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GEORGIA'S TAX CODE GAMBLE WITH OFFSHORE HAVENS

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EXECUTIVE SUMMARY

The recent amendment to Georgia's tax code, known as the "offshores law," has sparked significant concern regarding the integrity of Georgia's financial system. This policy brief examines the implications of this amendment in the context of Georgia's recent political and regulatory developments, which have raised alarms about the potential risks of money laundering and sanctions evasion.

The tax code amendment incentivizes the relocation of assets from tax havens into Georgia. An analysis of the foreign direct investment dynamics from offshore jurisdictions reveals that such investments often involve high turnover and short-term financial maneuvers, rather than contributing to long-term economic growth. This mostly does not translate into sustainable development or job creation; thus, it raises concerns about the true economic rationale of attracting offshore capital into the country. Additionally, it could risk the country's reputation by potentially facilitating the inflow of dubious capital, seeking to exploit Georgia's financial system to circumvent international sanctions.

Furthermore, this policy shift in Georgia occurs within a context where global initiatives aim to combat offshore financial malpractices. In light of these concerns, this amendment to the tax code could potentially violate international standards, such as the OECD's BEPS Actions and FATF Recommendations, by creating a favorable regime for tax avoidance and undermining due diligence efforts. In summary, even if the stated intent behind Georgia's tax code amendments is to boost foreign direct investment, the associated risks and negative perceptions far outweigh the potential benefits, and this policy brief recommends abolishing the law in the best interests of the country.

INTRODUCTION

The potential harm of the recent amendment to Georgia's tax code (the so-called "offshores law") is clear, especially when considered within the context of recent events in Georgia.[1]

Over the past two years, several key developments have prompted cause for concern over the integrity of Georgia's financial system. In 2022, legislative changes, initiated and then subsequently approved by the ruling party, disrupted the balance of power within the board of the

[1] https://civil.ge/archives/600399

National Bank of Georgia (NBG) and thus risked undermining its credibility.[2,3] This alteration, made without consultation with the International Monetary Fund (IMF), led to concerns from the IMF and eventually resulted in the suspension of a Stand-By agreement, which remains unrevived.[4]

In October 2023, in response to the US Treasury sanctioning the former Prosecutor General of Georgia, Otar Partskhaladze, the acting president of NBG issued an amendment to the rules requiring Georgia's financial system to follow international sanctions.[5] This amendment further damaged the institution's reputation and raised questions about its autonomy, as it created a legal framework allowing individuals to use the Georgian financial system to shield themselves from Western sanctions unless a Georgian court finds them guilty. Notably, the reputation of the Georgian court itself is in question. In April 2023, the US State Department imposed sanctions on four Georgian judges and their family members for "abuse of public office" and "involvement in significant corruption".[6] These sanctions have eroded public trust in the judicial system, raising concerns about the potential for legal challenges to be used as a loophole for sanctions evasion.

These events have moreover created a legal and regulatory environment that could be exploited to circumvent international sanctions by individuals and entities connected to sanctioned countries, like Russia. While major Georgian banks such as BoG and TBC must comply with Western sanctions due to their international listings, the proposed amendments to the tax code that incentivize the relocation of assets from tax havens to Georgia lack credible mechanisms for monitoring and control. This increases the risk that sanctioned entities could take advantage of this opportunity.

Although the NBG is responsible for monitoring such activities (for example, it maintains a list of high-risk jurisdictions as part of an EU directive aimed at fighting money laundering and financing terrorism),[7] recent events have cast doubt on the institution's independence and its effectiveness at mitigating these risks.

When considered in this context and given the global initiatives that combat illicit money flows from offshore havens, it becomes apparent that this tax code change further damages Georgia's reputation. The change appears to reflect a recent tendency of the Georgian government to isolate itself from its Western partners, the most recent example being the so-called "foreign agents law," a law that has been unequivocally criticized by these partners.

[2] https://civil.ge/archives/549004
[3] https://www.imf.org/en/News/Articles/2023/02/17/pr2345-georgia-imf-staff-concludes-visit
[4] https://civil.ge/archives/587960; https://civil.ge/archives/552576
[5] https://civil.ge/archives/559915
[6] https://civil.ge/archives/536131
[7] https://matsne.gov.ge/ka/document/view/4862800?publication=0

BACKGROUND ON OFFSHORE FINANCIAL CENTERS AND MONEY LAUNDERING TECHNIQUES

Defined by the IMF, Offshore Financial Centers (OFCs) typically encompass: i) jurisdictions with significant financial institutions primarily engaged in business with non-residents; ii) financial systems with disproportionately large external assets and liabilities compared to domestic financial intermediation designed to finance domestic economies; and more frequently, iii) centers offering services such as low or zero taxation, light financial regulation, and banking secrecy and anonymity. Besides banking, OFCs often offer a range of services including fund management, insurance, trust business, tax planning, and International Business Corporations (IBCs) activity. While OFCs can be utilized for legitimate purposes, such as benefiting from lower taxation and simpler regulatory frameworks, they can also be exploited for tax evasion and money laundering due to their less transparent operating environments and higher levels of anonymity (Blum et al., 1999). In his 2010 paper, Sharman asserts that terms like “offshore” and “tax haven” have acquired negative connotations over the years due to their association with various financial crimes, including money laundering, corruption, terrorism financing, and tax evasion (Sharman, 2010).

Offshore centers and tax havens have historically been evaluated through various ranking methods. The Financial Stability Forum[8] has categorized jurisdictions into three groups based on their level of cooperation and adherence to international standards. The first group comprises jurisdictions generally considered cooperative with high-quality supervision, including Hong Kong SAR, Luxembourg, Singapore, and Switzerland, with others like Dublin, Guernsey, the Isle of Man, and Jersey also making efforts to improve supervision. The second group includes jurisdictions with procedures for supervision and cooperation but fall short of international standards, such as in Andorra, Bahrain, Bermuda, Gibraltar, Malta, and others. The third group consists of those jurisdictions with low quality supervision and little cooperation with onshore authorities, such as Panama, the British Virgin Islands, the Cayman Islands, the Marshall Islands, Mauritius, and others.[9]

The Financial Action Task Force (FATF), established by the G7 and other international bodies, has identified three primary methods of money laundering and of integrating it into the formal economy:[10]

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[8] In 2009, it was re-established as a Financial Stability Board with the mandate to promote financial stability.

[9] https://www.fsb.org/2000/05/pr_000526/

[10] The Financial Action Task Force (FATF) – https://www.fatf-gafi.org/en/publications/Methodsandtrends/Trade-basedmoneylaundering.html#:~:text=The%20first%20is%20through%20the,goods%20through%20the%20trade%20system.

- Use of the financial system.
- Physical movement of money (e.g., through the use of cash couriers).
- Trade-based money laundering, which involves moving goods through the trade system by misrepresenting the price, quantity, or quality of imports or exports.

As described by Unger (2017), money laundering can be divided into three phases: I) Placement – the initial stage in which illegal money is introduced into the financial system, typically through deposits, smuggling, or blending with legitimate business revenue; II) Layering – the main stage where the money is moved multiple times through various transactions to obscure its origin. This involves complex financial maneuvers, often utilizing offshore accounts to create a convoluted trail; and III) Reintegration – involves permanently placing (parking) the now laundered money into legitimate assets, such as bonds, real estate, luxury cars, jewelry, and cash-intensive businesses like restaurants, football betting offices, etc. Importantly, criminals often prefer to invest these funds in locations close to where they reside.

GLOBAL TRENDS OF REGULATING OFFSHORE FINANCE CENTERS AND EFFORTS TARGETED AGAINST MONEY LAUNDERING

Since the late 1980s, global efforts to combat money laundering have seen significant coordination through initiatives such as the Financial Action Task Force. By the mid-1990s, a range of multilateral organizations, including the Organisation of Economic Co-operation and Development (OECD) and the FATF, alongside non-governmental entities like Oxfam, began targeting offshore finance and tax havens. Through strategies like 'naming and shaming', they sought to compel small jurisdictions to adhere to international financial standards (Maurer, 2008). The OECD moreover initiated efforts to combat harmful tax competition, while the Financial Stability Forum addressed issues pertaining to financial stability.

Historically, organizations like the OECD and FATF have increasingly focused on OFCs, viewing them as potential hubs for money laundering and tax evasion, those which hinder anti-corruption efforts (IMF, 2000). Recent years have seen a surge in initiatives intending to regulate offshore financial centers due to concerns over lax financial regulations, tax evasion, and financial crimes. As Unger (2017) notes, the Panama Papers and subsequent disclosures have highlighted the significant connection between money laundering and tax evasion. The author contends that Europe must develop a unique approach to ensure compliance among its member states. This entails prioritizing transparency in bank registers, disclosing beneficial ownership[11] and tax accounts, and enhancing criminal investigations.

[11] A beneficial owner is an individual who ultimately owns company shares or assets and has the authority to control and make decisions regarding the company's activities.

Furthermore, the OECD, in collaboration with the G20, launched the Base Erosion and Profit Shifting (BEPS) project in 2013. BEPS refers to corporate tax planning strategies employed by multinational companies to relocate profits from high-tax countries to low-tax or no-tax jurisdictions where there is minimal economic activity. This practice reduces the tax base of high-tax countries by utilizing deductible payments like interest or royalties. The BEPS Action Plan includes 15 actions designed to address gaps and mismatches within international tax rules (OECD, 2013). The implementation of BEPS measures has been coordinated through the Inclusive Framework on BEPS, which includes over 135 countries and jurisdictions working together to implement these measures. Notably, the BEPS project has led to significant changes in international tax rules, thereby enhancing cooperation among tax authorities and improving transparency to combat tax avoidance more effectively (OECD, 2020).

Significantly, in 2021, under the framework of the BEPS project, the OECD proposed the Global Minimum Tax (GMT) policy, which enforces a minimum effective tax rate of 15% on the profits of multinational corporations. This initiative aims to eliminate the advantages of hiding profits within tax havens and to discourage countries from acting as tax shelters for large corporations. The GMT is set to be implemented during phases that begin in 2024. As of now, over 140 countries globally have joined the GMT deal (World Economic Forum, 2024).[12]

The European Union has also undertaken steps to combat tax evasion and avoidance, and it has maintained a list of non-cooperative jurisdictions for tax purposes since 2016. This list, comprising countries that fail to meet tax governance criteria, aims to deter unfair tax practices. As of February 2024, this includes 12 countries, namely Panama, Russia, Antigua and Barbuda, American Samoa, Fiji, Guam, Samoa, Trinidad and Tobago, the US Virgin Islands, Anguilla, Vanuatu, and Palau.[13]

According to a 2021 analysis by Transparency International (TI) Georgia, the EU and the United States have recently increased the standards for offshore companies operating within their jurisdictions; focusing primarily on mandatory disclosure requirements for beneficial owners. The same analysis further highlights the fact that in 2020 the European Commission recommended that member states exclude companies with links to tax havens from receiving funds from government programs supporting businesses impacted by the pandemic.[14] Before this recommendation, France, Poland, Belgium, and Denmark had also restricted pandemic relief funding[15] for companies operating in those jurisdictions that the EU considers uncooperative for tax purposes (Transparency International Georgia, 2021a).

[12] https://www.weforum.org
[13] https://taxation-customs.ec.europa.eu/common-eu-list-third-country-jurisdictions-tax-purposes_en
[14] https://taxation-customs.ec.europa.eu/news/council-revises-its-eu-list-non-cooperative-jurisdictions-2020-02-18_en
[15] https://www.cnbc.com/2020/05/19/coronavirus-eu-countries-deny-bailouts-to-firms-linked-to-tax-havens.html

In response to global trends, certain offshore jurisdictions have adapted their regulatory frameworks. Vas (2024) describes recent key developments in the British Virgin Islands (BVI) and the Cayman Islands in this regard. For instance, recent regulatory changes within these jurisdictions reflect a commitment to aligning with international standards and enhancing transparency in offshore financial activities. In 2023, significant amendments to the BVI Business Companies Act of 2004 came into effect. These changes include the elimination of bearer shares, public access to directors' names, the establishment of a framework for a public register of beneficial ownership, and a requirement for most BVI companies to file annual financial returns. These reforms contributed to the BVI being removed from the EU's list of non-cooperative jurisdictions for tax purposes on 17 October 2023. Similarly, on 27 October 2023, the Cayman Islands were removed from the FATF Grey List, following substantial compliance with action plans that enforce sanctions and prosecute money laundering. This also led to the Cayman Islands being removed from the EU AML List on 7 February 2024, as well as their prior removal from the UK's high-risk third countries list for anti-money laundering purposes on 5 December 2023. Looking ahead, as mentioned in Vas (2024), the regulatory environment in both the BVI and the Cayman Islands is expected to continue evolving, in which they maintain their reputations as robust and flexible jurisdictions central to global financial transactions.

ATTRACTING HIGH-RISK CAPITAL IN GEORGIA: INCREASED RISK OF MONEY LAUNDERING?

In light of increasing international efforts to tackle tax havens, the Georgian Parliament unexpectedly passed amendments to the tax code on 19 April 2024, using an expedited procedure.[16] These changes are designed to facilitate the influx of offshore capital into Georgia, consequently they raise concerns about potentially encouraging a flow of illicit funds into the country.

Georgia already has established links with offshore jurisdictions. A study conducted by Transparency International Georgia identified that there are around 3,200 companies in Georgia that are fully or partially owned by offshore entities. These include major businesses like Tbilisi Energy, IDS Borjomi, Batumi International Container Terminal, Rustavi Auto Market, and Poti Grain Terminal among others.

Notably, Bidzina Ivanishvili, the Honorary Chairman of the Georgian Dream party, appears in the Panama Papers leaks. According to the ICIJ, Bidzina Ivanishvili established 12 companies in the British Virgin Islands between 1998 and 2016.[17] One of these entities, Brighton Corporate Ltd.,

[16] Draft Law "On Amendments to the Tax Code of Georgia," Parliament of Georgia, No. 54, third reading. Retrieved from https://parliament.ge/legislation/28386.

[17] https://projects.icij.org/investigations/pandora-papers/power-players/en/player/bidzina-ivanishvili

was established to finance certain projects of the Georgia Co-Investment Fund via debt equity. Additionally, offshore companies, reportedly affiliated with Bidzina Ivanishvili, own 26 Georgian companies that, in turn, own other companies in Georgia. Resultingly, the 12 offshore entities mentioned directly or indirectly own 70 companies in Georgia (Transparency International Georgia, 2021b). As per the TI Georgia report, while completely banning offshore capital is hardly justifiable and uncommon globally, it is generally unacceptable in developed political cultures for politicians to have direct or indirect ties to offshore companies (Transparency International Georgia, 2021a).

In 2016, Georgia participated in the world's first Anti-Corruption Summit in London, coinciding with the leak of the Panama Papers. Although some participant countries pledged to maintain registers of the real beneficiaries of offshore companies, others, including Georgia, committed to exploring the feasibility of creating a central public register of beneficial ownership.[18] Notably, on 30 October 2019, the Georgian Parliament adopted its Law on Facilitating the Prevention of Money Laundering and the Financing of Terrorism, [19] which aligns with the FATF Recommendations. The adoption of this law was assessed as a positive development, as it introduces the concept of a beneficial owner, and it requires financial institutions to assess suspicious clients and to collect information about their beneficial owners. The law also sets a precondition for processing this information and publishing it in the form of an open register. However, the Georgian government has not yet taken any concrete actions on its commitment (Transparency International Georgia (2021b). For the purposes of this law, the National Bank of Georgia also defines a list of high-risk jurisdictions, one that also includes some offshore territories, such as Panama, Seychelles, the Cayman Islands, and others.[20]

Considering international standards in the fight against money laundering, Georgia has committed to strengthen its legislative framework. This is one of the key priorities in the 2023-2026 National Strategy of Georgia on the prevention, detection, and suppression of money laundering, financing of terrorism, and financing of the proliferation of weapons of mass destruction.[21] The strategy aims to further align the country's legislation with international standards, particularly FATF Recommendations, relevant EU directives, and other applicable international standards.[22] In light of these efforts, it is puzzling why the Georgian government is motivated to attract funds from offshore jurisdictions with potentially dubious origins, where the risk of money laundering is

[18]Anti-Corruption Summit: Country Statements. https://www.gov.uk/government/publications/anti-corruption-summit-country-statements

[19] https://matsne.gov.ge/ka/document/view/4690334?publication=11

[20] https://matsne.gov.ge/ka/document/view/4862800?publication=0

[21] National Security Council of Georgia. National Strategies in Security Field.

[22] This involves aligning Georgian legislation with European Parliament and Council regulations, such as Regulation N648/2012, Directive 2005/60/EC, Commission Directive 2006/70/EC, and Directive 2015/849 (as amended by Directive 2018/843). The latter directive includes provisions related to identifying beneficial ownership of legal entities and imposes obligations on the EU member states to ensure that beneficial ownership information is stored in a central register. See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015L0849

significantly high, instead of focusing on securing transparent investments and offering the respective tax-benefits to more reputable countries.

NAVIGATING OFFSHORE INVESTMENTS: IMPLICATIONS FOR GEORGIA'S ECONOMIC LANDSCAPE

The proposed bill appears to indirectly target increasing offshore money investments in Georgia, since it provides several tax concessions for the transfer of ownership rights to assets of foreign enterprises registered in offshore jurisdictions to Georgian enterprises. Specifically, these transfer operations will be exempt from profit tax, personal income tax, property tax, and import duties on assets and goods brought into Georgia. Notably, these Georgian enterprises will be exempt from property tax until 1 January 2030 for the assets received as part of this operation. However, there are concerns and doubts about whether the imported capital will be invested into the real economy or if Georgia will simply act as a conduit, channeling offshore funds into other countries, such as Russia.

Foreign Direct Investments (FDI) are usually considered to be crucial for economic development, technological transfer, and infrastructural improvement. However, FDIs frequently include shell companies utilized for tax avoidance and other purposes. It is estimated that 30-50 percent of global Foreign Direct Investments (FDI) involve networks of offshore shell companies established by corporations and individuals for tax-related and other reasons (Haberly & Wójcik, 2015). Surprisingly, major hubs in this network are not solely small tropical islands but include European countries like the Netherlands, Luxembourg, Switzerland, and Belgium, with the first two routing the most of this offshore FDI. Additionally, British Overseas Territories and Crown Dependencies, such as the Cayman Islands, the British Virgin Islands, Bermuda, and Jersey, are also significant players.[23]

Significantly, much of the “offshore FDI” is actually domestic companies engaging in “round-tripping,” where they shift the ownership of their local operations to offshore holding companies.[24] Regarding this issue, Transparency International Georgia references the former Minister of Finance, Ivane Machavariani, who remarked on trends in foreign direct investment; he stated that, according to various estimates, approximately 60-70% of the FDIs entering Georgia over different years were essentially Georgian investments. These funds were transferred abroad and then returned to the country through various foreign or offshore jurisdictions.[25] Due to the practice of round-tripping, countries often struggle to determine if they are genuinely attracting substantial

[23] https://offshoreatlas.publicdatalab.org/

[24] Ibid.

[25] https://bit.ly/3sCajvn cited in Transparency International Georgia (2021a). *Offshore companies in Georgia: Business interests and corruption risks.*

foreign investment or merely losing tax revenue from domestic wealth. As Sharman (2010) states, India, South Africa, and Indonesia have clearly expressed their views in past years by restricting or terminating tax treaties with various tax havens, while they argue that these treaties promote domestic tax evasion more than they encourage genuine foreign direct investment.

The amendment to the Tax Code of Georgia specifies target countries for tax benefits, focusing on those with preferential taxation systems. The Ministry of Finance is likely to follow the established list of countries with preferential taxation, set under Resolution N615 of the Government of Georgia, issued in 2016.[26] This list includes well-known offshore jurisdictions such as Panama, the British Virgin Islands, Cyprus, the Marshall Islands, and other similar offshore territories. Additionally, it features regions like Hong Kong SAR and Luxembourg. The latter two locations are categorized by the Financial Stability Forum as Group I countries, recognized for having robust legal infrastructures and comprehensive supervisory practices.[27] For our analysis, which also aims to study recent trends in offshore FDI, we focus primarily on offshore jurisdictions characterized by low levels of cooperation and low-quality supervisory practices in comparison to other offshore financial centers.[28]

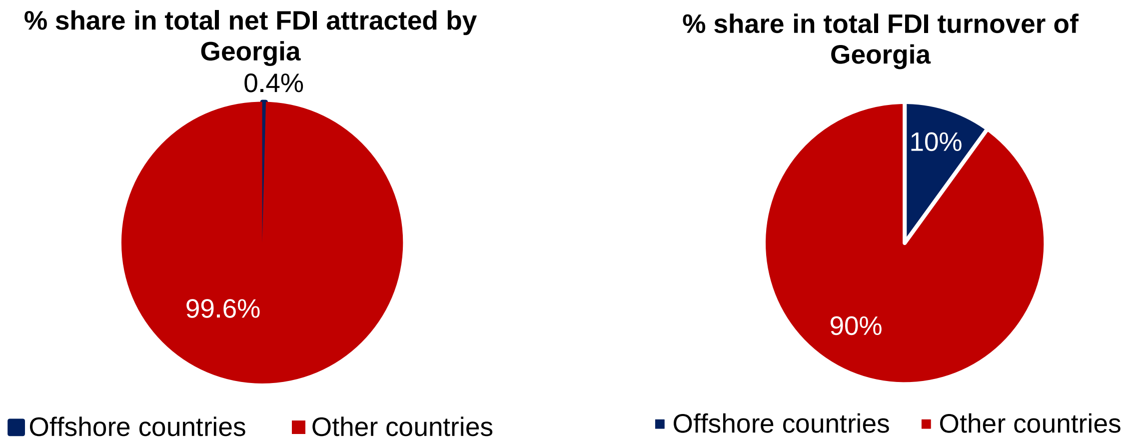
We analyzed the net FDI attracted by Georgia from offshore jurisdictions from 2012-2023 and compared it to the FDI turnover from these countries. This analysis helped determine whether these offshore investments are merely used for asset rotation without a long-term impact. As Chart 1 depicts, the share of the net FDI from offshore countries accounts for only 0.4% of the total net FDI attracted by Georgia in 2012-2023. In contrast, the FDI turnover from these countries amounted to 10% in the same period, potentially suggesting that these investments are indeed transient or used for short-term financial maneuvers rather than contributing to economic growth.

[26] https://matsne.gov.ge/ka/document/view/3523434?publication=0

[27] https://www.fsb.org/2000/05/pr_000526/

[28] The following countries are included in the analysis: Cyprus, the Bahamas, Belize, the British Virgin Island, the Cayman Islands, Lebanon, Liechtenstein, Mauritius, the Marshall Islands, Panama, Philippines, Saint Kitts and Nevis, and Seychelles.

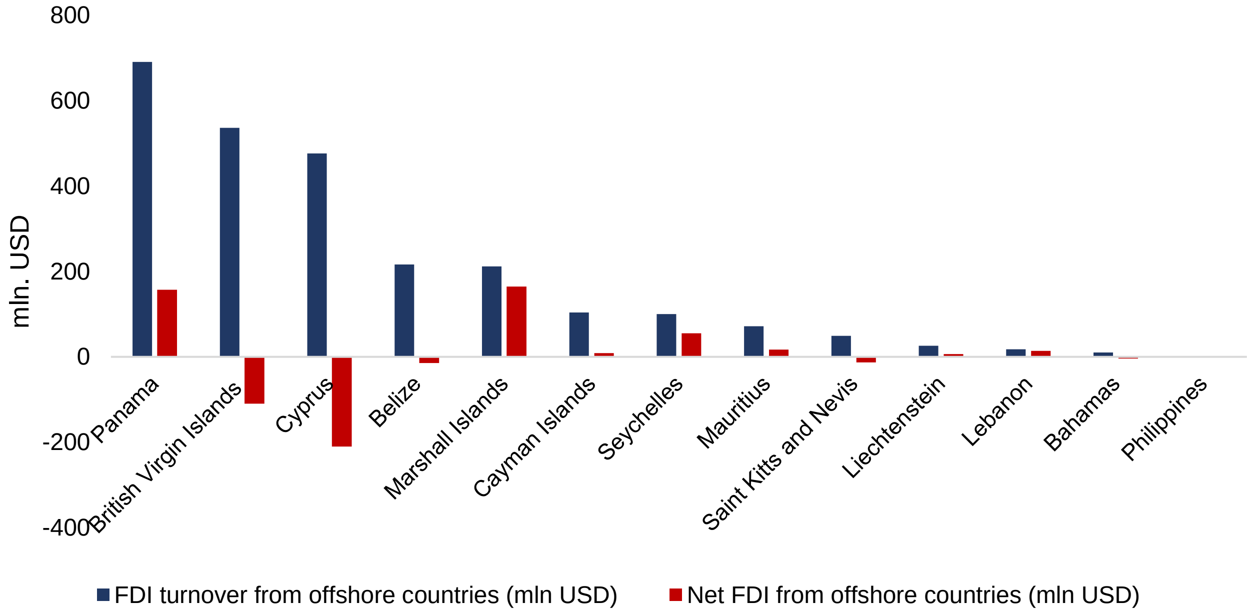
__Chart 1.__ Distribution of total FDI turnover and net FDI attracted by Georgia in 2012-2023, by country groups (% share)



Source: Authors' calculations based on Geostat data

Disaggregating the FDI turnover and net FDI attracted by Georgia from offshore jurisdictions by countries shows that certain jurisdictions, like Cyprus and the British Virgin Islands, are associated with substantial outflows of FDI from 2012-2023 and a high turnover in the same period (Chart 2). Others, like the Marshall Islands and Panama, show significant FDI inflows into Georgia, with Panama also characterized by a significantly high FDI turnover, implying varying investment behaviors.

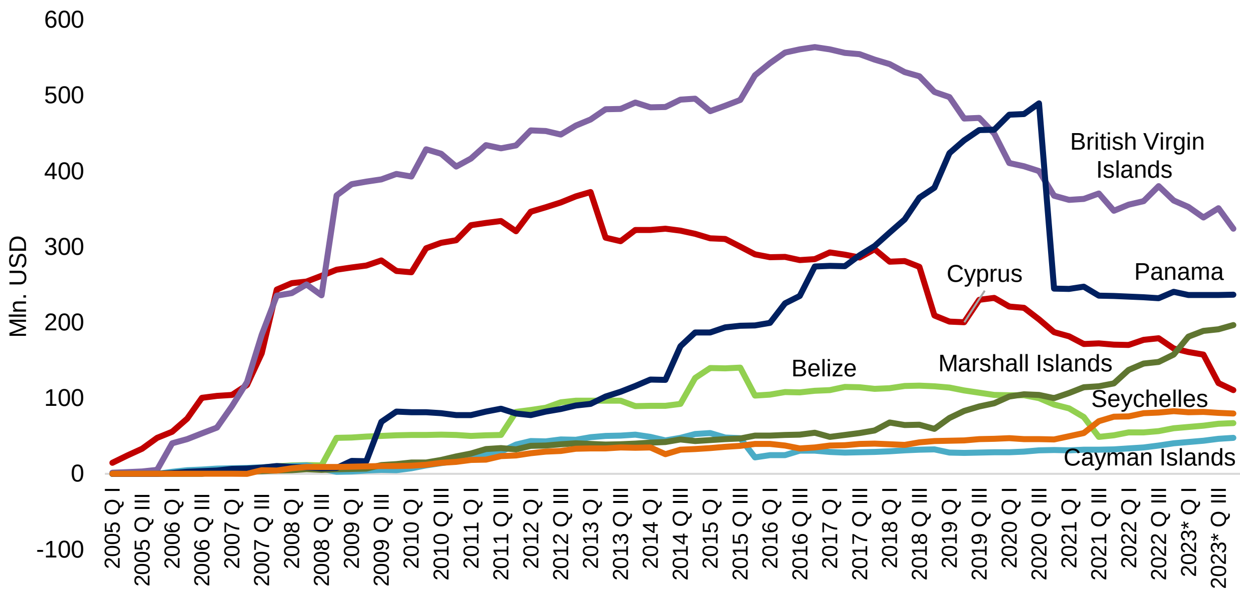
Chart 2. *Distribution of FDI turnover and net FDI attracted by Georgia from offshore jurisdictions in 2012-2023, by countries*



Source: Authors' calculations based on Geostat data

As Chart 3 illustrates, the British Virgin Islands, Cyprus, and Panama experienced significant growth in FDI stock over time, followed by heavy declines in recent years. In contrast, the Marshall Islands, Seychelles, and the Cayman Islands displayed consistent growth in FDI stock, although their investment activities remained relatively negligible in monetary terms.

Chart 3. *FDI stock in Georgia by offshore jurisdictions (base year = 2014)*



Source: Authors' calculations based on Geostat data

As Chapman (2007) claims, investments originating offshore, unlike standard FDIs that are typically perceived as long-term investments in the real economy, come with their own set of consequences. These investments are tax-free, providing them with a significant cost advantage over domestic firms. As the author suggests, employment generation is unlikely, and if it does occur, it is often on an uneven playing field. Moreover, unlike traditional FDI, much of the investment from OFCs is in the form of portfolio flows rather than direct capital investment in new or existing ventures. In the case of the United Kingdom, this influx of funds was mentioned as it primarily inflates already heated markets, including equities and real estate, without significant improvements in the country's capital stock (Chapman, 2007).

Considering the aforementioned uncertainties, if the objective of the recent amendments to Georgia's Tax Code is to draw capital and spur investment, it would be reasonable to introduce minimum investment requirements in the legislation for qualifying companies, similar to the conditions set forth in the FDI grant program administered by Enterprise Georgia – such as minimum investment amounts and the number of jobs created. However, as described above, offshore jurisdictions employ varying investment behaviors when engaging with Georgia's economy. The high FDI turnover rates from offshore countries suggest that investments are often short-term and possibly speculative, rather than aimed at long-term economic development. Introducing minimal investment requirements would not be effective in mitigating the associated reputational risks for the host economy, as these funds can be perceived as conduits for tax evasion, money laundering, or other illicit activities. This negative perception could harm

Georgia’s international standing and tarnish its reputation as a country committed to combating money laundering and maintaining financial transparency. Tax exemptions that concern moving capital from offshores into Georgia potentially violate several international standards and guidelines, namely:

- OECD’s Base Erosion and Profit Shifting (BEPS) Actions,[29] specifically regarding Action 5: Countering Harmful Tax Practices More Effectively. This action aims to ensure that preferential tax regimes are not used for profit shifting. Removing taxes on assets moved from offshore jurisdictions could be seen as creating a preferential regime that facilitates tax avoidance.

- Financial Action Task Force (FATF) Recommendations,[30] specifically number 10: Customer Due Diligence. This requires financial institutions to perform due diligence and monitor transactions to prevent money laundering. Eliminating taxes on asset transfers from offshore jurisdictions might undermine due diligence efforts by creating incentives for transferring potentially illicit funds. Furthermore, it could also concern Recommendation 24: Transparency and Beneficial Ownership of Legal Persons – which aims to prevent the misuse of legal persons for money laundering or terrorist financing. Allowing tax-free transfers from those offshore entities without proper transparency could violate this standard.

Recent developments and changes in the legislative framework create regulatory uncertainty in the country that could, in turn, deter legitimate investors. Clean investors typically prefer jurisdictions with clear, consistent, and transparent tax policies. Frequent changes or special exemptions can undermine confidence in a regulatory framework. Additionally, investors involved in legitimate business activities, merely by association with a jurisdiction perceived as less stringent with financial transparency, might face increased scrutiny and due diligence requirements from their home countries or from international financial institutions.

Furthermore, countries with strict anti-money laundering and tax evasion policies may view Georgia’s law as a loophole or haven for illicit financial activities. This perception could lead to strained diplomatic relations and potential sanctions or penalties from international regulatory bodies. The law might also deter reputable investors who prioritize stable and transparent business environments. If Georgia becomes known for attracting risky or illicit capital, reputable investors might seek safer, more transparent markets to avoid reputational risks and compliance issues (International Monetary Fund, 2023). Thus, addressing the deeper issues of regulatory quality and international cooperation becomes imperative for Georgia’s long-term economic health.

[29] https://www.oecd.org/tax/beps/beps-actions/

[30] https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf

CONCLUSION

The recent amendment to Georgia's tax code, also known as the "offshores law," raises significant concerns about allowing sanctioned entities to exploit a favorable legal environment in Georgia when viewed within the broader framework of recent legislative and regulatory developments in the country. These changes, ostensibly designed to attract offshore capital, pose a threat to Georgia's financial integrity and its international reputation.

Globally, offshore financial centers and tax havens have come under intense scrutiny due to their association with financial crimes, such as money laundering and tax evasion. International bodies like the Financial Action Task Force and the OECD have spearheaded efforts to tighten regulations around these jurisdictions, intending to enhance transparency and combat illicit financial activities. The OECD's Base Erosion and Profit Shifting project and the proposed Global Minimum Tax policy represent significant strides toward curbing the advantages of hiding profits in tax havens. These initiatives underscore the global consensus on the need for stringent regulatory standards and transparency.

In contrast, Georgia's recent legislative changes seem to contradict these global efforts. By providing extensive tax exemptions for assets transferred from offshore jurisdictions, the Georgian government risks undermining international standards such as the OECD's BEPS Actions and FATF Recommendations.

Moreover, Georgia's decision to attract high-risk capital from offshore jurisdictions could have negative effects on its economic landscape and reputation. Historical data indicates that investments from offshore jurisdictions often involve high turnover and may not contribute to long-term economic development. The perception of Georgia as a hub for potentially illicit financial activities could deter legitimate investors and strain diplomatic relations with those countries enforcing stringent anti-money laundering and tax evasion policies.

In conclusion, while the intent behind Georgia's tax code amendments might be to boost foreign direct investment, the associated risks and negative perceptions far outweigh the potential benefits. For sustainable economic growth, Georgia should focus on attracting transparent investments from reputable sources, while aligning its legislative framework with international standards, and strengthening its regulatory institutions to restore credibility and maintain financial integrity.

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