

Business Case Analysis and New Regulatory Developments

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Opening & Research Relevance

The focus of my presentation is lawful tax optimization mechanisms in Georgia, examined through business case analysis and in the context of emerging regulatory developments planned for 2026.

The relevance of this topic arises from the increasing tension between formal tax compliance requirements and actual business behavior, particularly under conditions of rapid digitalization and risk-based tax administration. While Georgia is often characterized by relatively low tax rates and simplified tax structures, empirical business practice suggests that many firms—especially small and medium-sized enterprises—continue to face elevated effective tax burdens and compliance risks.

This paradox raises an important research question: why do legally available tax optimization instruments remain underutilized, and how do regulatory changes shape business behavior beyond formal compliance?

The study is situated within the broader context of Georgia's ongoing transition toward digital tax governance and anticipates the behavioral and institutional implications of the regulatory reforms planned for 2026.

Theoretical Framework

From a theoretical perspective, the research builds on the distinction between lawful tax optimization and tax evasion or aggressive tax avoidance. Lawful tax optimization refers to the strategic and legally permissible structuring of economic activities in a manner that minimizes tax liabilities without violating statutory requirements.

Contemporary tax theory increasingly emphasizes that tax optimization cannot be understood solely as a technical accounting exercise. Instead, it represents a strategic interaction between tax law, accounting standards, and business decision-making, particularly in environments characterized by digitalized tax administration and automated risk assessment.

Two conceptual lenses are especially relevant to this study.

First, the principle of economic substance, which requires that tax outcomes reflect genuine economic activity rather than purely formal legal arrangements. Under digitalized tax systems, this principle gains practical importance, as algorithmic risk profiling increasingly evaluates consistency between transactions, documentation, and business logic.

Second, insights from institutional and behavioral economics suggest that tax-related decisions are shaped not only by cost–benefit considerations but also by risk perception, regulatory uncertainty, and compliance culture. For small and medium-sized enterprises, risk

aversion often plays a decisive role, leading to conservative tax behavior even when lawful optimization instruments are available.

This theoretical framework positions lawful tax optimization as a behavioral and institutional response to regulatory signals, rather than as an isolated financial technique.

Research Design and Methodology

Methodologically, the study adopts a mixed-methods research design, combining quantitative and qualitative approaches to capture both structural patterns and contextual dynamics.

Quantitative data were collected through structured questionnaires, allowing assessment of tax burden composition, applied optimization mechanisms, and perceived compliance risks. Qualitative data were obtained through in-depth interviews with accountants and financial managers, providing insight into decision-making processes, documentation practices, and regulatory interpretation.

The empirical focus is on 20–25 business entities operating in Tbilisi and the Kakheti region, with particular emphasis on the construction sector. This sector was selected due to its relatively high tax exposure, capital intensity, and complex documentation requirements.

The regional comparison allows examination of how institutional capacity and access to professional expertise influence tax optimization behavior. A temporal dimension was incorporated to capture both current practices and anticipated adaptations to the 2026 regulatory reforms.

While the sample size limits statistical generalization, the research aims to identify analytically meaningful patterns rather than universal regularities.

Empirical Findings

The empirical findings reveal pronounced differences in lawful tax optimization capacity across regions and firm sizes.

Firms operating in Tbilisi generally demonstrate higher levels of optimization efficiency. These firms benefit from structured accounting systems, formalized accounting policies, and access to professional advisory services. As a result, tax optimization is applied in a systematic and proactive manner.

By contrast, small and medium-sized enterprises in Kakheti rely primarily on basic optimization instruments and often apply them reactively. Limited documentation practices and lower digital competencies constrain their ability to translate legal opportunities into effective tax outcomes.

Case study evidence indicates that medium-sized firms with integrated tax planning frameworks achieve tax burden reductions of approximately 12–15 percent, while small enterprises operating without coherent documentation structures typically achieve reductions of 5–8 percent.

Importantly, the findings suggest that institutional capacity is a more significant determinant of tax optimization outcomes than statutory tax rates or formal eligibility for incentives.

Regulatory Implications: The 2026 Framework

The regulatory reforms planned for 2026 represent a qualitative shift toward intensified digital oversight, real-time data analysis, and preventive compliance mechanisms.

From a behavioral perspective, these reforms are likely to amplify existing disparities. Firms with structured tax planning systems are better positioned to adapt, while SMEs operating under fragmented accounting arrangements face increased compliance pressure.

The transition from ex post verification to preventive, documentation-driven compliance reinforces the importance of economic substance and internal control mechanisms. Under such conditions, lawful tax optimization increasingly depends on behavioral adaptation rather than purely technical compliance.

Without adequate interpretative guidance and proportional administrative practices, there is a risk that intensified regulation may discourage lawful optimization by increasing perceived compliance risks, particularly among SMEs.

Research Contribution and Doctoral Perspective

The primary contribution of this research lies in its conceptualization of lawful tax optimization as a strategic, behavioral, and institutional phenomenon, rather than a narrowly defined fiscal instrument.

Empirically, the study provides evidence that underutilization of lawful optimization among SMEs reflects rational adaptation to regulatory uncertainty rather than lack of awareness. The findings contribute to the literature on tax planning in emerging economies by linking digital tax governance to business behavior and sustainability.

From a doctoral perspective, this research constitutes the analytical core of a broader dissertation project. Future research will expand sectoral coverage, incorporate longitudinal analysis following the implementation of the 2026 reforms, and further examine policy instruments aimed at strengthening SME tax governance.

Conclusion

In conclusion, lawful tax optimization in Georgia should be understood not merely as a means of reducing tax liabilities, but as a mechanism of institutional adaptation under evolving regulatory conditions.

The findings suggest that effective tax optimization supports business sustainability only when embedded within coherent accounting frameworks, documentation practices, and strategic financial governance.

Thank you for your attention. I welcome your questions and comments.

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