

ABOUT TAX ON FINANCIAL TRANSACTIONS IN GEORGIA

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ABSTRACT

In this article, we tried to document the feasibility of introducing a tax on financial transactions in Georgia. At the beginning, we described the main features of the mentioned tax, which was recently so-called The second name of the "Robinson Hoodtax" was also received, at the financial and economic forums held at the global level (G20, G7, international financial forums/conferences, etc.), "calls" for its introduction have already appeared. After studying and analyzing the theoretical part of the issue, the best practices in the world, we discussed the positive (expected and actual) and negative consequences of the introduction of the Tobintax worldwide, in the countries that implemented it (Spain, France, Great Britain).

Any news, innovation, no matter how well-argued and well-argued it is, has the probability of both positive and negative results, and our research issue was not (and could not be) "separated" from this dilemma. As a result, we tried to determine the probable scale of its (introduction of the Tobintax) positive and negative consequences.

The authors have calculated the acceptable, estimated fiscal effect of the introduction of the tax – from currency transactions by commercial banks (GEL, USD, EUR), from the release of state securities. It was also mentioned about the approximate size of the taxable base.

We think that the present study will be interesting both for those interested in researching and studying the issue, as well as for the structures of the financial and economic profile of the state institution (the Ministry of Finance of Georgia, the Ministry of Economy and Sustainable Development of Georgia, the Revenue Service, etc.), as the authors have made a modest attempt to scientifically substantiate it in Georgia. Expediency of introducing the Tobintax.

Keywords: financialtransaction, taxrevenue, speculativetransaction, Tobintax, fiscaleffect.

1. Introduction

Tobin's tax (which was also called the "Robin Hood" tax in Western European scientific circles) is the name given to a tax on specific financial operations, the main purpose of which was to curb speculative tendencies.¹

The idea of imposing a tax on banking transactions was proposed in the 70s of the XX century by the American Nobel laureate economist James Tobin. The introduction of such a tax was supported by British Prime Minister Gordon Brown, but the issue could not be resolved positively due to the disagreement (opposition) of the USA and a number of states.²

In 2010, 350 of the world's leading economists appealed to the G20 to introduce a Tobin tax, but to no avail. In 2011, before the meeting of the finance ministers of the G20, the heads of the central banks of 53 countries and a world-renowned economist wrote to its participants, where they argued for the possibility and necessity of an immediate tax on bank transactions. Among the signatories were the advisor of UN Secretary General Ban Ki-moon - Geoffrey Sachs, professors of leading universities in Europe and the USA, as well as Nobel laureates Paul Krugman and Joseph Stiglitz who supported the idea.

Tobin's initial idea was to establish a global tax rate of 0.5% on every transaction made in a foreign currency, information on which would be provided by the International Monetary Fund (IMF³) or the World Bank.⁴

In Georgia, until now, no research has been conducted that would allow us to determine the probable consequences of the "Tobin tax" (both positive and negative), or even analyze it (except for the short fragmentary reports of some authors at conferences or in scientific journals).⁵ Therefore, the present study is actually the first attempt to determine what kind of probable result (financial and economic) the imposition of tax on financial transactions in Georgia can bring.

2. Main part.

1. About Tobin's tax. At the end of the 90s of the last century, when the financial crisis worsened, anti-globalists and authoritative NGOs came up with the idea (demanded) to actually introduce the Tobin tax - already rebranded as the "Robin Hood tax" - as they thought it would

¹<https://www.britannica.com/topic/Keynesian-economics> [Last checked 15.08.2022].

²<https://dic.academic.ru/dic.nsf/ruwiki/1572939> [Last checked 15.08.2022].

³<https://www.imf.org/en/Home> [Last checked 14.08.2022].

⁴<https://www.worldbank.org/en/home> [Last checked 14.08.2022].

⁵<https://bit.ly/3ozbNHk> [Last checked 12.08.2022].

be one of the means. , to receive monetary/financial resources for poverty alleviation worldwide. However, it should be noted here that the author of the idea himself (Tobin) was against imposing a tax in this form, as he was a supporter of the idea of free trade.

Among the research methods, we used an empirical study based on second data analysis and the Delphi method (well-known experts from the leading educational and scientific institutions of Georgia pre-selected by us participated in the focus group). The secondary data base mainly consisted of the statistical information of the National Statistical Service of Georgia, the Ministry of Finance, and the National Bank of Georgia.

An important place in the research process is the assessment of the current practice of the Tobin tax by the world's leading scientists (including Nobel Prize laureates - Paul Krugman and Joseph Stiglitz) and international financial institutions (International Monetary Fund, World Bank Group).

1.1. Strengths and weaknesses of the Tobin tax

1.1.1. Disadvantages of Tobin's tax (weaknesses). Opponents of the introduction of Tobin's payment mainly point out:

- Distinguishing/separating speculative and non-speculative capital flows is not very easy (it can be said quite difficult). Speculators can develop a mechanism for transformation and transformation of their capital, for example in free economic zones (so-called tax havens);
- Unless this tax is introduced in most (or all) states, it will not/cannot work. As long as speculators are always looking for a "haven" for their operations (as was the case in Sweden);
- Fighting poverty with similar means will not be enough if it is not accompanied by other economic growth and development measures. Especially in the most deprived/poor regions of the planet.
- This may hamper the growth of investment (especially foreign investment) due to high taxes.

1.1.2. Advantages of turbine tax. Proponents of the Tobin tax note among its strengths:

- A higher volume of revenues is in the hands of the government and economic institutions, which can redistribute them (mobilized funds) to relatively less developed regions;

- Cooperation between banks and financial structures in reducing the state debt;
- Helping the financial system to be more stable, expressed through greater solidarity between poor countries and the supervision of national regulatory organizations.

When a North American scientist proposed to the world community to introduce a tax on every transaction or financial operation that goes beyond national borders and between different currencies or currencies, especially affecting capital flows in the short term; In this way, it tried to prevent or hinder the obtaining of particularly high income or profits for those who took advantage of the fluctuations caused by exchange rate fluctuations.

2. About introduction of Tobin's tax in Georgia. As for the advisability of introducing the Tobin tax in Georgia, we think that the discussion of the issue should take into account several factors. In particular, for the research conducted by us, we put forward two main hypotheses - the introduction of a new tax/fee will increase budget revenues; Second - imposition of new tax/fee will hinder investment (including attracting foreign investment) in the country.⁶

It should also be said that, as evidenced by international practice, this tax has a multifactorial impact, it can be related to - reducing the fluctuation of the national currency (Sweden), mobilizing financial resources for underdeveloped countries at the international level (France), limiting speculative transactions (Italy), increasing budget revenues (Spain).

To confirm the first hypothesis, we will quote official statistical data, in case of introduction of Tobin's tax, how much will be the estimated tax base, and what amount of funds can be mobilized in the state budget or budget funds. Based on the fact that the main object of taxation for this payment is foreign exchange transactions, transactions with securities, let's get acquainted with the official statistics of 2021, which are available to us at this stage.

According to the data of the National Bank of Georgia, commercial banks operating in Georgia purchased 41,639,409 thousand GEL, 22,283,685 thousand US dollars, and 11,208,886 thousand

⁶The introduction of a tax in accordance with the existing legislation in the country is a rather difficult and time-consuming measure, as Article 1 of the Organic Law of Georgia "On Economic Freedom" states that - "Introduction of a new type of state tax, other than excise, or according to the type of state tax Increasing the upper limit of the current rate, except for excise duty, is possible only through a referendum" (<https://matsne.gov.ge/ka/document/view/1405264?publication=3>) therefore we think it would be better to introduce it in the form of a fee rather than a tax (author .)

euros in the foreign exchange market in 2021⁷. 24,069,857 thousand US dollars were purchased only from the National Bank of Georgia in 2021.⁸

According to the data of the Ministry of Finance of Georgia, in 2021 state securities in the amount of 590 million GEL were issued (and fully realized) (see Table 2), in 2022 it is planned to issue 2,744 million GEL state securities.

The secondary statistical information we searched for is only a part of the taxable base, which according to the existing practice in the world can be taxed with the Tobin tax, because we have to add to it the volume of non-exchange transactions sold outside the Georgian stock exchange, about which, unfortunately, we could not find official, reliable information, remittances from Georgia abroad The volume (of transfers), which amounted to 316,866.3 thousand USD in 2021⁹. The volume of buying and selling of different currencies at the foreign exchange auction.(except for commercial banks, the information about which was sought by us).

If we take into account that in most countries the Tobin tax rate was 1% of transactions (in Great Britain it was 2% when the said tax was introduced), we get the following data by mathematical calculations.

In the state budget, if there was a Tobin tax of 1% in 2021, it would be possible to mobilize a fairly substantial amount. In particular, from foreign exchange transactions by commercial banks: from the purchase of GEL - 416,394.1 thousand GEL, from the purchase of US dollars - 222,836.9 thousand USD (at the average weighted exchange rate of 2021, approximately 699,930.7 thousand GEL), from the purchase of euros - 112,088.9 thousand euros (at the average weighted exchange rate of 2021 approximately 429 300 3 thousand GEL), the amount denominated in GEL from three transactions is 1 545 625.1 thousand GEL.

If we add to this the volume of US dollars sold by the SEB by auction, the amount of which, in addition to those sold to commercial banks, is 98,040 thousand US dollars¹⁰ (the SEB sold a total of 332,900 thousand US dollars), ¹¹the potential tax revenue would be 980.4 thousand US dollars (2021 3 081.4 thousand GEL at the average enhanced exchange rate of the year).

⁷<https://nbg.gov.ge/statistics/statistics-data#sagareoseqtori> [Lastchecked15.08.2022].

⁸https://analytics.nbg.gov.ge/views/Forex_Market_GE/?iframeSizedToWindow=true&%3Aembed=y&%3AshowAppBanner=false&%3Adisplay_count=no&%3AshowVizHome=no[Lastchecked15.08.2022].

⁹Of course, we do not intend to tax such messages, because it is possible to set a quota for the minimum volume of the message.

¹⁰As of 2021.

¹¹<https://nbg.gov.ge/statistics/statistics-data> [Lastchecked15.07.2022].

As for the potential income from the sale of state securities, it amounts to 5,900 thousand GEL (in 2021, a total of 590 million GEL of state securities was issued).

In case of existence of Tobin's tax, during 2021, in the state budget of Georgia, even from these three components, it was possible to potentially mobilize an additional 1,554,606.5 thousand GEL.

As for the second hypothesis, which is related to the question of whether it is possible for investments to delay the process, especially foreign investments, in the case of the introduction of the Tobin tax (as far as it was based on our abilities), we had a modest attempt to use the Delphi method,¹² which, as you know, implies the creative assessment of experts and the mathematical- Combining the results of statistical processing. Several times, we had meetings and conversations with a number of experts in the field, listened to their views, compared approaches, searched for statistical data, which allowed us to conclude that there is indeed a reasonable assumption that the introduction of the Tobin tax will reduce paid transactions on the Georgian stock exchange (also non-exchange transactions), which are already The threat to potential foreign investments is minimal, ¹³the probability of its positive result and expected positive trends is much higher. In addition to the evaluation and analysis of the empirical data obtained as a result of our research, it allows us to say/assume that the introduction of the Tobin tax is already relevant in many economically highly developed countries of the world (or already exists), the issue becomes even more relevant in the post-pandemic period, when the world is actually "Reincarnation of Keynesian ideas" took place.

3. conclusion. However, from the results of the empirical research conducted by us, based on the analysis of secondary data, it can be seen that the fiscal effect obtained by the imposition/introduction of the Tobintax would not be so in significant, but apart from the fiscal effect (which is even more important in the post-pandemic period, in the conditions of the existence of an anti-record state debt), the afore mentioned There will be positive "side effects" so to speak, namely:

- the volume of speculative transactions will be limited;
- the "amplitude of change" of the national currency rate will decrease;

¹²<https://www.mof.ge/5397>[Lastchecked15.07.2022].

¹³From our research, it can be seen that the potential payment from transactions on securities is 200 times and much less than the estimated amounts to be received from foreign exchange transactions (1,546,605.5 thousand GEL from foreign exchange transactions, 5,900 thousand GEL from state securities).

- Purchase of state securities will be possible for more buyers (including individuals);
- Reinvestment of revenues received in Georgia will increase;
- There will be no need to take additional domestic debt (atleast the emission of government securities will be reduced).

The so-called From the "general conclusions" we can distinguish:

- Tobin's tax (in case of introduction) will become a "fee" to be paid on certain short-term financial transactions (currency and securities transactions) to prevent speculative transactions that "distort" the price of certain assets;
- To introduce a tax on companies whose capitalization is atleast 10,000,000 million GEL. (example of Italy where it is 500 million euros);
- With the received financial resources, the government and public institutions with an economic profile will have the ability to increase revenues and make a timely and adequate response to internal and/or external shocks.

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