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International Tax

Georgia Highlights 2021

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Investment basics

Currency: Georgian Lari (GEL)

Foreign exchange control: There generally are no foreign exchange controls and no restrictions on the import or export of capital. Funds may be repatriated in any currency. However, the GEL is the only legal tender in the country. Both residents and nonresidents may hold bank accounts in any currency.

Accounting principles/financial statements: IAS/IFRS. Financial statements must be prepared annually. The Law on Accounting and Financial Audits requires that certain statements (financial statements, management reports, statements of payments made to the state, and audit opinions) be submitted after the ninth month of the reporting period by certain categories of entities defined in the law.

Principal business entities: These are the joint stock company, limited liability company, general and limited partnership, cooperative, and sole proprietorship. A branch of a foreign enterprise is not considered a separate entity, but rather a subdivision of its head office.

Corporate taxation

Rates	
Corporate income tax rate	15%
Branch tax rate	15%
Capital gains tax rate	15%

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

Basis: Residents are taxable on their worldwide income; nonresidents are taxed only on Georgian-source income.

Companies are subject to tax only if corporate profits are distributed. The distributed profit tax system currently applies only to Georgia resident companies and permanent establishments (PEs) of nonresident companies. Georgian commercial banks, credit unions, insurance organizations, microfinance organizations, and loan issuers (as defined under the Law on National Bank of Georgia) will be subject to the rules as from 1 January 2023. Branches are taxed in the same way as subsidiaries.

Taxable income: Georgia resident companies and PEs of nonresident companies are taxed on their actual and deemed distributed profits, including the following: distributed profits, expenses incurred or other payments unrelated to economic activities, gratuitous supplies of goods/services and/or transfers of funds, and representation expenses that exceed the maximum amount set out in the tax code.

Certain types of payment are subject to profit tax as deemed profit distributions, including 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 that is exempt from profit tax under the tax code (except a budgetary organization or legal entity under public law);
- 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 that is exempt from profit tax under the tax code (except a budgetary organization or legal entity under public law);
- Capital contributions or payments made to purchase shares/interests (excluding the purchase of shares/interests on a stock exchange recognized by a foreign country) for the right to participate in the equity of a nonresident or a person that is exempt from profit tax under the tax code;
- Granting of loans or payments made for the acquisition of a claim with respect to a person resident in a low-tax jurisdiction or a person that is exempt from profit tax under the tax code (except a budgetary organization or legal entity under public law); and
- Granting of loans to a resident individual or a nonresident (excluding the purchase of debt securities on a stock exchange recognized by a foreign country).

Payments made to a nonresident enterprise, whether in monetary or nonmonetary form, from profits earned from a PE's activities are treated as distributed profits of the PE (except profits of a PE earned before 1 January 2017).

To calculate the taxable amount, the amount of a distribution subject to taxation is divided by 0.85.

Special rules apply to profits from oil and gas activities.

Rate: The tax rate is 15%.

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: Dividends paid between Georgian companies are excluded from the taxable base (except for dividends paid out of net profits earned between 1 January 2008 and 1 January 2017. However, further distributions of taxed dividends by a Georgian company (except for a sole proprietor and a person that is exempt from profit tax under the tax code) are not deemed to be profit distributions. A further distribution of taxed dividends received from commercial banks, credit unions, insurance organizations, microfinance organizations, and loan issuers is not deemed to be a profit distribution for net profits earned between 1 January 2008 and 1 January 2023. Dividends from net profits earned during the period 1 January 2008 to 1 January 2017 are deemed to be a profit distribution. Dividends from net profits earned between 1 January 2017 and 1 January 2023, if distributed by 1 January 2023 and paid to commercial banks, credit unions, insurance organizations, microfinance organizations, and loan issuers also are deemed to be a profit distribution.

Resident enterprises, except for PEs of foreign entities, that distribute dividends on or after 1 January 2017 from net profits that were subject to tax between 1 January 2008 and 1 January 2017 may offset the tax paid on the distributions against the profit tax paid in the prior reporting period, based on a formula set out in the tax code. The profit tax credit may not exceed the tax paid on the profit distribution.

The distribution of dividends received from foreign enterprises (with the exception of entities resident in a low-tax jurisdiction) is not subject to profit tax.

Capital gains: There is no separate capital gains tax in Georgia. Capital gains are taxed in the same manner as regular income.

Where gains are derived from a related party transaction (that is not subject to taxation under the distributed profit tax system) carried out at a value that differs from market value, the difference is deemed to be distributed profits for Georgian resident companies and PEs.

Losses: Losses may be carried forward for up to five years, although a taxpayer may request a 10-year carryforward period from the tax authorities for losses incurred in 2010 or thereafter. The carryback of losses is not permitted. However, these rules do not apply to resident entities and PEs that are subject to the distributed profit tax rules.

Foreign tax relief: Tax paid on income earned outside Georgia may be credited against Georgian tax, but the credit is limited to the tax assessed in Georgia on the income. This rule also applies to PEs of foreign entities, with credit allowed against the profit tax on distributed profits.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

Incentives: Georgia is seeking ways to stimulate economic growth and attract increased investment from foreign and local investors. The distributed profit tax system enables resident companies and PEs of nonresident companies to reinvest their profits without incurring an additional profit tax liability in Georgia.

Compliance for corporations

Tax year: The tax reporting period is the calendar month for taxpayers taxable on distributed profits and the calendar/tax year for other taxpayers.

Consolidated returns: Consolidated returns are not permitted. Companies in the same group must file tax returns and pay tax individually.

Filing and payment: Georgia operates a self-assessment regime. Tax returns for taxpayers that are taxable on their distributed profits must be filed and tax paid by the 15th day of the month following the reporting calendar month. For other taxpayers, annual income tax returns must be filed by 31 March of the year following the tax (calendar) year. The deadline for filing the annual tax return may be extended for up to three months but this does not result in an extension of the tax payment deadline. Advance payments of tax are made in four installments for calendar year taxpayers; those taxable on their distributed profits do not make advance payments.

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

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

Individual taxation

Rates	
Individual income tax rate on employment income	20%
Individual income tax rate on other income	5%/20%
Rate of tax on capital gains	0%/20%

Residence: An individual is considered to be a resident of Georgia if they are present in Georgia for more than 183 days in any continuous 12-month period ending in a tax year, or if the individual was abroad during the tax year in public service of Georgia. An individual also may become a tax resident of Georgia if the individual has high net worth, as defined under the securities market law.

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

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

Rates: Employment income (including benefits) and the income of sole proprietors is taxed at a flat rate of 20%.

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

Dividends and interest are subject to a 5% withholding tax.

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

Capital gains: There is no separate capital gains tax in Georgia. However, gains derived by individuals from the sale of private property not related to a business activity are not taxable if the property has been held for more than two years. Gains derived from a business activity are included in gross business income and, after relevant deductions, are taxed at a rate of 20%.

Deductions and allowances: Expenses related to business activities are deductible for sole proprietors. There are no personal deductions or allowances for individuals.

Foreign tax relief: Tax paid outside of Georgia may be credited against Georgian tax, but the credit is limited to the tax assessed in Georgia on the income.

Compliance for individuals

Tax year: Calendar year

Filing status: Each registered individual taxpayer must file a separate return. However, families may file joint property tax returns.

Filing and payment: A tax return must be submitted by 31 March following the tax year. Tax on employment income is withheld and remitted to the tax authorities by the employer, with the tax return filed monthly. Other income is self-assessed. Income tax payable by a sole proprietor (except for persons with special status) is due in four annual installments. Persons with special status submit tax returns on a monthly basis. For other individual taxpayers, the liability is settled on 31 March of the year following the tax year.

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

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

Withholding tax

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	5%	5%	5%
Interest	0%	5%	5%/15%	5%/15%
Royalties	0%	20%	5%/15%	5%/15%
Fees for technical services	0%	20%	4%/10%/15%	4%/10%/15%

Dividends: No withholding tax is payable on dividends paid to a resident company. Dividends paid to nonresident entities, noncommercial legal persons, and individuals (whether resident or nonresident) are subject to a 5% withholding tax, unless the rate is reduced under a tax treaty.

Interest: No withholding tax is payable on interest paid to a resident company. Interest paid by a resident or a PE of a nonresident or on their behalf to individuals, organizations, or nonresident entities without a PE in Georgia is subject to a 5% withholding tax, unless the rate is reduced under a tax treaty. The rate increases to 15% where the interest is paid to a nonresident registered in a low-tax jurisdiction.

Royalties: No withholding tax is payable on royalties paid to a resident company. Royalties paid to a resident individual (other than an individual that is a VAT payer) are subject to a 20% withholding tax. Royalties paid to a nonresident are subject to a 5% withholding tax, unless the rate is reduced under a tax treaty. The rate increases to 15% if the recipient is resident in a low-tax jurisdiction.

Fees for technical services: No withholding tax is payable on technical service fees paid to a resident company. Technical service fees paid to a resident individual (other than a sole proprietor, VAT payer, notary officer, private enforcement officer, or an individual with the status of a micro business or fixed taxpayers conducting one of these activities) are subject to a 20% withholding tax. Technical service fees paid to a nonresident not engaged in oil and gas activities are subject to a 10% withholding tax. A 4% rate applies where the nonresident provides technical services with respect to oil and gas transactions. The rates may be reduced under a tax treaty. The rate is 15% if the foreign recipient (other than a person engaged in oil and gas activities, international telecommunications, or international transportation) is resident in a low-tax jurisdiction.

Branch remittance tax: There is no branch remittance tax.

Anti-avoidance rules

Transfer pricing: Georgia has comprehensive transfer pricing rules that generally follow the 2017 OECD transfer pricing guidelines. There are provisions in the tax code aimed at regulating the taxation of related party transactions. The tax authorities can challenge such transactions where the price agreed between the parties diverges from the market value. The tax authorities can compare the conditions of transactions between related persons with those of transactions between unrelated parties and allocate income and expenses between related parties based on principles that would have applied in transactions between independent persons.

The transfer pricing rules apply to transactions between a Georgian resident company and a related foreign company, and between a Georgian resident company and an unrelated foreign company that is registered in a low-tax jurisdiction.

Five pricing methods are recognized for evaluating whether prices are on arm's length terms: the comparable uncontrolled (independent) price, resale price, cost plus, net profit margin, and profit split methods.

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

Georgia is a member of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and is introducing laws on transfer pricing intended to increase the transparency of corporate operations.

A Georgian resident company that is the ultimate parent enterprise of a group of multinational enterprises with a total consolidated annual group income exceeding EUR 750 million must submit a country-by-country report to the tax authorities by 31 December of the year following the reporting year.

Interest deduction limitations: There are no interest deductions limitations.

Controlled foreign companies: There is no controlled foreign company legislation.

Hybrids: There is no specific anti-hybrid legislation.

Economic substance requirements: There are no specific economic substance requirements.

Disclosure requirements: There are no disclosure requirements.

Exit tax: There is no exit tax.

General anti-avoidance rule: There is no general anti-avoidance rule.

Value added tax

Rates	
Standard rate	18%
Reduced rate	0%

Taxable transactions: A new VAT law based on the principles of the EU VAT directive applies as from 1 January 2021 and introduces fundamental changes with respect to VAT. VAT is imposed on the sale of goods and the provision of services and imports that are deemed to be carried out within Georgia. A taxable 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 may not be later than the time any advance payments were made to the supplier of goods or services. A reverse charge mechanism applies to certain purchases.

A nonresident provider of telecommunication, radio or television broadcasting, or electronic services in Georgia who is not established, does not normally live, or does not have a fixed establishment in Georgia, is not required to register as a VAT payer in Georgia but must calculate and pay the VAT due on the supply. This obligation does not arise where the supply is subject to VAT under the reverse charge mechanism

Rates: The standard VAT rate is 18%, although certain transactions are exempt.

Registration: A business with revenue of at least GEL 100,000 within the preceding consecutive 12-month period must register for VAT purposes. The following VAT-exempt transactions are taken into account in calculating the GEL 100,000 threshold:

- VAT-exempt transactions related to financial and immovable property transactions, unless connected to the taxpayer's primary activities;
- Exports; and
- Certain VAT-exempt supplies with the right to recover input VAT, and services rendered by an intermediary acting on behalf of another person participating in certain operations or in operations carried out outside of Georgia.

The GEL 100,000 threshold does not apply to transactions subject to reverse charge VAT.

A taxable person with a fixed establishment in Georgia must register as a VAT payer no later than the last day of the reporting period in which goods or services first were supplied in Georgia.

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

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: There is no social security system in Georgia but payments to a defined contribution pension scheme are required by employers, Georgian citizens, and foreign nationals and stateless persons residing in Georgia on a permanent basis. This effectively means that the scheme applies to foreign nationals who (i) are Georgian residents in accordance with the tax code, and (ii) simultaneously hold a permanent residence permit in Georgia. Under the scheme, the employee and the employer each contribute 2% of the employee's gross salary. The state contributes 2% on an employee's gross annual salary of up to GEL 24,000 and 1% on the excess up to GEL 60,000; no contribution is made where the annual salary exceeds GEL 60,000. A self-employed person makes a 4% contribution and the same state contribution structure applies.

Payroll tax: There is no payroll tax.

Capital duty: There is no capital duty.

Real property tax: Property tax is imposed at the local level and comprises land tax and property tax (imposed under different regimes for entities and individuals). Companies are subject to property tax at a rate that may not exceed 1% of the average residual value of fixed assets, investment property, uninstalled equipment and construction in progress recorded annually in a company's balance sheet, leased property, and similar property listed on the balance sheet of an organization and utilized for economic activity, unless specifically exempt. To arrive at the 2021 taxable base for real estate, the average net book value of real estate at the beginning and the end of 2021 is multiplied by a coefficient based on the purchase date if the taxable assets were purchased before 1 January 2005 (no coefficient applies for purchases on or after that date). The coefficients do not apply to state-owned companies or to certain Georgian companies that record their immovable property based on the revaluation method if other requirements are met.

Specific rates apply to land for both companies and individuals, depending on the location and fertility of the land.

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

Transfer tax: There is no transfer tax.

Stamp duty: There is no stamp duty.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

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

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

Tax treaties: Georgia has concluded over 50 tax treaties. The OECD multilateral instrument (MLI) entered into force for Georgia on 1 July 2019.

Tax authorities: Revenue Service of the Ministry of Finance

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