negative attribute<sup>18</sup>, however, the Georgian government is implementing a number of measures to encourage export and eliminate the deficit. Increasing the efficiency of customs services and signing international trade agreements are important measures. This chapter presents the companies' attitudes and their evaluation of these issues.

Only 14% of surveyed companies covered exports, while 39% of them were involved in import. In total in 2014 only 21 companies faced problems while importing or exporting goods, most of which were connected with the duration of customs procedures.

The distribution of exporting and importing companies among the surveyed businesses was consistent with the general situation in the country. Only 14% of them were involved in exports, while 39% were involved in imports. The number of enterprises that had issues during import or export activities was rather small in both groups. Only four companies faced problems completing the necessary procedures for exporting goods, most of which were connected to the duration of customs procedures.

<sup>17</sup> [www.geostat.ge](http://www.geostat.ge)

<sup>18</sup> Alessandria G. Trade Deficits Aren't as Bad as You Think, 2007

As for the importing, 17 companies had problems, mainly related to the failure of the electronic system and the duration of the clearance procedures at Georgian customs.

The second column of the table below shows how many of the exporting and importing companies use certain services offered by the Customs Department. The services are sorted according to the frequency of their use. Those companies that do not use a particular service, were asked additional questions about the reasons for not using them. The main reasons of not using the services are also given in the table. It should be noted that lack of necessity was named as the main reason for not using the services. This is related to the specific nature of the service and not to the quality. However, there were cases when the company had no information about the specific service. Lack of information was especially obvious for the following services: reserving a place in a queue on rs.ge (16%), customs declaration using SMS (11%), SMS in case of registration certificate (11%) and pre-declaration through Rs.ge (10%).

<b>Services</b>	<b>Service application indicator</b>	<b>Main reason of not applying the service</b>
Pre-declaration by presenting documents to CCZ	45%	Do not need - 88% Not comfortable - 5%
Filling in the import declaration by oneself	45%	Do not need - 80% Not comfortable - 4% Do not have info - 4%
Customs declaration using SMS service	41%	Do not need - 82% Do not have info - 11%
Pre-declaration through Rs.ge	36%	Do not need - 84% Do not have info - 10%
Declaration of goods in the CCZ without presenting them to customs control zone and finishing the clearance at the check point	28%	Do not need - 93%
Pre-declaration by presenting documents to service center	24%	Do not need - 90% Do not have info - 5%
SMS service in case of registration certificate	23%	Do not need - 81% Do not have info - 11%
Declaration at the place agreed with customs authorities, except of the check-point or CCZ	15%	Do not need - 87% Do not have info - 5%
Reserving a place in the queue service on Rs.ge	14%	Do not need - 75% Do not have info - 16%
Filling in the export declaration by oneself	13%	Do not need - 88% Other - 5%

*Note: The service application indicator is calculated based on exporting and importing companies. Reasons for not using the services were given based on the responses of companies that said they do not use the given services.*

## The Deep and Comprehensive Free Trade Area Agreement with the European Union

The DCFTA with the EU is the most important part of the Association Agreement. Unlike other free trade agreements signed by Georgia, DCFTA includes the liberalization of both goods and services trade. The negotiation process started in December 2011, and the agreement entered into force on 1 September 2014.

Despite the fact that the agreement entered into force more than a year ago, at this stage Georgian enterprises do not fully take advantage of DCFTA. Only 6% of companies surveyed said that they used the trade regime foreseen by the agreement. Sixty percent of these enterprises were large-sized LLCs. Given that the enterprises should meet certain conditions to take advantage of the agreement<sup>19</sup>, less involvement of small, individual entrepreneurs is logical.

Low rate of participation in DCFTA can also be explained by the short period of time since the agreement entered into force. However, the main reason for not taking advantage of the trade regime, enterprises' low level of interest, is in conflict with the government's expectations and hopes. Sixty-three percent of the surveyed companies said that they were not interested in this trade regime. This can be explained by the fact that the number of enterprises involved in export was very low among the surveyed companies. However, if we analyze the exporting companies separately, we will see that

Out of surveyed companies, only 6% used the trade regime foreseen by the DCFTA agreement. In general, the interest towards this regime among the enterprises was low. 63% of the surveyed companies and 46% of companies involved in export said that they were not interested in participating in DCFTA.

70% did not take advantage of the regime, and almost half (46%) were not interested in doing so.

If the current conditions remained unchanged, it would be difficult to realize the Government's expectations related to the involvement in DCFTA, in particular, an increase in export potential, investment attractiveness, and the

emergence of new enterprises and export products. Thus, it is necessary to conduct further research to determine the reasons for the lack of interest of Georgian businesses towards this issue.

Finally, the level of usage of the services offered by the Customs Service is not high among the surveyed companies. However, the reason for non-usage is the lack of necessity and not, for example, inconvenience of the service provided. The number of the surveyed companies that had import or export problems is very small. However, for the export promotion it is also important to increase the level of awareness about the trade regime of the EU DCFTA agreement among Georgian companies involved in export.

What Can be Changed and How?

Based on the above mentioned conclusions, we can differentiate two areas of activity: one, which is directly under the control of the RS, and the second, which goes beyond the scope of authority of this particular service.

In the first case, the frequency of use of certain services was very low. Based on this it is possible to optimize the service provided. In addition, it is beneficial to promote open days as they facilitate closer cooperation with the enterprises. These events can be used for two key purposes: disseminating information about the changes in the tax code and about DCFTA. However, open days will most likely not be enough to achieve the desired results.

The issue of promoting small and medium-sized businesses coincides with the strategy declared by the Government, however, it appears that actualizing this strategy requires more effort. In addition, it shall be taken into account that the level of small and medium-sized businesses' involvement in business associations is relatively low, which further reduces their participation in important processes.

## 6. CONCLUSION

In general, the surveyed companies positively evaluated the activities of the RS. Their dissatisfaction was mainly related to the gaps in tax legislation.

The research on the attitudes towards the tax system revealed some important issues. First of all, the level of satisfaction with the services provided by the RS (including customs) was high. The reasons for enterprises' dissatisfaction were due to issues beyond the scope of specific activities of the RS. In

<sup>19</sup> <http://www.economy.ge/ge/dcfta>

particular, this applied to tax legislation. Although companies perceived the tax burden as "average" or "heavy", there were some taxes that were considered to be significantly heavy: income, VAT and import taxes. In addition, there was a clear need for simplification of the tax code and administration.

Dissatisfaction with the frequency and duration of the tax inspection was less apparent. In general, it can be said that the tax inspections had no clearly negative impact on most surveyed companies' activities.

Individual entrepreneurs and, in general, small and medium-sized businesses were less involved in the tax legislation discussions. At the same time, trainings, seminars or conferences on tax issues were less available for their employees. However, it should be noted that there was an alternative service - district officer – for them.

Georgian companies did not fully exploit the trade regime foreseen by the DCFTA Agreement. Additional research and analysis is necessary to determine the cause of their indifferent attitude and to facilitate the use of abovementioned trade regime.

Finally, it should be noted that the majority of the surveyed companies utilized the services provided by the RS, and positively evaluated these services as well as its employees' competence, efficiency and politeness.

# APPENDIX A. DESCRIPTION OF THE RESEARCH METHODOLOGY

The research tool (questionnaire) was developed by the group of representatives of the customer and contractor. Questionnaire pilot testing was carried out from 3 to 11 September in Tbilisi. Thirty interviews with the representatives of 10 large, 10 medium and 10 small businesses were conducted during this period. Pilot stage identified no special difficulties and problems. Thus, it was decided to use the questionnaire in the research.

## Sampling

The survey covered a total of 1033 businesses, selected from the National Statistics Office database according to their size. Four potential substitutes were chosen per each sampled business, in case of low level of response. Overall, the response rate of companies by size is as follows: small business - 21%, medium business - 41%, large business - 38%.

## Fieldwork

The fieldwork was carried out from 21 September to 13 November 2015 in Tbilisi, Samtskhe-Javakheti, Kvemo Kartli, Mtskheta-Mtianeti, Kakheti, Adjara, Guria, Imereti, Racha, Samegrelo, Svaneti and Shida Kartli.

Fieldwork was conducted by 3 supervisors and 39 interviewers. All of them are long-time employees of the Caucasus Research Resource Center. They went through the special training to carry out this research. Special attention was paid to the use of technology, as the survey was conducted using the Samsung Galaxy 2 tablet.

## Data management

CAPI technique was used for data collection. It offers a number of advantages compared to the traditional methods; in particular, it minimizes the probability of errors in filling out the questionnaire, as it is impossible to indicate invalid reply in the electronic cell. Electronically completed questionnaires are directly stored on the hard disk and later are collected in a single database using the open source software system ODK (Open Data Kit). The final stage is the data cleaning in an attempt to exclude mistakes. Data weighting was not carried out upon the donor's request.

## APPENDIX B. FREQUENCY DISTRIBUTION OF VARIABLES USED IN THE STUDY

**Table 1. Size of the company**

Size	Frequency	Percent
Medium	421	41
Large	393	38
Small	219	21

**Table 2. Organizational-legal form of the company**

Organizational-legal form	Frequency	Percent
Ltd	820	79
Individual Enterprise	153	15
Joint Stock	31	3
Solid Liability Company	24	2
Branch of a foreign company	3	0.3
Commodity Society	1	0.1
Cooperative	1	0.1

**Table 3. Main sphere of activity of the company**

Main sphere of activity	Frequency	Percent
Trade (including pharmacies)	448	43.4
Production: food products and beverages	67	6.5
Construction	58	5.6
Transport, logistics	57	5.5
Healthcare and social assistance	50	4.8
Other services to customers (advertisement, hiring labor force, etc.)	36	3.5
Hotels and restaurants	34	3.3
Architectural and engineering service; technical consultations	34	3.3
Real estate operations, leasing	31	3.0
Education	28	2.7
Production: other non-metal mineral items	24	2.3
Production: agriculture, hunting, forestry, fishing	16	1.5
Other	16	1.5
Financial service, banking service	12	1.2
Services in computer and program support sphere	11	1.1
Communications	10	1.0
Accounting and audit	10	1.0
Production: rubber and plastic items	9	0.9
Production: metallurgic industry and production of metal items	9	0.9
Tourism	9	0.9
Electricity, gas and water supply and distribution	8	0.8
Production: cellulose paper industry	7	0.7



Production: other branches (furniture, toys, jewelry, etc.)	7	0.7
Production: textile and clothes	6	0.6
Production: chemicals	5	0.5
Production: electric appliances, optic appliances	5	0.5
Production: transportation means and transport appliances	5	0.5
Car, household item and personal item repairs	5	0.5
Communal, social and personal services	5	0.5
Mining and quarrying	4	0.4
Production: wood procession and wood product making	4	0.4
Activities in legal sphere	2	0.2
Consultation on commercial activities and management issues	1	0.1

*Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.*

**Table 4: Additional spheres of activity**

<b>Spheres of activity</b>	<b>Frequency</b>	<b>Percent</b>
Trade (including pharmacies)	21	2.0
Real estate operations, leasing	10	1.0
Architectural and engineering service; technical consultations	10	1.0
Production: food products and beverages	7	0.7
Transport, logistics	7	0.7
Other services	7	0.7
Agriculture, forestry, fishery	4	0.4
Production: agrochemical products	4	0.4
Services in computer and program support sphere	4	0.4
Production: non-metal mineral items	4	0.4
Car, household item and personal item repairs	4	0.4
Construction	4	0.4
Production: other branches (furniture, toys)	4	0.4
Hotels and restaurants	3	0.3
Mining and quarrying	3	0.3
Production: electric appliances, optic appliances	2	0.2
Production: metallurgic industry	2	0.2
Education	1	0.1
Production: textile and clothes	1	0.1
Electricity, gas and water supply and production	1	0.1
Production: rubber and plastic items	1	0.1
Healthcare and social assistance	1	0.1
Communal, personal and social services	1	0.1
Tourism	1	0.1
Other	2	0.2

*Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.*

**Table 5: A member of which business association is your company currently?**

<b>Business association</b>	<b>Frequency</b>	<b>Percent</b>
Business Association of Georgia	7	0.7
American Chamber of Commerce in Georgia	5	0.5
Georgian Chamber of Commerce and Industry	5	0.5
Georgian Association of Carriers	4	0.4
Georgian Tourism Association	4	0.4
International Chamber of Commerce in Georgia	3	0.3
EU-Georgia Business Council	3	0.3
Association of Oil Product Importers	2	0.2
Association of Expeditors	1	0.1
Association of Constructors	1	0.1
Association of Banks of Georgia	1	0.1
Association of Small and Medium Enterprises	1	0.1
Other	25	2

*Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.*

**Table 6: A member of which business association is your company currently?**

**“Other” answer options**

<b>Membership</b>	<b>Frequency</b>	<b>Percent</b>
Georgia Corn Growers Association	2	.2
National Center of Evaluators	2	.2
Georgian Wine Association	1	.1
Association of Accountants and Auditors	1	.1
Association of Pharmaceutical Companies Representatives in Georgia	1	.1
Georgian and Turkish Businessmen’s Association	1	.1
International Investors Association of Georgia	1	.1
Walnut Growers Association	1	.1
Association of Private Sector Collages	1	.1
Association of Azerbaijani Businessmen in Georgia	1	.1
British Company	1	.1
French Chamber of Commerce	1	.1
Association of Georgian Entrepreneurs and Tradesmen	1	.1
Georgian Organization of Fishing Trade	1	.1
Association of Law Firms of Georgia	1	.1
Association of Tour Operators in Georgia	1	.1
Georgian-Swiss Business Association	1	.1
German Business Association	1	.1
International Association of Insurance Supervisors	1	.1
Iran-Georgia Chamber of Commerce	1	.1
Association of Esthetic Clinics	1	.1

**Table 7. In 2014, how many of your company’s employees worked on accounting and tax issues?**

<b>Number of employees</b>	<b>Frequency</b>	<b>Percent</b>
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1	589	57
2	225	22
3	100	10
4	36	4
5	29	3
6	13	1
7 to 10	18	2
11 to 18	7	0.7
19 to 20	3	0.3

**Table 8. How accessible or inaccessible is it for your company's employees to participate in meetings, conferences and training programs related to tax issues?**

<b>Training</b>	<b>Frequency</b>	<b>Percent</b>
Never accessible	105	10
2	47	5
3	57	6
4	111	11
5	122	12
6	98	10
Always accessible	471	46
Don't know	19	2
Refuse to answer	3	0.3

**Table 9. In your opinion, how necessary or unnecessary is it to upgrade qualifications of your company's employees working on accounting and tax issues?**

<b>Continuous development</b>	<b>Frequency</b>	<b>Percent</b>
Not necessary at all	131	13
2	59	6
3	52	5
4	96	9
5	107	10
6	100	10
Necessary	480	47
Don't know	6	0.6
Refuse to answer	2	0.2

**Table 10. Based on data from 2014, into which category does your company's total annual income fall?**

<b>Income</b>	<b>Frequency</b>	<b>Percent</b>
Up to 100 000 Gel	266	26
100 001 – 1 000 000 Gel	379	37
1 000 001 – 5 000 000 Gel	210	20
Over 5 000 000 Gel	135	13
Don't know	11	1

Refuse to answer	32	3
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**Table 11. Of the listed taxes, which tax/taxes did your company pay in 2014?**

Tax	Frequency	Percent
Income tax	1007	98
Value added tax	824	80
Profit tax	816	79
Property tax	766	74
Import tax	280	27
Excise tax	61	6
None – in 2014 we did not have to pay taxes	5	0.5

*Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.*

**Table 12. How significant or insignificant a burden are taxes for your company?**

Tax burden	Frequency	Percent
Insignificant burden	90	9
2	62	6
3	107	10
4	291	28
5	179	17
6	92	9
Significant burden	202	21
Refuse to answer	1	.1

*Note: 1% of respondents who had not paid any of the taxes listed in the previous question during 2014, who did not know or refused to answer previous question about taxes paid in 2014 skipped the question.*

**Table 13. Can you or other representatives of your company openly share information about problems in the tax registration process or possible mistakes with the RS?**

Openness	Frequency	Percent
Yes	946	92
No	50	5
Don't know	32	3
Refuse to answer	5	0.5

**Table 14. Which special status does your company have currently?**

Status	Frequency	Percent
Special trade company	23	2
Entrepreneur physical entity with the small business status	20	2
Tourism enterprise	6	1
Enterprise of a free industrial zone	5	0.5
Physical entity with the micro business status	5	1

Entity with the fixed tax payer status	5	0.5
Agricultural cooperative	2	0.2
International financial company	2	0.2
Entity of virtual zone	1	0.1
Other	21	2
No special status	934	90
Don't know	6	1
Refuse to answer	1	0.1

**Table 15. What impact did the special status have on your business?**

Status impact	Frequency	Percent
No impact	48	49
Supported expansion of business	18	18
Supported start-up of business	14	14
Hindered expansion of business	4	4
Other	2	2
Don't know	10	10
Refuse to answer	3	3

*Note: The question was asked to those (9%) who said their company has some kind of special status.*

**Table 16. How accessible or inaccessible is information about amendments to the tax code?**

Accessibility of information	Frequency	Percent
Not accessible at all	10	1
2	12	1
3	28	3
4	67	7
5	69	7
6	103	10
Easily accessible	737	71
Don't know	7	0.7

**Table 17. What is the source of information for your company about tax legislation?**

Source of information	Frequency	Percent
Website of the Revenue Service	728	71
Website of the Ministry of Finance	233	23
Legislative Herald	219	21
Code software	184	18
Social networks	127	12
Newspapers, magazines	126	12
Colleagues	126	12
Television	95	9
District officer	61	6
Parliament website	23	2
Business associations	7	0.7

Radio	3	0.3
Other	48	5

Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.

**Table 18. What is the source of information for your company about tax legislation? “Other” answer options**

Source of information	Frequency	Percent
Audit	16	2.0
Consultant	7	.7
Accountant	4	.4
Internet	4	.4
Hotline	3	.3
SMS	2	.2
Superfine program support	2	.2
Info accounting	1	.1
Info consultant	1	.1
Association of Accountants and Auditors	1	.1
Lawyer	1	.1
Lecturers	1	.1
Meetings	1	.1
Georgian program service	1	.1
Books	1	.1

**Table 19. If you were the decision maker, which changes would you make to the Georgian tax legislation in the first place?**

Proposal	Frequency	Percent
Decrease the number of taxes that companies have to pay	412	40
Decrease tax rates for companies	279	27
Simplify tax administration	229	22
Increase the number of taxes that companies have to pay	3	0.3
Increase tax rate for companies	3	0.3
Other	35	3
No changes	45	4
Don't know	19	2
Refuse to answer	8	0.8

Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.

**Table 20. In companies similar to yours, in your opinion, how often should there be tax inspections (audits)?**

Suggestion on Frequency of inspections	Frequency	Percent
Once in three years	563	55
Annually	179	17
Other	144	14

Once in two years	106	10
Don't know	40	4
Refuse to answer	1	0.1

**Table 21. In companies similar to yours, in your opinion, how often should there be tax inspections (audits)? “Other” answer options**

Suggestion on Frequency of inspections	Frequency	Percent
Once in 5 years	50	5
Never	43	4
Once in 6 years	12	1
Only in case of violations	11	1
Once in 4 years	10	1
Once in 10 years	5	0.5
Once in 7 years	5	0.5
Upon request	4	0.4
Depending on the past period	1	0.1
Less often	1	0.1
Several times a year	1	0.1
There should be an alternative audit	1	0.1

**Table 22. For the last two years, have you or a representative of your company participated in the discussion of tax legislation drafts?**

Involvement	Frequency	Percent
Yes	47	4
No	980	95
Don't know	6	0.6

**Table 23. Generally, to what extent were your company's views on tax legislation taken or not taken into account?**

Views shared	Frequency	Percent
Were not taken into account at all	4	8
2	2	4
3	1	2
4	17	36
5	7	15
6	7	15
Were fully taken into account	3	6
Refuse to answer	1	2
Don't know	5	11

*Note: This question was asked only to those (4%) who said they participated in the discussion of tax legislation drafts.*

**Table 24. Did they provide justification for the taken decision?**

Justification	Frequency	Percent
No	14	37
Yes	13	34

Some decisions were justified, others – not justified	11	29
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Note: This question was asked only to those (4%) who said they participated in the discussion of tax legislation drafts and whose opinions were not fully considered.

**Table 25. Speaking of the last 2 years, based on your evaluation, how often or how rarely did the Georgian tax legislation change?**

Changes in the Tax Code	Frequency	Percent
Very often	134	13
2	71	7
3	139	13
4	260	25
5	170	16
6	94	9
Very rarely	82	8
Refuse to answer	2	0.2
Don't know	81	8

**Table 26. In your opinion, how successfully or unsuccessfully does the Georgian Revenue Service cooperate with companies?**

Cooperation	Frequency	Percent
Very unsuccessfully	45	4
2	25	2
3	63	6
4	184	18
5	197	19
6	167	16
Very successfully	320	31
Don't know	28	3
Refuse to answer	4	0.4

**Table 27. Generally, how would you assess the current work of the Georgian Revenue Service?**

Overall assessment	Frequency	Percent
Very negatively	20	2
2	9	0.9
3	50	5
4	184	18
5	228	22
6	222	22
Very positively	297	29
Refuse to answer	9	0.9
Don't know	13	1

**Table 28. Which form of service of the Georgian Revenue Service is the most convenient for your company nowadays?**

Service	Frequency	Percent
info@rs.ge (email)	312	30



Information call center 2 299 299	292	28
Service center	237	23
Personal tax advisor ( <i>Privé</i> )	73	7
District officers	50	5
Hotline 1551	38	4
None	20	2
Don't know	9	0.9
Refuse to answer	2	0.2

Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.

**Table 30. Which of the services of the Revenue Service did your company use for the last 2 years?**

Service	Frequency	Percent
<a href="mailto:info@rs.ge">info@rs.ge</a> (email)	466	45
Information call center 2 299 299	392	38
Service center	387	38
District officer	89	9
Hotline 1551	89	9
Personal tax advisor ( <i>Prive</i> )	70	7
None	53	5

Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.

**Table 31. How satisfied or unsatisfied was your company with the service of the information call center (2 299 299)?**

Level	Frequency	Percent
Very unsatisfied	10	3
2	25	6
3	140	36
Very satisfied	215	55
Not applicable / Have not used the service	1	0.3
Refuse to answer	1	0.3

Note: The question was asked only to those (38%) who have used this service in the past 2 years.

**Table 32. Mainly, why were you satisfied with the service of the information call center (2 299 299)?**

Reasons	Frequency	Percent
We received clear and complete answers to our question/questions	174	49
Received service helped us resolve the problem	79	22
Service was quick, it did not take much of our time	76	21
We had to deal with competent staff	15	4
Staff were distinctly polite	7	2
Other	3	0.8
Don't know	1	0.3

Note: The question was asked only to those (34%) who have used this service in the past 2 years and said they were satisfied with it.

**Table 33. Why were you unsatisfied with the service of the information call center (2 299 299)?**

Reason	Frequency	Percent
Staff were not competent	11	33
We could not receive answers to our question/questions	14	42
Received answers did not help us resolve the problem	12	36
It took much time to receive the service	3	9
Technical problems occurred	2	6

Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%. The question was asked only to those (3%) who have used this service in the past 2 years and said they were not satisfied with it.

**Table 34. How satisfied or unsatisfied was your company with the service of the personal tax advisor (Privé)?**

Level	Frequency	Percent
Very unsatisfied	1	1
2	1	1
3	24	35
Very satisfied	43	62

Note: The question was asked only to those (7%) who have used the service for the last 2 years.

**Table 35. Mainly, why were you satisfied with the service of the personal tax advisor (Privé)?**

Reason	Frequency	Percent
We received clear and complete answers to our question/questions	36	54
Received service helped us solve the problem	16	24
Service was quick, it did not take much of our time	12	18
We had to deal with competent staff	3	4

Note: No companies expressed discontent with this service. The question was asked only to those (7%) who have used the service for the last 2 years and were satisfied with it. Almost none of the companies expressed discontent with this service. Only two mentioned that received answers did not help them resolve the problems.

**Table 36. How satisfied or unsatisfied was your company with the service of the service center?**

Level	Frequency	Percent
Very unsatisfied	4	1
2	11	3
3	110	28
Very satisfied	261	67
Refuse to answer	1	0.3

Note: The question was asked only to those (38%) who have used this service for the last 2 years.

**Table 37. Mainly, why were you satisfied with the service provided by the service center?**

Reason	Frequency	Percent
We received clear and complete answers to our question/questions	184	50
Service was quick, it did not take much of our time	78	21
Received service helped us resolve the problem	76	20
We had to deal with competent staff	27	7
Staff were distinctly police	4	1
Don't know	2	0.5

*Note: The question was asked only to those (36%) who have used this service for the last 2 years and were satisfied with it.*

**Table 38. Why were you unsatisfied with the service provided by the service center?**

Reason	Frequency	Percent
Staff were not competent	6	40
We could not receive answers to our question/questions	4	27
Received answers did not help us resolve the problem	4	27
Technical problems occurred	2	13
Staff were not polite	1	7

*Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%. The question was asked only to those (2%) who have used this service for the last 2 years and were not satisfied with it.*

**Table 39. How satisfied or unsatisfied were you with the service of the district officer?**

Level	Frequency	Percent
Very unsatisfied	0	0
2	2	2
3	23	26
Very satisfied	63	71
Don't know	1	1

*Note: This question was asked only to those (9%) who have used this service for the last 2 years.*

**Table 40. Why were you satisfied with the service of the district officer?**

Reason	Frequency	Percent
We received clear and complete answers to our question/questions	43	50
Service was quick; it did not take much of our time	15	17
Received service helped us resolve the problem	13	15
We had to deal with competent staff	10	12
Staff were distinctly polite	3	4
Other	1	1
Don't know	1	1

*Note: This question was asked only to those (8%) who have used this service for the last 2 years and were satisfied with it.*

**Table 41. Why were you unsatisfied with the service of the district officer?**

Reason	Frequency	Percent
Staff were not competent	1	50
Received answers did not help us resolve the problem	1	50

Note: This question was asked only to those (1%) who have used this service for the last 2 years and were not satisfied with it.

**Table 42. How satisfied or unsatisfied was your company with the service of the hotline 1551?**

Level	Frequency	Percent
Very unsatisfied	1	1
2	5	6
3	37	41
Very satisfied	45	51
Don't know	1	1

Note: This question was asked only to those (9%) who used this service for the last 2 years.

**Table 43. Why were you satisfied with the service of the hotline 1551?**

Reason	Frequency	Percent
We received clear and complete answers to our question/questions	41	50
Service was quick; it did not take much of our time	15	18
Received service helped us resolve the problem	23	28
We had to deal with competent staff	2	2
Staff were distinctly polite	1	1

Note: This question was asked only to those (8%) who used this service for the last 2 years and were satisfied with it.

**Table 44. Why were you unsatisfied with the service of the hotline 1551?**

Reason	Frequency	Percent
Staff were not competent	3	50
We could not receive answers to our question/questions	2	33
It took much time to receive the service	1	17

Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%. This question was asked only to those (1%) who used this service for the last 2 years and were not satisfied with it.

**Table 45. How satisfied our unsatisfied was your company with the service of [info@rs.ge](mailto:info@rs.ge)?**

Level	Frequency	Percent
Very unsatisfied	7	2
2	24	5
3	97	21
Very satisfied	335	72
Don't know	2	0.4
Refuse to answer	1	0.2

Note: This question was asked only to those (45%) who used this service for the last 2 years.

**Table 46. Why were you satisfied with the service of [info@rs.ge](mailto:info@rs.ge)?**

Reason	Frequency	Percent
We received clear and complete answers to our question/questions	178	41
Service was quick; it did not take much of our time	149	34
Received service helped us resolve the problem	77	18
We had to deal with competent staff	8	2
Staff were distinctly polite	5	1
Other	13	3
Don't know	1	0.2
Refuse to answer	1	0.2

Note: This question was asked only to those (42%) who used this service for the last 2 years and were satisfied with it.

**Table 47. Why were you unsatisfied with the service of [info@rs.ge](mailto:info@rs.ge)?**

Reason	Frequency	Percent
We could not receive answers to our question/questions	12	41
Staff were not competent	7	24
Technical problems occurred	4	14
Received answers did not help us resolve the problem	3	10
It took much time to receive the service	3	10
Other	3	10

Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%. This question was asked only to those (3%) who used this service for the last 2 years and were not satisfied with it.

**Table 48. For the last 2 years, have representatives of your company attended open door events about tax issues organized by the Revenue Service?**

Attendance	Frequency	Percent
Yes	320	31
No	648	63
I know nothing about open door events	45	4
Don't know	19	2
Refuse to answer	1	0.1

**Table 49. Normally, how complete or incomplete information do you receive at open door events organized by the Revenue Service?**

Completeness of information	Frequency	Percent
We do not receive complete information at all	5	2
2	2	0.6
3	12	4

4	44	14
5	53	17
6	45	14
We receive complete information	148	46
Don't know	10	3

Note: This question was asked only to those (31%) who attended open door events.

**Table 50. If the opportunity arises, will representatives of your company attend open door events about tax issues organized by the Revenue Service in the near future?**

Interest	Frequency	Percent
Yes	853	82
No	77	8
Don't know	101	10
Refuse to answer	2	.2

**Table 51. In 2013 and 2014, did your company request a refund for overpaid taxes?**

Refund request	Frequency	Percent
Yes	34	3
No	995	96
Don't know	4	1

**Table 52. In which month did you request the refund?**

Month	Frequency	Percent
2	3	14
3	1	5
4	2	9
5	3	14
6	1	5
7	3	14
8	1	5
9	1	5
10	2	9
11	2	9
12	3	14

Note: This question was asked to those (3%) who requested a refund in 2013 or 2014.

**Table 53. In which year did you request the refund?**

Year	Frequency	Percent
2013	11	33
2014	22	67

Note: This question was asked to those (3%) who requested a refund in 2013 or 2014.

**Table 54. Did you receive the requested amount?**

Receipt	Frequency	Percent
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Yes, fully	23	68
Yes, partially	2	6
No	7	21
We are waiting for the decision/refund	1	3
Refuse to answer	1	3

*Note: This question was asked to those (3%) who requested a refund in 2013 or 2014.*

**Table 55. If we speak about the last such case, in what period of time did you receive the refund –within three months after the request or in more than three months?**

Receipt	Frequency	Percent
Within three months after the request (or earlier)	20	80
In more than three months after the request	3	12
Don't know	2	8

*Note: This question was asked to those (2%) who requested a refund in 2013 or 2014 and received it.*

**Table 56. In your opinion, was the request for refund in that period (2013 and 2014) a reason for your company's cameral inspection?**

Opinion	Frequency	Percent
Yes	9	27
No	24	71
Refuse to answer	1	3

*Note: This question was asked to those (3%) who requested a refund in 2013 or 2014.*

**Table 57. In 2014, did any kind of tax inspection take place in your company?**

Inspection	Frequency	Percent
Yes	242	23
No	781	76
Don't know	7	0.7
Refuse to answer	2	0.3

**Table 58. During 2014, how often did field tax inspections take place in your company?<sup>20</sup>**

Rate of occurrence	Frequency	Percent
0	121	50
1	96	40
2	5	2
3	3	1
4	2	0.8
10	1	0.4
Don't know	5	2
Refuse to answer	8	3

*Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.*

<sup>20</sup> When they talk about more than one inspection per year, the field tax inspection (audit) might be misperceived and ongoing control measures might be meant (control purchase, inventory check, etc.)

**Table 59. Generally, how would you assess competence of inspectors during field inspections?**

Competence	Frequency	Percent
They were not competent at all	4	4
2	3	3
3	8	8
4	11	10
5	17	15
6	24	22
They were very competent	35	33
Don't know	2	2
Refuse to answer	3	3

*Note: This question was asked only to those (10%) in whose company field (cameral) tax inspection took place in 2014.*

**Table 60. During 2014, how often did planned field tax inspection take place in your company (when your company received notification from tax inspection bodies in advance)?**

Rate of occurrence	Frequency	Percent
0	143	59
1	77	32
2	3	1
3	2	.8
5	1	.4
Refuse to answer	7	3
Don't know	8	3

*Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.*

**Table 61. During 2014, how many times did control field tax inspection take place in your company (when your company did not receive notifications from tax inspection bodies in advance)?**

Rate of occurrence	Frequency	Percent
0	185	76
1	27	11
2	4	2
3	4	2
4	2	.8
5	3	
7	1	.4
Refuse to answer	5	2
Don't know	11	4

*Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.*

**Table 62. During 2014, how many times did the overall study (chronometry) take place in your company?**



Rate of occurrence	Frequency	Percent
0	205	85
1	11	5
2	2	.8
3	1	.4
8	1	.4
Refuse to answer	8	3
Don't know	14	6

*Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.*

**Table 63. During 2014, how many times did the control purchase of products/services take place in your company?**

Rate of occurrence	Frequency	Percent
0	133	55
1	29	12
2	16	7
3	11	5
4	5	2
5	11	5
6	3	1
7	1	.4
9	1	.4
10	3	1
11	1	.4
12	1	.4
15	2	.8
Refuse to answer	5	2
Don't know	20	8

*Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.*

**Table 64. During 2014, how many times did observation take place in your company?**

Rate of occurrence	Frequency	Percent
0	161	67
1	36	15
2	9	4
3	6	3
5	1	.4
6	2	.8
7	1	.4
Refuse to answer	5	2
Don't know	20	8

Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.

**Table 65. During 2014, how many times did inventory take place in your company?**

Rate of occurrence	Frequency	Percent
0	155	64
1	64	26
2	3	1
3	1	.4
4	1	.4
5	2	.8
6	1	.4
12	2	.8
Refuse to answer	5	2
Don't know	8	3

Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.

**Table 66. During 2014, how many times did control of the issuing rule of product overheads take place in your company?**

Rate of occurrence	Frequency	Percent
0	164	68
1	23	10
2	4	2
3	10	4
4	3	1
5	4	2
6	1	.4
8	3	1
10	4	2
12	2	.8
Refuse to answer	9	4
Don't know	15	6

Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.

**Table 67. During 2014, how many times did control of cash register usage rules observation take place in your company?**

Rate of occurrence	Frequency	Percent
0	125	52
1	35	15
2	15	6
3	9	4
4	6	3

5	12	5
6	1	.4
7	3	1
8	2	.8
10	4	2
12	4	2
15	3	1
Refuse to answer	7	3
Don't know	16	7

Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.

**Table 68. What other kind of inspection took place in your company in 2014?**

Type of inspection	Frequency	Percent
No response	1024	99
Audit	2	.2
Customs check of goods	1	.1
Food safety inspection	1	.1
Product inspection by NGOs	1	.1
Electricity inspection	1	.1
Monitoring	1	.1
Sanitary service	1	.1
General inspection of 6 years	1	.1

Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.

**Table 69. Overall, taking into consideration all inspections, how many days did tax control last in your company in 2014?**

Days	Frequency	Percent
No inspection took place	24	10
1 to 10	70	29
11 to 20	13	6
21 to 40	22	9
41 to 90	40	17
91 to 200	22	9
201 to 300	6	3
301 and more	3	1
Refuse to answer	2	.8
Don't know	40	16

Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.

**Table 70. In 2014, did it happen that the tax inspection body stopped inspection of your company?**

Occurrence	Frequency	Percent
No	205	85

Yes	30	12
Don't know	3	1
Refuse to answer	4	2

*Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.*

**Table 71. If we speak about 2014, how many times did it happen?**

Rate of occurrence	Frequency	Percent
1	19	63
2	3	10
3	4	13
4	2	7
5	1	3
Don't know	1	3

*Note: This question was asked only to those (3%) in whose company tax inspection took place in 2014 and where tax inspection was halted.*

**Table 72. What impact did stopping the inspection by the tax inspection body have on the work of your company?**

Impact	Frequency	Percent
No impact	27	90
Amount of fine increased because of time extension	2	7
Refuse to answer	1	3

*Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%. This question was asked only to those (3%) in whose company tax inspection took place in 2014 and where tax inspection was halted.*

**Table 73. Was your company closed temporarily, partially or fully sealed up by tax inspection bodies in 2014?**

Occurrence	Frequency	Percent
No	230	95
Yes	12	5

*Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.*

**Table 74. Did your company have payment obligations (mainly fines) imposed by tax inspection bodies in 2014?**

Occurrence	Frequency	Percent
No	123	51
Yes	113	47
Don't know	4	2
Refuse to answer	2	0.8

*Note: This question was asked only to those (23%) in whose company tax inspection took place in 2014.*

**Table 75. Total amount (Gel) of imposed fines in 2014**

Amount	Frequency	Percent
100 - 1000	30	26

1229 - 2400	7	6
2500 - 7000	17	15
10 000 - 20 000	20	18
25 000 - 150 000	21	19
170 000 - 340 000	5	4
600 000	1	.9
Don't know	3	3
Refuse to answer	9	8

*Note: This question was asked only to those (11%) in whose company tax inspection took place in 2014 and who had payment obligations imposed by tax inspection bodies.*

**Table 76. Did your company appeal against the fines imposed by tax inspection bodies in 2014?**

Occurrence	Frequency	Percent
No	66	58
Yes	47	42

*Note: This question was asked only to those (11%) in whose company tax inspection took place in 2014 and who had payment obligations imposed by tax inspection bodies.*

**Table 77. What was the main reason for not appealing against it?**

Reason	Frequency	Percent
The fine was imposed fairly	50	76
It had no point as we did not expect fair trial	7	11
Amount of fine was small	5	9
We did not know where and how to appeal	1	
We thought appealing against it would be expensive	1	1
Refuse to answer	1	1
Don't know	1	1

*Note: This question was asked only to those (6%) in whose company tax inspection took place in 2014, who had payment obligations imposed by tax inspection bodies and who did not appeal against them.*

**Table 78. In what period of time did the Council of Tax Appeals of the Revenue Service take decision about your complaint?**

Pace of decision-making	Frequency	Percent
In less than 1 month	28	60
From 1 to 3 months	10	21
In more than 3 months	5	11
Don't know	3	6
Refuse to answer	1	2

*Note: This question was asked only to those (5%) in whose company tax inspection took place in 2014, who had payment obligations imposed by tax inspection bodies and who appealed against them.*

**Table 79. Generally, how would you assess objectivity of the work of the Council of Tax Appeals of the Revenue Service?**

Objectivity	Frequency	Percent
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Not objective at all	5	11
2	1	2
3	1	3
4	8	17
5	6	13
6	8	17
Very objective	15	32
Don't know	1	2
Refuse to answer	2	3

*Note: This question was asked only to those (5%) in whose company tax inspection took place in 2014, who had payment obligations imposed by tax inspection bodies and who appealed against them.*

**Table 80. In your opinion, which ways of problem resolution do companies in Georgia use most often in case of disagreement between a company and a Georgian tax body?**

Path	Frequency	Percent
They appeal to the tax body	437	42
They appeal to court	436	42
They appeal to the Dispute Resolution Service of the Ministry of Finance	312	30
They approach tax ombudsman	38	4
They approach business ombudsman	22	2
They use personal connections / refer to their friends and relatives	18	2
They approach members of government	6	0.6
Other	35	4
Don't know	99	10
Refuse to answer	10	1

*Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.*

**Table 81. Did you have export related problems in 2014?**

Occurrence	Frequency	Percent
The company does not export anything	884	86
No	143	14
Yes	4	0.4
Don't know	2	0.2

**Table 82. What was the problem during export?**

Problems	Frequency	Percent
Length of procedures at the Georgian customs point	3	75
Length of procedures at the customs point of another country	2	50
Big number of documents needed for export at the Georgian customs point	1	25
Problem with the certificate of origin	1	25

*Note: This question was asked only to those (0.4%) who said they had problems during export. Companies could provide several answers to the question.*

**Table 83. Did you have import related problems in 2014?**

Occurrence	Frequency	Percent
The company does not import anything	629	61
No	386	37
Yes	17	2
Don't know	1	.1

**Table 84. What was the problem during import?**

Problems	Frequency	Percent
Length of procedures at the Georgian customs point	6	35
Problem related to the disorder of the electronic system	2	12
Big number of documents needed for import at the customs point of another country	1	6
Big number of documents needed for export at the Georgian customs point	1	6
Other	7	41

*Note: This question was only asked to companies (2%) who said they had problems during import. Companies could provide several answers to the question.*

**Table 85. In case of import or export, how many companies used services offered by the customs department?**

Services	Frequency	Percent
Filling in the import declaration by oneself	196	45
Pre-declaration by presenting documents to CCZ	195	45
Customs declaration using SMS service	177	42
Pre-declaration through Rs.ge	157	36
Declaration of goods in the CCZ without presenting them to customs control zone and finishing the clearance at the check point	121	28
Pre-declaration by presenting documents to service center	103	24
SMS service in case of registration certificate	100	23
Declaration at the place agreed with customs authorities, except of the check-point or CCZ	64	15
Reserving a place in the queue service on Rs.ge	63	15
Filling in the export declaration by oneself	55	13

*Note: Companies could provide several answer options. Therefore, the total percent of responses might exceed 100%.*

**Table 86. Does your company use the trade regime considered by the Deep and Comprehensive Free Trade Area Agreement with the European Union?**

Occurrence	Frequency	Percent
Yes	59	6
No	934	90
Don't know	38	4
Refuse to answer	2	0.2

**Table 87. Why do not you use the trade regime considered by the Agreement?**

<b>Reason</b>	<b>Frequency</b>	<b>Percent</b>
We know nothing about it	104	11
We do not comply with the terms of the Agreement	77	8
We are not interested in it	646	69
Don't know	63	7
Refuse to answer	33	4

**Table 88. Companies by regions**

<b>Regions</b>	<b>Frequency</b>	<b>Percent</b>
Tbilisi	593	57
Adjara	108	11
Imereti – Racha-Lechkhumi	78	8
Samegrelo-Svaneti	54	5
Shida Kartli	43	4
Samtskhe-Javakheti	39	4
Kvemo Kartli	36	4
Kakheti	34	3
Guria	34	3
Mtskheta-Mtianeti	14	1



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