
Role of taxes in overcoming poverty

Natia Kakhniashvili

Doctor of Business Administration, TSU

Abstract

For the economic growth of Georgia, it is necessary for the tax system to be in accordance with the existing reality and long-term strategic goals of the country. The country's tax policy needs to be based on scientific foundations and practical examples existing in the history. The social problems existing in the country create additional challenges for determining the tax policy. Expenditures that are necessary to run social programs and at the same time to create in the country a strong economy, which has the ability to function effectively in a healthy environment, depends exactly on the proper functioning of the tax system.

In order to overcome the poverty, it is necessary to have a tax policy consistent with the country's strategic goals. Such policy allows, along with other economic instruments, to reduce the poverty levels and create a more equitable way of redistributing income among the population.

Keywords: Poverty, taxes, tax base, budget, economic growth.

Introduction

The challenges related to the perfection of the tax system are the most important issues of the economic development policy of Georgia. Economic growth of the country, achievement of sustainable economic development, development of production and solution of social problems faced by the country are possible only in the conditions of proper and effective tax system formation. (Kakhniashvili, Inclusive business model as one of the financial aspects of poverty reduction, 2019)

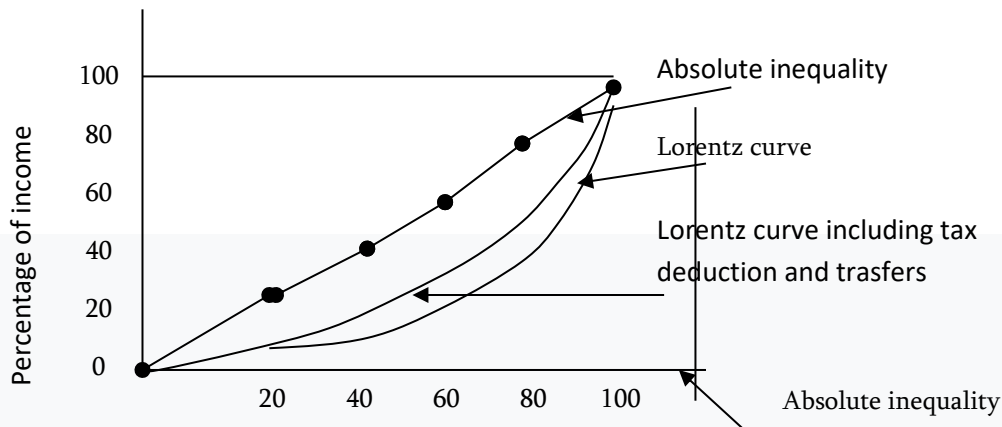
As it is known, the economic basis of the formation and development of the state is financial resources, which are mainly formed by taxes and their payment to the state budget. The proper and effective functioning of the country's economic system significantly depends on the tax policy implemented by the state and the proper functioning of the tax system. Taxes are a tool of the state to influence the economy. The issues related to the perfection of the tax system always are and will remain the most important key issue of the country's economic policy.

The determination of the amount of taxes and their types, taking into account the country's economic, social and living conditions, justness and efficiency, was the subject of discussion by famous thinkers of all times. The goal of any country is to create such a flexible and purposeful tax system, that will easily adapt to the changeable economic environment and be able to take into account the nature of the country's economic goals and objectives at a specific moment in time.

As a rule, the tax system should have a multi-purpose nature. On the one hand, it should be used to form the main part of the budget, and on the other hand, the tax system should be an incentive for entrepreneurial activity, attracting investments, expanding production, development and, accordingly, further increasing the tax base, in wake of the mentioned. That is, generally speaking, the tax system should be a mechanism promoting the economic development and stimulation.

In terms of low taxes, Georgia has been taking the leading place in the world in recent years, but what is the economic and political cost of this? It is also interesting that low taxes a priori do not indicate the prosperity of the country. The argument that low taxes promote rapid economic growth is not empirically confirmed (Besley & Persson, 2011).

The Nordic countries had high income tax rates for high earners since the very beginning of their development, but this did not prevent them from getting rich. On the other hand, lower taxes for the rich have a negative impact on economic equality. The example of Georgia clearly shows the dark sides of this approach. After 2006, in order to ease the tax burden and expand the taxable base, Georgia introduced a flat income tax and abolished social contributions. As a result of converting the progressive income tax into a flat income tax, the previous government of Georgia increased the tax rate for low-income earners from 12% to 20% and kept the same 20% income tax rate for taxing high-income earners. Partly because of this policy, inequality (GINI coefficient by total consumer spending) rose from 2006 to 2011. In 2003-2009, the largest part of the benefits received from the economic growth went to the affluent segment of the society. More precisely, the incomes and expenses of the upper fifth (20%) of Georgian society increased by 26%, while the lower fifth - by only 10%. In 2012, the new government introduced a universal health care system, which partially helped reduce inequality and poverty in the country. However, income inequality is still higher than the EU and CIS average. The degree of income inequality can be seen on the Lorenz curve, where the "share of families" is located on the abscissa axis, and the share of incomes - on the ordinate axis. Theoretically, an absolutely equal distribution of income is possible, which is shown by the bisector in the diagram. It shows that each given percentage of households receives a corresponding percentage of income: 20% of households receive 20% of income, 40% receive 40% of income, 60% receive a corresponding percentage, and so on. sh., which is marked on the bisector with corresponding points. The space between the bisector and the Lorenz curve indicates the degree of income inequality. The wider this space or gap between the straight line and the curve, the greater the degree of inequality. If the actual distribution of income were absolutely equal, then the bisector and Lorenz curve would coincide. The figure also shows the situation of absolute inequality, which would occur when 1% of households owned 100% of the income. In this case, the Lorenz curve would coincide with the ordinate axis.

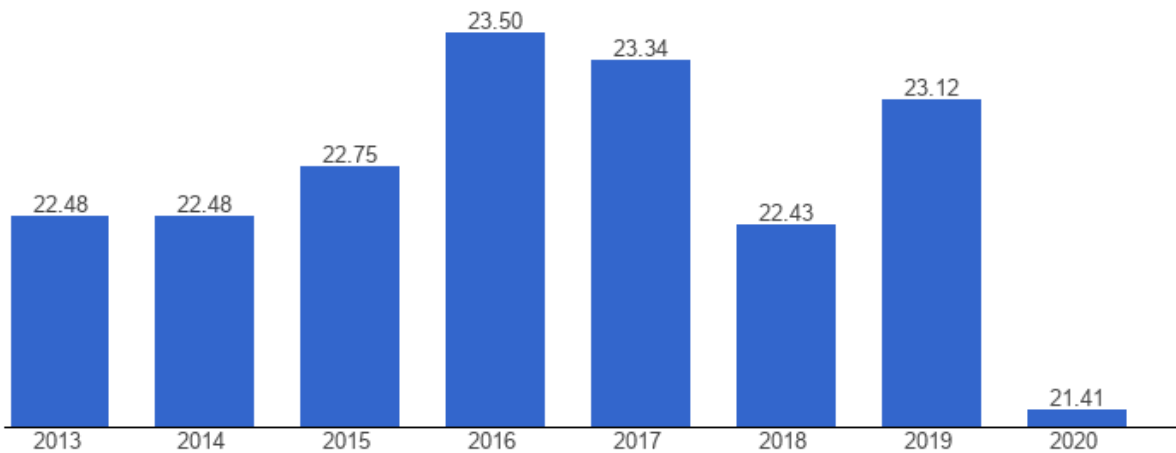


Source: Compiled by me

Percentage of household

It should be noted that along with the decrease in the ratio of tax revenues to GDP, the ratio of budget tax revenues to GDP increased, which is explained by the elimination of corruption in the tax system, the regulation of the budget reporting process, and the improvement of administration. For more visibility, graph is provided, which shows the dynamics of tax in recent years.

Tax revenue, percent of GDP



Source:

https://www.theglobaleconomy.com/Georgia/Tax_revenue/

It is important to consider the tax revenues of the consolidated budget of 2022, which in nominal terms amounted to 15,193.0 million GEL. Compared to the planned indicator of 2021, the forecast of tax revenues for 2022 increased by 2,271.0 million GEL (by 17.6%).

In relation to GDP, the tax revenues in 2022 amounted to 23.5%. The forecast of the tax revenues according to the types of taxes is as follows: the forecast rate of income tax was determined at 4,602.3 million GEL, including, the share of the state budget amounted to 4,262.1 million GEL, and the share of the autonomous republics was 340.2 million GEL; The income tax increased by 25.2% (by 926.7 million GEL) compared to the planned rate of 2021. The increase in the mentioned volume is caused by the expected excess as a result of the higher than planned economic growth in the current year, the nominal growth of the economy in the next year and the fiscal effects of the end of the tax benefits existing in the current year; The forecast rate of the profit tax was determined at 1,359.2 million GEL; Compared to the planned rate of 2021, the profit tax has increased by 42.9% (408.2 million GEL). The

increase in the mentioned volume is caused by the high volume of taxes to be paid by the financial sector. The profit tax paid by the financial sector in the current year is minimal, as the profit in the sector was small in 2020. The profit rate in the mentioned sector in the current year is quite high, which leads to an increase in the profit tax to be paid in 2023. The forecast rate of value added tax was determined at 6,616.9 million GEL, including, the state budget's share amounts to 5,359.7 million GEL, and the share of municipalities is 1,257.2 million GEL (VAT of the municipalities increases by 143.8 million GEL compared to 2021); Compared to the planned rate of 2021, the VAT in 2022 was increased by 12.9% (by 756.9 million GEL). The increase in the mentioned volume is caused by the expected excess as a result of the higher than planned economic growth in the current year and the fiscal effects of the nominal growth of the economy in the next year; The forecast rate of excise duty was determined in the amount of 1,876.9 million GEL, which is 76.9 million GEL higher than the planned rate of 2021; The forecast rate of import tax was determined at 84.1 million GEL, which is 4.1 million GEL more than the planned rate of 2021; It is important that the property tax forecast rate amounts to 524.2 million GEL; Compared to the planned rate of 2021, the property tax increases by 10.4% (49.2 million GEL). The mentioned increase is related to the expiry of the preferential period established for the tourism sector from the following year and the actual performance dynamics of the current year. The forecast rate of other incomes was determined at 129.4 million GEL, which is 49.4 million GEL more than the planned rate of the current year. According to the draft state budget of 2023, next year the government plans to collect up to 16 billion GEL in taxes. The tax revenue plan increases by 2.5 billion GEL compared to the figures of 2022. In particular, the forecast of tax revenues in 2023 according to types of taxes is as follows. Income tax - 5.1 billion GEL, 806.8 million GEL more than the approved plan for 2022; Profit tax - 1.9 billion GEL, exceeding the approved plan for 2022 by 325 million GEL; Value added tax - 6.4 billion GEL, compared to the 2022 plan, the increase exceeds 1 billion GEL. Excise tax - 2.1 billion GEL, an increase of 210 million GEL compared to the previous year; Import tax - 125 million GEL, an increase of 40 million GEL. The spending part of the consolidated budget of 2023 totals 24.3 billion GEL, and the economic growth is predicted within 5%. However, it is important that economic growth should lead to an increase in the standard of living of the population and a reduction in poverty.

The increase in state revenues was due to the lifting of restrictions related to the pandemic. The pandemic of COVID-19 and the strict restrictions related to it caused a heavy blow to the economy of Georgia, which directly affected the socio-economic situation of households. Loss of jobs and income during the pandemic turned out to be a particularly acute problem, which had an impoverishing effect. The percentage share of the population being below the absolute poverty line has increased. For example, according to official data, it amounted to 19.5% in 2019, and 21.3% in 2020. However, the reality is more difficult.

In response to the acute economic and social problems existing in Georgia, the regulation of taxation is precisely considered to be one of the levers for reducing the poverty level. It is true that the poor do not pay taxes - their pensions, allowances, allocations are not taxed, but if the poor person gets a job, no matter how small his remuneration is, after the abolition of the tax-free minimum (2015), he/she will be taxed with 20% income tax, which will further contribute to their impoverishment.

Therefore, it would be great to restore the non-taxable minimum, this will allow us not to tax low-income earners with income tax. The proportional tax system should be replaced by the progressive system and a differentiated scale of income tax should be established - less income - lower tax rate, more - more. It is also possible to cancel the VAT tax on consumer goods and services and impose it only on luxury items (for example, as in England). Charles Louis Montesquieu said: "Nothing requires so much wisdom and talent as to determine the part that is taken from the servants and the part that is left to them."

Thus, the tax system should ensure the fair distribution of incomes and create equality as far as is possible under conditions of justness.

Conclusion

At the modern stage, the tax system faces different challenges, whether it should be the proportional system in determining tax rates, or we should use the progressive system, from a general point of view, can be considered more fair. It is important, what part of the received incomes should remain with the private entrepreneur and what part should be collected as the tax.

In the leading European countries, we find the progressive system of taxation, which makes the use of this system even more expedient. The separate issue is how tax rates should be established so that people's incentives to increase their incomes are not reduced due to increase in the tax rate.

It is also important to take into account the Gini index. The data of this index is published by the World Bank, according to which a positive trend was observed in Georgia in 2011-2016. Nevertheless, the index indicator is quite high and we should try to further reduce it. In 2017, the numerical expression of this index increased again to 0.40 and reached the highest mark in Georgia, in the following years it is also characterized by a slight downward trend, which once again convinces us of the need to solve this problem.

It is necessary to have a non-taxable minimum, especially in the reality of Georgia, when the salary of not a small part of society is lower than the subsistence minimum existing in Europe or other developed countries. Collection of the same amount of incomes from the people with such low incomes and the rest of society is unfair.

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გადასახადების როლი სიღარიბის დაძლევაში

ნათია ხახნიაშვილი

აბსტრაქტი

საქართველოს ეკონომიკური ზრდისათვის აუცილებელია საგადასახადო სისტემა არსებულ რეალობასა და ქვეყნის გრძელვადიან სტრატეგიულ მიზნებთან შესაბამისობაში იყოს. საჭიროა ქვეყნის საგადასახადო პოლიტიკა ემყარებოდეს მეცნიერულ საფუძვლებსა და ისტორიაში არსებულ პრაქტიკულ მაგალითებს. ქვეყანაში არსებული სოციალური პრობლემები დამატებით გამოწვევებს ქმნის საგადასახადო პოლიტიკის განსაზღვრისათვის. ხარჯები, რომლებიც აუცილებელია სოციალური პროგრამების გასატარებლად და ამავდროულად ქვეყანაში მყარი ეკონომიკის შესაქმნელად, რომელსაც შესწევს უნარი ჯანსაღ გარემოში ეფექტურად იფუნქციონიროს, სწორედ საგადასახადო სისტემის გამართულად მუშაობაზეა დამოკიდებული.

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