Georgia Business Perception Survey 2012

Georgia Tax Simplification Project

April 20, 2012
Brief Description of the Survey

• Survey Conducted in Jan-Feb 2012

• Owners and managers of 1029 active firms surveyed face-to-face:
  - 364 small (annual revenue <=100,000 GEL)
  - 398 medium (revenue between 100,000 and 1,500,000)
  - 267 large (revenue greater than 1.5 million)

• Stratified (by size, sector and region) random sampling design
Almost two-thirds of all firms experience no problems in relations with state bodies. Only 1 respondent out of 920 (0.11%) mentioned corruption.
Majority thinks Georgia business environment is more or less attractive

Opinions on Attractiveness of Georgian Business Environment

- Very attractive: 2%
- Quite attractive: 20%
- More or less attractive: 53%
- Not quite attractive: 18%
- Not attractive at all: 7%
Access to finance, tax burden and utility costs are major problems; few complain regarding corruption and courts.

Problems Faced By Businesses

- Access to finance: 57%
- High tax rates: 37%
- High utility costs: 31%
- Legislation: 19%
- Monopolistic market: 19%
- Political instability: 12%
- Uneducated work force: 11%
- Low purchasing power of population: 7%
- Scarcity of raw materials: 7%
- Tax administration: 7%
- Scarcity of foreign investments: 7%
- Courts: 3%
- Customs and trade regulations: 2%
- Corruption: 1%
Larger firms have better growth results in 2011 compared to smaller firms, which were more likely to decline.

**Business Growth in 2011 Compared to 2010**

- **Small**: 17% increased, 43% declined
- **Medium**: 31% increased, 32% declined
- **Large**: 52% increased, 26% declined
- **Overall**: 23% increased, 39% declined

**Legend:**
- Green: Increased
- Blue: Declined
Larger firms are also more optimistic regarding future expansion.

Majority plans expansion by their own funds (52%) and loans (37%).

Plans for Expansion in 2012

- Small: 29% plans expansion, 54% does not plan expansion
- Medium: 35% plans expansion, 31% does not plan expansion
- Large: 62% plans expansion, 26% does not plan expansion
- Overall: 33% plans expansion, 47% does not plan expansion

Plans expansion

Does not plan expansion
Demand-side problems are a major cause of business decline

Reasons for Business Decline

- Low purchasing power of population: 28%
- Low demand: 17%
- Shortage of working capital: 15%
- Unstable demand: 14%
- High competition: 11%
- Monopolistic market: 6%
- Unstable legislation: 3%
Similarly, increased demand is a major reason for business growth.

<table>
<thead>
<tr>
<th>Reasons for Business Growth</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand growth</td>
<td>47%</td>
</tr>
<tr>
<td>Proper marketing strategy</td>
<td>22%</td>
</tr>
<tr>
<td>Reinvestments</td>
<td>11%</td>
</tr>
<tr>
<td>Additional investments from partners</td>
<td>7%</td>
</tr>
<tr>
<td>Simplified legislation</td>
<td>5%</td>
</tr>
<tr>
<td>Streamlining of the loan disbursement</td>
<td>3%</td>
</tr>
<tr>
<td>Reduction of tax burden</td>
<td>2%</td>
</tr>
</tbody>
</table>
One third of firms are inspected by Revenue Service annually

Share of inspected enterprises

- Small: 34% (2010) vs. 37% (2011)
- Medium: 30% (2010) vs. 32% (2011)
- Large: 32% (2010) vs. 30% (2011)
- Overall: 33% (2010) vs. 35% (2011)
Most of the inspections are controlling purchases and cash registry control

![Bar chart showing the share of enterprises that underwent each type of inspections in 2010 and 2011.]

- **Cash registry control**: 61% in 2010, 65% in 2011
- **Controlling purchases**: 35% in 2010, 38% in 2011
- **Visual Inspection**: 29% in 2010, 30% in 2011
- **Stock-taking/inventory**: 10% in 2010, 16% in 2011
- **Desk tax audit**: 12% in 2010, 15% in 2011
- **Planned field tax audit**: 11% in 2010, 15% in 2011
- **Control field audit**: 13% in 2010, 13% in 2011
- **Chronometrage**: 6% in 2010, 6% in 2011
Other types of inspection (unrelated to cash registers) are conducted almost in 20% of firms.
Smaller firms are inspected more frequently

Small firms’ inspections are mainly related to cash registry control

Number of Inspections Per Inspected Firm

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Medium</td>
<td>2.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Large</td>
<td>1.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Overall</td>
<td>3.6</td>
<td>3.9</td>
</tr>
</tbody>
</table>
Trade firms are inspected more than businesses engaged in other activities

Excess of inspections in this area is mainly caused by cash registry control

![Bar chart showing share of inspected enterprises in 2010 and 2011 for different sectors: Construction, Manufacturing, Trade, and Services.](image-url)
However, inspection duration is shorter in trade firms than in construction and manufacturing.
Inspections are less frequent in Tbilisi than in the rest of the country.
Businesses that are temporarily closed or sealed due to inspections are few, and there is a declining trend.

![Graph showing share of enterprises that were closed, sealed, or where operations were delayed due to tax inspections.](chart)

**Share of Enterprises That were Closed, Sealed or Where Operations Were Delayed due to Tax Inspections**

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Medium</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>Large</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>Overall</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Vast majority thinks that tax inspections have legitimate reasons - to prevent tax evasion

**Reasons of Tax Audit According to Respondents**

- **Legitimate Reasons (prevent tax evasion):** 87%
- **Gov-t to receive additional income:** 9%
- **Inspectors want to justify their jobs:** 2%
- **Create obstacles to others (e.g. competitors):** 1%
- **Receipt of unofficial payments:** 1%
For one third of inspected firms negative experiences are related to penalties and fines
Different types of tax audit is perceived as problematic by small share of respondents

Share of Respondents for whom Tax Audits Represent a Very Significant or Acute Problem

- Controlling field audit: 18%
- Inventory taking: 12%
- Chronométrage: 10%
- Controlling purchases: 10%
- Cash register control: 9%
- Desk audit: 6%
- Planned field audit: 5%
- Inspection of accounting documents: 3%
One third of inspected firms are penalized

**Share of Firms Penalized Among All Firms**

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Medium</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Large</td>
<td>23%</td>
<td>19%</td>
</tr>
<tr>
<td>Overall</td>
<td>16%</td>
<td>16%</td>
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</tbody>
</table>

**Share of Firms Penalized Among Inspected Firms**

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>30%</td>
<td>31%</td>
</tr>
<tr>
<td>Medium</td>
<td>47%</td>
<td>39%</td>
</tr>
<tr>
<td>Large</td>
<td>55%</td>
<td>46%</td>
</tr>
<tr>
<td>Overall</td>
<td>34%</td>
<td>34%</td>
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</tbody>
</table>
Majority of penalties and fines for misuse of cash registers

Main Reasons for Penalizing

- Violation of rules of using cash register: 43% in 2011, 42% in 2010
- Deficiencies revealed in record keeping: 16% in 2011, 9% in 2010
- Delayed payment of taxes: 13% in 2011, 8% in 2010
- Delayed submission of tax returns: 15% in 2011, 6% in 2010
- Reduction of taxes in returns: 5% in 2011, 5% in 2010
- Deficiencies revealed in inventory taking: 17% in 2011, 5% in 2010
Firms choose to appeal penalties quite often

Compare 23% small appellants to 6% appealing in 2009

Share of Penalized Firms who Appealed Penalties

- Small: 23%
- Medium: 13%
- Large: 40%
- Overall: 22%
Majority of those who did not appeal thinks that penalties were fair
(small: 85% now vs 57% in 2009)

Reasons for not Appealing Penalties

- Penalties/fines were justly imposed: 63%
- We would not get a fair trial: 14%
- Appeals would cost too much: 10%
- Amount of penalty/fine was too small: 6%
- It would induce additional tax audits: 3%
- I did not know if I had right to appeal: 1%
Vast majority of importers and exporters think that customs clearance procedures are simple

Responses were received only from 16% of respondents engaged in importing and 2% of exporters.

Complexity of Import-Export Procedures

- **Import**
  - Very complex: 1%
  - Quite complex: 3%
  - Quite simple: 43%
  - Very simple: 52%

- **Export**
  - Very complex: 0%
  - Quite complex: 0%
  - Quite simple: 39%
  - Very simple: 61%
VAT, Profit and Payroll Taxes Represent the most Significant Burdens for Businesses

**Share of firms for whom given tax is a significant burden**

- **VAT**: 37%
- **Payroll Income**: 30%
- **Profit/IE Income**: 25%
- **Import (Customs)**: 23%
- **Excise**: 17%
- **Property**: 12%
However, some utilities (electricity, gas) perceived as significant burden by larger shares of firms

**Share of firms for whom given service cost is a significant burden**

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
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<tbody>
<tr>
<td>Electricity</td>
<td>42%</td>
<td></td>
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<td></td>
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<tr>
<td>Gas</td>
<td>40%</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>30%</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>16%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>15%</td>
<td></td>
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<tr>
<td>Public Registry Service Fee</td>
<td>11%</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Service Fee of Revenue Service</td>
<td>9%</td>
<td></td>
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</tr>
</tbody>
</table>
Only 6% of respondents have heard about government corruption experienced by other businesses.

Share of Respondents who heard about Corruption in Relations of Others with the Government

- Small: 7%
- Medium: 4%
- Large: 4%
- Overall: 6%
Majority thinks that information on legislative changes is accessible, and only 10% complain.

Opinions on Accessibility of Information about Legislative Changes:

- **Very easily accessible**: 15%
- **Quite easily accessible**: 36%
- **More or less accessible**: 39%
- **Quite poorly accessible**: 6%
- **Very poorly accessible**: 4%
TV and gov-t websites represent major information sources on legislative changes

**Information Sources about Legislative Changes**

- TV: 57%
- Webpage of Revenue Service: 45%
- Webpage of Ministry of Finance: 27%
- Webpage of Public registry: 21%
- Codex Software: 14%
- Legislative Bulletin (Matsne): 11%
- Webpage of the Parliament: 6%
- Radio: 4%
Option of alternative tax audit and elimination of chronometrage penalties are the most appreciated reforms, as opposed to legislative changes associated with cash registers.

Feedback on Recent legislative Changes

- Control of cash registers by private inspectors: 22% Negative, 17% Positive
- New cash registers: 20% Negative, 17% Positive
- Defining the rule for writing off the tangible assets: 15% Negative, 10% Positive
- Possibility of tax audit by private auditors: 36% Negative, 30% Positive
- Setting norms for production losses: 10% Negative, 5% Positive
- Abolishing penalty as a result of chronometrage: 30% Negative, 2% Positive
Majority of respondents (73%) think that business interests are more or less considered in legislative changes.

Opinions on Consideration of Interests of Businesses in Legislative Changes:

- Completely considered: 2%
- Quite well considered: 14%
- More or less considered: 57%
- Weakly considered: 21%
- Not considered at all: 6%
Almost three quarters of respondents are satisfied with the protection of business rights.

Perceptions on Protection of Rights of Businesses in Georgia

- Quite or completely protected: 29%
- More or less protected: 44%
- Weakly protected: 20%
- Not protected at all: 7%
Some businesses (17%) also complain regarding unfair competition.

Opinions on Fairness of Business Competition in Georgia

- Quite or completely fair: 33%
- More or less fair: 49%
- Quite or completely unfair: 17%
Businesses suggest to reduce taxes to improve business environment

### Suggested Measures for Improvement of Business Environment

- **Tax reduction**: 42%
- **Ensuring fair competition**: 21%
- **Elaboration of legislation**: 15%
- **Improvement of infrastructure**: 11%
- **Popularization of the country**: 6%
- **Other Measures**: 6%
Mixed perceptions whether business association membership helps to protect business rights

Does the Business Association Membership Contribute to Protection of Business Rights?

- Yes: 20%
- No: 22%
- Does not know: 59%
Many respondents simply don’t have information about business associations

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do not consider it necessary</td>
<td>44%</td>
</tr>
<tr>
<td>I do not know what will be the benefits</td>
<td>27%</td>
</tr>
<tr>
<td>I don’t have info about business associations</td>
<td>24%</td>
</tr>
<tr>
<td>Existing associations are weak &amp; functionless</td>
<td>6%</td>
</tr>
<tr>
<td>I don’t know how to become a member</td>
<td>5%</td>
</tr>
<tr>
<td>Membership fee is high</td>
<td>1%</td>
</tr>
</tbody>
</table>
Summary of Findings

- Majority view business environment and protection of business rights positively
- There are hardly any cases of corruption
- Some positive trends: reduction in suspensions of company operations, increased trust in institutions
- Problems remain, however: access to finance, penalties, high tax rates and utility costs
- Large businesses compared to small ones are doing well in terms of business growth
- Demand/lack of demand perceived as major factor of business growth/decline
- More businesses plan growth than in the past
- Tax inspections need optimisation: too much resources spent on small firms, in contrast with international practices