

## Georgian Tax & Legal News

### Refer to the Law



### Possible changes to the Georgian Tax Code

The Ministry of Finance has introduced a number of amendments to the Tax Code aimed at changing the Georgian corporate income tax regime.

The introduced amendments are based on Estonian legislation. According to the explanation included in the draft bill, the changes are intended to accelerate economic growth in the country, promote the establishment of a dynamic business environment and improve tax administration. According to new model, those companies that reinvest the retained earnings to the company are exempted from corporate income tax.

Therefore the taxable base for corporate income tax will be changed and the following categories will be subject to taxation:

- Distributed profit;
- Expenses incurred or paid that are not connected to economic activity;
- Goods supplied or services rendered free of charge and/or delivery of financial resources;
- Incurred representative costs that exceed the maximum amount established by the legislation of Georgia.

### Important amendments to the Law on Entrepreneurs

On 29 February 2016, important amendments to the Law on Entrepreneurs entered into force. The aim of these amendments is to protect the rights of minority shareholders (a shareholder or group of shareholders that own up to 5% of shares), improve the management processes of an enterprise and increase transparency. According to the amendments:

- Dividends of a joint stock company or a limited liability company that allow intermediate distribution shall be issued no later than nine months from the decision to issue such dividends;
- In case of an increase in a limited liability company's capital, a shareholder may require a proportional increase of her/his/its share in exchange for a respective contribution in the capital;

- The supervisory board of a joint stock company that is admitted to the securities market must contain at least one independent member without representative authority;
- It is also established that the chairman of a supervisory board of a limited liability company cannot at the same time be a director of the same company.

## Possible amendments to the Law on Public Registry

The Parliament of Georgia is currently discussing amendments to the Law on Public Registry that aim to regulate the registration of economic activities of legal entities.

According to the bill, a new Economic Activities Registry will be created, which will register information about the economic activities of entrepreneurs, non-entrepreneurs and other entities, and information regarding the place such economic activity.

The new law will also establish requirements related to compulsory and voluntary registration, the involvement of other administrative bodies in the registration process as well as how the decision on registration enters into force and its validity.

The legal definition of the term “economic activity” will also be determined, and the government will establish a special national classifier for different types of economic activities. In addition, there are plans to amend the form of an extract of a company from the Public Registry and add information about its economic activity.

## Other legislative changes related to the creation of the Economic Activities Registry

Another important amendment related to the creation of the Economic Activities Registry has been introduced to the Georgian Law on Public Health. According to the bill, a new state authority responsible for monitoring aesthetic and cosmetic procedures in respective establishments will be created. This authority will work to prevent and control the spread of infectious diseases.

Amendments have also been introduced to the following laws:

- Food Products/Animal Feed Safety, Veterinary and Plant Protection Code;
- Law On Entrepreneurs;
- Law on Labor Migration;
- Law on Controlling Entrepreneurship Activities;
- Law on Administrative Offences.

## Other possible amendments to the Georgian law on Public Registry

In addition to the abovementioned changes, Parliament is also discussing other amendments to the Law on Public Registry aimed at regulating the legal status of a *bona fide* possessor (an individual) of immovable property.

According to the bill, a *bona fide* possessor will be authorized to register the title on immovable property that, according to Public Registry’s information, is not owned by other individuals or entities. A *bona fide* possessor must start the registration process within five years of acquiring the property.

## Case Law

The Tbilisi city court made an important decision on 15 January 2016 regarding the compensation of damages based on insurance contracts (Case №2/10224-15).

The question was related to damage caused to property by the water poured by firefighters to extinguish a fire. The insurance company argued that it was responsible only for damage caused by the fire burning.

According to the court's interpretation, the test of "if not" (*conditio sine qua non*) had to be used in order to determine the cause of the damage. While damage was, indeed, partly caused by water, the water would not have been in the building if the fire had not been burning. Therefore, fire was primary and inevitable reason for the damage suffered and consequently, there is the cause between the fire and suffered damages.

# Deloitte Legal

## Representing Tomorrow



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