UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER’S THESIS

TAXATION OF WAGES IN GEORGIA, TURKEY AND AZERBAIJAN

Ljubljana, December 2019

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LIST OF ABBREVIATIONS

ATR	Average tax rate
AZN	Azerbaijani manat
GDP	Gross Domestic Product
GEL	Georgian Lari
GeoStat	National Statistics Office of Georgia
ILO	International Labour Organization
IMF	International Monetary Fund
KPMG	Klynveld Peat Marwick Goerdeler
MOF	Ministry of Finance of Georgia
MTR	Marginal tax rate
OECD	Organization for Economic Co-operation and Development
PIT	Personal income tax
PwC	PricewaterhouseCoopers
SSC	Social security contribution
TRY	Turkish lira
TurkStat	Turkish Statistical Institute
VAT	Value added tax

INTRODUCTION

Georgia, Azerbaijan and Turkey are neighbour countries with rich and connected history. “Azerbaijan and Georgia are two countries of the South Caucasus and strategic allies in the region” (Tsereteli, 2013, p. 6).

According to the Center for International and European Studies at Kadir Has University, Georgia as the only Caucasian country with a Black Sea coast, is the geographic link between Turkey and Azerbaijan. For Azerbaijan, Georgia is an economic partner that helps build ties with the West, especially with Turkey. The main determinants that bring these three countries together are, of course, mutual needs and common interests in the sectors of security, energy, transportation, and commerce.

Figure 1: Georgia, Turkey and Azerbaijan map

Source: Google Maps.

Turkey recognized the independence of Azerbaijan on 9 November 1991, after some months, in the capital of Azerbaijan-Baku, on 14 January 1992, the countries signed the Protocol on the establishment of diplomatic relations, which immediately came into the effect. Turkey recognized the independence of Georgia on 16 December 1991. Between the Republic of Turkey and the Republic of Georgia was signed the protocol, constituting the main framework document of bilateral relations between two countries. The Agreement is composed of 15 articles and defines the border between Turkey and Georgia, referring to the Kars Treaty signed in 1921. It also calls for mutual respect for independence, territorial integrity of the two countries and sovereignty. A similar agreement Georgia signed with Azerbaijan, so these agreements build up the basis for the trilateral relationship (Çelikpala & Veliyev, 2015, pp. 4–5).

Through the establishment of a strategic partnership, the trilateral cooperation with the Trabzon Declaration of 8 June 2012 has focused on the improvement of common economic and commercial interests as well as the collective and peaceful resolution of regional security issues (Çelikpala & Veliyev, 2015, p. 9).

The economic and commercial ties, manifested in an increasing volume of foreign trade and growing economic interaction has brought about substantial results. Azerbaijan, Georgia, and Turkey are very different countries in terms of languages, territory, natural resources, population, economic growth and development, currency. However, these countries share mutual interests and cooperation opportunities.

To study the tax systems of these neighbour countries, how countries are functioning, what reforms they underwent and what outcomes they received, was of big interest to cover these topics in this master's thesis, while mainly having the focus on wage taxation.

Taxes and taxation are presented in all existing government systems. Being formed in parallel with a state, the history of taxes and taxation goes back many centuries. The complexity of understanding the nature of taxes is due to the fact, that taxes are a multifaceted phenomenon, affecting at the same time many aspects of society's life, like are: economic, legal, social, philosophical and historical aspects (Malysh, 2017, p. 12).

McGregor S. (2017) in Allan Gray's online publications points out that a necessary feature of a modern state is an efficient tax system. Even when, by modern standards, taxes were a small levy on incomes and expenditures, they have always been a focus of political concern. Prior to 1914 governments were responsible for law and order, country's defence, policing, so taxes did not play a big role in the state, as they do nowadays. In most countries, tax collections were of the order of 5 to 10% of Gross Domestic Product (hereinafter: GDP). After the First World War, the situation started to change. Significant differences among countries remain in the overall level of the tax. For instance, the US tax revenues amount to 1/3 of the GDP, in Sweden, for example, it is close to half.

David Ricardo (2001) states, that taxes are a portion of the labour of a country and the production from the land, and this portion is placed at the disposal of the government. Taxes are always ultimately paid, either from the revenue of the country, or from the capital.

De facto, taxes are the form of compulsory payments levied on legal entities (enterprises, organizations, institutions), as well as on individuals in the form of alienation of their funds. Enforced nature of taxes serves as the basis for the emergence of a contradiction between the taxpayer on the one hand, and the government on the other hand. That is why; a tax system must rely on the principles, which ensure sound, reliable, fair, and efficient tax policies.

Mirrlees et al. (2011) state that a lot of the developed and developing countries in recent years experienced the tax reforms, looking for the balance between the competitiveness of their economies and the sustainability of public finances in order to decrease the burden of taxation of individuals and companies.

Across most countries of the Economic Organisation for Co-operation and Development (hereinafter: OECD), the income tax accounts for more revenue than any other form of taxation, using which countries fulfil various problems. This tax ensures money transfers to the regional and local budgets, regulates the level of income of the population as well as the structure of their consumption and savings, at the same time, decreases the inequality of profit distribution.

The purposes of the thesis are:

- To investigate the current structure of the tax systems in Georgia, Turkey, and Azerbaijan, with a deeper analysis for Georgia as my country of origin.
- To study the theoretical basis of wages and their ways of taxation in selected countries, using foreign and domestic literature and specialized databases.
- To find out, which laws and institutions are dealing with wages, or to be more precise with payment systems in these neighbour countries.
- To study, how the flat tax rate in Georgia and progressive tax rates in Azerbaijan and Turkey affect taxation, what are their positive and negative sides.

Especially, I would like to focus on the question, what are the systems of taxation of wages, and in which country the burden of the tax (also referred as a “tax wedge”, which simply refers to the amount the government takes from the labour force, or the difference between pretax and post-tax wages) is higher. This thesis considers the taxation of wages for a single person, for the year 2017 in Georgia, Turkey, and Azerbaijan.

With this thesis, I would like to answer the following research questions:

Research question_1: Is the tax wedge in Turkey in 2017 higher than in Azerbaijan and Georgia in the same period, considering an employee with the average wage (100%), 67% from the average wage and 167% from the average wage?
Research question_2: Are employers in Georgia taxed less compared to Azerbaijan and Turkey in 2017?
Research question_3: Does the simple flat tax system in Georgia have positive effects on General Government budget, after the progressive tax system?

The analyses for Turkey are based on the OECD researches. For Georgia and Azerbaijan, the analyses are based on the information obtained from the legal authorities, such are National Statistics Office of Georgia (hereinafter: GeoStat), Ministry of Finance of Georgia (hereinafter: MOF), auditing company PricewaterhouseCoopers (hereinafter: PwC). For Azerbaijan, the analyses are based on the information from Ministry of Finance of Azerbaijan, and Ministry of Taxes of Azerbaijan. OECD publications and Statistical Office of Turkey (hereinafter: TurkStat) are the bases for macroeconomic and population statistics for Turkey. The German company Gebrueder Heinemann SE & Co., operating also in Turkey, provides the real-life examples of taxation of wages in Turkey for a single person, who does not reach the Social Security Ceiling, and the example of wage taxation when the person reaches the Social Security Ceiling. PwC auditing company in Georgia confirms the structure of taxation of wages according to the OECD approach for Georgia.

The structure of taxation of wages in Azerbaijan is constructed according to the “Guide to doing business in Azerbaijan” of PwC auditing company. For each country, I found out the amount of total tax burden and the net disposable income after the taxation for employees (taking into account the tax reliefs and tax exemptions, but not the social transfers), and the amount of the total tax burden and the costs of employers. The tax wedge among selected countries differs.

The thesis is combined from two parts, and for each part, different methods are used. The first part is mostly based on a theoretical approach, using the descriptive method. For this part, various literature of foreign and domestic authors is used (divers sources from professional books, articles, and sources that are available on the World Wide Web).

Methods of comparative analysis are used in the second empirical part, where different macro and microdata are analyzed and compared. There are seven chapters in this thesis. The first chapter covers the topic of the economic stability and functions of taxes, taking into account economic essence, features, elements, and different functions of taxes. The second chapter covers the overview of a tax system, its desired features, focusing afterwards on personal income tax. The third chapter deals with wages, their main concepts, and different perspectives. The fourth, fifth and sixth chapters are devoted to the macroeconomic data and its analysis, following with the comparison of labour macroeconomic indicators, and after that, the personal income tax (hereinafter: PIT) is considered and discussed for Georgia, Turkey and Azerbaijan respectively. The chapter seven represents the comparison of taxation of wages in the selected countries and answers the research questions.

1 THE ECONOMIC ESSENCE AND FUNCTIONS OF TAXES

Nowadays, taxation is an integral part of macroeconomic policy and practically every citizen is included in it. Any purchase of, for instance, food or services, includes the payment of taxes. Most of the earnings, if we do not take into account a grey market (a behaviour of some distributors who seek the economic and commercial benefits by trading of products or services through unauthorized distribution channels), are subject to taxation.

Murphy (2015, pp. 59–65) states that taxes are one of the main ways of forming a budget revenue. As a rule, taxes are levied to ensure the solvency of various levels of a government. Tax payments can be credited not only to state budgets (federal and regional) or to budgets of local governments, but they can become the means of creating different types of funds.

1.1 The economic essence and features of taxes

As Kulikov, Kulikova & Nazarchuk point out, the economic essence of taxes is in the redistribution of new value - national income (which is created in the production process of labour, capital, natural resources, etc.); in their reproduction process, and the specific form of production relations. A part of the national income, which is redistributed through taxes, becomes the centralized fund of the state's financial resources. The process of compulsory alienation of a part of the national income has a one-sided direction from the taxpayer to the state.

Taxes express real-life monetary relations manifested in the process of withdrawing a part of the value of the national income in the favour of nationwide needs. The economic content of taxes is expressed in the relationship between the state and economic entities (natural persons and legal entities) regarding the formation of public finances. Tax relations as part of the financial relations are in a constant process of change.

We can emphasize six reasons for governments to tax:

- Reclaiming money, which a government has spent into the economy for re-use.
- Ratifying the value of money.
- Reorganizing the economy.
- Redistributing income and wealth.
- Repricing goods and services.
- Raising representation.

Taxes are characterized by the following list of features:

- **Mandatory nature**. Tax payment is a constitutional and legal obligation, not a charitable contribution or voluntary donation.
- **Irrevocability and individual gratuitousness** suggest that the principles of tax law are opposite to the principles of civil law. Taxes are transferred in the state's property and the fulfilment of the obligation by the taxpayer to pay taxes does not mean the state's counter obligation to provide this person with any material benefits.
- **Monetary character** means that taxes should be paid only in monetary form, since the state budget does not accept any other form. Alienation in favour of the state of any property, goods, works, and services in repayment of tax liability is not allowed. Taxes are paid in cash and cashless form.
- **Public purpose** means that taxes are levied for financial support of the activities of the state and its bodies. The taxpayer ultimately receives public benefit from the state. The state, acting in the interests of the whole society, implements various external and internal functions: social, political, economic, law enforcement, military, etc.
- **Legislative registration** means that the only higher legal forces as the law can establish taxes (Kulikov, Kulikova & Nazarchuk, 2013, pp. 20–31).

1.2 Basic tax concepts

Elements of taxation fully characterize a specific type of taxes. The whole tax procedure is established through elements in the Tax Law. In particular, the tax legislation prescribes the procedure and conditions for calculating the tax base, the amount of tax itself, determines tax rates, terms and methods of payment, and other conditions. The concept of each tax element is universal and is used in the tax processes of all countries in the world.

Klun (2010, pp. 12–14) defines and explains the basic and main tax concepts, which are necessary for understanding the functioning of a tax system.

A taxable person is a natural or legal person who is obliged to pay a tax by the law. It is not necessary that this person will actually pay a tax.

A taxpayer is a person, who pays taxes to a federal, state or local government.

An object of taxation could be, for instance, different types of income, cost of works and services, sales of goods, various forms of accumulated wealth or property are the objects of taxation. There is a strong connection between an object of taxation and GDP, since the first represents some form of realization of GDP.

A tax base is the value or amount, on which the tax rate is applied.

$$tax\ rate * tax\ base = tax(t * X = T) \tag{1}$$

A tax rate is a percentage or an amount at which a corporation or individual is taxed. If we know the amount, the tax rate tells us what amount on determined quantity or value should be paid, or if it is in the percentage form, which share of value should be paid. The tax rate can be divided in:

– **Average tax rate** (hereinafter: ATR) represents the ratio between total tax paid and tax base.

$$ATR = \frac{T}{X} \tag{2}$$

where, X=tax base, and T=pos./neg. tax

– **Marginal tax rate** (hereinafter: MTR) represents the tax rate incurred on each additional unit of income.

$$MTR = \frac{\Delta T}{\Delta X} \tag{3}$$

Depending on, whether the tax rate changes together with the changes of tax base, we can point out the different forms of taxes:

– **Proportional** (average tax rate is constant and does not change with the increased tax base).

$$MTR = ATR, or \Delta\left(\frac{T}{X}\right) = 0 \tag{4}$$

– **Regressive** (average tax rate is decreasing with the increased tax base).

$$MTR < ATR, or\ \Delta \left(\frac{T}{X}\right) < 0 \tag{5}$$

– **Progressive** (average tax rate is increasing with the increased tax base).

$$MTR > ATR, or\ \Delta \left(\frac{T}{X}\right) > 0 \tag{6}$$

There are different types of progression:

- Slab progression: higher tax rate is set for a higher tax base, while the higher tax rate is applicable for the entire tax base.
- Indirect progression: the tax is paid only when the tax base reaches a certain threshold, above the threshold the proportional taxation is valid.
- Slice or stepwise progression: within different bases, different tax rates are applicable. For instance, for the certain amounts the 10% tax rate should be paid, when the threshold of this amount is achieved, another tax rate, for example of 15% is paid on the amount above the threshold.

Effective tax rate, represents the ration between all paid taxes and tax base before tax and deductions. Stanovnik (2012, p. 38) sets the formula for an effective income tax rate from employment.

$$EITR = \frac{Total\ taxes\ from\ employment}{Total\ incomes\ from\ employment\ (before\ tax\ and\ deductions)} \tag{7}$$

A tax relief decreases tax liabilities. According to Stanovnik (2012, p. 38) a tax relief usually occurs in the following two forms:

– Deduction before taxable base (for example, tax allowance, exemption, also deduction).
– Tax credit decreases the already calculated tax amount.

A taxable period is a calendar year or other period in the relation to each tax, at the end of which the tax base is determined and the amount of tax is calculated. The tax period can be quarter, month, year, etc.

A tax exemption means that on certain taxable expenditure, income or investment no tax is levied to serve a specific purpose (for instance, to encourage a certain activity).

Tax expenditures represent the loss of income into the budget due to tax reliefs, on which the taxpayer pays less taxes then he should have.

Tax avoidance is the use of legal methods to minimize paying taxes. Tax shields are used as the strategies of tax avoidance. Graham[1] (2000) in his article "How Big Are the Tax Benefits of Debts?" emphasizes that the tax benefit of debt is the tax saving which is the result of interest deductibility from taxable earnings. According to Graham's answer, received on 24th of August 2019 via e-mail, the estimated Tax Benefits of Debts before 2018, ignoring all costs are about 8% to 10% of firm's value. He also mentioned that in his work "The Cost of Debt", they estimate the net of costs; the benefits of debt are about 3% to 4% of firm value (van Binsbergen, Graham, & Yang, 2010).

The net benefit of directing a dollar to investors as interest, rather than equity, is.

$$\left(1-\tau_{\rho}\right)-(1-\tau_{c})(1-\tau_{\varepsilon}) \tag{8}$$

where, τ_c – simulated corporate income tax rate, τ_ε - personal tax rate on equity income, τ_ρ - personal tax rate in interest income

Tax evasion, on the contrary of tax avoidance, is the illegal practice of not paying the tax.

A tax supervision, divided into tax control, tax inspection and tax investigation.

Tax payment procedures and terms are established with respect to each tax, subject to the general rules that are established by the law.

1.3 Different functions of taxes

According to Lazurina, Lazurin & Yurchenko (2014, pp. 39–46) a complete list of tax functions is:

- Fiscal function.
- Social.
- Regulatory.
- Allocation.
- Controlling.

Fiscal function, usually is recognized as main, provides for the achievement for the major social goal of taxation - the creation of the centralized monetary fund, or to be more precise, the formation of the state's financial resources necessary for defence, environmental protection, social and other issues.

Social function aims to maintain social equilibrium by reducing inequality in real income of certain population groups.

[1] John R. Graham is an American financial economist, professor of finance at Duke University.

Regulatory function aims to achieve specific regulatory goals of taxation policy through taxation mechanisms.

Allocation function expresses its essence as a special centralized instrument of the social income redistribution from wealth to deprived, from working individual to non-working, etc. Ultimately, the allocation function provides for the assurance of the social stability of the population. Allocation function has its sub-functions, which are: stimulating sub-functions, destimulating sub-function and replication (regeneration) sub-function.

Controlling function through which the state controls the tax payments into the budget, compares their size with the need for financial resources, and based on this comparison, determines the need for tax system reforms.

The question of a tax burden is always a matter for a tax system. In practice, the historical experience shows that increasing the tax rates in order to increase the tax income creates the negative consequences of two types:

- Decreasing the entrepreneurial activity and deceleration of economic growth.
- Reduction of tax revenue.

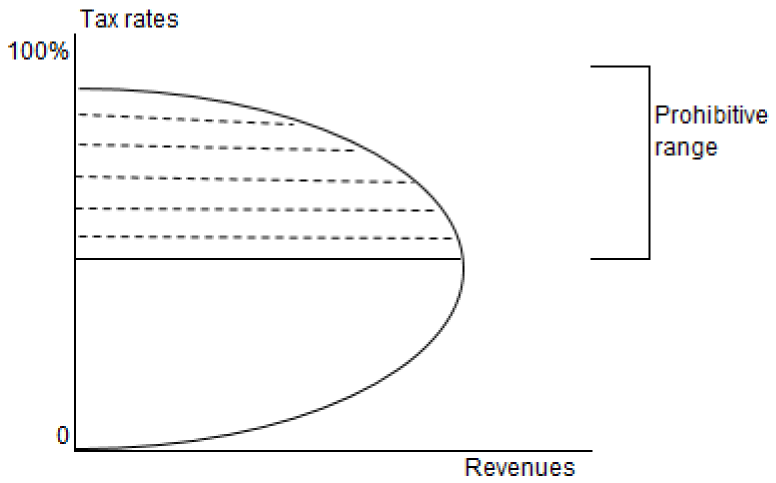
On the other hand, decreasing the tax rates leads to increasing entrepreneurial activity, contributes to economic growth, and an increase in tax revenue.

The supply-side economist Arthur Laffer developed the theoretical idea of increasing tax revenue by decreasing the tax rates.

Figure 1 shows that at the bottom of the curve zero taxes result in no government income. When the tax rate starts to increase from zero, the tax revenue also increases until the point, where the higher taxes place a heavy burden on economic growth. Beyond this point, the "Prohibitive Range" results in the reduced government revenue.

There are two effects, which Laffer describes. One is "arithmetic", implying that every dollar in tax cuts translates directly to one less dollar in government revenue. Another effect Laffer called "economic", meaning that in a long-term perspective, it works in the opposite direction. Lower tax rates increase the spending power of taxpayers, putting money in their hands. This creates more business activity, companies start to hire more workers, and the economic boost generates a larger tax base, which eventually replaces any revenue loss from the tax cut.

Figure 2: Laffer's Curve



Source: Laffer, A. (2004, p. 2).

2 TAX SYSTEM

Slemrod (2015) defines a tax system as a set of rules, regulations, and procedures with three aspects. First, it defines what triggers tax liability, for instance, the sale of a capital asset or the earning of income, or the ownership of a house that might be a subject to property tax. This first aspect is tax bases and rates. Secondly, a tax system specifies who must remit that tax and when. These are remittance rules. Finally, a tax system details the procedures to ensure compliance, including penalties, if the liabilities are illegally avoided. These are the enforcement rules.

2.1 The desired features of a tax system

When we are talking about a tax system, the list of desired features or principles that a modern tax system should consider is a bit different among individual authors, but there exists an agreement that four features in their nature stand out.

Stanovnik (2012, pp. 32–37) explains what features a tax system has to have.

- **Economic efficiency:** a tax system should not interfere the efficient allocation of resources.
- **Administrative simplicity:** a tax system should be easy and inexpensive to administer.
- **Flexibility:** a tax system should be able to respond easily (even automatically) to changed economic circumstances.
- **Fairness:** a tax system should be fair in its relative treatment of different individuals.

Economic efficiency means that a tax system should be organized in the less possible involvement way in the efficient allocation of resources. The minimum involvement is mentioned because taxes take away the real income from people, interfering in their economic decisions. The distortion occurs when people decide to do something differently because of a tax. That is why a tax system should cause “less possible” economic consequences or “less possible” loss of efficiency

Administrative simplicity means that a tax system should be organized in the less costly way in terms of collecting taxes and fulfilment of tax liabilities. For instance, in the United States of America, the costs of fulfilment of tax liabilities are very high.

Tran-Nam & Evans (2014, p. 342) state that a substantial amount of evidence suggests that modern tax systems, especially in the developed countries, are very complex. In 2010, the US report[2] noted that taxpayers and businesses, while complying with federal income tax filing requirements, which in its turn caused significant out-of-pocket expenses each year, used **7,6 billion hours**. In monetary terms, the costs are roughly equivalent to one percent of GDP yearly (around USD 140 billion in 2018). The similar messages or issues raised in 2010 in Australia and the United Kingdom. These examples portray the widespread concern about tax systems complexity.

That is why the main feature of a good tax system is fewer costs. Unfortunately, these three features are in connection with each other. The higher fairness or equality as the rule has a consequence of lower economic efficiency. Less administrative costs “cause” higher inequality.

Fairness means, that each taxable person should contribute the fair share for the state financing.

2.1.1 Optimal labour income taxation

When determining a tax policy, there is a tradeoff between equity and efficiency. Piketty and Saez (2012, pp. 19–22) state that the first modern treatment of optimal linear income taxation was offered by Sheshinski in 1972, following the nonlinear income tax analysis by Mirrlees in 1971. From their study, we can conclude that two fundamental principles of optimal taxation are:

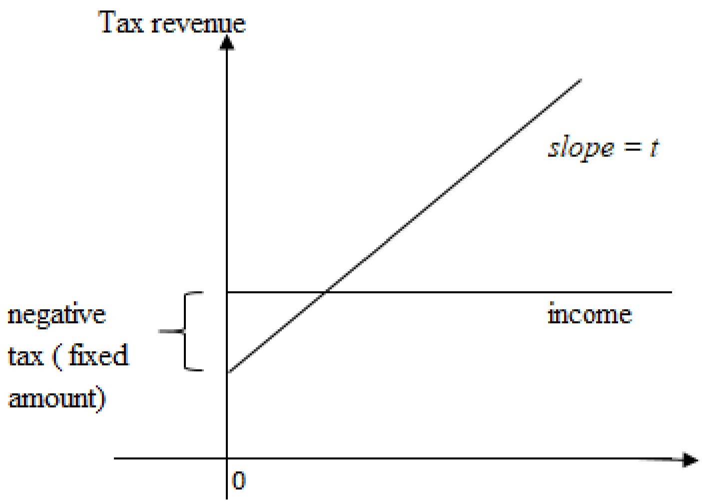
– Do not tax what is elastic.
– The more inequality, the higher is the optimal tax rate at the top.

[2] The Report on Tax Reform Options: The President’s Economic Recovery Advisory Board prepared Simplification, Compliance, and Corporate Taxation in August 2010.

According to Stanovnik (2012, pp. 57–59), the theory of optimal income taxation is similar to the theory of optimal taxation of final goods. The difference between them lies in the redistribution of income with which the latest does not deal.

This actually means that social welfare functions in the theory of optimal taxation of final goods are simplified. A lot of models of optimal income taxation are linear. The optimal tax can be expressed in the graph below:

Figure 3: Linear income tax



Source: Stanovnik, T. (2012, p. 58).

As Stanovnik writes further, Nicholas Stern found out that regarding the rate t, the optimal tax rate is higher when:

– The compensated elasticity of labour supply is higher.
– Social aversion to income inequality is higher.
– Inequalities of income before tax are higher.
– Requirements for public finances are higher.

The most important is the first factor. On the picture the simple structure of optimal income tax is depicted, the only problem is to define the fixed amount of negative tax and to define the proportional tax rate.

2.2 Classification of taxes

In the literature of public finance, taxes have been classified in different ways, but the two most fundamental classifications are (Kranjec, 2003, p. 57; Musgrave and Musgrave, 1993, p. 227–228; Stanovnik, 2012, p. 40; Klun, 2010, p. 8–9):

- Subjective and objective taxes.
- Direct and indirect taxes.

Subjective tax (for instance, income tax) takes into account, above all, properties of the subject of taxation (how big is an income, age, health condition), objective taxes, on the contrary, do not take into account the personal circumstances.

Direct taxes are those taxes that cannot be transferred or shifted to another person. The liability and the burden to pay these taxes resides on the same individual. In the case of income tax, the burden of the tax falls on the individual who earns the income. Indirect taxes, on the other hand, are possible to transfer to another individual. In the case of Value Added Tax, the initial tax is levied on the manufacturer or service provider, who then shifts the tax burden to the consumer.

Direct taxes are more ‘visible’ to the electorate, and the recourse to them tends to be greater in the countries where tax redistribution goals are more pronounced. As a consequence, this usually results in higher PIT rates. A tax burden cannot be adjusted by policymakers directly; still, they can reform the statutory elements of the tax system, which will affect average and marginal tax rates (Szarowska, 2014, pp. 662–669).

Direct taxation of income means a reduction in monetary income, opposite to indirect taxation, which means a reduction of real income.

2.3 The direct tax burden of individuals

Under the direct tax burden of individuals, we assume the tax on income and social security contributions (hereinafter: SSC). We assume alongside with income tax the SSCs due to their obliged form of nature.

2.3.1 Definition of personal income by Haig-Simons

Brooks (2018, p. 262) mentions that according to Robert Haig “Income is the money-value of the net accretion to one’s economic position between two points of time”, or according to Henry Simons “Personal income may be defined as the algebraic sum of (1) the market value of rights exercised in consumption and (2) the change in the value of the store of property rights between the beginning and the end of the period in question”.

2.3.2 Different ways to collect personal income tax – unit of taxation

In general, the unit of taxation is an individual. In such countries as France and Germany, with full income splitting (i.e., equal parts), joint taxation imposes higher marginal tax rates for the secondary earner, in general, the wife, than individual taxation.

Secondary earners represent a specific group of individuals who are employed and earn less than their partners. Working women in married couples represent the major part of secondary earners. In the European Union, women earn on average about 1/3 of the couple's joint income. Due to the stronger presence of women in the labour market, the income share earned by women has tended to increase over the past decade (Rastrigina & Verashchagina, 2015, p. 9).

Numerous empirical studies such as Steiner and Wrohlich conducted for Germany in 2004, and LaLumia for the United States in 2008, provide evidence of strong disincentive effects under joint taxation for secondary earners in labour supply behaviour. Positive incentives for the first earner do not compensate for the disincentive effect. This empirical finding is the central reason why in theoretical models of optimal taxation joint taxation of couple households, in general, is not the optimal tax schedule (Decoster & Haan, 2011, p. 2).

2.3.3 Social security contributions

In the Universal Declaration of Human Rights of 1948, it is stated that social protection is a human right (the rights-based approach means that social protection is not a matter of charity, needs or kindness) that is grounded in the right to social security.

According to the International Labour Organization (hereinafter: ILO), the data for 2015 shows that 71% or 5,2 billion of the world’s population do not have the right to social security or has only partial access to comprehensive social protection systems. Different factors, such are: slow economic growth, migration, environmental problems and others, are basic challenges, which prevent step up measures for realizing this right (ILO, 2017, p. 7).

Many European countries had established their social security systems a long time ago, showing that efficient economies and efficient social security systems can be a support to each other for a country’s growth. Of course, there are differences in how social security systems are organized, having particular laws, which determine what benefits and in what amounts should be received. For continental Europe systems with mandatory SSCs are very important.

According to Stanovnik (2012, pp. 149–150), social insurance is defined with the following basic concepts or elements.

- It is financed from contributions of employees and employers and with the state contributions from general tax incomes.
- The participation is obligatory (with small restrictions).
- The rights of the insured person are justified with paid contributions.
- Contributions and rights are tied to income (wage) of the insured person.

Contributions are transferred into the fund from where the rights are financed, but these contributions are mainly not capitalized as they are intended to cover current liabilities. In some countries, such as are US and Japan, the part of public social insurance system works as a capital fund (part of contributions are put into capital (investment) fund from where later insured persons use their right).

Each social security system has a criterion of equality. At the social insurance system, equality is justified by the fact that the scope of rights is proportional to contributions.

Social security has an immense impact on all levels of society.

Before 2019, in Georgia, universal old-age pensions were in force, which provided a flat-rate benefit to all citizens above the retirement age. In 2017, the benefit was 180 Georgian Lari (hereinafter: GEL), (or EUR 54,80). When this law was introduced in 2006, it has a very strong impact on reducing poverty rates, but with time, this also had to be improved.

For instance, in Georgia, there were **no social security contributions from 2008,** and this fact, of course, had no good consequences on social life. Since January 1, 2019, Law on accumulated pensions (*Official Paper* no. 3303/2018) came into force. A pension scheme is mandatory for all employees, except for:

- Individuals who have been 60 years of age before August 6, 2018, in the case of men, and in the case of women 55 years of age before August 6. 2018.
- Self-employed individuals (voluntary basis).

Those persons who have reached 40 years before enacting the law have an opportunity to refuse to participate in the Pension Scheme no sooner than three months from entering into the pension scheme. The Law of Georgia on Funded Pensions (2018), under Article 3 of Chapter II states that the pension contributions of participant employees shall be financed in the following manner:

- Upon a payment of the monthly wage, an employer shall make a pension contribution, through an electronic system, to an individual retirement account of each employed participant, in the amount of 2% of taxable wage.
- On behalf of an employed participant, an employer shall make a pension contribution, through an electronic system, to an individual retirement account of the employee, in the amount of 2% of taxable wage to be paid to the employee.
- Self-Employed participant shall pay 4% of his or her annual income.
- If the income in the form of annual wage or in the form of income from self-employment does not exceed GEL 24.000 (or EUR 7.282), the government contributes 2% from pre-tax income. If the income is between GEL 24.000 and 60.000 (EUR 7.282 and EUR 18.204), the government contributes 1% from pre-tax income. However, if the income exceeds EUR 18.204, the government does not contribute.

According to the International Monetary Fund (hereinafter: IMF), the funded pension pillar will help to reduce dependency on external market financing by mobilizing the domestic savings for investment. At the same time, it will have a positive effect on the development of local capital markets (IMF, 2019, p. 13).

2.4 Income tax system in Georgia

The Tax Code is the principal source of the law on the territory of Georgia. It was adopted by the Parliament of Georgia and became effective from 1 January 2011. Chapter XI of the Tax Code covers all the relevant aspects related to the income tax.

Revenue Service in Georgia ("*Shemosavlebis Samsakhuri"*) is a legal entity of public law of the MOF of Georgia, which tasks are among others to create a just, simple and reliable tax system.

2.4.1 The 2005 tax code transformation in Georgia

In 2005, the new tax code was implemented. The new tax reform simplified the tax system: the tax rates were reduced; minor local taxes, which generated small revenue, were eliminated. Progressive PIT rates (12% to 20%) were replaced with a flat rate of 20%. At that time, social security contributions were reduced from 33% to 20%, but then were eliminated at all. From 21 taxes, only six left. From them join-state taxes are: income tax, profit tax, Value added tax (hereinafter: VAT), excise tax, and import tax. Property tax refers to a local tax. As it was mentioned above, all taxes are set forth by the Tax Code of Georgia, and on the whole country's territory the payment of taxes is mandatory (Kemularia, 2011, pp. 5–10).

The reform showed the incredible results, all types of taxes increased the state revenue.

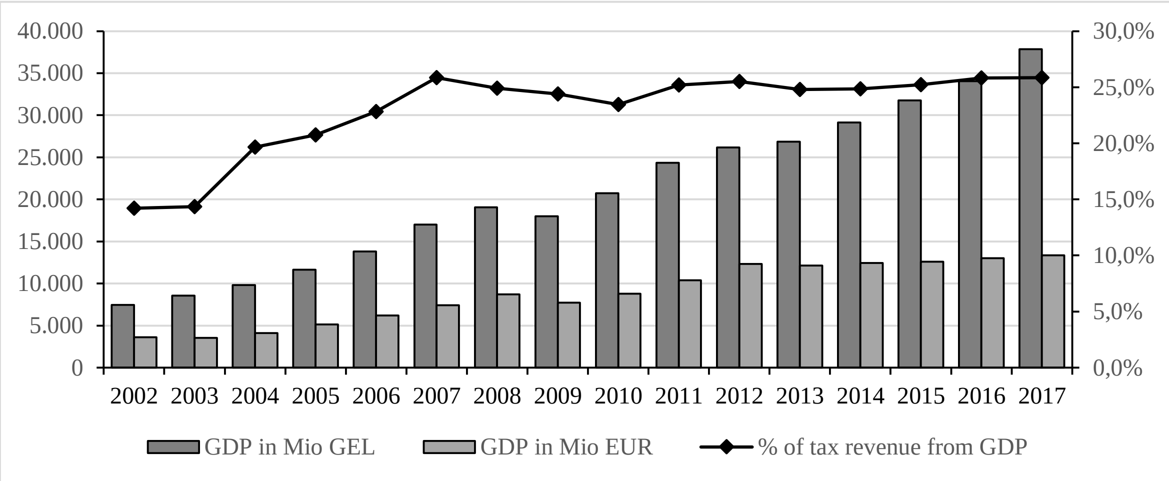
Table 1: Comparison of Georgian Tax Reforms to Previous System

Tax	**Old rate (%) till 2008**	**From 2010 - New rate (%)**
Personal Income	20 progressive	20 flat
Profit (Corporate)	20	15
VAT	20	18
Excise	Imposed on many goods	Imposed only on 4 types of goods (car, fuel, alcohol, tobacco)
Social	33, decreased to 20	Eliminated in 2008
Property	Several rates	1, with possible discounts by local authorities
Customs/Import	0, 12, 20, 32, or higher	Import tax 0, 5, 12 or fixed rate of the customs value

Source: Revenue Service (2015).

According to Binder Dijker Otte (2017, p. 10), both natural and legal persons are paying property tax, with the difference that natural persons pay the tax when the family's income is GEL 40.000 (or EUR 12.089 with the exchange rate on 10/2019) or more. For instance, if the income is between GEL 40.000 and 100.000, the rate differs from 0,05% - 0,2%.

Figure 4: Tax Revenue of Georgia as % of GDP, selected years 2002-2017



Source: MOF (2018); GeoStat (2019c); GeoStat (2019d).

Active and passive (dividends, capital gains, etc.) incomes in Georgia are taxed with a flat rate, but depending on the residency. For example, interest paid by a resident or a permanent establishment of a nonresident or on their behalf to individuals, organisations or nonresident entities without a permanent establishment in Georgia is subject to 5% withholding tax unless the rate is reduced under a tax treaty. The rate increases to 15%, where the interest is paid to a nonresident registered in a low-tax jurisdiction (Deloitte, 2019).

2.4.2 Personal income tax, tax jurisdiction, tax payers, and tax residency

In 1995, the Parliament of Georgia approved the Constitution of Georgia (Georgian: საქართველოს კონსტიტუცია, "sakartvelo's konstitutsia)", which nowadays is the supreme Law of Georgia. The Constitution states that the tax Code of Georgia sets forth the general principles of operation and formation of the tax system in Georgia, determines the legal status of persons, taxpayers, and competent authorities. As well the Tax Code determines the liabilities in the case of tax violence, defines the procedures for settling the tax disputes.

The Tax Code underwent many amendments during the past years.

Article 79 of the Tax Code of Georgia (*LHG* no. 54/2010) states that the taxpayer shall be a resident natural person or a non-resident natural person, who earns income from the Georgian source. That means that individuals who are tax residents or tax non-residents pay PIT on their Georgian source income.

A calendar year is a tax year for PIT. Tax residency is defined in Article 34 of the Tax Code of Georgia, stating that:

- Individuals are considered as tax residents if they present in Georgia for 183 or more cumulative days for 12 consecutive calendar months in any period, ending in the subject tax year, or are in the Georgian State Service abroad during the subject year.
- Non-resident natural persons, receiving income from the source of payment in Georgia.

A "high net worth" individual has to prove that his/her Georgian source income per tax year amounts to GEL 25.000 (or EUR 7.557) or more, and has to have a residence permit or Personal ID card. For tax residency, a "high net worth" individual must apply to the tax authorities for each tax year.

2.4.3 Tax reliefs

OECD (2018c, p. 585) distinguishes two broad categories of reliefs: **standard and non-standard.** For taxpayers who satisfy the eligibility rules specified in the legislation, standard tax reliefs are automatically available. Such kind of tax reliefs are unrelated to actual expenditures incurred by a taxpayer, and they are usually in the form of fixed amounts or fixed percentages of income.

On the contrary, non-standard tax reliefs are wholly determined by reference to actual expenses incurred. They are neither fixed amounts nor fixed percentages of income. As an example of non-standard tax reliefs, they could be reliefs for private insurance premiums, contributions to private pension schemes, etc.

Standard tax reliefs are typically the most crucial set of reliefs in the determination of income tax paid by workers. They include:

- The basic relief, which is available to all taxpayers or all wage earners.
- The standard reliefs dependent on marital status.
- The child relief.
- The standard relief in respect of work expenses (usually fixed amount).
- Tax reliefs allowed for SSC.

According to the methodology of OECD, non-standard tax reliefs are not taken into account while calculating the personal income tax.

Domestic tax legislation of Georgia states that there is no reliefs for foreign taxes in Georgia.

2.4.4 Tax procedure

Generally, according to Article 154 (1), (2) of the Tax Code of Georgia, personal income tax, except that which is withheld at the source of payment, is directly paid by the liable taxpayer. The payer of income or so-called *tax agent* withholds the tax (except for non-entrepreneur individuals) at the moment of payment for the following income types: salary/wages, interest, dividends, royalties, etc.

A Free Industrial Zone Enterprise is not obliged to withhold the tax at the source of wage payments from the resident individual, as well as a non-resident person making wage payments that are not attributable to its permanent establishment in Georgia. In this case, an employee has to calculate his tax liabilities, file the tax return form, and pay the tax.

The reporting period for withholding taxes is a month. Tax agents submit returns by the 15th of the month, declaring income paid and taxes withheld during the reporting period.

Resident and foreign individuals should submit income tax declaration to the tax authorities at the place of registration of individuals before 1st April with Georgian tax residency for whom income is not taxed at the source of payment in Georgia. As well, non-resident individuals with Georgian-source income not subject to taxation at the source of payment have to submit the tax declaration.

A short notice regarding the individuals engaged in economic activities in Georgia must make advance PIT payments in four instalments (by 15 May, 15 July, 15 September and 15 December), (PwC, 2019b).

3 CONCEPT OF WAGES

Wage is an extremely wide and complex concept.

ILO estimated that the average world labour force participation rate is about 62% of the working-age population. Approximately 3,3 billion individuals engaged in employment; among them 54% are wage and salary workers (ILO, 2018).

In 2017 global wage growth was lower than in 2016 and the lowest growth since 2008. In Central and Western Asia, wage growth also declined from 3% in 2016 to 0,5% in 2017.

Among the most important conditions of work and the main subject of collective bargaining are wages. The questions of productivity, competition, consumption ration, savings and investments, the extent of supply and demand, employment, and unemployment are tightly connected to wages. At the same time, wages represent the most important source of income for the population, the base for financing and working of social security systems, and source of income of state budget (Gunawan & Amalia, 2015, pp. 349–350).

Ehrenberg & Smith (2012, p. 31) define wage as the price of labour. The *nominal wage* is what workers get in current currency, while the *real wage* is nominal wage divided by some measure of prices, showing how much can be purchased with a worker's nominal wage. Consumer Price Index (index, which measures the average change in prices over time that consumers pay for a basket of goods and services) can be used as a measure of price.

3.1 Definition of wage

In this thesis, the term *wages* apply to payments received by workers who are paid on a salaried basis (monthly, for instance) rather than an hourly basis (in Georgia, for example). The term is used for convenience.

Work is an essential part of our life. It can take different forms and have various definitions. As labour process work consists from fours elements: first, the effort of workers put into productive activities, second, the means (such are tools, machines, etc.), third, the objects they process, and fourth, the product (the result of their efforts), (Hofmeester & van der Linden, 2018, p. 3). Then, one of the definitions of wage could be that wage is the price of the result of workers' efforts.

3.2 Different perspectives of wages

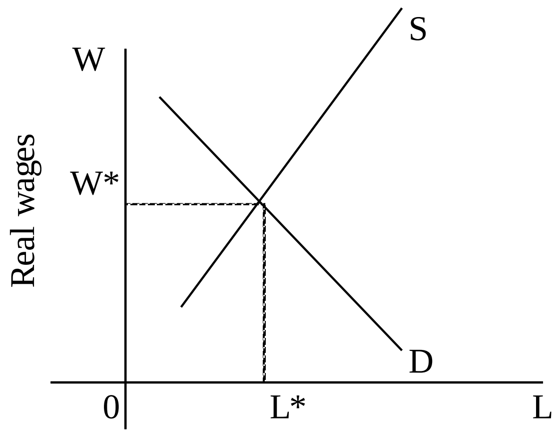
The complexity of defining a wage derives from various opposing interests of participants of payment systems in each country. That is why wages are subject to investigation for many professionals in different areas, especially in economics, labour law, accounting and finance, tax, social, sociological, and psychological fields.

Due to the multifaceted nature of the concept of "wages", we need to consider them from various perspectives.

In the market economy, the wage is an element of the labour market, which expresses the market value of hired labour through the interaction of labour demand and labour supply.

In the simple labour market, the demand for labour is roughly equal to its marginal productivity. On the other hand, the supply is determined by the disutility of work relative to the utility of offered wages. Market clearing wage W*, shown in figure 5, is set by the interaction of labour demand (the function of pre-tax real wages) and labour supply (responds to post-income tax real wages). Everyone who wants a job at W* has it, meaning there is no involuntary unemployment in such an equilibrium (Ehrenberg & Smith, 2012, p. 44).

Figure 5: Wage determination



Source: Ehrenberg & Smith (2012, p. 44).

where W is market clearing wage, L* is equilibrium employment level at W*, D is demand and S is supply*

From the perspective **of economic theory**, as an economic category, the wage reflects the relationship between the employer and the employee concerning the distribution of newly created value.

From the **standpoint of the entrepreneur**, the wage is, on the one hand, the cost of production. On the other hand, it represents the main factor in the maintenance of the material interest of the employee in achieving high goals and results.

Wages play a crucial role in the mechanism of functioning of a market economy.

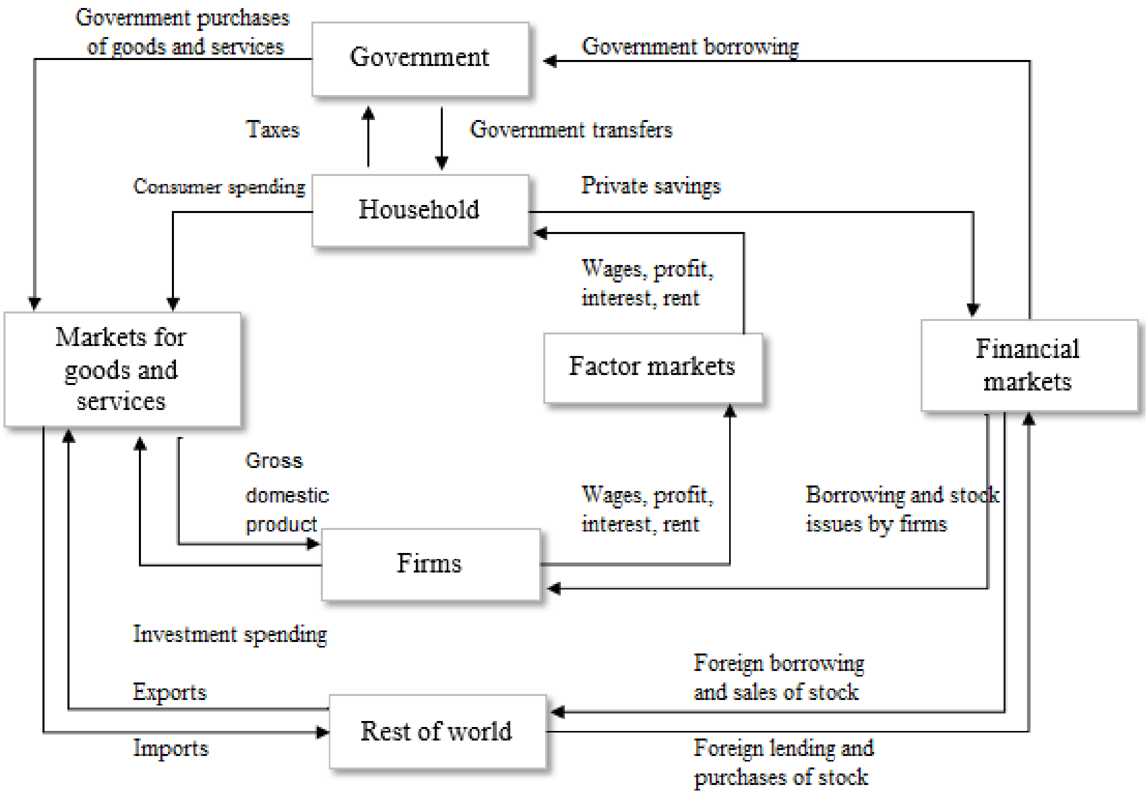
3.2.1 Macroeconomic perspective

From the economic point of view, the most relevant is the macroeconomic perspective of wages, which impacts the overall national economy and the economic development of a country, for example, impacts on inflation, productivity, competitiveness, etc.

The meaning of wage from a national economic perspective is better to describe with the expanded circular flow, illustrating the connection and interdependence of economic actors (households, firms, state or government, and financial markets). Krugman & Wells (2013, p. 621) showed the flows of money through the economy in the diagram.

Through two fundamental markets: factor market and market for goods and services, the real and money flow (cash flow) of economy take place. Wages are presented on both markets and are an integral part of them. From a macroeconomic point of view, wages or compensations for employees could be analyzed from the standpoint of national economy cost on the supply side, and as the generator of purchasing power on the demand side.

Figure 6: An expanded circular flow diagram: The flows of money through the economy



Source: Krugman & Wells (2013).

3.2.2 Legal perspective

The internal and external legal sources are equally important for legal regulations of wages.

For example, Georgia is obliged to recognize many important international acts related to the protection of labour rights. International treaty or agreement of Georgia, unless it contracts the Constitution of Georgia, takes precedence over domestic normative acts (The Constitution of Georgia, Article 6.2.). According to Qavtaradze (2015, pp. 11–12), the most important among the acts ratified by Georgia are:

– **"International Covenant on Economic, Social, and Cultural Rights",** which strengthens fair and favourable conditions of work, equal remuneration for work of equal value without any distinction, safe working conditions, the right to form and join trade unions, the right to strike, the right for paid leave for employed mothers, etc.
– **"European Social Charter",** which deals with many important rights. Georgia recognizes only certain articles of the European Social Charter, which includes fair use

of labour, fair remuneration, employee organization, and protection of women after childbirth, equal treatment in employment and occupation without any discrimination.
- **“ILO Conventions”** on the prohibition of forced labour, the minimum age for admission for work, equal pay for men and women for work of equal value, paid annual leave, and more. ILO was founded in 1919, as a part of the Treaty of Versailles. As a specialized agency, ILO was incorporated into the United Nations in 1949.

ILO Conventions cover a wide area of labour and social issues. The convention is an instrument, which is intended to ratification by the member states, and the states, which ratified those conventions are bound to them. We differentiate between conventions, which directly and only refer to wages, and those, which partly or indirectly refer to wages. Wages are connected with all other instruments of labour law that is why a number of conventions, dealing with the labour law issues, indirectly touch the issues of wages. None of the conventions totally covers the area of wages, but some conventions from this area deal with a certain perspective of wages, which are the following (Kresal, 2001, pp. 24–25):

- Minimum wage.
- Equal payment.
- Wage security.
- Freedom of wage regulation through collective agreements.
- Statistical perspective of wages.

Georgia, Azerbaijan and Turkey are all member countries of ILO. Georgia is the member since June 22, 1993; Azerbaijan is the member since May 19, 1992; Turkey is the member since July 18, 1932.

According to the ILO (2019), Georgia ratified the following conventions, and is bound to them:

- ILO Convention No. 100 on equal remuneration for men and women workers for work of equal value (1951).
- ILO Convention No. 111 on discrimination of employment and occupation (1958).
- ILO Convention No. 138 on the effective abolition of child labour and on raising the minimum age for admission to employment or work of young persons to a level consistent with the fullest physical and mental development (1973).

According to the ILO (2019), Turkey ratified, for instance, the following ILO conventions:

- ILO Convention No. 100 on equal remunerations for men and women workers for work of equal value (1951).
- ILO Convention No. 2 on certain proposals related to the “question of preventing or providing against unemployment” (1919).

- ILO Convention No. 161 on the protection of the worker against sickness, disease, and injury arising out of his employment (1985).

Closely related to wages are also the areas of **social security** and **social insurance.** As it was already mentioned, social security right is the base of human rights. Convention No. 102 on minimum norms of social security, is one of the most important contemporary conventions, which was accepted by ILO. In Turkey, the Convention was ratified in 1975.

According to ILO (2019), Azerbaijan also ratified the ILO conventions, some of them are:

- ILO Convention No. 98 on the right to organise and to bargain collectively (1949).
- ILO Convention No. 182 on worst forms of child labour (1999).
- ILO Convention No. 151 on labour relations in Public Service (1978).

According to the reports of European Committee of Social Rights (2009), Azerbaijan ratified the revised European Social Charter on 2nd of September 2004, accepting 47 out of the 98 paragraphs, while Turkey ratified the revised European Social Charter on 27th of June, 2007 and has accepted 91 out of the 98 paragraphs.

Based on a systematic overview of the most important international documents, the conclusion is:

- Analyses of basic international documents from the area of human rights showed that on an international level, some fundamental rights related to wages as human rights (right to certain minimum wage, right to equal remuneration for work of equal value and right to social security) are recognized.
- Analyses of considered instruments of ILO: fundamental principles in relation to wages refer to minimum wage, equal remuneration for work of equal value, freedom of collective bargaining, and social security.
- Analyses of other international instruments refer to the topics of equal remuneration, safety at work, social security, equal treatment in employment.

3.2.2.1 Internal legal sources

From the labour law regulation, wages are part of the employment contract and employment relationship based on it. According to the contract, a wage is a payment to which an employee has the right in exchange for his obligation to perform the agreed work for an employer. It is possible to say that a wage is a right of an employee and an obligation of an employer (Qavtaradze, 2015, pp. 36–38). As a result of the constitutional amendments, the Georgian Labour Code acquired the status of an organic law, by which the government emphasized the importance of labour law security. The Labour Code of Georgia (*LHG* no. 75/2010) regulates the labour relations and attached to it other relations unless otherwise regulated by other special laws. Article 4, 5, 6, 7, 8, 9, and 10 of Chapter II, Section II of the

Labour Code of Georgia cover all the topics related to individual labour relations. The provision in Article 2 is important from the point of view of the prohibition of discrimination based on language, ethnic or social belonging, age, place of residence, etc. Article 35 determines the right to personal security, which in the area of work means that the employee has the right to perform his job in secured conditions ensured by the employer. The important provision is also stated in Article 43. Regarding the collective agreement, allowing collective bargaining for wages between organizations of employees and employers. According to Article 31 of the Labour Code of Georgia, the remuneration shall be determined in a labour agreement in a certain form and amount. Remuneration has to be paid once a month. In the case, an employer delayed the payment, he is obliged to pay an employee 0,07% of the delayed sum for each day of the delay. All other articles are dealing with other areas related to labour relationship, protection, and responsibility.

The main sources of employment law in Turkey are:

- The Constitution.
- Turkish Labour Act numbered 4857 (the "TLA").
- Law on Trade Unions and Collective Bargaining Agreements numbered 6356 (the "Union Law").
- Law on Civil Service Trade Unions and Collective Bargaining Agreements numbered 4688.
- Turkish Code of Obligations numbered 6098 (the "TCO").
- Occupational Health and Safety Law numbered 6331, etc. (Martin, Broadbent, & Lovells, 2018).

The main sources of labour rights and employment regulatons in Azerbaijan are:

- The Republic of Azerbaijan Constitution (came into force on November 27, 1995).
- The Republic of Azerbaijan Labour Code (came into force on July 1, 1999).
- The Azerbaijan Republic Law on Employment (came into force on August 9, 2001).
- The Azerbaijan Republic Law on Social Insurance (came into force on April 7,1997).
- The Azerbaijan Republic Law on Labour Pensions (came into force on March 6, 2006), etc. (ILO, 2012).

3.2.3 Tax perspective

In the developed countries, the system of taxation of wages with PIT and other compulsory social security contributions represents a very complex area, since wages are one of the most taxed income and important tax source for the state budget or other financial funds.

As Stanovnik (2012, p. 63) points out, the PIT is one from the "big three" taxes, which also includes taxes on consumption and contributions for social security. If we look in history, we can say that PIT is one of the youngest taxes in Europe, which began to be effective at the end of the 19th century.

According to the OECD Revenue Statistics (OECD, 2018b, p. 26), the tax structure (unweighted average as a percentage of GDP) is the following:

Table 2: Tax structure in OECD, selected years (unweighted average as % of GDP)

	2000	**2007**	**2010**	**2012**	**2014**	**2015**	**2016**
Total tax revenue	33,8	33,6	32,3	33,1	33,6	33,7	34,0
Taxes on income, profits and capital gains	11,9	12,1	10,6	11,0	11,2	11,3	11,3
of which							
Taxes on income, profits and capital gains of individuals	8,7	8,2	7,6	7,9	8,2	8,3	8,2
Taxes on income, profits and capital gains of corporates	3,2	3,6	2,7	2,8	2,8	2,8	2,9
Social security contributions (SSC)	8,6	8,4	8,9	9,0	9,0	9,0	9,2
Taxes on payroll and workforce	0,4	0,3	0,3	0,4	0,4	0,4	0,4
Taxes on property	1,8	1,8	1,7	1,8	1,9	1,9	1,9
Taxes on goods and services	10,9	10,6	10,6	10,7	10,8	10,8	11,0
of which							
Value added taxes	6,4	6,5	6,5	6,6	6,7	6,7	6,8
Excises	2,9	2,6	2,7	2,7	2,6	2,6	2,6
Other taxes	0,2	0,2	0,2	0,2	0,2	0,2	0,2

Source: OECD (2018b).

The tax structure of Georgia is the following:

Table 3: Tax structure as % of GDP in Georgia, selected years 2010-2017

In (%)	2010	2011	2012	2013	2014	2015	2016	2017
Total tax revenue	**23,5**	**25,2**	**25,5**	**24,8**	**24,8**	**25,2**	**25,8**	**25,8**
Income tax	5,8	6,4	6,7	7,2	6,7	7,0	7,1	7,7
Profit tax	2,8	3,4	3,3	3,0	2,8	3,2	3,1	2,0
Value added tax (VAT)	10,6	11,4	11,6	10,6	11,3	11,0	9,7	10,9
Excises	2,7	2,5	2,5	2,7	2,8	2,7	3,1	3,8
Property tax	0,9	0,9	0,9	0,9	0,8	0,9	1,1	0,2
Customs duties	0,3	0,4	0,3	0,3	0,3	0,2	0,2	1,0
Other taxes	0,3	0,2	0,1	0,1	0,1	0,1	1,5	0,2

Source: MOF (2018).

During 2010 until 2017 the main components of tax revenue in Georgia are value added tax and income tax.

Table 4: Tax structure as % of GDP in Turkey, selected years 2010-2017

In (%)	2010	2011	2012	2013	2014	2015	2016	2017
Total tax revenue	24,8	25,9	24,9	25,3	24,6	25,1	25,3	24,9
Taxes on income, profits and capital gains	5,3	5,4	5,4	5,1	5,2	5,1	5,4	5,3
Social security contributions (SSC)	6,2	7,2	6,8	7,0	7,0	7,3	7,3	7,3
Taxes on property	1,0	1,1	1,1	1,2	1,2	1,2	1,2	1,1
Taxes on goods and services	11,8	11,7	11,2	11,7	10,8	11,1	11,0	10,8
Other taxes	0,5	0,5	0,4	0,4	0,3	0,4	0,4	0,3

Source: OECD.Stat (2019).

The same is observed for Turkey, where income tax and SSC together are approximately the same as taxes on goods and services.

Table 5: Tax structure as % of GDP in Azerbaijan, selected years 2010-2017

In (%)	2010	2011	2012	2013	2014	2015	2016	2017
Total tax revenue	12,2	12,2	12,8	13,4	14,2	15,6	14,6	13,2
Income tax of natural entities	1,4	1,4	1,5	1,5	1,7	1,8	1,9	1,5
Profit tax of legal entities	3,4	4,1	4,1	4,1	3,9	4,1	3,3	3,2
Tax on land	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Property tax	0,2	0,2	0,2	0,2	0,2	0,3	0,3	0,3
Value added tax	4,9	4,3	4,3	4,7	5,3	6,4	6,0	5,2
Excise	1,2	0,9	1,0	1,0	1,4	1,2	1,0	0,9
Other taxes	1,0	1,3	1,6	1,9	1,7	1,8	2,0	2,0

Source: AzStat (2019c).

In Azerbaijan the main components of tax revenue are value added tax and profit tax of legal entities.

Table 6: Dynamics of tax revenue over the previous year, selected countries

In (%)	$\frac{2011}{2010}$	$\frac{2012}{2011}$	$\frac{2013}{2012}$	$\frac{2014}{2013}$	$\frac{2015}{2014}$	$\frac{2016}{2015}$	$\frac{2017}{2016}$
Georgia	26,0	8,7	-0,2	8,7	10,6	9,7	11,3
Turkey	25,5	8,4	17,1	9,6	16,7	12,5	17,1
Azerbaijan	23,3	9,9	11,4	7,7	1,2	3,7	5,3

Source: Own work.

Taxes, in general, are also very important source of the state budget for Caucasus countries. The dynamics of tax revenue over the previous years for all three countries experience the increasing trend, except Georgia in 2013.

As Čok, Brodnjak & Gabrijelčič (2004, p. 143) point out, the PIT from employment (all taxes including SSC, paid on labour income), is the primary source in all EU countries since they contribute approximately half of all tax incomes. In Georgia, for instance, they contribute roughly around 30% of all taxes, which still makes them one of the significant sources of budget income.

3.2.4 Accounting perspective

Accounting treats wages of employees from the employers' perspective (payer of wages) as the cost of labour, which comes from a fundamental definition of cost.

In a broad definition, the cost of labour is the sum of all wages and SSCs paid to employees. Among the costs are also included wage compensations towards which an employee has the right under the certain law, employment contract or according to a collective agreement.

On the example of Regal-GH d.o.o. company (medium-size company in Slovenia, the revenue from sales does not reach EUR 40 million), according to Annual Report for 2017 and 2018 (AJPES, 2019, p. 18), the labour cost represents roughly 10% from the total costs (including cost of goods sold).

Labour cost can also be the main factor while deciding to employ an additional number of workers, which, from the accounting perspective, slowly flows to a macroeconomic perspective, having an influence on employment in a country.

In a relationship employer-employee, a wage from the perspective of first is considered as labour cost, and from the perspective of the second as labour income.

Table 7 below shows the classification of labour cost by EC standards:

Table 7: Classification of labour cost by EC standard

Wage costs:	
Direct remunerations	Wage and salaries related to actual work
and regular bonuses	- basic salaries and wages for normal and overtime hours
	- premiums and bonuses paid at each pay period
Other bonuses and	- Other premiums and bonuses not paid at each pay period
gratuities	
Payments to workers'	Payments to workers' savings schemes
savings schemes	
Non-wage costs:	
Payments for days	Paid holidays and compensation for holidays not taken
not worked	- holiday bonuses
	- public holidays and other paid holidays
	- severance pay and payments in lieu of notice

(table continues)

Table 7: Classification of labour cost by EC standard (continuing)

Social welfare costs	Contributions for social welfare and family allowances paid by the firm
Statutory social	Health, maternity and disability insurance
welfare costs	- retirement pension
	- unemployment insurance
	- guaranteed salary/wage in case of illness
	- occupational illness
	- industrial accident
	- family allowances
	- other
Customary, contractual	Mutual insurance on a firm or industry basis
or voluntary costs	- supplementary retirement and provident schemes
	- contractual or voluntary guaranteed wage/salary
	- supplementary redundancy insurance scheme
	- other
Benefits in kind	Payments in kind and corresponding compensatory payments
Other expenses of	Other social expenditures
social nature	- special levies (taxes and dues)
Vocational training	Vocational training costs

Source: Adapted from Hart, A. R. (2010).

4 TAXATION OF WAGES IN GEORGIA IN 2017

Due to the fact that this thesis considers three countries with three different currencies, the comparative tables are converted into EUR currency to read the data easily.

For Georgia, the exchange rates from National Bank of Georgia are applied to all calculations (in some cases, the data in GEL and EUR is presented simultaneously) and presented in table 8 (the data is taken for the period average):

Table 8: Exchange rates USD/GEL and EUR/GEL from 2010-2017

	USD/GEL	EUR/GEL
2010	1,7826	2,3644
2011	1,6860	2,3473
2012	1,6513	2,1232
2013	1,6634	2,2094
2014	1,7659	2,3462
2015	2,2702	2,5204
2016	2,3667	2,6172
2017	2,5086	2,8322

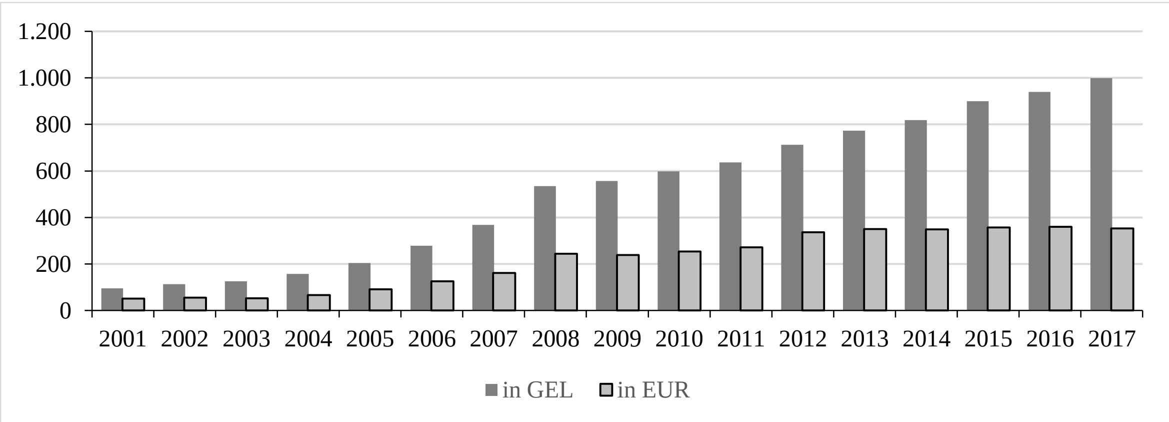
Source: National Bank of Georgia (2019a).

In recent years in Georgia, issues related to a minimum wage (set amount per hour that employers are required to pay employees) and a living wage (the amount that an amployee must earn in order to enjoy an equitable standard of living) became one of the most discussed topics in the country. According to Avaliani (2016), the number of adult men having income less than the subsistence level was 62.681, and people having an income less than GEL 100 (EUR 38,2) per month were 25.001. These statistics once again strengthen the necessity to set an adequate minimum wage, taking into account the socio-economic situation in the country. The Labour Code of Georgia does not specify the amount of minimum wage. The only Act related to this topic is the Presidential Decree No 351 of June 4, 1999, approving the minimum wage in amount of GEL 20 (which according to 2017 exchange rate is EUR 7,06). In 2006, December 26, according to the Presidential Decree No 767, paragraph 3 was changed and formed as follows: “The minimum amount (minimum wage) of the remuneration shall be set at GEL 40 (EUR 14,12 according to exchange rate for the year 2017), prior to any amendments to the relevant legislative acts, including sanctions, penalties related to a minimum wage.

From 2004, the tax burden of wages started to decrease. There are two reasons for that: first, is the successful tax reform in 2004, which in 2005 set the PIT at fixed rate of 12% and decreased the SSC to 20%. Later, in 2008 SSC were eliminated (Kemularia, 2011).

Nominal wages started to increase in Georgia dramatically. Figure 7 shows the development of nominal wages from 2001 until 2017.

Figure 7: Average monthly nominal wage (GEL/EUR) in Georgia, 2001-2017



Source: GeoStat (2019a).

4.1 Macroeconomic data and its analysis

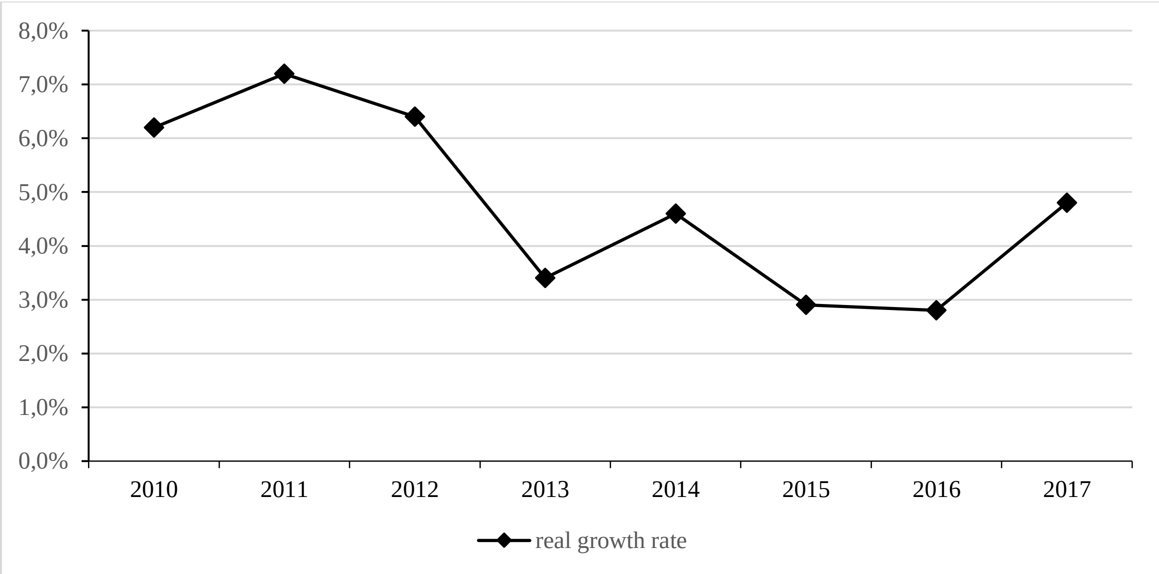
Despite the numerous shocks, including the global financial crisis, the robust growth of Georgia’s economy over the past decades showed that on average the growth rate was 4,5% annually.

New economic opportunities were beneficial for poor people. At that time, the share of population under the absolute poverty line decreased from 36,9% in 2006 to 21,9% in 2017. Georgia earned a reputation of "star reformer" due to the deep economic management and governance reforms. Introducing the new regulations and simplified investment rules, Georgia managed to boost the private sector (GeoStat, 2019f).

According to 2018 Index of Economic Freedom, Georgia's economic freedom score is 76,2, making it the 16th freest economy in the world and 9th freest in Europe. Georgia's contemporary economy depends on tourism, cultivation of citrus fruits, tea and grapes, mining of manganese and copper, on producing and exporting wine, metals, chemicals, etc. (Baratashvili, Gechbaia, & Glonti, 2012, pp. 37–43).

If we trace the statistics of GDP from 2010 to 2017, we will notice that there is a constantly increasing trend for these years. The results are presented in figure 8 (the same period of the last year equals 100).

Figure 8: The Real growth rate of GDP in Georgia from 2010-2017



Source: GeoStat (2019e).

To achieve goals for economic prosperity, Georgia used its strategic location between Europe and Asia and became the transit hub for gas, oil, and other goods. Construction of the Baku-Tbilisi-Ceyhan oil pipeline, the South Caucasus Gas pipeline, and the Baku-Tbilisi-Kars railroad, are part of the implemented strategy.

In 2017, Georgia signed the Agreement with China on Free Trade, seeking to diversify the economic ties.

The National Bank of Georgia was established in 1991. Since 2009, inflation targeting was the core monetary policy function of the National Bank of Georgia. Between 2010 and 2017, Georgia also experienced deflation (decline in prices for goods and services), but in overall, from 2014 the inflation was stable, on average at 3%, with the exception in 2017 when it reached 6,04%. National Bank of Georgia set the inflation target for 2019-2021 at 3%. One of the major advantages of inflation targeting is its ease of communication to society and transparency (National Bank of Georgia, 2019, pp. 5–7).

4.2 Labour macroeconomic indicators

The unemployment rate of Georgia was decreasing each year from 2010 to 2017, from 17,4% to 13,9% respectively. Table 9 shows the detailed figures of the unemployed and active labour force (GeoStat, 2019b):

Table 9: Unemployment rate, number of active and unemployed in Georgia, selected years 2010-2017

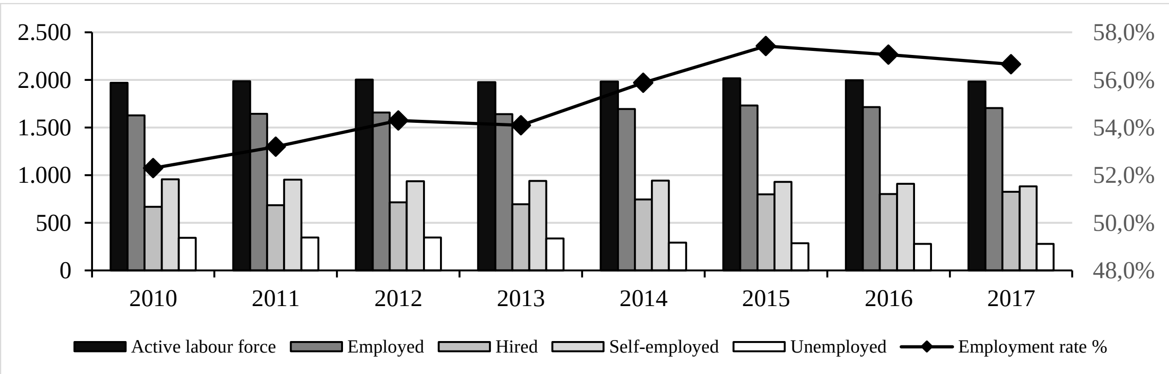
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Unemployment rate Georgia	**17,4**	**17,3**	**17,2**	**16,9**	**14,6**	**14,1**	**14,0**	**13,9**
Unemployed (in Thous.)	343,1	344,8	345,1	335,2	290,2	284,2	278,9	276,4
Active labour force (in Thous.)	1.970,9	1.988,2	2.004,5	1.978,6	1.984,6	2.018,0	1.996,2	1.983,1

Source: GeoStat (2019b).

The unemployment rate in 2018 reached 12,7%.

Compared to 2017, the share of hired employees was 48,3%. The downward sloping trend in self-employment is maintained during the last five years. In 2018, firstly, the number of employees exceeded the number of self-employed (GeoStat, 2019b).

Figure 9: Distribution of population aged 15 and older by economic status in Georgia, selected years 2010-2017



Source: GeoStat (2019b).

4.3 Personal income tax

Article 81 (1) of the Tax Code of Labour (*LHG* no. 75/2010) states that the income tax rate from employment is flat of 20%. A natural person has to be taxed at this rate unless otherwise provided for by the Tax Code.

4.3.1 Taxable income

According to the Worldwide Tax Summaries PwC (2019b), the gross taxable income of a resident individual is any income received in the form of wages, economic activities (including: dividends, interest (except of interest from deposits), income earned from financial leasing, rent or etc., royalties) not related to employment, or from other activities.

A person can also receive the payments or benefits from an employer. The following benefits would be considered as taxable income:

- Life and health insurance premiums,
- Use of an automobile of any type for private use,
- If the goods or services are transferred free of charge by an employer,
- Accommodation,
- Per-diems (daily allowances) and accommodation expenses which are received in excess of norms established by MOF.

It has to be mentioned, that while in general, the expenses related to obtaining the gross income are allowed to be deducted, and there are some expenses, which cannot be deducted. To such expenses belong the expenses related to obtaining the income, which is already exempt from taxes, entertainment expenses, paid penalties, income tax paid on the territory of Georgia and expenses related to receipt of wages. Expenses, which are not related to economic activity, are not deductible as well (Chapter XV, Article 101 of Tax Code of Georgia *LHG* no. 75/2010).

4.3.2 Income exempt from taxation

There are incomes that are tax-exempt, meaning that this status can provide complete relief from taxes, reduced rates, or tax on only a portion of items.

Article 82 of the Tax Code of Georgia *LHG* no. 75/2010 states that a natural person shall be exempt from income tax on the following types of income:

– Income (including benefits) from foreign sources received by resident individuals.

– Income received by a non-resident individuals from employment at foreign diplomatic or equivalent representative offices.

- Wage income earned by a non-resident natural person, in the case of employment within the territory of Georgia for not more than 30 calendar days during a tax year, taking into account that payer of such income is a non-resident employer.

- Grants, state pensions, state scholarships, etc.

- Gains received from the disposal of residential apartment, from the destruction of assets held for more than two years and not used for economic activities or from the sale of free-floating securities, etc.

- Taxable income up to GEL 3.000 (EUR is 906,67 with the exchange rate of 10/2019) during a calendar year for: single mothers, citizens who participated in World War II, a person who has adopted a child (for one year from adoption), a person awarded with honorary title “Kartvlis Deda” (Mother of Georgia), a person who has taken a child under a foster care.

- The taxable income up to GEL 6.000 (EUR 1.813,34 with the exchange rate of 10/2019) earned during a calendar year by a person with a disability since childhood.

- The taxable income up to GEL 6.000 (EUR 1.813,34) earned by a person with the status of a person permanently residing in a high-mountain settlement from an activity in a high-mountain settlement during a calendar year.

4.3.3 Tax base from employment income

The tax base on employment income is the gross income reduced by SSCs. In Georgia, income from employment includes all remunerations, such are: cash and benefits in kind.

The taxable benefits are (for instance):

- Receipt from goods and services from employers.
- Interest fee on low interest loan from the employer.
- Private use of employer owned or provided car, etc.

The benefit is determined as the difference between the interest rate calculated at market price and the actual interest rate at which the loan was given (PwC, 2017).

4.4 Social security contributions

Having very high SSCs, Georgia eliminated them at all, and again introduced only in the beginning of 2019 (the pension reform).

The example of taxation for a single person, following the OECD approach is presented below:

Table 10: Taxation of wages of a single person in Georgia, OECD approach, 2017

2017 (in EUR)				
Single person (% of average wage)	67	100	167	67
Number of children	none	none	none	2
1. Gross wage earnings	**2.836**	**4.233**	**7.069**	**2.836**
2. Standard tax allowances				
Basic allowance				
Married or head of family				
Dependent children				
Deduction from social security contributions and income taxes				
Work related expenses				
Other	0	0	0	1.059
Total	0	0	0	1.059
3. Tax credits or cash transfers included in taxable income				
4. Central government taxable income (1-2+3)	2.836	4.233	7.069	1.777
5. Central government income tax liability (exclusive of tax credits)	567	847	1.414	355
Total	567	847	1.414	355
6. Tax credits				
Basic credit				
Married or head of family				
Children				
Other				
7. Central government income tax finally paid (5-6)	567	847	1.414	355
8. State and local taxes				
9. Employees' compulsory social security contributions				
Gross earnings				
Taxable income				
10. Total payments to general government (7+8+9)	567	847	1.414	355
11. Cash transfers from general government				
For head of family				
For two children				
12. Take home pay (1-10+11)	**2.269**	**3.387**	**5.656**	**2.481**
13. Employer's wage dependent contribution and taxes				
Employer's compulsory social security contributions				
Payroll taxes				

Source: PwC (2017).

The average nominal wage in Georgia for 2017 is GEL 999,10. The exchange rate of EUR/GEL for 2017 is 2,8322 (GeoStat, 2019a).

5 TAXATION OF WAGES IN TURKEY IN 2017

Turkey is the south-west neighbour of Georgia. In terms of territory, Turkey is 11 times bigger than Georgia is, and 9 times bigger than Azerbaijan.

The economic legislative environment is in alignment with the major policies and standards of the EU due to the fact of Customs Union with the EU since 1995, EU pre-accession process and the IMF Stand-by Agreement.

5.1 Macroeconomic data and its analysis

In terms of the local currency, the GDP at market prices was year over year increasing in Turkey. In terms of EUR, the increasing trend stops in 2017 due to the devaluation of Turkish Lira (hereinafter: TRY). The exchange rate reached 4,12 TRY/EUR in 2017 compared to 3,34 TRY/EUR in the previous year (Exchange Rates, 2019).

Real GDP growth rate is presented in table 11:

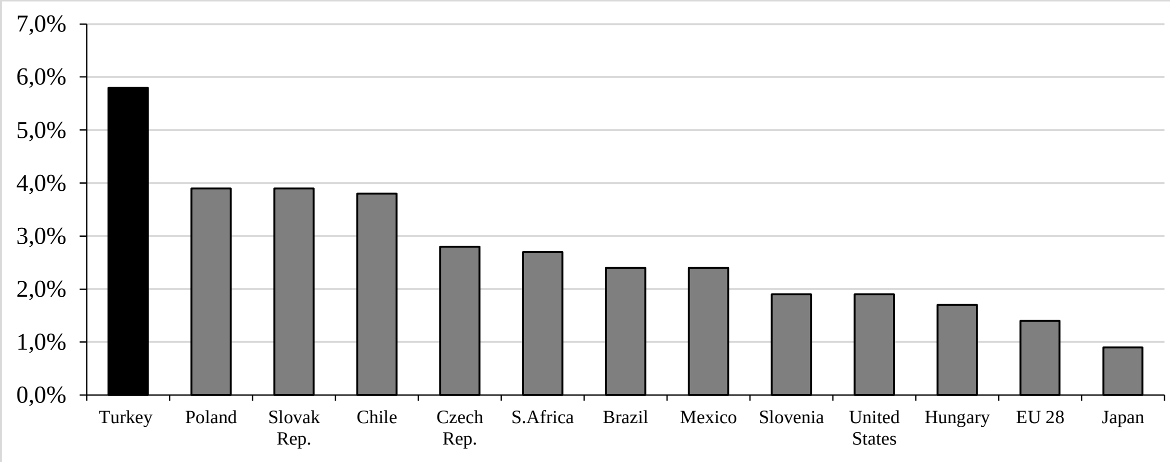
Table 11: The real growth rate of GDP of Turkey, selected years 2010-2017

In (%)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Real growth rates of GDP	8,5	11,1	4,8	8,5	5,2	6,1	3,2	7,4	2,6

Source: OECD (2019).

From 2003 until 2017, a sound macroeconomic strategy and prudent fiscal policies have placed the public finance on a more solid foundation and strengthen the financial sector. These allowed the economy to grow at an annual average real GDP growth rate of 5,8% (OECD, 2019).

Figure 10: Annual Average Real GDP Growth (%) in Turkey and other countries for the period 2003-2017



Source:Adapted from OECD (2019).

According to Trading Economics the government nominal debt stock fell to 28,3% of GDP in 2017 from 72,1% in 2002. Since 2004, Turkey has met the EU's 60% Maastricht criteria for public debt stock. Turkey is the 17th largest economy in the world and 6th largest economy compared to the EU (Trading Economics, 2019).

5.2 Labour macroeconomic indicators

The total population of Turkey in 2017 was 81.101,9 thousand people. The dynamic from 2010 has an increasing trend and it is visible from table 12 below:

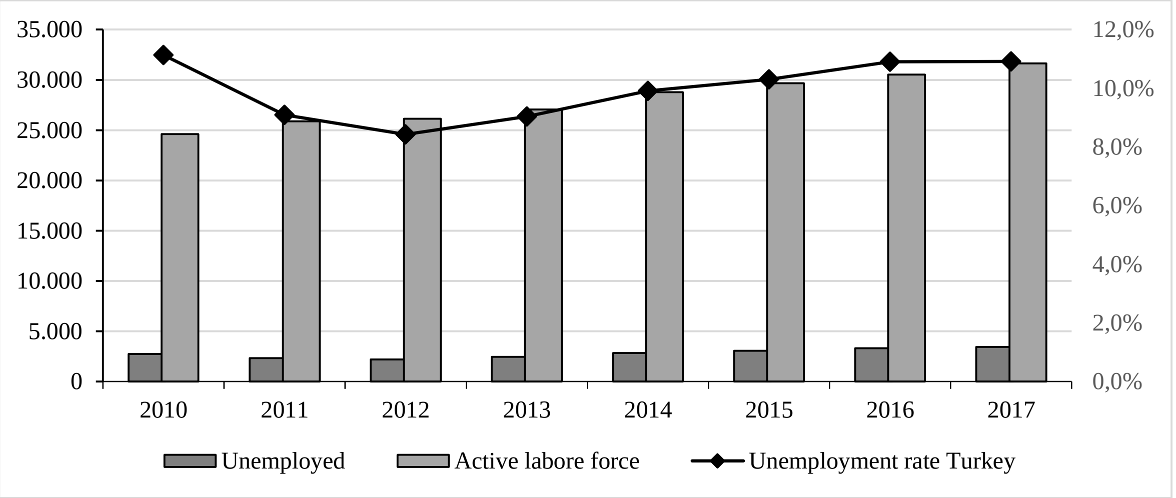
Table 12: Population statistics of Turkey, selected years 2010-2017

in Thous.	2010	2011	2012	2013	2014	2015	2016	2017
Population	73.723,0	74.724,3	75.627,4	76.667,9	77.695,9	78.741,1	79.814,9	80.810,5

Source: TurkStat (2019a).

Since 2005, the rate of employment of working-age population rose by more than 6% compared to the OECD average of 1,2%. Jobs were created in Turkey very robustly, but despite this fact, the rate of unemployment from 2015 until 2017, and even in 2018 was higher than 10% (TurkStat, 2019a).

Figure 11: Unemployed and active labour force statistics for Turkey, 2010-2017



Comment: Total figures may not be exact due to the rounding of the numbers.

Source: TurkStat (2019b).

According to the Economic Survey of the OECD, the share of people between the age of 15 and 29, who were neither in education nor employment, decreased by 14% but remained high between 2008-2016. The percentage of employees working 50 hours per week declined to 34%, but this number is still very high compared to the average OECD statistics of 13%. In Turkey over the years, the formal sector wage-earning jobs were expanded, but again, only 40% of working-age men and 15% of working-age women are formally waged (OECD, 2018a, pp. 52–53).

5.3 Personal income tax

Only central government levies income tax.

The taxation period is from 1 January until 31 December.

5.3.1 Tax payers, unit of taxation

In Turkey, there is separate taxation on earned income. This rule or law has been applied since January 1, 1992. In the case of tax residency, a person is obliged to report his worldwide income; in the case of non-tax residency, only Turkish source income has to be reported. Residency status for tax purposes is defined in the following way: if a person stays in Turkey for more than six months in a given year, he is considered a tax resident of Turkey. On the other hand, if an individual is on assignment in Turkey for a specific mission, or a project, for educational purposes or for health purposes, he/she is not considered a tax resident (OECD, 2018c, pp. 546–553).

5.3.2 Taxable income

According to the "Investment in Turkey" report of Klynveld Peat Marwick Goerdeler (hereinafter: KPMG) taxable income includes:

- Employment income:
    - Cash and non-cash compensation.
    - Any benefits received and having monetary value.
    - In addition to wages, also different bonuses, allowances (such are housing allowance, cost-of-living allowance), home leave payments are considered as part of an employment income.
- Dividend and interest income.
- Capital gains (regarding the taxation of capital gains, in Turkey currently are in force two regimes).
- Professional income.
- Rental income (for both residents and non-residents certain exemptions and adjustments can be applied).
- Agricultural profits.
- Business profits (KPMG, 2017, p. 91).

5.3.3 Income exempt from taxation, tax reliefs

The same report of KPMG (2017, p. 92) states which incomes are excluded from income tax.

- Wages paid in foreign currency by the representative offices of international companies.
- Pensions and other social security compensations received up to certain levels.
- Reimbursement (made by the employer) of travelling expenses incurred by employees for business purposes.
- Employment income wholly consisting of salaries derived from one resident employer, provided that all payments are taxed by withholding mechanism on the payroll.
- Income derived by authors, sculptors, painters, composers, etc. and their heirs from copyrights and patent rights.
- Other exemptions related to capital gains and other forms of income.

Two types of reliefs are used in Turkey while taxing the wages: standard and non-standard tax reliefs.

According to OECD (2018c, pp. 548–549), standard tax reliefs include:

- SSC reliefs.
- Contributions to public pension funds established by law.

– Minimum living relief.

Table 13: Minimum Living Allowances in Turkey (in TRY/EUR), 2017

Status	TRY	EUR
Single	133,31	32,35
Married & not spouse is working	159,98	38,82
Married & not spouse is working & 1 child	179,97	43,67
Married & not spouse is working & 2 child	199,97	48,52
Married & not spouse is working & 3 child	226,63	54,99
Married & not spouse is working & 4 child	226,63	54,99
Married & not spouse is working & 5 child	226,63	54,99
Married & spouse is working	133,31	32,35
Married & spouse is working & 1 child	153,31	37,20
Married & spouse is working & 2 child	173,31	42,05
Married & spouse is working & 3 child	199,97	48,52
Married & spouse is working & 4 child	213,30	51,76
Married & spouse is working & 5 child	226,63	54,99

Source: Gebrueder Heinemann SE & Co.KG (2019).

For table 13, the exchange rate for 2017 of 4,1211 TRY/EUR is used.

Non-standard reliefs include:

– Reliefs for disabled persons, which are regulated by Article 31 of PIT Law (implemented in 2004 by the Law 4842). The 1st degree disabled person is entitled to the monthly deductible amount of TRY 900 (or EUR 218,39 with the exchange rate of 2017) from a wage; the 2nd degree disabled person is entitled to TRY 470 (or EUR 114,05); and the 3rd degree disabled person to TRY 210 (or EUR 50,95).

– Legal deductions for public institutions.

– Membership payments made to labour unions.

– 50% of premiums paid by wage earner (that total deductible premiums cannot exceed 15% of current month wage, and the annual amount cannot exceed the annual minimum wage). The minimum wage in 2017 amounted to TRY 1.777,50 per month.

5.3.4 Tax brackets and tax rates

In Turkey, income from employment is taxed progressively. Table 14 presents the tax rates and tax brackets for the year 2017.

Table 14: Personal income tax brackets and tax rates in Turkey, 2017

2017 Income Tax Brackets in Turkey (Cumulative Income tax base)	Income Tax %
Up to TRY 13.000 (or EUR 3.154,50)	15
Between TRY 13.000 and TRY 30.000 (for the TRY 13.000 part of TRY 30.000 (or EUR 7.279,61); the tax is 1.950 (15% of 13.000); for the other part of TRY 30.000; the rate is 20%)	20
Between TRY 30.000 and TRY 110.000 (or EUR 26.691,90) (for the TRY 30.000 part of TRY 110.000; the tax is 5.350; for the other part of TRY 110.000; the rate is 27%)	27
above TRY 110.000 (for the TRY 110.000 part of above TRY 110.000; the tax is 26.950 for the other part of above TRY 110.000; the rate is 35%)	35

Source: Gebrueder Heinemann SE & Co.KG (2019).

5.4 Social security contributions

The Social Security Act No. 5502, entering into the force on 20th of May, 2006, was published in Official Gazette, informing that several social security institutions, covering separate systems for public, private sector employees and self-employed, have been incorporated into a single organization called Social Security institution. The main goals of the Institution are to ensure the fair, valid, equitable social security system based on the principles of social insurance. The Social Security and Universal Health Insurance Act No. 5510, which came into the force in October 2008, eliminated the differences in the treatment of different working groups to achieve the fair, easily accessible, and more effective protection of the population.

5.4.1 Employees' compulsory social security contributions

According to OECD (2018c, p. 549), employees make the following contributions: pensions (including disability, old age and death insurance) 9% from gross wage, 5% for sickness, and 1% for unemployment.

5.4.2 Employers' compulsory social security contributions

In the case of employers, they have to contribute: 11% for pensions (including disability, old age and death insurance), 7,5% sickness, and 2% for unemployment, or 2% of pensions in the case of short-term insurance branches.

Turkey has been trying to increase employment and reduce regional imbalances, implementing different incentive programs and putting into the force different laws, for example:

- Act No. 4447 of 25 August 1999 on establishing the Unemployment insurance.
- Law No. 4857 of Labour Act of Turkey, which was enacted on 22 May 2003. Article 1 states that this Law covers and regulates the working conditions, the rights of employees and employers working under an employment contract.
- Act No. 6331 on Occupational Health and Safety, etc. (Official Journal, 2012).

For instance, if employers regularly pay the premiums of 11%, they get 5% discount from the government. In addition to this a 5% discount, 6% is applied from 2013 in the working areas of 51 provinces. The second example of incentive policies is the Council of Ministries Decree 2017/10326, which states that SSC will be covered by the government in the case when daily gross earnings are below TRY 164,70 (or EUR 25,61, with the exchange rate of 10/2019, 6,43 TRY/EUR). In order to understand the logic behind SSC contributions ceiling, the example of a person without children, earning 5.000 TRY/ month is compared to a person earning 20.000 TRY/month without children.

Table 15: Taxation of wage (5.000 TRY/month) of a single person in Turkey, 2017

2017	
Single person, not exceeding the social security ceiling	
5.000 TRY/per month, exchange rate = 4,1211/EUR	
1. Gross wage earnings	**14.559**
2. Standard tax allowances	
Basic allowance	
Married or head of family	
Dependent children	
Deduction from social security contributions and income taxes	2.184
Work related expenses	
Other	
Total	**2.184**
3. Tax credits or cash transfers included in taxable income	
4. Central government taxable income (1-2+3)	12.375
5. Central government income tax liability (exclusive of tax credits)	2.674
Stamp tax	111
Total	**2.785**
6. Tax credits	
Basic credit	388
Married or head of family	
Children	
Other	

(table continues)

Table 15: Taxation of wage (5.000 TRY/month) of a single person in Turkey, 2017 (continuing)

Total	**388**
7. Central government income tax finally paid (5-6)	2.396
8. State and local taxes	
9. Employees' compulsory social security contributions	
Gross earnings	2.184
Taxable income	
Total	**2.184**
10. Total payments to general government (7+8+9)	4.580
11. Cash transfers from general government	
For head of family	
For two children	
Total	
12. Take home pay (1-10+11)	9.979
13. Employer's wage dependent contribution and taxes	
Employer's compulsory social security contributions	2.548
Payroll taxes	

Source: Gebrueder Heinemann SE & Co.KG (2019).

In the case, the wage is TRY 20.000 per month, the SSC should be (20.000 * 0,14 = 2.800 TRY/ month, per year the amount will be 2.800 * 12 = 33.600 TRY/year, which exceeds the ceiling of allowable amount of TRY 13.331,25).

In this case, the following rule is applied: ***If the gross wage exceeds the social security ceiling, social security contribution is calculated based on social security ceiling amount (as a maximum amount).***

In the thesis, the single person's position without children (with 100% of the average wage, 67% and 167% of the average wage), and with two children is considered.

Table 16: Taxation of wages of a single person in Turkey, OECD approach, 2017

2017 (in EUR)				
Single person (% of average wage)	67	100	167	67
Number of children	none	none	none	2
1. Gross wage earnings	**6.553**	**9.780**	**16.333**	**6.553**
2. Standard tax allowances				
Basic allowance				
Married or head of family				
Dependent children				
Deduction from social security contributions and income taxes	983	1.467	2.450	983
Work related expenses				
Other				
Total	983	1.467	2.450	983
3. Tax credits or cash transfers included in taxable income				
4. Central government taxable income (1-2+3)	5.570	8.313	13.883	5.570
5. Central government income tax liability (exclusive of tax credits)	956	1.577	3.081	956
Stamp tax	50	74	124	50
Total	1.006	1.652	3.205	1.006
6. Tax credits				
Basic credit	388	388	388	505
Married or head of family				
Children				
Other				
Total	388	388	388	505
7. Central government income tax finally paid (5-6)	618	1.263	2.817	501
8. State and local taxes				
9. Employees' compulsory social security contributions				
Gross earnings	983	1.467	2.450	983
Taxable income				
Total	983	1.467	2.450	983
10. Total payments to general government (7+8+9)	1.601	2.730	5.267	1.484
11. Cash transfers from general government				
For head of family				
For two children				
Total				
12. Take home pay (1-10+11)	**4.952**	**7.050**	**11.066**	**5.069**
13. Employer's wage dependent contribution and taxes				
Employer's compulsory social security contributions	1.147	1.712	2.858	1.147
Payroll taxes				

Source: OECD (2018c).

The data is converted in EUR currency.

Stamp tax or stamp duty is the tax that is placed on legal documents. Stamp tax applies to a wide range of documents, including, but not limited to, agreements, financial statements, and payrolls. Stamp tax is levied as a percentage of the value stated in the agreements at rates varying between 0,189% and 0,948%. Wage payments are subject to stamp tax at a rate of 0,759% over the gross amounts, whereas a lump-sum stamp tax is calculated for certain types of documents, such as the printed copies of the financial statements (OECD, 2018c).

6 TAXATION OF WAGES IN AZERBAIJAN IN 2017

Azerbaijan is the neighbouring country having the southeast border with Georgia. Azerbaijan is located at the crossroads of Eastern Europe and Western Asia, stretching from 800 kilometers from the Black Sea to the Caspian Sea. Baku is the capital and largest city in Azerbaijan.

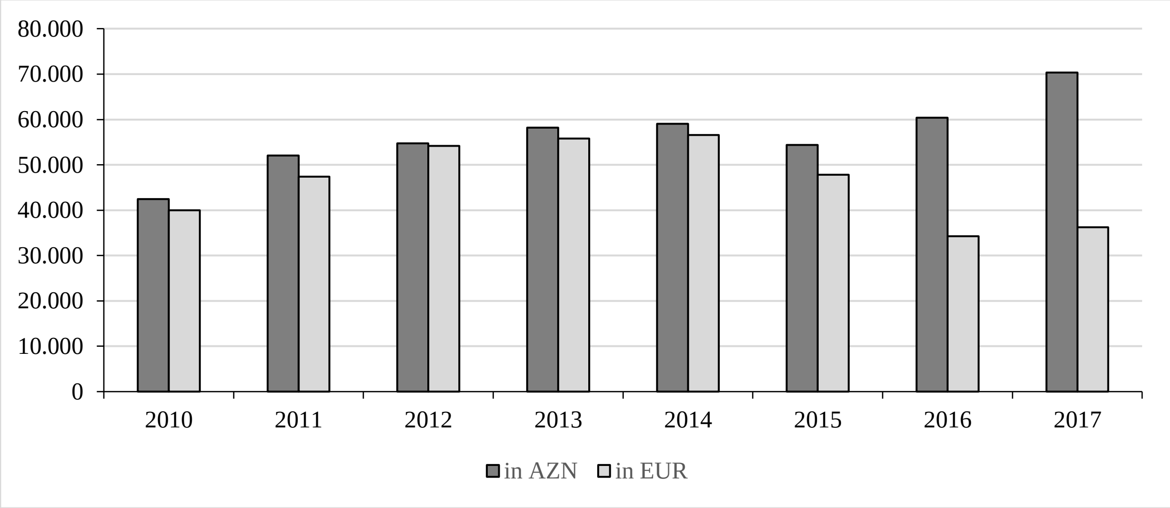
Two third of Azerbaijan is rich with oil resources, which are the main factor of the economy. The country is also rich with gold, silver, iron, copper, manganese, titanium. Half of the land is devoted to the agricultural purposes. The Caspian fishing industry is also prosperous in Azerbaijan.

6.1 Macroeconomic data and its analysis

According to Baku Research Institute (2018), in the past three years, when the local currency lost its value by two times, the highest inflation rate was in 2017 with the inflation index of 12,9%. The inflation delayed the investment activity, did not allow restoring confidence in national currency.

Central Bank of Azerbaijan tries to decrease the liquidity in the economy and control the inflation were ineffective since 2015. The nominal GDP at current prices increased from 2016 to 2017 approximately by 10 billion Azerbaijani manats (hereinafter: AZN), the monetary base decreased by 2 billion AZN.

Figure 12: GDP of Azerbaijan at current prices in million AZN and million EUR, selected years 2010-2017



Source: AzStat (2019b).

In the mining and processing industries, the real economic decline rate of 4,6% and 1,8% respectively accelerated in 2017 compared to 2016. In that year, the stabilization in investment was noticed mainly due to the public sector, households, and the banking sector. 63,4% of investments in fixed capital was provided by enterprises and organizations. In 2017, the consumption of households in nominal terms increased by 4,9 billion AZN or 13,9%. Taking into account the inflation of 12,9% means that real growth was around 1%. According to the State Customs Committee, the foreign trade turnover increased by 27,8% compared to 2016. This was the highest level in the past three years. The state is the key participant in the export field, while the private sector is key participant in imports (Baku Research Institute, 2018).

The top five trade partners of Azerbaijan are: Italy, Turkey, Russia, China and Germany.

6.2 Labour macroeconomic indicators

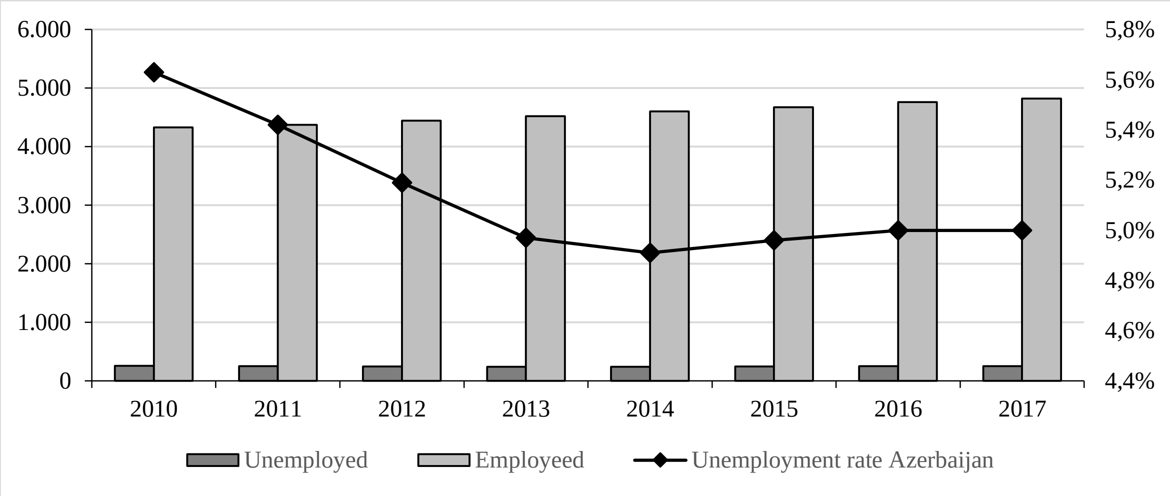
AzStat (2019d) statistics of the population from 2010 to 2017 show the increasing trend, increasing by almost one million people in 2017 compared to 2010.

Table 17: Population statistics of Azerbaijan, selected years 2010-2017

in Thous.	2010	2011	2012	2013	2014	2015	2016	2017
Population of Azerbaijan	**8.997,6**	**9.111,1**	**9.235,1**	**9.356,5**	**9.477,1**	**9.593,0**	**9.705,6**	**9.810,0**

Source: AzStat (2019d).

Figure 13: Unemployed and active labour force statistics for Azerbaijan, 2010-2017



Source: AzStat (2019e).

The unemployment rate, compared to Georgia and Turkey in Azerbaijan through the years stays stable, around 5% on average.

The average monthly nominal wages are different depending on economic activity, complexity, and other work factors. Over the past years in Azerbaijan, the nominal wages in total experienced the increasing trend.

The exchange rate for Azerbaijanian manats for 2017 was 1,9423 AZN/EUR.

Table 18: Average monthly nominal wages in Azerbaijan (in AZN/EUR), 2017

Economic activity	2017 in AZN	2017 in EUR
On economy - total	**528,5**	272,1
Agriculture, forestry and fishing	261,5	134,6
Mining	3.071,90	1.581,60
Manufacturing	554	285,2
Electricity, gas and steam production, distribution and supply	547,8	282
Water supply; waste treatment and disposal	324,6	167,1
Construction	783,3	403,3
Trade; repair of transport means	385,6	198,5
Transportation and storage	733,9	377,9
Accommodation and food service activities	511,2	263,2
Information and communication	870,6	448,2
Financial and insurance activities	1.387,7	714,5
Real estate activities	354,6	182,6
Professional, scientific and technical activities	1.032,7	531,7
Administrative and support service activities	547,8	282
Public administration and defense; social security	534,5	275,2
Education	322,2	165,9
Human health and social work activities	222,5	114,6

(table continues)

Table 18: Average monthly nominal wages in Azerbaijan (in AZN/EUR), 2017 (continuing)

Art, entertainment and recreation	268,4	138,2
Other service activities	662,6	341,1

Source: AzStat (2019a).

6.3 Personal income tax

The Labour Code of the Republic of Azerbaijan (*Approved by the Law* no. 618-IG/1999), along with other relevant legislation, regulates all relevant labour matters. According to the Azerbaijanian Law, an employee should sign an employment agreement with an employer, in order to perform activities within the legislation. There are two types of employment contracts: for a fixed term and for an unlimited period. The regular week is 40 hours, with some specifics:

- Employees under 16 should not work more than 24 hours/week.
- Employees in the 16-18 age category, pregnant women, and single parents raising the child under the age of three should not work more than 36 hours a week.

If the work requires more working hours, for example 12, for the overtime hours an employee gets paid at least double hourly rate (KPMG, 2018, pp. 19–21).

6.3.1 Tax payers, unit of taxation

Ernest & Young (2017, pp. 8–9) states that in Azerbaijan persons are taxed separately.

In the case of Azerbaijan, again both residents and non-residents are subject to PIT. Residents of Azerbaijan are taxed on their worldwide income, while non-residents on the Azerbaijan income source. The tax is deducted from the source at a progressive rate.

The residency is defined when:

- A person is presented in Azerbaijan for more than 182 days in a year.
- A person is presented in Azerbaijan less than 183 days, and not present for more than 182 days in another country.
- A person has a permanent place of residence, etc.

The examples of non-residents are:

- Diplomats and their family members.
- Other official representatives of foreign countries, consulates, etc.

6.3.2 Taxable income

According to PwC (2018), in Azerbaijan the tax is withheld from specified Azeri-income source:

- Dividends at 10%.
- Interest (currently interest paid for bank deposits is not subject to tax) at 10%.
- Rental fees for movable and immovable property, and royalties at 14%.
- Payments for goods or services provided by physical persons not registered as independent entrepreneurs (i.e. having no Tax ID): at monthly income tax rates (from 14% to 25%).
- Taxes deducted from incomes of non-resident physical persons not attributed to a PE (permanent establishment), (base) in Azerbaijan:
  - Leasing or insurance payments under risk insurance or reinsurance agreements at 4%,
  - Telecommunication or international transport services at 6%,
  - Other income at 10%.

6.3.3 Income exempt from taxation, tax reliefs

The following types of income are not subject to income tax:

- Wages received overseas by employees working at diplomatic missions on a rotation basis and administrative and technical employees of diplomatic missions.
- Income received as gift or inheritance in a calendar year within the following limits:
  - Up to AZN 1.000 (or EUR 531,91 with the exchange rate of 10/2019) received as a gift or financial aid for education or medical treatment.
  - Up to AZN 2.000 (or EUR 1.063,83) as financial aid for payment of medical treatment abroad,
  - Inheritance value up to AZN 20.000 (or EUR 10.638,30).
- Income from sales of fine air, antique items, and precious stones are exempt transactions from income tax.
- Sales of property being used or used in the entrepreneurial activity of the taxpayer,
- Compensation for incurred damages.
- Income which is received directly from the manufacturing of agricultural products,
- Payments in cash or in-kind as compensation for damage to the life, property, or property interests of the insured employee.
- Lump-sum aid provided in the case of natural disasters and other emergency situations by relevant authorities.
- Dividend income of shareholders of the resident legal entity not registered as a VAT payer and the revenue not exceeding AZN 200.000 in any consecutive 12-month period.
- Income received from writing-off tax debts to the state budget.

- 50% of taxpayer’s income from the disposal of shares and participating interests owned at least for three years.
- Other exemptions as provided.

6.3.4 Tax base from employment income

Wages and benefits received in connection with employment are treated as the employee’s taxable income:

- If the loan is granted to a person under the interest rate at the interbank credit auction, the difference between these two rates is considered as taxable income.
- Where an employer transfers some goods under the fair market value, the difference between market value and the amount paid is considered as taxable income.
- The amount of reimbursed non-business expenses by an employer to an employee.
- An employer’s written off debts towards an employee are considered as taxable income.
- Insurance premiums paid by the employer.

6.3.5 Tax brackets and tax rates

For the data which refers to the analysis for 2017, the exchange rate of 1,94 AZN/EUR is used.

The wages in Azerbaijan are taxed progressively:

Table 19: Monthly personal income tax brackets and tax rates in Azerbaijan, 2017

Monthly taxable income	Tax rate
Up to AZN 2.500 (or EUR 1.288,66)	14%
Over AZN 2.500	AZN 350 (or EUR 180,41)+ 25% of amounts exceeding AZN 2.500

Source: KPMG (2018).

From January 2019, the new law came into the force, defining the rates and brackets for employees, who are engaged in employment for non-oil-gas and non-government sectors. For them monthly income up to AZN 8.000 is taxed at 0%, and income over AZN 8.000 at 14%.

The standard rates are the same for oil, gas and government sector employees.

6.4 Social security contributions

Social security contributions in Azerbaijan cover benefits such as old age pension funds, sickness and maternity leave, work-related sickness or injury compensation, and unemployment insurance.

6.4.1 Employees' compulsory social security contributions

On behalf of employees, an employer is obliged to withhold income taxes, as well as certain social contributions, at a rate of 3% of the employee's salary.

Based on the newly presented Law "On the unemployment insurance" (The Law enters into force on January 1, 2018), an employer and employee are obliged to pay 0,5% of the calculated wage fund of an employer and 0,5% of an employee's wage (PwC, 2019).

6.4.2 Employers' compulsory social security contributions

On behalf of employees, employers are required to pay social security contributions at a rate of 22% of salaries/wages. In addition, employers must insure their employees against occupational illness and workplace injury. Depending on the industry and the occupational hazards involved, insurance premiums for this mandatory coverage vary from 0,2 to 2,0 percent of an employee's annual gross salary.

Table 20: Taxation of wages of a single person in Azerbaijan, OECD approach, 2017

2017 (in EUR)				
Single person (% of average wage)	67	100	167	67
Number of children	none	none	none	2
1. Gross wage earnings	**2.188**	**3.265**	**5.453**	**2.188**
2. Standard tax allowances				
Basic allowance				
Married or head of family				
Dependent children				
Deduction from social security contributions and income taxes	66	98	164	66
Work related expenses				
Other	958	958	958	958
Total	1.023	1.056	1.121	1.023
3. Tax credits or cash transfers included in taxable income				
4. Central government taxable income (1-2+3)	1.164	2.210	4.332	1.164

(table continues)

Table 20: Taxation of wages (in EUR) of single person in Azerbaijan, OECD approach, 2017 (continuing)

5. Central government income tax liability (exclusive of tax credits)	163	309	606	163
6. Tax credits				
Basic credit				
Married or head of family				
Children				
Other				
7. Central government income tax finally paid (5-6)	163	309	606	163
8. State and local taxes				
9. Employees' compulsory social security contributions				
Gross earnings	66	98	164	66
Taxable income				
10. Total payments to general government (7+8+9)	229	407	770	229
11. Cash transfers from general government				
For head of family				
For two children				
12. Take home pay (1-10+11)	**1.959**	**2.858**	**4.683**	**1.959**
13. Employer's wage dependent contribution and taxes				
Employer's compulsory social security contributions	481	718	1.200	481
Payroll taxes				

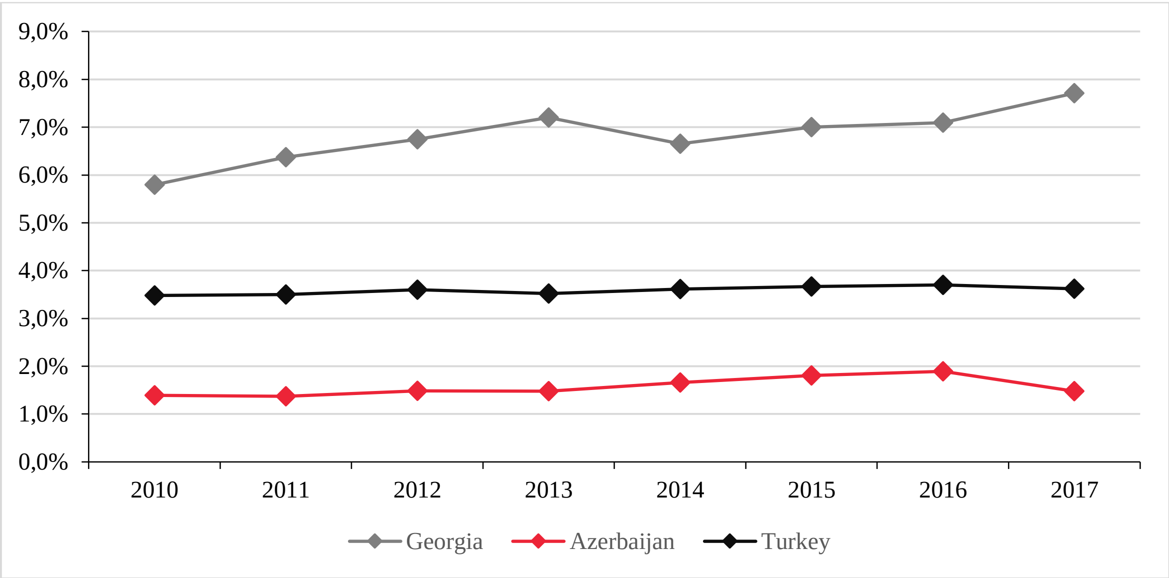
Source: PwC (2018).

According to KPMG (2017), in the case, the monthly income, gained in conjection with a paid job at the main workplace (where the labour record is maintained), of a physical person is up to AZN 2.500 (EUR 1.290), its part that is equal to one living wage is reduced (155 manats, or EUR 80, for 2017).

7 COMPARISON OF TAXATION OF WAGES IN SELECTED COUNTRIES

Georgia in the selected years range from 2010 until 2017 managed to collect higher amount of PIT as % of GDP than her neighbour countries Turkey and Azerbaijan. Figure 14 illustrates the comparison of PIT as % of GDP withour SSCs.

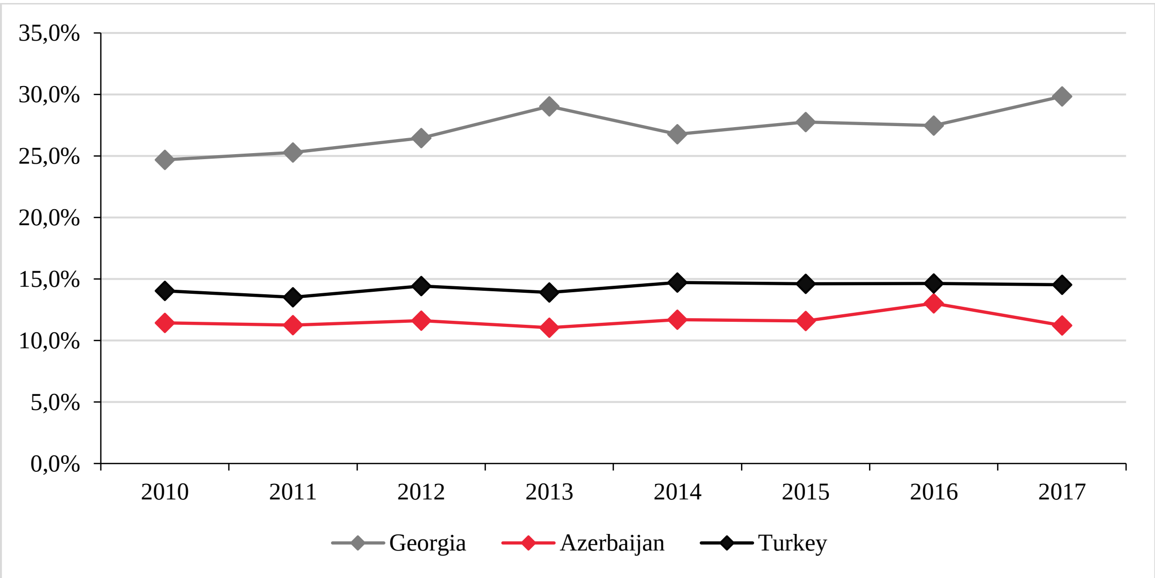
Figure 14: Comparison of PIT revenue as % of GDP in selected countries, 2010-2017



Source: Own work.

The same trend is observed when the PIT (without SSCs) as % of total tax revenue is compared among selected countries in a given range of years.

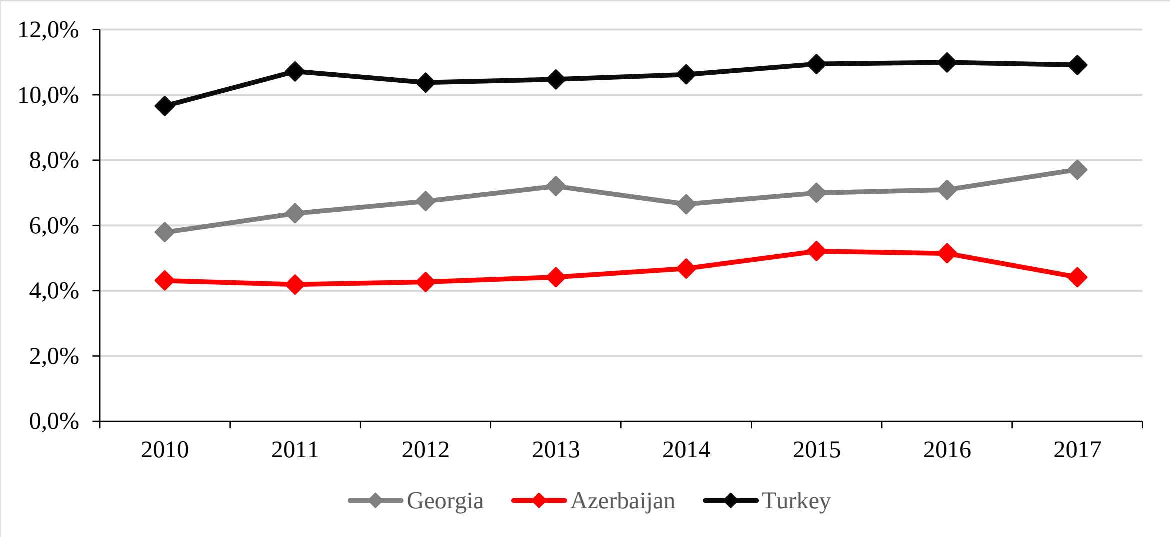
Figure 15: Comparison of PIT revenue as % of total tax revenue in selected countries, 2010-2017



Source: Own work.

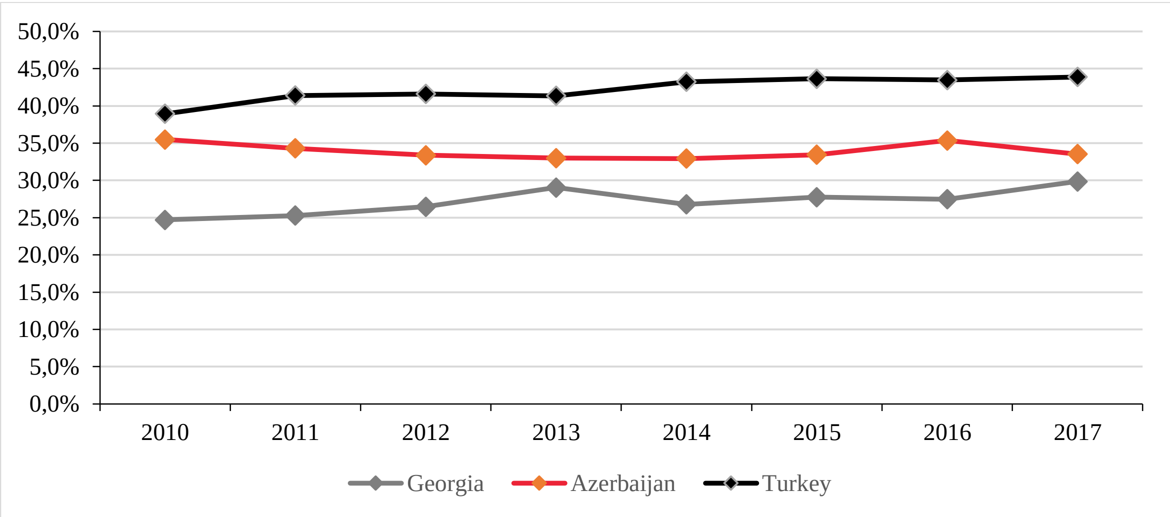
SSCs change the figures, placing Turkey in the first place, while comparing PIT plus SSCs as the % of GDP and as the % of total tax revenue in a selected range of years.

Figure 16: Income tax + SSC as % of GDP, selected years 2010-2017



Source: Own work.

Figure 17: Income tax + SSC as % of Tax Revenue, selected years 2010-2017



Source: Own work.

7.1 Tax burden comparison in selected countries

Among Georgia, Turkey and Azerbaijan, the highest PIT rate is observed in Turkey and the lowest in Azerbaijan, while Georgia with its flat tax system found its place in the middle.

The tax wedge for labour income for three countries is calculated, using the following OECD formula:

Tax wedge on labour income = ((PIT+SSCs) – Family benefits) / Total labour cost... *(9)*

where, total labour cost is the sum of gross wages and employer SSCs

Turkey is taken as an example of calculation procedures, for Georgia and Azerbaijan; the same rules are applied.

Table 21: Tax wedge calculation for different income earners, Turkey (in EUR), 2017

Turkey, 2017	67	100	167	67 (2ch.)
1. Central government income tax liability	956	1.577	3.081	956
2. Stamp tax	50	74	124	50
3. Employee SSC	983	1.467	2.450	983
4. Employer SSC	856	1.712	2.858	856
5. Family benefits / Tax credit	388	388	388	505
6. Gross wage	6.553	9.780	16.333	6.553
7. Employer SSC	856	1.712	2.858	856
Tax wedge	***33,2%***	***38,7%***	***42,3%***	***31,6%***

Source: Own work.

According to the table, the PIT finally paid and total labour cost are calculated in the following way:

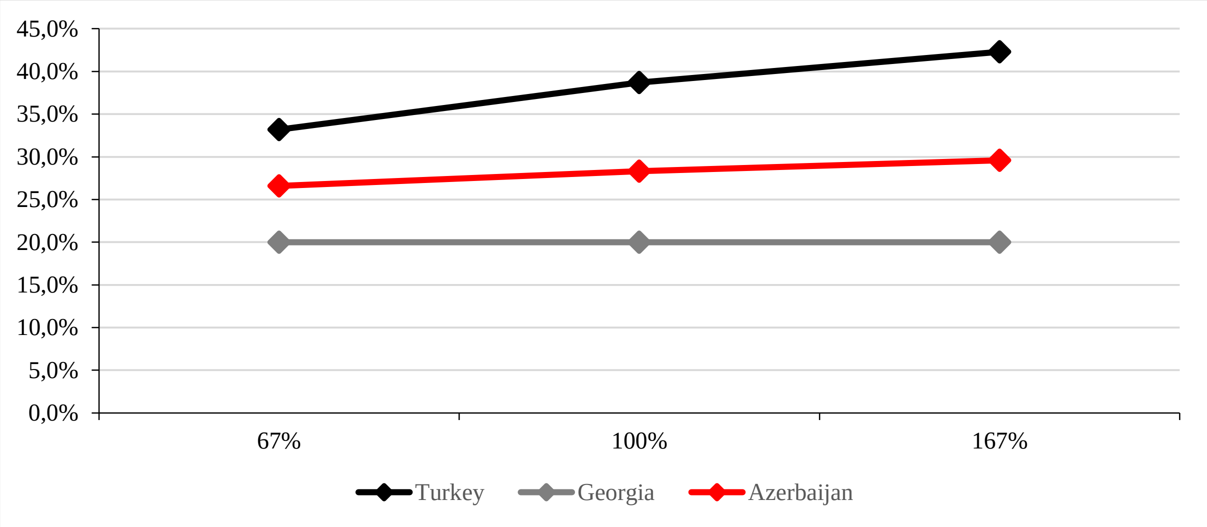
1) $Central\ government\ income\ tax\ finally\ paid = 1. + 2. - 5.$
2) $Total\ labor\ cost = 6. + 7.$

Average OECD tax wedge for 2017 was 36,2%, and Turkey was on 18^{th} place among OECD countries due to the highest tax wedge (OECD, 2019).

In the case of Georgia, the tax wedge is the same as PIT and equals to **20%** in the case of single person without children. The situation changes when a single parent has 2 children (as it was mentioned above, a single parent is free from tax up to GEL 3.000), the tax wedge is equal to **12,5%.**

In Azerbaijan, the tax wedge getting bigger as income increases. In our case, when annual income does not reach AZN 30.000 (or EUR 15.446) per year (as average wage for 2017 is AZN 528,5, or EUR 272,1) for all employment income earners, the tax rate is 14%. The tax wedge for 67% income earner (without children and with children) is 26,6%, for average wage earner (100%) is 28,3% and for 167% from average wage earner is 29,6%.

Figure 18: Comparison of tax wedges for single person for different category earners in selected countries, 2017



Source: Own work.

The tax wedge in Turkey for all three cases is higher than in Georgia and Azerbaijan.

Taking into account, that employers in Georgia, in 2017 did not contribute any payments for social security contributions, the second research question after the analysis can be confirmed that the employers in Georgia were taxed less compared to Azerbaijan and Turkey.

7.2 Taxation of wages - the comparison according to the OECD methodology

In the respect of Take Home Pay, the highest percentage of net income to gross income is observed in Azerbaijan in all four cases:

Table 22: Comparison of Net income as % of Gross income, selected countries

Single person	67	100	167	67 (2ch.)
Georgia	80	80	80	87
Turkey	76	72	68	77
Azerbaijan	90	88	86	90

Source: Own work.

We observe the higher Net income as % from Gross Income in Azerbaijan, as the tax rate in Azerbaijan in all four cases is less than in two other countries (while considering the yearly income up to AZN 30.000, or EUR 15.446).

Average income tax comparison among countries:

Table 23: Comparison of average income tax rate (in %), selected countries

Single person	67	100	167	67 (2ch.)
Georgia	20,0	20,0	20,0	12,5
Turkey	9,4	12,9	17,2	7,6
Azerbaijan	7,5	9,5	11,1	7,5

Source: Adapted from OECD (2018).

According to OECD (2018d), the employee net average tax rate measures the net tax on labour paid directly by the employee. The employee net average tax rate is calculated:

(Employee PIT + Employee SSC – Family benefits) / (Gross wage) … (10)

What we can observe for in the analysis for selected countries is that Turkey has the highest net average tax rate for employees.

Table 24: Comparison of Net average tax rate (in %) for employees, selected countries

Single person	67	100	167	67 (2ch.)
Georgia	20,0	20,0	20,0	12,5
Turkey	24,4	27,9	32,2	22,6
Azerbaijan	10,5	12,5	14,1	10,5

Source: Own work.

For the single person with two children, the most beneficial position is observed in Azerbaijan, taking all other as given.

CONCLUSION

It is true, that the results for tax reforms conducted in Georgia were outstanding. A specific feature for Georgian flat tax is that there is no basic allowances, which makes the tax at all labour income levels proportional. This case gives many pros to a flat tax system (Keen, Kim, & Varsano, 2006, pp. 10–11).

The third research question is confirmed based on the example of Georgia and its experiences, putting forward the arguments in favor of flat rate income tax reform, claiming that it (Ambrus, 2012, pp. 47–57):

- Diminishes the complexity of the system and at the same time reduces the administration costs.
- Establishes more simple rules for accurate reporting.

– Lowers marginal tax burdens.
– Avoids double taxation and reduces inefficiencies in the economy.
– Increases labour force participation.
– May encourage performance (if the tax rate is not too high).
– The tax income may rise (the example of Georgia).
– May enhance savings and investment.
– May enhance the economic growth, etc.

Under a flat rate, the tax arbitrage (shifting the tax liability from higher-taxed to lower-taxed income category) is thought to be minimized.

Of course, the main criticism is still the concern of vertical equity, meaning that a richer taxpayer does not bear a heavier burden in proportional terms than poorer ones. Those arguments lead us to the conclusion that the generalization of preferences to particular tax systems is not possible. Each country has to be considered separately, taking into account all other related aspects.

To conclude, the wages represent an important socio-economic factor, effecting the entire national economy and the economic and social development of the country. Essential micro and macroeconomic issues are related to wages, while at the same time they represent the most important source of income for the population, the basis for financing the social security and a source of revenue for the state budget.

The legal part of wages is regulated by a number of international documents adopted by various international organizations. Some fundamental rights regarding wages are recognized internationally as human rights. According to the labour legislation, the wages are the core part of an employment contract, by which an employee is obliged to perform a certain work and an employer is obliged to pay him for this work.

The accounting perspective deals with wages from an employer point of view as payer to whom the wages represent the labour cost. The function or the mission of a country is to provide the appropriate conditions for functioning, using its fiscal policies.

The system of taxation in developed and developing countries is a very complex area to study.

Common features in the field of taxation of wages are in the taxation of wages with national income tax. However, the crucial differences are reflected in determining the income tax base, income tax brackets, the form and amount of tax credits, SSCs and other forms of taxation of employees and employers in the context of wages.

In Georgia, Turkey and Azerbaijan the following objectives should be pursued in the field of wage taxation: further reducing the progressiveness of PIT and gradually moving towards a proportional single tax rate in Turkey and Azerbaijan (taking into account other micro and macroeconomic aspects, as well as labour aspects), and a fairer distribution of tax burden between employees and employers in the social security financing system. For Georgia, definetely, the implementation of the pension reform and other social security reforms have positive sides.This would provide a fairer, more efficient and more simple system for taxing an employment income.

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APPENDICES

Appendix 1: Summary in Slovene language

Cilji naloge so bili doseženi in odgovori na postavljena vprašanja ter analize so pokazale, da je davčno breme v Turčiji za povprečno plačo (100%) in 167% od povprečne plače višje kot v Gruziji in Azerbajdžanu. Po opravljeni analizi je drugo raziskovalno vprašanje mogoče potrditi, da so delodajalci v Gruziji obdavčeni manj kot v primerjavi z Azerbajdžanom in Turčijo.

Res je, da so bili rezultati davčnih reform v Gruziji izjemni. Posebnost gruzijskega pavšalnega davka je, da ni osnovnih olajšav, zaradi česar je davek na vseh ravneh dohodka od dela sorazmeren. Ta primer daje veliko prednosti pavšalnemu davčnemu sistemu (Keen, Kim, & Varsano, 2006, str. 10–11).

Tretje raziskovalno vprašanje je potrjeno na podlagi primera Gruzije in njenih izkušenj, pri čemer je navedlo argumente v prid ravne stopnje davčne reforme in trdilo, da pavšalni davčni sistem

- Zmanjšuje kompleksnost sistema in da so hkrati zmanjšani administrativni stroški.
- Vzpostavlja bolj preprosta pravila za natančno poročanje.
- Zmanjšuje mejne davčne obremenitve.
- Izogiba se dvojnemu obdavčevanju in zmanjšuje neučinkovitost v gospodarstvu.
- Povečuje udeležbo delovne sile.
- Lahko spodbudi uspešnost (če davčna stopnja ni previsoka).
- Lahko poveča prihranke in naložbe.
- Lahko poveča gospodarsko rast itd. (Ambrus, 2012, str. 47–57).

V skladu s pavšalno stopnjo se šteje, da je davčna arbitraža (premik davčne obveznosti z višje obdavčitve na kategorijo dohodka z nižjim davkom) minimizirana.

Seveda je glavna kritika še vedno zaskrbljenost glede vertikalnega lastniškega kapitala, kar pomeni, da bogatejši davkoplačevalci v sorazmernem smislu ne nosijo večjega bremena kot revnejši. Na podlagi teh argumentov lahko sklepamo, da posplošitev preferencialov do določenih davčnih sistemov ni mogoča. Vsako državo je treba obravnavati ločeno, ob upoštevanju vseh drugih povezanih vidikov.

Za zaključek moramo omeniti, da so plače pomemben socialno-ekonomski dejavnik, ki vplivajo na celotno nacionalno gospodarstvo ter na gospodarski in socialni razvoj države. Bistvena mikro in makroekonomska vprašanja so povezana s plačami, hkrati plače predstavljajo najpomembnejši vir dohodka prebivalstva, osnovo za financiranje socialne varnosti in vir prihodka državnega proračuna.

Pravni del plač urejajo številni mednarodni dokumenti, ki jih sprejmejo različne mednarodne organizacije. Nekatere temeljne pravice v zvezi s plačami so mednarodno priznane kot človekove pravice. Po delovni zakonodaji so plače temeljni del pogodbe o zaposlitvi, s katero je delavec dolžan opravljati določeno delo in delodajalec mu je dolžan plačati za to delo.

Računovodska perspektiva obravnava plače z vidika delodajalca kot plačnika, kateremu plače predstavljajo strošek dela. Naloga ali poslanstvo države je z uporabo njene fiskalne politike zagotoviti ustrezne pogoje za delovanje kot delodajalca, tako delojemalca

Sistem obdavčenja v razvitih državah in državah v razvoju je zelo zapleteno področje, ki ga je treba preučiti.

Skupne značilnosti na področju obdavčitve plač so v obdavčitvi plač z nacionalno dohodnino. Ključne razlike se kažejo pri določanju dohodninske osnove, dohodninskih razredov, oblike in zneska davčnih olajšav, SSC in drugih oblik obdavčitve zaposlenih in delodajalcev glede na plače.

V Gruziji, Turčiji in Azerbajdžanu bi morali na področju obdavčenja plač slediti naslednjim ciljem: nadaljnje zmanjšanje progresivnosti dohodnine in postopni prehod k sorazmerni stopnji enotnega davka v Turčiji in Azerbajdžanu (ob upoštevanju drugih mikro in makroekonomskih vidikov, kot tudi delovne vidike) in pravičnejša porazdelitev davčnega bremena med zaposlenim in delodajalcem v sistemu financiranja socialne varnosti.

Za Gruzijo imata definitivno izvajanje pokojninske reforme in druge reforme socialne varnosti pozitivne strani. To bo zagotovilo pravičnejše , učinkovitejši in enostavnejši sistem za obdavčitev dohodka iz zaposlitve.