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THE IMPACT OF TAXATION ON THE FINANCIAL SUSTAINABILITY OF THE SMALL BUSINESS SECTOR: AN EMPIRICAL ANALYSIS OF THE GEORGIAN EXPERIENCE

ABSTRACT

Contemporary economic trends have underscored the critical role of small businesses, whose development is considered essential to a country's overall economic progress. Reflecting this recognition, the Government of Georgia has directed its economic policy toward fostering a favorable entrepreneurial and investment environment for the private sector, with particular emphasis on small enterprises. Small businesses serve as a central pillar of the nation's industrial policy, which seeks to accelerate the redistribution of resources from the public to the private sector. This, in turn, is intended to generate sufficient employment opportunities and contribute to the overarching goal of sustainable development, specifically "overcoming the level of poverty".

The purpose of this study is to determine the impact of the newly introduced preferential income tax regime on the financial sustainability of the small business sector in Georgia.

This article discusses the mechanisms of small business taxation in Georgia within the context of the newly introduced special tax regime. It evaluates the dynamics of the tax burden on small enterprises and assesses its implications for their financial stability.

The scientific novelty of the paper lies in the fact that, for the first time in Georgia, an empirical assessment has been conducted of the impact of the tax burden on the financial indicators of small businesses. New empirical results have been obtained regarding the interrelationship between the tax burden on small businesses and their turnover indicator in Georgia, enabling an evaluation of the effectiveness of tax regulation. The main trends in the influence of tax policy on small business activities have been substantiated, pointing toward improvements in the tax environment. The research findings can be applied in the process of refining tax policy and promoting small business development.

Keywords: small business, small business taxation, preferential special taxation regime, tax burden, financial indicators, efficiency of tax regulation, tax policy

JEL Classification: H25, L26

INTRODUCTION

In the conditions of the modern market economy, the role of the small business sector in ensuring a country's stable and dynamic development is considerable. Its growth contributes directly to higher employment rates (according to recent statistical data in Georgia, 33% of employees in the private sector are engaged in small businesses, placing them on par with medium and large enterprises in this respect), the promotion of innovation, and the diversification of the local economy. Moreover, small businesses are widely recognized as one of the most effective means of enhancing competitiveness in global markets and fostering economic well-being.

Tax policy in the country can serve either as a catalyst or as an obstacle to the development of the small business sector. This makes the detailed analysis and phased monitoring of each fiscal reform essential. Small entrepreneurs typically face limited access to financial resources, which leaves them particularly vulnerable to bureaucratic barriers, heavy tax burdens, and unpredictable legislative changes. Across the globe, debates

and evaluations are ongoing regarding the effectiveness of tax environments for small enterprises. Yet, deeper analysis is required to establish the precise relationship between tax policy design and the financial condition of small businesses.

It concludes with final remarks and a list of references. The paper examines the effects and trends of the preferential income tax regime introduced in Georgia in 2018, with particular emphasis on its implications for the financial sustainability of small businesses.

LITERATURE REVIEW

The issue of tax policy in Georgia, and more specifically the preferential taxation regime introduced for small businesses, has drawn the attention of numerous researchers both domestically and abroad.

The paper relies on the works of Georgian and international scholars, economists, and researchers, as well as periodicals and electronic resources from international organizations and Georgian government institutions, including the "Organization for Economic Co-operation and Development (OECD)", the "Asian Development Bank (ADB)", the "Revenue Service of the Ministry of Finance of Georgia" and the "National Statistics Office of Georgia".

According to Georgian tax legislation, an individual qualifies for small business status if their total annual income from entrepreneurial activity falls within the range of GEL 30,000 to 500,000 (Georgian Revenue Service, 2024). "The taxable income of an individual with small business status is taxed at the rate of 1%". Although Article 91 of the Georgian Tax Code defines the principles of accounting for small business income and expenses, in practice, the determination of the correct taxable base often proves problematic. This frequently leads to disputes between taxpayers and the tax authorities (Revenue Service Information and Methodological Hub, 2023).

A joint research study by Georgian economist Ioseb Masurashvili and Professor Günter Hofbauer of Ingolstadt Technical University in Germany (Masurashvili & Hofbauer, 2020, pp. 1-32) highlights the importance of the economic environment for small business growth. Their primary research method is comparative analysis, using Georgia and Germany as case studies. Their findings suggest that while the economic environment in Georgia presents significant challenges for small entrepreneurs, it is, at the same time, enriched with numerous supportive mechanisms. As a recommendation, the authors emphasize that the German economic environment and business support mechanisms could serve as a very good example for Georgia.

In recent years, tax policy in Georgia has been constantly changing and improving. Various preferential tax regimes have emerged, aimed at small and medium-sized businesses, the export sector, and other enterprises. However, the abundance of special regimes raises concerns that too many tax incentives may negatively affect the general principles of tax equality and tax efficiency (International Labour Organization, 2021, p. 2).

Numerous scholarly studies have highlighted the impact of taxation on the financial sustainability of the small business sector (Celestin et al., 2025, pp. 16-25). This work examines the influence of tax policy on the growth of small businesses and entrepreneurship, evaluating the extent to which lower tax rates encourage the formation of small enterprises and startups, and assessing their effects on business sustainability. By employing a mixed-methods approach, the study analyzed quantitative data from tax records and national business registration databases for the period 2020–2024. According to the authors' conclusions, the findings reveal a strong negative correlation (-0.98) between tax rates and entrepreneurial activity.

Miriam Bruhn and Jan Loeprick, in their study (Bruhn & Loeprick, 2016, pp. 834-853), investigated the preferential taxation regimes introduced in 2010 for micro and small businesses in Georgia and their impact on registration rates and profitability. Their analysis relied primarily on regression techniques using business registration and income data. The study found that the number of micro-businesses increased by 27–41% in the first year alone; however, this growth was not sustained in subsequent years. The authors therefore concluded that the reform may have generated only a temporary positive effect.

The authors (Kozupatryi, Kovach, & Bezverkhyy, 2012, pp. 183-194) in their research article analyze the taxation system for individual entrepreneurs in Ukraine, including general and simplified tax regimes, and conclude that the simplified taxation system plays a significant role in supporting small entrepreneurs.

Regarding the issue of simplified taxation systems for small entrepreneurs, the research article (Krysovatty et al., 2025, pp. 47-62) is particularly noteworthy. Based on their findings, the authors conclude that a simplified taxation system reduces administrative burden and contributes to the development of small businesses.

Drawing from their research results, the authors (Nazarova, Bezverkhyi, Nezhyva, & Hordopolov, 2022, 88. 124-132) conclude that key factors exerting the greatest influence on the operational performance of the studied enterprises are the profitability of material circulating resources and the turnover ratio of material resources. In turn, Ukrainian researchers (Ivashchenko et al., 2023, pp. 5-21) established in their study that non-economic impact data must be taken into account when forecasting the added value of small businesses in Ukraine.

It is highly important to consider the study by (Zolkover, Lagovska, Valihura, & Zhelef, 2024, pp. 331-348), which analyzes the role of green taxes in promoting economic growth and environmental protection. In their view, ecological taxes contribute to more efficient resource utilization.

In their research paper, the authors (Vytvytska et al., 2023, pp. 70-81) emphasize that a properly formulated accounting policy facilitates the simplification of financial accounting, reduces tax risks, and supports effective business management. The authors (Ndlovua & Schutte, 2026, pp. 21-39) concur on the introduction of simple regulations, concluding from their findings that the complexity of tax legislation, administrative costs, and lack of knowledge have a substantial impact on tax compliance among small businesses.

The results of the studies (Cui, Wei, Xie, & Xing, 2025) and (Harju, Koivisto, & Matikka, 2022) are also noteworthy; the authors note that low and optimized tax policies can promote small business development. Following the receipt of tax incentives, small enterprises increase investments and productivity, although in some cases they may attempt to maintain a small size in order to qualify for such incentives.

Information on the main themes, trends, and most active research directions in this field is provided by the author in their study (Thaha, Antoro, & Muhtarom, 2023, pp. 398-412), which highlights that the simplicity of regulations, tax knowledge, and trust in state institutions are significant factors influencing tax compliance among small businesses.

Of interest are the research findings on effective tax strategies developed by small entrepreneurs in the context of digital transformation, as offered by the authors (Verbivska, Kriuchkova, Melnychenko, Bak, & Yakushko, 2023, pp. 66-79). The study analyzes how the use of digital tools increases tax compliance and improves transparency. The authors emphasize that developing digital strategies is highly important for small businesses.

Regarding tax compliance issues among small entrepreneurs, the studies (Sithebe, Stainbank, & Ronald, 2025, pp. 347-359) and (Bruce-Twum, Schutte, & Asare, 2022) should be considered; the authors stress the necessity of tax knowledge. In their opinion, raising awareness in the small business sector and the importance of support programs are of great significance for strengthening tax culture. The articles analyze factors that lead to increased administrative burden for small businesses, insufficient knowledge, and complex tax regulations.

In the study (Tampubolon, Suryadi, Priyatna, & Ersanti, 2025, pp. 188-192), the authors emphasize the development of appropriate tax strategies for small businesses that can improve their financial position. Three strategies are highlighted: tax planning, simplified accounting, and the use of digital tools.

The authors (Netto & Ferreira, 2024, pp. 1193-1198) and (Chistyakova, 2020, pp. 160-169), drawing from their research findings, conclude that the success of small businesses is significantly dependent on the state's domestic and foreign policy as well as on effective tax management. They also emphasize the necessity of tax deductions and conduct an analysis of tax risks.

The author (Dolishnia, 2021, pp. 137-143), based on the research results, confirms that small entrepreneurs can independently choose either a simplified or a general taxation system, taking into account their respective shortcomings and advantages, which ensures their successful operation.

Georgian scholar-researcher Iza Bukia has conducted numerous studies on the effects of tax policy on small businesses. Particularly noteworthy is her work "Tax Policy and Its Impact on Small Business: The Case of Georgia". Using quantitative research methods and statistical analysis, she identified key constraints impeding the sector's development. Her findings suggest that despite the existence of many preferential conditions, small entrepreneurs continue to face serious challenges such as administrative and informational barriers, limited access to finance, low employment opportunities, etc. (Bukia, 2024, pp. 203-210).

Georgian scientists/researchers Tsiala Baramidze and Khatuna Kharkhelaury, in their study "The Special Taxation Regime and Its Effectiveness", evaluated the impact of fiscal reforms on the small business sector in Georgia. Conducting qualitative research through surveys of 18 small businesses, they assessed the entrepreneurs' level of awareness of the reforms. Their findings demonstrated that the newly introduced preferential regime had a positive effect both on the development of entrepreneurship and on the growth of Georgia's economy as a whole (Baramidze & Khalkhelaury, 2020, pp. 1-6).

Georgian professors Ia Kharazi and Davit Khobelia, in their scientific article (Kharazi & Khobelia, 2023, pp. 15-16), analyzed mechanisms designed to support small businesses in Georgia. They argue that more radical measures are required to stimulate entrepreneurship, including greater access to state loan programs. In their view, dedicated lending schemes for small businesses, with relatively low interest rates, should be established. The study employed evaluative analysis as its main methodology and concluded with recommendations on the policy changes necessary to enhance small business efficiency.

Regarding the introduction of special tax regimes for the small business sector, it is worth noting a research paper by contemporary economists and representatives of the World Bank Group, Michael Engelschalk and Jan Loeprick (Engelschalk & Loeprick, 2016, pp. 145-197). This study evaluates the design of special tax regimes and their impact on the small business sector in Central Asia and Eastern Europe. The research indicates that some regions in Europe and Asia have corporate taxation systems that are more tailored to large businesses than to the small business sector. The study primarily employs evaluative analysis as its research methodology.

Despite the interest of numerous researchers in studying the impact of Georgia's special taxation regime on the small business sector, there is still almost no research on this topic that employs in-depth empirical analysis. This article aims to fill that gap.

AIMS AND OBJECTIVES

The purpose of this study is to determine the impact of the newly introduced preferential income tax regime on the financial sustainability of the small business sector in Georgia.

To achieve the stated objective of the study, the following research tasks have been developed:

1. Review of the tax policy currently in effect for small businesses in Georgia.
2. Collection of financial data on small businesses for empirical research.
3. Implementation of empirical research and establishment of the relationship between the tax rate and the turnover indicator of small businesses.
4. Finally, preparation of relevant conclusions and recommendations.

In line with this objective, the following research questions were formulated:

1. What type of reform was introduced in Georgia to improve the financial sustainability of the small business sector?
2. To what extent can the new preferential income tax regime significantly affect the financial performance of small enterprises?
3. Is there a notable correlation between foreign direct investment inflows into the small business sector and its turnover indicators?
4. Did the COVID-19 pandemic exert a significant impact on the turnover of small enterprises?

Hypotheses

- **H₀** – Reductions in income tax rates for small businesses have no statistically significant impact on their turnover.
- **H₁** – Reductions in income tax rates for small businesses lead to a significant increase in their turnover.
- **H₂** – Growth in foreign direct investment in the small business sector significantly improves turnover.

METHODS

To achieve the research objectives, the study employs the following key methods: data collection, grouping, statistical analysis, quantitative analysis, and empirical research. The research is divided into several stages.

- **Stage One** involved the identification and collection of relevant data from both Georgian and international sources.
- **Stage Two** categorized the issues into subtopics and grouped them accordingly.
- **Stage Three** consisted of detailed analysis and evaluation of each dataset.

- **Stage Four** focused on quantitative research, incorporating the most recent statistical data, which were processed and transformed into informative outputs, serving as the basis for conclusions and recommendations.
- **Stage Five** entailed empirical research, including correlation and regression analysis.

The analysis utilized eight years of data (2016–2023), since complete statistical indicators for the variables under consideration were not available for 2024. The dependent variable was defined as the turnover of the small business sector, while the independent variable was the income tax rate applied to small entrepreneurs. Control variables included the effects of the Covid19 pandemic and foreign direct investment (FDI) inflows into the small business sector. The results of multiple correlation and regression analyses formed the basis of the study's conclusions.

The data used in the study is sourced from statistical information published by the National Statistics Office of Georgia (Geostat), including the Business Register/Business Sector, enterprise turnover by ownership form and size, which was utilized as the dependent variable for empirical research. The volume of foreign direct investments (FDI) in the small business sector by year was selected as the independent variable. The COVID19 pandemic was designated as a control variable, represented by a value of 1 for the years when the pandemic was present in the country and 0 for the years when it was not.

RESULTS

According to Georgian tax legislation, on July 1, 2018, a new preferential special taxation regime was introduced for the small business sector, under which the income tax rate for small entrepreneurs was reduced from 5% to 1%. Pursuant to Article 83 of the Georgian Tax Code, this regime applies to microenterprises, small businesses, and fixed tax payers (Revenue Service Information and Methodological Hub, 2023).

Under Georgian legislation, the category of small business encompasses enterprises of any organizational-legal form whose average annual turnover does not exceed GEL 12 million and whose average annual number of employees does not exceed 50 persons (National Statistical Office of Georgia, 2025a).

Based on the information presented in Table 1, the turnover indicator increased each year compared to the previous reporting period. The highest percentage growth relative to the preceding year was observed at the end of 2022. The only negative change occurred at the end of 2020, which can be attributed to the impact of the COVID19 pandemic (Table 1).

Table 1. Turnover indicators of small business entities operating in Georgia (GEL million) and their structural analysis (comparison of indicators for 2017–2024). (Source: National Statistical Office of Georgia, "Business sector, statistical survey of enterprises", 2025b)

Year	Turnover	
	Indicator	Deviation compared to the previous reporting year
2017	22 970.7	0%
2018	25 179.1	+10%
2019	27 454.2	+9%
2020	27 169.3	-1%
2021	27 818.7	+2%
2022	33 328.8	+20%
2023	36 657.2	+10%
2024	39 406.8	+8%

Turnover analysis

Based on the given data, an analysis of the dynamics of small enterprise turnover and changes in the tax burden was conducted for the period 2016–2024 (Table 2).

By comparing the indicators for 2017 (the period before the introduction of the new preferential regime) and 2018 (the period after the introduction of the new preferential regime), it was established that turnover increased in Georgia by 2,208.4 units. According to the calculation of the turnover growth rate, in 2018, turnover increased by approximately 9.6% compared to 2017. In contrast, prior to the introduction of the new preferential regime, a 5.43% growth was recorded between 2016 and 2017, indicating an expansion of small enterprises' activities and an increase in revenues. According to the calculation of the turnover growth rate, in 2024, turnover increased by approximately 7.5% compared to 2023.

As a result of a comparative analysis of Georgia, Estonia, and Lithuania, the highest percentage increase in turnover was recorded in the case of Estonia - 31.11%. But in the end, in 2016-2024, Georgia is distinguished by a relatively high stability of turnover growth, while in Estonia and Lithuania, a sharp slowdown and subsequent negative dynamics were observed. This difference can be explained by the peculiarities of the economic structure, the size of the internal market, different approaches to fiscal and monetary policy, etc.

Table 2. Small business sector turnover analysis, 2016-2024. (Source: National Statistical Office of Georgia, "Business sector, statistical survey of enterprises", 2025; (Statistics Estonia, 2026); (Official Statistics Portal of Lithuania, 2026)

Year	Turnover (Georgia, GEL thousand)	Turnover growth rate (%) (Georgia)	Turnover (Estonia, EUR thousand)	Turnover growth rate (%) (Estonia)	Turnover (Lithuania, EUR thousand)	Turnover growth rate (%) (Lithuania)
2016	21 786.4	-	7 709 904.4	-	11 050 078.0	-
2017	22 970.7	5.44%	8 513 888.2	10.43%	12 977 381.0	17.44%
2018	25 179.1	9.61%	9 407 312.1	10.49%	13 742 685.0	5.90%
2019	27 454.2	9.04%	10 498 402.5	11.60%	14 223 948.0	3.50%
2020	27 169.3	-1.04%	9 648 816.3	-8.09%	13 969 178.0	-1.79%
2021	27 818.7	2.39%	12 650 649.5	31.11%	16 130 079.0	15.47%
2022	33 328.8	19.81%	14 478 304.0	14.45%	19 509 803.0	20.95%
2023	36 657.2	9.99%	14 049 124.0	-2.96%	19 868 134.0	1.84%
2024	39 406,8	7.50%	13 564 495.6	-3.45%	19 354 370.0	-2.59%

Tax burden analysis

Calculation of taxes paid = Turnover * Tax Rate

The tax burden analysis revealed that in 2017, small enterprises in Georgia paid 5% of their turnover as income tax, amounting to 1,148.5 units in absolute terms. In 2018, the tax rate was reduced to 1%, resulting in a tax amount of only 251.8 units. In 2024, this number increased to 394,068. A comparative analysis of the tax burdens of Georgia, Estonia, and Lithuania showed that Georgian small businesses have the lowest tax burden (Table 3).

Table 3. Small business sector tax burden analysis, 2016-2024. (Source: National Statistical Office of Georgia, "Business sector, statistical survey of enterprises", 2025; (Statistics Estonia, 2026); (Official Statistics Portal of Lithuania, 2026)

Year	Income Tax Rate	Tax paid, GEL thousand (Georgia)	Income Tax Rate	Tax Paid, EUR thousand (Estonia)	Income Tax Rate	Tax Paid, EUR thousand (Lithuania)
2016	5%	1 089.32	20%	1 541 980.88	15%	1 657 512
2017	5%	1 148.53	20%	1 702 777.64	15%	1 946 607
2018	1%	251.791	20%	1 881 462.42	15%	2 061 403
2019	1%	274.542	20%	2 099 680.5	15%	2 133 592
2020	1%	271.693	20%	1 929 763.26	15%	2 095 377
2021	1%	278.187	20%	2 530 129.9	15%	2 419 512
2022	1%	333.288	20%	2 895 660.8	15%	2 926 470
2023	1%	366.572	20%	2 809 824.8	5% or 15%	993 406.7 / 2 980 220
2024	1%	394.068	20%	2 712 899.12	5% or 15%	967 718.5 / 2 903 156

As a result of the below-mentioned correlation analysis (Table 4), it was established that the relationship between the turnover of the small business sector and the income tax rate applied to entrepreneurs with small business status is - 0.667. Since this value falls within the range of -0.60 to -0.79, it indicates a strong, negative correlation between the two variables. In other words, the lower the tax rate, the higher the turnover, and vice versa.

Let us now consider the correlation between the control variables and the turnover indicator. As Table 4 demonstrates, there exists a weak positive correlation between turnover and foreign direct investment, suggesting that FDI has only a

limited impact on the turnover of the small business sector. Similarly, the correlation between turnover and the COVID-19 pandemic variable also shows a weak positive association.

Therefore, the results of the correlation analysis allow us to conclude that among the independent predictor variables, the income tax rate exhibits the strongest relationship with the turnover indicator of the small business sector.

Table 4. Correlation analysis of the small business sector in Georgia (based on 2016-2023 data). (Source: The correlation analysis was conducted by the author using the SPSS software, based on statistical information published by the National Statistics Office of Georgia)

Descriptive Statistics					
		Mean	Std. Deviation		N
Turnover		27.7954	5.01286		8
Income Tax Rate		2.0000	1.85164		8
Foreign Direct Investment		1.5600	.55785		8
Covid19		.3750	.51755		8
Correlations					
		Turnover	Income Tax Rate	Foreign Direct Investment	Covid19
Pearson Correlation	Turnover	1.000	-.667	.394	.271
	Income Tax Rate	-.667	1.000	.260	-.447
	Foreign Direct Investment	.394	.260	1.000	-.287
	Covid19	.271	-.447	-.287	1.000
Sig. (1-tailed)	Turnover	.	.035	.167	.258
	Income Tax Rate	.035	.	.267	.133
	Foreign Direct Investment	.167	.267	.	.245
	Covid19	.258	.133	.245	.
N	Turnover	8	8	8	8
	Income Tax Rate	8	8	8	8
	Foreign Direct Investment	8	8	8	8
	Covid19	8	8	8	8

In regression analysis, the first table reports the dependent and independent variables (Table 5). In analyzing the Model Summary, the computed R-squared for our model is 0.893, which indicates that 89.3% of the variation in the dependent variable is explained by the independent variables. This demonstrates that the influence of the independent variables on the dependent variable — the turnover of the small business sector — is substantial. In other words, 89.3% of the sector's turnover is accounted for by the three independent variables under consideration, while 10.7% of the variation remains unexplained, suggesting the potential presence of additional variables that may also affect turnover. Nevertheless, given that the R-squared value is relatively high (close to 100%), the analysis indicates that the turnover of the small business sector is primarily determined by these three independent predictor variables. The Adjusted R Square provides a slightly more conservative correction, with a value of 0.647 (64.7%), meaning that 64.7% of the variability in the dependent variable is explained by the model. In the context of multiple regression, the Adjusted R Square is considered a more reliable and precise measure, serving as a safeguard against overestimation.

The ANOVA analysis (Table 5) reports a significance value (Sig) of 0.071. Since this value does not exceed 0.1, the reliability of the findings is high. The Sig statistic serves to test the null hypothesis. In this case, the regression model achieves statistical significance (Sig = 0.071, indicating $p < 0.0005$), thereby rejecting the null hypothesis and supporting the acceptance of alternative hypotheses. Specifically, the null hypothesis stated: " H_0 – The reduction of income tax rates for the small business sector has no statistically significant effect on their turnover." The analysis thus indicates that this hypothesis does not hold.

Table 5. Regression analysis of the small business sector in Georgia. (Source: The correlation analysis was conducted by the author using the SPSS software, based on statistical information published by the National Statistics Office of Georgia)

Variables Entered/Removed ^a							
Model	Variables Entered				Variables Removed	Method	
1	Covid19, Foreign Direct Investment, Income Tax Rate ^b				.	Enter	
a. Dependent Variable: Turnover							
b. All requested variables entered.							
Model Summary ^b							
Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate			
1	.893a	.798	.647	2.97880			
a. Predictors: (Constant), Covid19, Foreign Direct Investment, Income Tax Rate							
b. Dependent Variable: Turnover							
ANOVA ^a							
Model		Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	140.408	3	46.803	5.275	.071b	
	Residual	35.493	4	8.873			
	Total	175.901	7				
a. Dependent Variable: Turnover							
b. Predictors: (Constant), Covid19, Foreign Direct Investment, Income Tax Rate							
Coefficients ^a							
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		54	Std. Error	Beta			
1	(Constant)	22.891	3.972			5.763	0.004
	Income Tax Rate	-2.126	0.688	-0.785		-3.09	0.037
	Foreign Direct Investment	5.636	2.132	0.627		2.643	0.057
	Covid19	0.972	2.481	0.1		0.392	0.715
95.0% Confidence Interval for B			Correlations			Collinearity Statistics	
Lower Bound		Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
11.862		33.92					
-4.036		-0.216	-0.667	-0.839	-0.694	0.781	1.28
-0.284		11.555	0.394	0.797	0.594	0.896	1.116
-5.917		7.86	0.271	0.192	0.088	0.769	1.301
a. Dependent Variable: Turnover							

The Coefficient analysis (Table 5) further refines these findings. The intercept (B0) is 22.891, representing the constant point of intersection with the Y-axis. The B1 coefficient for the tax rate shows that for every unit increase in the tax rate, the turnover of small businesses decreases by 2.126. For B2, each unit increase in foreign direct investment corresponds to a 5.636 rise in turnover. During the period of the COVID-19 pandemic, turnover changed by 0.972 (where the presence of the pandemic was coded as 1, and its absence as 0). It is also important to consider the standardized coefficients, which allow all predictor variables to be placed on the same scale, thus facilitating a more accurate assessment of the relative weight of each independent variable.

The analysis revealed that if the tax rate changes by one standard deviation, the turnover in the small business sector changes by -0.785 standard deviations. Similarly, if foreign direct investment changes by one standard deviation, turnover changes by 0.627 standard deviations. In the case of the COVID-19 indicator, a change of one standard deviation results in a 0.1 standard deviation change in turnover. Within this model, the variable with the highest Beta coefficient is the income tax rate, which indicates that this factor explains the variance in the dependent variable (turnover) more effectively

than the other variables. Conversely, the lowest Beta coefficient is observed in the case of the COVID-19 variable. Accordingly, within this specific model, COVID-19 exerts the least influence on small business sector turnover.

Since in our model the significance (Sig.) value falls below 0.05 only for the tax rate variable, this demonstrates that only the unique predictive value of this variable reaches statistical significance. In other words, the tax rate variable is the only one that demonstrates a statistically significant correlation with the dependent variable. The findings of this analysis support the proposed hypothesis: "*H₁ – A reduction in the income tax rate for the small business sector leads to a significant increase in their turnover*".

Another important point to highlight from the Coefficients table (Table 5) is the Part Correlation Coefficient. In the given case, the Part Correlation Coefficient for the income tax rate variable is -0.694, which, when squared, yields 0.481. This indicates that the tax rate alone explains 48.1% of the variance in turnover. The foreign direct investment variable accounts for 35.2%, while the COVID-19 variable accounts for only 0.7%.

Regarding multicollinearity (the measure of interdependence among independent variables), the Correlations table unfortunately does not provide sufficient information for a complete analysis. Therefore, the Coefficients table must be used. The Collinearity Diagnostics section of this table (Table 5) includes two key measures: Tolerance and VIF. Tolerance provides information on what proportion of the variance of a given independent variable is not explained by the influence of other independent variables included in the model. It is calculated using the formula: $1 - R^2$ for each variable. In this analysis, the Tolerance values for all three variables exceed 0.1, which indicates a low level of correlation with other independent variables, thereby confirming the absence of multicollinearity (that is, the assumption of no multicollinearity is not violated in this case). This finding is further reinforced by the values of the Variance Inflation Factor (VIF). VIF is the inverse of Tolerance (calculated as 1 divided by the Tolerance value). Since in our model the VIF values remain below 10, this also confirms the absence of multicollinearity.

This result is not surprising, given that the Pearson correlation coefficients among our independent variables are only 0.260 and -0.447, both of which remain well below the acceptable threshold of 0.7. Because the values for the independent variables do not exceed this threshold, there is no need to exclude any of them from the analysis.

Table 6 assisted in determining whether multicollinearity exists among the independent variables, that is, whether they exhibit a strong correlation with one another. The eigenvalue component analysis illustrates the distribution of information across the variables, while the Condition Index aids in identifying problematic multicollinearity. In our case, since the Condition Index value is below 10 in all instances, this indicates that the risk of problematic multicollinearity (i.e., strong correlation among independent variables) is low.

Table 6. Regression analysis of the Georgian small business sector: collinearity diagnostics. (Source: The correlation analysis was conducted by the author using the SPSS software, based on statistical information published by the National Statistics Office of Georgia)

Collinearity Diagnosticsa							
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	Income Tax Rate	Foreign Direct Investment	Covid19
1	1	2.974	1.000	.01	.03	.01	.02
	2	.790	1.941	.00	.12	.00	.43
	3	.195	3.909	.04	.83	.13	.35
	4	.042	8.385	.95	.02	.86	.20

a. Dependent Variable: Turnover

When we seek to examine the assumptions underlying *Residuals Statistics* (Table 7), the most effective approach is through the analysis of the residual's scatterplot and the Normal Probability Plot of the Regression Standardized Residuals, both of which are presented in Figures 1 and 2 (Figure 1 and Figure 2). In the case of the Normal Probability Plot, the points are distributed along the diagonal line, stretching from the lower left to the upper right corner. Such a distribution indicates that there is no significant deviation of the residuals from normality. Similarly, in the Residuals Scatterplot, the majority of the points are concentrated near the center, close to zero, which likewise confirms the absence of substantial departures from the assumption of normal distribution of residuals.

Table 7. Regression analysis of the Georgian small business sector: residual statistics. (Source: The correlation analysis was conducted by the author using the SPSS software, based on statistical information published by the National Statistics Office of Georgia)

Residuals Statistics ^a					
	Min.	Max.	Mean	Std. Deviation	N
Predicted Value	21.6172	34.6425	27.7954	4.47866	8
Std. Predicted Value	-1.379	1.529	.000	1.000	8
Std. Error of Predicted Value	1.732	2.614	2.085	.320	8
Adjusted Predicted Value	19.6216	39.0437	27.6385	6.14701	8
Residual	-2.91251	4.11348	.00000	2.25176	8
Std. Residual	-.978	1.381	.000	.756	8
Stud. Residual	-1.240	1.876	.025	1.095	8
Deleted Residual	-5.71491	7.58985	.15692	5.00451	8
Stud. Deleted Residual	-1.369	4.682	.417	1.952	8
Mahal. Distance	1.492	4.516	2.625	1.094	8
Cook's Distance	.002	1.097	.356	.431	8
Centered Leverage Value	.213	.645	.375	.156	8

a. Depend. Variable: Turnover

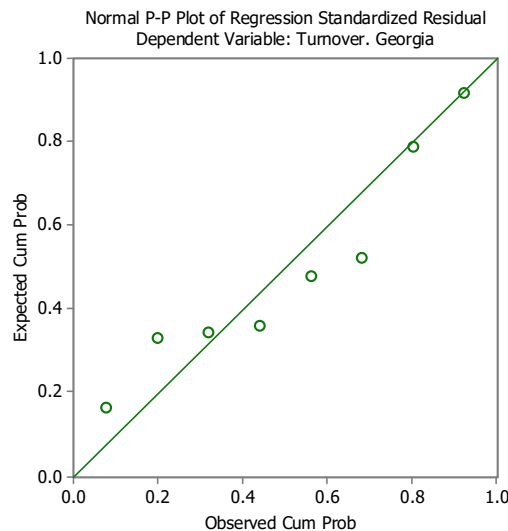


Figure 1. Normal P-P Plot of Regression standardized residual. (Source: The multiple linear regression analysis was carried out by the author using SPSS software, based on statistical data published by the National Statistics Office of Georgia)

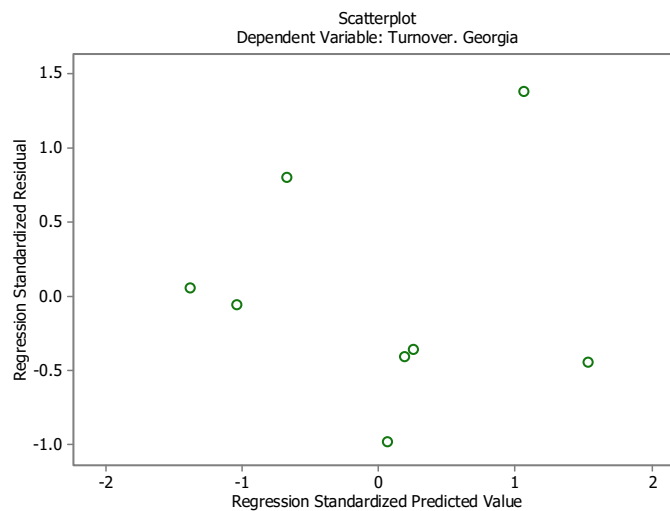


Figure 2. Scatterplot. (Source: The multiple linear regression analysis was carried out by the author using SPSS software, based on statistical data published by the National Statistics Office of Georgia)

Table 8 summarizes information about all variables included in the mentioned analysis (Table 8). The turnover ranges from GEL 21.79 million to GEL 36.66 million. The average turnover is GEL 27.79 million. The standard deviation is 5.01. The indicators listed in the table are calculated for each selected variable. Skewness provides information about the symmetry or asymmetry of the distribution, while Kurtosis indicates the degree of peakedness or dispersion. According to the table, the Skewness values for turnover, tax rate, and Covid19 are positive, indicating that the distribution is skewed to the left, toward lower values of the indicators. In contrast, the Skewness value for Foreign Direct Investment (FDI) is negative, suggesting that the distribution is skewed to the right, toward higher values of the indicators.

The analysis of Kurtosis shows that the distributions for foreign direct investment and the tax rate are more peaked, meaning they are concentrated around the center. In contrast, the distributions of turnover and Covid-19 are more dispersed, indicating the presence of extreme values — very high or very low observations that deviate significantly from the mean.

Table 8. Descriptive statistics for continuous variables of the small business sector of Georgia. (Source: Descriptive statistics for continuous variables were performed by the author using SPSS software, based on statistical data published by the National Statistics Office of Georgia)

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Turnover	8	21.79	36.66	27.7954	5.01286	25.129
Income Tax Rate	8	1.00	5.00	2.0000	1.85164	3.429
Foreign Direct Investment	8	.54	2.29	1.5600	.55785	.311
Covid19	8	.00	1.00	.3750	.51755	.268
Valid N (listwise)	8					

Descriptive Statistics						
	N		Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error	
Turnover	8	.783	.752	-.014	1.481	
Income Tax Rate	8	1.440	.752	.000	1.481	
Foreign Direct Investment	8	-.568	.752	.327	1.481	
Covid19	8	.644	.752	-2.240	1.481	
Valid N (listwise)	8					

The paired-samples t-test made it possible to evaluate the same dependent variable under two different conditions. Specifically, turnover was assessed under income tax rates of 5% and 1% (Table 9). The paired-samples t-test determined whether there was a statistically significant difference in turnover between the period when the income tax rate was set at 5% and the period when it was reduced to 1%. Since the value of *Sig. (2-tailed)*, in the final column of the paired-samples t-test output, if the value is less than 0.05, it can be concluded that there is a statistically significant difference between the two periods. In other words, turnover differs significantly between the periods with a 5% tax rate and those with a 1% tax rate. It is also noteworthy that the *t*-value in this case is -16.047, with 5 degrees of freedom, and a mean difference of -11.27 (the observed difference between turnover under the first and second tax rates). Within the 95% confidence interval, the lower bound is -13.08, and the upper bound is -9.46. In our analysis, the mean turnover under the 5% income tax rate was GEL 18.31 million, whereas under the 1% tax rate it rose to GEL 29.59 million. This finding demonstrates that the turnover of the small business sector increased significantly following government intervention through the reduction of the income tax rate.

Table 9. T-test analysis of the Georgian small business sector. (Source: T-test analysis was performed by the author using SPSS software, based on statistical information published by the National Statistics Service of Georgia)

Paired Samples Statistics								
		Mean	N	Std. Deviation	Std. Error Mean			
Pair 1	Turnover 5%	18.3183	6	3.66609	1.49668			
	Turnover 1%	29.5933	6	4.40331	1.79764			
Paired Samples Correlations								
			N	Correlation	Sig.			
Pair 1	Turnover 5% & Turnover 1%		6	.925	.008			
Paired Samples Test								
	Paired Differences				t	df	Sig. (2-tailed)	
Pair 1 Turnover 5% - Turnover 1%	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
	-11.27500	1.72107	.70262	Lower				Upper
				-13.08115	-9.46885	-16.047	5	.000

Calculation of Effect Size for the Paired-Samples t-Test

The effect size, expressed as eta squared (η^2), can be calculated using the following formula:

Formula 1. Eta squared (η^2) the effect size.

$$\text{Eta 1 (theoretical)} (\eta^2) = \frac{t^2}{t^2 + N - 1},$$

where, (η^2) – Effect size (how much variation is explained by the effect); t^2 – The value of the t-statistic is the squared value (the result of the t-test); N – The total number of participants; $N-1$ – The degrees of freedom (in the case of a one-sample or paired t-test).

$$\text{Eta 2 (practical)} (\eta^2) = \frac{-16.047^2}{-16.047^2 + 6 - 1} = 0.98$$

The interpretation of the obtained value can be presented according to the established guidelines as follows:

- small effect = 0.01
- medium effect = 0.06
- large effect = 0.14

In our analysis, the effect size was calculated at 0.98, which is a very high value (The Academic Success Center (ASC), 2025). This indicates that the change in the income tax rate exerts an exceptionally strong effect on the turnover of the small business sector, and that a large share of the statistically significant difference can be attributed directly to this intervention.

In conclusion, based on the empirical study, the research questions were addressed, and the proposed hypotheses were tested:

- **Research Question 1:** What type of reform was introduced in Georgia to improve the financial sustainability of the small business sector?

Answer from the study: On 1 July 2018, Georgia introduced a new preferential taxation regime aimed at supporting the development of the small business sector. Under this reform, the income tax rate for small entrepreneurs was reduced from 5% to 1%.

- **Research Question 2:** Can the new preferential taxation regime significantly influence the financial performance of the small business sector?

Answer from the study: The correlation analysis revealed a coefficient of -0.667 between the turnover of the small business sector and the income tax rate applied to small entrepreneurs. As this value falls within the range of -0.60 to -0.79, it indicates a strong negative correlation between these two variables.

- **H₀ hypothesis:** The reduction of the income tax rate for the small business sector does not have a statistically significant impact on turnover.

Result: The regression model reached a statistically significant level (Sig = 0.071, indicating $p < 0.0005$). Consequently, the null hypothesis was rejected, and alternative hypotheses should be considered.

- **H₁ hypothesis:** The reduction of the income tax rate for the small business sector leads to a significant increase in turnover.

Result: In the regression model's "Coefficient" table, the Sig. value fell below 0.05 only for the income tax rate variable. This indicates that only this predictor achieved statistical significance, meaning that the income tax rate variable alone shows a statistically significant correlation with turnover. Thus, the findings confirm our proposed hypothesis.

- **Research Question 3:** Is there a significant correlation between foreign direct investment (FDI) and turnover in the small business sector?

Answer from the study: As shown in the correlation table, there is only a weak positive correlation between turnover and foreign direct investment. This indicates that FDI does not exert a substantial impact on the turnover of the small business sector.

- **H₂ hypothesis:** An increase in foreign direct investment in the small business sector significantly improves turnover.

Result: In the regression model's "Coefficient" table, the Sig. value for the FDI variable exceeded 0.05. This means that the unique predictive value of FDI did not reach statistical significance and, therefore, does not show a statistically significant correlation with turnover. Accordingly, the H₂ hypothesis was rejected.

- **Research Question 4:** Did COVID-19 have a serious impact on the turnover of the small business sector?

Answer from the study: The correlation analysis shows a weak positive correlation between turnover and the COVID-19 predictor variable. Thus, COVID-19 did not exert a strong impact on the small business sector turnover. This conclusion is also supported by the statistical data presented in Table 1, which shows that the total turnover of the small business sector amounted to 27,454.2 in 2019 and declined only slightly to 27,169.3 in 2020.

DISCUSSION

The aim of this research paper was to determine the impact of the new, preferential special taxation regime for income tax in Georgia on the financial sustainability of the small business sector. The obtained results indicate that the new, preferential special taxation regime in Georgia indeed has a positive effect on the financial sustainability of the small business sector.

Thus, the research findings confirm that the effectiveness of the new, preferential special taxation regime in the context of small business development is multidimensional. The primary positive impact is manifested in strengthening the financial sustainability of small businesses and creating potential for development. Small entrepreneurs experienced a significant reduction in their tax burden, which led to a substantial increase in the turnover indicator and facilitated business expansion. The effect of this measure is less visible in the short term but becomes clearly apparent in the long term.

However, this observation unfortunately does not align with the conclusion drawn by the authors (Bruhn & Loeprick, 2016, pp. 834-853), according to which preferential regimes may have only a temporary positive effect. In contrast, our research results are consistent with the findings of (Baramidze & Khalkhelaury, 2020, pp. 1-6). They conducted a qualitative study in which they established the level of awareness among small entrepreneurs regarding preferential conditions and the positive impact of the new special taxation regime on the development of their activities.

We consider the results of (Celestin et al., 2025, pp. 16-25) to be relevant and well-analyzed; the authors' conclusions reveal a strong negative correlation between tax rates and entrepreneurial activity. Our research findings also align with those of (Tufetulov et al., 2015, pp. 503-506), who positively evaluated the effect of the special taxation regime on the financial sustainability and competitiveness of small entrepreneurs.

We partially share the assessments of (Kharazi & Khobelia, 2023, pp. 15-16), who argue that particular attention should be paid to the financing issues of small entrepreneurs, as we believe that taxation issues can have no less significant influence on the financial sustainability of small entrepreneurs.

Research Limitations

During the course of the research, certain challenges and constraints were inevitably encountered. For example, statistical data for the year 2024 could not be obtained for all variables included in the empirical analysis. Consequently, for the sake of consistency, the study was limited to data covering the years 2016–2023. Another significant limitation was that, due to the unavailability of relevant statistical information, it was not possible to extract and utilize the specific indicators pertaining exclusively to entrepreneurs officially holding small business status. This presented a challenge since the newly introduced preferential taxation regime applies solely to physical persons with recognized small business status, and not to taxpayers under the fixed tax scheme, micro-entrepreneurs, or limited liability companies classified within the small business category.

Nevertheless, it should be emphasized that the primary research objective was ultimately achieved, given that entrepreneurs with formal small business status account for the largest proportional share within the small business category, meaning that they are the individuals most directly affected by the new preferential taxation regime.

Another obstacle concerned the potential distortion of findings due to the use of inaccurate information from unreliable sources. To mitigate this risk, each source was carefully evaluated to determine whether the research had been published in high-ranking journals or newspapers and whether it carried a strong citation index. In order to further avoid the use of incorrect statistical data, the study relied exclusively on data obtained from the official statistical agencies of the relevant countries or from reports prepared by highly reputable international organizations.

CONCLUSIONS

The contemporary trends in economic development have demonstrated that the advancement of the small business sector represents a strategically significant issue for the overall growth of a country's economy. This research paper examines and analyzes the taxation mechanisms of the small business sector in Georgia in the context of the introduction of a new special taxation regime. Furthermore, on the basis of empirical research, the study evaluates the effect of this regime — under which the income tax rate for small entrepreneurs was reduced from 5% to 1% — on the financial sustainability of small businesses, measured through turnover performance.

The results of the empirical investigation indicate that, among the independent predictive variables, the one most closely associated with the turnover of the small business sector is the income tax rate. The analysis reveals a strong negative correlation between these variables; in other words, the lower the tax rate, the higher the turnover, and vice versa. Regression analysis further establishes that, in the case of the present model, 89.3% of the variation is explained, signifying that the influence of independent variables on the dependent variable is substantial.

Through ANOVA testing, the null hypothesis was rejected, requiring consideration of alternative hypotheses. The coefficient analysis demonstrated that the income tax rate variable possesses the highest Beta coefficient, thereby confirming its capacity to explain the variance in the dependent variable (turnover) more effectively than the other predictors. Conversely, the Covid-19 variable was found to have the lowest Beta coefficient, meaning its impact on turnover is minimal. Additionally, the empirical results confirmed that the risk of problematic multicollinearity, defined as excessively strong correlations among independent variables, is low.

The paired-samples t-test enabled the assessment of the same dependent variable under two different conditions. Specifically, turnover was compared under income tax rates of 5% and 1%. The test results established that turnover in the small business sector increased significantly following government intervention through tax reduction. This conclusion was further reinforced by the detection of a relatively high Eta squared value, indicating a substantial effect size.

As established through the structural analysis of turnover indicators for small business entities operating in Georgia over the 2017–2024 period, positive percentage growth in the turnover indicator continued to be recorded in subsequent years as well. This provides grounds for concluding that the reduction in the tax rate had not a temporary, but a long-term positive effect on the turnover indicator of the small business sector.

In summary, the empirical study addressed the core research questions and tested the proposed hypotheses. The null hypothesis was rejected, Hypothesis 1 was confirmed, and Hypothesis 2 was rejected. These findings demonstrate that,

among the selected variables, changes in the income tax rate exert the most significant influence on the financial sustainability of the small business sector. The study also developed a cause-and-effect model, which illustrates the relationship between specific policy interventions and their resulting outcomes.

The small business sector represents the driving force of the national economy. Therefore, its development should be considered a top priority, and modern, effective mechanisms to support its growth must be designed and implemented. Despite the introduction of a preferential taxation regime in Georgia, which substantially reduced the tax burden on small entrepreneurs (with additional benefits available for enterprises registered in highland regions), and the digitization (Converting procedures into digital formats) and simplification of procedures for status recognition, declaration, and tax payment, small entrepreneurs still face numerous challenges that hinder their entrepreneurial activities. For many small entrepreneurs, tax legislation and regulations remain difficult to understand, and some struggle to comply with legal requirements, which often encourages unregistered economic activity. For instance, in 2022, enterprises of unknown size accounted for 16.17% of the total private business sector — a notably high proportion. To address this challenge, it is recommended to simplify Georgia's legal framework further so that entrepreneurs without a financial background can more easily interpret the tax code and other normative acts. Additionally, it is advisable that both the private sector and the state collaborate to establish educational platforms, organize training courses, and hold informational meetings on a more frequent basis. These initiatives would allow aspiring entrepreneurs to improve their understanding of taxation and accounting, reduce violations, and minimize the volume of penalties imposed on them.

Another challenge lies in the extensive list of prohibited activities under Georgia's Tax Code, which prevents certain individuals from being granted small business status and benefiting from the associated tax relief. Therefore, it is recommended that this list be revised and reduced, thereby enabling more entrepreneurs to qualify for tax benefits, encouraging new business ventures, and contributing to the significant development of the small business sector, which, as noted, is a vital driver of the national economy. Finally, it would be highly beneficial to introduce feedback mechanisms and systematic monitoring for small entrepreneurs. Such measures would enhance the effectiveness of tax policy and facilitate the design of more flexible taxation approaches.

ADDITIONAL INFORMATION

AUTHOR CONTRIBUTIONS

All authors have contributed equally.

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CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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ВПЛИВ ОПОДАТКУВАННЯ НА ФІНАНСОВУ СТІЙКІСТЬ СЕКТОРА МАЛОГО БІЗНЕСУ: ЕМПІРИЧНИЙ АНАЛІЗ ГРУЗИНСЬКОГО ДОСВІДУ

Сучасні економічні тенденції підкреслюють критичну роль малого бізнесу, розвиток якого вважають за необхідний для загального економічного прогресу країни. Відображаючи це визнання, уряд Грузії спрямував свою економічну політику на створення сприятливого підприємницького та інвестиційного середовища для приватного сектора з особливим акцентом на малі підприємства. Малий бізнес є центральним стовпом національної промислової політики, яка має на меті прискорити перерозподіл ресурсів від державного до приватного сектора. Це, своєю чергою, має на меті створити достатню кількість робочих місць і сприяти досягненню загальної мети сталого розвитку, зокрема «подолання рівня бідності».

Метою цього дослідження є визначення впливу нововведеного режиму преференційного податку на доходи на фінансову стійкість сектора малого бізнесу в Грузії.

У цій статті розглянуті механізми оподаткування малого бізнесу в Грузії в контексті нововведеного спеціального податкового режиму. Вона оцінює динаміку податкового навантаження на малі підприємства та його наслідки для їхньої фінансової стабільності.

Наукова новизна статті полягає в тому, що вперше в Грузії проведено емпіричну оцінку впливу податкового тягаря на фінансові показники малого бізнесу. Отримано нові емпіричні результати щодо взаємозв'язку між податковим навантаженням на малий бізнес і показником його обороту в Грузії, що дозволяє оцінити ефективність податкового регулювання. Основні тенденції впливу податкової політики на діяльність малого бізнесу підтверджені, що вказує на покращення податкового середовища. Результати досліджень можна застосовувати в процесі вдосконалення податкової політики та сприяння розвитку малого бізнесу.

Ключові слова: малий бізнес, оподаткування малого бізнесу, преференційний режим спеціального оподаткування, податкове навантаження, фінансові показники, ефективність податкового регулювання, податкова політика

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