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Tax Approximation between Georgia and the European Union: Legal Obligations and Practical Challenges

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General Note about the Content

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Abstract

Tax approximation is a central obligation under the EU-Georgia Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA). This thesis examines Georgia's legal obligations regarding VAT and customs regulations, the extent of legislative alignment with EU standards, the interaction between VAT and customs rules in cross-border trade, and the practical implementation challenges that constrain effective approximation. Through doctrinal and comparative legal analysis of the EU VAT Directive, the Union Customs Code, the Georgian Tax Code and the Georgian Customs Code, as well as qualitative policy analysis of EU progress reports and governance assessments, this thesis reveals substantial formal alignment in key areas, such as taxable persons, VAT rates, customs valuation, and inward processing. However, significant divergences remain, including zero-tariff treatment for qualifying EU-origin goods under the DCFTA, while import VAT at 18% continues to apply to all imports regardless of origin, a lower registration threshold, the qualified/non-qualified VAT payer distinction, and broad import duty exemptions. Practical implementation is further constrained by operational failures in the New Computerised Transit System (NCTS), a plateaued shadow economy, legal uncertainty, and governance challenges. The thesis concludes that formal legislative approximation does not automatically ensure functional equivalence and recommends targeted reforms to administrative capacity, judicial specialization, and governance.

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List of Abbreviations

Abbreviation	Meaning
AA	Association Agreement (EU-Georgia)
AEO	Authorised Economic Operator
ASYCUDA	Automated System for Customs Data
B2B	Business-to-Business
B2C	Business-to-Consumer
BTI	Binding Tariff Information
CEPS	Centre for European Policy Studies
CIT	Corporate Income Tax
CPI	Corruption Perceptions Index
DCFTA	Deep and Comprehensive Free Trade Area
EEAS	European External Action Service
EORI	Economic Operators Registration and Identification number
EU	European Union

Abbreviation	Meaning
FEANCN	Foreign Economic Activity National Commodity Nomenclature
GEL	Georgian Lari
IMF	International Monetary Fund
IOSS	Import One-Stop Shop
LTO	Large Taxpayer Office
NCTS	New Computerised Transit System
NOE	Non-Observed Economy
OSCOLA	Oxford Standard for the Citation of Legal Authorities
SME	Small and Medium-sized Enterprise
TI	Transparency International
UCC	Union Customs Code
VAT	Value Added Tax
WTO	World Trade Organization

Chapter 1. Introduction

1.1. Historical and Political Background of EU-Georgia Relations

Georgia's path towards European integration must be understood against its post-Soviet transformation. Following independence in 1991, Georgia experienced political instability, economic collapse, and territorial conflicts. From the late 1990s, the European Union gradually engaged Georgia through the Partnership and Cooperation Agreement (1999) and later the European Neighbourhood Policy (2004). These frameworks provided initial incentives for legislative reform but lacked binding approximation obligations.[1]

A decisive shift occurred after the 2008 Russia-Georgian war, after which the EU assumed a more active role as a mediator and reform partner. The Eastern Partnership initiative (2009) created a structured platform for political association and economic integration. Negotiations for a new, legally binding agreement began in 2010 and culminated in the EU-Georgia Association Agreement (AA), signed on 27 June 2014 and fully entered into force on 1 July 2016.[2]

The AA is unprecedented in its scope. It commits Georgia to gradually approximate its legislation to a substantial part of the EU acquis communautaire across multiple policy areas. Central to this process is the Deep and Comprehensive Free Trade Area (DCFTA), which removes tariff barriers and requires alignment with EU rules on

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[1] Partnership and Cooperation Agreement between the European Communities and their Member States, and Georgia [1999] OJ L205/3; European Commission, *European Neighborhood Policy – Strategy Paper* (COM(2004) 373 final, 12 May 2004).

[2] Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part [2014] OJ L261/4.

technical standards, sanitary measures, intellectual property, and crucially for this thesis- indirect taxation and customs procedures.[3]

Thus, Georgia's European integration is not a recent phenomenon but the result of three decades of incremental engagement. The AA and DCFTA represent the most advanced stage of this relationship, transforming European law from an external reference point into a binding legal obligation for Georgia.

1.2. Background of the Research Problem

Within the DCFTA framework, Value Added Tax (VAT) and customs regulation occupy a strategic position. VAT is the primary indirect tax on consumption and applies to imported goods at the border. Customs procedures determine the classification, valuation, and release of goods for free circulation. Together, they directly affect the cost, speed, and legal certainty of cross-border trade between Georgia and the European Union.[4]

The Association Agreement does not require Georgia to join the EU's common VAT system or the Customs Union. Instead, it mandates approximation, a process of legislative alignment designed to reduce technical barriers to trade while preserving Georgia's fiscal sovereignty. Annexes to the DCFTA list specific EU legal acts that Georgia must progressively implement, including directives on VAT and the Union Customs Code (UCC).[5]

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[3] EU–Georgia Association Agreement (n 2), Title IV (Trade and Trade-related Matters), Chapter 5 (Deep and Comprehensive Free Trade Area), arts 64–68 and Annexes.
[4] Terra B and Wattel P, *European Tax Law* (Wolters Kluwer 7th edn, 2022) vol II, Ch 10.
[5] EU–Georgia Association Agreement (n 2), Annex XXII (Taxation) and Annex XIII (Approximation of customs legislation).

In response, Georgia has amended its Tax Code and Customs Code repeatedly. The government has adopted strategies for approximation and reported progress to the EU. At a formal legislative level, significant alignment has been achieved.

However, the effectiveness of approximation cannot be measured solely by comparing statutory texts. Law as drafted and law as applied are distinct phenomena. Even where Georgian provisions mirror EU wording, differences in administrative capacity, information technology systems, staff training, risk management, and judicial oversight may produce divergent outcomes in practice. Moreover, the interaction between VAT (a tax law instrument) and customs (a border procedure) creates regulatory complexity that single-topic studies rarely address.

1.3. Problem Statement and Research Gap

Existing scholarly work on Georgia's approximation to the EU acquis has predominantly focused on formal legislative alignment, often measured by the number of directives transposed or legal amendments adopted.[6] While valuable, this literature pays limited attention to post-transposition implementation. A notable gap exists in systematic comparative analysis of VAT and customs rules as an interacting system rather than as separate fields.

Specifically, the literature lacks:

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[6] Khomeriki T, 'Legal Approximation in Georgia under the DCFTA' (2020) 7(2) Journal of European Integration and International Law 45.

- a structured comparison of EU and Georgian VAT rules with attention to operational details (e.g. scope of exemptions, deduction mechanisms, reverse charge).
- a comparable analysis of customs legislation, particularly provisions on customs valuation, binding tariff information, and authorised economic operators.
- an examination of how VAT and customs rules jointly regulate cross-border transactions, including import VAT assessment, customs declarations, and post-clearance controls; and
- an assessment of institutional and administrative factors that affect the practical implementation of these rules in Georgia.

This thesis addresses that gap. It does not ask simply whether Georgia has copied EU provisions. Instead, it investigates the degree of substantive alignment and then moves beyond formal law to identify practical challenges affecting implementation.

1.4. Research Objectives

The main objectives of this research are:

1. To identify the legal obligations that Georgia has undertaken regarding VAT and customs regulation under the EU-Georgia Association Agreement and the DCFTA.
2. To compare key EU VAT and customs rules with corresponding provisions of Georgian legislation.

3. To analyse how VAT and customs rules interact in the regulation of cross-border trade between Georgia and the European Union.
4. To assess institutional, legal, and economic factors that affect the implementation of these rules in Georgia.

1.5. Research Questions

The thesis is guided by the following research questions:

1. What legal obligations has Georgia undertaken regarding VAT and customs regulation under the EU-Georgia Association Agreement?
2. To what extent has Georgian legislation aligned with EU standards governing VAT and customs procedures?
3. How do VAT and customs rules interact in the regulation of cross-border trade between Georgia and the European Union?
4. What practical legal, administrative, and institutional factors affect the implementation of these rules in Georgia?

1.6. Hypothesis

The central hypothesis of this thesis is that Georgia has achieved substantial formal alignment in VAT and customs legislation, but effective implementation remains constrained by institutional capacity, administrative coordination, and structural differences between the Georgian regulatory framework and the EU systems. Consequently, formal legislative approximation does not automatically ensure functional alignment in practice, particularly where effective implementation depends on coordination between tax and customs authorities and the administrative capacity of domestic institutions.

This hypothesis is provisional and will be tested through the comparative legal analysis and policy document review described below.

1.7. Methodology

The research employs three complementary legal research methods.

First, doctrinal legal analysis is applied to the relevant sources: the EU-Georgia Association Agreement, the EU VAT Directive (2006/112/EC), the Union Customs Code (Regulation (EU) No 952/2013), the Georgian Tax Code, and the Georgian Customs Code. This analysis clarifies the normative obligations and legal standards governing approximation. Primary legal sources are read in their official versions (EU legislation in English,Georgian legislation in English translation as certified by the government).

Second, the comparative legal method is used to assess the level of alignment between EU and Georgian rules. Following the classification system used by the European Commission in approximation assessments, alignment is categorised as: fully aligned (Georgian law reproduces the essential elements of the EU rule without substantive divergence); partially aligned (significant correspondence but with identifiable differences); or divergent (no meaningful correspondence or conflicting provisions).[7]

[7] European Commission, 'Georgia 2024 Report' (SWD(2024) 697 final, 30 October 2024) 45–48. The three-tier classification is adapted from the methodology used in European Commission approximation assessments; see European Commission, 'Guide to the Approximation of the EU Acquis' (2017) 12–15.

Third, qualitative policy analysis is conducted on EU progress reports, Georgian government implementation strategies, academic literature, and policy analyses. This helps identify practical implementation challenges that are not visible from a purely textual comparison of statutes. Sources include the European Commission's annual Association Implementation Reports on Georgia, the Georgian Ministry of Finance's self-assessment reports, and independent analyses by organisations such as the European Court of Auditors and local think tanks.

The Association Agreement annexes refer to EU legal acts as they existed at the time of negotiation (primarily 2013-2014). However, the AA is not static: Article 408(4) empowers the Trade Committee to update annexes, and Decision No 1/2021 demonstrated this dynamic updating in practice.[8] Moreover, this thesis tests functional equivalence in current cross-border trade, not merely historical compliance. Therefore, alignment is assessed against the EU acquis as it stands at the time of writing (May 2026). Where post-2016 EU legislative changes have introduced new flexibilities (e.g., higher SME exemption threshold, reduced rates for digital services), these are noted as potential future alignment opportunities or areas of emerging divergence. Where post-2016 changes impose new obligations, the thesis acknowledges that Georgia has not yet been required to implement them under the AA's current annexes, and any such requirement would require a Trade Committee decision. This approach balances historical accuracy with contemporary policy relevance.

[8] Article 408(4) of the EU-Georgia Association Agreement [2014] OJ L261/4; Decision No 1/2021 of the EU-Georgia Association Committee in Trade Configuration of 17 June 2021 updating Annex XIII (Approximation of customs legislation) to the Association Agreement [2021] OJ L240/3.

No interviews, surveys, or fieldwork are conducted. The study is purely document-based, focusing on law and policy as publicly available.

1.8. Scope and Limitations

The thesis is limited to VAT (an indirect tax on consumption) and customs procedures (import, export, and transit). Direct taxes, corporate profit tax and personal income tax are excluded because they fall outside the DCFTA's core approximation requirements. The study does not examine enforcement practices in individual court cases. The analysis is based on legislation, official reports, and academic literature available up to May 2026.

1.9. Significance of the Study

This thesis contributes to three audiences. First, for academic legal scholars, it provides a systematic comparative analysis of VAT and customs rules in a non-member state under a DCFTA, a context that differs fundamentally from full EU membership. Second, for Georgian policymakers and tax administration, it identifies specific areas where formal alignment has not translated into functional equivalence, offering evidence-based input for future approximation strategies. Third, for EU institutions, it illustrates the challenges of legal approximation beyond the enlargement context, with potential relevance for other Eastern Partnership countries.

1.10. Structure of the Thesis

Following this introduction, Chapter 2 analyses the legal framework for approximation under the EU-Georgia Association Agreement and the DCFTA, identifying binding obligations and implementation deadlines. Chapter 3 presents the relevant EU VAT and customs acquis as a benchmark, focusing on provisions most relevant to Georgia's obligations. Chapter 4 compares Georgian VAT law with EU standards, article by article for key provisions. Chapter 5 performs a comparable analysis of Georgian customs law against the Union Customs Code. Chapter 6 examines the interaction between VAT and customs rules in cross-border trade, identifying regulatory overlaps and potential conflicts. Chapter 7 identifies practical implementation challenges in Georgia, drawing on EU progress reports and policy analyses. Chapter 8 offers recommendations for policymakers and concludes with reflections on the limits of formal legislative approximation.

Chapter 2. Legal Framework for Approximation under the EU-Georgia Association Agreement

2.1. Introduction

This chapter examines the legal framework that governs how Georgia must approximate its national legislation to EU standards in the fields of value added tax (VAT) and customs duties. It establishes the legal foundation for the entire thesis. It answers the first research question: What legal obligations has Georgia undertaken regarding VAT and customs regulation under the EU-Georgia Association Agreement?

The analysis proceeds in three stages. First, it examines the general legal architecture of the Association Agreement (AA) and the Deep and Comprehensive Free Trade Area (DCFTA). Second, it identifies the specific approximation obligations relevant to VAT and customs, including the annexed lists of EU legal acts. Third, it analyses the institutional mechanisms that govern implementation, monitoring, and the dynamic updating of obligations. By the end of this chapter, the reader will understand not only what Georgia must approximate but also how the approximation process is structured and supervised.

2.2. The Association Agreement: Signature, Entry into Force, and Legal Nature

The EU-Georgia Association Agreement was signed on 27 June 2014 and entered into force on 1 July 2016.[9] It replaces the earlier Partnership and Cooperation Agreement of 1999, which provided only a loose framework for cooperation. The AA is a legally binding international treaty. It creates enforceable rights and obligations for both the European Union and Georgia.[10]

The preamble of the AA states the common goal of political association and economic integration. Importantly, it identifies approximation to EU law as a central method for achieving this integration.[11] This means that Georgia is not simply a trade partner but an associate that voluntarily commits to aligning its domestic legal order with EU standards. As one of the most authoritative assessments notes, the signing of the AA and DCFTA was for Georgia "an act of strategic geopolitical significance."[12]

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[9] EU–Georgia Association Agreement (n 2) (signed 27 June 2014, entered into force 1 July 2016).
[10] EU–Georgia Association Agreement (n 2), preamble, para 4 and para 8.
[11] Emerson M, Kovziridze T, Akhvlediani T, Blockmans S and Van der Loo G, *Deepening EU-Georgian Relations: Updating and Upgrading in the Shadow of Covid-19* (3rd edn, CEPS 2021) 20.
[12] Emerson et al (n 11).

2.3. Structure of the AA and the Role of the DCFTA

The AA is divided into titles. Title, I covers general principles. Title II deals with political dialogue and foreign policy. Title III covers justice, freedom, and security. For this thesis, Title IV (Trade and Trade-related Matters) is the most relevant.[13]

Within Title IV, Chapter 5 establishes the Deep and Comprehensive Free Trade Area (DCFTA).[14]The DCFTA is not a standard free trade agreement. Traditional FTAs focus on eliminating tariffs. The DCFTA goes much further. It requires Georgia to gradually approximate its legislation to the EU acquis communautaire in numerous trade-related fields.

These include technical barriers to trade, sanitary and phytosanitary measures, intellectual property rights, competition law, state aid, public procurement, and crucially for this thesis, customs and indirect taxation.[15]

2.4. Why the DCFTA Matters for Georgia: Practical Benefits

Before analysing the legal obligations, it is useful to understand why Georgia agreed to such a demanding framework. According to the official guide published by the Georgian Ministry of Foreign Affairs, the DCFTA was designed to deliver several concrete benefits.[16]

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[13] EU–Georgia Association Agreement (n 2), Title IV, Chapter 5 (Deep and Comprehensive Free Trade Area), arts 64–68 and Annexes.

[14] EU–Georgia Association Agreement (n 2), art 64 (approximation obligations for technical regulations) and the various DCFTA annexes.

[15] Ministry of Foreign Affairs of Georgia, *Guide to the EU-Georgia Association Agreement (Frequently Asked Questions)* (2016) 5, https://mfa.gov.ge/pfiles/files/EU-Georgia-AA-FAQ.pdf accessed 30 March 2026.

[16] Ministry of Foreign Affairs of Georgia (n 15) 5–6.

First, the DCFTA creates a sales system compatible with the EU trade area. This means that Georgian exporters face fewer technical barriers when accessing the EU market. Second, it helps establish a clear and stable business environment. Predictable rules attract investment. Third, it aims to raise foreign direct investment. Fourth, it forces improvements in government administrative practices according to European best practice.[17]

One of the most significant achievements of the negotiation process was the unprecedented agreement on tariff liberalisation. Immediately upon the agreement's entry into force, all products originating from Georgia, with the single exception of garlic (to which a quantitative restriction applies) entered the EU market free of customs duties.[18] This is a major advantage for Georgian exporters.

In the customs field, approximation brings Georgian customs regulations closer to the EU's progressive regulatory framework. The result has been close coordination between the EU and Georgian customs administrations. This coordination facilitates exports and imports between Georgia and the EU and creates a clear and predictable trading environment.[19]

Approximation in the sense of the DCFTA means establishing European standards and practices in relevant fields. However, this cannot happen overnight. Both the public sector (government agencies) and the private sector (businesses) must adapt. To make this possible, the government must take coordinated action with the support of the EU.

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[17] Ministry of Foreign Affairs of Georgia (n 15) 7.
[18] Ministry of Foreign Affairs of Georgia (n 15) 10.
[19] Ministry of Foreign Affairs of Georgia (n 15) 12.

That support includes technical assistance, export-related support, educational programmes, financial aid, and institutional infrastructure development.[20]

2.5. How the Approximation Process Operates in Practice

The approximation process under the AA is not open-ended or discretionary. It is gradual and structured. Certain chapters of the Association Agreement contain annexes that list specific EU legal acts. For each listed act, the annex specifies a deadline for implementation.[21]

This means that Georgia cannot pick and choose which EU rules to adopt. The annexes are legally binding. If Georgia fails to meet a deadline, it is in breach of the agreement. The only flexibility comes from transitional periods that were negotiated in advance.

Regarding customs regulation specifically, Georgia must modernise its Customs Code to comply with EU standards. The official FAQ lists three main requirements: simplifying customs declarations, implementing risk-based customs control (rather than inspecting every shipment), and preventing customs law violations through better enforcement mechanisms.[22]

For VAT, the required reforms relate to improving the VAT refund procedure (which is often slow and burdensome for businesses), increasing clearance efficiency, and enhancing tax control to prevent fraud.[23]

[20] Ministry of Foreign Affairs of Georgia (n 15) 15.
[21] Ministry of Foreign Affairs of Georgia (n 15) 18.
[22] Ministry of Foreign Affairs of Georgia (n 15) 19.
[23] Ministry of Foreign Affairs of Georgia (n 15) 20.

Under the DCFTA, customs duties on trade with the EU are eliminated entirely. In addition, the rules on certificates of origin for products are harmonised with EU rules. This means that Georgian exporters must follow the same origin documentation requirements as EU internal traders.[24]

2.6. The Supervisory Role of the Association Committee

The Association Committee (specifically the Association Committee in Trade configuration, also called the Trade Committee) supervises the approximation process. It monitors the implementation of customs and tax obligations. It meets regularly and may adopt recommendations and, where the AA explicitly permits, binding decisions.

The Association Council, which meets annually at a higher political level, also plays a role in overseeing the overall implementation of the agreement. For instance, the 7th Association Council meeting in 2022 acknowledged that Georgia "has carried out a number of challenging reforms and successfully approximated its legislation with the EU acquis in many sectors."[25]

2.7. Specific Taxation Obligations under Articles 280-285 of the AA

The AA contains a dedicated chapter on taxation. Articles 280-285 of the EU-Georgia Association Agreement establish the framework for cooperation, approximation, and administrative coordination in taxation matters.[26] These articles are not widely discussed in popular summaries, but they are legally significant.

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[24] EU–Georgia Association Agreement (n 2), art 408 (Association Committee in Trade configuration).
[25] EEAS, 'Joint Press Statement Following the 7th Association Council Meeting Between the EU and Georgia' (9 July 2022) https://www.eeas.europa.eu/node/400182_hy?page_lang=ka&s=221 accessed 30 March 2026.
[26] EU–Georgia Association Agreement (n 2), Title V (Economic Cooperation), Chapter 3 (Taxation), arts 280–285.

Article 280 establishes the general principle: the parties shall improve cooperation in tax matters. Article 281 focuses on preventing tax fraud and evasion. Article 282 commits the parties to implement the principles of good governance in taxation, which include transparency and exchange of information. Article 283 deals with mutual administrative assistance in tax collection. Article 284 addresses the resolution of tax disputes. Article 285 is a procedural provision.[27]

For this thesis, the most important aspect of these articles is that they provide the legal basis for Annex XXII, which lists specific EU directives that Georgia must approximate.

2.8. Annex XXII: The List of EU Directives and Georgia's Reservations

Annex XXII of the AA is titled "Taxation." It lists seven EU legal acts. For each act, Georgia has either accepted full approximation or reserved the right to maintain certain existing exemptions.

First, Council Directive 2006/112/EC (the VAT Directive) requires Georgia to approximate its mandatory core rules. However, Georgia retains the right to exempt from VAT any goods or services that were already exempt under the Georgian Tax Code at the time the agreement entered into force.[28]

Second, Council Directive 2011/64/EU on the structure of excise duties on tobacco must be fully approximated. Georgia has entered no reservation.[29]

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[27] EU-Georgia Association Agreement (n 2), Annex XXII (Taxation), reservation to Council Directive 2006/112/EC.
[28] EU-Georgia Association Agreement (n 2), Annex XXII, reference to Council Directive 2011/64/EU.
[29] EU-Georgia Association Agreement (n 2), Annex XXII, reference to Council Directive 2007/74/EC.

Third, Council Directive 2007/74/EC on exemptions from VAT and excise duties for goods imported by third-country nationals is applied by Georgia only in Part 3 (exemptions for travellers).[30]

Fourth, Council Directive 92/83/EEC on the harmonisation of excise duties on alcohol and alcoholic beverages must be fully approximated, except that Georgia retains the right to exempt excise duties on alcoholic beverages produced by private individuals in small quantities for personal use and not for sale on the market.[31]

Fifth, Council Directive 2003/96/EC restructuring the EU framework for taxation of energy products and electricity must be fully approximated.[32]

Sixth, Council Directive 2008/118/EC on general arrangements for excise duties must be fully approximated.[33]

Seventh, Council Directive 86/560/EEC on the harmonisation of turnover tax. VAT refund for non-established taxpayers, requires Georgia to implement rules for VAT refund to taxpayers who are not established in the territory of the Association.[34]

These reservations are legally significant. They show that Georgia negotiated carefully to protect existing fiscal practices. For example, small-scale private production of alcoholic beverages (a common practice in rural Georgia) remains exempt from excise duties.

[30] EU–Georgia Association Agreement (n 2), Annex XXII, reservation to Council Directive 92/83/EEC.
[31] EU–Georgia Association Agreement (n 2), Annex XXII, reference to Council Directive 2003/96/EC.
[32] EU–Georgia Association Agreement (n 2), Annex XXII, reference to Council Directive 2008/118/EC.
[33] EU–Georgia Association Agreement (n 2), Annex XXII, reference to Council Directive 86/560/EEC.
[34] Van der Loo G, 'The EU's Association Agreements and DCFTAs with Ukraine, Moldova and Georgia: A Comparative Study' (CEPS Special Report, 24 June 2017) 5.

Similarly, the VAT exemptions that existed in 2014 continue to apply even if they diverge from strict EU rules.[35]

2.9. Institutional Mechanisms: Supervision, Monitoring, and Updating

No legal framework is complete without institutions to implement it. The AA creates a multi-level institutional structure.

At the highest level, the Association Council meets annually. It is composed of members of the EU Council, the European Commission, and the Georgian government. It may adopt binding decisions.[36]

Below the Council is the Association Committee. Within this Committee, a specialised sub-configuration deals with trade matters: the Association Committee in Trade configuration (Trade Committee).[37] This body is responsible for supervising the implementation of the DCFTA, including customs and taxation matters. It meets regularly and may adopt recommendations and binding decisions where the AA permits.

Of particular relevance to customs is the EU-Georgia Customs Sub-Committee. It meets at least once per year. Its functions include monitoring Georgia's implementation of customs approximation obligations, discussing practical cooperation between customs authorities, and updating protocols on rules of origin and mutual administrative assistance.[38]

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[35] EU–Georgia Association Agreement (n 2), arts 391–393 (Association Council).
[36] EU–Georgia Association Agreement (n 2), arts 391–393.
[37] EU–Georgia Association Agreement (n2), art 408.
[38] EU–Georgia Customs Sub-Committee, Terms of Reference (adopted 2017), available on the European Commission's website.

For taxation, there is no equivalent sub-committee with decision-making power. Instead, tax matters are discussed in the Trade Committee or in ad hoc working groups.

A critical issue is what scholars call "acquis fixation." The annexes to the AA refer to EU legal acts as they existed at the time of the agreement's negotiation (primarily 2013-2014). Georgia is not automatically obliged to implement subsequent amendments to those acts. This creates a potential divergence over time. As Van der Loo notes, because the AAs and DCFTAs were negotiated before 2013, the EU acquis that is annexed to the Agreements has mostly been amended or replaced at EU level and is therefore outdated.[39] For the purpose of assessing functional equivalence in current trade, this thesis adopts the EU acquis as it stands at the time of writing (May 2026), while acknowledging that Georgia is not automatically bound by post-2016 amendments unless such amendments are incorporated through the institutional mechanisms established under the Agreement, including decisions adopted pursuant to Article 408(4).[40]

Article 408(4) of the EU-Georgia Association Agreement empowers the Association Committee in Trade Configuration to update and amend the annexes related to trade matters by decision.

In practice, this mechanism has been used. For example, Decision No 1/2021 of the EU-Georgia Association Committee in Trade Configuration of 17 June 2021 updated Annex XIII (Approximation of customs legislation).[41] This decision demonstrates the

[39] Van der Loo G (n 34) 5.
[40] Article 408(4) of the EU-Georgia Association Agreement [2014] OJ L261/4.
[41] Decision No 1/2021 of the EU-Georgia Association Committee in Trade Configuration of 17 June 2021 updating Annex XIII (Approximation of customs legislation) to the Association Agreement [2021] OJ L240/3.

dynamic updating process in action, showing that the institutional framework is not merely theoretical.

Finally, the European Commission plays a central monitoring role. Under Article 408(2) of the AA, the Commission prepares regular reports on implementation. These reports were published annually as part of the EU's Enlargement Package, even before Georgia was granted candidate country status.[42] The Georgia 2024 Report (SWD (2024) 697 final) assesses progress in customs and indirect taxation. It categorises alignment as "good," "moderate," or "limited"- a classification similar to the three-tier methodology we use in this thesis.[43]

2.10. Implementation Challenges and Scholarly Debate

The implementation of the AA and DCFTA has not been without difficulties. The EU itself has noted that while Georgia has carried out challenging reforms, further efforts are needed.[44]

A persistent challenge is the gap between formal legislative alignment and effective implementation. As one study on customs legislation adaptation notes, there is a need to assess Georgia's trade relations and customs activities in terms of their compliance

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[42] EEAS, 'The European Union and Georgia' https://www.eeas.europa.eu/node/400182_hy?page_lang=ka&s=221 accessed 30 March 2026.
[43] European Commission, 'Georgia 2024 Report' (SWD(2024) 697 final, 30 October 2024) 45–48.
[44] EEAS (n 25).

with European requirements, and to identify areas that require further legislative regulation and harmonisation.[45]

Moreover, recent political developments have complicated the approximation process. The EU accession process for Georgia was de facto halted in June 2024, and the European Council recalled in October 2024 that the process was stopped, calling on Georgia to adopt democratic, comprehensive, and sustainable reforms.[46] This political context inevitably affects the pace and depth of technical approximation in areas like VAT and customs.

Scholarly opinion is divided on the effectiveness of the approximation process. Some scholars emphasise the transformative potential of the AA. For example, Emerson and his co-authors argue that Georgia is unique among the countries in the region for having largely cleansed its economy of corruption in the post-Rose Revolution period.[47] Others point to persistent governance challenges. The same CEPS Handbook notes that Georgia's political system is marked by "oligarchal state capture since the change of government in 2012."[48] This governance challenge and its implications for tax and customs implementation are examined further in Chapter 7.6. This internal political dynamic has direct implications for the implementation of EU-inspired tax and customs reforms, as effective approximation depends not only on legal texts but also on the integrity and capacity of administrative institutions.

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[45] 'National Customs Legislation Adaptation to EU Requirements in the Context of Eastern Partnership Policy Development' (2024) 12(1) Scientific Letters of Academic Society of Michal Baludansky 1.
[46] Emerson et al (n 11) 20.
[47] Emerson et al (n 11).
[48] 'Georgia's Near-Frozen Trade Relations with the EU' GEOpolitics (8 January 2025) https://politicsgeo.com/georgias-near-frozen-trade-relations-with-the-eu/ accessed 30 March 2026.

Another important debate concerns the economic impact of the DCFTA. Some analysts argue that the legal approximation process is almost over, but Georgia's trade with the EU has grown only at a marginal rate.[49] This suggests that formal legal alignment alone does not automatically generate increased trade flows. Other factors, such as administrative capacity, business awareness, and political stability also play a crucial role.

2.11. Conclusion of Chapter 2

Georgia's legal obligations regarding VAT and customs under the AA and DCFTA are detailed, specific, and legally binding. Georgia must approximate its customs legislation to the Union Customs Code. It must approximate its VAT and excise legislation to the directives listed in Annex XXII, subject to explicitly reserved exemptions. The Association Committee (Trade Committee) oversees the process, the Customs Sub-Committee handles detailed customs work, and the European Commission monitors progress through annual reports.

The analysis has answered the first research question: Georgia's obligations are substantial but not unlimited. They are fixed as of 2013-2014, with a mechanism for voluntary updates, as demonstrated by Decision No 1/2021. Reservations protect certain existing fiscal practices. However, implementation challenges persist, and the political context has recently become more complicated.

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[49] Aleksandre Raibuli, ‘Taxes’ (Working Paper, Asocireba 2018) https://www.asocireba.ge/files/Aleksandre-Raibuli-taxes-2018.pdf accessed 30 March 2026.

With this legal framework established, we can now proceed to Chapter 3, which presents the EU VAT and customs acquis as a benchmark for comparison.

Chapter 3. EU VAT and Customs Acquis: Key Principles for Cross-Border Trade

3.1. Introduction

The acquis communautaire is the accumulated body of EU legislation, legal acts, and court decisions that constitute European Union law.[50] For the purpose of Georgia's approximation under the DCFTA, two chapters of the acquis are particularly relevant: taxation (specifically indirect taxation) and customs union.[51]

The taxation acquis extensively covers value added tax (VAT) and excise duties. It lays down the scope, definitions, and principles of VAT. Excise duties on tobacco, alcohol, and energy products are also subject to EU legislation. In direct taxation, the acquis covers some aspects of taxing income from savings and corporate taxes. Member States are committed to the Code of Conduct for Business Taxation, aimed at eliminating harmful tax measures. Administrative cooperation and mutual assistance between Member States ensure smooth functioning of the internal market and provide tools to prevent intra-EU tax evasion and avoidance.[52]

The customs union acquis consists almost exclusively of legislation directly binding on Member States. It includes the Union Customs Code (UCC) and its implementing

[50] European Commission, 'The EU Acquis' (EUR-Lex) https://eur-lex.europa.eu/summary/glossary/eu_acquis.html accessed 10 April 2026.
[51] European Commission (n 7) 45.
[52] European Commission (n 7) 46.

provisions on tariff classification, customs duty relief, duty suspensions, counterfeit goods, drugs precursors, export of cultural goods, mutual administrative assistance, and transit. Member States must ensure the necessary implementing and enforcement capacities, including links to relevant EU computerised customs systems.[53]

This chapter presents the EU VAT and customs rules that serve as the benchmark for the comparative analysis in Chapters 4 and 5. The focus is on provisions most relevant to Georgia's approximation obligations: the VAT Directive (2006/112/EC) and the Union Customs Code (Regulation 952/2013). For each area, the chapter explains the purpose of the rules, highlights where Member States have discretion, and briefly notes relevance for Georgia, without yet comparing Georgian law. Unless otherwise indicated, all references to the VAT Directive and the UCC are to their current versions, including amendments up to May 2026.[54]

3.2. The EU VAT Directive: Core Principles

3.2.1. Scope of VAT

Article 2 of the VAT Directive defines the scope of VAT by stating that VAT applies to four types of transactions: (a) the supply of goods for consideration within a Member State by a taxable person; (b) the supply of services for consideration within a Member

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[53] European Commission (n 7) 47.

[54] Notably, the VAT Directive has been amended by Council Directive 2020/285/EU (small enterprise scheme) and Council Directive 2022/542/EU (VAT rates for digital services). The UCC has been amended by delegated acts such as Commission Delegated Regulation (EU) 2021/234.

State by a taxable person; (c) the intra-Community acquisition of goods for consideration; and (d) the importation of goods.[55]

For Georgia's approximation, the intra-Community rules (c) are excluded because Georgia is not an EU Member State. Thus, Georgia's VAT system applies primarily to domestic transactions and imports from all countries, including the EU.[56]

3.2.2. Taxable Person

Article 9(1) defines a taxable person as any person who independently carries out any economic activity, regardless of the purpose or results of that activity.[57] Economic activity includes production, trading, services, and the continuous exploitation of tangible or intangible property for income. This definition is extremely broad, it captures almost any business activity.

Flexibility: Member States may treat very small businesses as non-taxable under the small enterprise exemption (Article 284). Under the current rules introduced by Directive 2020/285/EU (applicable from 1 January 2025), Member States may exempt businesses whose annual turnover does not exceed €85,000 - a significant increase from the previously variable national thresholds.[58] Exempt businesses are subject to simplified compliance obligations, including reduced record-keeping and the option of filing annual VAT returns instead of monthly or quarterly. They may also waive the

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[55] Council Directive 2006/112/EC on the common system of value added tax [2006] OJ L347/1, art 2. All references to the VAT Directive are to the consolidated version as of May 2026.
[56] EU–Georgia Association Agreement (n 2), Annex XXII (reservation to VAT Directive).
[57] VAT Directive (n 55) art 9(1).
[58] Council Directive 2020/285/EU of 18 February 2020 amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises [2020] OJ L62/7.

exemption and opt into normal VAT treatment. These reforms aim to reduce administrative burdens on SMEs while preventing distortion of competition.

Article 10 clarifies that employees are not taxable persons because they do not act independently, their working conditions and remuneration are controlled by an employer.[59]

Article 11 allows Member States to treat several legally independent but closely connected persons as a single taxable person (VAT grouping).[60] This requires financial, economic, and organisational links. Transactions within the group are not subject to VAT, and the group submits a single VAT return. Member States may adopt measures to prevent abuse.

Relevance for Georgia: Georgia's Tax Code does not have a VAT grouping provision. This will be examined in Chapter 4.

Article 12 allows Member States to treat occasional transactions, especially the supply of new buildings or building land as taxable for VAT purposes, preventing avoidance in real estate transactions.[61] Member States have flexibility in defining what counts as a building, building land, and "new" construction.

Article 13 provides that public authorities are not considered taxable persons when acting in their public capacity, even if they collect fees.[62] However, they must be treated as taxable persons where not doing so would distort competition with private operators,

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[59] VAT Directive (n 55) art 10.
[60] VAT Directive (n 55) art 11.
[61] VAT Directive (n 55) art 12.
[62] VAT Directive (n 55) art 13.

and for certain listed activities (e.g. telecommunications, transport of goods). This balances excluding core state functions from VAT with maintaining fair competition.

3.3. Place of Supply Rules for Goods

The place of supply rules determine which country has the right to tax a transaction. The fundamental principle is the destination principle: VAT is due where the goods are consumed, not where the supplier is established.[63]

3.3.1. Supply of Goods Without Transport

Where goods are not dispatched or transported, the place of supply is where the goods are located at the time of supply.[64] This applies, for example, to a customer collecting goods from the supplier's premises.

3.3.2. Supply of Goods with Transport

Where goods are dispatched or transported by the supplier, the customer, or a third person, the place of supply is where the goods are located at the time dispatch or transport to the customer begins.[65]

Derogation: If dispatch begins in a third country (e.g. Georgia), the place of supply by the importer (and any subsequent supply) is deemed to be within the Member State of

[63] Terra and Wattel (n 4) ch 11, para 3.1.
[64] VAT Directive (n 55) art 31.
[65] VAT Directive (n 55) art 32.

importation.[66] This ensures that goods imported from outside the EU are taxed in the EU country where they enter.

3.3.3. Distance Sales

Article 33 provides special rules for distance sales (sales to non-taxable persons where the supplier transports the goods across borders):[67]

- For intra-EU distance sales, the place of supply is where the transport ends (the customer's location).
- For distance sales of goods imported from third countries, the place of supply is also where the transport ends, provided VAT is declared under the Import One-Stop Shop (IOSS) scheme.[68]

Purpose: This ensures that e-commerce sales are taxed in the country of consumption, protecting the destination principle.

Relevance for Georgia: Georgian exporters selling directly to EU consumers must understand these rules because they determine whether Georgian VAT or EU VAT applies. This will be discussed in Chapter 6.

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[66] VAT Directive (n 55) art 32(2).
[67] VAT Directive (n 55) art 33.
[68] Council Directive (EU) 2017/2455 of 5 December 2017 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods [2017] OJ L348/7, as amended by Regulation (EU) 2019/1995 of the European Parliament and of the Council of 21 November 2019 amending Directive 2006/112/EC as regards provisions relating to distance sales of goods and certain domestic supplies [2019] OJ L310/1.

3.3.4. Special Cases

Article 35 excludes second-hand goods, works of art, antiques, and second-hand means of transport from distance sales rules. These are taxed under special margin schemes to avoid double taxation.[69]

Article 36 provides that for goods installed or assembled by or on behalf of the supplier, the place of supply is where the installation takes place.[70]

Article 36a governs chain transactions (goods sold successively but transported once). The transport is normally attributed to the supply made to the intermediary operator, unless the intermediary provides a VAT number from the country of dispatch.[71]

Articles 37-39 cover supplies on board ships, aircraft, trains (taxed at the point of departure), and supplies of gas, electricity, and heat (taxed where the dealer is established or where the customer uses the goods).[72]

3.4. VAT Rates and Exemptions

3.4.1. Rates

The VAT Directive establishes a minimum standard rate of 15% (Article 96).[73] Member States may apply one or two reduced rates of at least 5% to specific categories of goods and services listed in Annex III (Article 98).[74] Reduced rates were historically

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[69] VAT Directive (n 55) art 35.
[70] VAT Directive (n 55) art 36.
[71] VAT Directive (n 55) art 36a.
[72] VAT Directive (n 55) arts 37–39.
[73] VAT Directive (n 55) art 96.
[74] VAT Directive (n 55) art 98.

prohibited for electronically supplied services and digital products. However, Directive 2022/542/EU, applicable from 1 January 2025, amended Annex III to permit reduced rates (minimum 5%) on electronically supplied services, including e-books, audiobooks, streaming services, and other digital products.[75] This closed a long-standing disparity where physical books could be reduced-rated but digital books could not. Member States may now apply the same reduced rates to digital products as to their physical equivalents, subject to the general conditions of Article 98.

Purpose: Minimum rates prevent a "race to the bottom" that would distort competition. Reduced rates allow Member States to apply lower taxes to essential goods (e.g. food, medicine, books) for social policy reasons.

Flexibility: Member States may also keep a "parking rate" (between 12% and the standard rate) or apply reduced rates to certain services not in Annex III under strict conditions. Zero rating is generally not permitted for new legislative introductions except for exports and intra-EU supplies, though several Member States retain historical zero rates for items such as food and books under the 'standstill' provisions of Article 110 of the VAT Directive.

In addition, Directive 2020/285/EU (noted above) introduced not only a higher threshold but also simplified compliance obligations for exempt small enterprises, including reduced record-keeping and the possibility of annual returns.[76]

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[75] Council Directive 2022/542/EU of 5 April 2022 amending Directive 2006/112/EC as regards rates of value added tax [2022] OJ L107/1.
[76] Directive 2020/285/EU (n 59).

3.4.2. Exemptions

The VAT Directive distinguishes between exemptions without right to deduct (Articles 132-137) and exemptions with right to deduct (Articles 138-166).[77]

Exemptions without right to deduct apply to activities in the public interest (medical, educational, financial, insurance services, certain cultural services, etc.). Suppliers of these services cannot charge VAT but also cannot recover VAT on their inputs, this creates “residual” VAT that cannot be recovered.

Exemptions with right to deduct apply to exports (Article 146) and intra-EU supplies (Article 138). The supplier charges 0% VAT but can deduct input VAT. This ensures that goods leaving the country are not burdened with VAT, consistent with the destination principle.

Import exemptions (Articles 143-145) are discussed in section 3.5 below.

Analytical point: The distinction between “exempt” and “zero-rated” is crucial. Many non-EU countries (including Georgia) use zero-rating more widely than the EU permits. This will be a key divergence in Chapter 4.

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[77] VAT Directive (n 55) arts 131–166.

3.5. Import VAT and the Customs Interface

3.5.1. Place of Importation

Article 60 provides that the place of importation is the Member State where the goods are located when they enter the EU.[78]

Article 61 creates derogations: if goods entering the EU are placed under customs procedures (e.g. transit, warehousing, temporary admission), the place of importation is the Member State where the goods cease to be covered by those procedures.[79] This means that import VAT is not charged at the external border but at the moment goods enter free circulation in a specific Member State.

Purpose: This allows goods to move under customs control across several Member States before VAT becomes due, simplifying logistics.

3.5.2. Chargeability of Import VAT

Under Article 71(1)(a) of the VAT Directive, import VAT generally becomes chargeable when customs duties become chargeable under customs legislation.[80]

This provision creates a direct administrative link between VAT and customs, the same customs declaration triggers both customs duty and import VAT, and the same

[78] VAT Directive (n 55) art 60.
[79] VAT Directive (n 55) art 61.
[80] VAT Directive (n 55) art 71(1)(a).

authorities (customs) collect both. This will be compared with Georgian practice in Chapter 6.

3.5.3. Exemptions on Importation

Article 143 lists mandatory exemptions from import VAT:[81]

- Goods that would be exempt if supplied domestically (e.g. financial services).
- Goods imported and immediately supplied to another Member State (simplifies cross-border trade).
- Reimported goods (e.g. after repair or processing outside the EU).
- Imports under special VAT schemes (e.g. Import One-Stop Shop for e-commerce).
- Imports by diplomatic missions, international organisations, armed forces.

Article 144 exempts services relating to the importation of goods where the value of such services is included in the taxable amount.[82]

Article 145 allows the European Commission to propose detailed implementing rules. Until such rules are adopted, Member States may maintain their national provisions, provided they avoid distortions of competition and double taxation.[83]

Relevance for Georgia: Unlike the EU system, Georgia applies preferential customs treatment to qualifying goods originating from the EU under the DCFTA framework.

[81] VAT Directive (n 55) art 143.
[82] VAT Directive (n 55) art 144.
[83] VAT Directive (n 55) art 145.

However, VAT on importation remains governed by domestic tax legislation and customs procedures established under Georgian law.[84] This is a major divergence that will be analysed in Chapter 4. The EU's approach is much more restrictive, import VAT is generally due, with only limited exemptions.

3.6. The Union Customs Code: Architecture and Key Principles

3.6.1. Scope and Mission

The Union Customs Code (UCC), established by Regulation (EU) No 952/2013, lays down the general rules and procedures applicable to goods brought into or taken out of the customs territory of the EU.[85] The code applies uniformly throughout the customs territory, without prejudice to international law or EU legislation in other fields.[86]

The UCC is designed as a fully digital, risk-based system. Its architecture emphasises predictability for traders (through binding decisions) and efficiency (through risk management and simplified procedures). This contrasts with traditional customs systems based on physical inspection of all goods.[87]

Key architectural features:

- Electronic declarations - all customs declarations must be lodged electronically (Article 6).

[84] Tax Code of Georgia (n 103) arts 168-174; Customs Code of Georgia (n 149) arts 26-28.
[85] Regulation (EU) No 952/2013 of the European Parliament and of the Council laying down the Union Customs Code [2013] OJ L269/1, art 1(1). All references to the UCC are to the consolidated version as of May 2026.
[86] UCC (n 85) art 1(1).
[87] Lyons T, *EU Customs Law* (Oxford University Press 3rd edn, 2021) ch 2, para 2.1.

- Authorised Economic Operator (AEO) - trusted traders receive benefits (Articles 38-41).
- Centralised clearance - businesses may lodge declarations at the Member State where they are established, even if goods are imported elsewhere (Article 179).
- Self-assessment - traders may calculate customs duties themselves under certain conditions (Article 48).

3.6.2. Customs Territory and Extraterritorial Application

Article 1(2) provides that certain provisions of the customs legislation may apply to countries outside the Union within the framework of specific legislation or international conventions.[88] This is relevant for Georgia because the DCFTA incorporates certain customs rules.

Article 1(3) extends certain UCC simplifications to trade between parts of the customs territory where VAT and excise directives do not apply (e.g. certain overseas territories).[89] This shows the code's flexibility.

3.6.3. Binding Decisions

The UCC provides for binding tariff information (BTI) and binding origin information (BOI). Once a customs authority issues a binding decision, it is valid for

[88] UCC (n 85) art 1(2).
[89] UCC (n 85) art 1(3).

three years and binding on all EU customs authorities.[90] This gives traders legal certainty.

Relevance for Georgia: Georgia has similar mechanisms, but their practical effectiveness differs, this will be examined in Chapter 5.

3.7. Customs Procedures

3.7.1. Release for Free Circulation

Release for free circulation is the key customs procedure for imports. It confers on non-EU goods the status of Union goods, meaning they can move freely within the EU market.[91] Upon release, customs duties and import VAT become due (Article 201).[92] The customs debt arises at the time of acceptance of the customs declaration (Article 201(2)). The debtor is the declarant (Article 201(3)).

3.7.2. Transit

The Union Transit procedure allows non-EU goods to move across the customs territory without payment of duties or VAT.[93] It has two forms:

- External transit - non-EU goods move from one point to another within the EU.
- Internal transit - EU goods move through a third country (or between parts of the EU where certain directives do not apply).

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[90] UCC (n 85) arts 12–13, 33–34.
[91] UCC (n 85) arts 201–206.
[92] UCC (n 85) art 201.
[93] UCC (n 85) arts 210–212.

Relevance for Georgia: Georgia's instrument of accession to the Common Transit Convention was deposited in 2024 and the accession entered into force on 1 February 2025, with transitional provisions running until June 2026. This will be discussed in Chapter 5 as a major step toward customs integration.

3.7.3. Warehousing

The customs warehousing procedure allows non-EU goods to be stored in designated warehouses without payment of customs duties, import VAT, or excise duties.[94] Duties become due only when goods are released for free circulation or consumed. This facilitates logistics and cash flow for traders.

3.7.4. Inward Processing

Inward processing allows non-EU goods to be imported for processing (repair, assembly, transformation) and then re-exported, with full or partial relief from customs duties.[95] This supports manufacturing supply chains.

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[94] UCC (n 85) arts 219–227.
[95] UCC (n 85) arts 250–256.

3.8. Customs Valuation and Rules of Origin

3.8.1. Customs Valuation

The UCC follows the WTO Valuation Agreement. The primary method (Article 70) is the transaction value-the price actually paid or payable for the goods, adjusted for certain costs (commission, packing, transport, etc.).[96]

Alternative methods (Articles 71-74) apply if transaction value is not acceptable:

- Transaction value of identical goods (Article 71)
- Transaction value of similar goods (Article 72)
- Deductive value (based on selling price in the EU) (Article 73)
- Computed value (cost of production) (Article 74)

The fall-back method (Article 75) allows reasonable means based on available data.

Relevance for Georgia: Georgian customs valuation law is largely aligned with WTO rules, but implementation challenges (e.g. verification of declared value) will be examined in Chapter 5.

3.8.2. Rules of Origin

The UCC distinguishes between non-preferential origin (Articles 60-61) and preferential origin (Articles 64-65 with separate delegated acts).[97]

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[96] UCC (n 85) arts 69–76.
[97] UCC (n 85) arts 59–63.

- Non-preferential origin determines the application of MFN duties, trade remedies, quotas, etc. Goods wholly obtained in one country have that origin; goods produced from materials from multiple countries have origin where the last substantial transformation occurred.
- Preferential origin applies to goods qualifying for duty-free or reduced-rate treatment under trade agreements (e.g. the DCFTA). Preferential rules of origin are more detailed and product-specific.

Relevance for Georgia: The DCFTA has its own rules of origin, which are largely aligned with the EU's pan-Euro-Mediterranean convention. Georgia's implementation of these rules will be analysed in Chapter 5.

3.9. Authorised Economic Operator (AEO)

The AEO concept is central to modern customs administration. AEO status is granted to traders that meet criteria relating to:[98]

- An appropriate record of compliance with customs and tax rules.
- A satisfactory system of managing commercial and transport records.
- Financial solvency.
- Appropriate security and safety standards (for AEOF - security and safety).

Benefits of AEO status include:[99]

- Fewer physical and document-based inspections.

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[98] UCC (n 85) arts 38–41.
[99] UCC (n 85) art 39.

- Simplified customs declarations.
- Priority treatment if selected for inspection.
- Mutual recognition of AEO status with other countries.

Relevance for Georgia: Georgia has introduced an AEO programme. The degree of alignment with the EU's AEO system will be assessed in Chapter 5.

3.10. Conclusion of Chapter 3

This chapter has presented the key principles of the EU VAT and customs acquis that serve as the benchmark for comparison with Georgian law. The VAT Directive establishes a broad definition of taxable persons, the destination principle for place of supply, a minimum standard rate of 15%, and a limited set of exemptions with import VAT generally due at the border. The Union Customs Code provides a fully digital, risk-based framework with binding decisions, simplified procedures, and the AEO concept.

Throughout the chapter, we have noted where Member States have discretion (e.g., reduced rates, VAT grouping, small enterprise exemption) and where the EU rules differ from the approach Georgia has taken (e.g. import VAT exemptions, zero-rating).

Chapter 4. Comparative Analysis of Georgian VAT Legislation vs. EU Standards.

4.1. Introduction

This chapter answers the second research question: To what extent has Georgian legislation aligned with EU standards governing VAT procedures? It conducts a structured comparison between the EU VAT Directive (2006/112/EC) - presented as the benchmark in Chapter 3 and the relevant provisions of the Georgian Tax Code.

The analysis follows the three-tier classification introduced in the methodology: fully aligned (Georgian law reproduces the essential elements without substantive divergence), partially aligned (significant correspondence but with identifiable differences), or divergent (no meaningful correspondence or conflicting provisions).[100]

The chapter focuses on six key areas: scope and taxable persons, registration threshold, VAT rates, exemptions for cross-border transactions, place of supply rules, and invoicing obligations. Special attention is given to the treatment of import VAT on goods originating from the EU, which represents a major asymmetry between the two systems. Where relevant, the analysis notes recent amendments, including the 2026 exemption for investment gold.

4.2. Scope of VAT and Taxable Persons

4.2.1. EU Benchmark

Article 2 of the VAT Directive imposes VAT on the supply of goods and services for consideration within the territory of a Member State by a taxable person, as well as on the importation of goods.[101] Article 9 defines a taxable person broadly as any person who independently carries out any economic activity, regardless of purpose or

[100] European Commission (n 7) 45–48.
[101] VAT Directive (n 55) art 2.

results.[102] Articles 10-13 provide exceptions for employees, VAT grouping, occasional transactions, and public authorities.

4.2.2. Georgian Law

Article 156(2) of the Georgian Tax Code states that VAT is a tax on consumption, directly proportional to the price of goods or services.[103] Article 159(1) defines taxable operations as: (a) the supply of goods by a taxable person on the territory of Georgia; (b) the provision of services by a taxable person on the territory of Georgia; and (c) the importation of goods.[104]

Article 158(1) defines a taxable person as any person who independently carries out any type of economic activity, regardless of the purpose or results of that activity.[105] This mirrors the EU's broad definition. Article 158(4) excludes from economic activity certain operations listed in Article 9(2) of the Tax Code (charitable, religious, employment, etc.), similar to the EU's exclusions.[106]

Assessment: Substantially aligned, with a commercially significant gap on VAT grouping. The core definitions of scope and taxable persons are essentially identical. However, the absence of a VAT grouping provision in Georgian law is more than a technical omission. Article 11 of the VAT Directive is facultative, Member States are not obliged to introduce VAT grouping so Georgia is not in breach of Annex XXII. Yet VAT

[102] VAT Directive (n 55) art 9(1).
[103] Tax Code of Georgia (consolidated version 2025), art 156(2). All references to the Tax Code are to the consolidated version as of May 2026.
[104] Tax Code of Georgia (n 103) art 159(1).
[105] Tax Code of Georgia (n 103) art 158(1).
[106] Tax Code of Georgia (n 103) art 158(4), referring to art 9(2) of the Tax Code.

grouping is economically meaningful: within a group, intra-group transactions attract no VAT, the group files a single return, and input tax recovery is pooled. For large Georgian corporate groups with subsidiaries, the absence of this mechanism creates a compliance burden and cash-flow disadvantage that EU-based competitors do not face when operating through group structures. This gap should therefore be noted not as a failure of formal approximation, but as an area where approximation, even if legally complete, produces a materially different commercial outcome.

4.3. VAT Registration Threshold

4.3.1. EU Benchmark

Article 284 of the VAT Directive allows Member States to exempt taxable persons whose annual turnover does not exceed a nationally set threshold.[107] Under the current rules, as amended by Directive 2020/285/EU (applicable from 1 January 2025), the maximum permissible threshold is €85,000, but Member States retain full discretion to set a lower figure.[108] The reform also introduced simplified compliance obligations for exempt businesses, including reduced recordkeeping, the option of annual VAT returns instead of monthly or quarterly filings, and the right to opt into normal VAT treatment. These changes represent a significant reduction in administrative burden for very small businesses across the EU.

[107] VAT Directive (n 55) art 284.

[108] Council Directive 2020/285/EU of 18 February 2020 amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises [2020] OJ L62/7, art 1(6) (inserting Article 284(1)). The directive sets a ceiling; it does not impose a uniform threshold. Recital 9 of Directive 2020/285/EU confirms that Member States should remain free to apply a threshold lower than the maximum.

In practice, however, the €85,000 ceiling does not reflect the EU norm. Thresholds continue to vary considerably across Member States: as of 1 January 2025, they range from approximately €10,000 in some Member States to the new maximum of €85,000, with a weighted average of roughly €35,000-€40,000.[109] Several larger economies, including Italy, Spain, and the Netherlands apply thresholds in the €25,000-€40,000 range. This distribution matters for comparative purposes. Measuring a third country's threshold solely against the EU maximum of €85,000 overstates the divergence; a more accurate benchmark is the EU range as a whole.

4.3.2. Georgian Law

Article 165(1) of the Georgian Tax Code requires a taxable person whose total taxable supplies in any consecutive 12-month period exceed 100,000 GEL to apply for VAT registration within 2 working days.[110] As of April 2026, 100,000 GEL is approximately €32,000 - significantly lower than the EU maximum of €85,000.

Article 165(6) permits voluntary registration.[111] Article 165(7) excludes exempt operations (except exports and certain others) from the threshold calculation.[112]

A distinctive feature is the concept of qualified and non-qualified VAT payers. A newly registered VAT payer is classified as non-qualified and cannot deduct input VAT on

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[109] European Commission, Directorate-General for Taxation and Customs Union, *VAT Rates Applied in the Member States of the European Union — Situation at 1 January 2025* (taxud.c.1(2025), European Commission 2025) Annex II (SME exemption thresholds by Member State). The document is updated twice yearly and is available at https://taxation-customs.ec.europa.eu accessed 15 May 2026.
[110] Tax Code of Georgia (n 103) art 165(1).
[111] Tax Code of Georgia (n 103) art 165(6).
[112] Tax Code of Georgia (n 103) art 165(7).

imported goods or on domestic purchases from non-registered suppliers for a period of six months.[113] This rule has no equivalent in the VAT Directive.

Assessment: Partially aligned. Both systems operate a turnover-based threshold, but Georgia's is lower. The qualified/non-qualified distinction is a substantive divergence from the VAT neutrality principle, with no EU equivalent.[114]

4.4. VAT Rates

4.4.1. EU Benchmark

Article 96 of the VAT Directive sets a minimum standard rate of 15%.[115] Member States may apply one or two reduced rates of at least 5% to specific categories of goods and services listed in Annex III (Article 98).[116] Zero-rating (0% with right to deduct) is generally not permitted except for exports and intra-EU supplies. Several Member States retain historical zero rates for items such as food and books under the 'standstill' provisions of Article 110 of the VAT Directive, but new zero-rated supplies are not permitted.[117]

Since 1 January 2025, Directive 2022/542/EU has expanded the list of goods and services eligible for reduced rates. Most significantly for digital commerce, Member States may now apply reduced rates (minimum 5%) to electronically supplied services,

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[113] Grant Thornton, 'Indirect tax – Georgia' (2025) https://www.grantthornton.global accessed 10 April 2026.
[114] Grant Thornton (n 113) (describing the six-month restriction as a significant cash flow burden).
[115] VAT Directive (n 55) art 96.
[116] VAT Directive (n 55) art 98.
[117] VAT Directive (n 55) art 110.

including e-books, audiobooks, and streaming services.[118] This means that an EU Member State can charge, for example, 5% VAT on an e-book, while Georgia charges its standard 18% on the same product. This divergence did not exist before 2025, but now represents a functional difference between the two systems.

4.4.2. Georgian Law

Article 166 of the Georgian Tax Code sets a single VAT rate of 18%.[119] Georgia does not apply reduced rates. Instead, certain supplies are exempt without the right to deduct (e.g., financial services, medical services, education under Article 170, gambling under Article 171) or exempt with the right to deduct (e.g., exports, international transport, diplomatic supplies under Article 172).[120]

Assessment: Partially aligned. The standard rate of 18% exceeds the EU minimum, but the EU now permits reduced rates for digital products (Directive 2022/542/EU) while Georgia does not, creating a functional difference.

4.5. Exemptions for Cross-border transactions: import VAT

4.5.1. EU Benchmark

Under the VAT Directive, imports from third countries (including Georgia) are generally subject to VAT. Article 143 provides a limited list of mandatory exemptions (e.g.,

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[118] Directive 2022/542/EU (n 76) Annex (amending Annex III of the VAT Directive).
[119] Tax Code of Georgia (n 103) art 166.
[120] Tax Code of Georgia (n 103) arts 170, 171, 172.

reimported goods, goods for diplomatic missions, imports under special VAT schemes).[121] There is no general exemption for imports from any specific third country.

4.5.2. Georgian Law

Article 172(4)(e) of the Georgian Tax Code exempts from VAT the supply of goods outside the territory of Georgia (export/re-export) - this is standard and aligns with EU rules.[122]

Article 173 lists a wide range of import VAT exemptions, including medical goods, pharmaceutical raw materials, certain food products, agricultural goods, and goods imported under humanitarian aid or grant agreements.[123] Critically, Article 173 does not contain a general exemption for goods originating from the EU. A clarification is necessary regarding the scope of DCFTA preferential treatment. The DCFTA eliminates customs duties (tariffs) on qualifying EU-origin goods meeting the rules of origin.[124] This is a tariff exemption only: Georgian import VAT at the standard rate of 18% continues to apply to EU-origin goods upon release for free circulation, on equal terms with goods from all other trading partners. Article 172(4)(e) of the Tax Code, which exempts exports, and Article 173, which lists specific import VAT exemptions, contain no provision for EU-origin goods specifically.[125]

[121] VAT Directive (n 55) art 143.
[122] Tax Code of Georgia (n 103) art 172(4)(e).
[123] Tax Code of Georgia (n 103) art 173.
[124] EU–Georgia Association Agreement [2014] OJ L261/4, art 26 and Annex II-A (tariff elimination schedules).
[125] Tax Code of Georgia (n 103) arts 172 and 173.

The asymmetry between Georgia and the EU therefore operates at two levels. First, directional: the DCFTA eliminates duties on both sides, but Georgian exporters to the EU face import VAT at EU destination rates of typically 17-27%,[126] while EU exporters to Georgia face Georgian import VAT at 18% the same rate as all other trading partners. Second, administrative: Georgian exporters must comply with EU VAT registration requirements, EORI numbers, and destination-country customs obligations, while EU exporters to Georgia face only standard Georgian customs procedures.[127]

Assessment: Partially divergent. The structure of Article 173 is broadly comparable to Article 143 of the VAT Directive, both operating as closed lists of specific mandatory exemptions. No general preferential VAT treatment for EU-origin goods exists in Georgian law. The trade asymmetry under the DCFTA relates to tariff elimination and administrative compliance burdens, not VAT exemptions.

4.6. Place of Supply Rules

4.6.1. EU Benchmark

Articles 31-39 of the VAT Directive establish detailed place of supply rules based on the destination principle. For goods with transport, the place of supply is where dispatch begins (Article 32). For distance sales to consumers, the place of supply is where transport ends (Article 33).[128]

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[126] VAT Directive (n 55) art 96.

[127] European Commission, Taxation and Customs Union, 'Georgia' https://taxation-customs.ec.europa.eu/customs/international-affairs/third-countries/georgia_en accessed 15 May 2026.

[128] VAT Directive (n 55) arts 31–39.

Where dispatch begins in a third country such as Georgia, Article 32(2) of the VAT Directive provides that the place of supply is deemed to be within the Member State of importation, a provision directly relevant to Georgian exporters, as it means VAT is due in the EU destination country, not in Georgia.[129]

4.6.2. Georgian Law

Article 162 of the Georgian Tax Code governs the place of supply of goods:

- Article 162(1): If goods are not dispatched or transported, the place of supply is where the goods are located at the time of supply.[130]
- Article 162(2): If goods are dispatched or transported, the place of supply is where the goods are located at the time dispatch or transport to the buyer begins.[131]
- Articles 162(3)-(5) provide special rules for gas and electricity supplies through distribution networks.[132]

For services, Article 162^1 sets out detailed rules that largely follow the EU's B2B/B2C distinction. B2B services are taxed where the customer is established; B2C services are taxed where the supplier is established, with exceptions for electronically supplied services, telecommunications, and broadcasting.[133]

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[129] VAT Directive (n 55) art 32(2).
[130] Tax Code of Georgia (n 103) art 162(1).
[131] Tax Code of Georgia (n 103) art 162(2).
[132] Tax Code of Georgia (n 103) arts 162(3)–(5).
[133] Tax Code of Georgia (n 103) art 162^1.

Assessment: Fully aligned in principle. Both systems follow the destination principle. Georgia's rules are less detailed than the EUs, but the core approach is identical.

4.7. Invoicing and Administrative Obligations

4.7.1. EU Benchmark

The VAT Directive (Title XI, Articles 217-240) establishes detailed rules on invoicing, including mandatory content, electronic invoicing, and deadlines. Member States may impose additional requirements but must respect proportionality.

4.7.2. Georgian Law

Article 180 of the Tax Code regulates tax invoices. A tax invoice must be issued by a registered VAT payer when supplying goods or services to another registered VAT payer.[134] Simplified invoices may be used in cases determined by the Minister of Finance.[135] Electronic invoicing is permitted.[136]

The Tax Code does not prescribe a specific deadline for issuing invoices, this is left to implementing regulations. The EU's emphasis on electronic invoicing and real-time reporting is more advanced, but Georgia's framework is broadly compatible.

Assessment: Partially aligned. The core invoicing obligations are similar, but Georgia's rules are less prescriptive and leave more discretion to the tax authorities.

[134] Tax Code of Georgia (n 103) art 180(1).
[135] Tax Code of Georgia (n 103) art 180(1) (referring to ministerial regulations).
[136] Tax Code of Georgia (n 103) art 180(2).

4.8. Conclusion

Georgian VAT law is substantially aligned with the EU VAT Directive in core areas: definitions of taxable persons, place of supply rules, and the standard rate (18% exceeds the EU minimum of 15%).[137] However, significant divergences remain. The registration threshold (100,000 GEL ≈ €32,000) is lower than the EU's maximum (€85,000)[138], and the qualified/non-qualified VAT payer distinction has no EU equivalent.[139] The DCFTA eliminates customs duties on EU-origin goods but creates no import VAT exemption. Georgian import VAT at 18% applies equally to all imports.[140] The genuine trade asymmetry is a compliance burden: Georgian exporters face EU import VAT at 17-27% plus EORI registration,[141] while EU exporters to Georgia face zero duties and standard 18% VAT.

Formal alignment with the 2016 acquis baseline is largely complete. However, the EU has since adopted Directive 2020/285/EU (higher SME threshold) and Directive 2022/542/EU (reduced digital VAT rates).[142] These are not binding on Georgia under the current AA annexes, but they create a moving target. The following chapter examines customs alignment, which has also evolved through updates such as Decision No 1/2021.[143]

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[137] Council Directive 2006/112/EC, art 96 (minimum 15%); Tax Code of Georgia, art 166 (18%).
[138] Directive 2020/285/EU, art 1(6); Tax Code of Georgia, art 165(1).
[139] *Grant Thornton (n 113)*.
[140] Tax Code of Georgia (n 103) art 168.
[141] VAT Directive (n 55) art 96; Regulation (EU) No 952/2013 (n 85) art 9 (EORI).
[142] Directive 2020/285/EU [2020] OJ L62/7; Directive 2022/542/EU [2022] OJ L107/1.
[143] Decision No 1/2021 (n 41).

Chapter 5. Comparative Analysis of Georgian Customs Legislation vs. EU Customs Code

5.1. Introduction

This chapter answers the second research question with respect to customs procedures: To what extent has Georgian legislation aligned with EU standards governing customs procedures? It conducts a structured comparison between the Union Customs Code (UCC), presented as the benchmark in Chapter 3 and the relevant provisions of the Georgian Customs Code.

The analysis follows the same three-tier classification as Chapter 4: Fully aligned (Georgian law reproduces the essential elements without substantive divergence), partially aligned (significant correspondence but with identifiable differences), or divergent (no meaningful correspondence or conflicting provisions).[144]

The chapter focuses on several key areas: Customs valuation, customs procedures (release for free circulation, transit, warehousing, inward processing), rules of origin, customs control and risk management, authorised economic operator (AEO), customs debt and payment, and exemptions from import duty. Special attention is given to Georgia's recent accession to the Common Transit Convention and the implementation of the AEO programme, both of which represent significant steps toward integration with the EU customs framework. Where the UCC has been amended by delegated acts after 2016 (e.g., Delegated Regulation 2021/234 on simplifications for low-value consignments, Delegated Regulation 2018/1063 on centralised clearance), those

[144] European Commission (n 7) 45–48.

amendments are noted where they affect functional equivalence. However, the core provisions compared in this chapter (valuation, release for free circulation, warehousing, inward processing, AEO) remain substantially unchanged. Georgia's approximation is assessed against the current UCC as updated, consistent with the dynamic updating mechanism under Decision No 1/2021.[145]

5.2. Customs Valuation

5.2.1. EU Benchmark

Under the, UCC the primary method of customs valuation is the transaction value, the price actually paid or payable for the goods when sold for export to the EU (Article 70).[146] Alternative methods (identical goods, similar goods, deductive value, computed value, fallback) apply sequentially if the primary method cannot be used (Articles 71-75). [147] Adjustments to the price include commissions, packing, transport and insurance costs to the place of entry and certain royalties (Article 71). [148]

5.2.2. Georgian law

The Georgian Customs code follows the same WTO valuation framework. Article 37 (6) lists six methods in the same order as the UCC: transaction value, identical goods,

[145] Decision No 1/2021 (n 41); Commission Delegated Regulation (EU) 2021/234 (n 54).
[146] UCC (n 85) art 70.
[147] UCC (n 85) arts 71–75.
[148] UCC (n 85) art 71.

similar goods, unit price, computed value, and reserve method. [149] The declarant may change the order of the fourth and fifth method (Article 37(7)). [150]

Transaction value method (Article 38) requires that there are no restrictions on disposal, the sale is not conditional, no part of proceeds accrues to the seller and the buyer and seller are not related, or if related, that the relationship did not influence the price. [151] These conditions mirror Article 70 of the UCC.

Adjustments (Article 44) include commissions (except buying commissions), cost of containers, packing, certain goods and services supplied by the buyer, royalties, and transport and insurance costs up to the place of entry.[152] This aligns with Article 71 of the UCC.

Assessment: Fully aligned. Georgia's valuation rules follow the WTO framework and are substantively identical to the UCC.

5.3. Customs Procedures

5.3.1. Release for Free Circulation

Under the UCC, release for free circulation confers the status of Union goods on non-Union goods, and customs duties and import VAT become due at the time of acceptance of the customs declaration (Article 201-206).[153]

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[149] Customs Code of Georgia (2019, consolidated version 2025), art 37(6). All references to the Customs Code are to the consolidated version as of May 2026.
[150] Customs Code of Georgia (n 149) art 37(7).
[151] Customs Code of Georgia (n 149) art 38.
[152] Customs Code of Georgia (n 149) art 44.
[153] UCC (n 85) arts 201–206.

The Georgian Customs Code (Book VI, Chapter XVI, Articles 105-106) provides, that foreign goods intended for sale, consumption or use in Georgia shall be placed under release for free circulation.[154] Upon release, an obligation to pay import duty arises, measures to protect trade apply, and the goods acquire the status of Georgian goods.[155] This mirrors the UCC.

Assessment: Fully aligned. The release for free circulation procedure is functionally identical.

5.3.2. Transit Procedure

The UCC procedure (Articles 210-212) allows non-Union goods to move across the customs territory without payment of duties or VAT.[156] Georgia's accession to the Common Transit Convention entered into force on 1 February 2025, with transitional provisions running until June 2026. This was noted in Chapter 2 as a major step toward customs integration.

The Georgian Customs Code (Book VII, Chapter XIX, Articles 118-121) provides for a transit procedure that allows foreign goods to be moved between two points within the customs territory of Georgia without incurring import duty.[157] It also recognizes TIR carnets (Article 118(3)(b)) and ATA carnets (Article 118 (3)(c)).[158]

[154] Customs Code of Georgia (n 149) art 105(1).
[155] Customs Code of Georgia (n 149) art 105(2).
[156] UCC (n 85) arts 210–212.
[157] Customs Code of Georgia (n 149) art 118(1).
[158] Customs Code of Georgia (n 149) art 118(3).

The Code provides for authorized consignor and authorised consignee status (Article 121), allowing simplified transit procedures.[159] This is equivalent to the UCC's authorised consignor/consignee under Articles 233(4)(a) UCC and Articles 191-193 of Commission Delegated Regulation (EU) 2015/2446.

Assessment: Partially aligned. The legal framework is aligned, but practical implementation remains a challenge. Georgia uses ASYCUDA World for transit, while the EU uses the New Computerised Transit System (NCTS). Full integration would require either upgrading ASYCUDA to NCTS compatibility or achieving full interoperability. The transitional provisions until June 2026 indicate that this process is ongoing.

5.3.3. Customs Warehousing

The UCC warehousing procedure (Articles 219-227) allows non-Union goods to be stored in designated warehouses without payment of duties or VAT for up to two years.[160]

The Georgian Customs Code (Book VII, Chapter XX, Articles 122-127) similarly allows foreign goods to be stored in a customs warehouse without incurring import duty.[161] The duration of storage shall not exceed two years, and the declaration may extend the duration for an indefinite period, provided each extension does not exceed two years (Article 123).[162]

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[159] Customs Code of Georgia (n 149) art 121.
[160] UCC (n 85) arts 219–227.
[161] Customs Code of Georgia (n 149) art 122(1).
[162] Customs Code of Georgia (n 149) art 123.

Assessment: Fully aligned. The warehousing rules are substantively identical.

5.3.4. Inward Processing

The UCC inward processing procedure (Articles 250-256) allows non-Union goods to be imported for processing and then re-exported, with full or partial relief from customs duties.[163]

The Georgian Customs Code (Book VII, Chapter XXIV, Articles 142-147) provides for a similar inward processing procedure. Article 142 stated that the procedure does not result in an obligation to pay import duty or the application of trade protection measures.[164] The declarant must obtain an authorisation from the customs authorities (Article 111).[165] The rate of yield must be approved by the customs authorities (Article 143).[166]

Assessment: Fully aligned. The structure and conditions are comparable to the UCC.

5.4. Rules of Origin

The UCC distinguished between non-preferential origin (Articles 60-61) and preferential origin (Articles 64-65).[167]

The Georgian Customs Code (Book II, Chapter V, Article 36) adopts the same distinction. Non-preferential origin applies for import tax (except treaty reliefs) and non-

[163] UCC (n 85) arts 250–256.
[164] Customs Code of Georgia (n 149) art 142(1).
[165] Customs Code of Georgia (n 149) art 111.
[166] Customs Code of Georgia (n 149) art 143.
[167] UCC (n 85) arts 59–63, 64–65.

tariff measures (Article 36(3)). [168] Goods are regarded as originating in a country where they were wholly obtained or underwent last substantial transformation (Article 36(4)).[169] The preferential origin is determined by respective treaties of Georgia (Article 36(5)), Including the DCFTA.[170]

Assessment: Fully aligned in principle. The DCFTA has its own rules of origin, which are largely aligned with the EU's pan-Euro-Mediterranean convention. Georgia's implementation of these rules is ongoing, but the legal framework is compatible.

5.5. Customs Control and Risk Management

The UCC emphasizes risk-based controls and electronic declarations (Articles 46-48).[171]

The Georgian Customs Code (Book III, Chapter III, Articles 27-30) establishes a risk management framework. Article 27(2) provides that customs controls, other than random checks, shall be based on automated data-processing techniques for risk identification and assessment.[172] Risk is defined as the likelihood of an event that compromises financial interests or poses a threat to state security, health, or the environment (Article 27(4)).[173]

[168] Customs Code of Georgia (n 149) art 36(3).
[169] Customs Code of Georgia (n 149) art 36(4).
[170] Customs Code of Georgia (n 149) art 36(5).
[171] UCC (n 85) arts 46–48.
[172] Customs Code of Georgia (n 149) art 27(2).
[173] Customs Code of Georgia (n 149) art 27(4).

Post-release control of goods (Article 30) allows the customs authorities to verify declarations and examine accounts within three months (extendable to five).[174] The period of limitation for charging import duty based on a post-release control is three years (Article 30(11)).[175]

Assessment: Partially aligned. The legal framework for risk management is in place, but the practical effectiveness, particularly the integration of customs control with other border agencies (one-stop-shop) and the use of advanced IT systems, lags behind the EU. The EU's fully digital, real-time risk analysis is more advanced that Georgia's current ASYCUDA-based system.

5.6. Authorised Economic Operator (AEO)

The UCC AEO provisions (Articles 38-41) grant trusted trader status with benefits such as fewer inspections and simplifies declarations.[176]

The Georgian Customs Code (Book II, Chapter II, Articles 25-26) established an AEO programme with two types of authorization: customs simplification and security and safety (Article 25(2)).[177] A person established in Georgia who meets the criteria may apply for AEO status. The criteria include absence of serious infringements, a high level of control of operations, solvency, and for security and safety-appropriate security standards (Article 26(1)).[178]

[174] Customs Code of Georgia (n 149) art 30.
[175] Customs Code of Georgia (n 149) art 30(11).
[176] UCC (n 85) arts 38–41.
[177] Customs Code of Georgia (n 149) art 25(2).
[178] Customs Code of Georgia (n 149) art 26(1).

The customs authorities may grant benefits to a person established in a foreign country on the basis of reciprocity (Article 25(6)).[179]

Assessment: Partially aligned. Georgia has introduced an AEO programme that mirrors the EU's structure. However, mutual recognition agreement with the EU is not yet fully in place. Georgia's AEO status is not automatically recognized by EU member states, which limits it practical benefits for cross-border trade. Full integration would require mutual recognition and technical interoperability.

5.7. Customs Debt and Payment

The UCC provides that a customs debt is incurred at the time of acceptance of the customs declaration (Article 77).[180]

The Georgian Customs Code (Book III, Chapter VII, Articles 47-54) similarly provides that a customs debt is incurred when placing foreign goods under release for free circulation or temporary admission (Article 47).[181] The declarant is the debtor (Article 47(3)).[182]

Payment of import tax is required not later than five days after release of the goods (Article 65(1)).[183] This may be extended up to 45 days by order of the Minister of Finance (Article 65(6)).[184]

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[179] Customs Code of Georgia (n 149) art 25(6).
[180] UCC (n 85) art 77.
[181] Customs Code of Georgia (n 149) art 47(1).
[182] Customs Code of Georgia (n 149) art 47(3).
[183] Customs Code of Georgia (n 149) art 65(1).
[184] Customs Code of Georgia (n 149) art 65(6).

Guarantees for securing payment are provided for in Articles 55-61. A comprehensive guarantee may be provided by persons established in Georgia who meet certain criteria (Article 59).[185] An authorised economic operator for customs simplification may provide a comprehensive guarantee with a reduced amount (Article 59(3)).[186]

Assessment: Fully aligned in structure. The five-day payment deadline is shorter than the EU's standard (ten days), but this is a minor procedural difference.

5.8. Exemptions from Import Duty

The UCC provides limited exemptions from import duty, primarily for returned goods (Article 203 of the UCC).[187] For import VAT, diplomatic and military exemptions are found in Article 143(1)(f) of the VAT Directive, but that is a VAT rule, not a customs duty rule.[188] In the context of customs duties, diplomatic goods are exempt under the Vienna Convention on Diplomatic Relations (1961), which is implemented through national law, not the UCC.[189]

The Georgian Customs Code (Book XI, Chapters XXXI, XXXI, XXXII, Articles 180-212) contains an extensive list of exemptions. These include personal property of new residents, marriage gifts, inherited goods, educational equipment, low-value

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185 Customs Code of Georgia (n 149) art 59.
186 Customs Code of Georgia (n 149) art 59(3).
187 UCC (n 85) art 203.
188 VAT Directive (n 55) art 143(1)(f).
189 Vienna Convention on Diplomatic Relations (done 18 April 1961, entered into force 24 April 1964) 500 UNTS 95, art 36.

consignments, scientific apparatus, medical goods, disability aids, disaster relief, and promotional items (Articles 181-212).

Assessment: Divergent. This is the most significant divergence between Georgian and EU customs law. The EU grants only a narrow set of exemptions, while Georgia grants a very broad range, reflecting its status as a developing economy and its policy choices to attract investment, support education and science, and facilitate humanitarian aid.

For full EU membership, Georgia would need to significantly restrict these exemptions to align with the UCC and the EU VAT Directive.

5.9. Conclusion of Chapter 5

Core operational procedures - valuation, release for free circulation, warehousing, inward processing are functionally identical to the UCC. The legal framework for risk management exists, though its practical implementation lags behind the EU's fully digital, real-time system.

The most significant progress is Georgia's 2024 accession to the Common Transit Convention and the NCTS, which marks a genuine institutional achievement. However, the transitional period until June 2026 acknowledges what this chapter has documented: digital interoperability and guarantee management remain incomplete. The fact that only four guarantee companies are authorised, and that delays exceeding ten days have been reported at border crossings, indicates that legal accession is not the same as operational integration.

The AEO programme is another area of partial alignment. Georgia has adopted the EU's two-type structure (customs simplification and security/safety). But mutual recognition with the EU is not yet operational, meaning Georgian AEO certificates do not yet confer benefits in EU member states. This reduces the programme's value for cross-border trade.

The most striking divergence is the breadth of import duty exemptions in the Georgian Customs Code (Articles 180-212). Personal property of new residents, marriage gifts, inherited goods, educational equipment, scientific apparatus, medical goods, disaster relief - none of these have parallels in the UCC. These exemptions reflect Georgia's policy choices as a developing economy, but they would be legally incompatible with full EU Customs Union membership. Any future deepening of EU-Georgia customs integration would require their substantial reduction or elimination.

The overall assessment is therefore one of asymmetric readiness: Georgia can administer basic customs procedures in a manner compatible with the UCC,[190] but deeper integration, mutual AEO recognition, full NCTS interoperability, elimination of broad exemptions remains work in progress. The gap is not legislative but institutional and operational. Moreover, while Georgia's formal alignment is measured against the current UCC (including post-2016 delegated acts), the dynamic nature of EU customs law means that Georgia must continuously monitor and voluntarily adopt updates to

[190] *See UCC arts 69–76 (valuation), 201–206 (release for free circulation), 219–227 (warehousing), 250–256 (inward processing).*

maintain functional equivalence, unless the Trade Committee formally updates Annex XIII under Article 408(4) of the AA.[191]

Chapter 6: Interaction of VAT and Customs Rules in Cross-Border Trade

6.1. Introduction

This chapter answers the third research question: How do VAT and customs rules interact in the regulation of cross-border trade between Georgia and the European Union? VAT and customs duties are not separate, parallel systems. They intersect at the border, where import VAT is assessed and collected alongside customs duties. Understanding this interaction is essential for evaluating the practical effectiveness of Georgia's approximation to EU standards.

The chapter proceeds in four sections. Section 6.2. examines the legal mechanism that links VAT assessment to customs clearance in both EU and Georgian law. Section 6.3. analyses the timing of import VAT chargeability and its alignment with customs debt. Section 6.4. discusses exemptions and special regimes where the interaction is particularly complex. Section 6.5. concludes with an assessment of the degree of alignment in the VAT-customs interface.

[191] Decision No 1/2021 [2021] OJ L240/3.

6.2. The Legal Link between Import VAT and Customs Clearance

6.2.1. The VAT as Customs Debt

Under the EU VAT Directive, importation of goods is a taxable event. Article 60 provides that the place of importation is the Member State where the goods are located when they enter the EU.[192] Article 71(1)(a) of the VAT Directive provides that VAT on imported goods subject to customs duties becomes chargeable at the time of acceptance of the customs declaration.[193] If goods are subject to customs duties, VAT becomes due at the same time as those duties.[194]

This creates a direct administrative link: the same customs declaration that determines customs duty liability also triggers import VAT liability. Customs authorities are responsible for collecting both. The declarant (importer) must pay both amounts before the goods are released for free circulation.[195]

6.2.2. The Georgian Model: Similar but not Identical

The Georgian Tax Code and Customs Code follow a similar principle. Article 159(1)(c) of the Tax Code includes importation as a taxable operation for VAT.[196]Article 163^1 provides that VAT on imported goods becomes chargeable at the moment the customs debt arises under the Customs Code.[197] Article 47(1) of the Customs Code states that a

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[192] VAT Directive (n 55) art 60.
[193] VAT Directive (n 55) art 71(1)(a).
[194] VAT Directive (n 55) art 71.
[195] UCC (n 85) arts 201–206.
[196] Tax Code of Georgia (n 103) art 159(1)(c).
[197] Tax Code of Georgia (n 103) art 163^1.

customs debt is incurred when foreign goods are placed under release for free circulation.[198]

Thus, in both systems, import VAT is triggered by the same customs declaration that releases goods for free circulation. The declarant is responsible for paying both customs duties and import VAT.

Assessment: Fully aligned in principle. The legal mechanism linking import VAT to customs clearance is identical.

6.3. Timing of Chargeability and Payment

6.3.1. EU rules

Under Article 71(1)(a) of the VAT Directive, import VAT on goods subject to customs duties becomes chargeable upon acceptance of the customs declaration. Payment is due at the same time as customs duties, typically within ten days of release (though Member States may set different deadlines).[199]

6.3.2. Georgian Rules

Under Article 163[1] of the Georgian Tax Code, import VAT becomes chargeable at the moment the customs debt arises under the Customs Code. Article 65(1) of the Customs Code requires import tax (including VAT) to be paid not later than five days after the

[198] Customs Code of Georgia (n 149) art 47(1).
[199] UCC (n 85) art 65 (Member State implementation varies).

release of the goods.[200] This may be extended up to 45 days by order of the Minister of Finance.[201]

Assessment: Partially aligned. The five-day payment deadline is shorter than the EU standard (ten days), but this is a minor procedural difference.

6.4. Exemptions and Special Regimes

6.4.1. Exemptions on Importation

Under the EU VAT Directive, import exemptions are limited and listed in Article 143 (reimported goods, diplomatic supplies, certain transport, etc.)[202] Georgia's approach is broader. As discussed in Chapter 4, Article 173 of the Tax Code lists a wide range of import VAT exemptions, including medical goods, pharmaceutical raw materials, agricultural goods, and goods imported under humanitarian aid or grant agreements.[203]

The DCFTA eliminates customs duties on qualifying EU-origin goods entering Georgia but creates no import VAT exemption.[204] EU-origin goods are released for free circulation and pay Georgian import VAT at 18%, identical to goods from any other country.[205] The asymmetry in cross-border trade therefore operates through the different rate and compliance burden faced by Georgian exporters in EU Member

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[200] Customs Code of Georgia (n 149) art 65(1).
[201] Customs Code of Georgia (n 149) art 65(2).
[202] VAT Directive (n 55) art 143.
[203] Tax Code of Georgia (n 103) art 173.
[204] EU–Georgia Association Agreement (n 2), art 26 and Annex II-A.
[205] Tax Code of Georgia (n 103) arts 166 and 168; Ministry of Economy and Sustainable Development of Georgia, 'Foreign Trade Policy' https://www.economy.ge accessed 15 May 2026; US Embassy in Georgia, 'Georgia Country Commercial Guide: Import Tariffs' (2025) https://trade.gov/country-commercial-guides/georgia-import-tariffs accessed 15 May 2026.

States, who pay destination-country import VAT at 17-27% and must comply with EU customs registration requirements, compared to EU exporters in Georgia who face standard Georgian import VAT at 18% and straightforward customs procedures.[206]

Assessment: Partially aligned. The DCFTA asymmetry relates to tariff elimination and administrative compliance costs, not a VAT exemption, and should not be characterised as a fiscal revenue concession by Georgia.

6.4.2. Customs Warehousing and Suspension Regimes

Both EU and Georgian law allow for suspension of import VAT when goods are placed under customs warehousing or transit. Under the UCC, goods placed under a customs warehouse procedure (Articles 219-227) are not subject to import VAT until they are released for free circulation.[207]

The Georgian Customs Code (Articles 122-127) provides an identical warehousing procedure. Foreign goods stored in a customs warehouse do not incur import VAT until removed and released for free circulation.[208]

Assessment: Fully aligned. The suspension regimes are functionally identical.

6.4.3. Temporary Admission

Under the Union Customs Code (UCC), temporary admission allows non-Union goods to be brought into the customs territory with total or partial relief from import duties and

[206] Customs Code of Georgia (n 149) arts 105–106.
[207] UCC (n 85) arts 219–227.
[208] Customs Code of Georgia (n 149) arts 122–127.

VAT, provided they are intended for re-export without having undergone any change. The framework conditions are set out in Articles 250-253 of the UCC, while the detailed rules — including the list of goods eligible for total duty relief, conditions for partial relief, and specific authorisation requirements are governed by Articles 219-236 of Commission Delegated Regulation (EU) 2015/2446.[209]

Article 251(2) of the UCC provides that the maximum period during which goods may remain under the temporary admission procedure for the same purpose shall be 24 months.[210] Under Article 251(4), the customs authorities may extend this period in exceptional circumstances, but the overall period during which goods may remain under the temporary admission procedure shall not exceed 10 years.[211]

The Georgian Customs Code contains a similar temporary admission procedure. According to the official "Temporary Entry" guide published by the Revenue Service of the Ministry of Finance of Georgia, the period during which goods may remain under the temporary importation procedure shall not exceed two years.[212] The Georgian Customs Code does not provide for an equivalent 10-year extension possibility.

Assessment: Partially Aligned. Both legal systems provide for the temporary admission procedure and allow goods to remain in the customs territory for a defined initial period (24 months in the EU, 2 years in Georgia). However, a substantive divergence exists with respect to extensions: while the EU explicitly allows for an exceptional extension up

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[209] UCC (n 85) arts 250–253; Commission Delegated Regulation (EU) 2015/2446 of 28 July 2015 supplementing Regulation (EU) No 952/2013, arts 219–236 [2015] OJ L343/1 (consolidated version 2025).
[210] UCC (n 85) art 251(2).
[211] UCC (n 85) art 251(4).
[212] Revenue Service of the Ministry of Finance of Georgia, 'Georgia – Temporary Entry' (Official Guide, 2019) https://legacy.export.gov/article?id=Georgia-Temporary-Entry accessed 20 May 2026.

to a cumulative maximum of 10 years, Georgia's legal framework does not contain an equivalent long-term provision. Therefore, the rules mirror each other in principle but are not fully aligned in practice.

6.5. Practical Implications for Cross-Border Trade

6.5.1. Administrative Burden on Importers

The interaction between VAT and customs creates administrative burdens for importers. In both systems, the importer must file a customs declaration that simultaneously determines customs duty liability and import VAT liability. Errors in classification or valuation affect both taxes, increasing compliance risk.

In Georgia, the qualified/non-qualified VAT payer distinction (discussed in Chapter 4) adds a layer of complexity. Newly registered VAT payers classified as non-qualified cannot deduct input VAT for six months.[213] This means that even if import VAT is paid at the border, the importer cannot immediately recover it, a significant cash flow burden not present in the EU system.

6.5.2. Risk of Double Taxation or Non-Taxation

The VAT-customs interface creates two risks. First, if goods are misclassified for customs purposes, both customs duty and VAT may be under- or over-charged. Second, if goods are released under a suspension regime (warehousing, transit,

[213] Grant Thornton (n 113).

temporary admission) but later diverted to domestic consumption, VAT may not be properly accounted for.

Georgia's post-release control provisions (Article 30 of the Customs Code) allow customs authorities to verify declarations within three months (extendable to five).[214] This is similar to EU post-clearance audit powers under the UCC.

6.5.3. The Compliance Asymmetry for Georgian Exporters to the EU.

Georgian exporters to the EU benefit from zero customs duties under the DCFTA but must factor EU import VAT at destination-country rates of typically 17-27% into their pricing.[215] They must also register for customs purposes in the EU, obtain EORI numbers, and comply with the VAT obligations of the destination Member State.[216] EU exporters to Georgia face zero customs duties and standard Georgian import VAT at 18%, the same treatment as all other trading partners. This compliance asymmetry places additional administrative and cost burdens on Georgian exporters that their EU counterparts do not face when exporting to Georgia.

6.6. Conclusion of Chapter 6

The qualified/non-qualified VAT payer distinction, however, creates a procedural burden with no EU equivalent. A newly registered Georgian VAT payer classified as non-qualified cannot deduct input VAT for six months, meaning import VAT paid at the border becomes a cash flow cost that would be immediately recoverable in the EU

[214] Customs Code of Georgia (n 149) art 30.
[215] VAT Directive (n 55) art 96.
[216] UCC (n 85) art 9.

system. This is not a divergence in the legal definition of import VAT, but it is a divergence in the practical financial impact on businesses.

The most significant finding is a structural competitive disadvantage: Georgian exports to the EU face import VAT at 17-27% plus EU registration requirements, while EU exports to Georgia face zero duties and standard 18% VAT. The DCFTA thus creates a structural asymmetry in compliance burden that disadvantages Georgian producers in the EU market. This asymmetry is not a defect in the legal drafting of the DCFTA, nor does it give Georgia a legal grievance under the agreement: any third-country exporter to the EU faces import VAT at destination rates, regardless of the trade agreement in force. The asymmetry is inherent in third-country status itself. What the DCFTA does is remove tariff barriers while leaving in place the full weight of EU regulatory compliance - VAT registration, EORI numbers, destination-country customs procedures, that Georgian exporters must navigate. The commercially significant point is therefore not that Georgian producers are being treated unlawfully, but that tariff elimination alone does not eliminate the competitive disadvantage of non-membership, and that the administrative and fiscal compliance gap between third-country exporter and domestic EU producer remains substantial. Georgian goods are at a price disadvantage in the EU market compared to locally produced EU goods, and Georgian exporters bear a heavier administrative burden. The DCFTA does not create an import VAT exemption for EU goods entering Georgia, as is sometimes mistakenly assumed. The consequences of this asymmetry are threefold: first, a price disadvantage for Georgian exporters; second, a higher compliance burden for Georgian businesses; and third, a potential deterrent to Georgian investment in export-oriented production. These consequences are not visible from a purely legal comparison of statutes; they emerge only when the VAT-customs interface is examined as an operational system.

Thus, while the legal mechanisms are aligned, the substantive outcomes differ significantly because of the DCFTA's asymmetric exemption. This confirms the thesis's central hypothesis: formal alignment does not guarantee functional equivalence.

Chapter 7: Practical Implementation Challenges in Georgia

This chapter moves beyond the formal legal comparison undertaken in Chapter 4 and 5. It answers the fourth research question: What practical legal, administrative, and institutional factors affect the implementation of VAT and customs rules in Georgia? The analysis identifies six categories of implementation challenges: administrative coordination between VAT and customs authorities, institutional capacity and digitalization of the Revenue Service, the persistent shadow economy and compliance costs, legal uncertainty and judicial oversight, political and geopolitical context, and the asymmetric fiscal burden arising from Georgia's unilateral import VAT exemption for EU goods.

7.1. Introduction: From Law on the Books to Law in Action

Formal legislative alignment- the focus of Chapters 4 and 5 is necessary for Georgia's approximation to EU standards, but it is not sufficient. Legal approximation is a necessary condition, but not a sufficient one, for functional alignment. Even where Georgian VAT and customs rules mirror EU provisions, differences in administrative capacity, information technology systems, staff training, and judicial oversight may lead to divergent outcomes in practice. [217] As the European Commission noted in its 2024 report, Georgia has “carried out a number of challenging reforms and successfully approximated its legislation with the EU acquis in many sectors”, but further efforts are needed to strengthen administrative capacity, particularly in the areas of customs risk management and post-clearance audit.[218]

In the specific fields of VAT and customs, the gap between formal law and effective implementation can be particularly wide. VAT depends on accurate self-assessment, timely invoicing, and effective audit capacity. Customs procedures depend on functional IT systems, well-trained officers, and inter-agency coordination. Where these conditions are not fully met, even perfectly drafted legislation may produce outcomes that diverge from EU practice. This chapter examines the most significant practical obstacles Georgia faces in translating its formally aligned VAT and customs legislation into functional equivalence with EU standards.

The analysis proceeds in six sections. Section 7.2 examines administrative coordination between VAT and customs authorities within Georgia’s unified Revenue Service. Section 7.3 assesses institutional capacity and digitalization, including the recent transition to the New Computerised Transit System (NCTS). Section 7.4 analyses the persistent shadow economy and its impact on VAT compliance. Section 7.5 evaluates legal uncertainty and the effectiveness of judicial oversight in tax disputes. Section 7.6 considers the political and geopolitical context that affects implementation momentum.

[217] European Commission (n 7) 12–15.
[218] European Commission (n 7) 45–48.

Section 7.7 examines the asymmetric compliance burden for Georgian exporters under the DCFTA.

7.2. Administrative coordination between VAT and Customs Authorities

7.2.1. The Institutional Unification of Tax and Customs Administration

A distinctive feature of Georgia's administrative landscape is that both VAT and customs are administered by a single body: The Revenue Service of Georgia (LEPL Revenue Service within the Ministry of Finance). Under the Georgian Customs Code, the customs authorities include the Revenue Service and its Customs Department.[219] Similarly, the Tax Code vests the Revenue Service with tax administration functions. In principle, this unification should simplify the coordination between VAT and customs. Unlike in many EU Member Stets, where tax authorities and customs authorities operate as separate agencies often with limited interoperability, Georgia's unified structure eliminates the need for inter-agency data sharing agreements and reduces the risk of fragmented enforcement.

The Revenue Service has demonstrated a capacity for administrative innovation. In 2021, Georgia established a Large Taxpayer Office (LTO) to strengthen tax administration and improve compliance among firms that contribute a disproportionate share of revenue. An IMF study based on administrative data from 2017-2024 found that LTO assignment raised annual tax assessments by about 0.4-0.7 per cent of GDP, concentrated in VAT and withholding taxes. The study also found that the LTO raised

[219] Customs Code of Georgia (n 149) art 5(1).

compliance by combining targeted enforcement with improved taxpayer services, while audits became fewer but more selective.[220]

7.2.2. Internal Coordination Challenges and the NCTS Transition

In practice, however, the unification has not eliminated all coordination problems. The recent transition to the New Computerised Transit System (NCTS), Georgia acceded to the Common Transit Convention on 1 February 2025, has exposed significant gaps in institutional readiness.[221] A working meeting was held, jointly organized by the Secretariat of the Investor's Council and the Revenue Service, with participation from representatives of the business community, to discuss the changes and address potential challenges.[222]

The implementation has faced considerable operational difficulties. As of 1 July 2025, Georgia began requiring NCTS procedures for import-bound loaded vehicles entering through Russia-Georgia and Azerbaijan-Georgia border crossings. However, this requirement was imposed before the necessary infrastructure was in place. Only four local guarantee companies were authorised, one of which uses its guarantee capacity exclusively for its own operations. Guarantee companies have not responded to applications within 10 days, do not operate after working hours, remain closed during weekends, and are often unreachable for communication. As a result, delays exceeding

[220] IMF, 'Georgia: Staff Report for the 2025 Article IV Consultation' (IMF Country Report No 25/123, 2025) para 23.
[221] 'Georgia Joins the Common Transit Convention' (*Agenda.ge*, 6 February 2025) https://agenda.ge accessed 10 April 2026.
[222] 'Meeting of the Revenue Service, Investors Council, and Financial Sector Representatives' (National Bank of Georgia, 1 May 2025) https://nbg.gov.geaccessed 10 April 2026.

10 days have been reported at the Georgia-Russia and Georgia-Azerbaijan border, affecting both Turkish importers waiting for goods and Georgian exporters awaiting raw materials.[223]

The NCTS introduced a new requirement for mandatory Georgian guarantees, effective 15 May 2025 for cargo exiting Georgia and 1 June 2025 for cargo transiting though the country.[224] The practical difficulties in implementing this requirement-Turkish transporters have complained that Georgia is forcing transporters to use local guarantee provides at exorbitant prices, creating an unfair trade barrier[225], suggest that administrative coordination remains a work In progress.

The unification of tax and customs administration in a single Revenue Service is a structural advantage. However, the NCTS transition has revealed capacity gaps that cannot be resolved by legal approximation alone. The practical benefits of unification are contingent on continuous investment in It infrastructure, staff training, and critically the capacity of private sector partners (guarantee companies) that are essential to system functioning.

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[223] 'Georgia's New Transit System - A Blessing or a Curse?' (Mondaq, 15 August 2025) https://www.mondaq.com accessed 10 April 2026.

[224] Commission Implementing Regulation (EU) 2025/411 of 3 March 2025 amending Implementing Regulation (EU) 2015/2447 as regards adding Georgia to the list of countries in the guarantor's undertakings for transit [2025] OJ L411.

[225] 'Turkish Transporters File Complaint Over Georgia's New Transit System' (Bne Intellinews, 20 August 2025) https://www.intellinews.com accessed 10 April 2026.

7.3. Institutional Capacity and Digitalisation of the Revenue Service

7.3.1. Digitalisation and the Case for Optimism

The Georgian Revenue Service has made significant progress in digitalizing tax administration. Electronic declaration has simplified bureaucracy and increased transparency. A detailed presentation on the simplifies customs procedures introducing under NCTS was delivered by Customs Department employees during a working meeting at the National Bank of Georgia, attended by representatives from commercial banks and the Bankers' Association.[226]

Particularly evident is the innovative use of new technology in modernizing current operations. The introduction of the Large Taxpayer Office in 2021 provides evidence that focused administrative reforms can produce measurable results in revenue collection and compliance.[227]

7.3.2. The NCTS Transition-Progress and Persistent Problems

Georgia's accession to the Commission Transit Convention and the NCTS represents a major step toward customs integration with the EU. This accession entered into force on February 2025, officially making Georgia a member of the Common Transit System (CTS) which currently includes 37 countries, comprising all EU member states, countries of the European Free Trade Association, as well as Turkey, Serbia, North Macedonia, Ukraine, and the United Kingdom.[228] The NCTS enables goods to be

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[226] National Bank of Georgia (n 222).
[227] Commission Implementing Regulation (EU) 2025/411 (n 224).
[228] European Commission, 'Common Transit Convention – New Member' (Taxation and Customs Union, 2025) https://ec.europa.eu/taxation_customsaccessed 10 April 2026.

transported between Convention member countries using a transit declaration processed through the system, significantly streamlining transit procedures and facilitating smoother international trade.

However, the transition has been difficult. As noted above, operational shortcomings have caused significant delays at border crossings. The EU-CTC Joint Committee had to amend Appendices III and IIIa to the Convention on a common transit procedure to accommodate Georgia's accession, with transitional provisions running until June 2026.[229] This transitional period acknowledges that full integration will take time and that interim measures are necessary.

Staff capacity is another concern. The Revenue Service employs approximately 6,000 staff, of whom a significant proportion work in customs functions. Staff changes, the appointment of a new First Deputy Head of the Customs Department occurred in December 2025,[230] indicate ongoing personnel adjustments in response to administrative demands. The introduction of mandatory life and health insurance for all Revenue Service staff and the establishment of a system of special state ranks for senior officials, including the Head of the Customs Department, suggests efforts to professionalise the service and improve retention.[231]

Georgia's accession to NCTS is a genuine achievement. However, the transition has exposed significant capacity gaps. For authorised guarantee companies are insufficient

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[229] Decision No 1/2021 (n 41).
[230] Revenue Service of Georgia, 'Personnel Changes' (Press Release, 15 December 2025) https://rs.ge accessed 10 April 2026.
[231] Revenue Service of Georgia, 'Annual Activity Report 2025' (2026) https://rs.ge accessed 10 April 2026.

to handle the volume of transit traffic. The absence of weekend and after-hours service from guarantee providers creates bottlenecks that could be avoided through better planning or a move competitive guarantee market. The transitional period until June 2026 provides a window for improvement, but without accelerated investment in private sector capacity and public-private coordination, the gap between legal alignment and functional equivalence will persist.

7.4. The Shadow Economy and VAT Compliance

7.4.1. The Scale and Persistence of the Shadow Economy

According to official statistics from the National Statistics Office of Georgia, the shadow economy, more accurately, the non-observed economy (NOE) represents 13.6 per cent of the overall economy as of the second quarter of 2025, a decrease of 0.1 percentage points compared to the same period in 2024. In 2010, the share of non-observed economy was 23.1 per cent of GDP, by 2015 it had fallen to 13.6 per cent, after which it fluctuated between 12 and 13 per cent for nearly a decade.[232]

The persistent level between 12 and 13 per cent of GDP is high by EU standards. In most EU Member States, the shadow economy is estimated between 8 and 13 per cent of GDP, with the lowest levels in Northern European countries (below 10 per cent). The fact that Georgia's shadow economy has plateaued rather than continued to decline suggests that the low-hanging fruit of formalization has been picked, and further reductions will require more structural reforms.

[232] National Statistics Office of Georgia (Geostat), 'Non-Observed Economy Estimates, Q2 2025' (Press Release, 15 October 2025) https://geostat.geaccessed 10 April 2026.

The non-observed economy is not evenly distributed across sectors. As of Q2 2025, the share of non-observed activities is highest in the “other services” sector, amounting to 72.2 per cent of that sector’s GDP. This is followed by accommodation (including hotel services and short-term rental apartments), where non-observed economy accounts for 51.6 per cent of sector turnover. In third place are health services, accounting for 19.2 per cent of GDP, including unregistered services of doctors and other medical professionals.[233]

Economist Soso Archvadze attributes the emergence of the shadow economy to several factors: bureaucratical challenges, a low tax culture, high taxes, lack of trust in state institutions, and the fact that when labour market supply exceeds demand, people agree to much lower wages just to receive salaries. The economist suggests that the probability of a complete disappearance of the shadow economy or decline to zero is low, but through social education and entrepreneur support, its share in the economy can be significantly reduced.[234]

7.4.2. VAT Evasion in Practice

VAT evasion takes multiple forms in Georgia. One common method is the use of forged tax documents to fraudulently acquire VAT refunds from the state budget. In September 2024, the Investigation Service of Georgia’s Finance Ministry charged eight individuals for frequently acquiring ₾704,714 ($253,059) from the state budget using forged tax documents. The investigation found that the offenders had produced fake monthly VAT

[233] Geostat (n 232).
[234] Soso Archvadze, quoted in ‘The Shadow Economy in Georgia Constitutes 13.6% of the Overall Economy’ (Commersant.ge, 9 October 2025) https://commersant.ge accessed 10 April 2026.

declarations between 2021-2023 on behalf of companies under their management for alleged sale of goods, then created a false VAT asset for the companies through the documentation.[235]

In December 2025, investigators uncovered an organized criminal group that defrauded the state of GEL 3,926,261 through a sophisticated scheme. The group established dozens of companies that facilitated the transposition of approximately 130,000 cubic meters of timber from Svaneti to various regions across Georgia. During these transactions, members of the group caused significant damage to the state budget by submitting false data in VAT declarations, thereby deceiving the authorities and unlawfully depriving the state of funds.[236]

The Investigation Service of Georgia has also exposed the fact of deliberate tax evasion in a particularly large amount, with criminal prosecution initiated against one person. Seven individuals have been detained for avoiding tax payment using forged documents and causing a loss of GEL 200,000 ($78,759) to the budget.[237]

The Georgian Tax Code includes a reverse charge mechanism (Article 161) that shifts the obligation to account for VAT from the supplier to the customer in certain cross-border service transactions. This reduces the risk of supplier fraud. On 27 January 2025, and amendment to the Order of the Minister of Finance N996 “On Tax

[235] Investigation Service of the Ministry of Finance of Georgia, ‘Eight Individuals Charged for Fraudulent Acquisition of VAT Refunds’ (Press Release, 15 September 2024) https://investigation.ge accessed 10 April 2026.
[236] Investigation Service of the Ministry of Finance of Georgia, ‘Organised Criminal Group Defrauded State of GEL 3.9 Million’ (Press Release, 10 December 2025) https://investigation.ge accessed 10 April 2026.
[237] Investigation Service of the Ministry of Finance of Georgia, ‘Seven Detained for Tax Evasion Using Forged Documents’ (Press Release, 5 March 2025) https://investigation.ge accessed 10 April 2026.

Administration” was published, introducing a new measure to prevent VAT evasion.[238] However, these measures are reactive rather than preventive.

While the Revenue Service has made progress in reducing informal economic activity over the past 15 years, from 23.1 per cent of GDP in 2010 to 13.6 per cent in 2025, the current level is still high and the downward trend appears to have plateaued. Reducing the shadow economy further requires not only stronger enforcement, but also simplification of compliance for SMEs, lower compliance burdens, and as Archvadze notes, social education and increasing trust in state institutions. The recent fraud cases, while demonstrating enforcement capacity, also reveals that the VAT system remains vulnerable to organised criminal exploitation.

7.5. Legal Uncertainty and Judicial Oversight

7.5.1. The Rise in Tax Disputes

Recent dispute practice indicates increased scrutiny by Georgian tax authorities, particularly in relation to expense classification, VAT deductions, and accounting documentation. According to a review of tax disputes from November 2025 to January 2026 conducted by the law firm REVERA, key trends include authorities’ focus on reclassification of expenses, the widespread use of indirect calculation methods when

[238] Order of the Minister of Finance of Georgia No. 996 ‘On Tax Administration’ (as amended 27 January 2025). For a summary of the amendment, see FCHAIN, ‘Important Update for VAT Payers in Georgia’ (28 August 2025) https://f-chain.com accessed 10 April 2026. The official text is available from the Legislative Herald of Georgia (MATSNE).

documents are not provided, the identification of unrecorded income, and VAT deduction issues.[239]

In VAT disputes specifically, the Dispute Resolution under the Ministry of Finance has required careful justification for the introduction of deductions. In one case, a company challenged an additional VAT assessment on imported clothing and the incomplete recognition of input VAT. The tax service agreed to partially reduce the additional assessment after recalculation, but the company was unable to substantiate the remaining amount. The Council emphasized that the submitted electronic invoices had already been taken into account, and no additional adjustments were required.[240]

The increase in disputes reflects both more aggressive enforcement and greater business awareness of rights. However, it also indicates legal uncertainty, business and tax authorities disagree on the interpretation of key VAT and customs provisions. This uncertainty increases compliance costs and discourages investment. The Council under the Ministry of Finance consistently refuses to cancel penalties without clear confirmation that the tax violation was not the entrepreneur's fault, placing a high burden of proof on taxpayers to demonstrate good-faith error.[241]

Requests to cancel fines under Articles 267-7 of the Tax Code require proof of the taxpayer's "good-faith error". The Council has consistently refused to cancel penalties without clear confirmation that the tax violation was not the entrepreneur's fault.

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[239] REVERA, 'Results of Tax Disputes in Georgia (November 2025 – January 2026)' (Legal Alert, 9 March 2026) https://georgia.revera.legal accessed 10 April 2026.
[240] REVERA, 'VAT Dispute: Input VAT Deduction on Imported Goods' (Case Summary, 2026) https://georgia.revera.legal accessed 10 April 2026.
[241] REVERA (n 240).

Furthermore, failure to file a complaint within the deadline results in the complaint being dismissed on procedural grounds, regardless of its merits.[242]

7.5.2. Judicial Independence- A Contested Assessment

The question of judicial independence in Georgia is contested. Transparency International warns that in Georgia "the government has failed to improve its CPI score since 2012 but continues to tout the country's performance to obscure serious attacks on democratic processes, rule of law and civil liberties."[243]

Georgia's Corruption Perceptions Index score was 50 in 2025, a decline of 3 points from the previous year, marking Georgia's lowest score since 2013.[244] The index primarily measures petty bribery and public sector vulnerability. Georgia's score indicates that petty bribery is not widespread. However, Transparency International Georgia notes that more complex forms of corruption, such as state capture and elite corruption, remain significant challenges.[245]

The WTO Trade Policy Review for Georgia notes that the legal framework is in place but implementation challenges persist, particularly regarding "shortcomings in the enforcement of intellectual property rights, lack of effective anti-trust policies, selective enforcement of economic laws, and difficulties resolving disputes.".[246] The phrase "selective enforcement" is relevant: if businesses perceive that enforcement is not

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[242] REVERA (n 240).
[243] Transparency International Georgia, 'Judicial Independence and Corruption Perceptions in Georgia' (2025) https://transparency.ge accessed 10 April 2026.
[244] Transparency International, 'Corruption Perceptions Index 2025: Georgia's Score Declines by 3 Points' (Commersant.ge, 10 February 2026) https://commersant.ge accessed 10 April 2026.
[245] Transparency International, 'Corruption Perceptions Index 2025' https://www.transparency.org/en/cpi/2025 accessed 10 April 2026.
[246] World Trade Organization, 'Trade Policy Review: Georgia' (WT/TPR/S/420) 2022.

uniform, that some firms receive favourable treatment while others are targeted, the legitimacy of the tax system may be undermined.

Georgia does not have a specialised tax court. Tax disputes are heard by general administrative courts, whose judges may lack specialised knowledge of VAT and customs law. The Tax Appeals Council of the Ministry of Finance is described by one law firm as "the most trusted institution for the taxpayers to resolve tax disputes,"[247] but the Council's decisions are not binding on lower tax authorities in the same way that court judgments are, limiting their precedential value.

The court of first instance must render its decision on a tax dispute within two months from the date of acceptance of the respective tax claim, but complex cases may require extensions.[248] This timeline is relatively efficient compared to many jurisdictions, but the absence of specialised tax judges remains a structural weakness.

For tax and customs administration, judicial independence is not merely a reputational issue, it has operational consequences. If politically connected businesses can evade taxes or customs duties without consequence, the fiscal base shrinks, and compliant businesses face unfair competition. The perception that the well-connected can avoid taxation while ordinary citizens bear the burden of indirect taxes erodes trust in the fiscal system.

Legal uncertainty is a significant implementation challenge. The rise in disputes, particularly around VAT deductions and expense classification, suggests that

[247] REVERA (n 240).
[248] Tax Code of Georgia (n 103) art 306(1).

businesses and tax authorities interpret key provisions differently. The lack of specialised tax courts means that complex VAT and customs disputes are adjudicated by generalist judges, creating a risk of inconsistent jurisprudence. This gap between formal and perceived judicial quality directly affects taxpayer willingness to comply.

7.6. Political and Geopolitical Context

7.6.1. The Freezing of EU Accession Efforts

The EU accession process for Georgia was de facto halted in June 2024, and the European Council recalled in October 2024 that the process was stopped, calling on Georgia to adopt democratic, comprehensive, and sustainable reforms.[249] The Georgian government's decision to freeze EU integration efforts until 2028 has created significant political uncertainty.[250] This uncertainty directly affects the pace and depth of technical approximation in VAT and customs. If Georgia is no longer actively pursuing EU membership, the political incentive to implement costly reforms, including further approximation of VAT and customs rules diminishes.

The DCFTA remains in force, and Georgia continues to be bound by its approximation obligations under the Association Agreement. However, the political will to allocate resources to implementation, particularly in areas requiring legislative amendments, IT upgrades, and staff training, may weaken. Even short of formal suspension, the loss of political momentum is damaging.

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[249] European Commission (n 7).
[250] GEOpolitics (n 48).

A further legal question arises that the existing literature has not fully addressed: what happens to Georgia's approximation obligations if the accession freeze becomes permanent? The short answer is that the AA and DCFTA remain legally binding regardless of the fate of EU membership talks. Article 431 of the AA provides that the agreement shall remain in force unless one party notifies the other of its intention to denounce it, subject to a six-month notice period. Georgia has not denounced the agreement. Its approximation obligations under Annex XXII (taxation) and Annex XIII (customs), including the specific directives listed therein, therefore continue to bind Georgia in international law. The EU's legal remedy for non-implementation is dispute resolution under Articles 403-409 of the AA, which can ultimately lead to suspension of trade preferences. In practice, the EU has not invoked these provisions against Georgia to date, partly because formal legislative alignment remains substantial and partly because the political cost of such escalation would be high. However, the risk is asymmetric: Georgia benefits from zero-tariff access to the EU market under the DCFTA, while the EU's leverage declines if Georgia's interest in the relationship diminishes. The consequence for VAT and customs approximation specifically is that without the political incentive of EU membership, the motivation to undertake costly reforms, including IT upgrades, specialised judicial training, and civil service depoliticisation weakens significantly, even where the legal obligation formally subsists. Formal obligation without political will produces exactly the gap between law on the books and law in action that this thesis has identified as the central implementation problem

7.6.2. Governance and Administrative Challenges

Beyond the geopolitics of EU accession, Georgia's domestic governance environment presents challenges that directly affect tax and customs implementation. The European Commission's 2024 Enlargement Report noted that Georgia had failed to meet several of the priorities required to advance in the accession process, and subsequent political developments have stalled progress.[251]

One specific area of concern is the increasing politicisation of the public administration. Parliament adopted amendments to the Law on Public Service through an expedited procedure. The amendments changed the annual evaluation system to biannual, enabling employees' termination after two consecutive "unsatisfactory" evaluations in a year instead of two years. Department heads and their deputies were moved from permanent staff to fixed-term administrative contracts, enabling their appointment without open competition.[252]

For tax and customs administration, a politicised civil service creates risks. Professional expertise may be undervalued relative to political loyalty. Qualified staff may leave if they perceive that advancement depends on political connections rather than performance. The Revenue Service's ability to retain and motivate staff already challenged by turnover could be further affected in a politicised environment.

[251] European Commission (n 7) 45–48.
[252] Transparency International Georgia, 'Political and Institutional Crisis in Georgia' (2025) https://transparency.ge accessed 10 April 2026.

7.6.3. Elite Corruption and Its Impact on Tax Enforcement

Transparency International Georgia has documented numerous alleged cases of so-called "elite corruption" involving current or former high-ranking officials, including government members, members of parliament, judges, and municipal officials.[253] These include allegations of allocation of state contracts to officials' own companies or relatives, distribution of budget funds to businesses linked to the ruling party, and obtaining construction permits through corrupt deals.[254]

The bodies responsible for investigating corruption offences have left many alleged cases of high-level corruption without an effective response. When individuals with connections to the ruling party are involved, cases often remain uninvestigated, and the public is not provided with information about the progress of investigations.[255]

For tax and customs administration, elite corruption is not merely a reputational issue, it has operational consequences. If politically connected businesses can evade taxes or customs duties without consequence, the fiscal base shrinks, and compliant businesses face unfair competition. The perception that the well-connected can avoid taxation while ordinary citizens bear the burden of indirect taxes may erode trust in the fiscal system.

7.6.4. Economic Resilience Amid Geopolitical Strain

The political and governance context is a significant external and internal factor affecting implementation. According to the IMF's 2025 Article IV Consultation, Georgia has weathered multiple shocks since the Covid-19 pandemic, supported by increased

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[253] Transparency International Georgia, 'High-Level Corruption in Georgia: 271 Alleged Cases in Six Years' (2025) https://transparency.ge accessed 10 April 2026.
[254] Transparency International Georgia (n 253).
[255] Transparency International Georgia (n 253).

tourism, transit trade, and financial inflows linked to Russia's war in Ukraine. Growth remained above trend at 7.5 per cent in 2023, driven largely by tourism, trade, construction, and financial services.[256]

However, these financial inflows linked to the war, including Russian immigration and capital transfers present their own challenges for tax and customs enforcement. The presence of significant Russian economic influence complicates Georgia's approximation to EU customs standards. Moreover, the IMF notes that financial inflows have moderated but remain above pre-war levels, and there is considerable uncertainty regarding the outlook for war-related migrant and financial inflows.[257]

7.6.5. The DCFTA's Modest Economic Impact

Between 2014 and 2023, Georgia's exports to the EU grew by only 1 per cent annually, and EU-Georgia trade turnover grew by only 4 per cent on average during the same period.[258] This suggests that formal legal alignment alone does not automatically generate increased trade flows, other factors (administrative capacity, business awareness, political stability, and governance quality) are equally important.

The political and governance context is significant factor affecting implementation. Georgia's EU accession process is stalled, political will for costly approximation reforms has diminished, and domestic governance challenges including, elite corruption politicization of the civil service, and concerns over selective enforcement create an environment where uniform application of tax and customs rules may be compromised.

[256] IMF (n 220).
[257] IMF (n 220).
[258] GEOpolitics (n 48).

The DCFTA's modest economic impact may further reduce the perceived urgency of approximation.

7.7. The Competitive Disadvantage of Georgian Exporters Under the DCFTA.

7.7.1. The Nature of the Asymmetry

As established in Chapter 4, the DCFTA eliminates customs duties (tariffs) on qualifying goods originating from the EU when imported into Georgia, and reciprocally on Georgian goods when exported to the EU.[259] However, import VAT is not affected by the DCFTA. Under Georgian law, all imports whether from the EU, China, Turkey, or any other country are subject to the standard 18% VAT upon release for free circulation.[260]

The asymmetry between Georgia and the EU operates at the level of compliance burden and effective tax rate on Georgian exports. When Georgian goods enter the EU, they are subject to import VAT at the destination Member State's standard rate, typically between 17% and 27%.[261] Moreover, Georgian exporters must register for VAT in the destination Member State (or use the Import One-Stop Shop for low-value consignments), obtain an EORI number, and comply with all customs formalities of that Member State.[262] By contrast, EU exporters to Georgia face zero customs duties under the DCFTA and the same 18% import VAT as all other trading partners, with no additional registration requirements beyond standard Georgian customs procedures.

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[259] EU–Georgia Association Agreement (n 2), art 26 and Annex II-A (tariff elimination schedules).
[260] Tax Code of Georgia (n 103) arts 166, 168.
[261] VAT Directive (n 55) art 96; actual rates vary.
[262] UCC (n 85) art 9 (EORI); VAT Directive (n 55) art 33 and IOSS scheme.

Thus, the genuine competitive disadvantage is not that Georgia loses revenue (it does not, EU imports pay full VAT), but that Georgian exporters face higher compliance costs and a higher VAT rate in the EU market than EU exporters face when selling to Georgia.

7.7.2. The Impact on Georgia's Fiscal Position

A common characterisation of a "fiscal burden" or "revenue loss" from an import VAT exemption for EU goods is incorrect. Georgia collects the full 18% import VAT on all EU-origin goods, just as it does on goods from any other country.[263] According to the IMF's 2025 Article IV report, robust VAT revenues (approximately 30% of total state budget) have been supported by strong growth and tax policy measures, not undermined by any DCFTA-related exemption.[264] The DCFTA's tariff elimination does reduce customs duty revenue on EU imports, but customs duties account for a very small fraction of Georgia's total tax revenue (less than 3% in recent years).[265]

7.7.3. Trade Diversion and Competitive Effects

The absence of an import VAT exemption means there is no VAT-driven incentive for Georgian importers to source from the EU rather than from other trading partners. All imports face the same 18% VAT. Trade diversion, if any, would be driven by tariff elimination (zero duty on EU goods) compared to MFN duties on goods from other countries, not by VAT.

The genuine competitive disadvantage for Georgian exporters is twofold. First, price disadvantage: Georgian goods entering the EU are subject to import VAT (e.g., 23% in

[263] Tax Code of Georgia (n 103) art 168.
[264] IMF (n 220) para 12.
[265] Ministry of Finance of Georgia, 'State Budget of Georgia 2024: Main Directions' (Tbilisi, 2023) 8 (customs duties as share of total revenue).

Poland, 19% in Germany, 22% in Italy) while domestically produced EU goods are not. This puts Georgian products at a price disadvantage in the EU market compared to local EU products. Second, administrative burden: Georgian exporters must register for VAT, file returns, and comply with EU customs procedures, whereas EU exporters to Georgia face only standard Georgian customs clearance.[266]

This asymmetry is commercially significant and directly affects the competitiveness of Georgian manufacturing and agriculture in the EU market.

7.8. Conclusion of Chapter 7

Six categories of implementation challenges constrain Georgia's formally aligned VAT and customs legislation:

1. Administrative coordination - the NCTS transition exposed serious operational gaps (only four authorised guarantee companies, delays exceeding ten days, absence of weekend service).
2. Institutional capacity and digitisation - full interoperability with EU systems and sufficient guarantee provider capacity remain works in progress.
3. Shadow economy - at 13.6% of GDP, the non-observed economy has plateaued; VAT evasion through forged documents and organised fraud persists.
4. Legal uncertainty - the absence of a specialised tax court and the high burden of proof for "good-faith error" increase dispute rates.

[266] European Commission, Taxation and Customs Union (n 127).

5. Political and governance context - the freeze of EU accession, politicisation of the civil service, elite corruption, and selective enforcement undermine uniform application of tax and customs rules.
6. Asymmetric compliance burden - Georgian exporters face higher EU import VAT rates and administrative requirements, while EU exporters to Georgia face zero duties and standard 18% VAT, creating a competitive disadvantage for Georgian producers.

Chapter 8: Recommendations and Conclusion

8.1. Introduction

This thesis set out to examine Georgia's approximation of its VAT and customs legislation to EU standards under the Association Agreement and the DCFTA. It posed four research questions: (1) What legal obligations has Georgia undertaken regarding VAT and customs regulation? (2) To what extent has Georgian legislation aligned with EU standards? (3) How do VAT and customs rules interact in cross-border trade? (4) What practical challenges affect implementation?

This concluding chapter summarises the findings, confirms the hypothesis, offers targeted recommendations for Georgian policymakers and EU institutions, acknowledges the limitations of the study, suggests avenues for further research, and reflects on the broader implications of legal approximation beyond formal legislative alignment.

8.2. Summary of Findings

8.2.1. Research question 1: Legal obligations Under the AA/DCFTA

Georgia's obligations are detailed and binding: Annex XXII lists seven EU tax directives (including the VAT Directive) with specific reservations; Annex XIII (customs) requires alignment with the UCC, updated by Decision No 1/2021. The Association Committee and Customs Sub-Committee supervise implementation.

8.2.2. Research Question 2: Extent of Alignment in VAT and Customs

VAT: formal alignment is high (scope, taxable persons, place of supply). Divergences remain a lower registration threshold, the qualified/non-qualified payer distinction (no EU equivalent), and no reduced digital VAT rates. Customs: valuation, warehousing, inward processing fully aligned; transit and AEO partially aligned; import duty exemptions much broader in Georgia.

8.2.3. Research Question 3: Interaction of VAT and Customs in Cross-Border Trade

The legal link (import VAT triggered by customs declaration) is fully aligned. The key asymmetry is not a VAT exemption but a compliance burden: Georgian exports face EU import VAT (17-27%) and registration requirements; EU exports to Georgia face zero duties and standard 18% VAT.

8.2.4. Research Question 4: Practical Implementation Challenges

Six challenges: (1) NCTS operational gaps, (2) plateaued shadow economy (13.6% of GDP), (3) limited institutional capacity, (4) legal uncertainty (no specialised tax court),

(5) political freeze of EU accession, (6) asymmetric compliance burden disadvantaging Georgian exporters.

8.3. Confirmation of Hypothesis

The hypothesis is confirmed: formal alignment is extensive, but functional equivalence fails because of implementation gaps, governance failures, and the DCFTA's asymmetric compliance burden, which disadvantages Georgian exporters at every border.

8.4. Recommendations

8.4.1. Short-term Recommendations

- NCTS guarantee system - Increase the number of authorised guarantee companies and require them to operate on weekends and after hours. The Revenue Service should establish a hotline for urgent transit issues.[267]
- Customs officer training - Intensify training on VAT rules for customs officers at border checkpoints to reduce classification errors and inconsistent application of exemptions.[268]
- SME compliance simplification - Introduce a voluntary compliance programme for small businesses, reducing filing frequency from monthly to quarterly for VAT payers below a certain turnover threshold.[269]

[267] Mondaq (n 223).
[268] European Commission (n 7).
[269] Tax Code of Georgia (n 103) art 165(1) (threshold).

8.4.2. Medium-term Recommendations

- Specialised tax chamber - Establish a specialised tax chamber within the administrative court system, with judges trained in VAT and customs law. The Dispute Resolution Council's decisions should be given binding precedent for lower tax authorities.[270]
- Shadow economy reduction - Target the accommodation and health sectors (where non-observed activity exceeds 50% and 19% respectively) with sector-specific compliance campaigns and incentives for electronic payments.[271]
- AEO mutual recognition - Accelerate negotiations with the EU for mutual recognition of AEO status, which would significantly reduce controls for Georgian trusted traders exporting to the EU.[272]

8.4.3. Long-term Recommendations

- Full NCTS interoperability - Replace or fully integrate ASYCUDA World with EU customs IT systems (NCTS, EORI, AES) to achieve real-time data exchange. The transitional period until June 2026 should be used as a deadline, not a delay.[273]
- Civil service depoliticisation - Reverse the 2025 amendments to the Law on Public Service, restoring merit-based evaluation and open competition for

[270] REVERA (n 240).
[271] Geostat (n 232).
[272] Customs Code of Georgia (n 149) art 25(6).
[273] *Agenda.ge* (n 221).

department heads. This is essential for retaining qualified tax and customs professionals.[274]

8.4.4. Recommendations for EU Institutions

- Technical assistance - Continue and expand support for Georgian customs IT modernisation, particularly NCTS-ASYCUDA interoperability and post-clearance audit training.[275]
- Political conditionality - Maintain the link between governance reforms (judicial independence, anti-corruption, civil service professionalism) and trade benefits. The DCFTA's unilateral advantages should be conditional on sustained implementation progress.[276]
- Reciprocal trade facilitation - Consider limited reciprocal facilitation for Georgian exports (e.g., reduced import VAT rates for Georgian agricultural products) as a goodwill measure to balance the current asymmetry.[277]

8.5. Limitations of the Study

This thesis has several limitations. First, it is purely document-based, relying on legislation, official reports, academic literature, and policy analyses. No interviews, surveys, or fieldwork were conducted. Empirical data from businesses, customs officers,

[274] Transparency International Georgia (n 253).
[275] European Commission (n 7).
[276] Transparency International Georgia (n 253); IMF (n 220).
[277] GEOpolitics (n 48).

or tax officials would enrich the analysis of practical challenges, but the document-based approach ensures methodological transparency and replicability.[278]

Second, the study covers only VAT (indirect tax) and customs procedures. Direct taxes (corporate profit tax, personal income tax) are excluded because they fall outside the DCFTA's core approximation requirements. The interaction of VAT and customs with direct taxes is not examined.

Third, enforcement practices in individual court cases are not analysed, as that would require case-level access to Georgian administrative and judicial files.

Fourth, the analysis is based on legislation and reports available up to May 2026. Subsequent legal amendments or political developments are not reflected.

8.6. Concluding Remarks

Georgia has achieved remarkable formal approximation in VAT and customs. Yet the gap between law on the books and law in action persists. NCTS failures, a stagnant shadow economy, legal uncertainty, and governance weaknesses. The DCFTA's asymmetric compliance burden puts Georgian exporters at a disadvantage. Formal approximation is necessary but not sufficient; sustained investment in administration, judicial specialisation, and governance is required. The law on the books must become the law in action.

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[278] This limitation is acknowledged in the methodology section (Chapter 1.8).

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