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About Inculcation of Estonian Model of Profit Distribution in Georgia

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Abstract
In the work it is studied the meaning of Estonian Model of profit distribution; innovative character of corporative tax model; main features of evaluation of Estonian Model. It is scientifically analyzed advantages and disadvantages of inculcation of Estonian Model of profit distribution in Georgia, expectations and effects of developing of the mentioned reform, its influence on the country's economic indicators; it is especially highlighted obvious character of positive influence of Estonian Model on small and medium-sized business. It is explained nuances, risks and problems; it is discussed stimulating character of Estonian Model on local and foreign investments.

Keywords: Estonian Model, Tax Reform, Profit, Budget Deficit, Distributed Profit, Foreign Investment, Small and Medium - Sized Business, Macroeconomic Indicators

Introduction
1. Preface
Estonia and Georgia have a lot in common. Both countries have suffered from pressure of Russian, German, or Ottoman/Persia Empires. Maybe common background conditions the fact that Georgia is one of the most important priorities of development of collaboration of Estonia. Georgia is the largest receiver of double development assistance of Estonia that mostly means sharing experience of Estonia as newly-formed European democracy and unique environment for business.
Being unique is the greatest assets for a small country which try to gain a place in global competitiveness of talent and capital. Giving gifts of little wine bottles to foreigners is nothing but being unique. Estonia does not claim to be home of wine, it can't be proud of mountains, picturesque landscape, hospitality and multi-vocal folklore. If not worldwide Skype, it is lowland, rather clean and boring green country. In spite of having too little resources to make impression on foreigners, Estonia is especially innovator and unique country when it comes to economic politics. In1992 Estonia was the only one among countries on transition stage, which joined its own currency, croon, with European currency by using famous rough mechanism known as currency council. In this way Estonia wanted to support unique position and comparative macro-economic stability of the country in hyper-inflation post-Soviet environment. Even in 2008 during economic crisis Estonia did not reject currency council and did not devaluate croon. Instead of currency issue and devaluing, it showed political strength, reduced wages and took painful measures of restructuration.
The classic –a two-stage- system of profit tax has operated in Georgia . On the first stage, the tax (15%) will be paid after creating the profit of the enterprise. Then, if the founder resident is an enterprise the dividends are not taxed for him. On the second stage, taxation (5%) only occurs for natural person or non-resident when the dividends are finally distributed. As a result of the reform tax rates will remain the same. Practically taxable object won't change, as well. However, the time of taxation will be postponed maximally on the first stage of profit by the natural person of non-resident until the dividend withdrawal. There is no doubt that the reform will have a direct effect on the activities of the enterprises which are registered as a legal entity. The funds which will be paid in the budget as soon as the income generated as a profit tax will remain in the enterprise's disposal until the final distribution of

profit or until the withdrawal from the country. Such regulations will increase the company's access to funds and encourage profit reinvestment in the same or new activity.
The big preparations were preceded by the establishment of Estonian model of distribution of profits in Georgia. In the process of working on the presented work we have found and studied the existing scientific literature and popular articles around this issue. Namely, we learned about [1]; [2]; [4]; [6]; [11]; [13]; [14]; [15] and others' scientific works.

2. Main Part.

2.1. Pension Fund and Mentioned Amount of Money Was Given Away in The Form of Pension.

Since gaining independence Georgia has carried out important economic reforms on the point of fiscal stimulation and development of economics. In 2003, after governmental changes, an economic group reduced tax burden and narrowed down taxes from 36 to 6. As a result, the country was able to reach important economic growth and gained liberal taxing image among investors.
In spite of important reforms, in taxing system of Georgia there were still unsolvable problems. Since 2012, approach of taxing organs, strictness of administering have improved considering responsibility of government desire and association agreement with European Union. Among them, freedom level of organs of taxing arguments has increased and European Union has helped taxing organs to harmonize with legislation and improve competency by means of different educational program (for example: "fraternization program of taxing organs")
Setting up business in Georgia is very easy that is proved by leading positions of Georgia in the World Bank business making index in the last decade but economic growth in Georgia is not so fast as beginning business.
In 2015 government representatives announced an important change in tax code_ introduction of Estonia model of profit taxation (later –Estonian Model). By adopting changes in tax code in 2016, Estonian model has become valid since 2017.
The most reliable and popular indicator to the country's economic advancement and development is growing rate of the whole inner product (WIP) and Georgian government's decision to carry out taxing reform to speed up WIP growth was timely if not late.
The aim of novelty of legislation is to speed up economic growth and to create and develop convenient conditions for business. In French Philosopher Montesquieu's opinion, society must know the amount of share that the government takes from the members of society. Changes in tax code is followed by some questions. Among them –if Estonian model will encourage growth of WIP and what challenges the country may face in 2017.
To answer these questions, first of all, we will discuss what changes were made in tax code.
Taxes of profit had stable part in the country's budget incomes and its percentage share was 11% on average according to latest statistics.

Incomes and percentage share according to profit taxes:

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Profit tax	82	101	162	210	341	555	592	518	576	832	851	807	829	1025
Share in budget incomes %	8	8	8	9	11	13	12	12	12	14	13	12	11	13

Source: *Ministry of Finances of Georgia.*

To discuss theoretically, indicator of economic growth measures how much the whole inner product grow in the specific country, the whole inner product is market values of all those final goods and service which are produced in the inner country in specific period of time.
In the whole inner product (y), (y=c+1+G+NX) four component parts are distinguished: 1.Consume; 2. Investments (I); 3. Government purchases (G) .4 Pure export (NX).
Tax reform means the fact that entrepreneurs will not pay profit tax if they make investments of company incomes in business, don't spend money beyond entrepreneurial business and don't spend more than necessary representative i.e. festive expenses for established entrepreneurial business, don't reduce market prices established by market arrangements with interrelated (relatives and other close individuals) and off-shore companies don't buy goods without documents or service, if they have less marketing relations with off-shore and individuals free from profit tax and so on.
Contents of the reform comes from the theory of economic growth and from those researches, which are carried out between economic growth and size of government , it is obvious that size of government in other equal conditions reduce as a result of a reform. According to majority of researches, carried out to state co-relation between economic growth and government size, reduction of government size in the whole inner product in other equal conditions causes speed-up of economic growth .

Research of "Management for development (G4G)".

Introduction of profit tax regime of Estonian Model announced by government was evaluated within the project range funded by USAID "Management for development" (G4G). Possible macro-economic results of Estonian model of taxation was evaluated by the mentioned method. Economists worked out "neo-classical general equilibrium growth model."
According to the mentioned research the reform will have important result, namely:
The reform has encouraging effect of investments. Funding capital will increase by 3, 23% in 1,5 year. The reform will cause growth of pure investments. Economic agents will invest more than before;
Common private consumption will increase by about 1,44%;
The reform will increase annual deficit of government budget at most by 0,85% in 1,5 year;
Herewith, growth by 1% of income tax and growth of additional cost tax by 1,25 % will eradicate the mentioned

deficit. To reach new budget balance the government have to think about not increasing costs during 2-3 years from the reform;

Current account deficit will reduce a little by staying dividends in Georgia according to investment effect of the reform;

The result of the reform will be shown in 1,5 year.

The authors of the reform also considered democracy and protection level of property right to be important, as these factors are important while evaluating predicting risks. Although it should be considered that Georgia' economic is more elastic than Estonia in carrying out such reforms as labor rights, monetary freedom, easiness of making business and so on. Before carrying out profit tax reform with the mentioned indicators Estonia was importantly behind than Georgia t today's readiness towards the reform.

Details of legislative changes

Model of profit tax before the reform considered a simple model of taxation: incomes-expenses = taxable profit*15%=tax of taxable profit.

The reform doesn't concern to physical person including individual entrepreneurs, organizations and financial companies such as: commercial banks, pawn shops. Financial sector will move to the mentioned tax regime from 2020.

All juridical individuals move to a new model automatically except financial business including constant organizations of non-resident companies.

According to a new model taxing object by profit tax is distributed profit which is distributed on a partner by an enterprise in the form of a dividend with monetary or non-monetary form.

Distributed profit is divided into 4 parts:

1. Distributed profit.

Distributed profit itself is divided into the following main parts:

a) Distribution of dividend in monetary or non-monetary form;
b) Purchase of goods or service from an interdependent individual with different price from market price;
c) Purchase of goods or realization with a person registered in the countries with concessionary taxation (offshore) differently from market price;
d) Operation carried out with an individual free from income tax/profit tax by an enterprise, if the arrangement price differs from market price;

2. Expenses or another payment which is not connected to economic business. These expenses are:

a) Unconfirmed expenses;
b) Expense, the aim of which is getting profit, income or compensation;
c) Goods/service purchased from a company having microbusiness status;
d) Expense made on goods/service by fixed tax payer;
e) Percent paid for loan over annual percent (24%) arranged by a minister of finances;
f) More expense than customs cost made for purchasing foreign goods from special trade company;
g) Expense carried out to purchase credit securities published by an individual free from profit tax registered in the country of concessionary taxation (offshore); penal sum of agreement relations or/and other fine, advance payment, give a loan or /and expense made for purchasing requirement towards this person;
h) Loans given to physical individuals, nonresidents, offshore nonresidents and individuals free from profit tax;
i) Loss originated for an individual registered in the country with concessionary taxation, also giving a person requirement right, who is free from profit tax according to the code or refusal requirement right;
j) Payment carried out to pay in the capital of a non-resident and also a person free from profit tax according to code or to buy share.

3. Delivery of goods/carry out service/or give monetary sources gratis;

Among them lack of inventory holdings or main means.

4. Representative expense that is more than arranged marginal quantity stated by tax code.

According to tax code more than 1% of representative expense of income will be taxed or if the company is unprofitable, then representative expense of a tax payer carried out in case of expenses more than 1%.

Besides, there are cases that are equaled to distribution of dividend. As a result of the reform, tax rate does not change and is still 15 %.

As a result of the reform, profit tax that is to be calculated on the basis of taxing operation, changes as following:

Four types of taxing objects are discussed above, and if market price of taxing object is to be taxed, then market price is to be divided by 0, 85/ and multiplied by 15%. For example, a company has 100 laris for entertainment expenses, that is not connected to the company business, in this case profit tax is 17, 64 ((100/0, 85)*15%).

Novelty of the reform is adopting profit tax on separate operations. According to the fact that in 2017 company may take along with ungiven dividends, the law maker considered the mentioned fact and on the basis of special formula it is possible to offset the amount of tax received from pure profit between 2008-2017 while distributing dividends, also accrued and paid tax according to these business periods.

It is possible to make offset on tax paid abroad and on tax occupied or paid at source. Also it is possible to reduce profit tax make offset in the following three cases:

1. Compensation amount (factually received amount) resulted from purchased lending securities, right to participate in capital (share) or deliver requirement;
2. Repaid amount of given loan / paid of advance or compensation amount of goods/ service got in return of paid advance in business period;
3. While abolishing support of loan with deposit main amount of loan in abolished business period.

Problematic topics according to new tax regime

Profit tax in pre-reform period was one of the difficult taxes. For its administering special situation manuals were created, to bring in reform it is necessary to make appropriate changes toward the mentioned directions;

In some cases the reform may cause growth of tax luggage for specific group of payers, for example, those ones who still had unused loss according to tax code that may be against section 94 of Georgian Constitution , according to which tax change should not increase a payer's tax luggage, according to this law, for those payers who did not choose the right of assignments of 100% main means or accelerated depreciation model lose accumulated amortization, which used to reduce their tax sum, or the business which became taxed by new regime or there is no special prices on economic business.

Tax payers are not used to declare monthly profit tax, which requires important attention to prevent from mistakes and accordingly tax fines. On the other hand, according to common practice gathering documents for business is difficult considering the fact that one may not have an appropriate document until the end of the month on the operation carried out on 30. The mentioned thing should not be considered as taxable operation that will be encouraged by changing intensive of declaration and herewith save time for financials for declaration, accordingly in index of business making of the world bank Georgia will not be failed, so lawmakers should think to transfer profit tax declaration from monthly to decade or twice a year declaration, it will reduce an simplify declaration and administering , herewith it may be profitable fiscally for budget as payers have fear of refinement of tax declaration according to growth of tax risks.

Resulting from the reform micro business, fixed tax payers and enterprises established according to mountain law may be considered as relatively secondary business subjects, as during business arrangement with them profit tax operation occurs. Herewith, share of small business in the whole economics and employment makes us think that development of small business needs tax compensation more than others. Here occurs the question about existence of business compensation defined by mountain law. Open access should be arranged to the list register of those individuals who are free from profit and income tax so that the status of those individuals will become familiar whom business will increase tax tariffs after business relations. As a result of the reform, arrangements among interrelated individuals and necessity of evaluation of arrangements existed in offshores causes overpricing of fulfilling tax duties and expenses of tax administering by a payer. In addition, rafting conclusions of transfer pricing by auditing companies in Georgia is innovative, expensive and requires hard work. Requirements of knowledge on financial standards increased resulting from the reform that will cause problems to business because of the existed level of business education. According to time value of money, taxation of advances with V.A.T. that was changed after introducing Estonian Model makes overpricing of money in time to payers regardless the fact that advance agreement maintains right of getting set-off in future.

The reform, as it was mentioned, will cause economic growth in other equal conditions, however, according to the fact that the government has decided not to reduce budget expenses and on the contrary, by increasing excise tax and borrowing debt, it is going to cover budget deficit, it is possible that economic growth rate will not increase resulting from the fact that government size towards the whole inner product does not reduce that should have been caused by Estonian Tax Regime. Herewith, excise growth reduces consumption that affects negatively on growth rate of WIP. It can be concluded that the government carried out important tax reform, which should have been followed by budget reform about changes of government size with WIP, that could have speeded economic growth in other equal conditions as tax and budget spheres are parts of one whole, fiscal policy.

2.2. Estonian Corporative Tax Model

Estonian tax Model based on expenses with 21% rate is considered to be one of the most unique and simple regimes in the world. This regime postpones period of paying tax from earning profit to its distribution. As a result, undistributed profit does not subordinate taxation notwithstanding that reinvesting took place or the amount simply remained in the company (Doing business in Estonia, Ernst &Young, 2012).

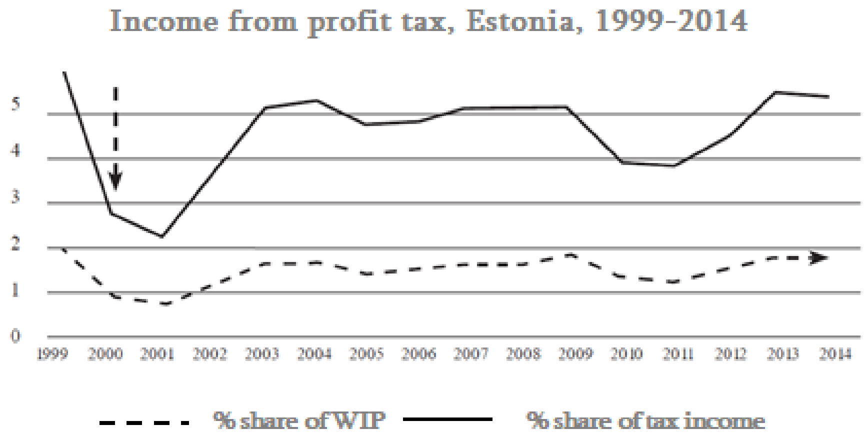
In 2000 Estonia took one more daring step and this time abolished tax of classical corporate profit. The main essence of this reform was to postpone paying tax from earning profit to its distribution either in direct dividends or indirect, roundabout way (gifts, dotation) and others. Tax rate while distribution in any form is 21%.

Innovation of this reform was not exactly avoiding roundabout profit distribution (The same business expenses are not deducted in any kind of normal tax regime). The aim of this reform was to create stimulus for businesses so as to leave profit in the company or carry out reinvestment. S reinvestment was important concern, new tax regime gave opportunity to companies to deduct fulfilled capital expenses immediately. This and the fact as well that undistributed profit was not taxed, acted positively on money flow of companies and gave Estonian corporations a chance to deal with hard days easily.

Considering the fact that reinvestment supports growth of company value, Estonia brought in 21% tax rate on capital profit got by selling property or securities. However, at the beginning of 2011 they decided to make revenue code more simple. Accordingly, there tax on capital profit was cancelled if it was transferred to special investment account and was taxed in case it was withdrawn from account.

Evaluation of Estonia Model

As the aim of Estonian model became taxation of not corporative profit (in special fiscal year), but individual person (dividends, roundabout distribution or capital profit), Estonian corporations always pay taxes, which corrects season cycle of tax profit, In addition, most importantly, profit of tax method based on expenses is a simpler way of tax register and audit procedures.



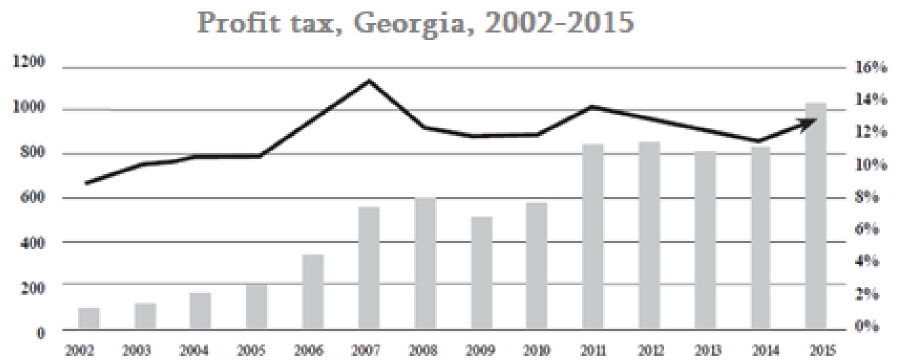
Along with carrying out the reform, corporate tax income in budget importantly reduced in 2000. Compared with 1999, corporate tax income almost halved and reduced from 1638,8 million (that was 2% of WIP) to 854,5 million kroon (which was 2% of WIP). In the following years the mentioned indicator was improving and in 2004 it was 2,522 million kroon (1,78% of WIP).

In 2000-2004 in Estonia direct foreign investments (FDI) comparatively grew: In 1999 it grew from 284 million Euros and by 2004 it already trebled. However, as Bellak & Leibriecht showed (in 2009), it's impossible to connect this sharp improvement to only tax reform. In this period In Estonia FDE flow may have been caused because of many other reasons, such as: market size, working market and related other topics.

Mason, Mericul & Water's research shows that corporate tax reform grew the size of liquid actives in Estonian companies and reduced funding with debts. The research also proves positive effects on investments and working productivity. According to the authors, such improvements of events encouraged firms' stability, by means of which working companies in Estonia easily dealt with financial crisis in 2008.

A lesson for Georgia

In spite of the fact that Estonian tax model seems to be very perspective, in Georgia's case it has some kinds of risks. Considering the situation that Georgia already has importantly liberalized tax environment, effect of Estonian Model may be comparatively low.



First of all, differently from Estonia, Georgia's budget is more dependent on (corporative) tax income of profit. At present tax of 15% profit (remained profit) or 20% paid on dividend in tax incomes of Georgia's budget is on the third place (after VAT and income tax) and amounts 12% of whole tax incomes on average, but 10% of budget expenses.

It's obvious that cancel of corporate tax in Georgia may damage budget profits in short term period more than it happened in Estonia in 2000 (in 1999in Estonia budget corporative tax income amounted 6% of the whole tax income0. In order to minimize this risk, it is possible to divide the fulfillment of the reform into years. In spite of the fact that this way out will avoid crisis of current fiscal year, such stepping approach will postpone advantage received by simplifying accounting records and audit procedures and in fact, this is the main essence of this model. Even 1% tax model makes businesses and revenue services to stay in current quite hard tax administering regime.

It will be possible favourable approach to carry out Estonian model immediately together with reduction of budget expenses and /or temporary growth of other taxes (e.g. VAT). Economic freedom act gives possibility of temporary growth of tax (for 3 years). To grow VAT for three years may partly cover breakdown in budget received by cancelling profit tax (this strategy was introduced by Parliament Budget Office of Georgia).

Somehow, before the reform is carried out, it is important Georgian government to evaluate its own expectations and dispel any illusion which may be existed concerning to the reform. Thus:

1. Georgia's tax regime of current profit already gives possibility to admit total expenses paid on investments in fixed actives in the year when it was first used (This regulation gives special stimulus to capital intensive companies, the actives of which experience quick wear-out. For representatives of trade and service sector it is less important). Thus, the offered reform will not produce stimuli of reinvestment. Instead, the

reform encourages companies to keep profit, i.e. to be less dependent on expensive external financing.

2. Because of the fact that companies will not have strictly fixed deadline for deducting capital, they may reduce the amount of investing decisions. Does it sound wrong? Not at all. Companies speedup to carry out such kinds of "investments" at the end of fiscal year to have time to push a new car and office furniture into exploitation until 31 December, which is not a productive decision. In spite of the fact that these decisions reflect on investing balance positively, such investments do not bring Georgia to the main goal that is called development of economics. Under new, Estonian model, businesses will have possibilities to keep profit, make rationalization of capital expenses and avoid sudden decisions.
3. Differently from enthusiast supporters' opinions, the fact that undistributed profit of profit will not be taxed, does not mean that corporations will not have to register their own expenses. In fact, tax accounts and audit will observe expenses thoroughly, so as to avoid dividends distribution, for example, by paying off-shore consultations, etc.
4. And last, there is no sign to be afraid that the offered reform will encourage companies to spend more on "consultations" and "hidden interests" than it happens today. In fact, new corporative tax model may offer better definition about which expenses are allowed according to business and in this way to fill gaps existed in the current tax code.

For such small countries as Georgia and Estonia, venturesome political experiments (e.g. 0% profit tax of Estonia or sharp deregulations carried out in 2003-2009) are good means to pay attention. Their sharp and instant influence on economics means to open the door to investors and shout loudly: welcome! Investors will come and their staying for a long time depends on such fundamental topics as market size, work expense and quality, advantage of location that is not under control of government.

2.3. Inculcation of Estonian Model in Georgia

2017 began with important changes for business individuals, namely, profit tax reform, the so -called Estonian Model became valid. Different parts of societies, economists, business representatives had different opinions about the reform. Everyone agreed that the model would have positive effect on business especially on small and middle business. However, it is interesting to realize what faults the model has, what problems it comes across and how prepared businessmen met the change.

Young economists' association carried out evaluation of regulating influence of Estonian Model inculcation in Georgia in 2015 by the project USAID "Government for development" (G4G) within grant, the last presentation of which was held in December 2015. According to the mentioned document, the authors evaluated potential economic effects of acting of Estonian Model. For this purpose they discussed neo-classical model of general balance of economic growth. In basic plot, which describes existed conditions before tax changes, the model calibration took place to be maximally near the real condition of Georgia. Calibration means selection of meaning of parameters existed in the model resulting from real indicators and its comparison with predicting indicators of the model. On the second stage new tax regulation came into basic plot model. The given analysis shows unitary effect which will set in 1,5 year after inculcation. According to evaluation, the reform will have positive effect on investments. Bond capital will increase by 3.23% which means that economic agents will carry out more investments. Real whole inner product will increase by about 1,44%. The whole private consumption will grow approximately by 0. 85%. As a result of the reform budget deficit will grow by no more than 3%. Besides positive effect on macroeconomic indicators, the inculcation of the model is followed by legislative or other kinds of risks. Tax expert Vajha Petriashvili evaluated the risks connected to legislative changes. These risks are mainly connected to double taxation and other faults of the model. The expert also thinks that Georgian legislation and profit tax system is mainly based on international experience that gives the country possibility to carry out changes considering the examples of other countries. The offered model is based only on Estonian experience and it is at risk whether it will be successful in Georgia as challenges connected to the inculcation of the model and evaluation of further condition of the reform is limited only by one country's experience.

About duration of profit tax reform

In Estonia profit tax reform was carried out in 2000 and continued for years. According to Jaan Mason's, Jaanika mercule's and Priit Wahter' s research published in 2013 (Transfer from the whole profit tax to distributed profit tax: are effects on firms?) Estonian tax system reform was evaluated where 1996-2008 panel data was used on firms' level to study profit tax reform effects on capital structure, which is defined by firm funds sources. They are: debt and chartered capital. They also evaluated influence on the reform investments, liquidity and productivity of enterprise. In order to compare firms' data in case of non-accomplishment of the reform, the authors used Lithuanian and Latvian companies according to their economic and political resemblance with Estonia. Results of the research showed that after profit tax reform actives liquidity increased especially for small firms, repercussions from investments increased by 17%, , whole factorial productivity (WFP) increased by 8% and undistributed profit share in whole capital increased by 8,1%.

As we see, In Estonia profit tax reform importantly improved the country's macroeconomic indicators and firms' condition. It should be mentioned that in Estonia's and Georgia's case the influence sizes of the reform are different. The effect of the reform in Estonia was higher than we had expected in Georgia that should be explained by tax pressure existed in Estonia before 2000 and its smoothening gave possibility to Estonian companies to make profit reinvestment. In addition, increased effect of the reform was mostly conditioned by important reduction of bureaucratic expenses, but in our country tax system is more liberal today than it was in Estonia in 2000 which means that starting position of the reform is better in Georgia and accordingly, we will get less effect from the reform compared with Estonia.

According to the model developed in evaluating research of regulating influence, calculation of sizes of compensating actions was carried out, which means that filling the mentioned deficit is possible by increasing income tax by one percentage point or by increasing consumption tax by 1.25 percentage point (taxes on purchasing goods or service, the payer of which is a customer, e.g. tax of additional cost, excise). According to their recommendation, in the process of transfer in new balance the government should not grow administrative expenses in the next years for a while.

2.4. Problems and Risks of Estonian Model of Profit Distribution.

Before speaking about problems and risks of the model, let's discuss what kind of important changes Estonian Model includes. The most important change in tax code is that profit tax is cancelled and distributed profit comes in. According to new the new model tax object is distributed profit. Expense or payment is also under tax which is not connected to economic business, to deliver goods without payment or service and/or deliver money or representative expense which is no more than fixed amount defined by code. It should be mentioned what kind of companies Estonian model spreads on. Estonian Model comes into Georgia without cancelling the previous model. There are subjects that still use the old model, they are individual entrepreneurs, organizations, non-commercial juridical individuals and public law juridical individuals. For such subjects as micro-entrepreneur, small entrepreneur, subjects with fixed tax; Estonian model will not act, because they have definite tax concession. For example, micro-entrepreneurs don't pay any profit tax. President of small and middle enterprise association of Georgia thinks that development of Estonian model will affect positively on small and middle business because if a company decides not to distribute profit, the saved amount will stay in business.

According to this model state budget will lose 500 million laris as profit tax that means 500 million investments in business from the government. It's another topic how the government fills the 500 million deficits, but in any case this model will obviously support business development.

Other economists think that inculcation of Estonian Model will effect positively on small and middle businesses because such companies had carried out reinvestments before operating this model and put finances in development of the company.

The behavior of these companies will not change and they will still put the amount in reinvestment but they will get additional 15%, so I think that for small and middle firms the model will have positive influence. As to the model itself, in my opinion, it was carried out in a wrong way.

According to the document about evaluation of influence of regulation prepared by Young economists' association, together with Estonian model reform the government should have carried out some other reforms so that the reform would have had positive results .According to the research, besides the fact that the reform has strong effect on investments growth, other reforms such as institutional non-stability which means demolishing formal institutions stability caused by political changes, may cover positive effect of the reform. As a warning it is mentioned in the document that if government fulfils changes in tax code, it is important government not to increase budget expenses over the next few years.

One of the recommendations was that government should maximally reduce bureaucratic expenses more than it would lose by Estonian model. In the end we government increased excise taxes, did not reduce bureaucracy importantly and accordingly Estonian model does not give the result that it should do. According to the research, private sector should have got 500-600 million laris with this model but today in the budget stated by third reading 2017 business gets only 300 million laris , that is Estonian model inflated twice because of other wrong reforms which they did together with this reform.

A representative of the consulting company BLH (Business & Legal Hub) thinks that challenges connected to inculcation of the new model are reflected mainly on small and middle companies: giving in monthly declaration will be quite labor- intensive for small companies because they have to present 12 declarations instead of one. For small companies business becomes harder as they have to hire an account who will have be charged with more tasks. In limited expenses they will have to pay more amount for a qualified accountant. [13]

The manager the model really has positive result especially on small and middle business but since financial managers of companies looked into nuances of the model in detail, some of them think that the model is under considerable risks in general.

With the help of this model it is possible to tax loans and relationships with offshore companies in advance. Loans and offshore relationship become more expensive for companies in advance, which is not liked by business, but in this way taxation risks of whitening money is eradicated.

While speaking about difficulties connecting to inculcation of this model Mikheil Chelidze mentions that as the model is qualitatively different from the old one, it takes some time before business people make proper navigation. "For this it was given 6 months but we gave some public lectures and it became obvious that the level of awareness is very low and accordingly our association has made decision to give free public lectures in Tbilisi as well as in big centers of regions with the support of accounting and auditing company "Financial Office". [2]

According to the document of regulating influence evaluation, calibration of the model and calculation of meanings of steady state before and after the reform showed that state tax incomes reduce by 2.71% in case of closed economics and 2.52 % in open economics. For negative fiscal effect compensation one possibility is to increase tax income by 1 percentage point. In this case the negative tax effect that is reached in new balance, will be fully compensated after the reform. The second possibility to cover negative fiscal effect is growth of VAT or generally consuming tax growth by 1.25 % point. It should be mentioned that such kind of changes will not damage economic growth a lot. Besides, in Estonian case budget profits were taxed within 3 years. Break in tax profits caused by tax system changes was partly covered by growth of excise rate. Considering the fact that in the model getting close to new balance is developing quickly, also if we consider that after new balance economics will continue long- term stable growth without tax changes, tax incomes will restore in 4 years. Thus, as it is shown from researches, the mentioned result will set in conditions of certain allowances. Of course, real result will be different if these allowances do not work, and we will see it after some years, when the model effects will be evaluated according to real indicators.

How prepared did business meet the inculcation of new model of profit distribution?

The second and most important topic is how prepared business met the current change. As we know, by 2016 working on Estonian Model had finished. In the spring it was known that the law would become legally valid from 1 January 2017. Businesses had a 6 –month-preparing period to transfer to the new system and meet changes prepared. However, Estonian Model became popular when its developing period approached. It's interesting to know how prepared small and middle businesses met the model and whether the government had close relationships with business representatives. Before it carried out legislative changes. In some economists' opinion, the government really has communicative problem with business.

"Before bringing in excise taxes, the government had not talked to any auto- importer companies, post – factum made them face the fact and said that after 1 January they would not continue their business as before. I think the government does not know yet what it is to have relationship with business. Any reform should fit business interests first. Generally, those reforms which are made nowadays are one man's created initiatives and not a country's challenge for quick economic growth."[7]

Business communication with government in the frames of Estonian Model is positively evaluated by Economists. They think that the government cooperates with business and in case of any drawback they consult with business to eradicate it: "The government listens to us, we have healthy argument and it is ready to make changes. It refuses about something but we work together to improve that is acceptable. The last day they made a change because of our demand. Namely, there are some companies, which remain in old regime of profit tax: banks, insurance companies, micro-financial organizations and so on. These companies were not taxed in some cases at all and were double taxed in other cases. This fault was corrected in the middle of December."[6]

Pre-reform tax law stimulated accumulation of capital actives i.e. main and turnover means as it gave possibility to deduct gained fixed actives (moveable and immovable property) with full amortization in purchased year. For example, if a company purchased machine-equipment, it charged them to amortization the same year and marked them in expenses, in this way it would reduce fixed profit of old system and accordingly expenses of profit tax. As a result, most tax payers had possibility to put off profit tax by 100% amortization system. Tax payers are used to the old system, so the new model, which also supports accumulation of capital may cause differences among tax payers' decisions and transfer to new system will take some time. As they recommend, adaptation with the system may take from some months to some years. Transitional period will be necessary for changes in definitions, manuals and legislative acts. Moreover, to avoid problems, it is necessary to hold intensive trainings.

The problem connected to model implementation should be studied in informative point of view, accountants or financial managers of companies need trainings as the new model differs from the old one qualitatively: " As to small budget companies, for them it is more expensive to hire an accountant of high competence. Accordingly, in this way small companies will have some kind of difficulties. Although I think that in middle-term and long- term period the new model will work more positively on small and middle business". [13]

Difference from Estonia is that in Georgia the profit distributed by profit tax is taxed in the end, but in Estonia it is taxed in the beginning. By its initiation the last one who takes dividend declaration form should be simplified. With holding company some kind of risks occur while filling in a declaration form. This fact caused different opinions, as though the government simplified the law, although administering becomes more difficult for companies. The model does not have complete form yet and the government still works in this direction. "We are waiting for changes, we have offered some of them. One of them is that those ones who paid profit tax in usual regime or taxed the profit and showed 15% that was to be paid in budget if received profits including last year will be distributed in 2017, 2018 or later, they will have tax already taxed ones in dividend part. The government agrees on this point, they are ready to make changes in legislation, but there is no ideal model in sight. It is not easy to improve this fault." [6]

Georgian Business Association also offered the government a change, which considers no taxation while buying securities circulated freely on foreign stocks, because in this case companies pay 15% more for trading on stocks which limited companies to buy and sell share in their companies and to whiten money in this way. In Shota Komladze's opinion this change should not spread to freely circulated securities purchase because trading process on stocks goes on clearly and whitening money is annulled.

"We offer that any Georgian company could buy any foreign company's securities and not pay for it additional 15 %. Also we offer investing and broker companies, pension funds abroad could buy and sell shares not only on stocks but in any companies for free. They pay 15% more for this business so we offer no taxation for them."

While evaluating influence of Estonian model on foreign investments it should be considered that loss of profit received by 100% deduction of amortization of main means for those investors who expect profit in short –term period will be restrictive but for investors oriented on long-term targets it will be stimulating. As to difficulties connected to activation of the law, adapting period will be real and it is difficult to say if the new model will be more simple for small and middle businesses in administrative point of view.

"We even demanded from ministry of finances not to use strict relations with business subjects because a lot of them find it difficult to understand the formula existed in the law resulting from time or resource. They will pass a few months' transitional period and guess it easily. I don't think administering will become easier, as they handed in declaration once a year and they do it once a month. Herewith, small companies have far easier operations". [6]

3. Conclusion

In conclusion, it should be mentioned that inculcation of Estonian Model is a big step forward for stimulating economics. Everyone agrees that the model is especially attractive for small and middle businesses. However, it should be considered the fact that the effects received from profit tax reform is more eye-catching in Estonia than it will be in Georgia because of differences in taxing environment between countries. In addition, effects received from Estonian model inculcation in Georgia are depended on numerous factors and are based on definite allowances. When economists and business representative evaluate the model, they think that the model will have positive results in middle term and long-term period. Before that the government should not increase administrating expenses importantly and in this way should support to fill budget deficit and not with increased excise taxes which was carried out spontaneously, without communication with business. The second important topic is faults in the model and readiness from business side. Procedures of filling declaration may be simplified for representatives of small and middle business but transfer to a new model is connected to more expenses and before financial managers make out the new system, some adaptation period is needed. It is obvious that inculcation of the model is connected to some difficulties and the government's communication with business representatives is very important. Any legislative change that government is planning to carry out should match with interests of business subjects and should be received as a result of active cooperation.

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