

[DOI: 10.20472/BMC.2017.005.007](https://doi.org/10.20472/BMC.2017.005.007)

TAMAR KBILADZE

Ivane Javakhishvili Tbilisi State University, Georgia

DAVID KBILADZE

David Agmashenebeli University of Georgia, Guram Tavartkiladze Teaching University, Georgia

POSSIBLE BOUNDARIES AND SOME INDICATORS FOR FORMATION OF TAX BURDEN OF SUSTAINABLE DEVELOPMENT OF ECONOMY

Abstract:

In modern interactive world international economic and financial organizations, scientists, representatives of business sector and national authorities are in constant search what kind of tax burden to link with contours of sustainable development of economy. Two fundamental circumstances are revealed to solve the problem. First, specific socio-economic situation in concrete country and second, global scale of changes, which is caused and related to business movement in different countries with different tax burden, to formation of new custom and border relations, to climate changes, to undeserved benefits in offshore zones and other different reasons which finally form playing rules in the field of taxation. Discussion about aggregation of sustainable economic development determinants in one index, possible boundaries and some indicators for formation of corresponding tax burden is given in the article.

Keywords:

Sustainable development, Tax Burden, Indicators, Taxation Paradigm, Tax Reform, Empirical Research

JEL Classification: H21, H27, G28

Introduction

Discussion about the concept of sustainable development is not new, the concept of sustainability, which has been developed, refined and modified since decades based on the so-called *Brundtland report* (WCED, 1987), encompasses three dimensions: the economic, the social (or socio-cultural), and the environmental dimension (Rogall, 2008). Given issue became more actual and debates among scientists is more active for elaboration of new concept after the financial crisis of 2008. Report of Stiglitz – Fitoussi was dedicated to mentioned problem, which was published in 2009, where is given methodology for evaluation of new indicators of economic, social and ecological progress of the country. In given aspect, new indicators of OECD and Eurostat are also very interesting.

Unfortunately, in mentioned discussions, public finances and particularly, the role of taxes in sustainable development is not represented with the proper dose, while as a ratio of GDP, in 2015 tax revenue accounted for 40,0% of GDP in the European Union (Eurostat Statistics Explained, 2015), also, it goes without saying that tax systems should primarily promote economic growth (Arnold, 2011; Acosta-Ormaechea and Yoo, 2012).

Result of tax reform in Georgia

Depiction of sustainable development in one generalized indicator is very difficult methodological work, where huge effort is addressed from world's famous scientists, international organizations and non-governmental organizations. In our opinion, possible borders of sustainable development of economy, on macro level, can be expressed in following formula:

$$E_{SD} = \sqrt[3]{E_{EC} \times E_S \times E_{EN}} \quad (1)$$

Where: E_{EC} – is compound sub index of economic development, E_S – is compound sub index of social indicators, E_{EN} – is compound sub index of characteristics of environmental indicators, E_{SD} – is compound index of sustainable development. (Kbiladze, 2016, p. 30)

In formula is given an attempt to make quantitative assessment of sustainability, but sustainability is uniquely difficult definition to measure, this is the case when in compound indicator we should express also 3 compound index with monetary as well as with qualitative characteristics. Thus, possible boundaries of sustainability according to panels of economic growth, social conditions and ecological environment should be depicted separately and afterwards sustainability should be expressed as one indicator.

One of the most important indicators which characterize sustainability is ecological footprint. Interesting methodology of calculation was offered to world economic community by French researchers. For example, such an important indicator as climate change nowadays has become global scale of problem and its current condition is the real threat for each country's sustainable development, harmful emissions in the nature and its movement from one country to another has neither economic nor custom borders. One of the climate change indicator is "carbon footprint" (Плато,2011), which is included by most of the countries as a basic characteristic indicator of sustainable development. Taking in consideration above mentioned, our opinion is about establishment of "carbon footprint" tax which is equivalent to internationally recognized indicator of ecological footprint. Received revenue should be used to neutralize harmful emission of carbon by cultivation of green plants. Coordinating bodies of this proposal may be international economic and financial organizations.

For achievement of country's sustainable development, necessity to work out tax paradigm, which ensures in each field of economy increase of entrepreneurial activity and prosperity of population is inevitable. In Georgia entrepreneurship is developing rapidly and accordingly, number of enterprises is significantly increasing. (Barbakadze, 2016). We consider that very important component of new paradigm is maintenance of tax burden optimality issues. In this regard, important reforms were implemented in Georgia, which reduced number of taxes from 21 to 6 (period:2004-2008), as well as tax rates were reduced. (Kbiladze, 2015). According to Georgian tax code, currently in country operates 6 types of taxes: 5 – state and 1 local. Correspondingly: Value added tax, income tax, profit tax, excise, import tax and property tax. After these reforms and improved administration process, tax revenues in Georgia has been increased in 2015 by 1,7 times in comparison with 2005. Tax burden parameter for the economy of Georgia ranges from 13.6% to 17.6%. (Kbiladze, 2015). Problematic issue for Georgia as well as for other countries in search of new tax paradigm arrangements is reduction of number of taxes, as well as rates of taxes. Here arises question: Which tax may replace existing 6 types of taxes? We think that this should be tax from sales. Opinion of business community representatives regarding this novation is very interesting. 1 tax instead of 6 types of taxes is myth or reality? In order to study the problem, authors of the article conducted survey in different types (large, medium, small) of enterprises, 62% of managers have positive opinion about replacing six types of taxes with one tax. According to types of enterprises, supporters of changes like this dominate in large enterprises. According to research results, entrepreneurs believe that from annual sales, tax paid to the budget should amount 14%. Results of survey show the same as we initially thought; entrepreneurs have motivation to pay minimum for their taxes, responses made us believe in mentioned. Particularly, in annual sales, actual amount paid from six types of taxes is 2 times more than entrepreneurs believe they do have to pay in case of one tax. Research results are given in table N1.

Table N1

Entrepreneur's inquiry results about further reduction of tax revenues

Types of enterprises	Total enterprises	Large	Medium	small	All type of enterprises	Large	Medium	small	All type of enterprises	Large	Medium	small
1. Replacement of 6 types of taxes with 1 tax:												
Is positive event	105	53	27	25								
Is negative event	44	19	11	14								
2. Inquired entrepreneurs believe that from annual sales tax paid to the budget should amount (%):					14	13	15	15				
3. Actual taxes paid to budget according to currently existing 6 types of taxes amounts (%):									29	25	30	33

(Author's calculations, based on survey results)

In order to prolong successful reforms in country, from January 2017, new tax reform has been implemented. Mentioned tax initiative is based on Estonian model of tax system and implies replacing of corporate tax with distributed profit tax, which means that the company will be taxed only if the profit is distributed, otherwise, if the profit will be fully reinvested, the company is free from taxation.

Some indicators of sustainable economy and tax burden

Nowadays, everyone agree that taxes play crucial role in business development of the country. (Kbiladze, Kbiladze, 2016, p.192). One of the most important issues for determining optimal tax burden on macro level is offering a new formula, in our opinion, determinants of compound formula should be figured out as follows:

$$TB_{opt} = \frac{\sqrt[3]{T_{man} \times T_{con} \times T_{acc}}}{\sqrt[3]{E_{ec} \times E_s \times E_{en}}} \cdot 100 \% \quad (2)$$

Where: T_{opt} - Optimal Tax Burden, T_{man} – Taxes from product (service) manufacturing, T_{con} – Taxes from consumption, T_{acc} – Taxes from accumulation (Kbiladze,2016, p.30).

Conclusion

Research has revealed that in modern, interactive world, taking in consideration ongoing global, economic processes, which is related to introduction of innovative indicators around the economic development, proper attention should be paid to problems about tax burden of sustainable development. In article is discussed some postulate issues of new tax paradigm, mentioned is based on an empirical research and modern approaches of tax system formation, which is directed to growth of tax revenues.

References

- Acosta-Ormaechea, S.; Yoo, J.(2012) Tax Composition and Growth: A Broad Cross-Country Perspective. *International Monetary Fund Working Paper WP*, 12-257.
- Arnold, J.M.; Brys, B.; Heady, C.; Johansson, A.; Schwellnus, C.; Vartia, L. (2011) "Tax Policy for Economic Recovery and Growth." *The Economic Journal*, 121(550): 59–80.
- Barbakadze, Kh (2016). About financial Assurance of small and medium enterprises, Conference Proceedings, 24th International Academic Conference, Barcelona, DOI: 10.20472/IAC.2016.024.046, p.34-40
- Eurostat, Statistics Explained, (2016). Tax Revenue Statistics http://ec.europa.eu/eurostat/statistics-explained/index.php/Tax_revenue_statistics
- WCED, (1987). Our Common Future. *New York: Oxford University Press*
- Rogall, H. (2008). *Ökologische Ökonomie, Eine Einführung*. 2nd ed. Wiesbaden: VS Verlag für Sozialwissenschaften
- Stiglitz, J.; Sen, A.; Amartya.; Fitoussi J.(2009) Report by the Commission on the measurement of Economic Performance and Social Progress
- Schatzenstaller, M. Sustainable Tax Policy. Concepts and indicators beyond the tax ratio, *Revue de l'OFCE*, 5/2015 (N° 141), p. 57-77
- Kbiladze, T.(2016). Tax Burden for the companies in Georgia. *Management Theory and Studies for Rural Business and Infrastructure Development*, Vol. 38, No. 1, 28–35
- Kbiladze, T.(2015). Theoretical and Empirical Basis of Optimal Tax Burden in Georgia, *International Journal of Trade, Economics and Finance*, Vol. 6, No. 6, 314-317
- Kbiladze, T.; Kbiladze D. (2016). TAX BURDEN INEQUALITY OF POPULATION IN GEORGIA AND CONCEPTUAL–METHODOLOGICAL PROBLEMS OF EVALUATION. 2016, Conference

Proceedings, 24th International Academic Conference, Barcelona, DOI: 10.20472/IAC.2016.024.046, 191-198

Плато, К.

(2011). Что нового в статистическом измерении благосостояния и устойчивого развития общества? Вопросы статистики, 11/2011