Fiscal Incidence Analysis in Georgia

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Georgia

- Small lower middle income country
  - Among the poorest and most unequal ECA region
- Rapid deterioration of public services after independence in 1991
- Deep pro-market reforms since 2004
  - Tax simplification (flat income and VAT tax rate)
  - 2011 Economic Liberty Act
  - Targeted social assistance (TSA), non-contributory pensions
- Recent years, increase of social spending
  - Old age pensions were increased
  - Universal Health Care (UHC)
  - TSA allowance doubled
- Personal income tax (PIT) refunds for low-wage earners
Main results: Taxes and direct transfers

![Graph showing cumulative proportion of market income and taxes]

- **Main results**: Analyzing the cumulative proportion of market income and taxes, the graph illustrates the impact of various tax and transfer policies on market income distribution. The graph compares different tax types (All Taxes, Indirect Taxes, Direct Taxes) and direct transfers (Old-age pensions, Market Income) across different cumulative proportions of the population.

![Graph showing cumulative proportion of market income and transfers]

- **Graph Details**:
  - **Y-axis**: Cumulative proportion of market income/tax
  - **X-axis**: Cumulative proportion of the population
  - **Legend**:
    - All Taxes
    - Indirect Taxes
    - Direct Taxes
    - Market Income
    - 45 Degree Line
    - All Direct Transfers
    - TSA
    - Old-age pensions
    - Market Income
    - 45 Degree Line
    - Agricultural cards
Main results: education and health

Cumulative proportion of market income/tax

Cumulative proportion of the population

Cumulative proportion of market income/benefit

Cumulative proportion of the population
Main results: Effect on poverty and inequality

Gini Coefficient - Contributory pensions as "transfers"

Poverty Headcount Rate, contributory pensions as “transfers”
(US$2.5PPP)
Engagement strategy

• Client request (Ministry of Economy)
  • Increase on fiscal spending
  • Analysis never previously done in the country
  • Initial analysis:
    • Labor income tax exemptions
    • Agricultural transfers

• Collaboration Macro-Poverty
  • Public Expenditure Review
  • Poverty Assessment
Dissemination and follow-up

• Continuous consultations during preparation
• Presentation to Government officials
  • Ministry of Economy
  • Tax collection agency
  • Central Bank
  • Ministry of Labor, Health and Social Affairs
• Documents shared
  • PER and Poverty Assessment
• Interest from the client on decreasing VAT regressivity
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