

GEORGIA'S TAX SYSTEM: BETWEEN REFORM AND STABILITY

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ABSTRACT

The tax system is one of the primary instruments of economic stability and fiscal sustainability in modern states. Georgia's Tax Code defines the types of taxes, taxpayer categories, and the rules of taxation, enabling the state to maintain a balanced budget and create a business-friendly environment. Taxes serve not only fiscal purposes but also strategic economic, social, and regulatory functions, promoting economic policy implementation, social equity, and the country's investment attractiveness.

The Georgian tax system is divided into two main categories: state taxes and local taxes. State taxes, which constitute the central budget, include personal income tax, corporate profit tax, value-added tax (VAT), excise duties, and import duties. Local taxes, administered by municipal authorities, primarily consist of property tax and other local levies, ensuring financial independence for municipalities and enabling the funding of infrastructure, education, and social projects.

Personal income tax in Georgia is progressive: annual income up to 40,000 GEL is exempt, while income above this threshold is taxed at a 20% rate, ensuring social fairness and international competitiveness. The corporate profit tax adopts an innovative model, taxing only distributed profits at 15%, while reinvested profits remain untaxed, stimulating investment attraction and business development. VAT, as an indirect tax, represents a major source of budget revenue, with a standard rate of 18% and a reduced rate of 5% for hotel services, supporting tourism promotion. Excise duties, applied to specific harmful products, both increase budget revenues and support public health policies.

Among local taxes, property tax plays the primary role, though it creates revenue disparities between regions. The Georgian Revenue Service is responsible for tax administration, and the introduction of electronic declaration has simplified bureaucracy and increased transparency.

Compared internationally, Georgia's tax system is competitive due to its low rates, simple administration, and predictable environment. However, challenges remain in maintaining fiscal stability, reducing regional disparities, and ensuring fair revenue distribution. Recommendations include improving administrative processes, maintaining business incentives, refining the progressive scale of personal income tax, strengthening local finances, and increasing taxpayer awareness.

Overall, Georgia's tax system represents a stable, competitive, and innovative fiscal mechanism, and its further refinement will significantly support economic growth and the promotion of social equity.

Keywords: Tax System, Fiscal Stability, Corporate and Personal Income Tax, Tax Administration, Digitalization.

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INTRODUCTION

The tax system is one of the key instruments for ensuring economic stability and financial sustainability in a modern state. Through taxation, the government secures budget revenues, finances public services, and regulates economic processes in a targeted manner. For this reason, tax policy forms the core of the state's fiscal mechanism, serving both as a source of budget revenue and as a tool for strategic economic functions.

The Tax Code in force in Georgia defines the types of taxes, categories of taxpayers, and the rules for their imposition. Its purpose is to balance the stability of budget revenues while creating a favorable environment for business. The tax system also represents a major factor in the country's investment attractiveness, as a solvent, predictable, and transparent taxation model enhances confidence in the state's economic policy.

The relevance of this topic stems from the fact that tax policy is not only a financial instrument but also an expression of the state's social responsibility. Proper planning and administration of taxes determine the pace of economic development, ensure fairness in income distribution, and contribute to the improvement of citizens' welfare.

MAIN PART

General Characteristics of the Tax System

The tax system of Georgia is based on a dual structure: state taxes and local taxes.

The primary objectives of state taxes are to generate budget revenues, ensure fiscal stability, and implement economic policy. The main state taxes include: personal income tax, corporate profit tax, value-added tax (VAT), excise duties, and customs duties.^{3,4}

Local taxes are determined by municipal authorities and include property tax and other local levies. These taxes ensure the financial independence of local budgets and support the funding of infrastructure and social projects at the municipal level.^{5,6}

³ Ministry of Finance of Georgia. Tax Code of Georgia. Official Publication, Tbilisi. (2024).

⁴ M. Kvartadze, Tax Law. Tbilisi: Ivane Javakhishvili Tbilisi State University. (2022).

⁵ Ibid.

⁶ OECD. Corporate Taxation in Estonia: Reforms and Outcomes. OECD Publishing, Paris. (2021).

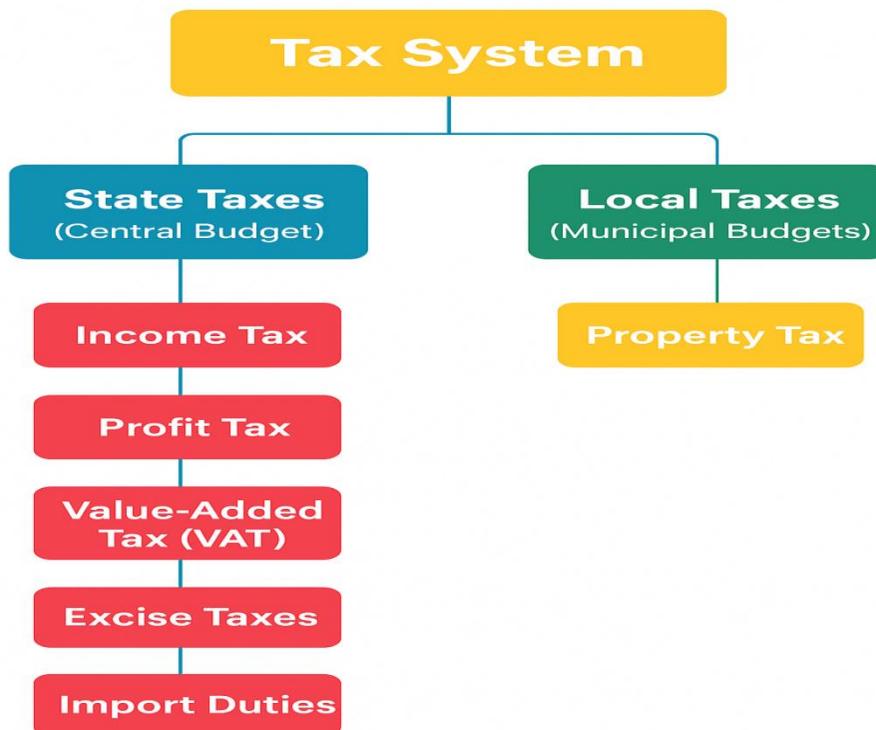


Diagram 1: Structure of the Tax System in Georgia

The main principles of tax policy are legality, fairness, neutrality, transparency, and the protection of taxpayers' rights. The Tax Code of Georgia provides for an electronic declaration system, which helps reduce bureaucratic barriers and creates a more predictable financial environment for businesses.⁷

I. In-Depth Analysis of State Taxes

Personal Income Tax

Personal income tax is a direct tax levied on the income of individuals. Under the current regulations in Georgia, the income tax is progressive: annual income up to 40,000 GEL falls within a safety threshold and is exempt, while income exceeding this threshold is taxed at a 20% rate. This ensures higher tax rates for high-income individuals and upholds the principle of social fairness.⁸

- Comparative Analysis: Georgia's maximum rate of 20% is among the lowest in Europe. For example, the progressive rate reaches up to 45% in France and Germany, Estonia applies a flat

⁷ International Monetary Fund (IMF). Georgia: Fiscal Policy Review. IMF Country Report. (2023).

⁸ Kvartadze, M. Tax Law. Tbilisi: Ivane Javakhishvili Tbilisi State University. (2022).

20% rate, and neighboring Bulgaria and Romania apply a flat 10% rate. Georgia's model combines a progressive element (40,000 GEL threshold) with a competitive maximum rate.

1. Corporate Profit Tax

Corporate profit tax applies to the financial results of legal entities. Georgia employs a so-called “distributed profit” model, similar to the Estonian system. The 15% tax on corporate profit is applied only when profits are distributed as dividends, while reinvested profits remain untaxed. This approach encourages business development and investment growth.⁹ ¹⁰

- **Comparative Analysis:** This model is considered a “trademark” of Georgia's tax system. The 15% rate on distributed profits is highly competitive. Estonia pioneered this model, and its success has served as an example for many countries, including Georgia. Compared to traditional systems (e.g., 21% federal rate in the USA, 30% in Germany), this approach significantly promotes capital accumulation and long-term business investments.

Structure of State Budget Revenues (2023)

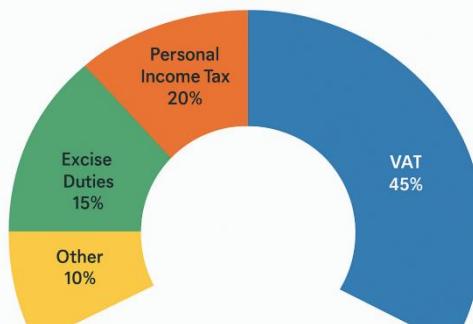


Diagram 2: Structure of State Budget Revenues (2023)

2. Value-Added Tax (VAT)

VAT is an indirect tax mechanism that applies to the value added at each stage of production and service provision. It ensures the stability of the tax system and represents a primary source of budget revenues. In Georgia, the standard VAT rate is 18%, while a reduced rate of 5% is applied to hotel services, which helps stimulate tourism.

- **Comparative Analysis:** The 18% VAT rate is relatively low compared to the European Union average (e.g., Germany 19%, France 20%, Poland 23%, Hungary 27%). This promotes price

⁹ International Monetary Fund (IMF). Tax Policy Assessment in Georgia: Fiscal Reforms and Growth Strategy. IMF Country Report. (2023).

¹⁰ Federal Ministry of Finance, Germany. German Tax Code. Berlin. (2022).

competitiveness and helps contain inflation. However, the high share of VAT in budget revenues (45%) indicates a strong dependence on consumption taxes, which can have a regressive effect, as lower-income citizens spend a larger proportion of their income on consumption.

3. Excise Duty

Excise duty is a targeted tax applied to specific products such as tobacco, alcohol, and fuel. Its objectives are twofold: to generate budget revenues and to support public health policies by discouraging the consumption of harmful products.¹¹

- Comparative Analysis: Excise rates in Georgia, particularly for alcohol and tobacco, are often lower than those in Western European countries. While this provides a comparative advantage for tourism, it poses challenges from a public health policy perspective. As Georgia continues its European integration, aligning excise rates with European standards is expected, creating an additional source of budget revenue.

II. Local Taxes

Local self-government bodies in Georgia are responsible for forming local budgets.

- Property Tax: This tax is based on the cadastral value of real estate. The rate varies from 0.05% to 1%, depending on property type and location.

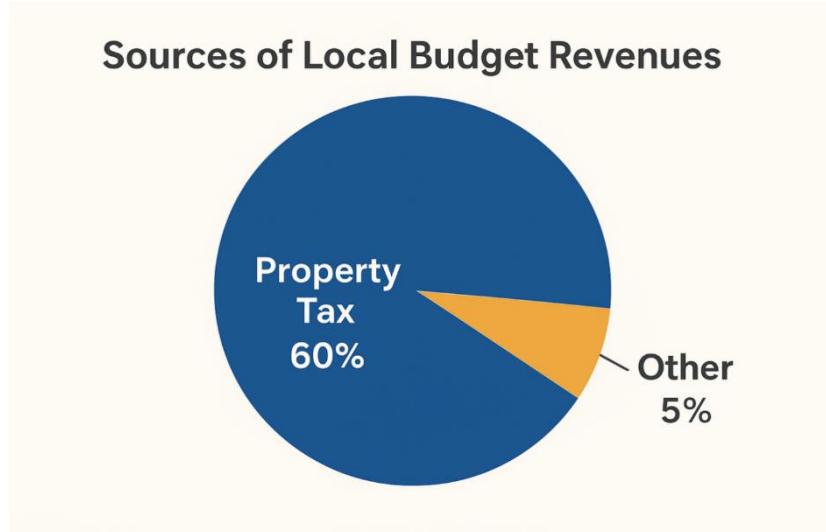


Diagram 3: Sources of Local Budget Revenues

¹¹ Z. Kobalia, Fiscal Policy and Economic Development in Georgia. Tbilisi: Economic Policy Institute. (2020).

These taxes ensure financial independence for municipalities, allowing local authorities to fund infrastructure, educational, and social projects.¹² ¹³ However, a strong reliance on property taxes creates disparities between regions, as urban areas (e.g., Tbilisi, Batumi) generate significantly higher revenues than rural municipalities.

III. Features of Tax Administration

The Revenue Service of Georgia is the central authority for tax administration. Its functions include tax collection, declaration verification, tax control, and taxpayer services.¹⁴

The introduction of electronic declarations and digitalization has significantly improved administrative efficiency. The platform rs.ge enables rapid and convenient submission of declarations, reduces bureaucratic barriers, and increases transparency. This facilitates a business-friendly environment and enhances trust.¹⁵ ¹⁶

Taxpayer rights under the Georgian Tax Code include access to information, filing complaints, and using legal safeguards.

VI. International Comparison and Competitiveness of Georgia's Tax System
Georgia's tax system is characterized by relatively low rates and simple administration, making it competitive in the region.

Comparison of Corporate Tax Rates

2024)

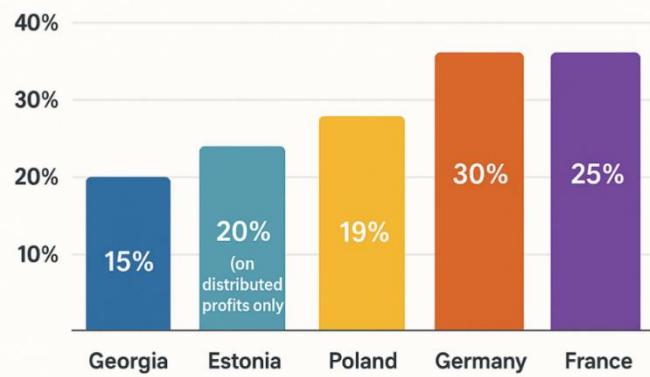


Diagram 4: Comparison of Corporate Tax Rates (2024) Georgia: 15% (on distributed profits only)

¹² M.Kvartadze, Tax Law. Tbilisi: Ivane Javakhishvili Tbilisi State University. (2022).

¹³ ECD. Corporate Taxation in Estonia: Reforms and Outcomes. OECD Publishing, Paris. (2021).

¹⁴ Ministry of Finance of Georgia. Tax Code of Georgia. Official Publication, Tbilisi. (2024).

¹⁵ World Bank. Doing Business 2023: Georgia. Washington, D.C. (2023).

¹⁶ International Monetary Fund (IMF). Georgia: Fiscal Policy Review. IMF Country Report. (2023).

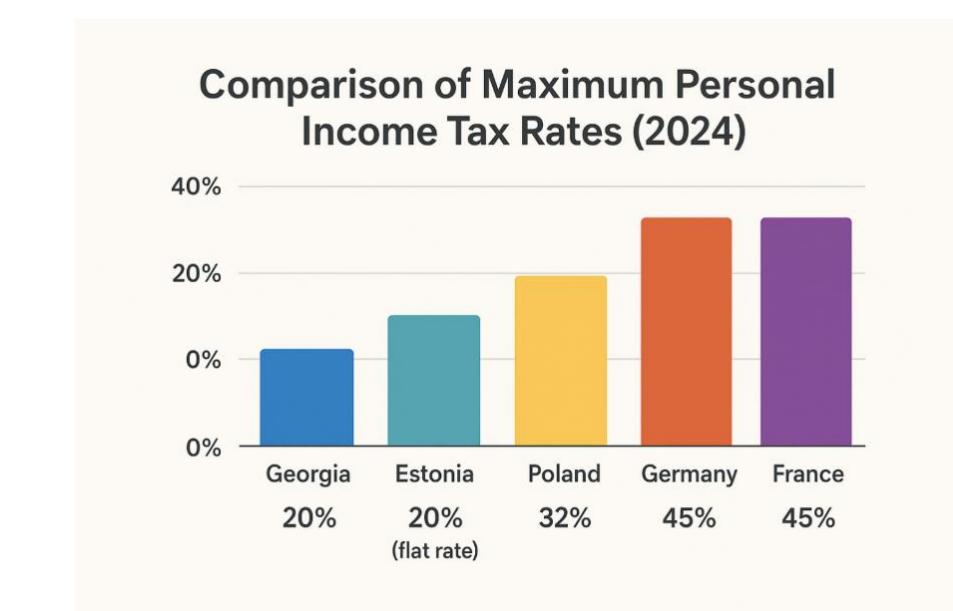


Diagram 5: Comparison of Maximum Personal Income Tax Rates (2024)

Germany: Features a complex system with high rates (up to 45% personal income tax), designed to maintain social balance and budget stability.¹⁷ Tax administration is highly detailed and regulated.

Estonia: Known for its “Estonian model” of corporate taxation, partially adopted by Georgia. This approach stimulates investment and supports high economic growth rates. Estonia is also a leader in digitalization.

Poland: Uses a combined model with support for small businesses (reduced 9% corporate tax rate in some sectors) and various tax incentives.¹⁸

Singapore: Often referenced as a model for Georgia. Despite a progressive personal income tax (22%), it offers an effective corporate tax rate of 17% with broad investment incentives.

Georgia’s experience demonstrates that low tax rates, simple administration, and electronic filing support the creation of favorable conditions for business development. However, challenges remain in enhancing international competitiveness and maintaining fiscal stability.^{19,20}

¹⁷ Federal Ministry of Finance, Germany. German Tax Code. Berlin. (2022).

¹⁸ International Monetary Fund (IMF). Georgia: Fiscal Policy Review. IMF Country Report. (2023).

¹⁹ International Monetary Fund (IMF). Georgia: Fiscal Policy Review. IMF Country Report. (2023).

²⁰ International Monetary Fund (IMF). Tax Policy Assessment in Georgia: Fiscal Reforms and Growth Strategy. IMF Country Report. (2023).

CONCLUSION

- Competitiveness and Stability:** Georgia's tax system represents a competitive and relatively stable fiscal mechanism, built on low rates and innovative approaches, such as the distributed-profit corporate tax model.
- Investment and Business Development:** Low and pragmatic rates (personal income and corporate taxes) promote investments and business growth, as evidenced by the increasing volume of foreign direct investments.
- Digitalization and Transparency:** The implementation of the electronic declaration system has simplified tax administration and increased transparency, reflected in World Bank rankings.
- Local Taxes and Fiscal Autonomy:** Local taxes ensure the financial independence of municipalities, although significant disparities in revenues between regions persist.

Challenges:

- Budget Dependence on VAT:** With over 45% of revenues coming from VAT, the budget is sensitive to economic cycles and the regressive nature of consumption taxes.
- Fiscal Stability:** Economic fluctuations and the predictability of tax revenues remain a challenge.
- Social Equity:** Progressive mechanisms need improvement to ensure fair income distribution, particularly to offset the regressive effects of VAT.
- Regional Disparities:** Strong reliance of local budgets on property taxes exacerbates development inequalities between regions.

Recommendations

- Administrative Simplification:** Continue digitalization and simplify reporting procedures for small businesses, including introducing a simplified tax regime for micro-enterprises.
- Maintaining and Enhancing Business Incentives:** Preserve competitive rates and further develop the “Estonian model” of corporate taxation with sector-specific incentives (e.g., IT, green energy).
- Strengthening Fiscal Stability and Equity:** Consider refining the progressive scale of personal income tax and introducing an additional top tier for very high incomes to reduce VAT dependency. Enhance predictability of tax revenues for more effective budget planning.
- Strengthening Local Finances:** Develop a balanced formula for local budget transfers to reduce regional disparities and ensure access to essential services in all municipalities.

5. Increasing Taxpayer Awareness: Strengthen advisory services and electronic platforms to improve taxpayer engagement and compliance.

Overall, Georgia's tax system provides the national economy with a stable and competitive fiscal instrument. Implementing these recommendations will further enhance its efficiency, fairness, and sustainability.

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