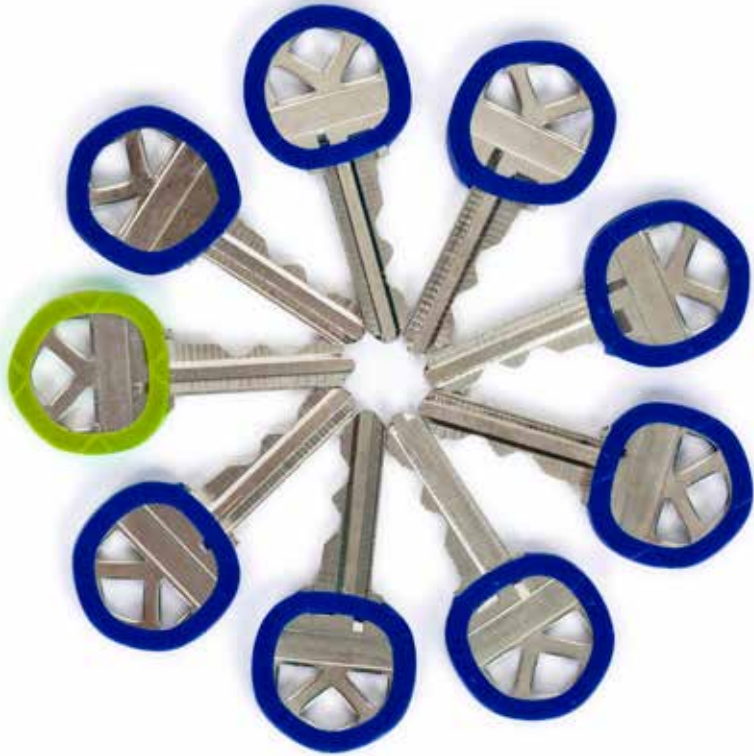


**Deloitte.**



**Guide to Taxation and  
Investment in Georgia**

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# Business and Investment Environment

## Introduction

Georgia is the aspiring economic center of the Caucasus. It boasts years of robust economic growth, liberal tax and labor legislation, business friendly practices, low corruption, high security and openness to foreign investment. Georgia signed the association agreement with the EU in 2014 and an aspiration to join the EU will guide future policy decisions. On February 2nd 2017, the European Parliament voted in favor of visa-free travel for Georgian citizens to the Schengen Area at the plenary session and the visa-free regime between Georgia and the EU will enter into force in April 2017. Georgia has state and private investment funds that welcome foreign investments to implement large scale projects in agriculture, tourism and hydro energy generation.

The World Bank rated Georgia as the 16th easiest place in the world (among 190 countries) to do business in 2017. Heritage Foundation ranked Georgia 13th (among 180 countries) for its economic freedom in 2017. Georgia has a Standard and Poor and Fitch ranking of (BB-) for the 2017 fiscal year. International securities markets showed their confidence in Georgia by the oversubscribed purchase of the state bonds in 2011. The state securities trade at about 450 bps above the comparable US treasury

rates. Georgia has ongoing IMF program as a stand-by, if financial need emerges, considering the tensions in the country's major trade partners: Russia and Ukraine. The government's statement of the long term priorities and plans emphasize energy, agriculture, regional trade. Georgia has minerals, water, hydro power and gold resources. Expansion of the financial sector, hydropower, mining, apparel production, telecommunications, on-land and sea transport services significantly enhanced the country's GDP.

Georgia has a picturesque sea coast and two modern seaports allowing easy access to all the world's marine centers. Georgia has a track record of prudent macroeconomic management, with low budget deficits and low inflation. Georgia is a small open economy, not immune to the economic trends of the trading partners. On the positive note, the cheaper local currency may facilitate exports. The Central Bank and the Ministry of Finance coordinate their efforts to counteract negative international trends that led to the depreciation of the local currency. Georgia has large unemployment and predominantly young population, which can be a benefit for the firms seeking to enter the market. However, some skills upgrade may be needed for the local, entry level hires. As in any transitional country, changes and fine-tuning of policies are frequent

which may lead to confusion. Penalties for tax and customs violations are strict and so is their enforcement.

The effective Tax Code of Georgia was enacted from September 2010, uniting the tax and customs legislation. Many consider that the introduction of a new Tax Code is the major step forward

that will allow Georgian market reforms to advance in the right direction.

The Tax Code was simplified, but some uncertainties remain. The Ministry of Finance officials strive to limit the number of Tax Code amendments per year to a maximum of three packages and establish clear rules of tax dispute.

#### Georgia country key facts

Population	3.72 m (2016)
Territory	69,700 square kilometers
Autonomy	Adjara Autonomy Republic, Abkhazia Autonomy Republic
Neighbor states	Azerbaijan, Russia, Turkey, Armenia
Capital	Tbilisi (pop. 1,113,000)
Other main cities	Kutaisi (pop. 147,900), Rustavi (pop. 126,000), Batumi (pop. 154,600)
Currency	Georgian Lari (GEL)
Language	Georgian
Stock Exchange	Georgian Stock Exchange (GSE)
Official share index	GSE Index

### **Deloitte in Georgia**

Deloitte provides services to Georgian clients and investors in Georgia from its office in Tbilisi. The firm offers accounting, statutory and international auditing, tax consulting and legal services. The Georgian office of Deloitte is part of the Deloitte Touche Tohmatsu global network.

We offer our clients locally oriented, individual services with the background and resources of an international organization. We have the strength, knowledge and expertise to provide sound advice for any business needs, anywhere in the world. When you call on us, you call on the resources of a strong local practice and an integrated global network. For a relatively new marketplace, our experience is wide-ranging and comprehensive. The scope of our services matches the needs of our clients. In this rapidly evolving market, we have to remain flexible and responsive to the needs of our clients.

### **Forms of Business Organization**

The main types of business organizations in Georgia are general partnership, limited partnership, Limited Liability Company, joint-stock company, cooperative. Foreign organizations can also pursue their business interests using the registered branches and representative offices. An individual person can also conduct entrepreneurial activities as an individual enterprise.

### **Legal Requirements for Establishing a Company in Georgia**

In order to establish an enterprise a number of documents must be submitted to the National Agency of Public Register of Georgia. The documents required are stipulated in the "Law on Entrepreneurs", namely: Article of association or the charter, which includes: company name, legal form, legal address, official email address, main activity, name, first name, date, place of birth, and place of residence of an entrepreneur and every founder of the partnership, company name and information on its registration in case the founder is a legal person; representative authorities.

In addition to the above mentioned, limited liability companies and limited partnerships should submit information on the contributions made by each founder, and their shares, accordingly; name, first name, date and place of birth and address of each director, and each member of supervisory council (if any); full information on the enterprise's authorized representatives, directors, procurators (if any). Limited partnerships should also submit the list of limited partners as well as the list of general (personally liable) partners.

If the partner is a legal entity, the decision of partners on founding a company would also be needed.

If the director of the company is not the founding partner of the company, in this case his/her consent of becoming the authorized representative would also be required for submission.

Notarization of the registration application shall not be mandatory if the authorized persons sign it in person at the registration authority or if the registration application has been duly certified by the administrative authority. It should be taken into consideration that a document confirming the contribution to the authorized capital is not required and a document certifying the title to the enterprise's office premises is required by the state authority.

The National Agency of Public Register of Georgia registers the enterprise within one day after the date of submission of the documents. In case the state authority fails to register the enterprise within the mentioned period, they provide a substantiated refusal or a reason to the applicant in order for the enterprise to correct an error indicated by the state authorities within 30 calendar days after submission of the application form. In order to register an individual enterprise an individual person must submit to the National Agency of Public Register of Georgia an application. The state authority registers the individual enterprise within one day after the date of submission

of the documents. The application form must include: name of individual entrepreneur; first name and surname, place of residence, ID Number, the date of the submission of the document, signature and e-mail of an individual entrepreneur.

### **Establishing a Branch of a Foreign Company in Georgia**

First of all, the foreign company should notify the National Agency of Public Register of Georgia of the intention to establish a branch. The following documents are required by the state authorities for the registration of a branch: decision of the enterprise management on creating a branch, a copy of the enterprise's and a branch's statutes, decision on appointment of a branch manager or warrant giving him a power of authority, copy of passport, consent of a Director who will be appointed as the director of the Branch.

### **Authorized Capital and Contributions of Partners**

In terms of the Law "On Entrepreneurs", the authorized capital of a Limited Liability Company may be determined with any amount.

A Joint-Stock Company is a company with the authorized capital divided into shares. The minimum nominal value of the authorized capital may be determined with any amount. The most frequent form of ownership in Georgia is a Limited Liability Company.

### **Licensing and Compulsory Notification to State Authorities**

The law of Georgia, #1775 on “Licenses and Permits” adopted on 24 June 2005, that abolished the Law #1426 dated 14 May 2002, defines business activities to be licensed by the corresponding state agencies. It is prohibited to establish any license for an activity that is not provided by the abovementioned law.

Furthermore, the law enumerates the types of business activities which require notification to the corresponding state agencies.

### **Acquisition of Real Estate in Georgia**

The transfer of title to immovable property is regulated by the Civil Code of Georgia (which came into force on November 25, 1997). Immovable property includes land-plots with fossils (minerals), plants and buildings.

In order to purchase immovable property it is necessary to submit a legalized (notarized) document indicating ownership and an extract of the purchaser’s registration in the National Agency of Public Register of Georgia. The seller and purchaser could also submit an application for registration. The title to agricultural land plots is granted to citizens of Georgia and private legal entities registered according to Georgian legislation.

### **Exchange Controls**

Georgia has adopted a very liberal monetary policy that is investor friendly. There are some legal restrictions for taking foreign currency in or out of Georgia both in cash and credit forms. A loan can be issued in a foreign currency to an individual if the amount of the loan exceeds GEL 100,000 (hundred thousand). In January 2017, the president of the National Bank issued Orders N4/04 and N5/04 that enable commercial banks to issue loans and bank credits to individuals in the amount of GEL 100,000 (hundred thousand) and below in foreign currency in case the borrower is not a citizen of Georgia.

The National Bank of Georgia pursuant to the Law on “The National Bank of Georgia” No. 24/04 dated April 7, 2011, controls the monetary regulations in Georgia.

In terms of the Decree of the President of Georgia No. 363, dated September 16, 1995, all legal and physical entities are obliged to estimate all prices for products and services, prepare declarations and calculations within the territory of Georgia only in national currency, which is Lari. Therefore, Georgian currency is the only permitted instrument for settlements within the territory of Georgia.



### **Bank Accounts and Confidentiality of Bank Information in Georgia**

Resident and nonresident entities of Georgia have a plenipotentiary power to open and dispose of any accounts in national as well as any other foreign currency. In order to open foreign currency bank accounts the entities conducting their activities in Georgia are obliged to submit a document confirming their registration with the National Agency of Public Register of Georgia or the tax authorities. As for legal entities and their branches, in order to open an account they are required to submit additional documents confirming their registration and foundation.

Cash may be transferred abroad without any limitation, provided there is a valid order by the nonresident owner of the bank account instructing the bank of this transfer. In order to transfer foreign currency abroad, residents (entrepreneurs) are required to indicate in the payment order the purpose of operation and present the documents confirming the legality of the operation to be performed.

In the territory of Georgia payments between residents and nonresidents are to be carried out in the national currency of Georgia, except for operations connected with export and import activities

that may be performed in any foreign currency acceptable to the parties. According to the Law of Georgia, #121 on Activities of Commercial Banks (dated 23 February 1996), disclosure of confidential account information is prohibited. Such information may be disclosed only on the basis of a Court decision.

### **Investment Incentives**

#### **Object of Investment Activities and Rights of Foreign Investors**

The Law of Georgia "On Promotion and Guarantees of Investment" No. 473, dated November 12, 1996 determines the legal grounds of making both foreign and domestic investments in Georgia and guarantees their protection. An Investment is any kind of property or intellectual value or right to be contributed and used in the entrepreneurial activity made on the territory of Georgia for earning of possible income. An Investor is any physical or legal person, or international organization making investments in Georgia. A Foreign investor may be a citizen of a foreign country (alien), a stateless person not residing in the territory of Georgia, a citizen of Georgia permanently residing abroad, or a legal person registered outside Georgia.

A foreign investor, whilst executing investment and entrepreneurship,

is guaranteed and enjoys equal rights to those granted a physical and legal person of Georgia. A foreign investor, after payment of taxes and other mandatory charges is entitled to repatriate the earnings (income) gained from investments as well as other funds abroad without any limitation. This right can be limited only by law, a Court verdict in case of bankruptcy, committing a crime and violation of civil obligations. Besides, a foreign investor has the right to take abroad the property which he owns.

### **Investment Protection in Georgia**

Investment in Georgia is entirely and unconditionally protected by the applicable law. Investment may be seized in cases directly specified by the law, by the court decision or in case of emergency established by the fundamental law, provided there is appropriate compensation thereof.

Compensation to be given to the investor shall correspond to the real market value of the confiscated investment at the moment of the deprivation. Compensation shall be given without any delay and shall account for the losses incurred by the investor from the moment of deprivation until the payment of the compensation.

### **Compulsory Registration with the National Agency of Public Registry of Georgia**

A company registered in Georgia or any entity carrying out economic activity in the territory of Georgia should register with the legal entity of public law National Agency of Public Register of Georgia on a mandatory basis. The National Agency of Public Register of Georgia shall assign an identification number to each taxpayer to be used for all taxes, including customs tax.

Pursuant to the Tax Code, a taxpayer will be subject to payment of financial penalties in case of performing activities without being registered with the state authorities.

### **Law of Georgia on Accounting and Financial Audit**

On 8 June 2016, Georgian parliament passed a new Law on Accounting and Financial Audit that will have a significant effect on the businesses environment, challenging companies' ability to quickly adopt to changes of the future with the least possible effect on their operations.

The new Law on Accounting and Financial Audit classifies entities in 5 major categories. Entity should meet at least two of following criteria to fall into categories 1-4.



Category	Total Assets (GEL)	Operating Revenue (GEL)	Employees
I	> 50 mln	> 100 mln	> 250
II	< 50 mln	< 100 mln	< 250
III	< 10 mln	< 20 mln	< 50
IV	< 1 mln	< 2 mln	< 10
PIE	Public interest entities including: commercial banks and credit institutions, microfinance and insurance companies, non-governmental pension funds, investment funds, nonbank depositories and credit unions, other companies, defined as PIE by the Georgian Government.		

Size categories for the Group are determined based on the consolidated financial numbers using the same table above.

## Financial Accounting and Reporting Requirements

Category	Reporting framework	Audit obligation	Management report obligation	Full financial reporting and filing obligation	Other reporting requirements
PIE	IFRS	Yes***	Yes	Yes	Payments made to the state* Non-financial report**
I	IFRS	Yes***	Yes	Yes	Payments made to the state*
II	IFRS for SME (Optional - IFRS)	Yes***	Yes	Yes	None
III	IFRS for SME (Optional - IFRS)	No	No	Yes	None
IV	Defined by Agency  (Optional - IFRS, IFRS for SME)	No	No	Yes	None

\* Payments made to the state is a mandatory report for entities, which perform oil and gas extraction and wood production from natural forest.

\*\* Only those PIEs who fall under category I.

\*\*\* Are not exempt from standalone audit even if they are subsidiaries of the audited group.

## Management Report

All PIE, category I and II entities are obliged to prepare management reports.

Management report shall include:

- Review of the entity's activities (development plans, share movements, risk assessment and management tools etc.);
- Corporate Governance Statement; (Obligatory for listed entities);
- Non-financial statement. (Obligatory for PIE's which fall in category I).

PIE and enterprises of the first and second categories shall provide the management report to an audit firm for opinion. Management report information can be disclosed in financial statements of the entity.

Management report should include: review of the entity's activities (development plans, share movements, risk assessment, management tools etc.)

## Filing and Publishing Financial Statements and Enforcement Dates

New regulation will enter into force from January 2017 for category I, II and PIE and from January 2018 for category III and IV.

Following statements should be filled no later than October 1st following the reporting period:

- Financial Statements
- Management Report
- Statement on payments made to the state
- Audit Opinion

## Other important requirements

- An entity shall prepare financial statements at least once a year and should disclose the comparative numbers as well;
- PIEs shall publish financial statements (including consolidated financial statements) at their webpages;
- Where an entity / group after an end of the two successive reporting periods no longer meets at least two criteria from the size category table the size category of an entity / group shall change and requirements of a new category apply;
- The entity shall be entitled to use only a standard permitted for entities belonging to a larger size category;
- Entities that fall under PIE, category I and II are also obliged to have audit of their financial statements done in accordance with the law even if they are part of the Group that has been audited;
- Financial statements and supporting documents should be maintained for 6 years after the end of the financial year.

# Taxation in Georgia

## Taxation System

The Tax Code of Georgia is the principal source of tax law and is referred to as a normative act. The Tax Code has been amended several times since it was published on December 22, 2004. With effect from January 1, 2011 the Parliament of Georgia adopted the new Tax Code of Georgia. While other laws may affect taxation, they may not contradict the provisions of the Tax Code. Tax exemptions and concessions may be granted only through amendments to the Tax Code. Tax issues cannot be regulated by other legislation, except for administrative offenses (included in the Administrative Offense Code), tax crimes (included in the Criminal Code), priority of tax obligations (included in the bankruptcy laws), levies, and provisions pertaining to the Law “on Tax Liabilities and State Loans Restructuring”.

## Definitions of terms in the Tax Code

The Tax Code contains a number of definitions, many of them having a specific meaning that may differ from their common meaning, in some cases they are adopted from other laws by reference. However, in some cases the definitions of the terms used in Tax Code are not provided at all. Therefore, it is very important to understand and apply the terms provided in the Tax Code correctly.

## Personal Income Tax

### Tax Jurisdiction

Non-residents and tax resident individuals are subject to Georgian income tax only on income received from Georgian sources.

An individual is considered to be a resident of Georgia for personal income tax purposes if he or she is present in Georgia for more than 183 days in any 12-month period ending in a tax (calendar) year.

The personal income tax is imposed on wages and other forms of compensation paid to employees as well as income earned by physical person, entrepreneurs from their economic activities.

Payers of income taxes are:

- employers (except free economic zone enterprise) who are paying wages (both in monetary or non-monetary forms) to physical persons or employees in Georgia;
- physical persons entrepreneurs, organizations and permanent establishments who make payments to physical persons who render services in Georgia and are not registered as taxpayers at the tax agency;
- Physical person, entrepreneurs and partnerships who are conducting entrepreneurial activity in Georgia.

### **Taxable Income and Exemptions**

Resident individuals are taxable on their domestic income, i.e., on income “received” from Georgian sources. Income is taxable irrespective of whether it is received in cash or in-kind. The following benefits received by a resident individual are specifically excluded from the taxable base of personal income tax: dividends and interest received from resident companies, which were previously taxed at the source of income.

### **Tax Rates**

Unless other rates apply (for example, for dividends and interest), income of an individual person is taxed at the flat rate of 20%.

Income from renting out the residential space to a person for only residential purposes and not making any deductions from this income shall be taxed at 5%.

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

### **Payment of Income Taxes**

Generally, income taxes are withheld at the source from payments of wages, dividends, interest, and some other types of payments to nonresidents. The physical or legal person (including branches and other structural units of Georgian legal entities) making such

payments must, as a tax agent, withhold the income tax and pay it to the budget. Any person (individual entrepreneurs, foreign or Georgian companies) who makes a payment to a physical person not registered at the tax agency as a tax payer for work performed and services rendered is required to withhold income tax at the source of payment.

The following tax agents withhold income taxes at the source of payment: Physical person – entrepreneur who makes payments to physical persons working as employees in his individual enterprise; a legal person who makes payments to physical persons working as employees; a physical or legal person paying pensions to physical persons, with the exception of pensions paid under the state social security system; a resident legal person paying dividends to physical persons; a physical or legal person (except licensed financial institution) paying interest to physical persons; a physical or legal persons making payments to non-residents; branches and other separate units of foreign companies.

### **Profit Tax**

#### **Tax Jurisdiction and Payers of Profit Tax**

Legal entities incorporated in Georgia are normally treated as tax residents and are taxable on their worldwide income. Legal entities incorporated abroad are normally treated as foreign tax residents

("nonresidents") and are taxable on income from Georgian sources or income from performing business activities through their permanent establishment in Georgia. The profit tax is imposed on profits earned by Georgian and foreign enterprises.

Branches of Georgian companies do not pay profit tax independently, but consolidate their profit (or loss) with the main enterprise, which pays the total profit tax.

### **New Profit Tax Rules in force from January 2017**

Georgia is actively looking for ways how to stimulate economic growth and attract more investments from foreign and local investors. Georgian government considered the Estonian 16 year experience with different corporate model as one of the potential ways forward.

Following protracted negotiations and discussions, the Georgian parliament adopted and the president signed into law amendments and an addendum to the Tax Code in May 2016, which fundamentally reformed the profit tax regime for Georgian companies and permanent establishments (PEs) of nonresident companies. The profit tax regime, under which companies are subject to tax on their annual taxable profits, is changed to a system where tax has to be paid only if corporate profits are distributed, similar to the system adopted by Estonia.

In conjunction with the reform, certain tax rules cease to apply to resident entities and PEs of nonresident entities as from 1 January 2017, including the tax depreciation rules, the thin capitalization rules and the tax loss carryforward rules.

### **Objects of Taxation**

The new profit tax rules are effective as of 1 January 2017, however these rules do not apply to commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops until January 2019. The new profit tax system apply only to Georgian resident companies and PE of nonresident companies and the tax base comprise both actual and deemed profit distributions, 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 defined in the tax code.

Special rules apply to profits arising from transactions related to oil and gas, under current agreements to engage in these activities that were concluded before 1 January 1998 in line with Georgian laws; these profits are be taxed



according to the provisions and tax norms that applied before 1 January 2017.

### Tax Filing and Payment Due Dates

The profit tax rate remained unchanged at 15%, however, to calculate the taxable amount, the amount of a distribution subject to taxation must be divided by 0.85. In the case of a gratuitous supply of goods/services, the taxable amount shall be determined based on the market value of the goods/services.

The tax reporting period is a calendar month. Tax returns have to be filed, and tax paid, no later than the 15th day of the month following the reporting calendar month.

### Items subject to tax

**Distributed profits:** Under the law, amounts distributed to shareholders as dividends in a monetary or nonmonetary form is considered taxable distributed profits. However, an allocation of dividends received from foreign enterprises (with the exception of entities resident in a low-tax jurisdiction) is not considered to be distributed profits.

Payments made to a nonresident enterprise, whether in a monetary or nonmonetary form, from profits earned from a PE's activities are treated as distributed profits of the PE. The profits attributable to a PE is the profits that it would be possible for the PE to generate as an independent

enterprise engaged in the same or similar activities, operating under the same or similar conditions.

The following items also should be treated as profit distributions:

- Transactions carried out by an enterprise with related parties that are not subject to profit tax and if the value of the transaction agreed to between the parties is different from the market value and their interdependence affects the result of the transaction;
- Cross-border transactions with related parties, if the conditions established for such transactions do not comply with the arm's length principle; and
- Transactions carried out by an enterprise with a party exempt from income/profit tax (except for a budgetary organization), if the value of the transaction is different from the market value.

If resident enterprises 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, they have the right to offset the tax paid on the distribution against the profit tax paid in the prior reporting period. The profit tax credit should not exceed the tax paid on the profit distribution, as envisaged in the Tax Code. The amount of tax credit is calculated according to the following formula:

**A×B / (C-D)**, whereby:

A – The amount of dividend subject to distribution;

B – The profit tax accrued and paid during a reporting period from 1 January 2008 to 1 January 2017;

C – The net profit earned within a reporting period from 1 January 2008 to 1 January 2017;

D – The value of shares/stakes of the enterprise transferred to its partner in exchange for dividends from the net profit earned by such enterprise during the time from 1 January 2008 to 1 January 2017.

**Expenses incurred or other payments not related to economic activities:**

The law provides a list of expenses that are not be considered to be related to economic activities, which are treated as deemed profit distributions, and the key categories of such expenses are the following:

- Undocumented expenses;
- Expenses that are not incurred for the purpose of deriving profit, income or compensation; and
- Interest payments on loans at a rate higher than the annual threshold rate defined by the Georgia Minister of Finance.

The new profit tax rules also set forth other types of payments that are subject to profit tax as deemed profit distributions, and the key categories of such payments are the following:

- Payments made for the acquisition of a debt security issued by a person resident in a low-tax jurisdiction, or by a person exempt from profit tax under Georgia's tax code;
- Payments of penalties/fines arising from contractual relationships or advance payments made to a person resident in a low-tax jurisdiction, or to a person exempt from profit tax under Georgia's tax code (except a budgetary organization);
- Capital contributions or payments for the right to participate in the equity of a nonresident or a person exempt from profit tax under the tax code;
- Issuance of loans or payments made for the acquisition of a claim toward a person resident in a low-tax jurisdiction, or a person exempt from profit tax under Georgia's tax code (this rule will not apply to commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops); and
- Issuance of loans to a resident individual or a nonresident, or deposits of security for loans obtained by an individual or nonresident from a third party, in which case the amount of the tax base is defined by the amount of such loans (this rule will not apply to commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops).

However, where actual payments are made in relation to an acquired debt security, equity participation or claim transfer or, in the case of loans/advance payments, where a loan secured with a deposit is paid off or goods/services are delivered in exchange for the advance payments, 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.

The list of countries that shall be deemed low-tax jurisdictions is defined by a decree N615, issued by the government on 29 December 2016.

**Gratuitous supplies of goods/ services and/or transfers of funds:**

According to the law, a supply of goods/ services that is not made for the purpose of deriving profit, income or compensation are considered to be a gratuitous supply that is subject to tax as a deemed profit distribution. A shortage of inventory or fixed assets also are deemed to be a gratuitous supply of such goods at the time when the shortage is identified.

The following are major exceptions to the gratuitous supply of goods/services rules, which are not be subject to profit tax:

- Donations made to a charitable organization during a calendar year, which do not exceed 10% of the net profit derived during the previous calendar year;
- Gratuitous transfers of goods or funds that already have been taxed at source, and
- Gratuitous supplies of goods/services or transfers of financial resources to the government, municipalities or legal entities under public law.

**Representation expenses:**

According to the law, the maximum amount of representation costs incurred during the calendar year shall be 1% of the income received during the previous year (1% of expenses incurred, if the expenses exceed the income); any excess costs shall be treated as a deemed distribution of profits. The maximum amount of representation costs incurred in the year of incorporation shall be 1% of expenses incurred by the end of the current calendar year.

**Legal entities to whom new profit tax rules do not apply**

Old profit tax rules will continue to apply to organizations, PSA contractors and to a person on profit gained in case of organizing a betting house in a systemic-electronic form. Herewith Commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops will shift to new profit tax rules as from January 2019.

### **Taxable Income**

Legal entities to whom new profit tax rules do not apply are taxed on profit, which is determined as gross income from economic activities less allowable deductions, at a flat rate of 15 percent. For Georgian enterprises gross income includes all income, regardless of its source or place of payment, except for income specifically exempt under the Tax Code.

### **Deductible Expenses**

The Tax Code allows some expenses incurred in the course of economic activities to be deducted from gross income earned from such activities. Expenses not connected with economic activities, personal expenses, and entertainment expenses are not deductible (unless entertainment is considered to be the taxpayer's economic activity and the expenses are connected therewith). In addition to the limitations of deductibility provided in the Tax Code, the norms issued by the Ministry of Finance of Georgia also limit the extent of business trip expenses.

The Tax Code provides rules and limitations relating to specific deductions. A list of some specific allowable deductions is as follows: interest subject to limitations, doubtful debts, insurance reserve funds, scientific research, depreciation of fixed and intangible assets, repairs, insurance payments, prospecting and extraction of resources, taxes and fines subject to limitations,

representative expenses and losses on the sale of property.

### **Deductibility of Interest Expense**

Any interest expense paid or incurred by the taxpayer in the course of his business activities is generally deductible. However, there are some interest deductibility limitations. The interest expense paid and/or payable (using the accruals method) on credit (loan) did not exceed 24 % of the credit (loan) per annum is deductible.

### **Depreciation and Amortization Allowance**

The Tax Code provides general rules for the calculation of depreciation charges and the deductibility of fixed assets for corporate income tax purposes. The tax legislation gives a taxpayer an option either to deduct depreciation charges calculated on fixed assets over a period of time or fully deduct the cost of purchase (production) of such assets immediately.

In the event that the taxpayer employs the above mentioned right in respect of fully deduction of cost of fixed assets, it should continue to use the same method in the future during five years, for all purchased or produced fixed assets for the corporate income tax purposes. Taxpayers are entitled to deduct from gross income the full purchase or production cost of a purchased or produced fixed asset in the year when they were put into exploitation.

Generally, depreciation allowances are permitted for all capital assets, including fixed and intangible property, except for land, art (including but not limited to paintings, jewelry and antiques), museum items, historical objects (except for buildings), biological assets and any other assets that are not subject to wear and tear. In addition, a fixed asset with a value lower than 1,000 GEL is not subject to depreciation. Such assets should be fully deducted from gross income in the accounting year when they are purchased or produced.

To compute depreciation expense for the tax year, fixed assets subject to depreciation

(with exceptions described below) are grouped into asset categories depending on the type of asset and depreciated at the rates stipulated by the Tax Code. Depreciation charges are determined for each group rather than for each individual asset within the group. The depreciation on buildings and structures are charged individually, so each building or structure is considered as a separate group.

Assets subject to depreciation are categorized into five groups. Groups of fixed assets are subject to depreciation, depreciation rates are shown in the following chart:

Group #	Types of Fixed Assets	Depreciation Rate
1	Motor cars; motor-and-tractor equipment for the use on roads; office furniture, movable parts of motor transport; trucks, buses, special motor vehicles and trailers; machinery and equipment for all sectors of industry and the foundry industry; black smith and pressing equipment; construction equipment; agricultural vehicles and equipment.	20
2	Special tools, stock and equipment; computers, peripheral devices and equipment for data processing; electronic devices.	20
3	Railway, maritime and river transport vehicles; power vehicles and equipment; thermo technical equipment turbine-powered equipment; electric engines and diesel generators; electricity transmission and communication facilities; pipelines.	8
4	Building and structures	5
5	Assets subject to depreciation not included in other groups	15

In accordance with the Tax Code, taxpayers are allowed to use an accelerated depreciation method for asset groups 2 and 3, provided that the accelerated depreciation rates do not exceed the rates specified for these groups, more than twofold.

Expenses related to intangible assets should be deducted in the form of depreciation (amortization) charges in proportion to their limited useful life. If it is impossible to determine the useful life of an intangible asset, such an asset should be depreciated at the rate of 15%. Intangible assets should be recorded as a separate group. Expenses related to the purchase or production of intangible assets should not be included in the value of intangible assets subject to depreciation, provided that they were deducted from the taxable income (profit) of a taxpayer.

### **Deductibility of Repair Expenses**

The Tax Code provides a deduction for expenses incurred in connection with the repair of fixed assets. Repairs, which neither add material value to the asset, nor significantly prolong its life, but keep it in an efficient operating condition, are considered repairs for tax legislation purposes. Conversely, repairs that are in the nature of replacements, to the extent that they slow deterioration and significantly prolong the life of the property, must be

capitalized and depreciated in accordance with the provisions of the Tax Code. The maximum deduction for repair expenses is 5 percent of the balance of each asset group at the end of the tax year, provided adequate documentation of the expenses is provided. Any repairs incurred that exceed 5 percent are added to the balance of the asset group and depreciated. However, if an entity uses a 100% depreciation deduction method, then repair expenses should be deducted in full from taxable gross income.

As we have mentioned above, expenses that do not increase the standard (normative, original) performance of fixed assets are considered to be general expenditure. As such, these expenses do not represent repair expenses for taxation purposes and therefore can be deducted in full from gross income.

### **The limitations on Carrying Forward of Losses**

In accordance with the Tax Code, legal entities to whom new profit tax rules do not apply are entitled to carry forward prior year losses for a period of up to five years and set off losses against gross income of future periods.

Further, a taxpayer can elect a 10-year loss carry forward period, where the statute of limitation is increased from 5 to 11 years. A 10-year carry forward period can still be

changed to a 5-year carry forward period when the losses carried forward are used up.

The Tax Code limits the loss carry forward if it occurs:

- In the period of using status of the international financial company by the financial institution;
- In the period of using status of international company by the free industrial zone's enterprise;
- In the period of using status of special trading company by the Georgian enterprise.

### Tax Accounting Rules

The Tax Code requires that legal entities should maintain accurate records of their income and expenses under a cash or an accrual method of accounting. However, the taxpayer must use the same method for both financial and tax purposes, and be consistent in using the chosen method throughout the tax year. The taxpayer has to record all transactions connected with its activities. At the same time, the contents of a transaction, its subject, amount and the titles of parties participating in this transaction are to be described completely and clearly in the primary reporting documentation.

Any primary accounting document for taxation purposes is considered to be

a document if it has a date and amount of the transaction, reflects the requisites of the parties to the transaction and contains a description of the transaction, there should be at least two identical copies of any such document. A taxpayer is required to keep primary accounting documents for at least three years following the year when the document was issued.

### Cash method

Using the cash method of accounting a taxpayer is required to record income upon its actual receipt, regardless of when the income was earned. Expenses are recorded when payment is made rather than when the expense was incurred.

### Accruals method

Contrary to the cash method, the general rule under the accruals method of accounting requires a taxpayer to record income when it is earned (a moment of supply of goods/ service) regardless of when it is actually received. Expenses are recorded when incurred rather than when the expense is paid.

### Taxation of Nonresidents of Georgia Tax Jurisdiction over Nonresidents

Foreign enterprises may also be subject to profit tax in Georgia. The extent to which a foreign enterprise is subject to profit tax depends on whether it conducts its activities through a permanent establishment or not.

### **Taxation of Nonresident's Permanent Establishment in Georgia**

Foreign enterprises carrying out economic activities through a permanent establishment in Georgia are subject to profit tax on distributed income received from Georgian sources relating to the activities performed by its permanent establishment.

#### **Permanent Establishment (PE)**

Pursuant to the Tax Code a permanent establishment of a foreign enterprise or non-resident individual in Georgia is recognized as a defined location on the territory of Georgia, through which they fully or partially carry out an entrepreneurial activity, including activity conducted through an authorized person.

The following are specifically considered to create a permanent establishment: construction sites, assembly or building facilities, and the exercise of controlling activities connected with such facilities; installations or sites, drilling equipment or ships used for surveying of natural resources, as well as the exercise of controlling activities connected with such facilities; a permanent base where a non-resident physical person carries out entrepreneurial activity; place of management of a foreign enterprise, branch, representative office, department, bureau, office, agency, workshop, mine, pit, other place for extraction of natural resources, any other separate unit or place of such enterprise's activity.

If a foreign enterprise or non-resident physical person carries out entrepreneurial activity in Georgia through an intermediary, agent or broker having professional status defined by the Georgian legislation who is not authorized to conduct negotiations or sign agreements (contracts) on behalf of this foreign enterprise or non-resident physical person, then the activities of such an intermediary, agent or broker do not create a permanent establishment of this foreign enterprise or non-resident physical person in Georgia.

The possession of securities and shares in capital, ownership of property on the territory of Georgia by a foreign enterprise, if other features of a permanent establishment do not exist, cannot be regarded as a basis for the creation of a permanent establishment.

The fact of execution of an agreement by a foreign company, which envisages the joint activity of parties to the contract being performed, fully or partly, on the territory of Georgia, cannot be regarded as a basis for the creation of a permanent establishment.

The mere fact of the assignment by a foreign enterprise of its staff for employment in another enterprise or organization on the territory of Georgia, if other features of a permanent establishment do not exist,



does not lead to the creation of permanent establishment, if such employees will act on behalf of that enterprise and protect the rights of the enterprise where they are assigned.

An establishment of a Georgian enterprise in Georgia is not considered a PE of foreign company if it is used only to do the following: store or demonstrate goods or products belonging to the foreign enterprise; keep a stock of goods or products belonging to the foreign enterprise only for the purpose of their processing by another person; purchase goods or products or collect information for the foreign enterprise; any other activities that are preparatory or auxiliary in nature coming from the interests of the foreign enterprise; on behalf of a foreign company for the preparation and/or merely signature of loan agreements, contracts for the supply of goods or which have the nature of technical services.

A permanent establishment of a foreign enterprise in Georgia is considered as such from the time of its registration with the tax agency, providing it with relevant authority or commencing of representational

activities. The responsibility to register a permanent establishment of a foreign enterprise lies with the tax authority, which is responsible for creating the relevant registry. The procedure for running the registration and a registry is developed by the Ministry of Finance of Georgia.

### **Taxation of Income Not Related to a Permanent Establishment**

Foreign companies not engaged in economic activities through a permanent establishment are subject to withholding tax on gross income from Georgian sources. No deductions from this income are allowed, and the tax is withheld at the source of payment. However, the Tax Code allows non-resident taxpayers who receive certain types of income to file a return and claim any deductions allowable as if this income was connected with a permanent establishment.

The following withholding tax rates normally apply to the following items of income from Georgian sources payable to nonresidents, provided that such income is not attributable to a nonresident's permanent establishment in Georgia:

Income from Georgian Sources	Current Tax Rate
Dividends	5%
Interest	5%
Oil and gas subcontractors	4%
International telecommunication and transportation services	10%
Royalties	5%
Management fees	10%
Income received in the form of wages	20%
Payments to non-residents of other Georgian source service related income not connected to their PE in Georgia	10%

If a non-resident is registered in an offshore or low tax jurisdiction, interest, royalty and service fee payments will be subject to withholding tax at the rate of 15%.

Dividends are subject to withholding tax if they are paid to individuals or foreign entities. It should be mentioned that dividends paid to Georgian legal entities are exempt from withholding tax at the source of payment and dividends received by entrepreneurial legal entities should not be included in their taxable gross income.

### Georgian Source Income

For profit tax purposes, the following income types are treated as received from Georgian sources:

- Interest Income – interest on debt obligations issued by a resident entity or permanent establishment of foreign company;

- Dividends Income – dividends from a resident entity;
- Royalty Income – royalties received from a resident entity;
- Income from Immovable Property – income from the sale of immovable property located in Georgia;
- Other Income – some other types of income.

### Taxation of Cross-Border Transactions Outbound Transactions

Since resident entities are taxable on their worldwide income in Georgia and may also be taxable by foreign states on their income derived from sources or from carrying on business in such states, the same income is potentially subject to double taxation. In terms of domestic tax law, profit tax paid outside Georgia is credited upon payment of tax in Georgia. Excess foreign tax credit

may neither be offset against resident taxpayer's Georgian tax liabilities on any domestic source income, nor can they be carried forward or backward.

### Double Tax Treaties

Georgia has double tax treaties with 54 countries, which generally follow the OECD or UN Model Tax Convention on Income and on Capital. Georgia does not honor the double tax

treaties concluded by the former Soviet Union, except for Japan.

The Double tax treaties with Saudi Arabia, Lebanon and Oman await ratification. There are initiated negotiations with Jordan, Montenegro, Vietnam, Iraq, Argentina, Indonesia, Malaysia, Mexico, Albania, Columbia, Moldova, Mongolia, Morocco, New Zealand, Peru, the Philippines, Tajikistan, Uruguay, Brazil, Cuba, Ecuador, Canada and South Africa.

Country	Project duration for PE purposes	Maximum tax rates applicable in the country of source		
		Dividends	Interests	Royalties
Austria(2)	6 months	0% / 5% /10%	0	0
Azerbaijan	6 months	5%/10%	5%/10%	5% / 10%
United Arab Emirates	6 months	0	0	0
Belgium	9 months	5% / 15%	5% / 10%	5% / 10%
Bulgaria	9 months	5% / 10%	5% / 10%	5% / 10%
United Kingdom	12 months	0% / 15%	0	0
Germany	6 months	0% / 5% /10%	0	0
Denmark	6 months	0% / 5% / 10%	0	0
Spain	6 months	0% / 10%	0	0
Estonia	9 months	0	0	0
Turkey	12 months	5% / 10%	5% / 10%	5% / 10%
Turkmenistan	6 months	5% / 10%	5% / 10%	5% / 10%
India	90 days	5% / 10%	5% / 10%	5% / 10%
Israel	9 months	5%	5% / 15%	0
Iran	12 months	5% / 10%	5% / 10%	5%

Country	Project duration for PE purposes	Maximum tax rates applicable in the country of source		
		Dividends	Interests	Royalties
Italy	6 months	5% / 10%	0	0
Ireland	6 months	0% / 5% / 10%	0	0
Japan	12 months	5% / 15%	0% / 10%	0% / 10%
Qatar	6 months	0	0	0
Lithuania	9 months	5% / 15%	5% / 10%	5% / 10%
Latvia	6 months	5%	5%	5% / 10%
Luxemburg	6 months	0% / 5% / 10%	0	0
Malta	6 months	0	0	0
Netherlands	6 months	0% / 5% / 15%	0	0
Poland	6 months	5% / 10%	5% / 10%	5% / 10%
Portugal	9 months	5% / 10%	5% / 10%	5%
Rumania	9 months	5% / 8%	5% / 10%	5%
Greece	9 months	5% / 8%	5% / 8%	5%
Singapore	6 months	0	0	0
Slovenia	6 months	5%	5%	5%
Armenia	6 months	5% / 10%	5% / 10%	5%
France	6 months	0% / 5% / 10%	0	0
Uzbekistan	6 months	5% / 15%	5% / 10%	5% / 10%
Ukraine	12 months	5% / 10%	5% / 10%	5% / 10%
Hungary	12 months	0% / 5%	0	0
Finland	6 months	0% / 5% / 10% (2)	0	0
Kazakhstan	6 months	5% / 15%	5% / 10%	5% / 10%
Switzerland	6 months	5% / 10%	0	0
China	6 months	0% / 5% / 10%	5% / 10%	5%
Czech Republic	6 months	5% / 10%	5% / 8%	0% / 5% / 10%
Slovakia	6 months	0	5%	5%

Country	Project duration for PE purposes	Maximum tax rates applicable in the country of source		
		Dividends	Interests	Royalties
Bahrain	6 months	0	0	0
Norway	6 months	5/10%	0	0
Egypt	6/183 days	5% / 10%	5% / 10%	5% / 10%
Serbia	9 months	5% / 10%	5% / 10%	5% / 10%
San Marino	6 months	0	0	0
Kuwait	6 months	0%/5%	0	5% / 10%
Croatia	9 months	5%	5%	5%
Sweden	12 months	0%/10%	0%	0%
Belarus	12 month	5% / 10%	5%	5%
Iceland	6 months	5% / 10%	5%	5%
Cyprus	9 months	0	0	0
Korea	9 months	5% / 10%	5% / 10%	5% / 10%
Liechtenstein	9 months	0	0	0

## Value Added Tax

### Objects of Taxation

In terms of the Tax Code, the object of VAT taxation is a taxable transaction or a taxable import. A taxable transaction is a supply of goods/services, including those supplied or rendered on a gratuitous basis, if they are considered to be carried out in the territory of Georgia. Taxable transactions do not include supplied goods/services outside Georgia.

A taxable import is an import of goods. For the importation of goods, VAT is chargeable on the customs value of the goods imported. The customs value

of any imported goods is equal to their value in terms of the customs legislation of Georgia, including the value of transportation or other auxiliary services attributable to such imports, plus any custom duties and excise taxes imposed on importation.

### VAT Rates

The VAT rate applicable in Georgia is 18%, referred to as the standard rate, which is applied to most goods/services. Certain transactions are exempt from taxation. There are two types of exempted transactions: transaction exempted with or without the right to recover input

VAT. The export of goods is exempted with the right to recover input VAT, while import of certain medicine, passenger cars, publications, mass media and baby products are exempted without the right to recover input VAT.

### **Time of Taxable Transaction**

Pursuant to the Tax Code, a VATable transaction occurs at the time of a supply of goods (services) and in the case of a supply of goods involving loading, the time of loading. However, it should not be later than the time when compensation was paid to a supplier of goods/services in advance.

If goods or services are supplied on a regular or a continuous basis, the time when a tax invoice for any part of such a transaction was issued or payment was made should be deemed to be the time of the supply of goods or services, but no later than the last working day of the reporting month.

### **Place of Taxable Transaction**

A taxable transaction for VAT purposes is a supply of goods (rendering of services) that is performed on the territory of Georgia.

According to the Tax Code, if the recipient and supplier of services are located in different countries, the place of supply for VAT purposes includes the following: a place of registration of the recipient

of services or the place of management or the location of a permanent establishment of the recipient of services, assuming that the services are directly related to such permanent establishment. The mentioned provision of the tax law is applicable to supply of intangible assets, consulting, legal, accounting, engineering, advertising and staffing services, as well as telecommunication, radio and television broadcasting, data processing, electronically provided services, and other similar services.

### **VAT Invoice**

VAT payers making taxable supply are required to issue a VAT invoice to customers no later than 30 calendar days after the customers' notice. The VAT invoice is a strict reporting document approved by the Ministry of Finance of Georgia that confirms the fact of carrying out of VATable transaction. A tax invoice is issued in electronic form.

### **VAT Administration Remittance**

VAT on domestic supplies and the importation of goods/services is administered by the tax authorities.

Any taxable person should assess the amount of VAT to be remitted to the budget by reducing ("crediting") its output VAT liability (VAT collected on outward taxable supplies) with input VAT credit (VAT incurred on inward taxable supplies and import supplies).

### **VAT Credit**

Any input VAT incurred by a taxable person on inward domestic supplies and imported supplies is creditable against its output VAT liabilities, provided the such input VAT was incurred for taxable imports and taxable transactions where the goods or services are used or to be used for the purposes of the taxpayer's economic activity, even if they are not included in production costs.

In case VAT taxpayers have taxable transactions and VAT exempt transactions in accordance with the Tax Code, the VAT credit is determined in accordance with the amount of goods (services) which were used in the taxable transactions.

If such differentiation is impossible, the VAT credit is determined on the basis of the ratio of the exempt supplies, with the right to reclaim input VAT to the total turnover of the month. VAT creditable on the ratio basis should be adjusted pursuant to the December tax return of the current year, when the exact ratio of annual taxable and exempt turnover must be determined.

If fixed assets are used in exempt transactions both with or without the right to reclaim input VAT, and the input VAT cannot be directly attributed to these transactions, in this case the input VAT is recoverable in full in the first reporting period, if exempt supplies without the right to reclaim input

VAT are less than 20% of total turnover of the previous tax year. The recoverable VAT is adjusted by the end of each calendar year in proportion to the exempt supplies, with the right to reclaim input VAT in total turnover of the respective calendar year.

If exempt supplies without the right to reclaim input VAT are more than 20% of total turnover of the previous tax year, input VAT is recoverable only in the last reporting period of a tax year, in proportion to the exempt supplies with the right to reclaim input VAT in total turnover of this calendar year.

It should be noted that VAT credit is not allowed if it was paid out for: charity, social and entertainment events; goods / services are used to produce VAT exempt goods / services; on an electronic tax invoice that was not reported to a tax agency.

### **Tax Refunds**

Since export supplies are exempt with VAT input right, any taxable person making supplies for use or consumption outside of Georgia may claim as a credit its input VAT incurred in connection with exported supplies. Although the excess credit is refundable, in fact, VAT refunds are difficult to obtain in Georgia.

A surplus of the VAT creditable over the VAT assessed in the reporting period can be offset against the future tax liabilities or be refunded within one month period.

## **VAT Refund Procedures for Foreign Nationals**

Foreign nationals are entitled to claim a VAT refund paid on goods purchased in the territory of Georgia at the time of the export of the goods out of Georgian borders, provided that the goods are exported within 3 months after the purchase and the value of the goods per one receipt exceeds GEL 200 (excluding VAT).

To receive the tax refund, foreign individuals have to submit to the tax authorities a receipt in the form officially approved by the Ministry of Finance of Georgia. The refund procedures, a list of goods subject to VAT refund, and criteria for sellers to be entitled to issue the receipts are determined by the Ministry of Finance of Georgia.

## **Excise Tax General Rules**

All physical and legal persons producing excisable goods in the territory of Georgia, or importing excisable goods are subject to excise taxes. For the excisable goods produced or manufactured in the territory of Georgia from raw materials supplied by customers, the producer of the goods is subject to excise taxes.

Since excise duty is an indirect tax, any excise duty paid in connection with exported items produced in Georgia may normally be refunded to the exporter.

Excise tax is imposed on wine, beer and liquors (whiskey, vodka, etc.); cigarettes and other tobacco products; cars; natural gas, oils, oil distillates, and other products produced from oil and bituminous minerals. Excise tax rate for electronic communication services is 8% of the amount of taxable transaction. This rate may be reviewed and changed within 0% to 8% range for each calendar year by the Government initiative. International calls received in mobile and home phones are subject to GEL 0.15 and GEL 0.08 per minute respectively.

## **Time of Taxable Transaction**

In respect of the production of the excisable goods in Georgia, the time of a taxable transaction is considered to be the time of a supply (transfer) of goods. In the case of import, the tax point is deemed to be the time of import. The moment of supply of goods is deemed to be the time of a taxable transaction in respect of the excisable goods subject to stamping.

## **Excise Stamps**

Under domestic tax law, the mandatory affixing of excise stamps is required for the imported and locally produced alcoholic beverages designated for consumption in Georgia, including beer, with a strength of higher than 1.15 degrees (other than beverages of 50 grams and less as well as those bottled in vessels of 10 liters and more), and tobacco products except for pipe tobacco.



According to the Tax Code, it is prohibited to supply and import the excisable goods without excise stamps under a free circulation regime into the territory of Georgia. The tax authorities controlling excise payments shall seize unstamped imported goods and provided for the sale of excise goods in accordance with the established procedure. From the moment of seizure the goods are deemed to be state property.

In case goods are imported or/and supplied without excise stamps (due to loss, destruction, etc., except for force major circumstances), the goods are considered to be imported or/ and supplied and shall be taxed in accordance with the legislation of Georgia. In case of failure to import goods during six months after having received the excise stamps, an importer is required to return them.

Failure to return excise stamps within the mentioned period shall be deemed as an import or supply of the excisable goods subject to excise stamping in the territory of Georgia and shall be taxed accordingly. In the following period when importing the excisable goods marked with non-returned excise stamps, the amount of taxes due must be calculated pro rata to the amount of actually imported goods.

### **Local Taxes**

The property tax is a local tax and comprises

land tax and property tax of individuals and enterprises.

Local self-government bodies are entitled within their authority to establish local taxes in the respective territory within the maximum limit stipulated by the Tax Code.

### **Property Taxes**

#### **Property Tax of Physical Persons**

Individual persons' taxable object of the property tax (except for land) includes fixed assets used for economic activities, immovable property (building or a part of it) and construction in progress, also yachts (motor boats), helicopters, airplanes and vehicles under Code 8703 of the National Commodity Nomenclature of Foreign Economic Activities.

The property tax rates are differential and are based on the amount of annual income of the individual person, regardless of his/her tax residency status, from sources in Georgia and outside the country. Property tax rate is between 0.05- 0.2% of the fair market value of the property that is located in Georgia if the individual's family worldwide income will be from GEL 40,000 to GEL 100,000 during the reporting calendar year. If, however, such annual income will exceed GEL 100,000 the tax rate will be between 0.8-1 percent.

The individual is required to submit the tax return before the 1st of November following the reporting calendar (tax) year and pay the tax to the tax authorities before 15th of November of the same year.

### **Property Tax of Georgian enterprises**

Payers of property tax, other than physical persons, include Georgian enterprises, and foreign enterprises engaged in economic activity in Georgia through permanent establishments, organizations whose property or part of property is used for economic activity. For foreign enterprises, property tax is imposed only on property located in Georgia.

The fixed assets, investment property, uninstalled equipment and construction in progress that are listed on the balance sheet of the enterprise, as well as

similar property listed on the balance sheet of an organization and utilized for economic activity are, unless specifically exempt, subject to property tax at a flat 1 % rate of the average annual net book value of the property. In order to arrive at the taxable base, the net book value of immovable property recorded in the balance sheet of a company at the beginning and end of the year 2017, which were purchased before the year 2000, between 2000-2004 and in 2004 should be multiplied by 3, 2 and 1.5 respectively. However these coefficients are not applicable to the state owned companies and to a Georgian company if the company records its immovable property based on revaluation method and the financial statements are audited by an audit company that is included in the list published by the Government.



## **Land Tax**

Physical and legal persons, who are owners or users of state owned land plots, including land used for agricultural and non-agricultural purposes, are subject to land tax. The land tax depends on the quality and location of land and is not based on the taxpayer's economic results.

The base maximum annual rate for the non-agricultural land amounts to GEL 0.24 per one square meter. The tax must be calculated by multiplying the annual base tax rate by the territorial coefficient and the land area. The differentiation of the land tax by territorial coefficient is made in accordance with location and zones of the land plot.

Tax returns should be submitted by a physical person and legal entity no later than 1st of November and 1st of April of reporting year respectively.

## **Other Taxes**

### **Fee for the Use of Natural Resources**

Physical and legal persons (including branches of foreign companies) engaged in any activity

that requires a license for the use of natural resources (except for land) owned by the state as well as persons engaged in the timber industry are subject to a fee for the use of natural resources.

The fee is imposed on the volume of natural resources (such as minerals and timber) extracted, and the tax rates are based on the resources extracted. Pursuant to the Law of Georgia "On Fee for the Use of Natural Resources", some types of activities are granted a 70 % reduction in the fee rate.

### **Fee on Gambling Business**

The fee on gambling is paid by persons that carry out entrepreneurial activities by organizing lotteries, operating casinos, and other gambling business and are granted permits and/or licenses to carry out such activities by virtue of the Georgian legislation.

### **Tax Filing and Payment Due Dates**

Dates for the submission of tax returns depend on the type of tax. Below is a summary of the due dates for the submission of returns for four national taxes:

Month	Annual Personal Income	Profit Tax for entities taxed under "old" profit tax regime	Profit Tax for entities taxed under "new" profit tax regime	VAT	Excise
January			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
February			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
March	31 <sup>st</sup>	31 <sup>st</sup>	15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
April			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
May			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
June			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
July			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
August			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
September			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
October			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
November			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
December			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>

Before the due date of filing income, profit or property tax return a taxpayer may apply to the tax authorities with a request to extend deadlines for submitting of the returns. If the taxpayer pays the expected advance tax due to the time the extension is requested, the deadline for submitting the tax return will be extended for three months.

A taxpayer may apply in writing for an extension of a deadline for tax payment. Even if the extension is granted, the taxpayer will still be subject to fines for late payment from the original due date of the tax.

Below is a summary of the tax payment due dates for four national taxes:

Month	Personal Income Tax		Under "old" regime	Under "new" regime	VAT	Excise
	Employment Income	Entrepreneur's income				
January	Withheld			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
February	Withheld					
March	Withheld			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
April	Withheld					
May	Withheld	31 <sup>st</sup>	31 <sup>st</sup>	15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
June	Withheld			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
July	Withheld	31 <sup>st</sup>	31 <sup>st</sup>	15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
August	Withheld			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
September	Withheld	31 <sup>st</sup>	31 <sup>st</sup>	15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
October	Withheld			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
November	Withheld	31 <sup>st</sup>	31 <sup>st</sup>	15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>
December	Withheld			15 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>

**Transfer Pricing Rules**

The Georgian tax legislation contains comprehensive transfer-pricing rules and there are specific provisions in the Tax Code that are aimed at regulating taxation of transactions between related persons. The tax authorities may allocate income and expenses between related parties based on principles that would have applied in transactions between independent 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.

Tax authorities can compare the conditions of transactions between related persons and the transactions of persons who are not related.

Georgian transfer pricing rules generally follow OECD transfer pricing principles and apply to cross border transactions between: a Georgian company and a related foreign company; or a Georgian resident company and an unrelated foreign company registered in low tax jurisdiction/offshore country.

According to the Instructions a taxpayer should maintain contemporaneous transfer

pricing documentations and submit them to the tax authorities upon their request within 30 calendar days.

Georgia recognizes five pricing methods for evaluating whether prices are at arm's length: comparable uncontrolled (independent) price; resale price; cost plus; net profit margin; and profit split. These pricing rules are based on the OECD transfer pricing methods.

### **Related Persons**

Persons are recognized as related if special relations that exist among them may affect the conditions or economic results of their activities or activities of persons represented by them.

The tax authority is authorized to make a reasonable written decision on the use of the market price for taxation purposes if the parties involved in the transaction are related persons, except for cases when their relationship does not affect results of such transactions.

### **Market value**

Georgian Tax Legislation provides various rules to be employed by the tax authorities for defining the market value (price) of supplied services/goods.

The tax agency is also entitled to utilize state authorities' official sources of information

regarding market prices, information submitted by taxpayers to the tax administration and any other reliable information to determine the market price of goods (services).

### **Customs Duties**

The Tax Code regulates the taxation of the import and export of goods. Customs duties are payable upon the release of goods by Customs officials. In accordance with the Tax Code, the following fees are paid on the importation of goods:

### **Import tax**

Goods transferred through the customs of Georgia are subject to customs tax at the rates 0%, 5% or 12%. The customs tax depends on the type of goods being imported.

### **VAT**

Goods imported into Georgia are subject to VAT in accordance with the Tax Code. The rate of VAT is 18 percent of the value of the imported goods.

### **Excises**

Excise tax is applicable to goods transferred through Georgian customs in accordance with the Tax Code.

### **Export of goods**

In terms of the Tax Code, the export of goods from the territory of Georgia

is exempt from VAT and excise tax with VAT and excise input rights.

### **Taxation of Activities Related to Major Export Pipeline (MEP)**

On 18th of November 1999 the Governments of Georgia, Azerbaijan and Turkey signed the Host Government Agreement Between and Among Georgia, Azerbaijan and Turkey Relating to Transportation of Oil In and Beyond the Territories of Georgia, Azerbaijan and Turkey through the BTC Pipeline. Pursuant to Articles 1 and 2.2 of the Agreement, Appendix 1 on “Host Government Agreement Between and among the Government of Georgia and the MEP Participants”, is an integral part of the Agreement.

### **Profit Tax**

The profit tax of an MEP participant consists of a Base Profit Tax at a fixed rate of 15% and Profit Tax Surtax. Profit Tax Surtax is calculated based on the amount of oil transported through the MEP.

MEP Participants should submit their profit tax return (drawn up exclusively in US dollars) for each calendar year to the tax authorities before April 1 of the following reporting calendar year.

### **Value Added Tax**

According to the Host Government Agreement, supply of goods, works

and services to and by an MEP participant in connection with the BTC project are exempt from VAT with input VAT rights. In addition to that, imports and acquisitions of goods, works and services are subject to 0% VAT. If by some reasons a contractor incurs a VAT charge, it has the right to recover it through an offset against other taxes.

The MEP participant should obtain a VAT exemption confirming VAT exemption from the tax authorities of Georgia.

The VAT exemption certificate serves as proof for charging no VAT. A person to whom supply is being made should present a copy of its exemption certificate in order to avoid VAT charge. The certificate should be submitted to the customs authorities to avoid VAT on import of goods.

### **Other Taxes**

Under the Host Government Agreement on BTC, no taxes are imposed on or withheld with payments to any contractor in connection with project activities and any other contractor in connection with MEP activities and contractors don't have tax compliance or filing obligations in connection with MEP activities.

MEP Participants are entitled to import into or export or re-export from Georgia free of taxes and restrictions, whether in its own name or on its behalf,

all equipment, materials, machinery, tools, vehicles, spare parts, supplies, petroleum, fuels and lubricants to be used in connection with the MEP and all other goods (other than natural gas), works, services or technology necessary or appropriate for use in connection with the MEP.

Foreign employees of MEP Participants, contractors, each family member of foreign employee or contractor and MEP Participant on behalf of any such foreign employee, contractor or family member are entitled to import into or export or re-export from Georgia free of taxes and restrictions, whether in its own name or on its behalf, all goods, works, services or technology for its own use and personal consumption or for the use and personal consumption of such employees, contractors and family members; provided, however, all sales by these foreign employees within Georgia of any such imported goods to any other person will be taxable, and, in the case of sales of automobiles, furniture and professional tools and instruments, will result in liability for customs import tariff, in accordance with Georgian laws.

Personal income tax of foreign employees is calculated only on their income earned as a direct result of their employment in Georgia and only if such employee spent more than 183 days in Georgia. No social

tax and other similar payments are due from MEP Participants and their foreign employees with respect to such foreign employees.

### **Production Sharing Regime Legislative Framework**

Under the production sharing regime an investor is granted by the Georgian Government the exclusive right to the exploration, development and production of mineral resources from the subsoil area for a certain period of time. The investor guarantees the development of such mineral deposits at his own or her own risk and expense. By committing to share the production of the mineral resources with the State under the terms and conditions of Production Sharing Agreement (PSA), the investor becomes entitled to a share of the extracted production. The PSA mechanism is commonly used in Georgia.

### **PSA Tax Regime**

Petroleum taxation in Georgia is governed by two legislative acts: the Tax Code of Georgia and the Law "On Oil and Gas" #1892, dated April 16, 1999. The Tax Code does not contain a separate chapter stipulating the taxation under PSAs and the term "PSA" is not used. However, the Tax Code includes rules for the taxation of oil and gas operations. The term "oil and gas operations" is defined by the Law "On Oil and Gas" and among others includes the exploration and production





of oil and gas within the area specified in the PSA and License, and activities connected with such operations (gathering, treating and storage of produced oil and gas on the area).

Tax benefits which may be employed by the parties of a PSA are set out in the Tax Code. Equipment or structure, drilling equipment or ships used for surveying natural resources as well as the performance of controlling activities related thereof are deemed to create a permanent establishment of a foreign company which is party to a PSA, which leads to profit tax liabilities calculated at the general profit tax rates. However, this provision of the Tax Code of Georgia does not apply to non-resident subcontractors of the parties of PSA carrying oil and gas operations. Such subcontractors are subject to taxation at the source of gross income. A reduced rate of withholding tax of 4%

is applied and their activities do not lead to the creation of a permanent establishment. Under the Tax Code, certain transactions conducted in accordance with the Law "On Oil and Gas" are exempt from taxation:

- Import of machinery, means of transportation, spare parts and materials used for oil and gas operations conducted according to the Law "On Oil and Gas", as well as supply of goods (works, services), required for oil and gas operations by investors and operating companies in compliance with PSA specified by the Law "On Oil and Gas" and/or licenses issued for carrying out oil and gas transactions, are exempt from import tax and VAT without the right to recover input VAT.
- Import and/or supply of oil products necessary to perform oil and gas transactions specified by the Law "On Oil and Gas" are exempt from excise tax.

- Property needed for oil and gas operations is exempted from property tax.
- Land plots used for performing oil and gas transactions determined by the Law “On Oil and Gas” (if not used for other purposes) are exempt from land tax.

### **Free Industrial Zone**

As part of efforts to attract international investment capital and investors searching for a high rate return, the Government of Georgia decided to create the free industrial zones (FIZ) in Georgia. The FIZ offers extended tax benefits as well as operational simplicities to the companies based in the zone. Businesses registered in the zone would benefit from relatively cheap and skilled Georgian labor, lower taxes, and easy access to the sea.

According to the law of Georgia “on Free Industrial Zone”, the industrial zone is the variety of free zone envisaged by the customs legislation of Georgia, where the additional conditions and tax exemptions are applicable. However the law provides the list of activities and import of goods that are prohibited in FIZ.

Investors can approach the Ministry of Economic Development of Georgia with applications to gain the right to operate in the FIZ.

There are currently three free industrial zones in Georgia. Companies incorporated in the zones and having status of the FIZ enterprise will enjoy tax concessions as additional incentive, their activities would be subject to simplified currency regulations and license/permit-related procedures.

FIZ enterprise in case of supply of goods to a Georgian registered entity (except another FIZ enterprise) is required to pay a tax of 4 % from the revenue received/receivable as a result of the supply of the goods (in case of gratuitous supply – fair value). The tax should be paid before the 15th day of the month following the reporting calendar month. FIZ enterprise should also pay the tax within the same deadline if a Georgian registered entity supplies FIZ enterprise with goods (except the electricity, water and gas for local consumption and production).

### **Special Trading Company**

Special Trading companies are introduced to encourage the development of trade transit function within Georgia. Special Trading Company is an enterprise that for the purpose of exemption from profit tax envisaged under the Tax Code of Georgia has been granted the status of special trading company. A foreign entity that renders its economic activities in Georgia through its permanent establishment has the right to be granted the status

of a Special Trade Company and register a separate permanent establishment only in case the permanent establishment renders the activities of the special trading company envisaged by the Tax Code.

Special Trading Company status is obtained from the tax authorities of Georgia. The Minister of Finance of Georgia determines the rules of granting a status to a special trading company.

A Special Trading Company has the right to re-export foreign goods from the customs warehouse, to execute the supply of foreign goods in the customs warehouse to a company having the status of Special Trading Company and to those not having the status; and purchase for no less than the customs value the foreign goods for the purpose of later re-export and/or supply, from a company not having a status of a Special Trading Company

### **International Financial Company**

An International Financial Company is a financial institution that on the basis of the application by its authorized representative is granted the status of an international financial corporation and a certificate proving this status is issued. Moreover, an international financial company is established outside the free industrial zone. As the primary objective

of the international financial companies is to serve the offshore companies in the least costly way, they benefit from certain tax exemptions as provided in the Tax Code.

### **Tourist enterprise**

The status of the tourist enterprise is introduced to encourage development of tourism sector of Georgia. Tourist enterprise is a legal entity which builds hotel, supplies hotel assets/part of assets to another person in order to return them in the form of rent and makes the building operation as a hotel according to the conditions of tourist enterprise as envisaged by Georgian legislation.

Tourist enterprise status for each hotel is obtained from the tax authorities of Georgia. The tax authorities are authorized to demand collateral, the amount of the collateral should not exceed 18% of the value of the supplied assets.

The Georgian Government sets the rules for granting, functioning and cancelling of the status to the tourist enterprise, as well as the minimal amount of the area of the building to be used as hotel rooms according to the local self-governing bodies and other requirements. The tourist enterprise enjoys certain tax exemptions as provided in the Tax Code.

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which may lead to confusion. Penalties for tax and customs violations are strict and so is their enforcement.

The effective Tax Code of Georgia was enacted from September 2010, uniting the tax and customs legislation. Many consider that the introduction of a new Tax Code is the major step forward

that will allow Georgian market reforms to advance in the right direction.

The Tax Code was simplified, but some uncertainties remain. The Ministry of Finance officials strive to limit the number of Tax Code amendments per year to a maximum of three packages and establish clear rules of tax dispute.

#### Georgia country key facts

Population	3.72 m (2016)
Territory	69,700 square kilometers
Autonomy	Adjara Autonomy Republic, Abkhazia Autonomy Republic
Neighbor states	Azerbaijan, Russia, Turkey, Armenia
Capital	Tbilisi (pop. 1,113,000)
Other main cities	Kutaisi (pop. 147,900), Rustavi (pop. 126,000), Batumi (pop. 154,600)
Currency	Georgian Lari (GEL)
Language	Georgian
Stock Exchange	Georgian Stock Exchange (GSE)
Official share index	GSE Index