



# Tax Expenditure Report (2018-2024)



Ministry of Finance of Georgia  
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## Acronyms

CIT	Corporate Income Tax
DPT	Distributed Profit Tax
DPCIP made	Distribution of profit which is exempted from profit tax, cost incurred, and payment
EU	European Union
FC	Foreign Currency
FIZ	Free Industrial Zone
GEL	Georgian lari
GEOSTAT	National Statistics Office of Georgia
GIR	Gross Income Received
GRS	Georgia Revenue Service
IMF	International Monetary Fund
IRP	Interest Rate Parity
ITE	Income Tax Expenditure
MoF	Ministry of Finance
PIT	Personal Income Tax
RIA	Regulatory Impact Assessment
SUT	Supply-Use Table
TP	Taxable Proportion
USAID	United States Agency for International Development
VAT	Value-Added Tax
VATE	Value-Added Tax Expenditure

Georgia started the publication of the Tax Expenditure Report (TER) from 2022, where TE costing covered the period 2018-2021. This marks the fourth consecutive year of publishing the TER and incorporating it as an annex to the budget document, as required by the budget law ([Article 38 of the Budget Law](#)). This underscores the fact that TE reporting has become an integral part of the budget process. In addition to the TER, Georgia has also published the Value-Added Tax Expenditure Evaluation in Agriculture in 2024, which represents the first tax expenditure evaluation by the Ministry of Finance of Georgia.

Given that certain sections of the [TER \(2018-2021\)](#), [TER \(2018-2022\)](#), and [TER \(2018-2023\)](#) are repetitive, this report will only reference those specific parts, namely Section II and Appendices (such as: The Benchmark Tax System, Tax Expenditure Classifications, Comprehensive Tax Expenditure Inventory Items, Income and VAT Tax Expenditure Descriptions, ITE and VATE estimation data and methods, and sensitivity analysis).

## Section I. Introduction

Tax incentives are used by countries to achieve certain economic, social, or environmental policy goals. The use of such instruments implies a reduction in tax revenues. These forgone tax revenues are, in most cases, Tax Expenditures (TEs). A TE is the unearned government revenue arising from certain incentives, tax credits, exemptions, and special tax regimes, among others. A TE is the result of government policy, which may be intended to support the private sector (businesses) or achieve a social goal.

TE analysis is an important step towards examining the economic and social implications of tax privileges and scrutinizing how relevant they are in achieving given macro- and/or socio-economic goals. To measure the cost of TEs, this Report uses the “revenue forgone” method, assuming that there is no change in taxpayers’ behavior in response to the elimination of given TEs or tax administration. At first, the tax standard or “benchmark” system is defined [see [TER](#), p 9]. This TE costing exercise aims to examine the main Value Added Tax Expenditures (VATEs) and corporate and personal Income Tax Expenditures (ITEs) within the period of 2018-2024 and make observations on the major trends and contributions in the magnitude/composition of these TEs.

TE costing in this Report covers the period 2018-2024<sup>1</sup> (both for ITEs and VATEs). For ITEs, this Report conducts a costing exercise for the Corporate Income Tax (CIT), Distributed Profit

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<sup>1</sup> Due to the revision of the data, the tax expenditures of the previous periods (years) may change in both absolute and relative terms.

Tax (DPT), Personal Income Tax (PIT) and other ITEs. The main findings from the TE costing exercise are as follows:

- Total estimated TEs amounted to 6,403 million Georgian Lari (GEL) (7.0 percent of GDP) in 2024 that exceeds the nominal indicators of the 2018-2023 period and is lower than the 2021-2023 period ones in GDP percentage terms.
- The VATEs account for most of the estimated TEs (around 94 percent of the totals).
- The VATEs increased from 4.9 percent (2018) to 6.4 percent (2019) of GDP, decreased to 6.2 percent of GDP in 2020. It continued increasing and reached 7.4 percent of GDP in 2021. The VATEs reduced and were at 7.2 percent of GDP in 2022. Afterwards it fell again and reached 6.8 percent of GDP in 2023. As of 2024, it amounted to 6.53 percent of GDP.
- The total estimated ITEs stand at 0.44 percent of GDP in 2024 (it was 0.9 percent of GDP in 2018, mainly due to the personal income tax (PIT) and the old corporate income tax (CIT) regime ITE).
- The estimated (old) CIT regime ITE decreased after 2018 (0.36 percent of GDP) and was at 0.1 percent of GDP in 2022, mostly due to the phase-out of the regime. However, it is worth noting that it increased slightly compared to 2021 (that was 0.08 percent in 2021). This indicator was not changed in 2023. As for the year 2024 it was 0.04 percent of the GDP.
- The total estimated PIT ITE decreased from 0.42 percent (in 2018) to 0.24 percent (in 2024) of GDP.
- This Report estimates the interest income ITE under four different calculation approaches which is described in [TER](#), which assumed absence of interest rate parity (IRP) and adjusting for tax payment timing and the currency composition of deposits<sup>2</sup>. According to the results, the interest income ITE for 2024 is 0.07 percent of GDP.
- Other ITEs include those related to a person having the status of small business, under the 1 percent and 3 percent tax rates. For this item, this Report estimates the TE by assuming different profit margins<sup>3</sup>. The estimation method is selected where the profit margin is taken for the whole business (private) sector.
- Some results obtained in this document deviate from the previous [TER](#) published by the Ministry of Finance (MoF) in the previous year, due to the updated and revised data, includes not only the tax base but also the updated data of the national account;

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<sup>2</sup> Considers absence of interest rate parity (IRP), uses the average GEL-USD exchange rate from the end of a given month to the 15th day of the following month, and accounts for deposits' currency composition (GEL, USD, EUR, other currencies), see [TER](#), p. 62.

<sup>3</sup> For more details, see [TER](#), p. 63

- The methodology and TE inventory are the same as those used in the previous report. For details, see the [TER](#).

The Report is structured as follows: The next Section (Section II) includes the inventories, which are divided into ITEs and VATEs. The chapter III shows estimated TEs in Georgia for the 2018-2024 period, decomposed into ITEs and VATEs. The last Section (Section IV) concludes.

## **Section II. Inventory of Tax Expenditures**

This section presents and discusses the inventories of Income Tax Expenditures (ITEs) and Value-Added Tax Expenditures (VATEs). It also provides the reference for detailed descriptions of the TE items presented.

### **II.a Income Tax Expenditures**

The Tax Code contains a total of 55 ITE items, which include a combination of income tax (IT) and profit tax (PT) items. Those items are deviations from the benchmark and therefore considered to be ITEs. Table 1 provides a list of ITEs as well as descriptions from the Tax Code, reference to Articles in the Tax Code, policy classification as TE, type of measure (exemption “EX” or reduced rate “RR”), and tax (income tax “IT” or profit tax “PT”). All items in Table 1 are regarded as non-structural TEs (see Appendix 1 of Ministry of Finance (MoF) Tax Expenditure Report ([TER](#)) for a discussion of non-structural TEs as opposed to other types).

A description of ITEs is provided in Appendix 3 of [TER](#). The value-added tax expenditure (VATE) is described in the Appendix 4. The descriptions are organized and ordered using the reference numbers that appear in the first column of Table 1. The elements of information provided include the reference number, description from the Tax Code, year of implementation, objective, and beneficiary or beneficiaries.

**Table 1. Income Tax Expenditure Inventory**

Ref.	Measure	Tax Code Ref.	Policy	Type	Tax
1	Capital gains for assets owned > 2 years [residential apartment (house) and other personal property except ve	82.1(f), (f.a), (f.c)	TE	EX	IT
2	Capital gains for vehicles owned > 6 months	82.1(f), (b)	TE	EX	IT
3	Capital gains received from transfer of real estate to a partner natural person in exchange for share in enterpr	82.1(z)	TE	EX	IT
5	Interest earned from a licensed financial institution shall not be taxed at the source and shall not be included	131.5	TE	EX	IT/PT
7.1	Interest earned from a Free Industrial Zone (FIZ) Enterprise in a free zone shall not be taxed at the source and	131.9	TE	EX	IT
7.2	Dividends earned from a Free Industrial Zone (FIZ) Enterprise in a free zone shall not be taxed at the source ar	130.7	TE	EX	IT
7.3	Profit or distribution of profit earned by a Free Industrial Zone (FIZ) Enterprise from business permitted withii	99.1(m)	TE	EX	IT/PT
8	Profit (distribution of profit) earned from the supply of information technologies outside Georgia developed	99.1(p)	TE	EX	IT/PT
9	Distribution of profit earned by a tourist zone entrepreneur	99.1(q)	TE	EX	IT/PT
10	Distribution of profit earned by a special trading company from the conduct of permitted activities (except the	99.1(s)	TE	EX	IT/PT
11.1	Income gained by a resident legal person as interest for the loan securities issued before 1/1/2023 through a f	82.1(t <sup>2</sup> )	TE	EX	IT
11.2	Income gained by a resident legal person from the supply of equity securities issued through a public offering	82.1(t <sup>1</sup> ), (t <sup>3</sup> )	TE	EX	IT
12.1	Income earned by a non-resident as the interest from the loan securities issued by 1/1/2023 by a resident legz	99.1(l <sup>2</sup> )	TE	EX	IT/PT
12.2	Income earned by a non-resident as a result of supplying equity or loan securities by a resident legal person tl	99.1(l <sup>1</sup> ), (l <sup>3</sup> )	TE	EX	IT/PT
13	Dividends received by a member of an agricultural cooperative from the cooperative before 1/1/2023 shall no	130.4 <sup>1</sup>	TE	EX	IT
14	Supply of agricultural produce made in Georgia as a result of agricultural activity between an agricultural coop	100.4(g)	TE	EX	IT
15	Distribution of profit earned by a high-mountain settlement enterprise for an activity carried out in the same	99.1(w), 82.1.z <sup>8c</sup>	TE	EX	PT
16	Taxable income up to GEL 6 000 earned by a person with status of permanent resident in a high-mountain sett	82.2(c)	TE	EX	IT
17.1	Salary income received from a budgetary organization in a high-mountain settlement by a person with 3 or mc	82.2(a.f)	TE	EX	IT
17.2	50% reduction in income tax on salary income received from a budgetary organization in a high-mountain sett	82.2(a.f)	TE	EX	IT
18	Income received by a notary in the form of financial aid from the LEPL Notary Chamber of Georgia in a high-mc	82.1(z <sup>7</sup> )	TE	EX	IT
19	A natural person having the status of a micro business shall not pay income tax	86	TE	EX	IT
20	Salary paid up to GEL 6 000 by a person having the status of a small business to a hired person that is not taxed	100.4(d), 94.4(a)	TE	EX	IT
21	Income earned by persons organizing gambling clubs, slot machine saloons, or betting houses (other than incc	82.1(z <sup>2</sup> )	TE	EX	IT
25	Monetary award to sportsmen and their coaches for winning and/or taking podium places in Olympic Games, t	82.1(c)	TE	EX	IT
26	Alimony and the value of property (income) received by a natural person as a result of dissolution of marriage	82.1(d)-(e)	TE	EX	IT
27	Benefit received from a charity founded by the State within the scope of charitable activities.	82.1(b <sup>1</sup> )	TE	EX	IT
28	Benefit received from a charitable organization for financing treatment and/or medical services expenses	82.1(b <sup>2</sup> )	TE	EX	IT
29	Value of property received free of charge by a charitable organization by a registered socially vulnerable persi	82.1(z <sup>3</sup> )	TE	EX	IT
30	Taxable of income of up to GEL 3 000 of citizens of Georgia who are war veterans	82.2(a.a)	TE	EX	IT
31	Taxable of income of up to GEL 3 000 a natural person awarded the title of "Kartvli Deda" (mother of Georgia)	82.2(a.b)	TE	EX	IT
32	Taxable of income of up to GEL 3 000 a natural person who is a single mother or a person who has adopted a ch	82.2(a.c, a.d, a.e)	TE	EX	IT
33	Taxable income of up to GEL 6 000 earned by a person with a disability from childhood, as well as by a person v	82.2(b)	TE	EX	IT
36	Income received from lottery, the value of which does not exceed GEL 1 000	82.1(w)	TE	EX	IT
37	Income earned by a non-resident from a Georgian source as a result of risk insurance or reinsurance by a comp	82.1(q), 99.1(j)	TE	EX	IT/PT
38	Income earned by non-residents from leasing out the property that do[es] not belong to non-resident's perm	82.1(r), 99.1(k)	TE	EX	IT/PT
39	Income earned by supplying the surplus energy produced by a retail customer, as owner of a micro power plai	82.1(z <sup>8d</sup> )	TE	EX	IT
40	Interest and surplus (capital gain) income from government debt securities or securities of the National Bank	82.1(s), (t)	TE	EX	IT
41	Income (capital gain) and profit distribution from government debt securities or securities of the National Bar	82.1(s), (t), 99.1(l)	TE	EX	IT/PT
42	As a result of renting out residential space to an organization for residential purposes, the income received by	81.2	TE	RR	IT
43	Surplus (capital gain) income gained from the provision [sale] of a rental apartment (house) and the land attac	81.3	TE	RR	IT
44	Surplus (capital gain) income gained from the provision [sale] of a vehicle shall be taxed at a rate of 5%	81.3	TE	RR	IT
45.1	Taxable income of a person having the status of small business shall be taxed at 1%, except under Article 90.2	90.1	TE	RR	IT
45.2	Taxable income of a person having the status of small business shall be taxed at 3% if gross income received fi	90.2	TE	RR	IT
46.1	Presumptive lump-sum tax according to the types of activity determined by the government of Georgia may b	95 <sup>3</sup> (a)	TE	RR	IT/PT
46.2	Presumptive lump-sum tax according to the types of activity determined by the government of Georgia is 3% i	95 <sup>3</sup> (b)	TE	RR	IT/PT
50	Bets received by a bookmaker arranged in a system-electronic form are taxed at 7% [on gross income without	309.16	TE	RR	IT/PT
51	Remuneration paid by a tourist enterprise to a natural person under a relevant contract shall be taxed at the r.	133 <sup>2</sup>	TE	RR	IT
52	Capital gain (effect of tax deferral effect) is not recognized in income	151	TE	EX	-
53	Income (other) earned by a non-resident from a Georgian-based source not attributed to the non-resident's P	134.1(e)	TE	RR	IT/PT
54	Royalty income earned by a non-resident from a Georgian-based source not attributed to the non-resident's P	134.1(b <sup>1</sup> )	TE	RR	IT/PT
55	Taxpayer may fully deduct the value of fixed assets, except for those contributed to the enterprise's capital, i	112.1	TE	RR	IT/PT

## II.b Value-Added Tax Expenditures

The Tax Code contains a total of 66 Value-Added Tax Expenditure (VATE) items, which include a combination of exempt and zero-rated supplies. These items are deviations from the benchmark and, therefore, considered to be VATEs. The VATE description is presented in the Appendix 4 of the TER. The descriptions are organized according to the identification numbers that are given in the first column of the table 2. The Table 2 provides a list of VATEs as well as descriptions from the Tax Code, reference to Articles in the Tax Code, policy classification as TE, and type of measure (exemption “E” or zero rating “Z”). All items in Table 2 are regarded as non-structural TEs (see Appendix 1 of [TER](#) for a discussion of non-structural TEs as opposed to other types).

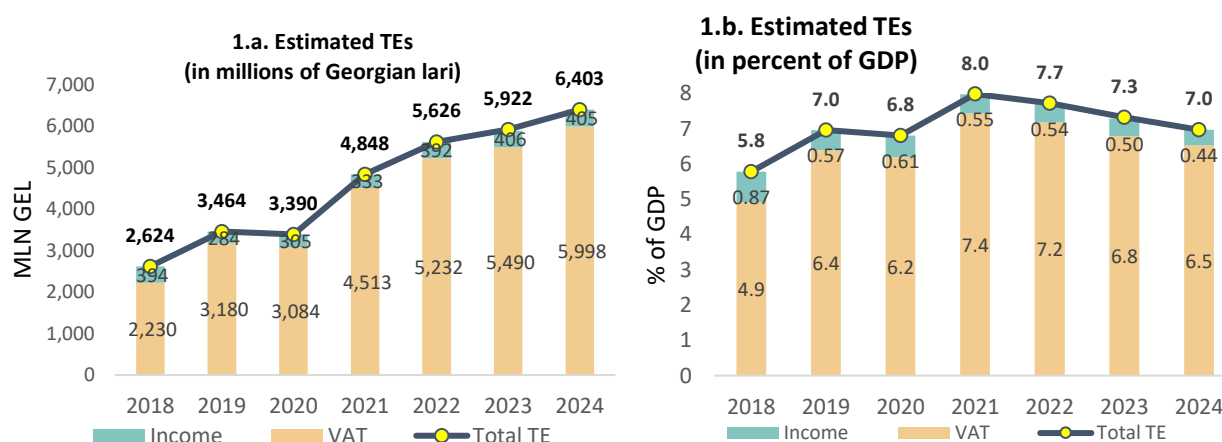
**Table 2. Value-Added Tax Expenditure Inventory**

Ref.	Type	Measure	Tax Code Ref.	Policy
1	E	10-year VAT exemption for investors after the commencement of the construction envisaged by an agreement	SOM, 5(2)(a)	TE
2	E	Arts education and sports training services to natural persons under 18	170.1(g)	TE
3	E	Child and adolescent protection by the guardianship and custodianship authority	170.1(i)	TE
4	E	Diabetic bread, which is labeled as such at the time of supply	170.1(q)	TE
5	E	Educational services and provision of related ancillary goods and services, and tutoring	170.1(e)-(f)	TE
6	E	Goods originated or manufactured in an occupied territory of Georgia from the occupied territory to a person having the	171.1(s)	TE
7	Z	Gratuitous provision of hotel accommodation for a maximum of 60 days in a year to the owner of hotel assets by a tourist	171.4(w)	TE
8	E	Import by a person selected by GRS for mandatory stamping/markings of excisable and non-excisable goods	173(z)	TE
9	E	Import of a motor car (NCNFEA 8703 and/or a motorcycle (including a motor bicycle) under the NCNFEA 8711)	173(g)	TE
10	E	Import of a vehicle provided for under NCNFEA 8703 10 110 (vehicles specially designed for travelling on snow, golf cars a	173(m)	TE
11	E	Import of an electric bus (including electric minibus) provided under the NCNFEA codes 8702 90 90 (Other)	173(z9)	TE
12	E	Import of baby food products and/or child hygiene products	173(a.d)	TE
13	E	Import of diabetic bread marked as such	173(k)	TE
14	E	Import of excise stamps by GRS and/or by a person selected by GRS	173(i)	TE
15	E	Import of goods (magazines, newspapers, and printed music) specified under the codes 4901, 4902 and 4904 00 000 00 of N	173(l)	TE
16	E	Import of goods (newsprint, other paper and paperboard)	173(d)	TE
17	E	Import of goods (printed books, children's picture, drawing or colouring books (NCNFEA 4901 and 4903)	173(z8)	TE
18	E	Import of goods exempted from import tax under Book X, except for import of goods from a FIZ	173(y)	TE
19	E	Import of goods intended for therapeutic/pharmaceutical purposes	173(a.a)	TE
20	E	Import of goods necessary for a person with a disability since childhood and a person with distinct and significant disabilit	173(a.c)	TE
21	E	Import of goods provided for under a grant agreement by a grantor or grantee	173(z1)	TE
22	E	Import of goods provided under NCNFEA group 30 (pharmaceutical products)	173(b)	TE
23	E	Import of goods provided under NCNFEA group 961900 (sanitary towels, pads, tampons, napkins and liners for babies)	173(a.e)	TE
24	E	Import of liquorice roots and a variety of plant-based materials, natural resins, animal and vegetable oils and fats, etc. (se	173(e)	TE
25	E	Import of live animals, other animal products, vegetal products, mineral substances, fertilisers, pesticides, etc. (see 173(f	173(f)	TE
26	E	Import of motor vehicle chassis, bodies, parts and accessories, and agricultural machinery and equipment	173(o)	TE
27	E	Import of radiopharmaceutical agents, wheelchairs and their parts and accessories, and various medical equipment and n	173(a.b)	TE
28	E	Import of yachts and other vessels for pleasure and sports, rowing boats and canoes (NCNFEA group 8903)	173(h)	TE
29	E	Import to a port of the goods caught by a person carrying out fishing, which are not processed or were processed before si	173(z6)	TE
30	E	Importation of agrarian pesticides and agrochemicals, seed and plant materials of agricultural plants according to the list	173(j)	TE
31	E	Importation of goods (other aircraft, including helicopters, aeroplanes) indicated under the NCNFEA Codes 8802 11 100 00	173(s)	TE
32	Z	International call termination services in mobile or fixed networks in Georgia	172.4(x)	TE
33	E	Lease of goods the supply of which is VAT exempt without the right of deduction under this Code	171.1(j)	TE
34	E	Lotteries and gambling services and games of chance except for those in which state owns over 50% interest	171.1(b)	TE
35	Z	Lotteries and gambling services and other games of chance by those lottery organisers in which State holds > 50% interest	172.4(r)	TE
36	E	Mandatory marking/stamping services of excisable and non-excisable goods by a person selected by GRS	171.1(m)	TE
37	E	Medical services and care, dental care and prosthetic services, and ancillary related goods and services	170.1(a)-(c)	TE
38	Z	Organized bringing of tourists by tour operators and supply of tourist products to them in the territory of Georgia	172.4(o)	TE
39	E	Personnel staffing services by religious organization for activities in 170.1(a), (e), (h), and (i)	170.1(l)	TE
40	E	Provision of ceremonial services, including a vehicle, related to a funeral	170.1(p)	TE
41	E	Provision of lecture courses through electronic media that are educational in nature and may come in a book	171.1(e)	TE
42	E	Provision of services by an organization in return for membership fee, and supply of directly related goods	170.1(j)	TE
43	E	Provision of services/supply of goods by organization exempt on basis of 170.1(a)-(e), (g)-(k) for fund raising	170.1(m)	TE
44	E	Restoration, rehabilitation, designing and research works on monuments of cultural or religious heritage, painting of cath	170.1(k), (s)	TE
45	E	Selling and printing services of magazines, newspapers, and printed music or advertising services by newspapers and mag	171.1(f)	TE
46	E	Services by passenger vehicles (except for taxis) with regulated prices on urban and interregional routes	171.1(k)	TE
47	E	Services on the basis of an agreement funded by a foreign organization for the liquidation of a natural disaster, accident o	171.1(u)	TE
48	E	Social services including provision of child-care services, early pre-school education, and care for sick, disabled and elderl	170.1(h)	TE
49	Z	Supply and/or importation of an electric bus (including an electric minibus) specified under the National Commodity Nomen	172.4(z4)	TE
50	Z	Supply and/or importation of goods (books) specified under the National Commodity Nomenclature of Foreign Economic	172.4(z3)	TE
51	E	Supply by the Patriarchate of Georgia of crosses, candles, icons, books, calendars and other liturgical items used only for r	170.1(r)	TE
52	Z	Supply of (agricultural) products obtained from goods fully made in Georgia and indicated in National Commodity Nomen	172.4(u)	TE
53	E	Supply of a plot of land	171.1(c)	TE
54	E	Supply of a plot of land and an apartment/dwelling house to a natural person if the supplier supplies this property to a na	171.1(d)	TE
55	Z	Supply of agricultural produce produced in Georgia (other than the goods (eggs) indicated in National Commodity Nomen	172.4(t)	TE
56	Z	Supply of ferrous and/or non-ferrous scrap metals and ferrous and/or non-ferrous metal waste if the goods receiving part	172.4(z2)	TE
57	Z	Supply of Georgian goods to a duty free shop for sale and the sale of goods and/or provision of food services at that locati	172.4(m)	TE
58	E	Supply of goods (notebooks) indicated in the National Commodity Nomenclature of Foreign Economic Activities Code 482	171.1(p)	TE
59	E	Supply of goods and/or provision of services related to the equipment, machinery, vehicles, spare parts and materials int	171.1(v)	TE
60	Z	Supply of goods by a person having the status of special enterprise to the occupied territory of Georgia	172.4(l)	TE
61	Z	Supply of goods produced in Georgia and intended for therapeutic/medical purposes, or supply by a pharmaceutical ente	172.4(z6)	TE
62	E	Supply of goods provided for by Articles 173(a)-(n) of this code (VAT exemption of import of goods)	171.1(w)	TE
63	E	Supply of state-owned property on the basis of privatisation programme	171.1(h)	TE
64	E	Sweeping, cleaning and waste management services to a municipality in a populated territory	171.1(i)	TE
65	Z	Transportation, loading and storage services in relation to empty vehicles including containers and carriages used during t	172.4(i)	TE
66	E	Universal postal services performed within power delegated by the State and supply of national postage stamps	170.1(n)-(o)	TE

### Section III. Total Estimated Tax Expenditures in Georgia

The report estimates tax expenditures (TEs) for Georgia during the 2018-2024 period (Figure 1). The total estimated TEs increased in 2024 in nominal terms and reduced as a share of GDP. Specifically, the total estimated TEs for 2024 amounted to 6,403 million GEL (7.0 percent of GDP), which is more than the same indicator for the previous year in nominal terms. However, it is lower as a share of GDP compared to the 2021-2023 period. The total estimated TEs increased in 2019 to 3,464 million GEL and then reduced to 3,390 million GEL in 2020. This decrease in totals of TEs was not only in nominal terms but also in percent of GDP (from 7.0 to 6.8 percent of GDP). After that, the TEs increased to 8.0 percent of GDP in 2021-2023 period, then declined to 7.7 percent and decreased again to 7.3 percent of GDP. This indicator decreased to 7.0 percent of GDP in 2024.

Figure 1. Georgia: Total Estimated TEs, 2018-2024



Source: GRS data, MoF calculations.

Source: GRS and GEOSTAT data, MoF calculations.

The TEs estimated in this report include the Value-Added Tax Expenditures (VATEs) and the Income Tax Expenditures (ITEs). In 2024, the VATEs accounted for around 94 percent of the total TEs (6.53 percent of GDP). The ITEs, on the other hand, accounted for the remaining 6 percent (0.44 percent of GDP) is accounted to the corporate and personal income tax expenditures (ITE). It should be noted that ITEs declined in 2019 relative to the previous year (from 0.87 to 0.57 percent of GDP), while the VATEs and, therefore, the total estimated TEs increased. The corporate and income tax expenditures (ITEs) are inclined in 2020 relative to the previous year (from 0.57 to 0.61 percent of GDP), while the VATEs and, therefore, the total estimated TEs fell. The estimated ITEs in 2023-2024 exceeding the level of 2022 and amounted to 405 million GEL in 2024, while it decreased as percent of GDP. The estimated VATEs increased to 5,998 million GEL (6.53 percent of GDP) in 2024 [for more detailed information

see [TER](#), p. 20]. It should be noted that the data provided in this report might differ from the data provided in the previous [TER](#) report due to the revised and updated data.

### **III.a Income Tax Expenditures**

The Report estimates Income Tax Expenditures (ITEs) for the old Corporate Income Tax (CIT), Distributed Profits Tax (DPT), Personal Income Tax (PIT) and other ITE regimes [for more detailed information see [TER](#), p. 21].

This Report estimates selected ITEs for the period 2018-2024 (Table 3). ITEs estimated in this Report mainly relate to personal income taxation (on average, at around 0.32 percent of GDP during 2018-2024), and the corporate income taxation (on average, at 0.09 and 0.16 percent of GDP for the DPT and the old CIT, respectively). Other items (e.g., small business status ITEs) are typically close to 0.03 percent of GDP in 2018-2024 and, hence, relatively immaterial.

**Table 3. Georgia: Detailed ITE Estimates, 2018-2024**

**Table 3.a. ITE Estimates in Million GEL and Percent of GDP**

Ref. (Table 1)	Provision	Description   Year	Million GEL							Percent GDP						
			2018	2019	2020	2021	2022	2023	2024	2018	2019	2020	2021	2022	2023	2024
		<b>I. Personal Income:</b>														
42,43,44	81.2, 81.3	Income from the Sale and Lease of Assets, of which:	7.38	6.48	5.85	6.76	10.29	13.72	8.99	0.02	0.01	0.01	0.01	0.01	0.02	0.01
42,43,44	81.2, 81.3	From Asset Sale	2.43	1.81	1.34	1.69	3.50	4.94	5.18	0.00	0.00	0.00	0.00	0.00	0.01	0.01
42,43,44	81.2, 81.3	From Asset Lease	4.94	4.66	4.50	5.07	6.79	8.78	3.75	0.01	0.01	0.01	0.01	0.01	0.01	0.00
Ref. for Prov. 82.1	82.1 (Residual)	Article 82, Part 1 (Miscellaneous)	102.81	100.79	88.04	160.81	158.94	142.05	121.71	0.23	0.20	0.18	0.26	0.22	0.18	0.13
Ref. for Prov. 82.2	82.2	Article 82, Part 2 (Miscellaneous)	3.53	2.69	2.67	2.98	3.02	2.60	1.71	0.01	0.00	0.00	0.00	0.00	0.00	0.00
21	82.1(2)	Income from organized betting in systemic-electronic form	0.26	0.15	0.10	0.13	0.16	0.15	0.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00
19	86	Natural person with micro-business status	15.51	18.13	16.55	19.22	20.23	20.40	20.77	0.11	0.04	0.03	0.03	0.03	0.03	0.02
5	131.5	Interest Income from Licensed Financial Institutions	23.01	26.84	33.22	34.55	38.07	49.80	62.83	0.05	0.05	0.07	0.06	0.05	0.06	0.07
4	82.1(u)	Memorandum Item: Foreign Income earned by Residents	7.82	5.67	7.06	74.22	46.13	84.44	79.99	0.02	0.01	0.01	0.12	0.06	0.10	0.09
		<b>Sub-Total, Personal Income (excl. Memorandum Items)</b>	<b>188.49</b>	<b>155.07</b>	<b>146.42</b>	<b>224.45</b>	<b>230.71</b>	<b>228.72</b>	<b>216.13</b>	<b>0.42</b>	<b>0.31</b>	<b>0.29</b>	<b>0.37</b>	<b>0.32</b>	<b>0.28</b>	<b>0.24</b>
		<b>II. Corporate Income:</b>														
Ref. for Prov. 99	99	<b>II.A. Distributed Profit Tax (DPT), of which:</b>	<b>31.59</b>	<b>26.61</b>	<b>34.97</b>	<b>47.05</b>	<b>67.94</b>	<b>86.10</b>	<b>116.18</b>	<b>0.07</b>	<b>0.05</b>	<b>0.07</b>	<b>0.08</b>	<b>0.09</b>	<b>0.11</b>	<b>0.13</b>
	n.a.	Distributed profits, of which:	24.62	20.73	27.25	36.66	52.94	67.09	90.53	0.05	0.04	0.05	0.06	0.07	0.08	0.10
15	99.1(w), 82.1.2(c)	High-Mountain Settlement Enterprises	0.64	0.83	0.97	0.59	1.09	1.06	0.86	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	99.1(j)	Virtual Zones	0.85	3.63	4.57	5.56	9.09	9.44	10.36	0.00	0.01	0.01	0.01	0.01	0.01	0.01
7.3	99.1(m)	Free Industrial Zones	0.04	0.10	0.27	0.17	0.54	0.95	1.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	99.1(i <sup>1</sup> ), (i <sup>2</sup> ), (i <sup>3</sup> )	International Companies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	99.1(q)	Tourist Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	23.09	16.17	21.34	30.14	42.27	55.64	78.01	0.05	0.03	0.04	0.05	0.06	0.07	0.08
	n.a.	Withholding on dividends, of which:	6.97	5.87	7.72	10.39	15.00	19.01	25.65	0.01	0.01	0.02	0.02	0.02	0.02	0.03
15	99.1(w), 82.1.2(c)	High-Mountain Settlement Enterprises	0.18	0.23	0.27	0.17	0.29	0.30	0.24	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	99.1(p)	Virtual Zones	0.24	1.03	1.30	1.58	2.58	2.67	2.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7.3	99.1(m)	Free Industrial Zones	0.01	0.03	0.10	0.08	0.15	0.27	0.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	99.1(i)	International Companies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	99.1(q)	Tourist Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	6.54	4.58	6.05	8.56	11.98	15.77	22.11	0.01	0.01	0.01	0.01	0.02	0.02	0.03
	Various	<b>II.B. Old Corporate Income Tax (CIT) Regime, of which:</b>	<b>162.48</b>	<b>89.10</b>	<b>112.32</b>	<b>48.28</b>	<b>73.02</b>	<b>85.02</b>	<b>36.54</b>	<b>0.36</b>	<b>0.18</b>	<b>0.23</b>	<b>0.08</b>	<b>0.10</b>	<b>0.10</b>	<b>0.04</b>
	n.a.	High-Mountain Areas	0.08	0.04	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Virtual Zones	0.06	0.06	0.09	0.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Free Industrial Zones	0.97	0.22	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	161.37	88.78	112.17	48.19	73.02	85.02	36.54	0.36	0.18	0.23	0.08	0.10	0.10	0.04
9	99.1(q)	Memorandum Item: Entrepreneurial Entities of the Tourist Zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		<b>Sub-Total, Corporate Income (excl. Memorandum Items)</b>	<b>194.07</b>	<b>115.71</b>	<b>147.29</b>	<b>95.33</b>	<b>140.96</b>	<b>171.12</b>	<b>152.72</b>	<b>0.43</b>	<b>0.23</b>	<b>0.30</b>	<b>0.16</b>	<b>0.2</b>	<b>0.21</b>	<b>0.17</b>
		<b>III. Other:</b>														
50	309.16	Bookmaker bets in system-electronic form	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
45	90.1, 90.2	Person having the status of small business, of which:	1.85	5.56	5.75	8.31	14.78	21.97	26.88	0.00	0.01	0.01	0.01	0.02	0.03	0.03
45.1	90.1	Taxable at 1% rate	1.92	5.80	6.19	9.26	16.89	25.13	31.26	0.00	0.01	0.01	0.02	0.02	0.03	0.03
45.2	90.2	Taxable at 3% rate	-0.07	-0.24	-0.43	-0.95	-2.11	-3.15	-4.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00
46	95.1(a)-(b)	Presumptive lump-sum tax regime	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
55	112.1	Full deduction of assets, of which:	9.41	7.60	5.83	6.91	7.98	10.29	9.41	0.02	0.02	0.01	0.01	0.01	0.01	0.01
		Personal income	2.38	2.56	1.43	2.75	2.82	3.83	2.38	0.01	0.01	0.00	0.00	0.00	0.00	0.00
		Corporate income	7.03	5.04	4.40	4.16	5.16	6.46	7.03	0.02	0.01	0.01	0.01	0.01	0.01	0.01
		<b>Sub-Total, Other</b>	<b>11.27</b>	<b>13.16</b>	<b>11.58</b>	<b>15.22</b>	<b>22.76</b>	<b>32.26</b>	<b>36.29</b>	<b>0.02</b>	<b>0.03</b>	<b>0.02</b>	<b>0.03</b>	<b>0.03</b>	<b>0.04</b>	<b>0.04</b>
		<b>Grand Total (I + II + III)</b>	<b>393.83</b>	<b>283.94</b>	<b>305.29</b>	<b>335.00</b>	<b>394.43</b>	<b>432.10</b>	<b>405.14</b>	<b>0.87</b>	<b>0.57</b>	<b>0.61</b>	<b>0.55</b>	<b>0.54</b>	<b>0.53</b>	<b>0.44</b>

**Table 3.b. ITE Estimates in Percent of Total Tax Revenue and Income Tax Revenue**

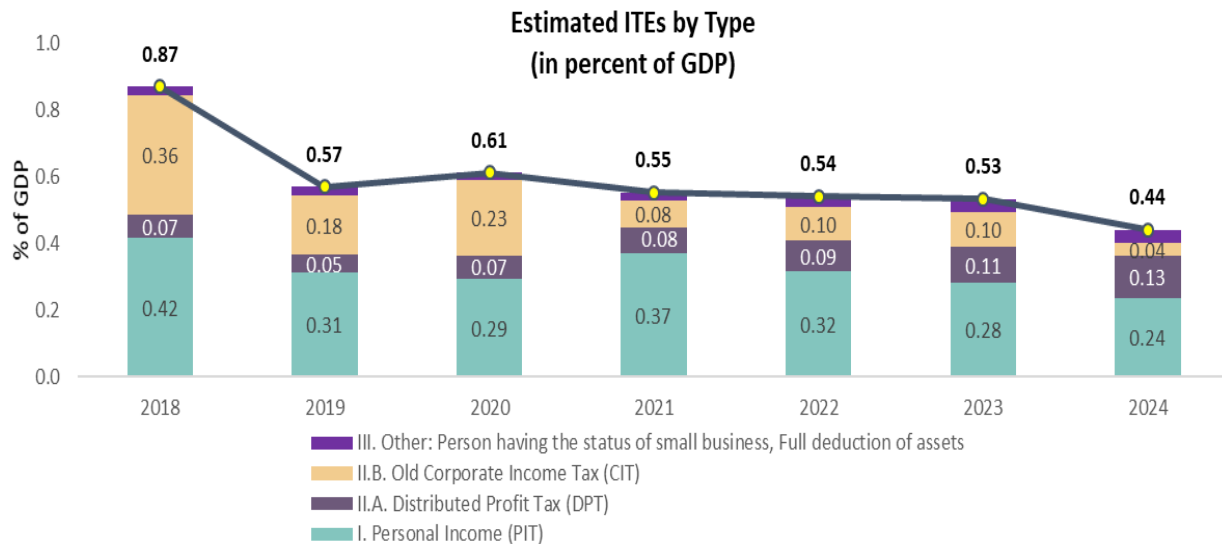
Ref. (Table 1)	Provision	Description   Year	Percent of Tax Revenue						Percent of Income Tax Revenue							
			2018	2019	2020	2021	2022	2023	2024	2018	2019	2020	2021	2022	2023	2024
<b>I. Personal Income:</b>																
42,43,44	81.2, 81.3	Income from the Sale and Lease of Assets, of which:	0.07	0.05	0.05	0.05	0.06	0.07	0.04	0.19	0.15	0.14	0.14	0.15	0.17	0.09
42,43,44	81.2, 81.3	From Asset Sale	0.02	0.01	0.01	0.01	0.01	0.02	0.03	0.02	0.06	0.04	0.03	0.04	0.05	0.06
42,43,44	81.2, 81.3	From Asset Lease	0.05	0.04	0.04	0.04	0.04	0.04	0.02	0.12	0.11	0.11	0.11	0.10	0.11	0.04
Ref. for Prov. 82.1	82.1 (Residual)	Article 82, Part 1 (Miscellaneous)	0.98	0.85	0.80	1.19	0.92	0.72	0.52	2.58	2.32	2.07	3.36	2.28	1.76	1.17
Ref. for Prov. 82.2	82.2	Article 82, Part 2 (Miscellaneous)	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.09	0.06	0.06	0.06	0.04	0.03	0.02
21	82.3(c)	Income from organized betting in systemic-electronic form	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00
19	86	Natural person with micro-business status	0.49	0.15	0.15	0.14	0.12	0.10	0.09	1.29	0.42	0.39	0.40	0.29	0.25	0.20
5	131.5	Interest Income from Licensed Financial Institutions	0.22	0.23	0.30	0.16	0.22	0.25	0.27	0.58	0.62	0.78	0.72	0.55	0.62	0.61
4	82.3(d)	Memorandum Item: Foreign Income earned by Residents	0.08	0.05	0.06	0.55	0.27	0.43	0.34	0.20	0.13	0.17	1.55	0.66	1.04	0.77
Sub-Total, Personal Income (excl. Memorandum Items)			1.80	1.31	1.33	1.66	1.33	1.16	0.93	4.73	3.57	3.45	4.69	3.31	2.83	2.08
<b>II. Corporate Income:</b>																
<b>II.A. Distributed Profit Tax (DPT), of which:</b>			0.30	0.22	0.32	0.35	0.39	0.44	0.50	0.79	0.61	0.82	0.98	0.98	1.06	1.12
Distributed profits, of which:			0.24	0.17	0.25	0.27	0.31	0.34	0.39	0.62	0.48	0.64	0.76	0.76	0.83	0.87
15	99.1(w), 82.1.1.c	High-Mountain Settlement Enterprises	0.01	0.01	0.01	0.00	0.01	0.00	0.00	0.02	0.02	0.02	0.01	0.01	0.01	0.01
8	99.1(p)	Virtual Zones	0.01	0.03	0.04	0.04	0.05	0.05	0.05	0.02	0.08	0.11	0.12	0.13	0.12	0.10
7.3	99.1(m)	Free Industrial Zones	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.01	0.01	0.01	0.01	0.01
12	99.1(i), (i'), (i'')	International Companies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	99.1(q)	Tourist Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	0.22	0.14	0.19	0.22	0.24	0.28	0.33	0.58	0.37	0.50	0.63	0.61	0.69	0.75
Without dividend, of which:			0.07	0.05	0.07	0.08	0.09	0.10	0.11	0.17	0.14	0.18	0.22	0.22	0.23	0.25
15	99.1(w), 82.1.1.c	High-Mountain Settlement Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00
8	99.1(p)	Virtual Zones	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.03	0.03	0.04	0.03	0.03
7.3	99.1(m)	Free Industrial Zones	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	99.1(i)	International Companies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	99.1(q)	Tourist Enterprises	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n.a.	Other, Non-Special Regime	0.06	0.04	0.06	0.06	0.07	0.08	0.09	0.16	0.11	0.14	0.18	0.17	0.19	0.21
<b>II.B. Old Corporate Income Tax (CIT) Regime, of which:</b>			1.56	0.75	1.02	0.36	0.42	0.43	0.16	4.08	2.05	2.64	1.01	1.05	1.05	0.35
High-Mountain Areas			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Virtual Zones			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Free Industrial Zones			0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00
Other, Non-Special Regime			1.54	0.75	1.02	0.36	0.42	0.43	0.16	4.05	2.04	2.64	1.01	1.05	1.05	0.35
9	99.1(q)	Memorandum Item: Entrepreneurial Entities of the Tourist Zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-Total, Corporate Income (excl. Memorandum Items)			1.86	0.97	1.34	0.70	0.81	0.87	0.66	4.87	2.66	3.47	1.99	2.02	2.12	1.47
<b>III. Other:</b>																
50	309.16	Bookmaker bets in system-electronic form	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
45	90.1, 90.2	Person having the status of small business, of which:	0.02	0.05	0.05	0.06	0.09	0.11	0.12	0.05	0.13	0.14	0.17	0.21	0.27	0.26
45.1	90.1	Taxable at 1% rate	0.02	0.05	0.06	0.07	0.10	0.13	0.13	0.05	0.13	0.15	0.19	0.24	0.31	0.30
45.2	90.2	Taxable at 3% rate	0.00	0.00	0.00	-0.01	-0.01	-0.02	-0.02	0.00	-0.01	-0.01	-0.02	-0.03	-0.04	-0.04
46	95 (a)-(b)	Presumptive lump-sum tax regime	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
55	112.1	Full deduction of assets, of which:	0.09	0.06	0.05	0.05	0.05	0.04	0.04	0.24	0.17	0.14	0.14	0.11	0.13	0.09
Personal Income			0.02	0.02	0.01	0.02	0.02	0.02	0.01	0.06	0.06	0.03	0.06	0.04	0.05	0.02
Corporate Income			0.07	0.04	0.04	0.03	0.03	0.03	0.03	0.18	0.12	0.10	0.09	0.07	0.08	0.07
Sub-Total, Other			0.11	0.11	0.11	0.11	0.13	0.16	0.16	0.28	0.30	0.27	0.32	0.33	0.40	0.35
<b>Grand Total (I + II + III)</b>			<b>3.77</b>	<b>2.39</b>	<b>2.78</b>	<b>2.47</b>	<b>2.28</b>	<b>2.19</b>	<b>1.74</b>	<b>9.89</b>	<b>6.53</b>	<b>7.19</b>	<b>6.99</b>	<b>5.66</b>	<b>5.34</b>	<b>3.91</b>

Source: GRS and GEOSTAT data, MoF calculations.

The total estimated ITEs amounted to 405 million GEL in 2024 that is lower than the previous period's one. The old CIT is a significant contributor in this reduction. PIT ITEs have also decreased, while the DPT ITEs have contributed positively. The estimated ITEs were at 394 million GEL in 2018, and decreased to 284 in 2019 (mainly due to the old CIT ITE, which decreased from 162 to 89 million GEL) and increased to 305 million GEL in 2020. The total estimated ITEs increased in 2021-2022 and amounted to 335 and 394 million GEL, respectively. The change in 2021 was due to the increase in PIT ITEs (from 146 million GEL to 224 million GEL) and the increase in 2022 was caused by the increase in corporate income TEs (from 95 million GEL to 141 million GEL). In 2023, the estimated ITE was 432 million GEL and the major contributor of the annual change was corporate income TEs.

The total ITEs were at 0.44 percent of GDP in 2024. The total estimated ITEs were at 0.87 percent of GDP in 2018 (mainly due to the PIT and old CIT regime), while in 2019 and 2020 they were at 0.57 and 0.61 percent of GDP (Figure 2). The abovementioned indicator was insignificantly reduced to 0.55 in 2021-2022 period. The decreasing trend was noticed within the period of 2023-2024 and was determined at 0.44 percent. It should be noted that, for 2024, the PIT ITEs decreased (from 0.28 percent to 0.24 percent of GDP), while the TE from the (old) CIT regime decreased from 0.10 percent (2023) to 0.04 percent (2024) of GDP. The DPT TE increased from 0.11 percent to 0.13 percent in 2024. As a result, a decrease in PIT and old CIT ITEs caused a reduction of the total estimated ITEs. As for the DPT ITEs, its increase was due to the higher tax expenditures in the financial sector in 2024.

**Figure 2. Georgia: Total Estimated ITEs by Type, 2018-2024**

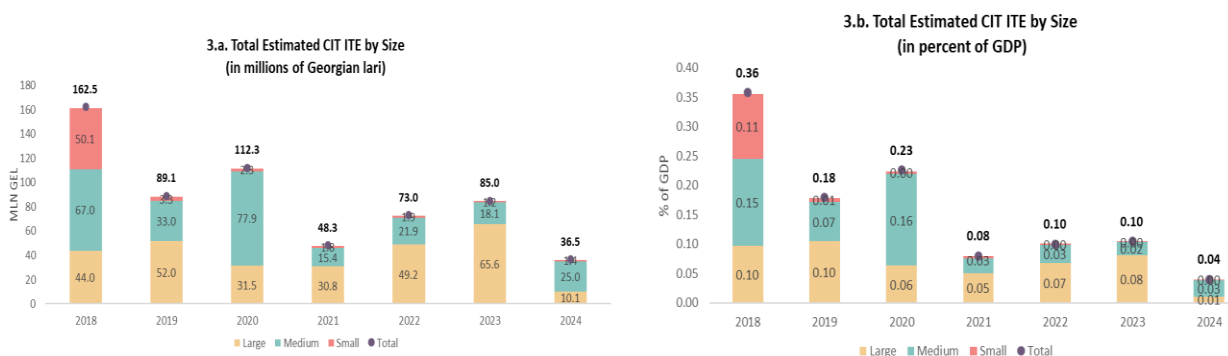


Source: GRS and GEOSTAT data, MoF calculations.

### III.a.1 Corporate Income Tax (CIT) (old regime)

The total ITE from the (old) CIT regime was 36.5 million GEL (0.04 percent of GDP) in 2024. During the period of 2018-2023, the (old) CIT regime ITE amounted to 162.5, 89.1, 112.3, 48.3, 73.0 and 85.0 million GEL, respectively. In terms of percent of GDP, they were 0.36, 0.18, 0.23, 0.08, 0.1 and 0.1 percent of GDP. This indicator decreased further to 0.04 percent of GDP in 2024 (Figure 3).

**Figure 3. Georgia: Total Estimated (old) CIT ITE by Taxpayer Size, 2018-2024**



Source: GRS and GEOSTAT data, MoF calculations.

Source: GRS data, MoF calculations.

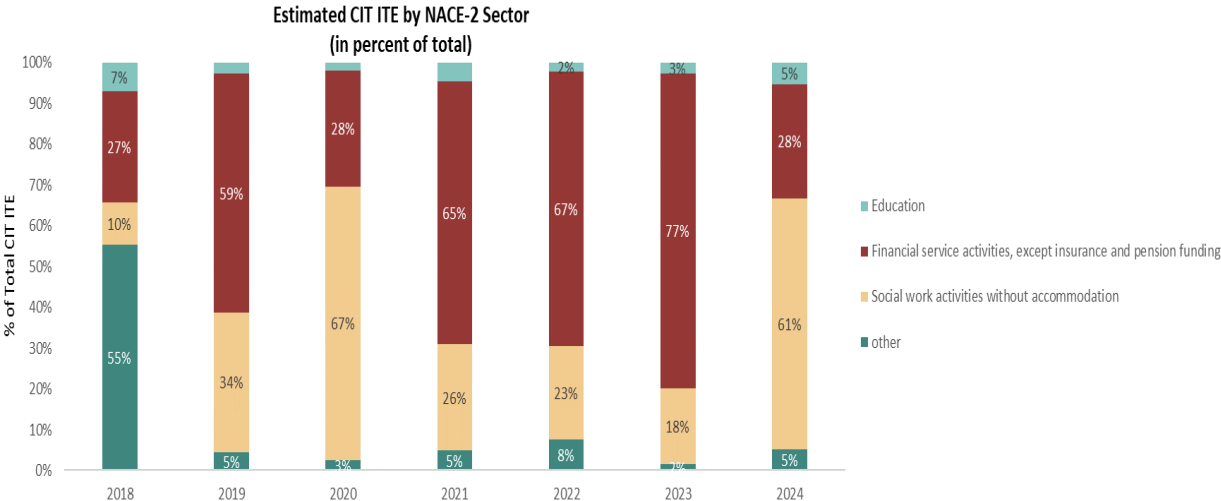
The (old) CIT regime ITEs for 2018-2024 are also analyzed by taxpayer category. These categories are defined by the order of the head of the Revenue Service N29355 - "On the determination, cancellation, and registration of the appropriate category of the amount for the taxpayer".

The (old) CIT regime ITE from Large-sized taxpayers were 10.1 million GEL (0.01 percent of GDP) in 2024, which is lower than during 2018-2023 (45.5 million GEL, on average, 0.08 percent of GDP). The small and medium taxpayers tax expenditures totally amounting to 26.4 million GEL (0.03 percent of GDP) and they mainly consist of tax expenditures of the medium taxpayers. In 2018, the medium-sized taxpayers had the largest share (0.15 percent of GDP) of the (old) CIT ITE. Their share was essential also in 2019-2020 years. This structure has changed in 2021-2022 and large-sized taxpayers have the largest share. The size of ITEs from large taxpayers increased from 44 million to 52 million GEL in 2019, which amounted to 0.1 percent of GDP. In the same period, the ITE from small taxpayers decreased from 0.11 percent to 0.007 percent of GDP, while the ITE from medium-sized taxpayers was reduced as well to 0.07 percent of GDP. In 2020, the medium-sized taxpayers still accounted for the largest share, which amounted to 77.9 million GEL or 0.16 percent of GDP, while, at the same time, the share of large taxpayers fell to 0.06 percent of GDP. Taxpayer shares still changed from 2021 and the large taxpayers had the largest contributions followed by the share of medium-sized taxpayers and the small taxpayers had the smallest share in the CIT ITEs. In 2024, the medium-sized taxpayer shares are 0.03 percent, which is still more than the largest taxpayers' shares.

Analyzing the (old) CIT ITE by **NACE-2** sector, in 2019-2024, the top sectors in the tax expenditure of the (old) CIT ITE were not very numerous, as the main part of the expenditure was occupied by social activities and financial sector. For example, the social work activities represented 61 percent (it was 18 percent last year) and financial sector has 28 percent in the old CIT ITE in 2024 (after 77 percent share in the previous year). It is also important to note

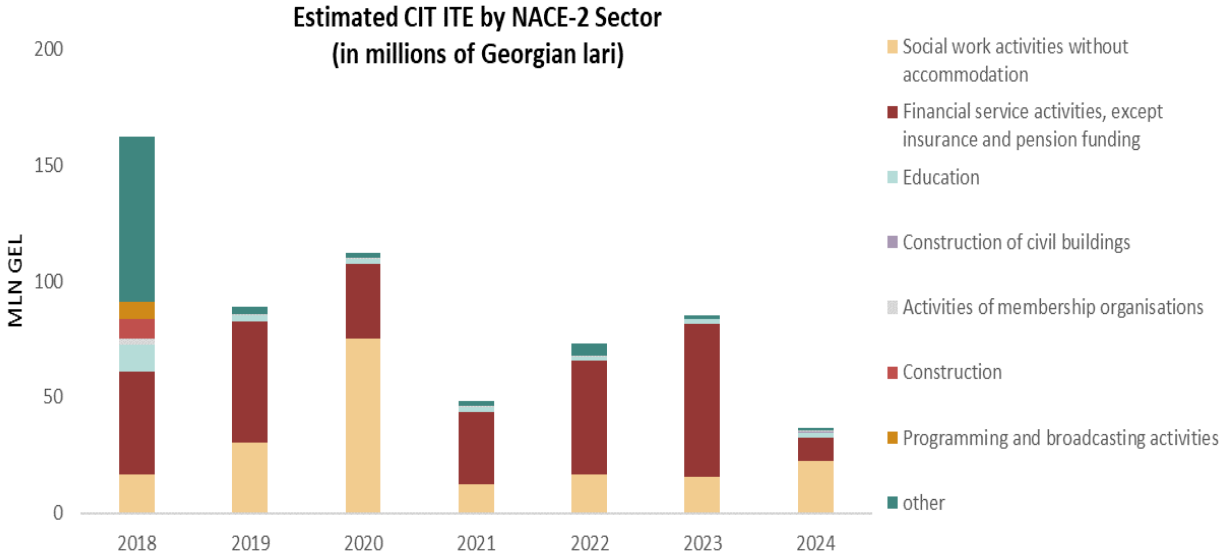
that the top contributing sectors were quite diversified in 2018. The top contributing sectors in underlined year included financial service activities, except insurance and pension funding (27 percent), social work activities without accommodation (10 percent), education (7 percent), construction (5 percent), Programming and broadcasting activities (4 percent). The sectoral composition of the (old) CIT regime ITE changed drastically in 2019: the contribution of the financial service activities, except insurance and pension funding (59 percent) and the social work activities (34 percent) increased more than twice relative to 2018. In 2020, social work activities reached to 67 percent of the total (old) CIT ITE and financial service activities, except insurance and pension funding decreased to 28 percent. In 2021-2023 period, the financial service activities, except insurance and pension funding increased significantly to 65, 67 and 77 percent, respectively, followed by the social work activities without accommodation with 26, 23 and 18 percent, respectively. As it is shown in the figure 4, the share of the social sector is still higher than the financial sector's TEs in 2024.

**Figure 4. Georgia: Estimated (old) CIT ITE by NACE-2 Sector, 2018-2024**



Source: GRS data, MoF calculations.

**Figure 5. Georgia: Estimated (old) CIT ITE by NACE-2 Sector, 2018-2024**



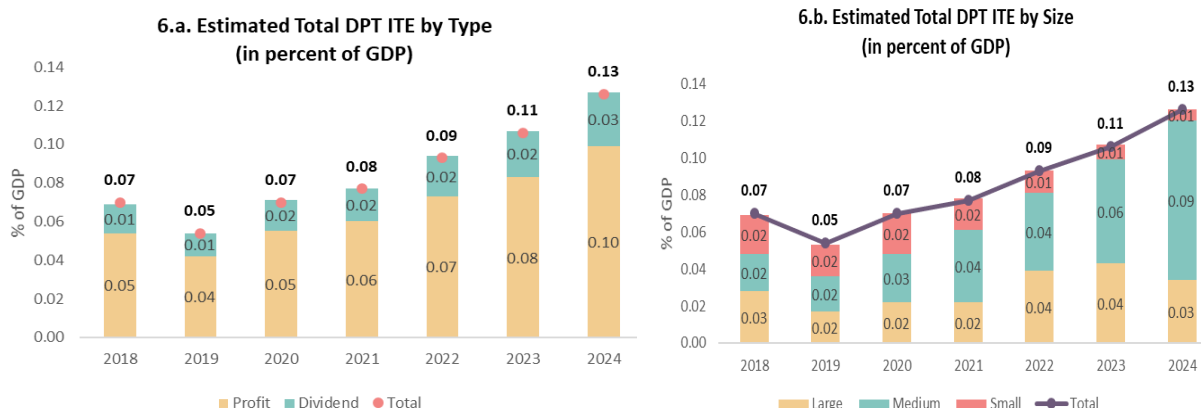
Source: GRS data, MoF calculations.

An analysis of the (old) CIT ITE by special regime (Free Industrial Zone, High-Mountain Settlement, International Company, and Virtual Zone), shows that no significant TE occurred during the estimation period under said regimes.

**III.a.2 Distributed Profit Tax (Estonian Model) (DPT)**

The total estimated DPT ITE in 2024 was at around 116.2 million GEL (0.13 percent of GDP), which is at the highest level relative to the previous years. In 2018, it amounted to 31.6 million GEL, decreased in 2019 to 26.6 million GEL, in 2020, it started to increase reaching 35.0 million GEL, 47.1 million GEL in 2021 and 67.9 million GEL in 2022. In 2023, this indicator increased and amounted to 86.1 million GEL.

**Figure 6. Georgia: Estimated Total DPT ITE by Type and Taxpayer Size, 2018-2024**

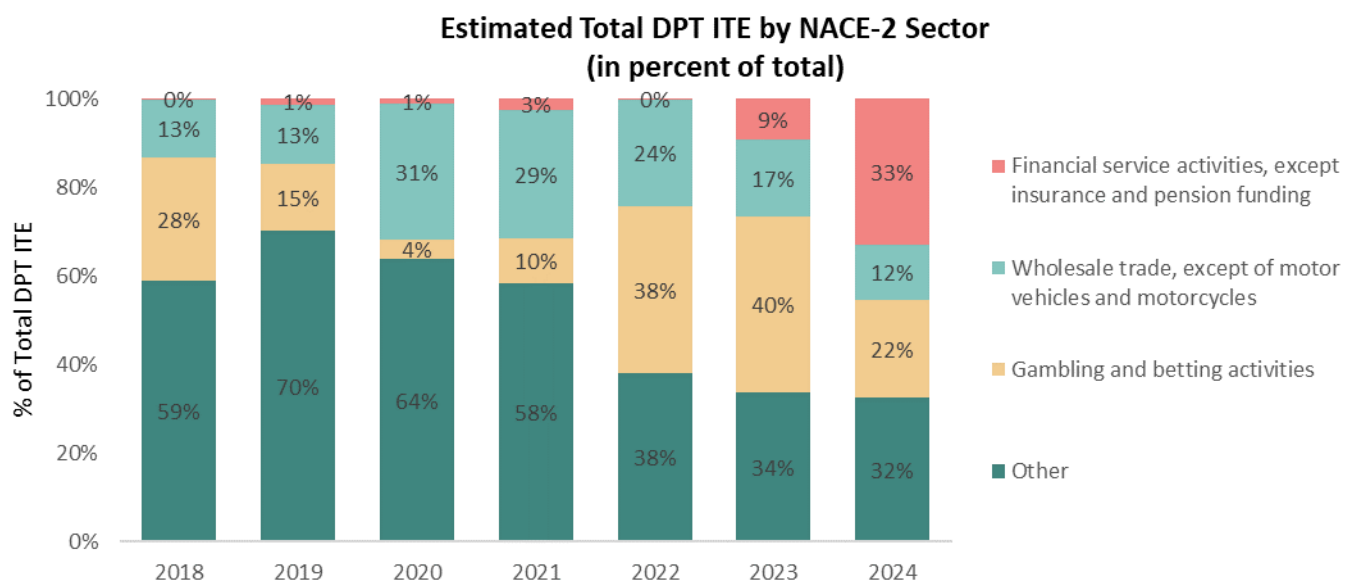


Source: GRS and GEOSTAT data, MoF calculations.

Source: GRS and GEOSTAT data, MoF calculations.

The total estimated DPT ITE is the sum of the DPT profit ITE and DPT dividend ITE. Overall, the DPT profit ITE amounted to 90.5 million GEL, while the DPT dividend ITE amounted to 25.6 million GEL in 2024 (0.1 percent and 0.03 percent of GDP, respectively). The estimated total DPT ITE varied between 0.05 percent and 0.13 percent of GDP during 2018-2024 (Figure 6). Until 2024 the large and medium-sized taxpayers' contributions to the total DPT ITE were almost equal and the share of the medium-sized taxpayers raised significantly in 2024. The medium-sized taxpayers' contributions were 0.04 percent of GDP during 2021-2022, while it increased to 0.06 percent in 2023 and reached to 0.09 percent in 2024. The contribution of large taxpayer' share were around 0.02 percent of GDP in 2018-2021 and they increased to 0.04 percent of GDP within 2022-2023 period. It was determined at 0.03 percent level in 2024. The small taxpayers' contributions were almost the same within 0.01-0.02 percent of GDP during 2018-2024.

**Figure 7. Georgia: Estimated Total DPT ITE by NACE-2 Sector, 2018-2024**



Source: GRS data, MoF calculations.

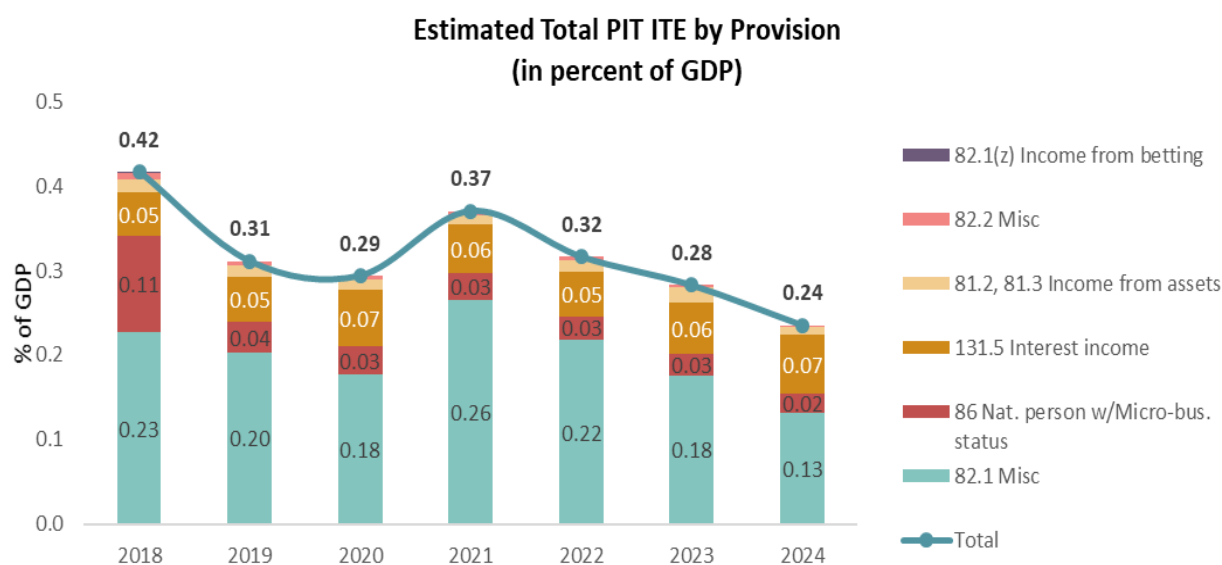
Sectoral shares in the total DPT ITE have been changed over the years. In 2018-2019, the share of gambling was high, in 2020-2021, the share of wholesale and retail trade, and in 2022-2023, gambling again has the highest share in the DPT ITE. As of 2024, the financial service share was the largest (33 percent) in the DPT ITE, followed by gambling sector (22 percent), wholesale trade (12 percent), computer programming (6 percent) and publishing activities (5 percent) (Figure 7). In 2018, the following sectors contributed the most to the total DPT ITE: gambling (28 percent), wholesale trade (13 percent), warehousing (12 percent), food and beverage services (10 percent) and construction (8 percent). In line with a decline in the gambling sector's share in the totals, the share of trade and computer programming increased in the following years. However, both of them decreased insignificantly in 2022-2023 period and the gambling sector's share increased (from 10 percent in 2021 to 40 percent in 2023). In 2024, the share of the gambling and trade sector fell again and along with that, the financial sector share raised from 9 percent (2023) to 33 percent (2024).

Considering the total DPT ITE by special regime (such as Free Industrial Zone, International Company, Pharmaceutical Enterprise, Virtual Zone, High-Mountain Settlement, Tourism Enterprise), the most of them are related to the Virtual Zones in 2024 (relative to other regimes). From 2018 to 2024, the DPT ITEs from virtual zones increased from 1.1 to 13.3 million GEL and is around 0.01 percent of GDP.

### III.a.3 Personal Income Tax (PIT)

The total estimated PIT ITEs reached 216.1 million GEL (0.24 percent of GDP) in 2024 that is lower than the 2021-2023 period level in nominal terms. Moreover, this indicator is the lowest in terms of percent of GDP compared to the period of 2018-2023. The PIT ITEs in 2018 were at 188.5 million GEL (0.42 percent of GDP). Then, it started to decline, reaching 155.1 million GEL in 2019 and 146.4 million GEL in 2020 (0.31 and 0.29 percent of GDP, respectively). Since 2021, it increased to 224.5, 230.7 and 228.7 million GEL in 2021, 2022, and 2023, respectively (0.37, 0.32, and 0.28 in terms of the percent of GDP).

**Figure 8. Georgia: Total Estimated PIT ITEs by Provision, 2018-2024**

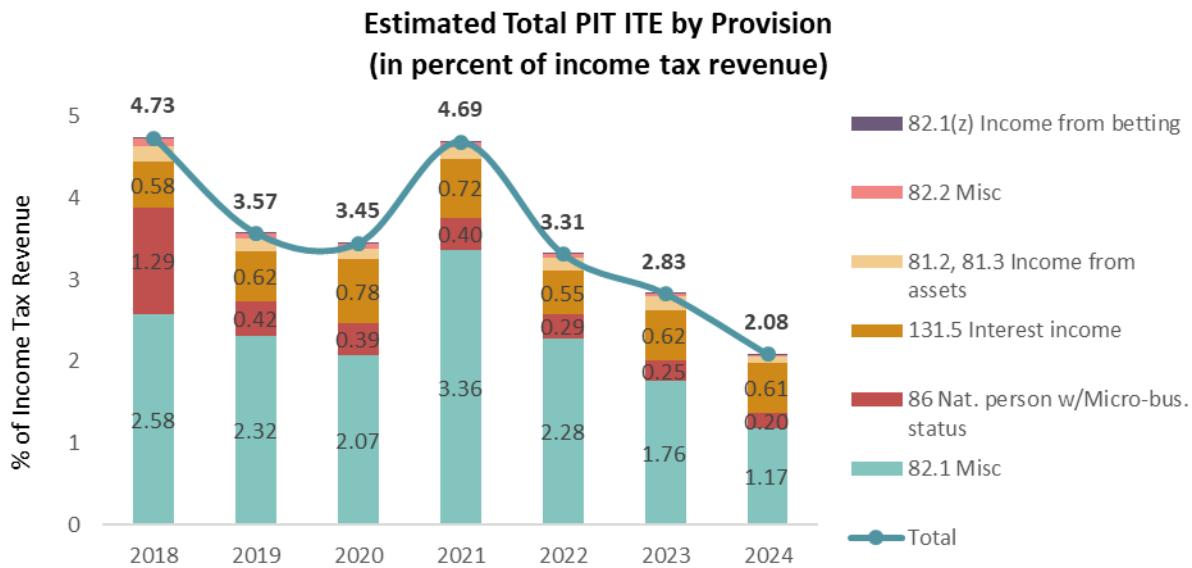


Source: GRS and GEOSTAT data, MoF calculations.

Note: The interest income ITE calculation considers absence of interest rate parity (IRP), uses the average GEL-USD exchange rate from the end of a given month to the 15th day of the following month, and accounts for deposits' currency composition (GEL, USD, EUR, other currencies).

The PIT ITEs estimated by provision show which type of benefit (for example: benefits from gambling income, benefits from assets and interest income, benefits from the income of a natural person with micro-business status, etc.) is associated with given ITEs. The contributing provisions to the total PIT ITEs vary little over the years. The main contributors in 2024 are miscellaneous (Article 82.1), interest income (Article 131.5), natural person with micro-business status (Article 86), income from assets (Article 81.2, 81.3), and, finally, income from betting (Article 82.1(z)) (Figure 8).

Figure 9. Georgia: Total Estimated PIT ITEs by Provision, 2018-2024



Source: GRS data, MoF calculations.

Note: The interest income ITE calculation considers absence of interest rate parity (IRP), uses the average GEL-USD exchange rate from the end of a given month to the 15th day of the following month, and accounts for deposits' currency composition (GEL, USD, EUR, other currencies).

As for PIT ITEs in 2018, the top contributor was miscellaneous (Article 82.1), representing 2.58 percent of total income tax revenue (0.23 percent of GDP), followed by natural person with micro-business status (Article 86) – 1.29 percent of total income tax revenue (0.11 percent of GDP), and interest income (Article 131.5) with 0.58 percent of income tax revenue (0.05 percent of GDP). As for 2023, the PIT ITE from interest income increased in terms of GEL, reaching 62.8 million, however it decreased relative to the income tax revenues, amounted to 0.61 percent, and declined as a percent of GDP to 0.07 percent. The PIT ITE from Interest income as a percent of GDP remained stable during 2018-2024 at around 0.05 percent – 0.07 percent. For the estimation of the interest income ITE, the first published [TER](#) used different approaches and conducted the sensitivity analyses based on each approach. Among the possible methods, the selected method assumes absence of interest rate parity (IRP)<sup>4</sup>, which implies that national- and foreign-currency deposits have different interest rates (and, thus, carry different levels of risk). Also, it uses the average GEL-USD exchange rate from the end of a given month to the 15th day of the following month, and accounts for the deposits' currency composition (GEL,

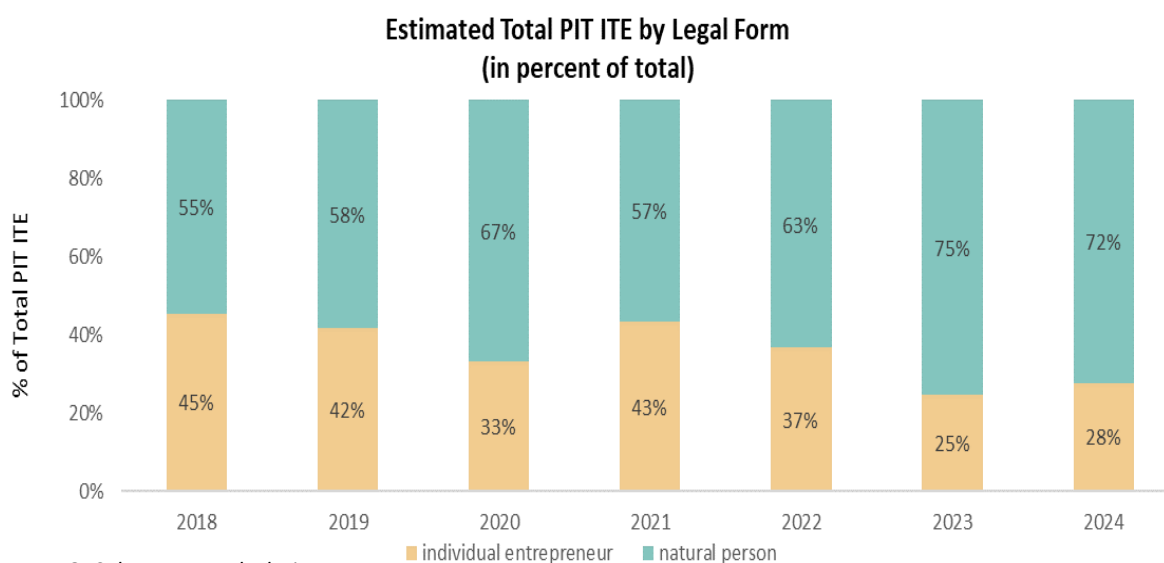
<sup>4</sup> Interest rate parity implies that deposits in national and foreign currency do not differ from each other in terms of riskiness.

USD, EUR, and other currencies)<sup>5</sup>. This Report estimates the interest income ITE under the approach which assumes absence of interest rate parity (IRP) and adjusting for tax payment timing and the currency composition of deposits.

The estimated ITEs of natural person with micro-business status (Article 86) did not change significantly in 2024 and amounted to 20.77 million GEL (0.02 percent of GDP), while it decreased to 0.2 percent of the total income tax revenue. It should be noted that this ITE fell from 1.3 percent from 2018 and was around 0.3 percent of total income tax revenue (0.04 percent of GDP, on average) during 2019-2023. The abovementioned reduction also led to decrease in estimated ITEs in 2019 (Figure 9).

The estimated total PIT ITEs by legal form show that the share of ITEs relating to natural persons in total PIT ITEs increased from 55 percent to 70 percent from 2018 to 2024. (Figure 10).

**Figure 10. Georgia: Estimated Total PIT ITE by Legal Form, 2018-2024**



Source: GRS data, MoF calculations.

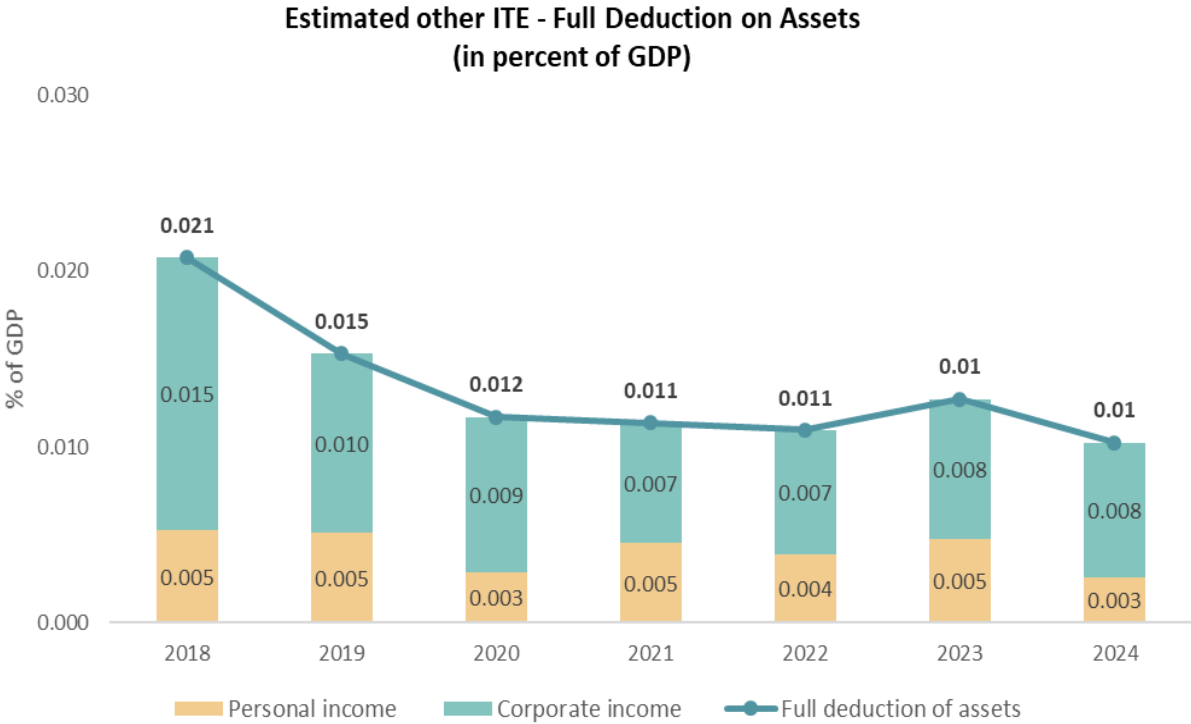
### III.a.4 Other Income Tax

The total estimated other ITEs mainly consist of ITEs from the full deduction of assets [see [TER](#) p. 61]. These ITEs amounted to 9.41 million GEL (0.01 percent of GDP) in 2024. The total amount of other ITEs since 2018 decreased from 9.4 million GEL to 7.6 million GEL (in 2019) and to 5.8 million GEL (in 2020), while it increased afterwards to 6.9 million GEL (in 2021), 8.0

<sup>5</sup> See [TER](#) Appendix 5 for further details.

and 10.3 million GEL in 2022 and 2023, respectively. The ITE from the full deduction of assets mainly came from the (old) CIT regime during 2018-2024. The old CIT contributed twice more than the PIT in the total full deduction of assets during this period.

**Figure 11. Georgia: Estimated Other ITE - Full Deduction of Assets, 2018-2024**



Source: GRS and GEOSTAT data, MoF calculations.

**III.b Value-Added Tax Expenditures**

Treatment of the informal sector is key to accurate the VATE costing. In this Report, the informal sector is not considered. However, within the VATE sensitivity analysis conducted in 2022 year several approaches were used where informality was also considered [see [TER](#), p 66].

The VATE costing analysis in this Report is focused on selected sectors. It includes five exempt sectors (child-care services; educational services; gambling, lotteries and games of chance; health services and medical devices and supplies; and motor vehicles<sup>6</sup>) and two zero-rated sectors (agricultural products; and drugs and pharmaceuticals). VATEs from these sectors constitute the majority (54.9 percent during 2018-2024, on average) of the estimated VATEs in

<sup>6</sup> VATE costing exercise for this sector does not consider its treatment under the excise tax.

this Report (Table 4). As for the total estimated VATEs, they amounted to 5,998.0 million GEL (6.53 percent of GDP) in 2024, which is higher than the levels in nominal terms during 2018-2023, but is lower than 2021-2023 indicators as percent of GDP. The estimated VATEs increased from 4.9 percent of GDP in 2018 to 6.4 percent of GDP in 2019 (in line with the overall GDP contraction), while decreased again in 2020 to 6.2 percent of GDP. Afterwards, abovementioned indicator changed and were 7.4, 7.2 and 6.8 percentages respectively, within the 2021-2023 period. It decreased again and reached 6.53 percent of GDP in 2024 (Table 4).

**Table 4. Georgia: Estimates of Detailed VATEs, 2018-2024**

**Table 4.a. VATE Estimates in Million GEL and Percent of GDP**

NACE-2	Ref. (Table 2)	Provision	Tax Treatment in Current Law   Year	Million GEL							% of GDP						
				2018	2019	2020	2021	2022	2023	2024	2018	2019	2020	2021	2022	2023	2024
A. Exempt																	
88	3, 48	170.1 (i), (h)	Child care services	33.4	34.9	45.9	39.8	48.8	32.1	48.4	0.07	0.07	0.09	0.07	0.07	0.04	0.05
85	2, 5, 41	170.1 (e) - (g), 171.1(e)	Educational services	337.8	478.3	400.8	504.0	637.5	802.7	808.2	0.74	0.96	0.81	0.83	0.88	0.99	0.88
92	34	171.1(b)	Gambling, lotteries and games of chance	2.7	80.4	89.2	183.3	192.6	277.2	191.0	0.01	0.16	0.18	0.30	0.26	0.34	0.21
86	19, 20, 27, 37	173 (a.a, a.b, a.c), 170.1(a)-(c)	Health services and medical devices and sup	365.4	488.6	427.0	635.0	644.1	689.9	845.3	0.81	0.98	0.86	1.05	0.88	0.85	0.92
29	9, 10, 26	173 (g), (m), (o)	Motor vehicles	51.9	62.6	79.1	135.5	190.1	184.9	172.2	0.11	0.13	0.16	0.22	0.26	0.23	0.19
B. Zero-rated:																	
01	52, 55	172.4 (u), (t)	Agricultural products	288.7	396.6	347.8	436.3	471.4	448.2	613.9	0.64	0.80	0.70	0.72	0.65	0.55	0.67
21	61	172.4 (z6)	Drugs and pharmaceuticals	214.1	287.1	344.5	477.4	537.7	450.4	593.0	0.47	0.58	0.69	0.79	0.74	0.56	0.65
Sub-Total (A + B)				1,294.0	1,828.5	1,734.4	2,411.4	2,722.3	2,885.5	3,271.9	2.85	3.68	3.48	3.97	3.74	3.57	3.56
All remaining RefAll remaining Provisions C. Other sectors				935.8	1,351.4	1,350.0	2,102.0	2,509.8	2,604.2	2,726.1	2.06	2.72	2.71	3.46	3.44	3.22	2.97
D. Grand Total (A + B + C)				2,229.8	3,179.8	3,084.4	4,513.4	5,232.1	5,489.6	5,998.0	4.91	6.39	6.20	7.43	7.18	6.79	6.53

**Table 4.b. VATE Estimates in Percent of Total Tax Revenue and VAT Revenue**

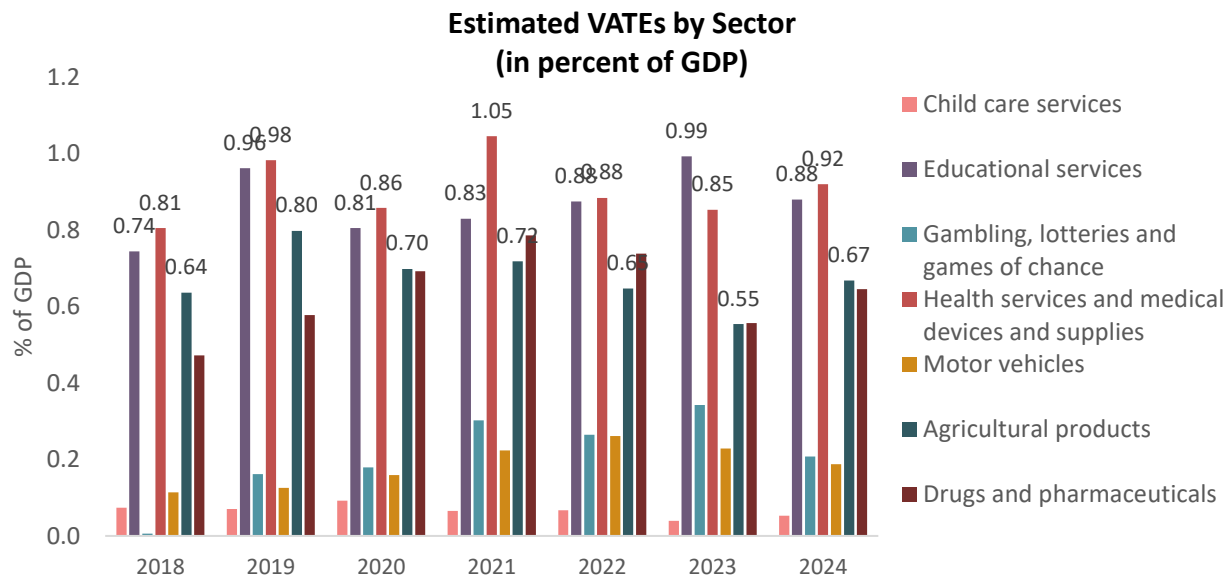
NACE-2	Ref. (Table 2)	Provision	Tax Treatment in Current Law   Year	Percent of Tax Revenue							Percent of VAT Revenue						
				2018	2019	2020	2021	2022	2023	2024	2018	2019	2020	2021	2022	2023	2024
A. Exempt																	
88	3, 48	170.1 (i), (h)	Child care services	0.32	0.29	0.42	0.29	0.28	0.16	0.21	0.76	0.61	0.95	0.64	0.66	0.38	0.52
85	2, 5, 41	170.1 (e) - (g), 171.1(e)	Educational services	3.23	4.03	3.65	3.72	3.69	4.07	3.47	7.74	8.42	8.26	8.13	8.67	9.57	8.69
92	34	171.1(b)	Gambling, lotteries and games of chance	0.03	0.68	0.81	1.35	1.11	1.40	0.82	0.06	1.41	1.84	2.96	2.62	3.30	2.05
86	19, 20, 27, 37	173 (a.a, a.b, a.c), 170.1(a)-(c)	Health services and medical devices and sup	3.50	4.12	3.89	4.69	3.73	3.50	3.63	8.37	8.60	8.80	10.24	8.75	8.22	9.08
29	9, 10, 26	173 (g), (m), (o)	Motor vehicles	0.50	0.53	0.72	1.00	1.10	0.94	0.74	1.19	1.10	1.63	2.19	2.58	2.20	1.85
B. Zero-rated:																	
01	52, 55	172.4 (u), (t)	Agricultural products	2.76	3.34	3.17	3.22	2.73	2.27	2.64	6.61	6.98	7.17	7.04	6.41	5.34	6.60
21	61	172.4 (z6)	Drugs and pharmaceuticals	2.05	2.42	3.14	3.52	3.11	2.28	2.55	4.90	5.05	7.10	7.70	7.31	5.37	6.37
Sub-Total (A + B)				12.4	15.4	15.8	17.8	15.7	14.6	14.1	29.6	32.2	35.7	38.9	37.0	34.39	35.16
All remaining RefAll remaining Provisions C. Other sectors				9.0	11.4	12.3	15.5	14.5	13.2	11.7	21.4	23.8	27.8	33.9	34.1	31.04	29.30
D. Grand Total (A + B + C)				21.3	26.8	28.1	33.3	30.3	27.8	25.8	51.1	56.0	63.6	72.8	71.1	65.43	64.46

*Source: GRS and GEOSTAT data, MoF calculations. Note: No informality assumed. Sectoral VATEs are calculated individually (other things equal), so the sum of all sectoral VATEs may not equal total VATEs in a given year.*

The estimated VATEs are mostly concentrated in a handful of sectors: health services, educational services, agricultural products, and drugs and pharmaceuticals. VATE costing shows that these sectors contributed nearly half of all VATEs throughout 2018-2024 period. The health services was the main contributor to total VATEs with 845.3 million GEL (0.92 percent

of GDP) in 2024, while educational services and agricultural products amounted to 0.88 and 0.67 percent of GDP, respectively. The VATE from the drugs and pharmaceuticals sector was at 0.65 percent of GDP in 2024.

**Figure 12. Georgia: Estimated VATEs for Selected Sectors, 2018-2024**



Source: GRS and GEOSTAT data, MoF calculations.

Note: No informality assumed. Sectoral VATEs are calculated individually (other things equal), so the sum of all sectoral VATEs may not equal total VATEs in a given year.

The costing by sectors for 2018-2024 shows that, on average, the health services VATE amounted to 0.91 percent of GDP (585 million GEL). However, it amounted to 0.92 percent on GDP (845.3 million GEL) in 2024 and is more than the same indicator of 2023 (689.9 million GEL). The VATEs increased for most of the selected sectors in 2024 in terms of nominal values but decreased as a percent of GDP. A significant increase in VATEs is observed in the educational services sector after 2018, when the VATEs increased from 337.8 million GEL in 2018 to 478.3 million GEL in 2019, though they decreased to 400.8 million GEL in 2020. However, within the period of 2021-2024 the VATEs in educational services increased and was observed at 808.2 million GEL in 2024. In the relative terms, the education sector VATEs increased from 0.74 percent (2018) to 0.88 percent (2024) of GDP (0.99 percent in 2023). Since 2018, the VATEs in healthcare sector have been increasing from 365.4 million GEL (for 2018) to 845.3 million GEL in 2024 (from 0.81 percent to 0.92 percent of GDP) (Figure 12).

## Section IV. Discussion and Conclusion

Tax Expenditures (TEs) are defined as departures from the benchmark tax system, and they often result in government revenue losses. The benchmark tax system relates to the idea of a reference tax system against which the presence of TEs is evaluated. The definition of the benchmark tax system in Georgia applies the “legal” approach, based on models and principles recognized by the Georgian Tax Code. A TE is, therefore, an explicit concession that departs from what is considered a generally applicable tax provision under the existing tax law.

The Tax Code contains a total of 52 Income Tax Expenditure (ITE) items and 66 Value-Added Tax Expenditure (VATE) items.

Given the socioeconomic objectives that often characterize preferential treatment under different tax regimes, it is crucial to analyze TEs arising from said treatment. The TE costing exercise included in this Report is a first step toward such analysis and aims to examine the estimated TEs for the VAT and personal/corporate income taxes since 2018, including via an analysis of the trends and composition of these TEs. This Report might have the different results compared to the 2018-2020 TE costing carried out in the IMF and USAID Reports. Specifically, this Report considers updated and revised data (including for year 2024) from [TER](#), which used a series of methodological improvements and also helped explain some deviations in estimates vis-a-vis past work on TE costing in Georgia. This Report estimated 2018-2024 data. However, data gaps in certain respects (e.g., VATE costing for 2024) persist, which may limit the accuracy of some of the (more recent) results.

This Report separately estimates total Value-Added Tax Expenditures (VATEs) and Income Tax Expenditures (ITEs). ITEs were, in turn, divided into Corporate Income Tax (CIT), Distributed Profits Tax (DPT), Personal Income Tax (PIT) and other income tax TEs (e.g., full deduction of assets, small business status). The Report applies the “revenue forgone” method in estimating TEs, assuming that there is no change in taxpayers’ behavior in response to the elimination of given TEs or tax administration.

This Report includes the selected approach from the sensitivity analysis described in [TER](#) for the ITEs and VATEs. Estimates chosen throughout the Report include:

- Interest income ITE estimate assumes absence of interest rate parity (IRP) and adjusting for tax payment timing and the currency composition of deposits.
- Small Business ITE estimate using a 6.97 percent profit margin assumption.
- VATE estimates assuming absence of informality.

The total estimated TEs amounted to 6,403 million GEL (7.0 percent of GDP) in 2024, which is more than in 2018-2023 in nominal terms but lower than 2021-2023 indicators as percent of GDP. Out of the total 2024 TEs, 6.53 percent of GDP (around 94 percent) is attributed to the

VATEs, while just 0.44 percent of GDP (the remaining 6 percent) is attributed to the ITEs. The sum of the (Old) CIT ITE and the DPT ITE decreased by half since 2018 due to a significant decrease in the (old) CIT ITE (from 0.36 percent for 2018 to 0.04 percent for 2024 of GDP). The total estimated PIT ITE also decreased from 0.42 percent (in 2018) to 0.24 percent (in 2024) of GDP.

As mentioned above, the first costing exercise by the MoF was conducted in 2020 and attached to the 2021 budget law. However, the document analyzed VATEs alone. Then, the TER report was published in 2022 that covers 2018-2021 and hence, constitutes an improvement in the TE costing conducted by the MoF and includes not only VAT but also income (CIT and PIT) TEs. The report is updated annually through the revised data. The detailed list of the inventory of TEs and the methodology used are the same as those presented in the 2022 report ([TER](#)). Future work by the MoF could focus on the updates of TE costing figures for subsequent years, by enlarging the sample of TEs costed via consideration of additional TEs as well as by examining the distributional and socioeconomic implications of TEs (including by means of a Regulatory Impact Assessment (RIA) analysis).

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