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TECHNICAL ASSESSMENT REPORT—TAX ADMINISTRATION DIAGNOSTIC ASSESSMENT TOOL—PERFORMANCE ASSESSMENT REPORT

This Technical Assistance paper on Georgia was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in July 2016.

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TADAT
TAX ADMINISTRATION DIAGNOSTIC ASSESSMENT TOOL

Georgia

Tax Administration Diagnostic Assessment Tool—Performance Assessment Report

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Fiscal Affairs Department

July 2016

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ABBREVIATIONS AND ACRONYMS

CIT	Corporate income tax
CRM	Compliance risk management
DG	Director General
DDG	Deputy Director General
GEL	Georgian Lari
GRS	Georgia Revenue Service
G4G	Governing for Growth in Georgia
HQ	Headquarters
IA	Internal audit
ID	National identity number
IT	Information technology
IFC	International Finance Corporation
LTO	Large taxpayer office
MoF	Ministry of Finance
NAPR	National Agency for Public Registry
PAYE	Pay-as-you-earn
PIT	Personal income tax
POA	Performance outcome area
PFM	Public financial management
SAO	State Audit Office
SSC	Social security contribution
TAD	Tax Administration Department
TADAT	Tax Administration Diagnostic Assessment Tool
TRMD	Tax Risk Management Division
USAID	United States Agency for International Development
VAT	Value-added tax

PREFACE

Following a request from Mr. Giorgi Tabuashvili, First Deputy Minister of Finance and Director General (DG) of the Georgia Revenue Service (GRS), an assessment of the system of tax administration in Georgia was undertaken during the period of May 25–June 9, 2016 using the Tax Administration Diagnostic Assessment Tool (TADAT). The assessment sets a baseline of tax administration performance that can be used to determine reform priorities and, with subsequent repeat assessments, highlight reform achievements.

The assessment was undertaken by an IMF team comprising Ms. Lucilla McLaughlin (Mission Chief), Messrs. Vincent de Paul Koukpaizan (both Fiscal Affairs Department), Gary Andrews, and Graham Harrison (both IMF external experts). The assessment was funded by the IMF administered Tax Policy and Administration Topical Trust Fund.

The team met with Mr. Tabuashvili and the Deputy Directors General (DDGs) Messrs. Vakhtang Lashkaradze, Irakli Shartava, and Mamuka Terashvili, as well as many other managers and staff from the GRS. The team expresses its appreciation for the authorities' very cooperative participation in this assessment. In particular, we would like to thank Ms. Mariam Margiani, who did an excellent job of facilitating the assessment's work.

A draft performance assessment report was presented to the GRS at the close of the in-country assessment. Written comments since received from the GRS on the draft report have been considered by the assessment team and, as appropriate, reflected in this final version of the report, which has been reviewed in IMF headquarters (HQ) and the TADAT Secretariat.

EXECUTIVE SUMMARY

This assessment captures and measures critical outcomes of the GRS tax administration against international good practice, based on evidence made available to the assessment team.

Viewed overall, the GRS is making good progress in implementing modern tax administration practices. Particularly evident is the innovative use of new technology in modernizing current operations, and in establishing a platform for embracing future opportunities. Absent, however, is an effective GRS-wide management information and reporting system by which the senior management team can monitor the performance of key operations and strategic initiatives.

As evident in the summary of relative strengths and weaknesses below, international good practices are already in place in a number of areas (e.g., taxpayer services and dispute resolutions). For others, implementation of good practice is progressing (e.g., risk management), or—in some cases—is yet to be adopted. An example of the latter is the value-added tax (VAT) refund processing, where fundamental design and operational weaknesses are undermining the efficient operation of the VAT, with implications for both government and the business sector.

These are the identified main strengths and weaknesses of the GRS tax administration:

Strengths

- Extensive use of modern information technology (IT) applications (taxpayer portal, e-filing, e-payment, tablets for district tax officers).
- Good taxpayer service record (call center, service centers, 'privé' tax advisor program).
- Willingness to embrace innovation.
- Effective advance payment system.
- Emerging focus on compliance risk assessment and management.
- Good engagement with taxpayers (public rulings, open door days, student education program).
- Simplified systems for small taxpayers.
- Accessible and independent dispute resolution mechanism.

Weaknesses

- Organization-wide weaknesses in operational planning and performance monitoring.
- Lack of control of the tax register.
- Low filing compliance rates with inadequate follow-up of nonfilers.
- Serious flaws in the design and operation of the VAT refund system with consequent accumulation of unpaid VAT credits.
- Very restricted access to bank account data.
- Large and growing stock of old and uncollectible arrears.
- No focus on institutional risks.
- General failure to evaluate impact of initiatives (satisfaction surveys, impact of audit and compliance mitigation programs).

Many of the weaknesses identified in this assessment can be rectified relatively quickly, and in some areas, small changes can make a big difference to outcomes. This assessment is intended to establish a performance baseline against which the success of these and other modernization initiatives may be assessed over the next two–five years.

Table 1 provides a summary of performance scores, and Figure 1 a graphical snapshot of the distribution of scores. The scoring is structured around the TADAT framework's 9 performance outcome areas (POAs) and 27 high level indicators critical to tax administration performance. An 'ABCD' scale is used to score each indicator, with 'A' representing the highest level of performance and 'D' the lowest.

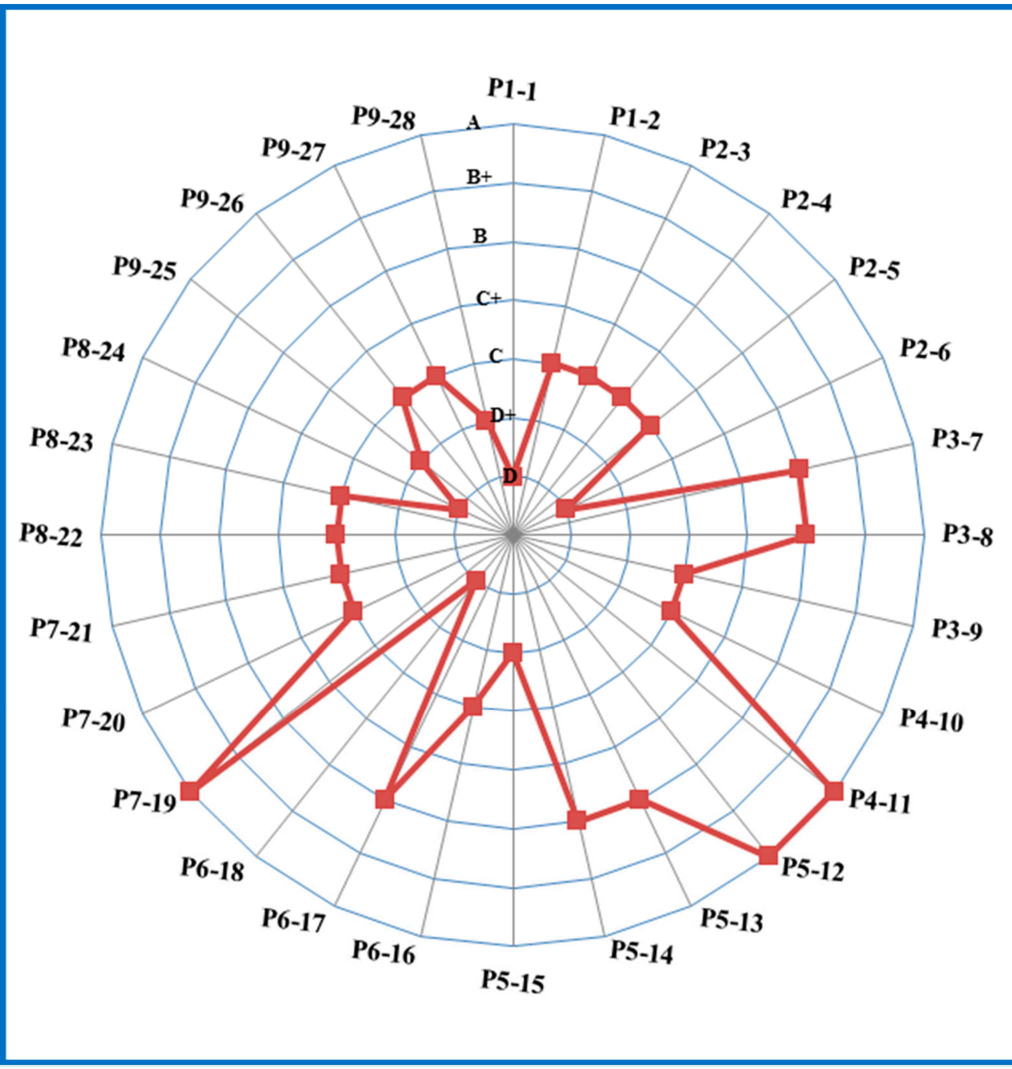
Table 1. Georgia: Summary of TADAT Performance Assessment

INDICATOR	Score 2016	SUMMARY EXLPANATION OF ASSESSMENT
POA 1: Integrity of the Registered Taxpayer Base		
P1-1. Accurate and reliable taxpayer information.	D	The tax register, based on a register held by the National Agency for Public Registry (NAPR), is not adequate for tax administration.
P1-2. Knowledge of the potential taxpayer base.	C	Detecting unregistered taxpayers is not a planned activity and there is no system to enforce registration.
POA 2: Effective Risk Management		
P2-3. Identification, assessment, ranking, and quantification of compliance risks.	C	Good work is being done on compliance risk assessment, but it is in a developmental stage and is hampered by lack of bank account data.
P2-4. Mitigation of risks through a compliance improvement plan.	C	The compliance improvement plan is not fully resourced or monitored.
P2-5. Monitoring and evaluation of compliance risk mitigation activities.	C	Governance arrangements are in place for approving compliance risk mitigation strategies, but outcomes of mitigation actions are not generally evaluated.
P2-6. Identification, assessment, and mitigation of institutional risks.	D	There is no evidence that institutional risks have been considered and there is no business continuity plan in place.
POA 3: Supporting Voluntary Compliance		
P3-7. Scope, currency, and accessibility of information.	B	A wide range of information is provided through easily accessible channels, but there are some problems with call center line capacity .
P3-8. Scope of initiatives to reduce taxpayer compliance costs.	B	Important steps have been taken to reduce taxpayer compliance costs; systematic review of form design is absent.

INDICATOR	Score 2016	SUMMARY EXLPANATION OF ASSESSMENT
P3-9. Obtaining taxpayer feedback on products and services.	C	Some taxpayer feedback is obtained but it is not systematically gathered, analyzed and acted upon.
POA 4: Timely Filing of Tax Declarations		
P4-10. On-time filing rate.	C	On-time filing rates are low for all core taxes.
P4-11. Use of electronic filing facilities.	A	More than 99 percent of declarations received are filed electronically.
POA 5: Timely Payment of Taxes		
P5-12. Use of electronic payment methods.	A	All core taxes are paid electronically.
P5-13. Use of efficient collection systems.	B	Effective use is made of withholding and advance payment systems, but third party reporting is not optimized.
P5-14. Timeliness of payments.	B	The on-time payment rate is high in respect of filed VAT declarations.
P5-15. Stock and flow of tax arrears.	D+	The burden of old uncollectible debt, with accumulating interest charges, militates against collection efficiency.
POA 6: Accurate Reporting in Declarations		
P6-16. Scope of verification actions taken to detect and deter inaccurate reporting.	C	Audit and verification activities are wide-ranging, but not well planned or evaluated.
P6-17. Extent of proactive initiatives to encourage accurate reporting.	B	A good system of public rulings (case studies) is in place to foster accurate reporting, but no attempts have been made to develop cooperative compliance approaches with large taxpayers.
P6-18. Monitoring the extent of inaccurate reporting.	D	The GRS does not monitor the extent of revenue losses from inaccurate reporting.
POA 7: Effective Tax Dispute Resolution		
P7-19. Existence of an independent, workable, and graduated dispute resolution process.	A	A graduated and independent dispute resolution mechanism is widely used.
P7-20. Time taken to resolve disputes.	C	The dispute resolution process is too slow.
P7-21. Degree to which dispute outcomes are acted upon.	C	The outcome of dispute cases is monitored, but not all material outcomes are systematically analyzed and acted upon.
POA 8: Efficient Revenue Management		

INDICATOR	Score 2016	SUMMARY EXLPANATION OF ASSESSMENT
P8-22. Contribution to government tax revenue forecasting process.	C	The GRS is in the early stages of developing a revenue monitoring and analysis capability.
P8-23. Adequacy of the tax revenue accounting system.	C	The automated tax revenue accounting system provides essential functionality, but has not undergone a full, system-based audit.
P8-24. Adequacy of tax refund processing	D	Fundamental flaws in the design and operation of the refund system undermine the integrity of the VAT.
POA 9: Accountability and Transparency		
P9-25. Internal assurance mechanisms.	D+	Staff integrity assurance mechanisms are fragmented and the internal audit function needs to be developed.
P9-26. External oversight of the tax administration.	C	There is a degree of external oversight and investigation of wrongdoing, but the organizational response is not cohesive.
P9-27. Public perception of integrity.	C	Independent and wide-ranging perception studies (not initiated by GRS) have been done at four-year intervals.
P9-28. Publication of activities, results, and plans.	D+	Delay in publishing annual reports and weak operational planning processes cause low scores for transparency.

Figure 1. Georgia: Distribution of Performance Scores



Indicator	Score
P1-1	D
P1-2	C
P2-3	C
P2-4	C
P2-5	C
P2-6	D
P3-7	B
P3-8	B
P3-9	C
P4-10	C
P4-11	A
P5-12	A
P5-13	B
P5-14	B
P5-15	D+
P6-16	C
P6-17	B
P6-18	D
P7-19	A
P7-20	C
P7-21	C
P8-22	C
P8-23	C
P8-24	D
P9-25	D+
P9-26	C
P9-27	C
P9-28	D+

I. INTRODUCTION

This report documents the results of a TADAT assessment conducted by an IMF mission to Georgia during the period of May 25–June 9, 2016 and subsequently reviewed in IMF HQ and by the TADAT Secretariat. The report is structured around the TADAT framework of 9 POAs and 27 high level indicators critical to tax administration performance that are linked to the POAs. Forty-seven measurement dimensions are taken into account in arriving at each indicator score. A four-point 'ABCD' scale is used to score each dimension and indicator:

- 'A' denotes performance that meets or exceeds international good practice. In this regard, for TADAT purposes, a good practice is taken to be a tested and proven approach applied by a majority of leading tax administrations. It should be noted, however, that for a process to be considered 'good practice,' it does not need to be at the forefront or vanguard of technological and other developments. Given the dynamic nature of tax administration, the good practices described throughout the field guide can be expected to evolve over time as technology advances and innovative approaches are tested and gain wide acceptance.

- 'B' represents sound performance (i.e., a healthy level of performance but a rung below international good practice).

- 'C' means weak performance relative to international good practice.

- 'D' denotes inadequate performance, and is applied when the requirements for a 'C' rating or higher are not met. Furthermore, a 'D' score is given in certain situations where there is insufficient information available to assessors to determine and score the level of performance. For example, where a tax administration is unable to produce basic numerical data for purposes of assessing operational performance (e.g., in areas of filing, payment, and refund processing) a 'D' score is given. The underlying rationale is that the inability of the tax administration to provide the required data is indicative of deficiencies in its management information systems and performance monitoring practices.

For further details on the TADAT framework, see Attachment I.

Some points to note about the TADAT diagnostic approach are the following:

- TADAT assesses the performance outcomes achieved in the administration of the major direct and indirect taxes critical to central government revenues, specifically corporate income tax (CIT), personal income tax (PIT), VAT, and pay-as-you-earn (PAYE) amounts withheld by employers (which, strictly speaking, are remittances of PIT). By assessing outcomes in relation to administration of these core taxes, a picture can be developed of the relative strengths and weaknesses of a country's tax administration.

- TADAT assessments are evidence based (see Attachment V for the sources of evidence applicable to the assessment of Georgia).
- TADAT is not designed to assess special tax regimes, such as those applying in the natural resource sector, nor does it assess customs administration.
- TADAT provides an assessment within the existing revenue policy framework in a country, with assessments highlighting performance issues that may be best dealt with by a mix of administrative and policy responses.

The aim of TADAT is to provide an objective assessment of the health of key components of the system of tax administration, the extent of reform required, and the relative priorities for attention. TADAT assessments are particularly helpful in:

- identifying the relative strengths and weaknesses in tax administration;
- facilitating a shared view among all stakeholders (country authorities, international organizations, donor countries, and technical assistance providers);
- setting the reform agenda (objectives, priorities, reform initiatives, and implementation sequencing);
- facilitating management and coordination of external support for reforms, and achieving faster and more efficient implementation; and
- monitoring and evaluating reform progress by way of subsequent repeat assessments.

II. COUNTRY BACKGROUND INFORMATION

A. Country Profile

General background information on Georgia and the environment in which its tax system operates are provided in the country snapshot in Attachment II.

B. Data Tables

Numerical data gathered from the authorities and used in this TADAT performance assessment is contained in the tables comprising Attachment III.

C. Economic Situation

Despite global and regional challenges, Georgia's economy has demonstrated considerable resilience. The main strengths of the economy include a wealth of agricultural and mineral resources, a strategic geographic position (transit point for oil and gas from the Caspian Sea), and a democratic political system. Real GDP grew by an estimated 2.8 percent in 2015, down from 4.6 percent in 2014, as slowdown and currency depreciations in its main trading partners have slowed investment growth and lowered manufacturing, exports, and remittances. Growth is expected to reach 3.4 percent in 2016, before rising to around 5 percent in 2017.[1] Rebound in growth is expected to be driven by domestic demand, reflecting fiscal support for consumption and investment. The inflation rate has remained relatively low since 2012, at 5 percent or lower.[2]

Severe external shocks create downside risks. Georgia's high current account deficit (11.7 percent of GDP in 2015)[3] and external debt create large gross external financing needs. While funding has been stable, monetary policy normalization in advanced countries could put this at risk. Exports and remittances could suffer if Euro area growth remains low. External financing shortfalls could lead to depreciation of the Georgian Lari (GEL), which might undermine stability, given high loan dollarization and foreign currency denominated external debt. On the domestic side, there are risks that the 2016 parliamentary elections could make politicians less ambitious in implementing economic reform.

Despite these downside risks, there are also opportunities for stronger economic performance. Georgia's business environment is attractive, by both world and regional standards, and the Deep and Comprehensive Free Trade Area, agreed with the EU in 2014, creates new investment opportunities. Success in making the democratic transition may also prove attractive to foreign investors. Lower oil prices should help reduce the current account deficit and inflation, and boost growth.

D. Main Taxes

The main national taxes in Georgia collectively account for 25.2 percent of GDP. The system for collecting CIT, which is charged at a rate of 15 percent, and accounts for 3.23 percent of GDP, is scheduled to be changed in January, 2017. The new system will not charge CIT on corporate profits, but only on distributions of corporate profits. The contributions to GDP from PIT and VAT are 7 percent and 11 percent respectively.

Further details on tax revenue collections are provided in Table 1 of Attachment III.

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[1] IMF staff estimates.

[2] IMF Program Note on Georgia; April 2016. https://www.imf.org/external/country/GEO/index.htm.

[3] IMF staff estimates.

E. Institutional Framework

The GRS is a legal entity established within the Ministry of Finance (MoF), responsible for the administration of both tax and customs. The legal framework, which defines the roles, rights, and obligations of the tax authority, is set out in Chapters VI and VII of the Tax Code of Georgia. The day-to-day administration of the GRS is the responsibility of the DG, who is currently also First Deputy Minister of Finance. Three DDGs assist the DG in managing the overall operations of 12 departments. The GRS does not have a full-service regional structure, but there are 16 service centers, 4 in Tbilisi and 12 in the regions. There are also 16 district offices, 6 in Tbilisi and 10 in the regions. In all there are 3,426 employees, including 1,472 in customs.

An organizational chart of the tax administration is provided in Attachment IV.

F. International Information Exchange

Georgia is a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes. A Phase 1 peer review assessed Georgia's legal and regulatory framework for transparency and exchange of information in 2014. A Phase 2 peer review (on exchange of information in practice) published by the Global Forum in March 2016[4] found that Georgia was largely compliant with its commitments, and had taken action to address a key recommendation made in the Phase 1 report regarding powers to access banking information.

Georgia has entered into double taxation agreements with 54 countries, including the Baltic States, Estonia, Latvia, Lithuania, other Baltic rim countries such as Denmark and Finland, and other EU-member states like the Austria, Italy, the Netherlands, and the United Kingdom. Georgia is also signatory of the Organisation for Economic Co-operation and Development Convention on Mutual Administrative Assistance in Tax Matters.

III. ASSESSMENT OF PERFORMANCE OUTCOME AREAS

A. POA 1: Integrity of the Registered Taxpayer Base

A fundamental initial step in administering taxes is taxpayer registration and numbering. Tax administrations must compile and maintain a complete database of businesses and individuals that are required by law to register; these will include taxpayers in their own right, as well as others such as employers with PAYE withholding responsibilities. Registration and numbering of each taxpayer underpins key administrative processes associated with filing, payment, assessment, and collection.

[4] http://www.oecd.org/countries/georgia/global-forum-on-transparency-and-exchange-of-information-for-tax-purposes-peer-reviews-georgia-2016-9789264250772-en.htm.

Two performance indicators are used to assess POA 1:

- P1-1—Accurate and reliable taxpayer information.
- P1-2—Knowledge of the potential taxpayer base.

P1-1: Accurate and reliable taxpayer information

For this indicator two measurement dimensions assess (1) the adequacy of information held in the tax administration's registration database and the extent to which it supports effective interactions with taxpayers and tax intermediaries (i.e., tax advisors and accountants); and (2) the accuracy of information held in the database. Assessed scores are shown in Table 2 followed by an explanation of reasons underlying the assessment.

Table 2. P1-1 Assessment

<table>
<tr><th>Measurement Dimensions</th><th>Scoring Method</th><th colspan="2">Score 2016</th></tr>
<tr><td>P1-1-1. The adequacy of information held in respect of registered taxpayers and the extent to which the registration database supports effective interactions with taxpayers and tax intermediaries.</td><td rowspan="2">M1</td><td>D</td><td rowspan="2">D</td></tr>
<tr><td>P1-1-2. The accuracy of information held in the registration database.</td><td>C</td></tr>
</table>

The tax register, based on a register held by the NAPR, is not adequate for tax administration, because it does not record core taxpayer obligations. All businesses in Georgia are obliged to register with the NAPR, whose register is held in a centralized database. The database contains the name, address, contact details, and date of birth or incorporation, but not generally the business sector. Each legal entity or registering individual born outside Georgia receives a unique nine-digit tax identification number. Georgian nationals are registered with their unique 11-digit national identity number (ID), assigned at birth by the Civil Registry. While links to related entities can be traced using a director's 11-digit ID, the NAPR does not make any checks on previous business registrations. The GRS register relies fully on the NAPR database and does not record tax type obligations, apart from VAT. Crucially, the system does not record filing or payment obligations for CIT, PIT, or PAYE Withholding, so that it is of limited benefit in supporting filing enforcement campaigns, and lack of segmentation by business sector limits its usefulness in compliance risk management activities.

Because responsibility for initial registration rests with NAPR, the GRS does not take full control of the tax register and does not use it for management information. Data in the NAPR register (such as change of address or cessation of business) can only be amended at the request of the taxpayer (for a fee), so the register is unreliable. The GRS has developed workarounds: a sub-register for VAT (but not for other tax types), and an electronic file where they can note taxpayer details like changes of address and contact details. Links to the taxpayer account give frontline staff a whole-of-taxpayer view of charges and payments across tax types. The register is not reliable enough to be used routinely to provide registration-related management information.

Recognizing that there were many inaccuracies and duplications, a register cleansing exercise was carried out, but register maintenance is not an ongoing program. A substantial, documented initiative to cleanse the register was undertaken in 2015, through which almost 500,000 duplicated, once-off, or defunct registrations were identified and removed. The GRS register at December 31, 2015 is consequently a good deal more reliable than in previous years, but doubts remain about the accuracy of the numbers of active taxpayers. Maintaining accuracy of the register has not been regarded as a GRS priority, and register maintenance is not an ongoing program.

P1-2: Knowledge of the potential taxpayer base

This indicator measures the extent of tax administration efforts to detect unregistered businesses and individuals. The assessed score is shown in Table 3 followed by an explanation of reasons underlying the assessment.

Table 3. P1-2 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P1-2. The extent of initiatives to detect businesses and individuals who are required to register but fail to do so.	M1	C

Detecting unregistered businesses is part of the work of the tax monitoring department, but there is no evidence that this is a planned activity. Officers from the tax monitoring department make unannounced visits to businesses to detect fiscal cash register offences and stop goods vehicles to detect goods in transit without correct documentation. In the course of their work they often detect unregistered businesses, and a table produced to the assessment team shows almost 1,200 such detections in the first four months of 2016. Detected offences are referred to the service department for follow up, but as registration can only be effected through the NAPR with the taxpayer’s consent, and there is no method for compulsory registration, it is not clear how many taxpayers were actually added to the register as a result of this work.

B. POA 2: Effective Risk Management

Tax administrations face numerous risks that have the potential to adversely affect revenue and/or tax administration operations. For convenience, these risks can be classified as follows:

- compliance risks—where revenue may be lost if businesses and individuals fail to meet the four main taxpayer obligations (i.e., registration in the tax system, filing of tax declarations, payment of taxes on time, and complete and accurate reporting of information in declarations); and

- institutional risks—where tax administration functions may be interrupted if certain external or internal events occur, such as natural disasters, sabotage, loss or destruction of physical assets, failure of information technology system hardware or software, strike action by employees, and administrative breaches (e.g., leakage of confidential taxpayer information which results in loss of community confidence and trust in the tax administration).

Risk management is essential to effective tax administration and involves a structured approach to identifying, assessing, prioritizing, and mitigating risks. It is an integral part of multi-year strategic and annual operational planning.

Four performance indicators are used to assess POA 2:

- P2-3—Identification, assessment, ranking, and quantification of compliance risks.
- P2-4—Mitigation of risks through a compliance improvement plan.
- P2-5—Monitoring and evaluation of compliance risk mitigation activities.
- P2-6—Identification, assessment, and mitigation of institutional risks.

P2-3: Identification, assessment, ranking, and quantification of compliance risks

For this indicator two measurement dimensions assess (1) the scope of intelligence gathering and research to identify risks to the tax system; and (2) the process used to assess, rank, and quantify compliance risks. Assessed scores are shown in Table 4 followed by an explanation of reasons underlying the assessment.

Table 4. P2-3 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P2-3-1. The extent of intelligence gathering and research to identify compliance risks in respect of the main tax obligations.	M1	C	C
P2-3-2. The process used to assess, rank, and quantify taxpayer compliance risks.		C	

Risk analysis is at a developmental stage in GRS and the extent of intelligence gathering or research to identify compliance risks is limited. The GRS analyzes data from a range of internal and external sources, but does not undertake environmental scans[5] to identify emerging risks, nor engage in systematic research into compliance levels. GRS has access to, and uses, all internal data (including tax and customs declarations, cash register data and a system of electronic invoicing) to try to identify compliance risks. It also uses some third party data, (such as property ownership from the NAPR and data from the Ministry of Interior) to identify and quantify risks. But lack of access to bank account data, essential for full analysis and identification of compliance risks, is a serious drawback.

The tax risk management division (TRMD) is developing a compliance risk management (CRM) approach. The GRS has published its Compliance Strategy 2015–16, based on CRM principles. A simple risk identification process is applied by the small team in the TRMD. The process includes cross-matching data from all available internal sources, analyzing ratios of tax payments to turnover within sectors, and reviewing outcomes of completed audits to feed into the risk assessment process. The views of the audit department are canvassed and taken into account in identifying risks by sector. About 50 individual compliance risks have been identified so far, crossing all tax types and taxpayer segments.

P2-4: Mitigation of risks through a compliance improvement plan

This indicator examines the extent to which the tax administration has formulated a compliance improvement plan to address identified risks. The assessed score is shown in Table 5 followed by an explanation of reasons underlying the assessment.

[5] Environmental scanning involves studying and interpreting external factors that potentially may affect the tax system and its administration in the medium to longer term. These factors include political, economic, social, technological, legal, environmental, and demographic events and trends.

Table 5. P2-4 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P2-4. The degree to which the tax administration mitigates assessed risks to the tax system through a compliance improvement plan.	M1	C

A simple compliance improvement plan is documented together with five action plans for risk mitigation, but progress on the plan is not regularly monitored. So far, the mitigation activities focus mainly on audit case selection. Taxpayers in the sectors identified for treatment are filtered through the case selection software, to identify the riskiest cases. A quarterly list of about 400 potential audits is compiled through this process, and referred to the audit department. The process also identifies cases for limited scope or thematic audits. Other mitigation activities include sample purchasing, letter campaigns, and customer service initiatives, and some attempts were made to mitigate risks through legislative or procedural change. An example is a proposed amendment to Article 44 of the Tax Code, which would provide that an electronically served notice to a business that has failed to register would be deemed to be delivered.

P2-5: Monitoring and evaluation of compliance risk mitigation activities

This indicator looks at the process used to monitor and evaluate mitigation activities. The assessed score is shown in Table 6 followed by an explanation of reasons underlying the assessment.

Table 6. P2-5 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P2-5. The process used to monitor and evaluate the impact of compliance risk mitigation activities.	M1	C

Formal governance arrangements are in place for approving compliance risk mitigation strategies, but outcomes of mitigation actions are not generally evaluated. A risk management working group meets regularly, sometimes daily, to identify new risks and review existing risk criteria. As new risks are identified they are submitted to the Risk Management Council, chaired by the DG, which signs off on risk mitigation strategies. In general, the implementation of the strategies is not well monitored or evaluated, but one example was given of a strategy to mitigate under-declaration of property tax by issuing different kinds of letters to the defaulting taxpayers. In this case, the various treatments were evaluated and the results publicized widely within GRS. An evaluation of subsequent compliance suggested increased compliance in the sector, but it is accepted that evaluation of this kind is not routinely practiced following CRM intervention.

P2-6: Identification, assessment, and mitigation of institutional risks

This indicator examines how the tax administration manages institutional risks. The assessed score is shown in Table 7 followed by an explanation of reasons underlying the assessment.

Table 7. P2-6 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P2-6. The process used to identify, assess, and mitigate institutional risks.	M1	D

No evidence was provided to show that institutional risks have been considered in the GRS and there is no business continuity plan in place. There is no process to identify, assess, mitigate and manage institutional risks. It was suggested that the MoF has plans for mitigation of risks to the IT system, but no evidence of this was produced to the assessment team. GRS staff are not trained in disaster recovery procedures.

C. POA 3: Supporting Voluntary Compliance

To promote voluntary compliance and public confidence in the tax system, tax administrations must adopt a service-oriented attitude toward taxpayers, ensuring that taxpayers have the information and support they need to meet their obligations and claim their entitlements under the law. Because few taxpayers use the law itself as a primary source of information, assistance from the tax administration plays a crucial role in bridging the knowledge gap. Taxpayers expect that the tax administration will provide summarized, understandable information on which they can rely.

Efforts to reduce taxpayer costs of compliance are also important. Small businesses, for example, gain from simplified record keeping and reporting requirements. Likewise, individuals with relatively simple tax obligations (e.g., employees, retirees, and passive investors) benefit from simplified filing arrangements and systems that eliminate the need to file.

Three performance indicators are used to assess POA 3:

- P3-7—Scope, currency, and accessibility of information.
- P3-8—Scope of initiatives to reduce taxpayer compliance costs.

- P3-9—Obtaining taxpayer feedback on products and services.

P3-7: Scope, currency, and accessibility of information

For this indicator four measurement dimensions assess (1) whether taxpayers have the information they need to meet their obligations; (2) whether the information available to taxpayers reflects the current law and administrative policy; (3) how easy it is for taxpayers to obtain information; and (4) how quickly the tax administration responds to requests by taxpayers and tax intermediaries for information (for this dimension, waiting time for telephone enquiry calls is used as a proxy for measuring a tax administration's performance in responding to information requests generally). Assessed scores are shown in Table 8 followed by an explanation of reasons underlying the assessment.

Table 8. P3-7 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P3-7-1. The range of information available to taxpayers to explain, in clear terms, what their obligations and entitlements are in respect of each core tax.	M1	A	B
P3-7-2. The degree to which information is current in terms of the law and administrative policy.		B	
P3-7-3. The ease by which taxpayers obtain information from the tax administration.		A	
P3-7-4. The time taken to respond to taxpayer and intermediary requests for information.		B	

The GRS provides citizens, businesses, and foreign investors with a range of information about core tax obligations and entitlements. Summary information in clear and understandable terms is publicly available on all core taxes, key taxpayer obligations (registration, filing, payment, and reporting of information in tax declarations), and associated rights (e.g., right to dispute an assessment). The GRS website, for example, includes short descriptions of the main taxes and associated requirements, frequently asked questions, almost 450 case studies (public rulings) on how specific provisions of the law are interpreted by the GRS, topical news items, and forms to be completed by taxpayers. A comprehensive 'Tax Pocket Book' (published only in English) describes the main taxes, who is liable for each, and what is required of taxpayers to comply with the law.

There is a process in place (currently being reviewed) to ensure website information is up-to-date. Technical staff resources are assigned to keep publicly available information up to date, but it is not the responsibility of a single coordinating unit. The public relations division in the staff office is charged with ensuring the publication of new information on the GRS website; this keeps the 'News' section current. The service department also has dedicated staff to review, analyze and update frequently asked questions. Taxpayers are informed of changes in the law and procedures through outgoing email via the taxpayer portal. A working group has been set up by the DG to review the currency of information on the website.

Taxpayers have access to information through a variety of user-friendly channels. The main service delivery channels include the following:

- The GRS website.
- A taxpayer portal—contained in the website and known as 'The Taxpayer's Page'—provides taxpayers with a secure authenticated electronic gateway through which they can request and receive information on various tax matters.
- Walk-in service centers throughout Georgia.
- A centralized inbound call center operating during normal business hours.
- Letters, e-mails, and text messages.
- GRS visits to businesses and other personalized assistance, and public seminars (discussed below).
- Newspaper, radio, and television announcements to alert taxpayers to changes in the law and administrative practices.

Further support to taxpayers is provided through the GRS public education and assistance program. The GRS has made a healthy investment in this area, as evidenced by:

- The district tax officer program—whereby 108 trained district tax officers across Georgia visit taxpayers, including newly registered businesses, to provide information and assistance. The service is provided free to the taxpayer.
- The private tax advisor program (known as 'Privé')—whereby a taxpayer (generally a large taxpayer) can obtain personalized, comprehensive, and priority assistance in their dealings with the GRS. Twenty-eight trained Privé officers serve the needs of over 300 taxpayers, on a 24/7 basis. A nominal service fee is charged on a progressive scale (large businesses pay more for the service than do smaller ones).
- Advance tax rulings—where a taxpayer may seek a private binding ruling of how the law applies to a specific set of facts or transactions. The advance ruling system is fee-based (GEL 10,000 is charged per ruling) and targeted at large taxpayers whose transactions are typically more complex than those of small/medium taxpayers (the needs of smaller taxpayers are well-served by the range of free information and assistance provided by the GRS).

- GRS 'Open Door Days' and seminars—designed to raise taxpayer awareness of obligations, changes to the law, common issues etc.
- The recently launched schools program—an initiative designed to teach school and university students about taxes.

Telephone enquiry calls received by the call center are answered within acceptable time standards. As shown in Table 3 in Attachment III, 98.6 percent of telephone enquiry calls received are answered within 6 minutes' waiting time. The Table 3 data does not, however, take account of the impact on taxpayers of line overload. The call center system can accommodate a maximum of 60 callers at a time, meaning that during peak enquiry periods some taxpayers may not be able to get through to the call center. In light of this capacity constraint and potential impact, the assessment score has been adjusted to 'B.'

P3-8: Scope of initiatives to reduce taxpayer compliance costs

This indicator examines the tax administration's efforts to reduce taxpayer compliance costs. Assessed scores are shown in Table 9 followed by an explanation of reasons underlying the assessment.

Table 9. P3-8 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P3-8. The extent of initiatives to reduce taxpayer compliance costs.	M1	B

Important steps have been taken to reduce taxpayer compliance costs, but forms are not systematically reviewed and updated. Examples of initiatives include (1) simplified tax arrangements and concessions for micro businesses (i.e., entrepreneurs with annual income less than GEL 30,000); (2) simplified accounting, record-keeping, filing, and payment arrangements for small businesses (i.e., with annual income less than GEL 100,000); and (3) elimination of the obligation to file for nonentrepreneur individuals with relatively simple income tax affairs (e.g., employees whose salary income is taxed at source). Furthermore, the introduction of modern electronic and communication facilities—particularly the taxpayer portal—has contributed generally to lower taxpayer costs associated with filing and payment, and communicating with the GRS. Other initiatives undertaken by the GRS also seek to reduce the taxpayer compliance burden, such as regular monitoring of frequently asked questions and misunderstandings of the law to help target and refine public information products and services. The initiatives do not extend to pre-filling of tax declarations. Some activity is undertaken to review tax declarations and forms to ensure that only information that is needed and used is sought from taxpayers, but this is not done in a regular or systematic way.

P3-9: Obtaining taxpayer feedback on products and services

For this indicator, two measurement dimensions assess (1) the extent to which the tax administration seeks taxpayer and other stakeholder views of service delivery; and (2) the degree to which taxpayer feedback is taken into account in the design of administrative processes and products. Assessed scores are shown in Table 10 followed by an explanation of reasons underlying the assessment.

Table 10. P3-9 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P3-9-1. The use and frequency of methods to obtain performance feedback from taxpayers on the standard of services provided.	M1	C	C
P3-9-2. The extent to which taxpayer input is taken into account in the design of administrative processes and products.		A	

With the exception of the private tax advisor Privé service, few attempts are made by the GRS to obtain taxpayer feedback on the standard of services provided. There have been several surveys, both internal and independent, to get feedback from the 300 or so clients of the Privé service, all with positive results. A recently published independent perception study commissioned by the United States Agency for International Development (USAID) under its Governing for Growth in Georgia (G4G) program also showed generally positive results, particularly in relation to taxpayer services. Apart from these examples, the GRS makes few attempts to canvass the views of taxpayers on the standard of service provided. A survey on the 'Open Door Days' was conducted in 2015, but the assessment team was unable to establish the results of that survey. Some feedback is captured in the customer service centers, but there is no evidence that this feedback is analyzed or monitored.

Strong engagement with taxpayers is shown through a system whereby public rulings are developed in collaboration with taxpayers and intermediaries. Since 2010 the GRS has engaged with accountancy bodies to develop case studies (equivalent to public rulings) to clarify difficulties of legal interpretation that commonly arise in audits and disputes. The Coordination Council in Charge of Reviewing Tax Code Explanations and Case Guides for the Purpose of Improving Tax Legislation currently has 33 members, 17 of whom are tax intermediaries or lawyers. The ombudsman's office is also represented. The council meets regularly to devise the case studies, which are published on the GRS website.[6] There is also evidence of active involvement of taxpayers on form design and testing of new processes. One example relates to the design of a new form on petroleum products, which changed significantly following taxpayer input. There is also a training version of the taxpayers' portal where taxpayers can test the system in 'demo' mode.[7]

D. POA 4: Timely Filing of Tax Declarations

Filing of tax declarations (also known as tax returns) remains a principal means by which a taxpayer's tax liability is established and becomes due and payable. As noted in POA 3, however, there is a trend toward streamlining preparation and filing of declarations of taxpayers with relatively uncomplicated tax affairs (e.g., through pre-filling tax declarations). Moreover, several countries treat income tax withheld at source as a final tax, thereby eliminating the need for large numbers of PIT taxpayers to file annual income tax declarations. There is also a strong trend towards electronic filing of declarations for all core taxes. Declarations may be filed by taxpayers themselves or via tax intermediaries.

It is important that all taxpayers who are required to file do so, including those who are unable to pay the tax owing at the time a declaration is due (for these taxpayers, the first priority of the tax administration is to obtain a declaration from the taxpayer to confirm the amount owed, and then secure payment through the enforcement and other measures covered in POA 5).

The following performance indicators are used to assess POA 4:

- P4-10—On-time filing rate.
- P4-11—Use of electronic filing facilities.

P4-10: On-time filing rate

A single performance indicator, with four measurement dimensions, is used to assess the on-time filing rate for CIT, PIT, VAT, and PAYE withholding declarations. A high on-time filing rate is indicative of effective compliance management including, for example, provision of convenient means to file declarations (especially electronic filing facilities), simplified declarations forms, and enforcement action against those who fail to file on time. Assessed scores are shown in Table 11 followed by an explanation of reasons underlying the assessment.

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[6] http://www.rs.ge/5699.

[7] http://demo-eservices.rs.ge/Login.aspx.

Table 11. P4-10 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P4-10-1. The number of CIT declarations filed by the statutory due date as a percentage of the number of declarations expected from registered CIT taxpayers.	M2	C	C
P4-10-2. The number of PIT declarations filed by the statutory due date as a percentage of the number of declarations expected from registered PIT taxpayers.		C	
P4-10-3. The number of VAT declarations filed by the statutory due date as a percentage of the number of declarations expected from registered VAT taxpayers.		C	
P4-10-4. The number of PAYE withholding declarations filed by employers by the statutory due date as a percentage of the number of PAYE declarations expected from registered employers.		C	

On-time filing rates are low for all core taxes. As shown in Tables 4 to 8 in Attachment III, the rates are CIT (70 percent), PIT (54 percent), VAT (62 percent), and PAYE withholding (57 percent). The low rates reflect the absence of filing performance monitoring, lack of a filing enforcement program, and weaknesses in the taxpayer register (inactive cases in the taxpayer database affect the denominator of expected declarations). As is the case in most countries, the on-time filing rate for large taxpayers is higher than the rate for taxpayers overall—see Tables 4 and 6 in Attachment III where the large taxpayer CIT and VAT on-time filing rates are more than 90 percent.

P4-11: Use of electronic filing facilities

This indicator measures the extent to which declarations, for all core taxes, are filed electronically. Assessed scores are shown in Table 12 followed by an explanation of reasons underlying the assessment.

Table 12. P4-11 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P4-11. The extent to which tax declarations are filed electronically.	M1	A

More than 99 percent of declarations received are filed electronically for each of the core taxes—see Table 9 in Attachment III.

E. POA 5: Timely Payment of Taxes

Taxpayers are expected to pay taxes on time. Tax laws and administrative procedures specify payment requirements, including deadlines (due dates) for payment, who is required to pay, and payment methods. Depending on the system in place, payments due will be either self-assessed or administratively assessed. Failure by a taxpayer to pay on time results in imposition of interest and penalties and, for some taxpayers, legal debt recovery action. The aim of the tax administration should be to achieve high rates of voluntary on-time payment and low incidence of tax arrears.

Four performance indicators are used to assess POA 5:

- P5-12—Use of electronic payment methods.
- P5-13—Use of efficient collection systems.
- P5-14—Timeliness of payments.
- P5-15—Stock and flow of tax arrears.

P5-12: Use of electronic payment methods

This indicator examines the degree to which core taxes are paid by electronic means, including through electronic funds transfer (where money is electronically transferred via the Internet from a taxpayer's bank account to the government's account), credit cards, and debit cards. For TADAT measurement purposes, payments made in person by a taxpayer to a third party agent (e.g., a bank or post office) that are then electronically transferred by the agent to the government's account are accepted as electronic payments. Assessed scores are shown in Table 13 followed by an explanation of reasons underlying the assessment.

Table 13. P5-12 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P5-12. The extent to which core taxes are paid electronically.	M1	A

All core taxes are paid electronically—see Table 9 in Attachment III.

P5-13: Use of efficient collection systems

This indicator assesses the extent to which acknowledged efficient collection systems—especially withholding at source and advance payment systems—are used. Assessed scores are shown in Table 14 followed by an explanation of reasons underlying the assessment.

Table 14. P5-13 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P5-13. The extent to which withholding at source and advance payment systems are used.	M1	B

Sound use is made of withholding and advance payment systems, but third party reporting is not optimized. There is withholding of PIT at source for employment income. Corporations and entrepreneurs pay income tax (CIT and PIT) through a quarterly advance payment system. Withholding and mandatory reporting applies to dividend income earned by Georgian residents, but not for interest paid by commercial banks. Of note, the law does not require mandatory automatic reporting of information by financial institutions, considered to be good practice in modern tax administration.

P5-14: Timeliness of payments

This indicator assesses the extent to which payments are made on time (by number and by value). For TADAT measurement purposes, VAT payment performance is used as a proxy for on-time payment performance of core taxes generally. A high on-time payment percentage is indicative of sound compliance management including, for example, provision of convenient payment methods and effective follow-up of overdue amounts. Assessed scores are shown in Table 15 followed by an explanation of reasons underlying the assessment.

Table 15. P5-14 Assessment

<table>
<tr><th>Measurement Dimensions</th><th>Scoring Method</th><th colspan="2">Score 2016</th></tr>
<tr><td>P5-14-1. The number of VAT payments made by the statutory due date in percent of the total number of payments due.</td><td rowspan="2">M1</td><td>B</td><td rowspan="2">B</td></tr>
<tr><td>P5-14-2. The value of VAT payments made by the statutory due date in percent of the total value of VAT payments due.</td><td>A</td></tr>
</table>

The on-time payment rate is high in respect of filed VAT declarations. As shown in Table 10 in Attachment III, 87 percent of payments (by number) and 91 percent (by value) were received on time.

P5-15: Stock and flow of tax arrears

This indicator examines the extent of accumulated tax arrears. Two measurement dimensions are used to gauge the size of the administration's tax arrears inventory: (1) the ratio of end-year tax arrears to the denominator of annual tax collections; and (2) the more refined ratio of end-year 'collectible tax arrears' to annual collections.[8] A third measurement dimension looks at the extent of unpaid tax liabilities that are more than a year overdue (a high percentage may indicate poor debt collection practices and performance given that the rate of recovery of tax arrears tends to decline as arrears get older.). Assessed scores are shown in Table 16 followed by an explanation of reasons underlying the assessment.

Table 16. P5-15 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P5-15-1. The value of total core tax arrears at fiscal year-end as a percentage of total core tax revenue collections for the fiscal year.	M2	D	D+
P5-15-2. The value of collectible core tax arrears at fiscal year-end as a percentage of total core tax revenue collections for the fiscal year.		B	
P5-15-3. The value of core tax arrears more than 12 months' old as a percentage of the value of all core tax arrears.		D	

The stock of tax arrears is very high and comprises mostly old debt. As shown in Table 11 in Attachment III, total accumulated arrears at end-2015 exceeded GEL 5.8 billion, equivalent to over 70 percent of annual tax collections. Around 90 percent of total arrears are more than 12 months old. Furthermore, accrued interest and penalties account for about two-thirds of total arrears (i.e., GEL 3.9 billion), suggesting that many old debts have been on the books for a long time.

Collectible tax arrears represent a small portion of the total stock of arrears. While it is not the practice of the GRS to split the arrears inventory into collectible and uncollectible components, an estimate of collectible arrears was made by GRS at the TADAT team's request. The estimate—based broadly on the TADAT definition of collectible arrears—is GEL 555 million at end-2015 and therefore around 7 percent of total arrears (see Table 11 in Attachment III).

[8] For purposes of this ratio, 'collectible' tax arrears are defined as total domestic tax arrears excluding (a) amounts formally disputed by the taxpayer and for which collection action has been suspended pending the outcome; (b) amounts that are not legally recoverable (e.g., debt foregone through bankruptcy); and (c) arrears otherwise uncollectible (e.g., the debtor has no funds or other assets).

F. POA 6: Accurate Reporting in Declarations

Tax systems rely heavily on complete and accurate reporting of information by taxpayers in tax declarations. Tax administrations therefore need to regularly monitor tax revenue losses from inaccurate reporting, especially by business taxpayers, and take a range of actions to ensure compliance. These actions fall into two broad groups: verification activities (e.g., tax audits, investigations, and income matching against third party information sources) and proactive initiatives (e.g., taxpayer assistance and education as covered in POA 3, and cooperative compliance approaches).

If well designed and managed, tax audit programs can have far wider impact than simply raising additional revenue from discrepancies detected by tax audits. Detecting and penalizing serious offenders serve to remind all taxpayers of the consequences of inaccurate reporting.

Also prominent in modern tax administration is high-volume automated crosschecking of amounts reported in tax declarations with third party information. Because of the high cost and relative low coverage rates associated with traditional audit methods, tax administrations are increasingly using technology to screen large numbers of taxpayer records to detect discrepancies and encourage correct reporting.

Proactive initiatives also play an important role in addressing risks of inaccurate reporting. These include adoption of cooperative compliance approaches to build collaborative and trust-based relationships with taxpayers (especially large taxpayers) and intermediaries to resolve tax issues and bring certainty to companies' tax positions in advance of a tax declaration being filed, or before a transaction is actually entered into. A system of binding tax rulings can play an important role here.

Finally, on the issue of monitoring the extent of inaccurate reporting across the taxpayer population generally, a variety of approaches are being used, including: use of tax compliance gap estimating models, both for direct and indirect taxes; advanced analytics using large data sets (e.g., predictive models, clustering techniques, and scoring models) to determine the likelihood of taxpayers making full and accurate disclosures of income; and surveys to monitor taxpayer attitudes towards accurate reporting of income.

Against this background, three performance indicators are used to assess POA 6:

- P6-16—Scope of verification actions taken to detect and deter inaccurate reporting.
- P6-17—Extent of proactive initiatives to encourage accurate reporting.
- P6-18—Monitoring the extent of inaccurate reporting.

P6-16: Scope of verification actions taken to detect and deter inaccurate reporting

For this indicator, two measurement dimensions provide an indication of the nature and scope of the tax administration's verification program Assessed scores are shown in Table 17 followed by an explanation of reasons underlying the assessment.

Table 17. P6-16 Assessment

<table>
<tr><th>Measurement Dimensions</th><th>Scoring Method</th><th colspan="2">Score 2016</th></tr>
<tr><td>P6-16-1. The nature and scope of the tax audit program in place to detect and deter inaccurate reporting.</td><td rowspan="2">M2</td><td>C</td><td rowspan="2">C</td></tr>
<tr><td>P6-16-2. The extent of large-scale automated crosschecking to verify information in tax declarations.</td><td>C</td></tr>
</table>

GRS audit activities cover all core taxes and use a range of audit types to audit centrally selected, risk-ranked cases. Under a plan for improving audit capacity, the number of auditors has been increasing, so that there are now almost 400 auditors, (including both desk and field). Most of the auditors are based in Tbilisi, with some desk audit presence in four regions. Audit types include comprehensive, single or multiple year, single issue thematic audits and VAT audit. Audits are commenced from a risk-ranked quarterly list, selected centrally by the TRMD. These are either comprehensive field audits (about 1,000 each year) or limited scope desk audits (about 2,500 each year). Auditors use both direct and indirect audit methods. They can access bank account data only with the taxpayer's consent, or by applying for a court order on a case-by-case basis.

Audit activities are not well planned and no attempt is made to evaluate the impact of audit activities on taxpayer compliance. Auditors are grouped into teams of seven or eight, with some specialization of the teams by sector to build up experience. There is no annual audit plan, so it is difficult to identify how audit resources are targeted. A breakdown of completed audits by case size and by sector requested by the assessment team was not provided during the assessment. A spreadsheet of completed field and desk audits was provided to the assessment team after the in-country assessment, along with some analyses of the completed audits. The information provided includes no case size marker or analysis, so there is still no evidence that the audit program covers key taxpayer segments or is weighted towards large taxpayers. The audit department focuses on output from audit, but does not measure outcomes. No research or evaluation is done to determine the impact of audit activities on taxpayer compliance.

There is a fair degree of large-scale automated crosschecking of data to verify tax declaration accuracy, however, lack of access to data from financial institutions is a

serious limitation. VAT declarations are crosschecked routinely with profits tax declarations and also with electronic invoices. Customs data, waybill information and cash register data are captured and analyzed. Motor vehicle registration data is obtained from the Ministry of the Interior, and property ownership is automatically available through a memorandum of understanding with the NAPR. The absence of banking and financial institution reporting significantly limits the process of verifying the accuracy of tax declarations.

P6-17: Extent of proactive initiatives to encourage accurate reporting

This indicator assesses the nature and scope of cooperative compliance and other proactive initiatives undertaken to encourage accurate reporting. Assessed scores are shown in Table 18 followed by an explanation of reasons underlying the assessment.

Table 18. P6-17 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P6-17. The nature and scope of proactive initiatives undertaken to encourage accurate reporting.	M1	B

There is a system in place by which binding public rulings are developed in consultation with tax intermediaries and over 400 such 'case studies' are detailed on the GRS website. The Council for Development of Case Studies was set up in 2010 and meets regularly to develop 'case studies' or general public rulings. The Council includes representatives from the private sector, including accountancy firms, as well as the ombudsman and representatives from the audit department and dispute resolution department.

A formal process exists in law for the issue of binding private or advance rulings by the MoF. The law provides for a time limit of 60 days within which the MoF must either refuse or commit to issuing an advance ruling, and a further 30 days for the issue of a decision. Only 50 or 60 private rulings are issued each year. The GRS also issues formal 'opinions' in response to taxpayer queries, but these are not binding.

No cooperative compliance approaches have been developed. Cooperative compliance arrangements are used in many tax administrations to encourage accurate reporting by the large taxpayer segment. The large taxpayer office (LTO) in the GRS was dismantled in 2010, so there are no cooperative compliance-type arrangements. The Privé service discussed under POA 3 was developed, in the absence of an LTO, to provide enhanced service to large taxpayers, but it does not extend to engaging in cooperative compliance agreements.

P6-18: Monitoring the extent of inaccurate reporting

This indicator examines the soundness of methods used by the tax administration to monitor the extent of inaccurate reporting in declarations. The assessed score is shown in Table 19 followed by an explanation of reasons underlying the assessment.

Table 19. P6-18 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P6-18. The soundness of the method/s used by the tax administration to monitor the extent of inaccurate reporting.	M1	D

The GRS does not monitor the extent of revenue losses from inaccurate reporting. There has been no analysis or monitoring of the level of inaccurate reporting in any tax type or taxpayer segment. No tax gap studies have been undertaken.

G. POA 7: Effective Tax Dispute Resolution

This POA deals with the process by which a taxpayer seeks an independent review, on grounds of facts or interpretation of the law, of a tax assessment resulting from an audit. Above all, a tax dispute process must safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing. The process should be based on a legal framework, be known and understood by taxpayers, be easily accessible, guarantee transparent independent decision-making, and resolve disputed matters in a timely manner.

Three performance indicators are used to assess POA 7:

- P7-19—Existence of an independent, workable, and graduated dispute resolution process.
- P7-20—Time taken to resolve disputes.
- P7-21—Degree to which dispute outcomes are acted upon.

P7-19: Existence of an independent, workable, and graduated resolution process

For this indicator three measurement dimensions assess (1) the extent to which a dispute may be escalated to an independent external tribunal or court where a taxpayer is dissatisfied with the result of the tax administration's review process; (2) the extent to which the tax administration's review process is truly independent; and (3) the extent to which taxpayers are informed of their rights and avenues of review. Assessed scores are shown in Table 20 followed by an explanation of reasons underlying the assessment.

Table 20. P7-19 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P7-19-1. The extent to which an appropriately graduated mechanism of administrative and judicial review is available to, and used by, taxpayers.	M2	A	A
P7-19-2. Whether the administrative review mechanism is independent of the audit process.		A	
P7-19-3. Whether information on the dispute process is published, and whether taxpayers are explicitly made aware of it.		A	

A graduated mechanism of administrative and judicial review is available and is widely used. There is a dispute resolution council within GRS, another dispute resolution council in the MoF and three levels of appeal to the judiciary. Taxpayers may choose to use the GRS review processes first, and further appeal to the MoF dispute resolution council, (which is independent of GRS) if they are dissatisfied with the GRS decision. They may also go directly to the judicial system for resolution of the dispute.

The process for reviewing disputes is independent of the audit process and objective review processes are documented and followed. The procedure for dealing with disputes (not all of which are audit related) is set out in detail in a disputes manual. All first instance disputes are determined by the dispute resolution council, which is independent of the audit department, although both are subordinate to the same DDG. When an audit dispute is filed by a taxpayer, the dispute resolution department refers the dispute to audit for comment, while staff at the dispute resolution department researches precedent for the matters in dispute. The outcome is determined by the council, taking into account the arguments of the taxpayer (or intermediary), the audit department, and precedent in decided cases.

Information on the disputes process is published and taxpayers are explicitly made aware of their review rights at the end of the audit. The GRS website contains information on a taxpayer's rights to dispute or appeal. Audit procedures require auditors to advise taxpayers of their dispute rights during the finalization of the audit. This is done formally when the audit protocol (assessment notice) is issued electronically to the taxpayer through the taxpayer portal at the completion of the audit. Taxpayers are required to acknowledge that they have read and understand their dispute/appeal rights.

P7-20: Time taken to resolve disputes

This indicator assesses how responsive the tax administration is in completing administrative reviews. Assessed scores are shown in Table 21 followed by an explanation of reasons underlying the assessment.

Table 21. P7-20 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P7-20. The time taken to complete administrative reviews.	M1	C

The statutory time limit for the completion of a dispute is 65 days, and while most disputes are resolved within that timeframe, this is too long. Table 12 shows that 45 percent of disputes are resolved within the good practice standard of 30 days, with a cumulative 86 percent of disputes resolved within 60 days.

P7-21: Degree to which dispute outcomes are acted upon

This indicator looks at the extent to which dispute outcomes are taken into account in determining policy, legislation, and administrative procedure. The assessed score is shown in Table 22 followed by an explanation of reasons underlying the assessment.

Table 22. P7-21 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P7-21. The extent to which the tax administration responds to dispute outcomes.	M1	C

The GRS does review the outcome of dispute cases and has a small unit for monitoring decisions, but the process is not systematic and not all material outcomes are acted upon. GRS dispute resolution department staff examine cases finalized by the various dispute councils or courts, and there is a bonus system in place to encourage staff to propose amendments based on disputed cases. The assessment team was advised that in 2015, eleven proposals for legislative change were sent to the legal department in this way. However, there was limited evidence that this process is systematic, that it identifies all outcomes of a material nature, or that the process is fed back into adjustment of policy or administrative procedures.

H. POA 8: Efficient Revenue Management

This POA focuses on three key activities performed by tax administrations in relation to revenue management:

- Providing input to government budgeting processes of tax revenue forecasting and tax revenue estimating. (As a general rule, primary responsibility for advising government on tax revenue forecasts and estimates rests with the Ministry of Finance. The tax administration provides data and analytical input to the forecasting and estimating processes. Ministries of Finance often set operational revenue collection targets for the tax administration based on forecasts of revenue for different taxes.)[9]
- Maintaining a system of revenue accounts.
- Paying tax refunds.

Three performance indicators are used to assess POA 8:

- P8-22—Contribution to government tax revenue forecasting process.
- P8-23—Adequacy of the tax revenue accounting system.
- P8-24—Adequacy of tax refund processing.

P8-22: Contribution to government tax revenue forecasting process

This indicator assesses the extent of tax administration input to government tax revenue forecasting and estimating. The assessed score is shown in Table 23 followed by an explanation of reasons underlying the assessment.

Table 23. P8-22 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P8-22. The extent of tax administration input to government tax revenue forecasting and estimating.	M1	C

The GRS is in the early stages of developing a revenue monitoring and analysis capability. A specialist unit of 11 staff—the information processing and analysis division—regularly monitors and reports to the DG and MoF on tax revenue collections against budget

[9] It is common for Ministries of Finance to review budget revenue forecasts and related tax collection targets during the fiscal year (particularly mid-year) to take account of changes in forecasting assumptions, especially changes in the macroeconomic environment.

projections, and provides analysis and reasons for deviations. It also provides data and basic analytical input to the MoF revenue forecasting and estimating processes. At this stage, its capability does not extend to more sophisticated modeling, such as estimating tax revenue foregone as a result of tax expenditures, or estimates of carry-forward losses likely to be offset against future fiscal years covered by the budget. It does, however, make VAT refund forecasts.

P8-23: Adequacy of the tax revenue accounting system

This indicator examines the adequacy of the tax revenue accounting system. Assessed scores are shown in Table 24 followed by an explanation of reasons underlying the assessment.

Table 24. P8-23 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P8-23. Adequacy of the tax administration's revenue accounting system.	M1	C

The automated tax revenue accounting system provides essential functionality, but has not undergone a full, system-based audit. The system interfaces with the MoF accounting system, maintains a single account for each taxpayer, posts payments within one–two business days, has a suspense account for unidentified payments, provides authorized frontline staff with online access, maintains audit trails for internal control purposes, and so on. Some internal and external oversight of the system occurs via compliance and financial audits conducted by the government auditor and the internal audit unit of MoF, so it is assumed to meet government accounting and IT standards. However, one significant factor that undermines the adequacy of the accounting system is that there is no evidence of external or internal audits specifically conducted to ensure that it aligns with the tax laws (e.g., correctly calculates liabilities, penalties, and interest) and government accounting standards.

P8-24: Adequacy of tax refund processing

For this indicator, two measurement dimensions assess the tax administration's system of processing VAT refund claims. Assessed scores are shown in Table 25 followed by an explanation of reasons underlying the assessment.

Table 25. P8-24 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P8-24-1. Adequacy of the VAT refund system.	M2	D	D
P8-24-2. The time taken to pay (or offset) VAT refunds.		D	

The absence of a risk management process to assess the validity of refund applications is a shortcoming. VAT refund claims are not assessed against risk criteria; taxpayers with good and poor compliance histories are treated alike and subjected to the same detailed verification process.

A more fundamental risk is the very large stock of unclaimed refunds which undermines the integrity of the VAT system. A key feature of the invoice-credit form of VAT is that businesses should receive refunds when the tax on their purchases exceeds the tax payable on their sales. While straightforward in principle, this often does not happen in practice in Georgia. Substantial excess VAT credits of GEL 1,087 million as at end-2015 have accumulated, thereby presenting potential fiscal risks for government, and economic impacts for the private sector. It is unclear to the TADAT assessment team why businesses choose not to claim refunds permitted under the law; refraining from claiming legitimate refunds is out of step with usual commercial behavior. No significant inroads have been made in recent years to reduce the accumulated credit inventory (an IMF study conducted in 2013 showed a similar accumulated stock of excess credits that had neither been paid nor offset against other tax liabilities).

Given these underlying flaws in the VAT refund system, it is not possible to make a reliable assessment of the time taken to pay or offset excess credits. As noted above, VAT in Georgia operates differently from the way invoice-credit VAT is designed to work. In contrast to international good practice—where refunds are paid or offset promptly following receipt of a VAT declaration in which an excess credit is reported—the VAT in Georgia is compromised by:

- the continuing presence of a large accumulated stock of unclaimed/unpaid VAT credits (discussed);
- the unexplained low number of refund claims (as shown in Table 13 there were less than 400 claims in 2015 from a registered active taxpayer base of 72,000);
- the absence of routine monitoring of refund payments and offsets against timeliness standards, resulting in many credits remaining unpaid (or offset) for long periods; and

- a higher rejection rate of claims than is the case in countries administering risk-based refund systems (around 60 percent of refund claims were declined in 2015—see Table 13).

I. POA 9: Accountability and Transparency

Accountability and transparency are central pillars of good governance. Their institutionalization reflects the principle that tax administrations should be answerable for the way they use public resources and exercise authority. To enhance community confidence and trust, tax administrations should be openly accountable for their actions within a framework of responsibility to the minister, government, legislature, and the general public.

Four performance indicators are used to assess POA 9:

- P9-25—Internal assurance mechanisms.
- P9-26—External oversight of the tax administration.
- P9-27—Public perception of integrity.
- P9-28—Publication of activities, results, and plans.

P9-25: Internal assurance mechanisms

For this indicator, two measurement dimensions assess the internal assurance mechanisms in place to protect the tax administration from loss, error, and fraud. Assessed scores are shown in Table 26 followed by an explanation of reasons underlying the assessment.

Table 26. P9-25 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P9-25-1. Assurance provided by internal audit.	M2	C	D+
P9-25-2. Staff integrity assurance mechanisms.		D	

The GRS does not have an internal audit (IA) department, however, as an integral part of the MoF it is subject to IA from the Ministry. The small IA department in the MoF has a staff of seven (one qualified), who receive regular professional development training. The MoF IA includes the GRS in its audit plans and reports to the Minister of Finance and to an Audit Committee, of which the First Deputy Minister of Finance (DG of GRS) is a member.

The MoF IA is at a developmental stage, and does not yet have the capacity to audit IT systems. The annual internal audits of the GRS have so far comprised financial and compliance audits. Last year the MoF IA completed its first systems-based audit (of the call center operation) and made recommendations for improvement, as a result of which the GRS has developed an action plan for implementation of the recommendations. The MoF IA is continuing to document the GRS system of internal controls, on which to develop risk-based internal audit plans. It recognizes that the GRS IT system poses significant risks to the integrity of the tax administration, but it does not yet have the capacity to conduct an IT systems audit.

Some staff integrity assurance mechanisms exist, but the function is fragmented, with no single unit charged with this responsibility. The GRS has a code of ethics for customs officers, but not for tax officials. The human resources department has done some work on developing a code of ethics, but this work has been suspended in anticipation of a new public service-wide code of ethics due to be launched in 2017. There are plans to develop an ethics training module to be delivered to all GRS employees, but so far no ethics training has been delivered.

A staff monitoring department, reporting directly to the DG, does not have appropriate investigative powers or training. This department is mandated to deal with staff disciplinary procedures, conflicts of interest and ethical breaches. It monitors staff attendance and deals with complaints of alleged staff wrongdoing. The 18-person department was part of the customs administration until 2013. It has some experience of investigating alleged malpractice by customs officers, but its ability to investigate alleged wrongdoing by tax officials needs to be developed.

P9-26: External oversight of the tax administration

Two measurement dimensions of this indicator assess (1) the extent of independent external oversight of the tax administration's operations and financial performance; and (2) the investigation process for suspected wrongdoing and maladministration. Assessed scores are shown in Table 27 followed by an explanation of reasons underlying the assessment.

Table 27. P9-26 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P9-26-1. The extent of independent external oversight of the tax administration's operations and financial performance.	M2	C	C
P9-26-2. The investigation process for suspected wrongdoing and maladministration.		C	

The GRS is subject to annual financial and compliance audit by the State Audit Office (SAO), but there is no program to audit operational performance. Audit reports are published on the SAO website.[10] The SAO has also developed an electronic system for monitoring of compliance with recommendations.

The GRS does not have a formal system for monitoring recommendations by the ombudsman or anti-corruption agency. There is no single unit in the GRS to deal with and monitor ombudsman complaints. The TADAT assessment team met with representatives of the ombudsman's office, who confirmed that the GRS implements its recommendations on individual taxpayer complaints. Systemic problems are identified, mostly involving interpretation of the tax code and recommendations for change are made to the MoF. The GRS is not involved in responding to these recommendations.

An investigation department in the MoF[11] has a role in investigating wrongdoing by GRS staff. The Anti-Corruption Council of Georgia is a coordinating, not an investigative body.[12] Its membership includes the DG of the GRS and the Head of the Investigation Department of the MoF. Its published Strategic Plan 2014–16 includes priority measures for prevention of corruption in the customs and tax systems.[13] One example of the investigation of wrongdoing was cited by the GRS, where a head of department in GRS was dismissed following a MoF investigation, and the matter referred to the public prosecutor. There is little evidence that findings and recommendations on corruption and maladministration are acted upon systematically in GRS.

P9-27: Public perception of integrity

This indicator examines measures taken to gauge public confidence in the tax administration. The assessed score is shown in Table 28 followed by an explanation of reasons underlying the assessment.

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[10] http://sao.ge/audit/audit-reports.

[11] http://www.mof.ge/4478.

[12] http://www.justice.gov.ge/aboutus/Council/224.

[13] http://www.coe.int/t/DGHL/cooperation/economiccrime/corruption/Projects/EaP-CoE%20Facility/RT%20Tbilissi%202%20May%2014/Logframe%20AC%20Strategy%20Draft%20-%20Eng%20(02%2005%202014).pdf.

Table 28. P9-27 Assessment

Measurement Dimensions	Scoring Method	Score 2016
P9-27. The mechanism for monitoring public confidence in the tax administration.	M1	C

Public confidence in the tax system is monitored through business surveys, though not on a regular basis. A business perception survey was conducted in 2012 by the International Finance Corporation (IFC) on 1,029 active firms. Its results are published on the GRS website.[14] More recently, the USAID commissioned a perception survey under its G4G program. The study *Business' Attitudes Towards the Tax System in Georgia* was conducted by Deloitte Consulting LLC and published on May 10, 2016. The results of the survey of 1,033 companies were generally positive, particularly in relation to taxpayer services. However, the GRS has yet to initiate frequent surveys in order to keep regular track of trends in public perception and consider their results in reviewing its integrity framework.

P9-28: Publication of activities, results, and plans

Two measurement dimensions of this indicator assess the extent of (1) public reporting of financial and operational performance; and (2) publication of future directions and plans. Assessed scores are shown in Table 29 followed by an explanation of reasons underlying the assessment.

Table 29. P9-28 Assessment

Measurement Dimensions	Scoring Method	Score 2016	
P9-28-1. The extent to which the financial and operational performance of the tax administration is made public, and the timeliness of publication.	M2	D	D+
P9-28-2. The extent to which the tax administration's future directions and plans are made public, and the timeliness of publication.		C	

The GRS produces and publishes an annual report of its performance, but the reports are not published in a timely manner. The Annual Report for 2013 giving details of

[14] "Georgia Business Perception Survey 2012"; Georgia Tax Simplification Project, IFC April 20, 2012. http://rs.ge/Default.aspx?sec_id=5406&lang=2#.

financial and operational performance is published on the GRS website. While the 2014 Annual Report has been produced and approved by the GRS, it has not yet been made public.

There is no annual operational planning process, but future GRS directions are published as part of the Government's Strategic Plan for Public Financial Management (PFM).[15] Chapter II of Georgia's Strategic Plan for PFM 2016 outlines the strategic plan of the GRS. Reports on progress on this plan are made quarterly to the Minister of Finance. The GRS has also published its Compliance Strategy 2015–16 and this is available on its website and in hard copy in the taxpayer service centers.

[15] http://www.mof.ge/4937.

Attachment I. TADAT Framework

Performance outcome areas

TADAT assesses the performance of a country's tax administration system by reference to nine outcome areas:

1. **Integrity of the registered taxpayer base:** Registration of taxpayers and maintenance of a complete and accurate taxpayer database is fundamental to effective tax administration.

2. **Effective risk management:** Performance improves when risks to revenue and tax administration operations are identified and systematically managed.

3. **Support given to taxpayers to help them comply:** Usually, most taxpayers will meet their tax obligations if they are given the necessary information and support to enable them to comply voluntarily.

4. **On-time filing of declarations:** Timely filing is essential because the filing of a tax declaration is a principal means by which a taxpayer's tax liability is established and becomes due and payable.

5. **On-time payment of taxes:** Nonpayment and late payment of taxes can have a detrimental effect on government budgets and cash management. Collection of tax arrears is costly and time consuming.

6. **Accuracy of information reported in tax declarations:** Tax systems rely heavily on complete and accurate reporting of information in tax declarations. Audit and other verification activities and proactive initiatives of taxpayer assistance, promote accurate reporting and mitigate tax fraud.

7. **Adequacy of dispute resolution processes:** Independent accessible, and efficient review mechanisms safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing in a timely manner.

8. **Efficient revenue management:** Tax revenue collections must be fully accounted for, monitored against budget expectations, and analyzed to inform government revenue forecasting. Legitimate tax refunds to individuals and businesses must be paid promptly.

9. **Accountability and transparency:** As public institutions, tax administrations are answerable for the way they use public resources and exercise authority. Community confidence and trust are enhanced when there is open accountability for administrative actions within a framework of responsibility to the minister, legislature, and general community.

Indicators and associated measurement dimensions

A set of 28 high-level indicators critical to tax administration performance are linked to the POAs. It is these indicators that are scored and reported on. A total of 47 measurement dimensions are taken into account in arriving at the indicator scores. Each indicator has between one and four measurement dimensions.

Repeated assessments will provide information on the extent to which a country's tax administration is improving.

Scoring methodology

The assessment of indicators follows the same approach followed in the Public Expenditure and Financial Accountability diagnostic tool so as to aid comparability where both tools are used.

Each of TADAT's 47 measurement dimensions is assessed separately. The overall score for an indicator is based on the assessment of the individual dimensions of the indicator. Combining the scores for dimensions into an overall score for an indicator is done using one of two methods: Method 1 (M1) or Method 2 (M2). For both M1 and M2, the four-point 'ABCD' scale is used to score each dimension and indicator.

Method M1 is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator).

Method M2 is based on averaging the scores for individual dimensions of an indicator. It is used for selected multi-dimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of higher scores on other dimensions for the same indicator.

Attachment II. Georgia: Country Snapshot

Geography	Georgia is located between Eastern Europe and West Asia and covers a territory of 69,700 sq. km (c.27,000 sq. mi). Nestled between the Greater Caucasus and Lesser Caucasus mountain ranges, it is bounded to the west by the Black Sea, to the north and northeast by Russia, to the south by Turkey and Armenia, and to the southeast by Azerbaijan. The capital and largest city is Tbilisi.
Population	3.7295 million January 2015 (Source http://www.geostat.ge/.)
Adult literacy rate	99.75 percent of persons aged 15 and over can read and write. (Source: UNESCO.org).
GDP	2014 nominal GDP: GEL 29.2 billion (US$16.1 billion). (Source: IMF.)
Per capita GDP	US$3,676.20 (2014). (Source: http://www.geostat.ge/.)
Main industries	Cultivation of agricultural products such as grapes, citrus fruits, and hazelnuts; mining of manganese, copper, and gold; and producing alcoholic and nonalcoholic beverages, metals, machinery, and chemicals in small-scale industries. (Source: Central Intelligence Agency World Factbook.)
Communications	Internet users per 100 people: 48.9 in 2014 Mobile phone subscribers per 100 people: 124.9 in 2014. (Source: World Bank.)
Main taxes	There are only six taxes in Georgia, of which five (PIT, CIT, VAT, excise tax, and import tax) are state-wide, and one (property tax) is a local tax. (Source: Georgia MoF 2014.)
Tax-to-GDP	For 2015, tax to GDP was 25.2 percent including 0.2 percent customs tax collections. (Source: IMF.)
Number of taxpayers	CIT 108,926; PIT 261,639; PAYE (employers) 119,259: and VAT 72,220.
Main collection agency	GRS.
Number of staff in the main collection agency	3,426 (including 1,472 in Customs).
Financial Year	Calendar year.

Attachment III. Data Tables

A. Tax Revenue Collections

Table 1. Tax Revenue Collections, 2013–15[1]			
	2013	**2014**	**2015**
Millions (in local currency)			
Budgeted tax revenue target[2]	7,289	7,230	7,980
Total tax revenue collections	6,659	7,242	8,011
CIT	807	829	1,025
PIT	1,934	1,939	2,223
VAT—gross domestic collections	2,262	2,126	1,868
VAT—collected on imports	586	1,172	1,638
VAT—refunds	-86	-111	-123
Excises on domestic transactions	205	212	220
Excises on import	517	598	651
Social taxes	0	0	0
Other domestic taxes[3]	252	265	309
Other customs duties	96	101	77
In percent of total tax revenue collections			
Total tax revenue collections	100.0	100.0	100.0
CIT	12.11	11.45	12.79
PIT	29.04	26.77	27.75
VAT—gross domestic collections	33.97	29.36	23.32
VAT—collected on imports	8.80	16.18	20.45
VAT—refunds	(-1.3)	(-1.5)	(-1.5)
Excises on domestic transactions	3.09	2.93	2.75
Excises on import	7.76	8.26	8.13
Social taxes	0	0	0
Other domestic taxes[3]	3.78	3.66	3.86
Other customs duties	1.44	1.39	0.96
In percent of GDP			
Total tax revenue collections	24.80	24.84	25.28
CIT	3.00	2.84	3.23
PIT	7.20	6.65	7.01
VAT—gross domestic collections	8.43	7.29	5.89
VAT—collected on imports	2.18	4.02	5.17
VAT—refunds	(__)	(__)	(__)
Excises on domestic transactions	0.77	0.73	0.69
Excises on import	1.93	2.05	2.05
Social taxes	0	0	0
Other domestic taxes	0.94	0.91	0.98
Other customs duties	0.36	0.35	0.24
Nominal GDP in local currency	26,847.4	29,150.5	31,691.6
Explanatory notes:			

[1] This table gathers data in respect of all domestic tax revenues collected by the tax administration, plus VAT collected on imports by the customs agency.

[2] This target is normally set by the Ministry of Finance (or equivalent) and, for purposes of this table, should only cover the taxes listed in the table. The final budgeted target, as adjusted through any mid-year review process, should be used.

[3] 'Other domestic taxes' includes, for example, property taxes, financial transaction taxes, and environment taxes. If the tax administration collects social security contributions (SSCs)—a major source of tax revenue in many countries—then SSC collections should be included in the table.

B. Movements in the Taxpayer Register

Table 2. Movements in the Taxpayer Register, 2013–15

Ref: (POA 1)

	Number of Active Taxpayers [1]	Inactive (Not Yet Deregistered) [2]	Total End-Year Position [1 + 2]	Percentage of Inactive (Not Yet Deregistered)	Deregistered During the Year
2013					
CIT	71,187	88,872	160,059	56.0	395
PIT	354,216	752,366	1,106,582	67.9	1,010
PIT withholding (# employers)	77,689	110,198	187,887	58.6	463
VAT	54,160	13,122	67,282	19.9	138
2014					
CIT	76,210	97,649	173,859	56.1	366
PIT	790,525	697,827	1,491,151	46.8	2,597
PIT withholding (# employers)	82,899	119,902	202,801	59.1	428
VAT	60,253	16,976	77,229	22.0	149
2015					
CIT	108,926	83,988	192,976	43.5	450
PIT	261,639	157,861	419,500	37.6	12,617
PIT withholding (# employers)	119,259	104,389	223,648	46.6	547
VAT	72,220	12,426	84,610	14.9	285

C. Telephone Enquiries

Table 3. Telephone Enquiry Call Waiting Time
(May 2015 to April 2016)
(Ref: POA 3)

Month	Total Number of Telephone Enquiry Calls Received	Telephone Enquiry Calls Answered Within Six Minutes' Waiting Time	
		Number	In Percent of Total Calls
May 2015	16,173	15,786	97.60
June 2015	16,193	16,164	99.82
July 2015	12,677	12,654	99.81
August 2015	9,829	9,274	94.35
September 2015	9,813	9,800	99.86
October 2015	14,164	14,086	99.44
November 2015	13,855	13,726	99.06
December 2015	12,209	12,133	99.37
January 2016	13,640	13,586	99.60
February 2016	13,902	13,859	99.69
March 2016	14,431	14,129	97.90
April 2016	14,696	14,217	96.74
12-month total	161,582	159,414	98.60

Explanatory notes:

[1] TADAT assessments apply a time-based standard of six minutes for telephone responses.

D. Filing of Declarations

Table 4. On-Time Filing of CIT Declarations for the 2015 (Ref; POA 4)			
	Number of Declarations Filed On-Time[1]	Number of Declarations Expected to be Filed[2]	On-Time Filing Rate[3] (In Percent)
All CIT taxpayers	75,345	107,542	70
Large taxpayers only	1,281	1,384	93

Explanatory notes:

[1] 'On-time' filing means CIT declarations (returns) filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

[2] 'Expected' declarations means the total number of CIT declarations that should be filed by registered CIT taxpayers if they all comply with their legal obligations to file returns on time.

[3] The 'on-time filing rate' is the number of declarations filed by the statutory due date in percent of the total number of declarations expected from registered taxpayers, i.e., expressed as a percentage:

The CIT on-time filing rate is: $\frac{Number\ of\ CIT\ returns\ filed\ by\ the\ due\ date}{Number\ of\ returns\ expected\ from\ registered\ CIT\ taxpayers}\ x\ 100$

Table 5. On-Time Filing of PIT Declarations for the 2015			
	Number of Declarations Filed On-Time[1]	Number of Declarations Expected to be Filed[2]	On-Time Filing Rate[3] (In Percent)
All PIT taxpayers	142,328	261,639	54

Explanatory notes:

[1] 'On-time' filing means PIT declarations (returns) filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

[2] 'Expected' declarations means the total number of PIT declarations that should be filed by registered taxpayers if they all comply with their legal obligations to file declarations on time.

[3] The 'on-time filing rate' is the number of declarations filed by the statutory due date in percent of the total number of declarations expected from registered taxpayers, i.e., expressed as a percentage:

The PIT on-time filing rate is: $\frac{Number\ of\ PIT\ returns\ filed\ by\ the\ due\ date}{Number\ of\ PIT\ returns\ expected\ from\ registered\ PIT\ taxpayers}\ x\ 100$

Table 6. On-time Filing of VAT Declarations for 2015			
Month	**Number of Declarations Filed On-Time**[1]	**Number of Declarations Expected to be Filed**[2]	**On-Time Filing Rate**[3] (In Percent)
January	42,273	70,858	60
February	42,382	70,858	60
March	42,548	70,858	60
April	42,955	70,858	61
May	42,834	70,858	60
June	43,685	70,858	62
July	44,083	70,858	62
August	44,129	70,858	62
September	44,619	70,858	63
October	45,083	70,858	64
November	45,521	70,858	64
December	46,030	70,858	65
Full year total	**526,142**	**850,296**	**62**

Explanatory notes:

[1] 'On-time' filing means declarations (returns) filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

[2] 'Expected' declarations means the total number of VAT declarations that should be filed by registered taxpayers, if they all comply with their legal obligations to file declarations on time.

[3] The 'on-time filing rate' is the number of VAT declarations filed by the statutory due date in percent of the total number of declarations expected from registered VAT taxpayers, i.e., expressed as a percentage:

$$\frac{Number\ of\ VAT\ returns\ filed\ by\ the\ due\ date}{Number\ of\ returns\ expected\ from\ registered\ VAT\ taxpayers}\ x\ 100$$

Table 7. On-Time Filing of VAT Declarations—Large Taxpayers Only for 2015			
Month	**Number of Declarations Filed On-Time**[1]	**Number of Declarations Expected to be Filed**[2]	**On-Time Filing Rate**[3] (In Percent)
January	1,298	1,362	95
February	1,296	1,362	95
March	1,294	1,362	95
April	1,290	1,362	95
May	1,273	1,362	93
June	1,288	1,362	95
July	1,278	1,362	94
August	1,270	1,362	93
September	1,269	1,362	93
October	1,271	1,362	93
November	1,258	1,362	92
December	1,260	1,362	93
Full year total	**15,345**	**16,344**	**94**

Explanatory notes:

[1] 'On-time' filing means declarations (returns) filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

[2] 'Expected' declarations means the total number of VAT declarations that should be filed by registered taxpayers, if they all comply with their legal obligations to file declarations on time.

[3] The 'on-time filing rate' is the number of VAT declarations filed by the statutory due date in percent of the total number of declarations expected from registered VAT taxpayers, i.e. expressed as a percentage:

$$\frac{Number\ of\ VAT\ returns\ filed\ by\ the\ due\ date}{Number\ of\ returns\ expected\ from\ registered\ VAT\ taxpayers}\ x\ 100$$

Table 8. On-Time Filing of PAYE Withholding Declarations (Filed by Employers) for 2015			
Month	**Number of Declarations Filed On-Time**[1]	**Number of Declarations Expected to be Filed**[2]	**On-Time Filing Rate**[3] (In Percent)
January	66,020	119,259	56
February	66,364	119,259	56
March	66,848	119,259	56
April	67,285	119,259	56
May	67,104	119,259	56
June	68,455	119,259	57
July	68,575	119,259	58
August	68,591	119,259	58
September	69,344	119,259	58
October	70,096	119,259	59
November	70,631	119,259	59
December	71,976	119,259	60
Full year total	**821,289**	**1,431,108**	**57**

Explanatory notes:

[1] 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

[2] 'Expected declarations' means the number of PAYE withholding declarations that the tax administration should receive from registered employers with PAYE withholding obligations if they all comply with the declarations filing requirement in the law.

[3] The 'on-time filing rate' is the number of PAYE withholding declarations filed by employers by the statutory due date in percent of the total number of PAYE withholding declarations expected from registered employers, i.e. expressed as a percentage:

$$\frac{Number\ of\ PAYE\ withholding\ returns\ filed\ by\ the\ due\ date}{Number\ of\ PAYE\ witholding\ returns\ expected\ from\ registered\ employers}\ x\ 100$$

E. Electronic Services

Table 9. Use of Electronic Services, 2013–15[1]

(Ref: POAs 4 and 5)

	2013	2014	2015
	Electronic filing[2] (In percent of all declarations filed for each tax type		
CIT	99.98	99.99	100
PIT	99.94	99.96	99.94
VAT	≈100	≈100	≈100
PIT withholding (filed by employers)	≈100	≈100	≈100
	Electronic payments[3] (In percent of total number of payments received for each tax type)		
CIT	100	100	100
PIT	100	100	100
VAT	100	100	100
PIT withholding (remitted by employers)	100	100	100
	Electronic payments (In percent of total value of payments received for each tax type)		
CIT	100	100	100
PIT	100	100	100
VAT	100	100	100
PIT withholding (remitted by employers)	100	100	100

Explanatory notes:

[1] Data in this table will provide an indicator of the extent to which the tax administration is using modern technology to transform operations, namely in areas of filing and payment.

[2] For purposes of this table, electronic filing involves facilities that enable taxpayers to complete tax declarations on-line and file those declarations via the Internet.

[3] Methods of electronic payment include credit cards, debit cards, and electronic funds transfer (where money is electronically transferred via the Internet from a taxpayer's bank account to the Treasury account) Electronic payments may be made, for example, by mobile telephone where technology is used to turn mobile phones into an Internet terminal from which payments can be made For TADAT measurement purposes, payments made in-person by a taxpayer to a third party agent (e.g., a bank or post office) that are then electronically transferred by the agent to the Treasury account are accepted as electronic payments.

F. Payments

Table 10. VAT Payments Made During 2015 (Ref: POA 5)			
	VAT Payments Made On-Time[1]	**VAT Payments Due**[2]	**On-Time Payment Rate**[3] (In Percent)
Number of assessed payments	235,579	270,001	87
Value of payments (in millions of GEL)	1,956	2,144	91

Explanatory notes:

[1] 'On-time' payment means paid on or before the statutory due date for payment.

[2] 'Payments due' include all payments due, whether self-assessed or administratively assessed (including as a result of an audit).

[3] The 'on-time payment rate' is the number (or value) of VAT payments made by the statutory due date in percent of the total number (or value) of VAT payments due, i.e. expressed as percentages:

The on-time payment rate by number is: $\frac{Number\ of\ VAT\ payments\ made\ by\ the\ due\ date}{Total\ number\ of\ VAT\ payments\ due}\ x\ 100$

The on-time payment rate by value is: $\frac{Value\ of\ VAT\ payments\ made\ by\ the\ due\ date}{Total\ value\ of\ VAT\ payments\ due}\ x\ 100$

G. Domestic Tax Arrears

Table 11. Value of Tax Arrears, 2013–15[1]
(Ref: POA 5)

	2013	2014	2015
	Millions GEL		
Total tax revenue collected (Table 1) **(A)**	6,659	7,242	8,011
Total tax arrears at end of fiscal year[2] **(B)**	5,140	6,166	5,846
Principal			1,925
Sanctions and Interest			3,921
Of which: Collectible[3] **(C)**			553
Of which: Uncollectible			5,293
Tax arrears that are more than 12 months' old **(D)**	4,749	5,418	5,155
	In percent		
Ratio of **(B)** to **(A)** [4]	77	85	73
Ratio of **(C)** to **(A)**[5]			6.9
Ratio of **(D)** to **(B)**[6]	92	88	88

Explanatory notes:

[1] Data in this table will be used in assessing the value of tax arrears relative to annual collections, and examining the extent to which unpaid tax liabilities are significantly overdue (i.e., older than 12 months).

[2] 'Total tax arrears' include tax, penalties, and accumulated interest.

[3] 'Collectible' tax arrears are defined as the total amount of domestic tax, including interest and penalties, that is overdue for payment and which is not subject to collection impediments. Collectible tax arrears therefore generally exclude (a) amounts formally disputed by the taxpayer and for which collection action has been suspended pending the outcome; (b) amounts that are not legally recoverable (e.g., debt foregone through bankruptcy); and (c) arrears otherwise uncollectible (e.g., the debtor has no funds or other assets).

[4] i.e. $\frac{Value\ of\ total\ tax\ arrears\ at\ end\ of\ fiscal\ year}{Total\ tax\ collected\ for\ fiscal\ year}\ x\ 100$

[5] i.e. $\frac{Value\ of\ collectible\ tax\ arrears\ at\ end\ of\ fiscal\ year}{Total\ tax\ collected\ for\ fiscal\ year}\ x\ 100$

[6] i.e. $\frac{Value\ of\ tax\ arrears > 12\ months'\ old\ at\ end\ of\ year}{Value\ of\ total\ tax\ arrears\ at\ end\ of\ fiscal\ year}\ x\ 100$

H. Tax Dispute Resolution

Table 12. Finalization of Administrative Reviews 2015 (Ref: POA 7)

Month	Total Number Finalized	Finalized Within 30 Days		Finalized Within 60 Days		Finalized Within 90 Days	
		Number	In Percent of Total	Number	In Percent of Total	Number	In Percent of Total
January 2015	469	165	35.18	274	58.42	30	6.40
February 2015	719	188	26.15	409	56.88	122	16.97
March 2015	804	235	29.23	373	46.39	196	24.38
April 2015	858	308	35.90	358	41.72	192	22.38
May 2015	928	324	34.91	369	39.76	235	25.32
June 2015	847	479	56.55	272	32.11	96	11.33
July 2015	670	417	62.24	213	31.79	40	5.97
August 2015	697	436	62.55	221	31.71	40	5.74
September 2015	458	194	42.36	211	46.07	53	11.57
October 2015	823	423	51.40	313	38.03	87	10.57
November 2015	713	305	42.78	330	46.28	78	10.94
December 2015	1,233	635	51.50	501	40.63	97	7.87
12-month total	**9,219**	**4,109**	**44.57**	**3,844**	**41.70**	**1,266**	**13.73**

Table 13. VAT Refunds for 2015 (Ref: POA 8)		
	Number of Claims	**Value in GEL**
Total VAT refund claims received **(A)**	380	183,231,102.09
Total VAT refunds paid[1]	153	127,577,685.19
Of which: paid within 30 days **(B)** [2]	53	77,055,620.37
Of which: paid outside 30 days	100	50,522,064.82
Total VAT refund claims declined[3]	227	55,653,416.90
Of which: declined within 30 days (C)	227	55,653,416.90
Of which: declined outside 30 days		
Total VAT refund claims not processed[4]		
Of which: no decision taken to decline refund		
Of which: approved but not yet paid or		
	In percent	
Ratio of **(B+C)** to **(A)**[5]	73.7	72.4

Explanatory notes:

[1] Include all refunds paid, as well as refunds offset against other tax liabilities.

[2] TADAT measures performance against a 30-day standard.

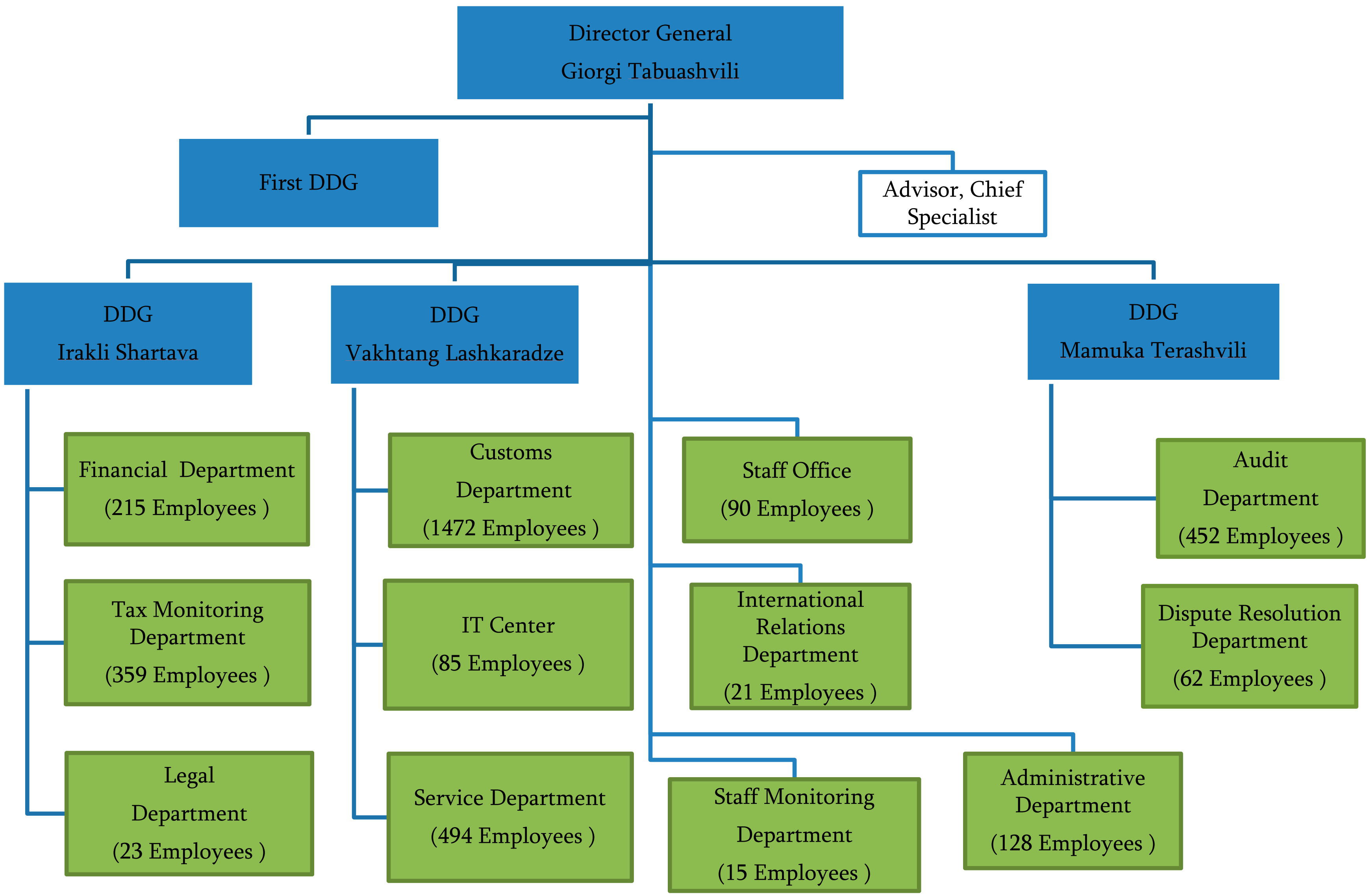
[3] Include cases where a formal decision has been taken to decline (refuse) the taxpayer's claim for refund (e.g., where the legal requirements for refund have not been met)

[4] Include all cases where refund processing is incomplete—i.e., where (a) the formal decision has not been taken to decline the refund claim; or (b) the refund has been approved but not paid or offset.

[5] i.e., $\frac{Number\ or\ value\ of\ VAT\ refunds\ paid+declined\ within\ 30\ days}{Total\ number\ or\ value\ of\ VAT\ refund\ claims\ received} x\ 100$

Attachment IV. Organizational Chart

GRS-Organizational Structure at June 2016
Total: 3,426 Employees



Attachment V. Sources of Evidence

Indicators	Sources of Evidence
P1-1. Accurate and reliable taxpayer information.	• Numerical data from Table 2 in Attachment III. • VAT Registration Form. • DG order on Register Cleansing: Order No 996 dated December 31, 2010.
P1-2. Knowledge of the potential taxpayer base.	• Statistics on detected unregistered taxpayers issued by the Monitoring Department for the period of January–April 2016.
P2-3. Identification, assessment, ranking, and quantification of compliance risks.	• DG order No 587 establishing the Risk Evaluation Commission.
P2-4. Mitigation of risks through a compliance improvement plan.	• Revenue Service Voluntary Compliance Strategy 2015–16. • Copy of the Tax Administration Department (TAD) Plan 2015 (CRM). • Letter No 25810-21 dated March 27, 2016 introducing amendment to Article 44 and Annex.
P2-5. Monitoring and evaluation of compliance risk mitigation activities.	• DG order No 587 establishing the Risk Evaluation Commission. • Report from the Deputy Head of the TAD on strategy to mitigate under-declaration of property tax issued on August 6, 2015. • Property Tax Statistics for 2012–15. • CRM plan progress.
P2-6. Identification, assessment, and mitigation of institutional risks.	None
P3-7. Scope, currency, and accessibility of information.	• GRS Website: http://rs.ge/5353. • Numerical data from Table 3 in Attachment III. • Tax Code of Georgia, March 2013 (English translation). • Pocket Tax Book, Georgia, 2014. • DG Order No 22713 establishing the Working Group for Website 2015. • PR duties description from organization chart. • G4G Survey. *Business' Attitudes Towards the Tax System in Georgia*. USAID 2016. • School program: e.g., Study Tour, Batumi June 6–7, 2016. http://www.rs.ge/Default.aspx?sec_id=4846&lang=2&newsid=3937 • Open door news: Tbilisi August 2015. http://www.rs.ge/default.aspx?sec_id=4846&lang=2&newsid=3608 • Brochures/leaflets—Hard copies supplied. • Privé Personal Tax Advisor: http://www.rs.ge/en/4858# • Report on call center systems (email dated June 7, 2016).
P3-8. Scope of initiatives to reduce taxpayer compliance costs.	• Notifications to taxpayers: e.g., Text sent to the electronic page of newly registered taxpayers. • GRS website: http://rs.ge/5353. • District Tax officer program.
P3-9. Obtaining taxpayer feedback on products and services.	• 'Open Door' day questionnaire. • Order No 12705 dated May 6, 2016 establishing the Case Study Coordination Council. • Link to case studies on website: http://www.rs.ge/5699. • Taxpayer consultation on forms. • http://demo-eservices.rs.ge/Login.aspx. • Georgia Business Perception Survey 2012. • G4G Survey: *Business' Attitudes Towards the Tax System in Georgia*, USAID 2016.

Indicators	Sources of Evidence
P4-10. On-time filing rate.	• Numerical data from Tables 4 to 8 in Attachment III.
P4-11. Use of electronic filing facilities.	• Numerical data from Table 9 in Attachment III.
P5-12. Use of electronic payment methods.	• Numerical data from Table 9 in Attachment III.
P5-13. Use of efficient collection systems.	• Tax Code of Georgia, March 2013 (English translation).
P5-14. Timeliness of payments.	• Numerical data from Tables 10 in Attachment III.
P5-15. Stock and flow of tax arrears.	• Numerical data from Table 11 in Attachment III.
P6-16. Scope of verification actions taken to detect and deter inaccurate reporting.	• Audit Improvement Plan 2016.
P6-17. Extent of proactive initiatives to encourage accurate reporting.	• District Tax Officer Program: http://www.rs.ge/en/4860#. • http://www.rs.ge/5699.
P6-18. Monitoring the extent of inaccurate reporting.	
P7-19. Existence of an independent, workable, and graduated dispute resolution process.	• Audit finalization advice showing taxpayer appeal rights: e.g,. Notification 067-7.
P7-20. Time taken to resolve disputes.	• Numerical data from Table 12 to 12B in Attachment III.
P7-21. Degree to which dispute outcomes are acted upon.	
P8-22. Contribution to government tax revenue forecasting process.	• Responsibilities of Information Processing and Analysis Division per Organization Chart.
P8-23. Adequacy of the tax revenue accounting system.	• SAO audit reports 2014 &2015 and 2012/2013.
P8-24. Adequacy of tax refund processing	• Numerical data from Table 13 and 13A in Attachment III. • Numerical data on accumulated VAT excess credits as at end-2015 • Numerical data on accumulated credits—all tax types—as at end-2015
P9-25. External oversight of the tax administration.	• https://www.facebook.com/businessombudsman/. • Staff Monitoring Charter. • Responsibilities of Staff Monitoring per Organizational Chart. • Internal Audit Strategic Plan 2014–16. • Internal Audit Plan 2016. • Internal Audit Report: Systemic audit of GRS Consulting Services.
P9-26. Internal assurance mechanisms.	• http://sao.ge/files/auditi/auditis-angarishebi/2014/tb-shemosavlebi1.pdf. • http://www.mof.ge/4478. • http://www.justice.gov.ge/aboutus/Council/224. • http://www.coe.int/t/DGHL/cooperation/economiccrime/corruption/Projects/EaP-CoE%20Facility/RT%20Tbilissi%202%20May%2014/Logframe%20AC%20Strategy%20Draft%20-%20Eng%20(02%2005%202014).pdf. • Action Plan on Internal Audit report.

Indicators	Sources of Evidence
P9-27. Public perception of integrity.	• Georgia Business Perception Survey 2012. • G4G Survey: *Business' Attitudes Towards the Tax System in Georgia,* USAID 2016.
P9-28. Publication of activities, results, and plans.	• GRS Annual Report 2013. • GRS Annual Report 2014. • PFM Plan 2016: http://www.mof.ge/4937.