International Tax
Georgia Highlights 2017

Investment basics:

Currency – Georgian Lari (GEL)

Foreign exchange control – There are no foreign exchange controls and no restrictions on the import or export of capital. Funds may be repatriated in any currency. Both residents and nonresidents may hold bank accounts in any currency.

Accounting principles/financial statements – IAS/IFRS. Financial statements must be prepared annually. According to the new Law on Accounting and Financial Audit, certain statements (financial statements, management reports, statements on payments made to the state and audit opinions) must be filled after the ninth month of the reporting period by entities that fall into certain categories (category I, category II and public interest entities) defined by the law.

Principal business entities – These are the limited liability company, joint stock company, individual enterprise, limited partnership, entrepreneurial partnership, joint liability company, cooperative, branch and representative office.

Corporate taxation:

Residence – An entity generally is considered a resident of Georgia if it is registered in Georgia.

Basis – Residents are taxable on their worldwide income; nonresidents are taxed only on Georgia-source income.

Pursuant to the new profit tax rules effective from 1 January 2017, the tax base for Georgian resident companies and permanent establishments (PEs) of nonresident companies comprises actual and deemed profit distributions. The new profit tax rules do not apply to commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops until 1 January 2019, and these entities will continue to be taxed on their profits (the difference between income derived from economic activities and expenses that may be deducted under the tax code) until 1 January 2019.

Taxable income – Georgian resident companies and PEs of nonresident companies (other than the types of entities specified under “Basis,” above) are taxed on their actual and deemed distributed profit, including the following: distributed profits, expenses incurred or other payments not related to economic activities, gratuitous supplies of goods/services and/or transfers of funds and representation expenses that exceed the maximum amount set out in the tax code. To calculate the taxable amount, the amount of a distribution subject to taxation must be divided by 0.85.

According to the new law on profit distributions, the issuance of loans to an individual or a nonresident, or deposits of security for loans issued by third parties to such persons, is subject to profit tax; the amount of the tax base is defined by the amount of such loans. After actual payments are made on the relevant loan, the entity that was subject to tax on the deemed profit distribution is entitled to claim an offset and refund of the profit tax incurred in the reporting period of the deemed distribution.

Taxation of dividends – Dividends paid to another Georgian company are excluded from the taxable base. A distribution of dividends that were received from a nonresident company (other than a nonresident company registered in a low-tax jurisdiction) is not deemed to be a profit distribution. However, the payment of profit attributable to a PE to a nonresident company is deemed to be a profit distribution.

Resident enterprises, except for PEs, that distribute dividends on or after 1 January 2017 from net profits that were subject to tax during the period between 1 January 2008 and 1 January 2017 will have the right to offset the tax paid on the distribution against the profit tax paid in the prior reporting period, based on a formula provided in the tax code. The profit tax credit should not exceed the tax paid on the profit distribution, as envisaged in the tax code.

Capital gains – Capital gains are taxable as business income at the regular corporate income tax rate for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops.

Capital gains derived from related parties in a transaction carried out at a value that differs from the market value are deemed to be distributed profit for Georgian resident companies and PEs.

Losses – Losses may be carried forward for up to five years. A taxpayer may apply to the tax authorities for a 10-year carryforward period. The carryback of losses is not permitted. In conjunction with the new tax reform, these rules no longer apply to resident entities and PEs to whom the new profit tax rules apply as from 1 January 2017.

Rate – 15%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Profit taxes paid on income earned outside Georgia may be credited against Georgian tax, but the credit is limited to the tax assessed in Georgia on the income, in accordance with the applicable rates. This rule also applies to resident entities and PEs, with credit allowed against the profit tax on distributed profit.

Participation exemption – No

Holding company regime – No

Incentives – Taxpayers that are not taxable on their distributed profit may take accelerated depreciation on certain groups of assets, but the rate cannot exceed twice the normal depreciation rate provided in the tax code. These taxpayers also are entitled to fully deduct the costs of purchased or produced fixed assets in the year in which the assets are put into operation (a form of capital allowance); if the taxpayer utilizes the right of full deduction, this method must be applied to all fixed assets acquired/produced over the next five years. The full-deduction method cannot be applied to leased assets, nondepreciable assets or assets transferred to capital.

Withholding tax:

Dividends – Dividends paid to nonresident entities, noncommercial legal persons and to individuals (both resident and nonresident) are subject to a 5% withholding tax, unless the rate is reduced under a tax treaty.

Interest – Interest paid to residents and nonresidents is subject to a 5% withholding tax, unless the rate is reduced under a tax treaty. However, where interest is paid to a nonresident registered in a low-tax jurisdiction, the rate is 15%.

Royalties – Royalties paid to a nonresident are subject to a 5% withholding tax, unless the rate is reduced under a tax treaty. The rate increases to 15% if the recipient is a foreign company registered in a low-tax jurisdiction.

Technical service fees – Technical service fees paid to a nonresident (not engaged in oil and gas transactions) are subject to a 10% withholding tax. If the nonresident provides technical services with respect to oil and gas transactions, the rate is 4%. The tax rates may be reduced under a tax treaty.

The rate is 15% if the foreign company (other than a company engaged in oil and gas transactions, international telecommunication or international transportation) is registered in a low-tax jurisdiction.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – The property tax rate is established by the local authorities and may not exceed 1% of the average residual value of fixed assets, investment property, uninstalled equipment and construction in progress recorded in the balance sheet of a company on an annual basis. To arrive at the taxable base for real estate for 2017, the net book value of real estate at the beginning and end of 2017 is multiplied by a coefficient based on the purchase date: before the year 2000, the coefficient is 3; from 2000 to 2004, it is 2; and, in 2004, it is 1.5. (No coefficient applies for purchases after 2004.) The coefficients are not applicable to state-owned companies or to certain Georgian companies that record their immovable property based on the revaluation method, where certain other requirements are met.

Specific rates apply to land, depending on the location and fertility of the land.

Social security – No

Stamp duty – No

Transfer tax – No

Other – Any activity that requires a license for the use of natural resources (other than land) owned by the state is subject to a fee for the use of natural resources.

Anti-avoidance rules:

Transfer pricing – Georgian tax legislation contains comprehensive transfer pricing rules, and there are specific provisions in the tax code that are aimed at regulating the taxation of transactions between related persons. According to Georgian tax legislation, transactions between related parties can be “controlled” by the tax authorities, and the principle of fair market value should be taken into account. The tax authorities can compare the conditions of transactions between related persons with those of transactions between unrelated parties and can allocate income and expenses between related parties based on principles that would have applied in transactions between independent persons.

Georgian transfer pricing rules generally follow OECD transfer pricing principles. Five pricing methods are recognized for evaluating whether prices are at arm’s length: the comparable uncontrolled (independent) price; resale price; cost plus; net profit margin; and profit split methods.

Transfer pricing rules apply to cross-border transactions between a Georgian resident company and a related foreign company, or a Georgian resident company and an unrelated foreign company registered in a low-tax jurisdiction.

Taxpayers should maintain contemporaneous transfer pricing documentation, which should be submitted to the tax authorities within 30 calendar days of any request.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – Calendar month for taxpayers taxable on distributed profit/calendar year for other taxpayers

Consolidated returns – No

Filing requirements – Georgia operates a self-assessment regime. Tax returns for taxpayers that are taxable on their distributed profit must be filed, and tax paid, by the 15th day of the month following the reporting calendar month. For other taxpayers, annual income tax returns must be filed by 1 April of the year following the tax (calendar) year. The deadline may be extended for up to three months. Advance payments of tax are made in four installments. Taxpayers that are taxable on their distributed profit do not make advance payments of the tax.

Penalties – Penalties are imposed for failure to register with the tax authorities, failure to file and late filing of a tax return, late payment of tax and under-declaration of the tax liability.

Rulings – A ruling may be obtained from the tax authorities on the tax consequences of a transaction.

Personal taxation:

Basis – Resident and nonresident individuals are taxable only on Georgia-source income. Dividends and interest received by resident individuals from resident companies are excluded from the taxable base.

Residence – An individual is resident if he/she is present in Georgia for more than 183 days in any continuous 12-month period ending in a tax year, or if the individual was in the Georgian state service abroad during the tax year.

Filing status – Each registered individual taxpayer must file a separate return. Families, however, may file joint property tax returns.

Taxable income – The main categories of taxable income include employment income, dividends and interest, royalties, pensions, rental income, income from the disposal of property and income from independent activities, including business income (i.e. individual entrepreneurs).

Capital gains – Capital gains derived from a business activity are included in business income. Income of individuals from the sale of private property not related to a business activity is not taxable if the property has been held for more than two years. Capital gains are included in gross income and, after relevant deductions, are taxed at a rate of 20%.

Deductions and allowances – Expenses related to business activities are deductible for individual entrepreneurs. There are no personal deductions or allowances.

Rates – Employment income (including benefits) and the income of individual entrepreneurs is taxed at 20%.

Income from renting out residential space to a person solely for residential purposes, and where no deductions are taken from this income, is taxed at 5%.

Dividends and interest are taxed at 5%.

Income from the sale of vehicle or a residential apartment (house) with an attached land plot is taxed at 5%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Households with annual income below GEL 40,000 are exempt from property tax on real estate and light vehicles. Where annual income is between GEL 40,000 and GEL 100,000, the tax is payable at rates ranging from 0.05% to 0.2% of the market value of the taxable property; above GEL 100,000, the rates range from 0.8% to 1%.

Inheritance/estate tax – Gifts with a value not exceeding GEL 1,000 are exempt, other than gifts received from employers. Gifts to first and second-degree relatives are fully exempt from personal income tax, while gifts to third and fourth-degree relatives are exempt up to GEL 150,000 per year.

Net wealth/net worth tax – No

Social security – No

Compliance for individuals:

Tax year – Calendar year

Filing and payment – A tax return must be submitted by 1 April following the tax year. Tax on employment income is withheld and remitted to the tax authority by the employer, and tax returns are filed on monthly basis. Other income is self-assessed. Income tax payable by individual entrepreneurs is due in four annual installments. For other individual taxpayers, the liability is settled in one payment on 1 April following the tax year.

Penalties – Penalties are imposed for failure to register with the tax authorities, failure to file and late filing of a tax return, delayed payment of tax and the under-declaration of the tax liability.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision of services and imports.

Rates – The standard rate is 18%; certain transactions are exempt.

Registration – A business with annual business revenue of GEL 100,000 or more must register for VAT purposes.

Filing and payment – Filing and payment must be made by the 15th day of the month following the reporting calendar month. Input VAT may be credited against output VAT.

Source of tax law: Tax Code of Georgia

Tax treaties: Georgia has concluded tax treaties with 53 countries, and tax information exchange agreements with eight countries. Georgia does not honor the treaties concluded by the former Soviet Union, except for the treaty with Japan.

Tax authorities: Revenue Service of the Ministry of Finance

Contact:

Giorgi Tavartkiladze
(gtavartkiladze@deloitte.ge)