

Strengthening VAT compliance: Georgia's experience in combating tax fraud



Georgia
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VAT Fraud: A Global Challenge

Significant loss of government revenue

Weakening of public services due to reduced tax income

Distortion of fair market competition

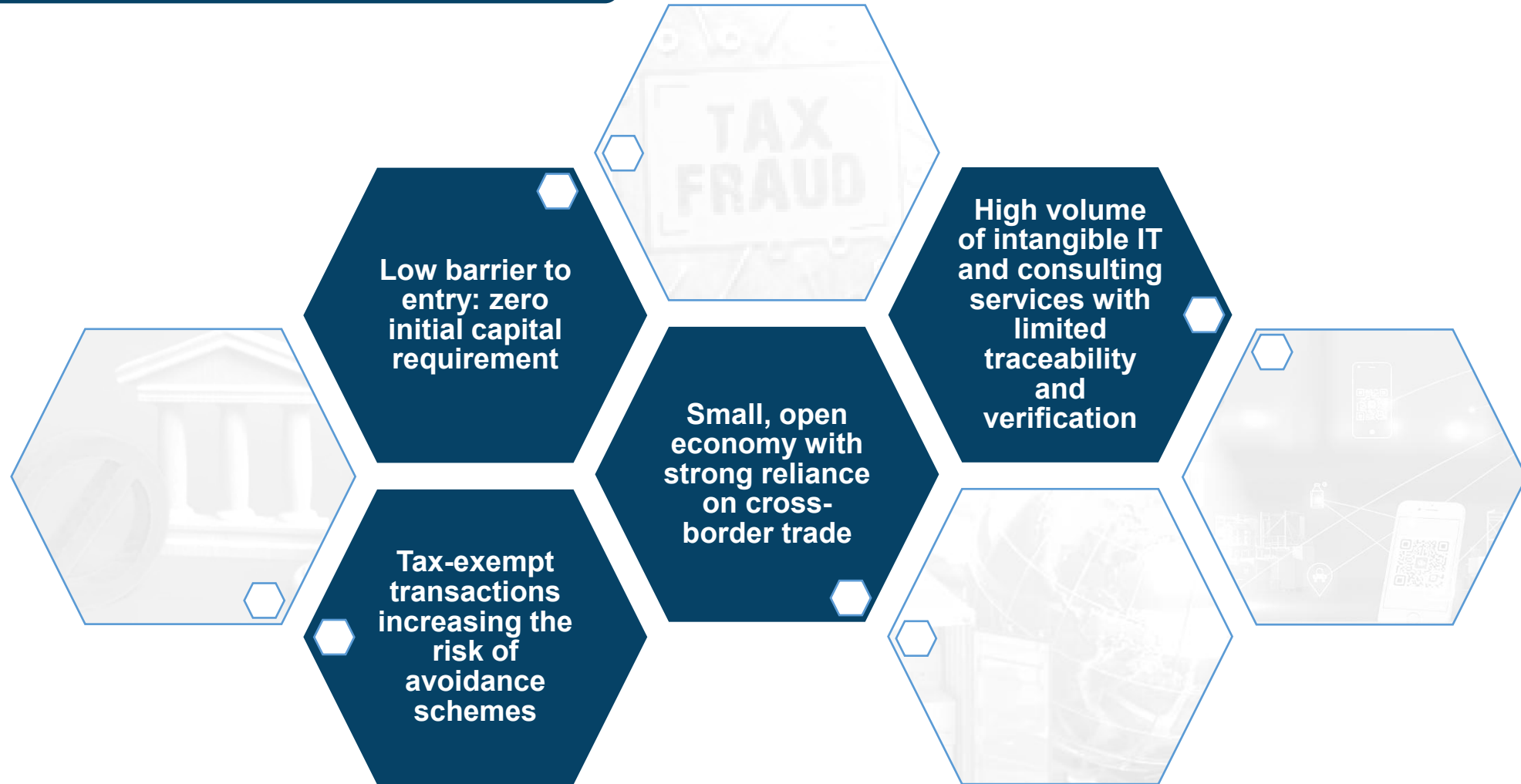
Growth of the shadow economy and illegal activities

Increased administrative and compliance costs for authorities

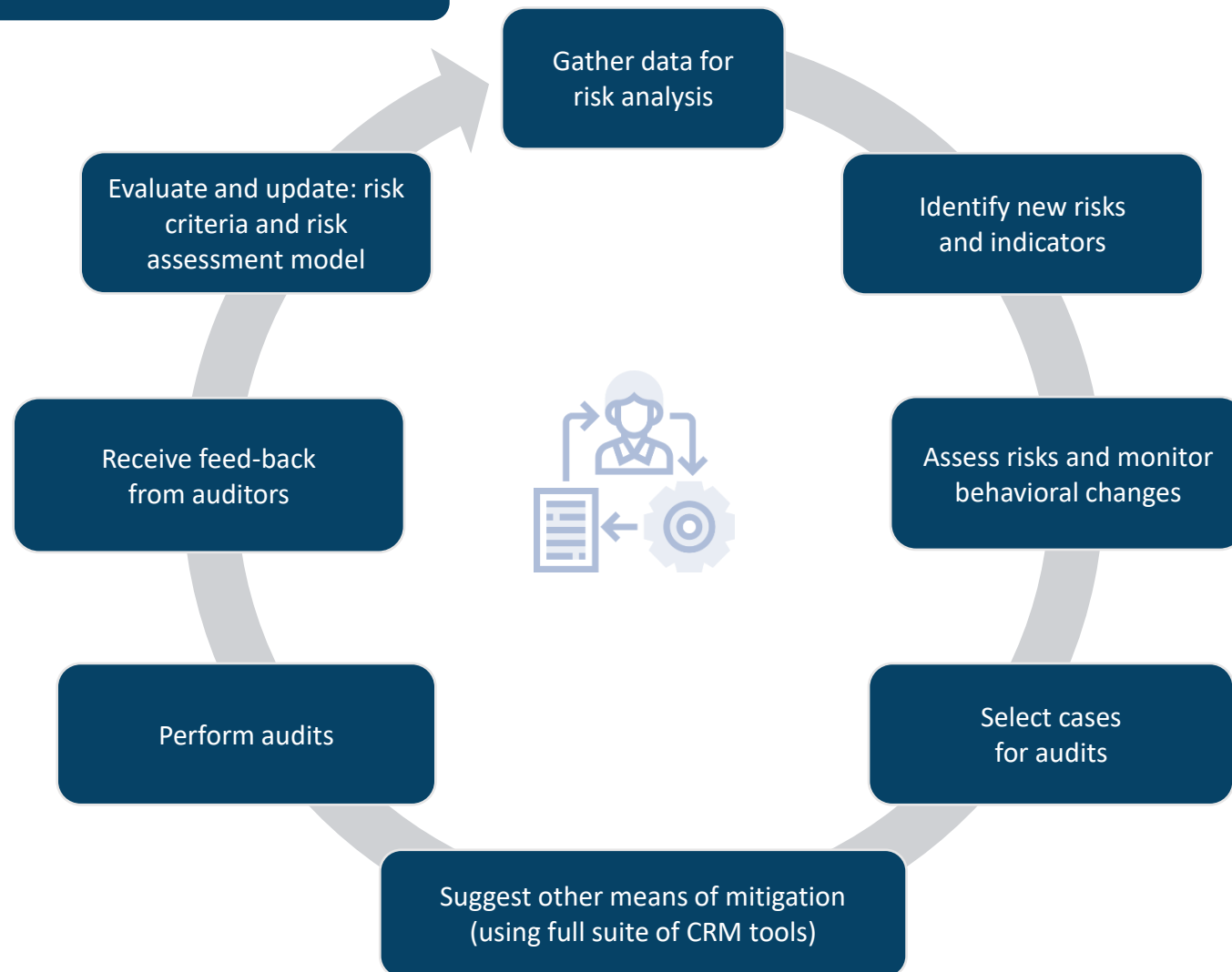
Undermines trust in tax systems and public institutions

Links to organized crime and financial fraud networks

Drivers of VAT Fraud in Georgia



Risk Assessment Model



VAT Fraud Cases

High-Complexity Networks

Carousel Fraud (MTIC Fraud)

"Buffer" Companies

Transactional & Document Fraud

Fictitious Transactions and False Invoicing:

Input VAT Risk

Import and Operational Evasion

Importing Enterprise Fraud

Unregistered Activities (Shadow Economy)

The Modern Frontier

Digital Economy Exploitation

P.S. We regularly analyze the actual risk profiling subjects of customs to reconcile information about "unusual" changes in import/export behavior with them.

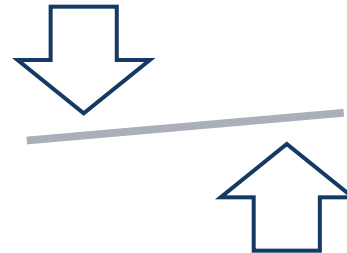


Risk Management Process

Traditional approach

Risk Response Measures:

- Desc-based tax audit;
- Field tax audit;
- Urgent field tax audit;
- Current control procedures;
- Risk-Based Tax monitoring;
- Control purchase of goods/services;
- Visual inspection;
- Taking inventory

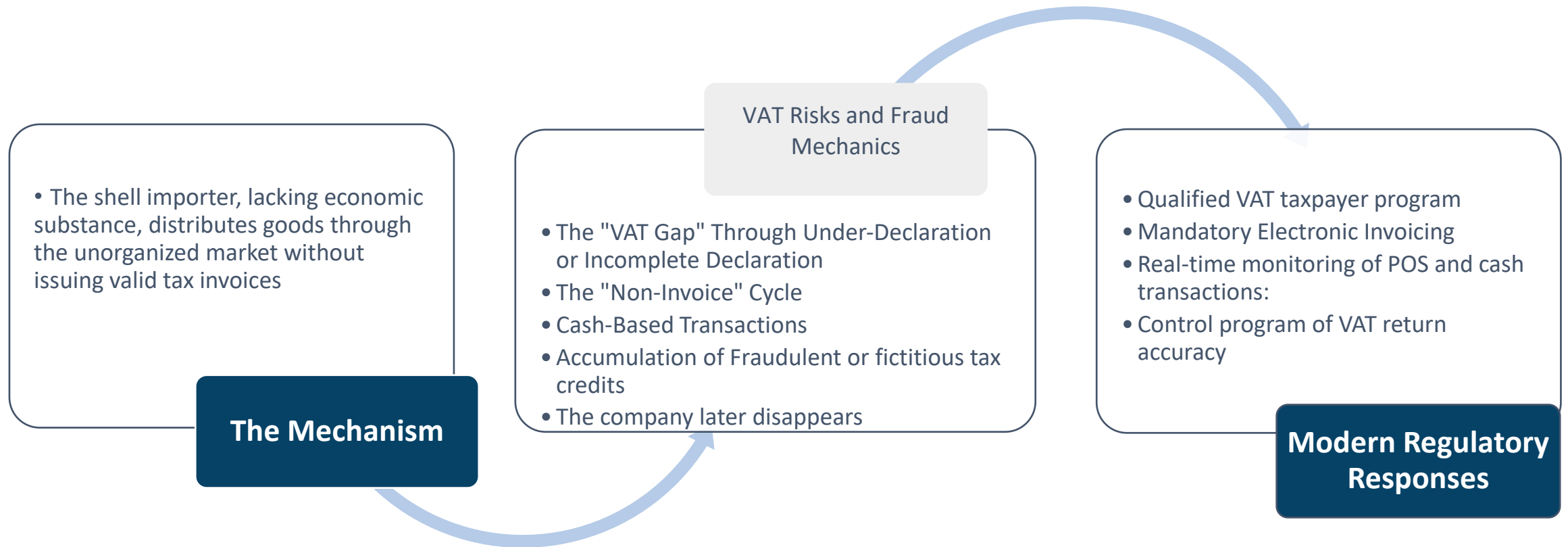


New approach

Risk Response Measures:

- Automated Validation in tax returns;
- Qualified VAT taxpayer program;
- Control program of VAT return accuracy

Import VAT Evasion via Informal Distribution Channels VAT Fraud Cases



P.S. Carrying out fictitious transactions and falsifying documents is a criminal offense.

Additional Structural Measures to Combat VAT Fraud



Pre-filled Returns:

At this stage, it is planned to introduce pre-filing processes for declarations to reduce errors and the potential for intentional fraud among taxpayers (particularly small businesses and individuals) when pre-filing VAT returns.

Input VAT Validation:

Technical and logical controls that GRS uses to verify tax credits in real time, ensuring that a tax credit can only be claimed if the relevant tax has actually been paid by the supplier.

Inter-agency Cooperation:

The Revenue Service actively cooperates with customs and law enforcement agencies to track the physical movement of goods against the movement of tax invoices.



Key Challenges and Planned Activities Ahead

Adaptive Taxpayer Behavior: Deliberate Non-registration for VAT;

Increased use of modern and innovative technologies is essential to accelerate digital transformation;

Implementation of Artificial Intelligence (AI) and Machine Learning (ML) in tax administration including Real-Time Fraud Prevention;

Evaluation of the efficiency of control procedures as a result of further optimization of processes;

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Thank you for your attention!