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ESTONIAN MODEL OF PROFIT TAX – PERSPECTIVES ON THE EXAMPLE OF ESTONIA, GEORGIA AND POLAND

ABSTRACT: *The purpose of the research is to study and analyze the results of the reform - the introduction of the Estonian model of profit tax, carried out in the direction of tax policy, both from a theoretical and a fiscal point of view (example of Estonia, Georgia and Poland). Based on the review of the legislative framework of the reform, the results of the fiscal and entrepreneurs survey are analyzed qualitatively and quantitatively. The target audience is entrepreneurs who pay profit tax. Both the legislative review and the fiscal results analyzed on the example of Estonia, Georgia and Poland have shown a potential association between two events - that this reform has a positive result only in the long term (as the income from the profit tax increases several times). And, in the short term, it can cause a budget deficit (which is manifested in the fact that the income from the profit tax in the budget decreases) for a country with a large share of profit tax in its budget. Despite the review of the legislative framework of these countries, the research and literature on this topic is limited, which would allow us to analyze this reform from different perspectives. The said research is to some extent an indicator for the institutions implementing the reform, how appropriate it is to carry out the said reform in their countries (taking into account the compliance with the existing legislation). This study offers valuable information to policymakers in this area.*

KEYWORDS: Estonian model of profit tax; Entrepreneurship; Tax policy; Estonia; Georgia; Poland.

1. Introduction

Mechanisms of economic policy are always a subject of discussion, because it affects the state of the country in different directions. In this article, we will discuss one of the important directions of economic policy, in particular tax policy - the introduction of the preferential model of profit tax - the Estonian model on the example of Estonia, Georgia and Poland. It should be noted that this model is implemented only in the above-mentioned countries. The article reviews both the legislative framework of all three countries, as well as the fiscal consequences of this reform (in the case of Poland, the reform is newly introduced and the analysis period is insignificant). Attention is also focused on the research that I conducted in connection with the reform in Georgia in two stages - in 2019 and 2023. The comparison of the mentioned periods allows us to analyze whether the views and expectations of entrepreneurs have changed in the given period of time.

To promote entrepreneurship, countries apply various tax policy measures. Among them is the consideration of the models of relief in different taxes. It is natural that the country chooses a different model depending on its specificity, where the priority directions of the country are taken into account. First of all, it should be noted

why the Estonian model of profit tax is preferential - The main essence of this model is not to tax the reinvested profit, which is directly related to the promotion of entrepreneurship. Accordingly, profit tax is one of those that directly reflects the situation of entrepreneurs/firms. Therefore, if it is in the country's interest to promote the given sector, in this case it is important to consider such a preferential model as the Estonian model of profit tax. It should be noted that this model is not widespread, which does not allow for a complete analysis, however, for comparison, we can consider three countries where the mentioned model is functioning, namely: Estonia, Georgia and Poland - on the example of which we can conduct some analysis. Based on the fact that when the Estonian model of profit tax was introduced in chronological order, it looks as follows: in Estonia - from 2000, in Georgia - from 2017, and in Poland from 2021. If we take into account the issue of studying the long-term effects of the mentioned model, for this stage it is only possible to compare the statistics of Estonia and Georgia. In this article, we will discuss both the objects of taxation and other important issues in this tax, we will see what is the difference in the case of each country and what fiscal result it brought in the tax of profits. The fiscal result can be seen when considering the example of Estonia and Georgia (Partly based on the example of Poland). What was the trend of revenues from profit tax to the budget and when did it return to the level before the introduction of this model. Naturally, the legislative records are not identical, as a number of peculiarities are taken into account in the case of the given countries, although the main essence of the given preferential model is preserved, so that the reinvested profit is not taxed. Which will support the expansion of existing firms/entrepreneurs, as well as the establishment of startups and the promotion of their activities at the initial stage.

1. Literature Review

Based on the specificity of the issue, the literature to be discussed and analyzed for us is the legislation of the given countries, which regulates the principles of taxation of profit tax. The mentioned legislation allows us to review what types of financial operations are exempted from profit tax by the legislation in a given country, what is considered as an object of taxation with profit tax, what is the rate, etc. Also, legislation in a number of countries specifies different distinguishing marks according to legal forms and firm size. Therefore, all the interesting details that can give us a general picture are the legislation and the records of various by-laws.

In general, when a country considers establishing a preferential tax model in the country, and for the purpose of our article it is the Estonian model of profit tax, naturally a number of issues need to be harmonized with other legislation in the country. Therefore, this is a very difficult issue. It should be noted that, depending on the country, this direction is regulated by various legislative acts, for example, in the case of Estonia, the

"income tax act", and in the case of Georgia, the tax code. However, it must be said that for the purpose of the review, it is quite difficult to review the legislation in general and compare them with each other, in order to theoretically identify those financial operations that the state refuses to tax in favor of entrepreneurs. Accordingly, the given legislative records allow us to determine what income the state refuses and what results this can bring to the country both in terms of the development of entrepreneurs and in terms of revenues in the budget. This allows us to formulate a hypothesis in this direction.

First of all, let's study the important main issues from the legislative point of view (according to the countries under consideration) and then move on to the evaluation of the fiscal consequences of the reform.

First of all, we should review the legal framework of the three countries - Estonia, Georgia and Poland in the profit tax, in order to have a basic idea about the objects of taxation, the tax rate and other exceptions. What distinguishes them from each other.

1.1 Overview of the legal framework in Estonia

The rules for the taxation of income tax under Estonian tax legislation are mainly established in accordance with the Income Tax Act. It is natural to take into account certain exceptions, which are taxed at a rate different from the standard one, and also the objects of taxation and the time of the operation are different from the standard one.

Income tax is imposed on profit made by a resident legal person and a profit-making state agency upon distribution, irrespective of the manner and form of distribution of profit, gifts made, donations and costs of entertaining guests, expenses and payments not related to business and objectives set out in the articles of association as well as assets to be taken out to a permanent establishment (Income Tax Act, 1999). Except in exceptional circumstances, the rate of income tax is 20 per cent. the taxable amount shall be divided by the number of 0.80 before it is multiplied by the tax rate (Income Tax Act, 1999).

When we talk specifically about business income, Estonian tax law (as well as Georgia) specifies what is meant and how business income/profit is defined. The said direction is formulated as follows:

Income tax is charged on income derived from business (business income), regardless of the time of its receipt. Business is a person's independent economic or professional activity (including the professional activity of a notary or bailiff and the creative activity of a creative person), the aim of which is to derive income from the production, sale or intermediation of goods, provision of services, or other activities, including creative or scientific activity. Transfer of securities owned by a natural person does not constitute business. Types of income (Income from rent and royalties) may also be included in business income. Sole proprietors entered in the commercial register or the register of a Contracting State and non-resident sole proprietors who have a

permanent establishment registered in Estonia may make the deductions from their business income. Expenses incurred before registration of a sole proprietor may be deducted from business income if they are related to the registration of the sole proprietor or obtaining of activity licences and registrations necessary for commencement of business activities. Deductions relating to enterprise shall be made from the business income of the period of taxation of a sole proprietor and the received amount shall be divided by 1.33 before it is multiplied by the tax rate, if the Social Tax Act is applied upon taxation of business income. The amount of social tax exceeding the business income subject to taxation shall be carried forward to subsequent periods of taxation. If the price of a transaction concluded between a sole proprietor and a person associated with the sole proprietor in the course of business differs from the market value of the above transaction, income tax shall be imposed on the amount which the taxpayer would have received as income or the amount which the taxpayer would not have incurred as expenses if the transfer price had conformed to the market value. If a sole proprietor earns business income in a foreign state, it is not subject to income tax in Estonia if both of the following conditions are met: 1) the business income has been earned through his or her permanent establishment situated in the foreign state; 2) the specified income has been taxable income in the foreign state and if this is certified and the amount of income tax is indicated on the certificate (Income Tax Act, 1999).

Deductions from business income (Income Tax Act, 1999).

- Expenses related to business;
- Limitations on deduction of expenses;
- Expenses not deductible from business income;
- Carrying forward of expenses exceeding business income.

1.2 Overview of the legal framework in Georgia

With regard to Georgia, we can draw a parallel to the legislative records related to profit tax and business income in general, what is considered business income, at what rate it is taxed and what special rules apply in this regard.

The Estonian model of profit tax entered into force in Georgia in 2017 (the so-called Estonian model). In accordance with the aforementioned legislative change, all types of activities, except for taxpayers with banking and financial activities, were subject to this model in terms of profit tax. For them, the previously existing profit tax model in Georgia remained in force, according to which - the object of taxation with the profit tax of a banking institution, credit union, microfinance organization, lending entity is the difference between the total income received during the calendar year and the amounts of deductions stipulated by the

Tax Code of Georgia. Regarding, according to the Estonian model of profit tax, the payer of profit tax is a

resident enterprise and a non-resident enterprise, which carries out its activities in Georgia through a permanent establishment and/or receives income from a source in Georgia. As for the object of taxation, the resident enterprise is defined as follows (Tax Code of Georgia, 2010):

- Distributed profit;
- An incurred expense or other payment that is not related to economic activity;
- Free delivery of goods/services and/or transfer of funds;
- Representative expenses incurred in an amount greater than the threshold amount established by the Tax Code of Georgia.

Regarding, the threshold amount of the representative expenses incurred during the calendar year for the purposes of profit tax is 1 percent of the income received during the previous calendar year, and if the expenses incurred exceed the received income - 1 percent of the expenses incurred. The threshold amount of the representative expenditure incurred in the calendar year of establishment of the enterprise is 1 percent of the expenditure incurred before the end of the current calendar year. As for exemptions from this tax, there are a number of operations that are exempt from profit tax (Tax Code of Georgia, 2010).

As for the profit tax rate in Georgia before the introduction of this model, it was 15%, and after the introduction of the Estonian model of profit tax, it remained the same for taxpayers of this model - 15%, and for taxpayers with banking and financial activities, the rate for them remained the same until 2024, and from 2024 the taxable object remained the same, and the rate increased to 20%. It should also be noted that the reporting periods are different for taxpayers of the Estonian model of profit tax and for taxpayers with banking and financial activities, who are taxed under the standard model of the previously existing profit tax. In particular: the period of declaration (return) of profit tax for banking institution, credit union, microfinance organization, lending entity is once a year - the declaration (return) to the tax authority is submitted until April 1 of the following reporting year. As for the taxpayers of the Estonian model of profit tax, they are obliged to submit the declaration (return) according to the reporting month to the tax authority no later than the 15th day of the month following the reporting month (Tax Code of Georgia, 2010). Naturally, there are also certain exceptions in the Tax Code of Georgia that apply to this part of the tax.

1.3 Overview of the legal framework in Poland

It should be noted that the Estonian model of profit tax is not widespread, Georgia introduced this model into the tax legislation after Estonia in 2017 (naturally, with small differences and not identically). On the other hand, Poland has also implemented the Estonian model of corporate income tax into their legislation

in 2021. In this model, the tax is paid only when the income is distributed (e.g. in the form of a dividend). In 2022 and 2023, the Polish Deal packages introduced important amendments with regard to the scope and application of the lump-sum scheme of Estonian CIT (Worldwide Tax Summaries, 2024).

Polish tax residents are subject to tax on their worldwide income, unless there is an applicable double tax treaty (DTT) in place exempting the foreign-sourced income from taxation in Poland. Non-residents are taxed only on their Polish-sourced income. According to the current version in Poland, the standard CIT rate is 19%. The reduced CIT rate of 9% can be applied to income, other than capital gains, if the taxpayer: a) start business activity and the revenues in the fiscal year in which you applied the reduced tax rate did not exceed the PLN equivalent of EUR 1 200 000; b) continue to run business activity and meet the following two revenue-related criteria: you are a small taxpayer – gross sales revenues (together with due VAT) in the previous fiscal year did not exceed the PLN equivalent of EUR 2 000 000, and your revenues in the fiscal year in which you applied the reduced rate did not exceed the PLN equivalent of EUR 1 200 000 (Ministry of Finance of Poland, 2026).

The tax base for CIT purposes includes all sources of income, established individually for each source of income as the difference between taxable revenues and tax-deductible costs within a given source. The taxable period is the calendar year (between 1 January and 31 December). Companies are entitled to choose another (than calendar) fiscal year for the purpose of CIT. Companies are, in general, required to file their tax returns electronically. The annual CIT return should be submitted to the tax office within three months following the end of the tax year. The same deadline as the CIT return applies to the settlement of the annual CIT liability (Ministry of Finance of Poland, 2026).

The lump-sum tax on income is accrued at the moment of the distribution of profit and in a different amount than the standard CIT. After the amendment introduced in 2023, the deadline for paying the lump-sum tax falls by the end of the third month of the tax year following the year in which the profit was distributed; specific deadlines apply to the other taxable events. For small taxpayers and for taxpayers starting business activity on these principles, it is 10% of the tax base. In the case of other taxpayers, it is 20% of the tax base. The main advantages of switching to Estonian CIT taxation are: lack of separate accounting for tax purposes (tax settlement is based on the net profit); tax due only when profits are distributed and is calculated on the amounts of distributions (not on reinvested profits), and as to the rule, tax payment deadline is deferred until the year following the year when distribution takes place and there are no tax advances (Worldwide Tax Summaries, 2024).

1.4 Brief summary of the legislative framework in Georgia, Estonia and Poland

To briefly compare the respective countries, the profit tax rates and payment terms are as follows (See table 1):

Table 1: Comparison of profit tax rates and filing deadlines in Estonia, Georgia and Poland

Topic	Estonia	Georgia	Poland
Corporate income tax (CIT) rates	20% (undistributed profits are tax exempt)	15% (20% for banks, credit unions, microfinance organisations, and loan providers).	19%
Corporate income tax (CIT) due dates	By the tenth day of the month following a taxable distribution or payment.	CIT returns should be submitted on monthly basis by the 15th day following the month when the taxable transaction took place	Within three months following the end of the tax year.
CIT final payment due date	By the tenth day of the month following a taxable distribution or payment.	CIT is due on a monthly basis by the 15th day following the month when the taxable transaction took place.	Within three months following the end of the tax year.
CIT estimated payment due dates		CIT is due on a monthly basis by the 15th day following the month when the taxable transaction took place.	Monthly instalments paid by the 20th day of the following month.

Source: Worldwide Tax Summaries, Tax Code of Georgia, Income Tax Act

A detailed study of the legal framework of all three countries and the identification of its distinguishing features from the point of view of taxation (by country), Where the types of income that are taxed by profit tax and therefore also other types of income and financial operations that are exempt from profit tax - primarily reinvested profits - allow us to formulate hypotheses as follows:

Hypothesis 1: The Estonian model of profit tax has a positive effect on budget revenues in terms of profit tax in the long term.

Hypothesis 2: The Estonian model of profit tax can in the short term cause budget deficits for countries where the share of profit tax in total revenues is high.

The subsequent analysis is descriptive and exploratory in nature. The hypotheses provide a framework for conducting the analysis, however, the study does not attempt to establish their causal validity through statistical hypothesis testing. Instead, the analysis examines whether the patterns and changes in the three countries are consistent with the expectations expressed in the hypotheses. Given the "before-and-after" comparative design and the lack of a counterfactual, the findings are interpreted as descriptive evidence and should not be taken as definitive proof of causal effects.

2. Methodology

The purpose of the research is to study and analyze the results of the reform carried out in the direction of tax policy, namely the introduction of the Estonian model of profit tax, both from a theoretical and a fiscal point of view. Based on the fact that the given reform was carried out in three countries - Estonia, Georgia and Poland, the subject of the study is the discussion and mutual comparison of the legal framework of the given countries, as well as the analysis of the fiscal results of the reform. Several research methods such as inductive, deductive, comparison, processing/analysis of statistical data were selected for the purpose mentioned, and in addition, the research was conducted by the author among entrepreneurs in Georgia who evaluated the given reform in different directions. The research was conducted in two stages in 2019 and 2023. Which additionally allows us to compare the data with each other, whether the views and expectations of entrepreneurs have changed in relation to this reform. The survey format was a Google Forms created survey that was sent to entrepreneurs by email (The mentioned emails are public information that can be found on the www.yell.ge website), the research was also posted on social networks - [linkedin.com](https://www.linkedin.com) and facebook (in a special Facebook group where entrepreneurs and their representatives/accountants are members), a certain number of entrepreneurs were also interviewed in the form of a telephone survey. 120 entrepreneurs participated in the 2019 survey¹, and 510 entrepreneurs in 2023² (At both stages, the survey was conducted in Georgian). In both the 2019 survey (16 questions were asked) and the 2023 survey (21 questions were asked), the questions were grouped into two areas — mandatory and optional (closed-ended and open-ended questions). Several questions also related to the categorization of entrepreneurs (which is identical in both surveys), namely: legal form, type of activity, place of actual activity — region. Some of the questions were about various tax reforms implemented in Georgia. Several questions were also related to identifying the views of entrepreneurs, such as factors hindering their activities, various desired reforms, etc. Due to the purpose of this article, only those key questions and their results that were directly related to the Estonian model of profit

¹ 2019 - <https://forms.gle/KMZVDR1y35BLNB3RA>

² 2023 - <https://forms.gle/RNXCTiHCo7esN3L48>

tax were taken from the aforementioned studies.

Given the number of respondents in the two stages and considering that the study was conducted with full anonymity, it is also possible to draw attention to the limitation that, in the case of any percentage change, whether this indicates a change in the opinion of a specific entrepreneur about a particular reform or simply the impact of the new respondents' answers on the overall indicator is difficult to prove with certainty, since much more respondents participated in the second study than in the first study.

Accordingly, the chosen methodology and direction of analysis, both theoretical and fiscal, allow us to identify the connection between the hypotheses presented in the study (taking into account the limitations) and the parallels of the possible outcome of the reform in all three countries. We can also compare these results with the results of the study conducted in Georgia.

3. Results and Discussion

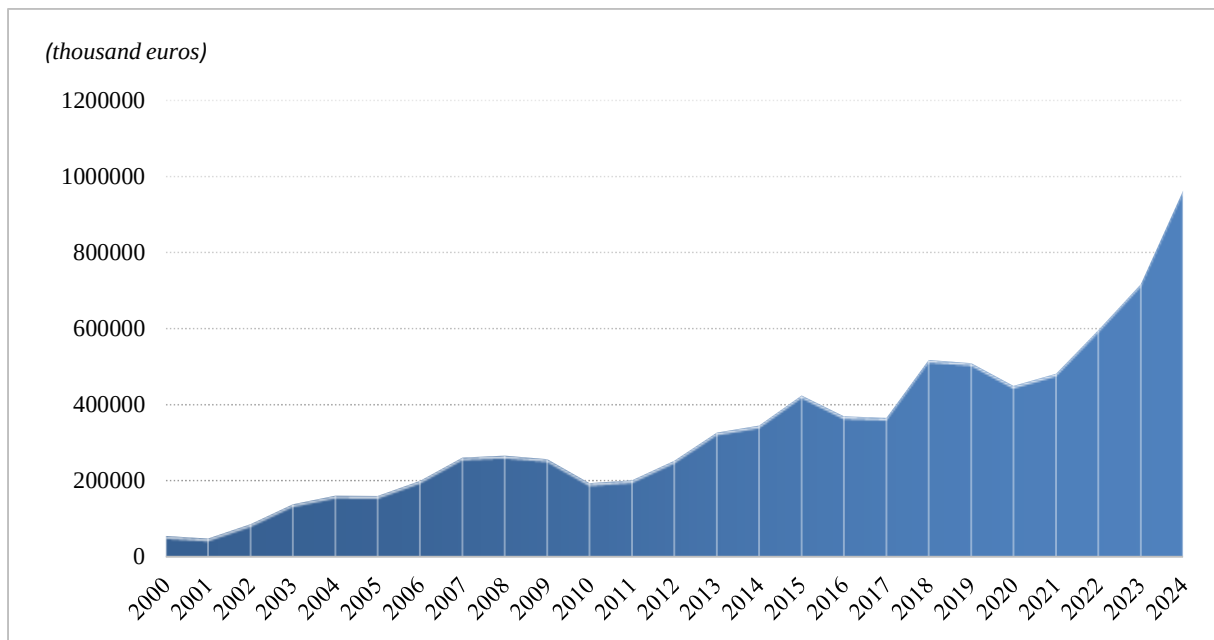
After a theoretical review, it is interesting to see what fiscal results these models have in both Estonia and Georgia (As for Poland, due to the fact that the mentioned model is newly implemented, there are not enough data for comparing financial indicators). In terms of revenues from profit tax in the budget, it is interesting to analyze the dynamics of the years, where the impact of the given model on the budget revenues is clearly visible. The most significant detail that these models have is that the reinvested profit is not taxed, which means that the budget will initially have a reduction in income in terms of profit tax. However, in the long term, the mentioned models should have a positive result, which should be expressed by the funds mobilized in the budget. In particular: before the introduction of the mentioned model in the budget, the share of profit tax in total tax revenues should be compared, and then it is necessary to evaluate the trend of the mentioned model in terms of income. Based on the fact that in Estonia this model has been in force since 2000, and in Georgia since 2017, this allows us to see its effect in the long term on the example of Estonia, while as for Georgia, only a short period of time can be evaluated based on only a few years. Naturally, it is impossible to see the full picture only according to the legislative records, because in this case, in addition to the legislative records, the change of the given tax rate in a given period of time is also affected; as well as willingness of taxpayers to voluntarily comply with tax legislation; Changes in the number of taxpayers/entrepreneurs and many other details.

When we analyze the given preferential model of profit tax, First of all, it is important how much funds will be mobilized in the state budget, i.e. whether the introduction of the preferential model can lead to a budget deficit at a certain level and if so, by what amount the revenues in the budget decrease. Therefore,

during this analysis, the most important thing is to see the trend of the profit tax coming into the budget, if it has been increasing since the first year, i.e., after the introduction of the preferential model, the amount of this tax entered the budget as much or more than before, it means that the budget did not cause a deficit. And if we have the opposite result, i.e. budget revenues have decreased after the introduction of this model, then if necessary, this deficit should be balanced. And at the same time, observe the trend when it returns to the initial indicator, that is, the indicator that existed before the introduction of the model.

If we look at the situation of both countries, Estonia and Georgia, in terms of budget revenues, we will see that after the introduction of the mentioned preferential model, the budget revenues from the profit tax have decreased (see Figures 1 and 2).

Figure 1: State budget tax revenues in corporate income tax (profit tax) in Estonia



Source: Statistics Estonia. Budget revenues. (Accessed: 12 August 2025)

Here it is already interesting to compare the trend and find the point/period in which time the given model manages to return to the level existing before the introduction of the model, in terms of budget incomes. If we take into account the fact that before the introduction of this preferential model in Estonia (in 1999), the budget revenues from this tax, i.e. the benchmark before the reform, were 107 million euros (*Unit: thousand euros*). Estonia returned to the mentioned pre-reform mark after 4 years and surpassed it since 2003 and approached the 200 million euros (*Unit: thousand euros*) mark. From 2004 to 2014, it doubled and reached the 400 million euros (*Unit: thousand euros*) mark. And as of 2024, it has increased several times and exceeded the 800 million euros (*Unit: thousand euros*) mark. Here, the positive result of this reform is clearly visible. Here, it is necessary to draw attention to the current economic crisis and also to the fact that after the

implementation of this reform, Estonia reduced the rate of profit tax from 26% to 20% (since 2015, the rate is already 20%). And, in the case of Georgia, the profit tax rate has not changed in the given period and is 15%. Based on a study conducted in 2009, Hazak concludes that „as a result of higher cash balances and lower exposure to risks related to excessive utilisation of loans and other external financing facilities, DPT (Distributed Profit Tax) appears to have a positive impact on companies' liquidity and sustainability. However, the downside of this taxation system appears to be the allocation of available funds into cash as a potentially inefficient way of investment“ (Hazak, 2009).

Masso and Meriküll (2011) offer an interesting conclusion about this reform – „developing economies seeking to increase the resources allocated to investment while facing credit constraints for firms may find decreasing the tax rate on retained earnings quite a useful policy option. First, increased investment rates lead to fewer resources left for consumption, which may lead to a transitory welfare drop. This is especially problematic for countries that are not well integrated into world capital markets and that primarily need to finance investment internally“ (Masso & Meriküll, 2011).

Interestingly, in Estonia, an increase in investment activity was observed in the period after the introduction of the mentioned reform. This is confirmed by Maso, Merikuli and Vahter (2013), whose study found that after the introduction of the distributed profit tax, corporate investment increased by 17.3%. The increase among the smallest entities was much more significant and amounted to about 62%. However, the researchers also emphasize that it is not known for sure to what extent the reform contributed to the increase in investment observed in Estonia (Masso et al., 2013).

The OECD, in its latest report on Estonia, highlights the following issues: the design of the corporate tax regime, coupled with the fact that high-income earners have a strong incentive to incorporate, given that their tax burden of over 40% is almost twice as high as the statutory 22% CIT, which is levied only on distributed profits.

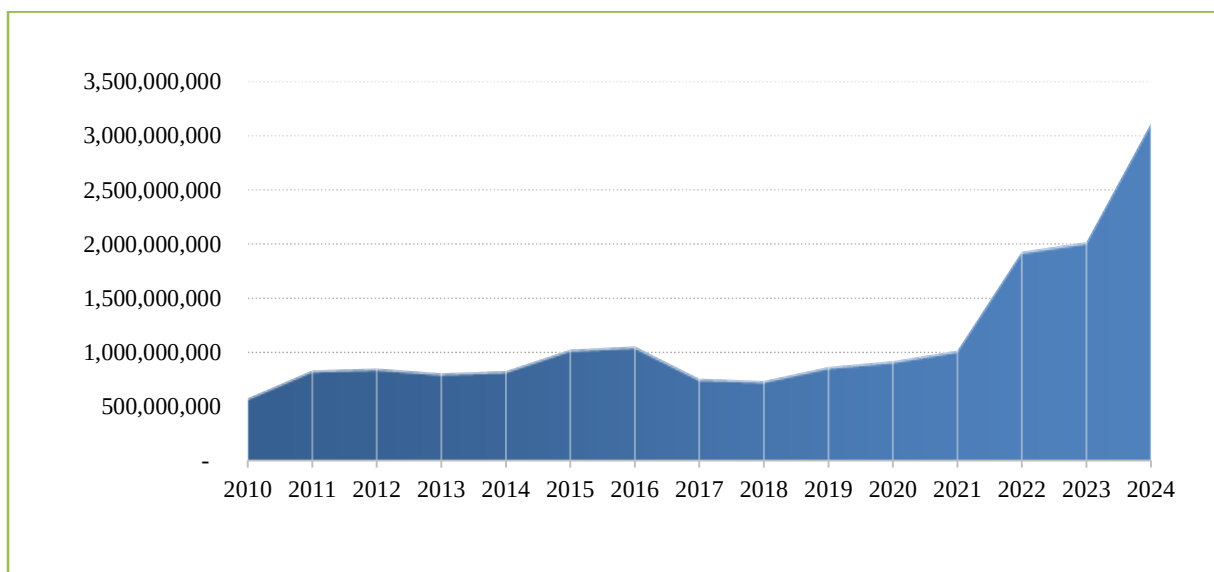
The firm-level assessment of the impact of the CIT change shows improvements in the liquidity and liabilities of Estonian firms after the reform, as well as in investment and productivity, although the assessment of the macroeconomic impact of the reform will require a more recent assessment, as previous studies have looked at a relatively short period. Furthermore, these studies do not consider broader impacts, fiscal implications, and do not compare alternative policies (OECD, 2026).

For the International Monetary Fund, the main reason it justifies this reform is that, „taxing rents and thus fully exempting investments is the economic rationale that justified the simplified CIT system adopted by Estonia in early 2000s“ (IMF, 2025).

Since economic rents represent profits in excess of required (normal) income, a corporate tax would not create any efficiency losses. At the corporate level, these “cash flow taxes” are based on the sources and

uses of funds, rather than on the profit and loss account. They are also preferable to the capital basis because they do not distort the dynamics of savings and investment over time. Evidence suggests that cash flow taxes have several desirable properties compared to standard CIT. Using the IMF's multi-regional GIMF model, Carton et al. (2019) analyze the effects of replacing standard CIT with cash flow taxes. They show that this type of reform increases output in the reforming country and has positive long-term effects on the rest of the world. The Estonian CIT is close to a cash flow tax on net economic rent, with some limitations, given that it is not based on the distribution of net profits. Some EU countries have considered moving from a standard CIT to a cash flow corporate tax in order to ensure tax neutrality for both financial and investment decisions and to encourage investment. However, such a structural reform of the CIT base carries significant revenue risks, especially in the transitional phase, as the statutory rate would need to be increased to maintain the revenue level unchanged (IMF, 2025).

Figure 2: State budget tax revenues in corporate income tax (profit tax) in Georgia



Source: State Treasury of Georgia. Budget revenues. (Accessed: 12 August 2025)

As for the trend of budget revenues from profit tax in Georgia, it returned to the level before the introduction of the Estonian model after 5 years, and from 2022, it surpassed the pre-reform level of budget revenues from profit tax. Unlike Estonia, we cannot compare data for more than 10 years here, but overall, if we look at Georgian data, the pre-reform benchmark was the share of profit tax in total tax revenues of 1 billion. After the reform, this figure almost halved, and this trend continued for several years, and by 2024 it had exceeded 3 billion, which means that the pre-reform figure had tripled. The positive result is also clearly

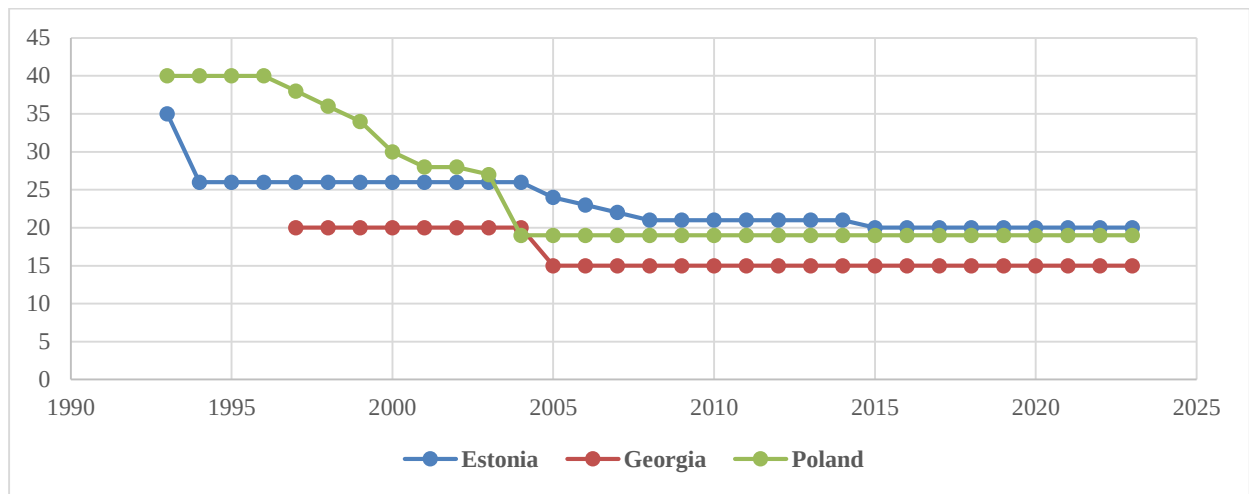
visible in the case of Georgia. It should be noted here that the profit tax rate has not changed. Attention should also be drawn to the fact that the introduction of this preferential model of profit tax in Georgia led to a decrease in budget revenues, which was balanced by an increase in the excise tax rate on certain types of goods.

In the very first year of the reform's initiation „Losses from corporate income tax reform (1.1 percentage points of GDP as the CIT changed from a profit to a dividend-distribution tax) and the compensating gains from higher excise rates (0.7 percentage points of GDP) were both lower than expected in 2017“ (International Monetary Fund, 2018).

The above hypotheses are confirmed by analyzing the given statistical data. In particular, in the long term, income from the profit tax in the state budget increases, while in the short term, this reform has the risk of causing a budget deficit in countries where this tax has a large share in the state budget (eg: Georgia) (Bukia, 2019b). This is due to the main essence of this reform, not to tax reinvested profits, because when reinvestment is carried out by entrepreneurs, which in turn leads to business expansion, initially such operations lead to a decrease in the funds mobilized in the budget (because they are not taxed), however, after a certain period of time (It takes on average 4–5 years), when the reinvested profits provide an opportunity to increase profits from their economic activities, this directly affects both the success of entrepreneurs and the state budget, as the income from profit tax in the budget increases.

If we look at the 30-year (1993-2023) trend of the change in the profit tax rates of all three countries (Georgia, Estonia, Poland), we will see that there is a decreasing trend in the given period (see Figure 3). In particular, the profit tax rate in Poland dropped from 40% to 19%. In Estonia, it fell from 35% to 20%. And in Georgia, it dropped from 20% to 15%. However, it should be noted that the lowest profit tax rate for the given period is in Georgia (15%).

Figure 3: Corporate income tax (profit tax) rates



Source: Tax Foundation. Tax rates. (Accessed: 12 August 2025)

This trend shows that countries are trying to ease the burden on taxpayers/entrepreneurs in profit tax both by reducing the tax rate and by exempting certain incomes from profit tax.

However, it is worth noting that Estonia has taken a different position on this issue since 2025, namely increasing the profit tax rate to 22% and plans to increase it to 24% by 2026 (Bolat & Jamroz̧y, 2025). It is also interesting to compare Estonia and Poland, both EU member states, using the same methodology presented by Eurostat (Statistical Office of the European Union). Based on data for 2016-2024, we can analyze the comparison of total tax revenues, the share of profit tax, and also the share of both of them in GDP (See table 2). The trend in the table shows that in the case of Estonia, the growth in total tax revenues as a share of GDP is recorded, just as the growth in the share of profit tax in GDP data is specifically visible. As for Poland, the decline in total tax revenues as a share of GDP is recorded and only in 2024 did it reach the pre-reform level, while, specifically, the analysis of the profit tax as a share data is uneven, although a generally decreasing trend is visible in the data. The table above allows us to say that, based on the processing of the available data (taking into account the limitations), the hypotheses presented in the article are confirmed. However, it should be noted once again that in the case of Poland, there is not enough time to assess the reform in depth.

Table 2: Main national accounts tax aggregates (Estonia and Poland)

Year	Estonia				Poland			
	Percentage of gross domestic product (GDP)	Total receipts from taxes and social contributions	Percentage of gross domestic product (GDP) - CIT	Taxes on the income or profits of corporations	Percentage of gross domestic product (GDP)	Total receipts from taxes and social contributions	Percentage of gross domestic product (GDP) - CIT	Taxes on the income or profits of corporations
2016	33.5	7435.1	0.2	38.2	34.1	145860.1	1.8	7833.7
2017	32.6	7922.3	0.2	40.4	34.7	162904.2	1.9	9011
2018	32.6	8622.6	0.3	71.2	35.4	178350.1	2.1	10401.3
2019	33	9398	0.3	93.6	35.4	190797.9	2.2	11775.6
2020	33.2	9260.3	0.3	81.9	35.9	190717.5	2.2	11900.1
2021	33.9	10659.7	0.3	95.5	37	215728.3	2.6	15023.9
2022	33	11992.3	0.3	111.6	34.7	229605.2	2.8	18302
2023	33.9	12999	0.5	185.8	35.7	268610.8	2.7	20032.8
2024	36	14346.2	0.5	206.4	37.4	317202.8	2.4	20315.6

Source: Statistical Office of the European Union. *Main national accounts tax aggregates* (Accessed: 21 August 2026).
note: Total receipts from taxes and social contributions (including imputed social contributions) after deduction of amounts assessed but unlikely to be collected, Million euro; Taxes on the income or profits of corporations - Million euro

Back in 2021, the World Bank focused on the issue of replacing capital expenditures with permanent accelerated depreciation in relation to Poland. In particular, the government should consider replacing the Estonian CIT scheme with permanent accelerated depreciation in capital expenditures/costs. If the introduction of the Estonian CIT is aimed at encouraging investment in productive capital, the government should consider alternative approaches that would achieve this goal more effectively and at a lower cost to the state budget. Replacing the Estonian CIT with permanent accelerated depreciation in capital expenditures (e.g., full depreciation in the first year of investment) is a more effective alternative than the government can consider in the future (World Bank, 2021).

„While there have been many studies on the effects of introducing taxation in the form of a DPT in other European countries, the Polish literature offers limited research“ (Dada & Dudziński, 2025). The results of a survey conducted among entrepreneurs in Poland by Dada & Dudziński indicate that the most common reasons for choosing this reform system are the reduction of the tax burden and the possibility of deferring tax liability until the moment of profit distribution (more than 90%). In addition, a significant proportion of the respondents cited the planned increase in financial liquidity as a motivating factor for changing the taxation method. The survey also includes the main question for the reform: whether they plan to reinvest - most subjects plan to use the saved funds for investments. The majority of respondents (63%) said that they would allocate these funds for investments (Mainly, 48.8% will be directed to long-term and 34.4% to medium-term

investments), while 30% answered that it is "difficult to say." (Dada & Dudziński, 2025).

In the above theoretical and fiscal overview, we have seen the approaches of the above countries in terms of legislation, as well as fiscal results in terms of budget revenues from profit tax. However, it is interesting here the attitude of taxpayers/entrepreneurs towards the given changes, whether the expectations of the state and entrepreneurs coincide. In this regard, it is interesting to conduct research regarding the expectations and results of this reform among taxpayers/entrepreneurs. To what extent the Estonian model of profit tax has become conducive to their activities, whether they have reinvested or not, what proposals can be made by them, which can be taken into account by the state. Therefore, it is important to have a relationship between the state and business to share information and ideas. It is interesting to conduct research in Estonia and Poland (The results of the above-mentioned survey of entrepreneurs in Poland conducted by Dada & Dudziński indicate that for 90% of entrepreneurs, the most common reason for choosing this reform system is the reduction of the tax burden and the possibility of deferring tax liability until the moment of profit distribution) and analyze the results. As for Georgia, around the issues listed above, I conducted research on the mentioned issues in two stages at different periods of time - in 2019 and 2023, and the obtained results can be compared with each other.

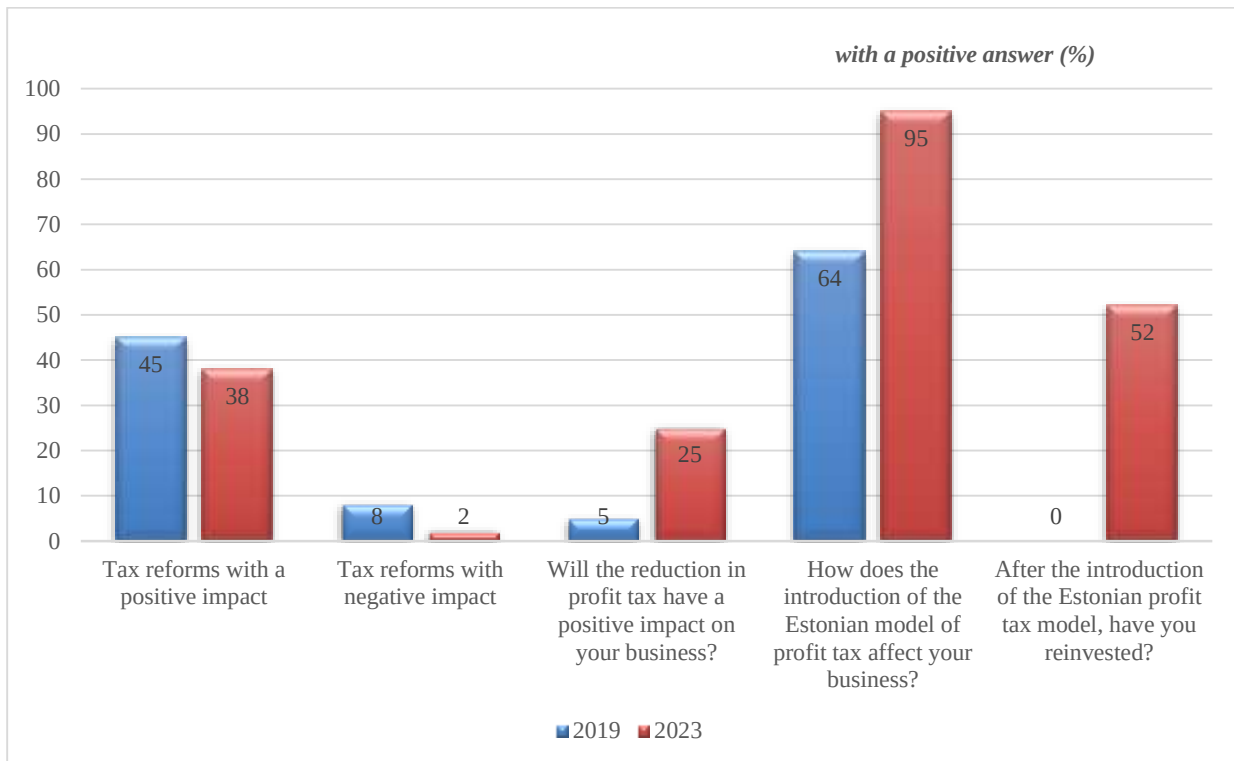
My research has generally covered the tax reforms of the last ten years and their effects, however, for the purposes of this article, the information obtained directly on the reform of the Estonian corporate tax model and their comparison is of interest. The main questions surrounding the mentioned reform included the clarification of such issues as:

- What is the impact of the introduction of the Estonian model of profit tax in their activities;
- The reform of the Estonian model of profit tax, when compared to other implemented reforms, according to entrepreneurs, is it a tax reform with a positive impact;
- The reform of the Estonian model of profit tax, when compared to other implemented reforms, according to entrepreneurs, is it among the tax reforms with a negative impact;
- In the opinion of entrepreneurs, which tax rate should be reduced in Georgia, which can have a positive impact on their activities (The answers indicate only the positive answers of the entrepreneurs who want to reduce the profit tax rate);
- And, in the 2023 survey, the main question was also added, whether reinvestment was carried out or not, after the introduction of this reform (this question was not included in the 2019 survey, because the implemented reform was introduced relatively recently, and therefore the research period was not sufficient).

The answers to these questions are compared to each other in terms of years. The percentages given

in the diagram (see Figure 4) show the percentage of positive answers to a specific question among the total surveyed taxpayers/entrepreneurs.

Figure 4: Research on the Estonian model of profit tax with entrepreneurs operating in Georgia



Source: own study

This study shows that according to entrepreneurs operating in Georgia, the reform of the Estonian model of profit tax has a positive effect on entrepreneurs, and the expectations of the state and entrepreneurs coincide to a large extent. In particular:

Among reforms with a positive impact - the reform of the Estonian model of profit tax has a positive response from 38 percent of entrepreneurs in 2023 (Bukia, 2023). If we take into account that the research included 6 implemented reforms, the given result indicates that this reform met the expectations of entrepreneurs. 45 percent of entrepreneurs had a positive answer to the same question in 2019 (Bukia, 2019a).

Among reforms with a negative impact - the reform of the Estonian model of profit tax was rated negatively by 2 percent of entrepreneurs in 2023 (Bukia, 2023). If we take into account that the study included 8 implemented reforms, this result is the best. When asked the same question in 2019, only 8 percent of entrepreneurs believed that the reform had a negative impact (Bukia, 2019a). According to this question, it can be seen that over time, fewer and fewer entrepreneurs think that the reform had a negative impact on their activities.

As for the question of reducing tax rates, it should be noted that Georgia has six taxes (income, profit, VAT, excise, import and property taxes) and 25 percent of entrepreneurs expressed their desire to reduce the rate of profit tax in 2023 (Bukia, 2023). Although the current profit tax rate in Georgia (15%) is one of the lowest rates in Europe. However, in 2019, only 5 percent of entrepreneurs wanted to reduce the profit tax rate (Bukia, 2019b).

Asked about the reform, how the reform of the Estonian model of profit tax has an impact on entrepreneurs, 95 percent of respondents evaluate it positively in 2023, which is clearly the best result (Bukia, 2023). As for the 2019 survey, 64 percent of the respondents positively evaluated the reform when asked the same question, although it should be noted that at that time the said reform had been implemented for 2 years, which did not allow all entrepreneurs to fully observe and evaluate. Therefore, 31 percent of entrepreneurs had a neutral position (rather than a negative one) when evaluating this reform (Bukia, 2019b).

As for the most important question surrounding this reform, which implies the implementation of reinvestment - as we mentioned, this question was not included in the 2019 study, because there was an insufficient analysis period. And in the 2023 survey, 52 percent of entrepreneurs noted that they reinvested after the implementation of this reform, and 42 percent intend to do so (Bukia, 2023).

In general, we can say that the reform carried out in Georgia was justified from the point of view of entrepreneurs, because a certain part of their income was exempted from profit tax. This is confirmed by the research of both stages among entrepreneurs. As for the mentioned reform from the side of the states, it refused a certain income in the budget for the benefit of the entrepreneurs, which in the case of the Georgian budget is quite a large amount. That is why we can say that the state's priority is to develop entrepreneurship and implement such reforms that will help them to expand their activities. This is intended for long-term development of entrepreneurs.

It should be said here that this reform is not widespread in the world and is limited to the example of only three countries. Among the study countries (Estonia, Georgia, Poland), for the purpose of analysis, Poland is represented for a short period after the reform, which does not provide a complete picture for comparison.

4. Conclusion

When evaluating this reform, we must take into account a number of factors. As we know, this reform was first introduced in Estonia, and later in Georgia and Poland. Naturally, the model introduced in Georgia and Poland is not identical to the reform introduced in Estonia (the priority of each country and its compatibility with other legislation is taken into account), however, the main essence of this reform, which is that reinvestment will not be taxed with profit tax, is identical in all three countries. This is a great support for

entrepreneurs who want to expand their activities, which in turn helps to create new jobs in the market. As for the rate of profit tax, over the last 30 years, it is distinguished by a decreasing trend in all three countries, however, after the implementation of this particular reform, only in Estonia the trend of decreasing the rate continued, while in Georgia and Poland the rates remained the same. However, here too we should draw attention to the fact that the given model in Estonia has been in force since 2000, in Georgia the mentioned model was introduced in 2017, and in Poland since 2021. Therefore, in contrast to Estonia, we cannot fully evaluate the given reform in the long term, on the example of Georgia (more or less) and Poland. The issue of reducing profit tax rates is absolutely a direction of tax policy and it is determined by the state based on the needs of the country. However, it should be said that among these three countries, Georgia has the lowest profit tax rate (15%).

As a result of the assessment of the legislative framework of the reform and the analysis of post-reform fiscal data, a certain relationship was identified between the events determined by the hypotheses (H1 and H2). The common characteristics suggest that these phenomena are interconnected and that examining them together is justified. And, the hypotheses formulated within the framework of the study have been confirmed (although it is worth noting that the study does not aim to establish a strict casual relationship). H1: The Estonian model of profit tax has a positive effect on budget revenues in terms of profit tax in the long term; H2: The Estonian model of profit tax can in the short term cause budget deficits for countries where the share of profit tax in total revenues is high. This means that in the short term the income from the profit tax decreases in the budget, while in the long term the income from the profit tax is characterized by an increasing trend. The mentioned hypothesis was confirmed when analyzing the statistical data of Estonia and Georgia. Where it is clearly seen that in the years following the introduction of this reform, the income from the profit tax in the budget decreases. In particular: in the case of Estonia, the trend of decreasing income from profit tax continued for about 4 years and then returned to the level it had before the introduction of the given reform, and the trend of the following years shows that income from profit tax has increased 6-7 times, which is definitely the best result. As for Georgia, like Estonia, in the years following the implementation of the reform, income from profit tax decreased in the budget. It took about 5 years for Georgia to return to the pre-reform level, and in the following years, a doubling of the pre-reform incomes was observed. However, we should note that the analysis period for long-term goals is insufficient in the case of Georgia (7 years after the implementation of the reform), in contrast to the example of Estonia (24 years after the implementation of the reform). As for Poland, considering that only 3 years have passed since the implementation of the reform, in this case the analysis of fiscal results for long-term goals does not show the full picture. However, the examples of Estonia and Georgia suggest that this hypothesis is likely to be true in the case of Poland as well.

As for the addressees of the implemented reform - entrepreneurs, it is natural that the interests of the

state and entrepreneurs should coincide in the best case. The research conducted by me in Georgia in two stages (which was carried out - in 2019 and 2023) shows that according to the majority of interviewed entrepreneurs, the introduction of the Estonian model of profit tax in Georgia is a reform with a positive impact and has a positive impact on their activities. As for the main purpose of this reform, to reinvest by entrepreneurs in order to promote their activities, more than half of the respondents have already reinvested after the introduction of the mentioned reform, while the rest of the entrepreneurs are going to reinvest. It should be noted that the research was purposefully conducted in two stages, in order to avoid positive expectations caused by the first impression and to obtain real results. Therefore, after a gap of 4 years, research was carried out again in the same direction, so that we could compare the views, expectations and results of the entrepreneurs with respect to the said reform. These studies have shown that the mentioned reform in Georgia has a pronounced positive impact on entrepreneurs, which in turn justifies the implementation of this reform on the example of Georgia.

As for implications - this study will be a recommendation for tax policy makers (Given the limitation). Also for any interested person who conducts research in this direction.

As for limitations, the generalizability of the results of the study conducted in Georgia to the entire country is limited, since despite the large number of respondents, there are many more entrepreneurs in the country. Therefore, a survey of entrepreneurs on a larger scale may have yielded different results. It is also worth noting that a certain number of entrepreneurs refused to participate in the survey. It would be interesting to conduct a survey on this reform in Estonia, and again in Poland, which would reveal the opinions of entrepreneurs.

In the future, in order to check and evaluate the dynamics, it is desirable to carry out a study of the course of this reform at certain intervals and compare the results with previous studies. It will also be very interesting to analyze the Polish fiscal data after a few years to see the real result of the reform and compare it with the example of Estonia and Georgia, to what extent the existing expectations have been justified in this regard.

In the end, we can say that this reform - the introduction of the Estonian model of profit tax - met the expectations both in Estonia and in Georgia. And in the case of Poland, its fiscal results will appear in a few years. If we take into account the fiscal data of the two countries, this allows us to assume that this reform will have the same effect in Poland as in Georgia and Estonia.

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