

Georgia - World Champion in Taxes?

Column by Bjorn Tarras-Wahlberg for *Swedish Daily*, July 2015

Georgia is pioneering and has made a number of changes in their tax system which have strengthened the economy of the country and increased the actual tax intake as well, writes Bjorn Tarras-Wahlberg, former president of the Swedish Taxpayers Association and one of the founders of the World Taxpayers Associations, which he led for 26 years.

The number of taxes have been reduced from 22 to six. The progressive income tax has been abolished. A low flat tax has been introduced. The social security taxes have been abolished and added to the regular income tax. And a new rule has been introduced in the basic law that increased taxes have to be approved in a popular vote.

Sweden now has the fifth highest tax pressure in the world, but we still have the highest taxes on salaries. Which country has the best and most democratic tax system?

In my mind the liberal and free enterprise oriented country Georgia on the eastern coast of the Black Sea. Georgia has 4.5 million inhabitants and was badly hurt when Russia in 2008 grabbed 20% of the country's land area.

Georgia has successfully abolished regulations, taxes and corruption. 70 reforms were introduced between the years 2004 and 2007. According to the World Bank no other country has made such big changes in a short time. In the bank's annual index of the simplicity to do business Georgia has climbed from being no 147 to being no 11.

Instrumental in these big changes is the former minister of economy, Kakha Bendukidze. He totally renovated Georgia under the leadership of president Mikheil Saakashvili and their "Revolution of Roses." The staff and the department of the economy worked around the clock to produce the necessary information for radical, new and liberal laws.

The taxes on business were previously so high that it was impossible for companies to survive. Thus corruption grew vastly as a means to secure the survival of businesses.

Through abolishing 800 different permissions and a complex customs process and a large number of different taxes corruption was also abolished.

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In 2005 the progressive income tax was replaced with a low, proportional income tax of 12 percent. The same year the social security taxes were lowered from 33 to 20 percent. And the following year the VAT tax was reduced from 29 to 18 percent.

In 2008 a sensational change was made. The flat income tax and the social security tax (12 + 20 %) were merged into one tax. And the total was reduced from 32 to 25 percent. And the same year corporate taxes were reduced from 20 to 15 percent. The following year taxes on interest and dividends were lowered from 10 to 5 percent. In 2009 the flat tax was reduced to the current level of 20 percent.

Through this Georgia was the first country in the world to show the social security taxes openly – a big step to make the tax system more transparent and democratic!

Most Swedes do not realize that the social security taxes (paid by the employer) are actually higher than their income tax. Because of this we should, like Georgia, add the social security taxes and the income tax together so the tax payer will understand how much taxes they actually are paying on their income.

Referendum on tax increases

It is also amazing that the new basic law for the country stipulates that a popular referendum is needed to increase taxes. The people – not the politicians – decide if taxes should be increased or not.

Georgia today has a tax on income of 20%, including social security taxes, a VAT of 18 percent, a corporate tax of 15% and a tax on interest and dividends of 5 percent. There is no capital gains tax, no wealth tax and no inheritance tax, gift tax or registration / stamp duty tax.

To abolish 16 taxes is in itself an achievement. But just as impressive is that the remaining six taxes all have been reduced. And the total effect has been one of increased tax income and a tripling of the state budget as an effect of a growth in the total economy of around 10 percent per year during several years.

Lowered taxes are obviously good for the economy of the country and can also mean higher total tax intake. Georgia is a good example of this as well as many other nations which have introduced a flat income tax with increased tax intake as a by product.

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