Doing business and investing in Georgia

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2013 edition

Guide to doing business and investing in Georgia

2013 Edition

The information in this book is based on taxation law, legislative proposals and current practices, up to and including measures passed into law as of 31 December 2012. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

Contents

Partner letter

It is my great pleasure to introduce Georgia with the following Business Guide, providing an overview of the country's geography, history, investment and business environment, which I trust will be helpful for those contemplating or for those who already have businesses and investments in Georgia.

Georgia is very attractive with its location in the Central Caucasus region, bordered by the Russian Federation, Azerbaijan, Armenia and Turkey. As interest in the Caucasus region increases there is a great variety of significant investments coming to Georgia.

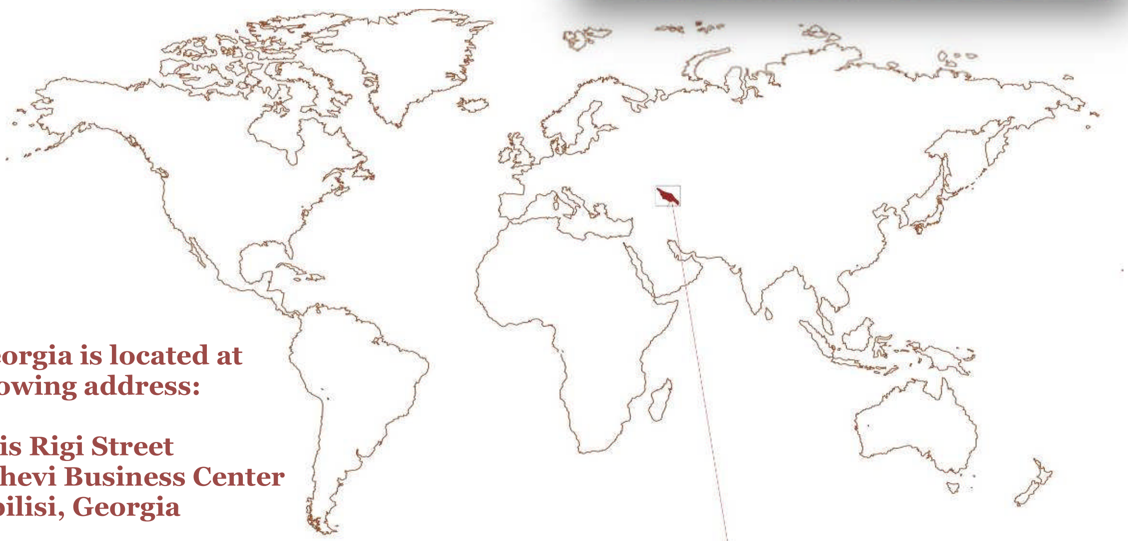
PricewaterhouseCoopers has been serving clients in Georgia since 1996; strong growth of our practice in the local market prompted us to open the PricewaterhouseCoopers Georgia office in September 2005.

The Tbilisi office now employs more than 70 professional staff with internationally recognised qualifications and western standard methodologies. We are providing three lines of service: Assurance, Advisory & Tax. Our clients represent a variety of businesses from international and government enterprises to financial institutions.

I welcome you to visit our office in Tbilisi and learn more about investing in Georgia.

Altaf Tapia
Managing Partner

Office location in Georgia



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1 Georgia profile

1.1 Introduction

Georgia is located between Asia and Europe and occupies a land area of 69,700 sq km. It neighbours Turkey to the southwest, Azerbaijan to the east, Russia to the north and Armenia to the south.

Georgia declared independence on 9 April 1991, following the dissolution of the Soviet Union.

1.2 Government structure

The Head of State is the President. He is elected by popular vote for a five-year term. The current President is Mikheil Saakashvili, who was first sworn in on 25 January 2004 and was re-elected for his second and final term in an early election in 2008.

Legislative power is exercised by a single-chamber Parliament, which consists of 150 seats. Seventy-five members are elected by their districts and 75 members are proportionally represented. Each member serves a four-year term.

The executive consists of the President and the Cabinet of Georgia. The Cabinet is composed of ministers, headed by the Prime Minister, and appointed by the President.

1.3 Legal system

Georgia is a civil law country.

The Constitution, adopted in 1995, sets out the structure of the national government, as well as its powers and functions. The powers of government are divided into three branches – legislative, executive and judicial.

The court system in Georgia has three branches: Courts of First Instance (District or City Courts), Appellate Courts and the Supreme Court. First Instance Courts have jurisdiction over all civil, criminal and administrative cases. Decisions from First Instance Courts may be appealed to the Appellate Courts, and from there to the Supreme Court.

The Constitutional Court of Georgia is the sole organ of constitutional jurisdiction of Georgia.

As an alternative to litigation, Georgia allows for third party arbitration. Georgian law also allows foreign companies to include provisions in their contracts (including those with Georgian entities) that allow for arbitration by international arbitration institutions.

1.4 People

Population

The population of Georgia is estimated to be 4.5 million as of January 2012.

Language

Georgian is the official language of Georgia and is spoken by 71% of the population. Most Georgians also speak Russian and feel comfortable conducting business in the Russian language. A smaller, but rapidly growing, number of Georgian businessmen and women speak English. When business transactions are conducted with English speakers, the meetings will either be conducted in English, or the company will provide a translator.

Armenian is spoken by 7% of the population, and Azeri is spoken by 6% of the population.

Religion

Approximately 84% of Georgians are Orthodox Christian. Other religious groups include Muslims (9.9%), Armenian Apostolics (3.9%) and Catholics (0.8%).

Living standards

Despite ongoing improvement, living standards in Georgia remain poor. The average monthly salary in the second quarter of 2012 was GEL 724 and it is estimated that more than 30% of the population lived below the poverty line.

Unemployment

The official (registered) unemployment rate at the end of 2011 was 15.1%. However, unofficial estimations place the unemployment rate significantly higher.

Tips for business visitors and useful links

Some tips for business visitors and useful links can be found in Appendix 1.

Tbilisi

1.5 Economy

General

Like other former Soviet countries, Georgia's economy initially suffered from the legacy of a centrally-planned economy and the breakdown of the former Soviet trading patterns.

Following the Rose Revolution of 2003, Georgia has undertaken a series of progressive reforms including anti-corruption efforts, reforms of labour and tax codes, and improvements to the general infrastructure of the country. In the World Bank's Doing Business 2012, Georgia was ranked as the 16th friendliest country in which to do business, out of 183 countries worldwide. The reforms to the Georgian economy have resulted in a large influx of foreign direct investment, positive GDP growth and curtailment of inflation.

Georgia's main economic activities include agricultural cultivation of citrus fruits, tea, grapes, and hazelnuts. Georgia also has a manganese and copper mining industry. Industries present in Georgia include aircraft manufacturing, bottled water and wine production, chemicals, electric motors, electric welding equipment, fuel re-export, foundry equipment (automobiles, trucks, tractors), machine tools, machinery for food packing, tower cranes, wood products, and machinery for food packing, steel, shoes, textiles, and wood products.

Georgia imports nearly all its natural gas and oil products. The largest energy producing source is hydropower. Currently, Georgia is privatising the energy sector. The electricity distribution network was privatised in 1998, and the government began the privatisation of hydro-electric stations in 2006. Georgia still suffers from energy shortages and infrequent power cuts; however, this situation is constantly improving.

A summary of key economic indicators for Georgia is provided in Table 1.

Natural resources

Georgia has vast natural resources. Among these are forests and hydropower as well as copper, gold, and manganese. There are minor deposits of coal and oil. The coastal climate and soils enable the growth of tea, citrus, and grapes.

Transit pipelines

It is believed that long-term growth will stem from Georgia's role as a transit state for pipelines. Three pipelines currently exist:

- The *Baku-Supsa pipeline* (GPC-Georgian Pipeline Company) runs 814 km from Baku to Supsa (444 km in Azerbaijan and 370 km in Georgia) and transports "early oil" from the Caspian Sea region operated by the AIOC (Azerbaijan International Oil Company) consortium off the coast of Azerbaijan. Initial line capacity is 115,000 barrels per day but could be increased to approximately 200,000 barrels per day with additional pumping stations. There are four 40,000 ton storage units at Supsa. Kazakh gas is also transported through the Baku-Supsa pipeline.

- The *Baku-Tbilisi-Ceyhan (BTC) oil pipeline* extends 1750 km across Azerbaijan, Georgia, and Turkey and is designed to transport up to one million barrels of Azeri oil per day. The oil is transported via Georgia to the Turkish port of Ceyhan.

- The *South Caucasus Pipeline (SCP) System* project was completed in late 2006. The initial capacity of the pipeline is 8.8 billion cubic meters (bcm) of gas per year, and after 2012 its capacity could be expanded to 20 bcm per year. As part of the transit payment, Georgia will receive 5% of the volume of natural gas transited from Azerbaijan to Turkey.

Transport

Rail and ferry connections link the Georgian Black Sea ports with Turkmenbashi Port (Turkmenistan) and Aktau Port (Kazakhstan). Poti Port operates as a free trade zone. This makes Georgia a natural transit point for shipments bound for Central Asia.

Georgia has a railway network of 2,554 kilometres of track. Direct rail connections exist between Georgia and Armenia and between Azerbaijan and Russia (though the latter is not currently utilised).

The total length of Georgia's highways is 20,229 km, of which 1,474 km are international roads. Harmonisation of the certification and technical standards of Georgia with those of the EU, recent drastic anti-corruption measures, improvements in the customs administration, and the introduction of the "green corridor" regime with Turkey has resulted in an increase in the flow of road transport through Georgia.

Georgia possesses operational airports and airfields in Tbilisi, Kutaisi (Kopitnari), Senaki and Batumi. Tbilisi, Kutaisi and Senaki are the main facilities, providing 97% of all services. The Tbilisi and Batumi airports were recently renovated. Kutaisi airport is currently under construction and is expected to host its first guests in late 2012. Georgia also possesses numerous secondary and minor airfields.

Georgia has two ports on the Black Sea, both of which are open year round:

- *Poti Port* occupies 49 hectares, has modern cargo handling facilities and meets European standards. In 2003, the port obtained the ISO 9001:2000 Quality Management System Certificate and has also been awarded an IQNET Conformity Certificate. The port has permanent railway-ferry connections with ports of Ilichevsk (Ukraine), Samsun (Turkey), Varna (Bulgaria), and Kavkaz (Russia), and is linked by direct motorway ferry lines to Novorossisk (Russia), Burgas (Bulgaria), and Rize (Turkey).

- *Batumi Port* occupies eight hectares. It has primarily handled bulk cargo, although it has been rapidly increasing its dry cargo processing. The port has the capacity to handle 15-18 million tons of oil products and 2.5 million tons of dry cargo each year.

Communications

One of the main priorities of the government has been improving the telecommunication system and integrating it with the larger international telecommunication community.

The state telephone company was recently privatised, and Georgia has three mobile telephone operators.

Tourism

Georgia's tourism sector is growing rapidly. In 2011, more than 2.8 million people visited Georgia, representing an increase of 39% compared to 2010. The government is encouraging investment in infrastructure, including recent incentives granted for hotel development in new tourism areas in Kobuleti and Anaklia. The USAID Vocational Education Program has also resulted in two hospitality training centers being established to introduce international standards of hospitality management in Georgia

1.6 Foreign trade

Georgia's main export partners are Turkey, United States, Azerbaijan, Ukraine and Armenia. Exports include wine, mineral water, ores, vehicles, fruits and nuts.

Georgia's main import partners are Turkey, Russia, Ukraine, Germany and Azerbaijan. Imports include goods, machinery and equipment, fuels, chemicals, metals and foodstuffs.

The Government has adopted a policy of free international trade, and has been a full member in the World Trade Organisation since 2000.

Table 1: Key economic indicators

Table 1: Key economic indicators

	2007	2008	2009	2010	2011
GDP (USD billion)	10.2	12.8	10.7	11	14,4
GDP growth	12.30%	2.10%	-3.80%	6.30%	7.00%
GDP per capita (USD)	2,314	2,921	2,455	2,623	3,215
Inflation (year-end)	11.00%	5.50%	3.00%	11.20%	2.00%
Officially registered unemployment (year-end)	13.30%	16.50%	16.90%	16.30%	15.10%
USD/GEL exchange rate (average)	1.671	1.49	1.67	1.7826	1.686
Foreign direct investments (USD million)	2,015	1,564	658.4	814.5	11.172
External debt (USD million)	5,660	7,711	5,513	8,800	10,800
Exports FOB (USD million)	1,232	1,495	1,134	1,678	2,189
Imports CIF (USD million)	5,215	6,302	4,500	5,257	7,058
Foreign Exchange Reserves (USD million)	1,346	1,468	1,892	N/A	N/A

Source: GeoStat, National Bank of Georgia

2 *Business and investment environment*

2.1 Business climate

Following the Rose Revolution in 2003, the Georgian government increased efforts to reduce corruption in public and private sectors and sought to meet international standards. These efforts have resulted in significant improvements in Georgia's ranking in the World Bank's *Doing Business Survey*.

Among transitional economies, Georgia reportedly has seen the largest reduction in corruption in the years 2002-2005, according to the Business Environment and Enterprise Performance Survey (BEEPS), an EBRD/World Bank initiative.
The Georgian tax system was simplified, customs duties were reduced and procedures for granting licenses and permits were simplified. Georgia enjoys competitive trade regimes with many countries.

Georgia is continuing its reform program and various performance improvements are reflected in the World Bank's 2011 *Doing Business Survey*:

Getting Credit: Georgia improved access to credit by implementing a central collateral registry with an electronic database accessible online.

Protecting Investors: Georgia strengthened investor protections by allowing greater access to corporate information.

Enforcing Contracts: Georgia made contract enforcement easier by streamlining procedures for public auctions, introducing private enforcement officers, and modernizing its dispute resolution system.

Closing a Business: Georgia improved insolvency proceedings by streamlining the regulation of auction sales.

Tax rates are low and will reduce further:

- The corporate rate is 15%.
- The personal rate is 20%. Resident individuals are not taxed on foreign source income.
- Withholding tax on dividends paid to non-residents is 5%. Withholding tax on interest paid to non-residents is 5%.
- The VAT rate is 18%.
- Georgia eliminated Social Security contributions in 2008.

2.2 Regulatory legislation

The following major pieces of legislation (in addition to taxation law) affect foreign investment into Georgia:

- Law on Entrepreneurs, which defines the types of legal-organisational form for enterprises, terms of registration and internal structure of entities.
- Law on Licenses and Permits.
- Law on Supervision on Entrepreneurship, which establishes general rules for supervision activity of state control authorities.
- Civil Code, which is the main law of Georgia regulating private relations between individuals and legal entities.
- General Administrative Code.
- Law on Bankruptcy.
- Free Trade and Competition Act, which was adopted in 2012. It establishes the rules and measures for the protection of fair competition. It defines economic activity that is subject to regulation and the competence of the state authority responsible for protection of competition.
- Labour Code (see Chapter 6)

Legal relations in respect to intellectual property are mainly regulated by the Copyright and Related Rights Act, the Trademark Act and the Patent Act. Currently, enforcement of intellectual property rights is lacking but has been highlighted by international companies as necessary to further increase Georgia's development.

Licensing and permits

The Georgian Law on Licenses and Permits defines the complete list of activities subject to licensing and permits to be granted by authorised state bodies. According to the law, a license is a right granted on the grounds of an administrative act and conformity with requirements of the law to perform the certain activity. A permit is a right issued either for a restricted period of time to perform an activity that is related to the certain object (installation) and does not contradict the requirements of the law.

- The Law requires licenses for approximately 30 types of activities. Among those activities that require licenses are the production of baby and children's foodstuffs, banking, use of oil and gas resources and local broadcasting.

- The law considers approximately 50 other types of activities subject to special permission, such as the import and export of weapons, impact on the environment, construction, and customs warehouses.

- The administrative body issuing licenses is required to issue an administrative act on granting a license within 30 days after an application is filed and an administrative act on granting a permit within 20 days after an application is filed. A license or permit is automatically granted in case an administrative body does not reply to the application within the time limits. In some areas of business activity, the mandatory timeframe for issuing licenses and permits is even shorter.

Tbilisi – Courtyard Marriott

2.3 Legal environment

Georgia greatly desires integration of their economy with the global economy. Because of this, Georgia's Parliament has been working since 1995 to liberalise business. The goal of the legislation is to encourage international businesses to operate in Georgia by creating a business-friendly environment in which they can work.

The Georgian court system is in need of improvement. Currently, the government is seeking to further reform the judicial process and streamline the procedures.

Consistent with most post-Soviet, transitional economies, Georgian legislation is in a process of constant change.

2.4 Foreign investment climate

Investment climate

Georgia encourages foreign trade and investment, and laws allow foreigners to purchase businesses and property, repatriate revenue and profits, and receive compensation if property is nationalised.

Restrictions on foreign investment

Foreign enterprises and individuals are permitted to own up to 100% foreign ownership of the capital of Georgian companies. There are some limitations on the activities that may be conducted, however, and foreign investment in the defence and security sectors is not permitted.

Investment incentives

Georgia offers incentives for businesses located in free industrial zones (FIZs), and for entities established as an International Financial Company, Free Warehouse Enterprise or International Enterprise. See section 9.2 for further information.

Foreign exchange

The government maintains a free floating and freely convertible currency, the Georgian Lari (GEL).

Guarantees and rights

Under the Law on Promotion and Guarantees of Investment Activity, foreign investments are not to be subject to nationalisation, confiscation, expropriation, requisition, or any other measure of similar effect, except in cases of natural disaster or an epidemic. In such cases, fair compensation (damages, lost profits, and moral damages) must be provided to the investor no later than four months after the incident.

Foreign investors are guaranteed the right to repatriate freely any funds in convertible currency after payment of appropriate taxes and other fees, which are not specified by the law. The only things that may restrict an investor's rights are bankruptcy or breach of criminal or civil laws.

Disputes and termination of ventures are of special importance. If a foreign enterprise is liquidated by the foreign partner, assets leaving Georgia will be subject to payment of all applicable taxes and duties. Disputes between an investor and a state authority are to be brought before either Georgian courts or before international mediation courts.

2.5 International agreements

Georgia is a member of NATO's Partnership for Peace Program and is actively working to join NATO and the European Union. Georgia is also a member of the United Nations, the OSCE, and GUUAM (Union of Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova) and an observer in the Council of Europe.

Georgia was formerly a member of the CIS (Commonwealth of Independent States). Because of the August 2008 conflict with Russia, Georgia formally notified the CIS on 18 August 2008 of its intention to withdraw from the organisation, and that withdrawal came into effect on 18 August 2009. However, Georgia's Ministry of Foreign Affairs has said it will uphold all trade and treaty agreements made between Georgia and fellow CIS countries.

Georgia has a free trade regime with members of Commonwealth of Independent States (CIS) including Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan and Ukraine. This results in duty free trade of goods and services. 40% of Georgia's exports go to CIS countries, and these countries account for 39% of Georgia's foreign trade turnover.

On 18 December 2002, the GUUAM (Georgia-Ukraine-Uzbekistan-Azerbaijan-Moldova) free trade agreement was ratified by the Georgian Parliament, the goal of which is to create favourable trade conditions and to strengthen economic links among the member countries. The agreement to form a free trade zone was reached at the GUUAM Presidents' Summit in July 2003 in Yalta. Uzbekistan has since left the free trade zone.

2.6 Foreign investor associations

The main foreign business chamber in Georgia is the American Chamber of Commerce (www.amcham.ge).

2.7 Further information

The Georgian National Investment Agency (www.investingeorgia.org) was established in 2002 to facilitate foreign direct investment in Georgia. The agency serves as a liaison between the investor and the government and can assist foreign investors in finding business opportunities, facilitating meetings with companies and/or government officials, and helping to obtain necessary licenses and permissions.

The Agency's website contains a lot of information concerning investing into Georgia, as well as an extensive list of links to websites for governmental organisations, NGOs, embassies, international organisations, culture, education, banks, internet service providers, media and other sites of Georgian interest.

3 *Banking, finance and insurance*

3.1 Banking system

Georgia has a two-tier banking system. The National Bank of Georgia (NBG) is Georgia's central bank. Commercial banks operate under the authorisation and supervision of the NBG.

National Bank of Georgia

The status of the NBG is defined by the Constitution of Georgia. The NBG is independent in its activities, and the members of its legislative and executive bodies have no right to intervene in the NBG's activities.

The main objective of the NBG is to ensure price stability.

Banking sector

At the end of 1994, Georgia had 228 banks. Many of these have since been liquidated, as a result of efforts to increase transparency, improve the quality of assets and services, and strengthen the banking system generally. As of 31 December 2011, there are 18 commercial banks in Georgia, with total assets of GEL 10,5 billion. Many banks have foreign participation.

Banks are required to be organised as Joint Stock Companies and to report using International Financial Reporting Standards (IFRS).

Commercial banks require a license from the NBG. The NBG applies the principle of "prudent regulation." The minimum statutory capital required to register a bank is GEL 12 million.

3.2 Foreign currency rules

Georgia's currency regime is based on floating exchange rate principles. Intervention from the NBG is targeted against excessive exchange rate fluctuations on the currency market.

Georgia has liberal currency regulations. Local or foreign individuals and entities are free to buy or sell foreign currency without any limitation. Money transfer from a resident or non-resident individual's bank account is not subject to limitation. Only resident individuals are obliged to provide the bank with appropriate documentation (e.g. contract) under which the transfer is to be done. Georgian law does not impose any limitation on lending from foreign banks.

3.3 Capital markets

Georgian Stock Exchange (GSE) - is the only organised securities market in Georgia. Designed and established with the help of USAID in 2000 and operating within the legal framework drafted with the assistance of American experts, GSE complies with global best practices in securities trading and offers an efficient investment facility to both local and foreign investors.

The official website is www.gse.ge

4 Importing and exporting

4.1 Trends in customs policy

The Customs Code was repealed at the end of 2010 and customs provisions are now incorporated into the tax code. The consolidation of tax and customs rules into a single code did not involve any significant change in customs policies.

4.2 Import restrictions

There are no restrictions on imports into Georgia. Georgia has no quantitative restrictions (quotas) on trade.

4.3 Customs duties

Classification of goods

Georgia uses the Harmonised Commodity Description and Coding System for tariff classification, in compliance with the 1984 International Convention on Harmonised Commodity Description and Coding System.

Valuation rules

Georgian customs valuation rules comply with the Agreement on Implementation of Article VII of the GATT 1994. This means that:

- The declared customs value should generally be used as the basis for determining customs duties.
- The customs value should be determined in accordance with the six WTO valuation methods.
- The customs authority is entitled to assess duties on a higher value in certain circumstances.

Tariff rates

The following goods are exempt from customs duties:

- Export of goods.
- Transit of goods.
- Goods intended for official use of diplomatic representatives in Georgia.
- Import of goods intended for oil and gas operations under the Law on Oil and Gas.
- Goods produced in a “Free Industrial Zone” are free of customs duties when imported to an area outside the zone.

Goods originating in WTO member states are taxed at lower rates. Oil products, including oil products from CIS countries, are taxed at a 0% rate. Except for construction materials and agricultural products, all kinds of raw materials and equipment delivered to Georgia are exempt from custom fees.

Excise tax

Excise tax is payable on alcoholic drinks, condensed natural gas (except for pipeline), oil distillates, goods produced from crude oil, tobacco products, automobiles and ferrous and non-ferrous metal scrap.

Value added tax

Unless expressly exempted under the law, imported goods are subject to 18% VAT during customs clearance. The taxable base is the customs value of the goods, plus the amount of any import duties and excise duties (if any).

In most cases, VAT is required to be paid within the period from 5 to 30 days after importing goods, depending on the conditions of the import. However, a taxpayer that has declared and paid VAT (output tax less input tax) for any continuous 12-month period in an amount exceeding GEL 200,000 is entitled to relief from VAT upon importation of goods.

4.4 Customs processing fee, documents and procedures

All goods crossing the border are subject to customs control, which includes specific procedures aimed at ensuring compliance with customs rules. Other types of border control may also be conducted.

The customs authorities may conduct post-entry audits to verify compliance with customs and tax legislation.

An entity is subject to a fee of GEL 400 per customs declaration if the value of goods exceeds GEL 15,000, GEL 300 per declaration if the value of goods is between GEL 3,000 and 15,000, and GEL 150 if the value of goods is less than GEL 3,000. Customs fees for temporarily imported goods vary with respect to the weight of goods.

The tables below list the procedures necessary to import and export of goods in Georgia. *(World Bank-Doing Business in Georgia 2012)*

Nature of Import Procedures (2012)	Duration (days)	US$ Cost
Document preparation	8	255
Customs clearance and technical control	1	360
Ports and terminal handling	2	300
Inland transportation and handling	2	800
Totals	13	1715

Nature of Export Procedures (2012)	Duration (days)	US$ Cost
Document preparation	4	255
Customs clearance and technical control	2	240
Ports and terminal handling	2	300
Inland transportation and handling	2	800
Totals	10	1595

Source: http://www.doingbusiness.org/data/exploreeconomies/georgia?topic=trading-across-borders

Documents for Export and Import

Export & Import
Bill of lading
Certificate of Origin
Commercial invoice
Customs export/import declaration

Payment

Import duties, customs fees and taxes are payable by the importer in local currency after the customs clearance of the imported goods, within the period from 5 to 30 days, depending on the conditions of the import.

4.5 Exports

Export duties

Georgia has no export duties. Exported goods are zero rated for VAT purposes.

5 Business entities

5.1 Legal framework

Legal framework for business entities

The Law on Entrepreneurship of 1994 outlines the procedures for establishing a presence in Georgia.

Establishing an entity in Georgia is straightforward. Under the one-stop shop principle established in 2005, registration is conducted only with National Agency of Public Registry, and can be completed on the day that the required documentation is submitted if the higher fee for one-day processing is paid. Otherwise, registration will take 2-3 days.

Documents prepared overseas must be apostiled by the appropriate government body (or legalised through a Georgian embassy, if the head office or parent company is not in a state recognising the Hague Convention on Abolishment of Legalisation for Foreign Public Documents). In addition, documents prepared in a foreign language will need to be translated into Georgian once they are sent to Georgia and that translation should then be authenticated by a notary.

Commercial law

Business relationships are governed by the Civil Code.

5.2 Forms of business entities

Individuals may operate business as sole proprietors. In addition, the Law on Entrepreneurs recognises:

- Limited liability companies (LLCs).
- Joint stock companies (JSCs).
- General partnerships, which are limited to participation by individuals.
- Limited partnerships, where some partners have limited liability and the other partners (who must be individuals) have unlimited liability.
- Cooperatives, which aim to serving the common interests of their members rather than receiving profits.

From a foreign investor's perspective, the choice will tend to be between a LLC, a JSC, a branch or a representative office.

Formation procedures

The governing document of a LLC is its charter. The charter must be signed by its founding partners and notarised.

Incorporation will take one business day from when all necessary documents are filed with National Agency of Public Registry.

Capital structure

There is no minimum capital requirement for a LLC.

Relationship of participants, directors and officers

The meeting of shareholders should be held once each year. Approvals of resoulution are dependent on what decision the meeting is making. It is not necessary to hold the meeting if all partners send their written consent on all issues to be considered.

The LLC's directors are responsible for managing the day-to-day activities of the LLC and representing the LLC against third persons. Directors are required to fulfil their duties in accordance with an ordinary businessman's due diligence.

Liquidation, receivership

5.3 A LLC is liquidated on the basis of the resolution of its partners. The start and the finalisation of liquidation process must be registered at National Agency of Public Registry Joint stock companies

A JSC is a legal entity whose share capital is divided into a specified number of shares of equal nominal value, and the liability of its shareholders is limited to the nominal value of their shares. There is no minimum charter capital requirement for a JSC. A JSC may have multiple classes of shares carrying different rights for the shareholders of each class.

The legal framework for JSCs is similar to that for LLCs. Specific points to note are:

Corporate bodies: The highest managerial body of a JSC is the Shareholder's Meeting. A Shareholder's Meeting is not required if decisions are exercised by a shareholder holding more than 75% of the JSC's authorised capital. Operational management is delegated to the JSC's director or directors, who may be of any nationality. JSCs must also have a Supervisory Board and an Independent Auditor.

Mandatory share purchase: A shareholder (or group of shareholders acting together) who purchase shares resulting in control over more that 50% of the voting shares in a JSC must prepare a tender proposal to redeem all remaining shares at fair value. A shareholder acquiring more than 95% of the shares of a JSC has the right to redeem the shares of the other shareholders at fair value.

5.4 Branches and representative offices

Branches and representative offices are not legal persons and operate in Georgia on behalf of the foreign (or local) companies that they represent. The activities of a representative office are limited to representing the interests of its head office. A branch may perform some or all of the normal commercial activities of the entity to which it belongs.

6 *Labour relations and social security*

6.1 Labour relations and the Labour Code

A new labour code came into effect in July 2006, and applies to all types of enterprises performing activities in Georgia and having local employees. The code is considered to be rather progressive in nature, and includes the following features:

- *Salaries and wages –* subject to agreement between the parties.
- *Labour Contract* – can be concluded for definite or indefinite period.
- *Probation period* – should not exceed six months.
- *Vacation* – each employee is entitled to not less than 24 working days annually.
- *Maternity leave* – employees are entitled to be paid maternity leave of 126 days. Maternity leave is partially paid from the sources of the Social Security Fund.
- *Termination of a Labour Contract* – employer should be informed 30 days prior about termination of a labour contract.
- *Severance payment* – amount of severance payment is equal to one month's salary of an employee.

The Heritage Foundation ranks Georgia first in the world in the Labour Freedom category of the Index of Economic Freedom, and the World Bank ranks Georgia fifth in the world on the Employing Workers indicator of Doing Business 2010.

6.2 Social security system

Georgia eliminated separate employer and employee contributions to social security at the start of 2008. Social security is now funded through the tax system.

6.3 Foreign personnel

Visas

Nationals of Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkey, Ukraine and Uzbekistan have visa-free movement in Georgia.

Nationals of many other countries, including all countries of the European Union, Argentina, Australia, Bahrain, Brazil, Brunei, Canada, Chile, Croatia, Iceland, Israel, Japan, Kuwait, Malaysia, Mexico, New Zealand, Norway, Oman, Qatar, Saudi Arabia, Singapore, South Africa, South Korea, Switzerland, Thailand, United Arab Emirates, United States and Uruguay, may enter Georgia for 360 days without a visa. For a complete list of countries and their requirements, please see the Consular Section of the Ministry of Foreign Affairs of Georgia website for more information: http://www.mfa.gov.ge/.

For those needing a visa, it is generally possible to obtain a visa/entry permit for 360 days at border crossing points at a cost of USD 30. As rules vary according to the country, please consult the Ministry of Foreign Affairs before departure from your home country to determine if you may apply for a visa upon arrival in Georgia

Registration

Foreigners with ordinary visas staying in Georgia for longer period than envisaged by their visa, have to apply the Ministry of Justice for a temporary or permanent living permit before their visa period expires.

Work permit

Foreigners do not have to obtain special work permits to work in Georgia.

7 Accounting and audit requirements

7.1 Accounting

Accounting is governed by the Law on Regulation of Accounting and Reporting, and is regulated by the Accounting Standards Commission.

The 2004 edition of International Financial Reporting Standards (IFRS) has been translated, fully adopted, and made mandatory as the only reporting standards in Georgia. The only exception is for small enterprises and non-commercial enterprises, as separate standards are adopted for them by the Accounting Standards Commission.

The functions of the Accounting Standards Commission are to:

- Approve the Georgian IFRS translations and interpretations for implementation.
- Approve temporary accounting standards (for those issues currently not covered by IFRS).
- Approve a chart-of-accounts structure based on IFRS.

Financial statements must be prepared by and submitted as follows:

- Taxpayers – annual financial statements must be submitted before 1 April to the relevant tax inspectorate.
- Accountable Joint Stock Companies and other security issuer companies – six-month interim financial statements must be submitted before 15 August and audited annual financial statements before 15 May to the National Bank of Georgia
- Banking institutions and insurance companies – audited annual financial statements must be submitted before 15 May to the National Bank of Georgia.

7.2 Audit requirements

Audit is performed in the cases prescribed by the law (mandatory audit) and by the initiative of the entity (initiative audit).

Mandatory audit is required for the following entities:

- Banks and insurance companies, special state foundations, and stock exchanges.
- Security issuers and investing institutions.
- Entities that have more than 100 shareholders.
- Other entities, the list of which is approved by the Ministry of Finance on a yearly basis.

Currently, most other entities, including branches of foreign companies, are not required to have a local audit.

Audits must be performed in accordance with International Standards on Auditing.

8 Tax system and administration

8.1 Tax system

In 2005, Georgia introduced a new tax code that made radical changes to the tax system. Low tax rates were introduced and the 21 taxes that applied in 2004 were reduced to six in 2005.

In 2010, another new tax code was enacted to take effect from 1 January 2011. The new code consolidated the tax and customs rules into a single code. In addition, the new code implemented further initiatives under three main objectives:

1. **Taxes should be simplified.** Special rules for individual entrepreneurs should encourage small businesses to legalise their operations. Registered micro businesses (annual turnover below GEL 30,000) will be completely exempt from tax. Registered small businesses (annual turnover below GEL 100,000) will pay a turnover tax of 3% or 5%. For other taxpayers, withholding tax reporting and VAT and excise tax payments and reporting shift from a monthly to a quarterly basis.

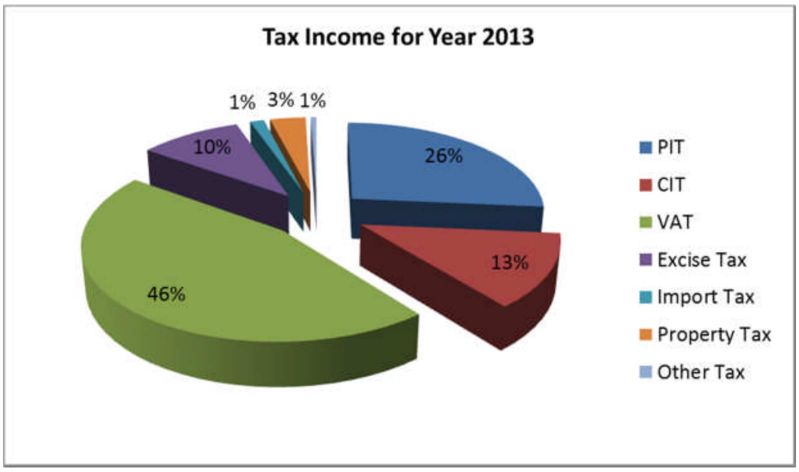
2. **Trust in the tax system should be increased** through the formation of a stable and sustainable tax environment, simplifying the language of the code to remove ambiguities, and making tax administration more reasonable. A new chapter was introduced on taxpayer rights. Taxpayers who believe their rights have been violated may make a complaint to the newly established Tax Ombudsman. Efforts were also made in the new code to improve the integrity of the administrative appeals process.

3. **Georgian tax legislation should be better aligned with international best practice and EU directives.** New transfer pricing rules were introduced, and the VAT rules were amended to adopt several measures from the EU VAT Directive.

The new code was passed relatively quickly and taxpayers expect there to be some practical problems when the new code is implemented. Increased withholding taxes on non-residents and new transfer pricing and thin capitalisation rules send mixed signals concerning the government's ongoing tax policy toward foreign investment.

8.2 Direct and indirect tax burden

Budgeted taxation accounted for just over 92% of government revenues in 2012. Taxes on income, profits and capital gains accounted for 39% of tax collections, while 55% came from taxes on goods and services and 1% came from import taxes.



8.3 Principal taxes

There are five taxes imposed at the national level: corporate income tax, personal income tax, excise tax, customs tax and value added tax.

Property tax is levied at the municipal level. Land tax is levied as a component of the property tax.

To see the tax rates at glance, refer to Appendix 2.

8.4 Legislative framework

Taxes and levies, as well as penalties for non-compliance, are set out in the tax code.

In general, international agreements prevail over local legislation.

The Georgian Ministry of Finance may issue orders or instructions to clarify the application of tax laws. Orders and instructions must be consistent with the Georgian tax code or they do not have legal force. Nevertheless, even if there is some doubt about the validity of an order or instruction, it is still prudent to consider tax authorities interpretations and the risk of conflict with the tax authorities before taking a position based on the law.

Georgia does not follow case law.

8.5 Tax treaties

Georgia has 42 tax treaties in force as at 1 January 2013. A summary of withholding rates under the various treaties is provided in Appendix 3.

Under current rules, taxpayers are required to obtain confirmation of treaty relief from the authorities for most payments, which involve filing an application form, along with a certificate of tax residence that has been apostiled or legalised in the investor's home country.

8.6 Administration of the tax system

All taxes are administered by the Tax Department of the Ministry of Finance of Georgia.

The rates for property tax are assessed by the local authorities, within limits set by the tax code.

8.7 Registration requirements

Tax registration is conducted together with state registration with National Agency of Public Registry. The registration process should take no more than one day once all required documentation is obtained and submitted to the relevant authority.

Persons subject to VAT are required to separately register for VAT.

8.8 Tax returns and payments

Since 1 January 2010, all taxpayers have been required to file tax returns electronically.

(Corporate) profit tax

Georgian enterprises are required to submit their corporate income tax return (also referred to as the profit tax return) before 1 April of the following year.

Advance quarterly tax payments are made in equal instalments, the deadlines for which are: 15 May, 15 July, 15 September, and 15 December. Each advance payment is equal to 25% of the tax paid for the previous year. Any residual liability must be paid by 1 April of the following year.

A taxpayer with no corporate income tax payable for the previous year is not required to make advance payments.

(Individual) income tax

Individuals receiving Georgian source income without taxation at the source of payment should submit an income tax declaration and pay the corresponding taxes before 1 April of the following reporting year.

Value added tax

The accounting period for VAT is a calendar month, but from 1 January 2011 particular categories of tax payers gradually moved to the quarterly accounting period.

A taxpayer is required to submit the VAT return and pay the respective tax to the local tax authorities within 15 days after the end of the accounting period.

Property (and land) tax

Enterprises must submit property and land tax declarations before 1 April of the year following the year for which taxes are being assessed:

- Property tax is paid in two instalments. An advance payment is made on 15 June, equal to the property tax payable for the previous year. The balance is then due before 1 April of the following year, when the property tax return for the year is filed.

- The amount of land tax is subject to assessment by the authorities and must be paid before 15 November.

Individuals are subject to different rules. They are required to submit property and land tax returns before 1 November and to pay the corresponding taxes before 15 November.

8.9 Assessments

With the exception of land tax, taxpayers make returns and payments on a self-assessment basis. However, if the tax authorities determine that the tax shown on the return is incorrect, they may assess taxes within six years from the end of the year in which the return is filed. This period may be extended to 11 years if a taxpayer elects to carry forward losses beyond the normal five-year loss carry forward period.

The amount of a tax assessed, as well as any fines and penalties, should be paid within 30 calendar days after receiving the payment order.

8.10 Appeals

A taxpayer may choose to appeal to the Revenue Service or the Court against a decision of the tax or customs authorities. Any appeal must be received by the Revenue Service or the Court within 30 calendar days following receipt of the notice. If the taxpayer is appealing a refusal when the tax authorities have failed to act, the appeal must be received within 30 calendar days following the date by which the tax authorities were required to act.

If an appeal to the Revenue Service is unsuccessful, the taxpayer has 20 calendar days to escalate the appeal to the Appeals Board under the Ministry of Finance.

If an appeal to the Appeals Board is unsuccessful, the taxpayer has 20 calendar days to escalate the appeal to the courts.

It is important that any appeal is presented or escalated within the prescribed deadlines, otherwise the notice, demand for tax payment or other administrative-legal act under dispute will take final effect, and the appeal will not be considered.

The Revenue Service, and later the Appeals Board, each have 20 working days to consider the appeal. The Revenue Service and the Appeals Board may extend the period by up to 45 calendar days, in which case the taxpayer will receive written notification of the extension. The Revenue Service and the Appeals

Board have five additional working days to deliver their response to the taxpayer.

If a taxpayer does not receive a response from the Revenue Service or the Appeals Board within the deadline, the taxpayer is entitled (but not obliged) to treat the appeal as rejected and to elevate the dispute to the next level.

If the taxpayer chooses to appeal initially to the Revenue Service, the taxpayer may elevate the appeal to the Court at any time during the appeal process. In that case, consideration of the appeal within the Revenue Service or the Appeals Board will cease.

8.11 Withholding taxes

With the exception of employers operating in a FIZ, employers are required to withhold personal income tax at source on a monthly basis from their employees' salaries. The taxes are remitted to the state budget on the same day that they are deducted. The monthly personal income tax return should be submitted by the employer before the 15th day of the following month.

Payments of interest are generally subject to 5% withholding tax, although a number of exemptions exist. Interest payments to non-residents registered in black listed countries are subject to 15% withholding tax.

Dividend payments (except to another Georgian entity) are subject to 5% withholding tax.

Payments of income to oil and gas subcontractors are subject to 4% withholding tax.

Payment to non-residents for international transportation and international communications is subject to 10% withholding tax.

Payments to non-residents for insurance are subject to 0% withholding tax.

Payments to non-residents that are not covered by the rates indicated above are subject to 10% withholding tax. For the payments performed to non-residents registered in black listed countries the applicable tax rate will be 15%. The Government of Georgia determines the list of black listed countries.

Withholding tax rates for non-residents may be reduced under a relevant tax treaty.

8.12 Tax audits

Georgian tax law envisages two types of tax audit:

A desk audit involves a tax officer determining the consistency of a taxpayer's liabilities with the requirements of the tax code without visiting the taxpayer's place of activity. The determination is based on an analysis of financial reports, tax returns and other data in the possession of the tax authorities, as well as explanations and accounting documents requested from the taxpayer. If errors are revealed during the desk audit, the taxpayer is notified in writing in the form of a Tax Audit Act.

A field audit consists of a full or random audit at a taxpayer's place of activity of documents related to the calculation of taxes. A field tax audit can be planned or urgent. A taxpayer will receive a notification letter at least 10 days in advance for a planned field audit. The audit must then start within 30 days or the notification becomes invalid. A taxpayer will not receive any notification for an urgent audit, but such an audit may proceed only if the tax authorities receive permission from the court based on statutory criteria.

The authorities may conduct a field audit for any period that has not already been audited. However, in rare circumstances, a higher authority may with the agreement of the court audit a period that has been audited previously.

The tax authorities must complete a tax audit within three months of the start date. This period may be extended by two months if needed.

8.13 Other control procedures

The tax authorities are allowed to undertake various control procedures outside the framework of audits. An authorised representative of the tax authorities may:

- pose as a customer and make a controlled purchase of goods from a taxpayer.
- observe the areas and buildings belonging to the person under review.
- check that persons supplying goods or services to consumers are recording the details of cash payments properly by means of cash registers.

The tax authorities may perform a chronometric review. This review involves a tax official visiting the premises of a taxpayer for a period of time and observing sales activity for a period of least seven days.

8.14 Penalties

The following are some of the main penalties that may arise under the Georgian tax code for non-compliance with return filing and tax payment requirements:

- Late submission of a tax return results in a penalty of 5% of the unpaid tax amount for each month past due (up to a maximum of 30% of the total tax. due and subject to a minimum penalty of GEL 50).
- An understated tax liability results in penalties of 50% of the understated tax. If the understatement is a consequence of changing the accounting period of the tax liability, it will attract penalty 10% of the understated tax.
- Significant tax evasion (an understatement of more than GEL 50,000) is treated as a criminal case.
- Late payment of taxes is subject to an interest penalty of 0.06% of the amount payable for each overdue day. The penalty ("fine") is imposed only

on the underlying tax liability, and does not apply to tax penalties.

The interest penalty ("fine") is imposed only on the underlying tax liability, and does not apply to tax penalties

If a taxpayer makes a voluntary disclosure of underpaid taxes, the only penalty that will apply is interest for late payment.

Penalties for other offenses include:

- If a taxpayer (other than a micro business) makes cash sales to customers but does not have a cash register, a penalty of GEL 200 applies.
- Failing to use a cash register in cash settlements with customers is subject to a penalty of GEL 200.
- Issuing cash receipt for an amount that is less than the actual payment is subject to a penalty of GEL 200.
- The loss of a cash register, if it cannot be demonstrated that the loss was caused by the unlawful action of another person, is subject to a penalty of GEL 3,000. Losing a second cash register within 60 days of the first loss is subject to a penalty of GEL 6,000.
- Using metering devices at fuel stations without the seal of the tax authority is subject to a penalty of GEL 1,500. Repeated offences within a 12-month period are subject to a penalty of GEL 15,000.
- Transporting goods that have a market value of GEL 10,000 or less without a proper bill of lading is subject to a penalty equal to the lesser of GEL 500. For a second offence within a 12-month period, the minimum penalty is 5,000.
- The penalties still apply if a bill of lading exists, but it lacks the date and number of the document, the name and identification number of the parties to the transaction, or information about the name and volume of the goods.
- The penalties will not apply to:
  - Transportation of initial agricultural products.
  - Regular transportation of gas or water.
  - Transportation of goods with appropriate customs documents.
  - Transportation of goods with a special VAT invoice that includes the details envisaged by the bill of lading exists.
  - Transportation of the marketing materials for free of charge distribution purposes which have no independent consumer specifications and are integral part of the delivery of the main product.
  - Transportation of precious metals and stones, if the task is performed with a special safe means of transport or is under control.
  - Persons who have the status of a micro or small business.
- The violation of taxpayer registration procedures is subject to a penalty of GEL 500.
- Resisting an authorised tax official who is observing the activities of a taxpayer is subject to a penalty of GEL 800. Repeated offences within a 12-month period are subject to a penalty of GEL 2,000.
- The violation of seized property ownership, utilisation or disposal rules is subject to a penalty of GEL 4,000.
- Failing to submit accounting documents or other information to the tax authority required under the law is subject to a penalty of GEL 400. Repeated offences within a 12-month period are subject to a penalty of GEL 1,000.
- Submission of incorrect information regarding inventory to increase deductions for profit tax purposes is subject to a penalty of 100% of the book value of the inventory that is not presented.
- The penalty for offences that are not subject to specific penalties is GEL 100.

VAT-specific penalties are discussed in section 11.8.

8.15 Tax settlements

In late 2009, the government introduced the concept of Tax Contracts. A Tax Contract involves the possibility of concluding a tax settlement between a taxpayer and the Government if the total amount of tax liabilities exceeds GEL 10,000:

- The taxpayer submits an application to the Revenue Service to conclude the contract and attaches relevant materials, including a proposal for settlement.
- The Revenue Service presents the application to the Minister of Finance for resolution at a session of the Government.
- The Government makes a decision about concluding the contract and the amount of payable tax liabilities and the terms of payment are specified.
- The taxpayer's tax liabilities are fixed on the day the contract is concluded. The taxpayer will be unable to adjust the data in its tax returns for the covered period, while the tax authorities will be unable to accrue additional tax liabilities to the taxpayer for the covered period.

A formal tax contract will be concluded between the Revenue Service and the taxpayer.

The taxpayer may appeal a tax contract if it is concluded by an unauthorized person.

8.16 Tax clarifications

Taxpayers may request written explanations from the tax authorities on the application of specific tax laws.

Such explanations are not legally binding and do not provide solid protection against tax assessments and penalties. However, in practice a written explanation may be useful in resolving disputes with local tax authorities regarding uncertainty in the tax legislation.

8.17 Advance (binding) rulings

Any taxpayer may apply for an advance ruling for a completed or proposed transaction. The ruling must be issued within 60 days of the application. The ruling is binding on the tax authorities, but only for the taxpayer for whom it is issued. The ruling is not binding on the taxpayer.

The cost of applying for an advance ruling is GEL 10,000 if the applicant's capital exceeds GEL 1 million or annual turnover exceeds GEL 10 million and GEL 5,000 otherwise. The MOF will issue a ruling within 10 days if the taxpayer pays a triple fee.

A taxpayer who receives a negative ruling may appeal the advance ruling through the appeals process, or refine the facts and ask the authorities to reconsider their decision.

9 Taxation of corporations

9.1 Corporate tax system

Companies

Georgian entities and foreign entities doing business in Georgia through a permanent establishment are liable for corporate income tax. The standard rate is 15%.

Dividends

Companies must deduct withholding tax from dividends paid to individuals and foreign entities not having a permanent establishment in Georgia at a rate of 5%. A lower rate may apply under a relevant tax treaty.

Dividends paid between resident companies are exempt from income tax.

Territoriality

A resident enterprise is any legal entity established under the law of Georgia, or that has its place of effective management in Georgia.

Resident entities are liable to Georgian tax on their worldwide income. Foreign taxes should be available for credit against Georgian tax liabilities, up to the amount of Georgian tax payable on the foreign income.

Foreign entities are liable to Georgian tax only on income from sources in Georgia. In broad terms, income will have a source in Georgia if:

- The income arises from activities performed or property located in Georgia; or
- In the case of passive income (e.g., dividends, interest and royalties), financial services and insurance services, the income is paid by a resident of Georgia.

Consolidation

There is no system of group taxation in Georgia. Members of a group must file separate tax returns. There are no provisions to allow losses to be offset against the profits of another group member.

Permanent establishments

The domestic definition for a permanent representation essentially adopts the definition for permanent establishment found in the OECD Model Tax Convention.

The taxable income of a permanent establishment is determined and taxed in the same manner as that of resident companies.

A foreign company that earns income from the provision of services within Georgia is subject to 10% withholding tax if the company does not have a permanent establishment in Georgia. However, relief may be available under a relevant tax treaty.

A non-commercial representative office established to engage in liaison type activities will generally not be subject to profit tax.

9.2 Incentives

Free industrial zone (FIZ)

A FIZ may be established on a piece of land exceeding 10 hectares. It may be established by the initiative of the Georgian Government or upon the request of an organiser, resident or non-resident physical or legal person for land that they own or lease.

Transactions in a FIZ may be conducted in any currency. Payment between an industrial free zone enterprise and a regular Georgian enterprise may also be conducted in any currency. The regulations do not permit a building or structure inside a FIZ to be used as a residence.

Production or manufacturing of any kind of goods and services are permitted in a FIZ, with the exception of, nuclear, radioactive substances, arms and munitions, narcotic and psychotropic goods, and excisable goods.

One of the purposes of establishing the zones is to promote local employment. Entities operating in a FIZ are not required to withhold tax from payments to employees. However, the employees are required to account for their own taxes through self-reporting on a monthly basis.

International Financial Company, Special Trade Company and Free Industrial Zone Company

Tbilisi

Incentives have been established for entities established as an International Financial Company, a Special Trading Company or a Free Industrial Zone Company.

A Free Industrial Zone Company is a registered entity located inside a FIZ that has confirmed its status with the tax authorities. Income received by a Free Industrial Zone Company from its permitted activities conducted in a Free Industrial Zone is exempt from profit tax.

A Special Trading Company is a warehouse that has confirmed its status with the tax authorities. A Special Trading Company may store and sell foreign goods or re-export Georgian goods. A Special Trading Company is exempt from profit tax on income received from re-exporting foreign goods.

An International Financial Company is a financial institution that conducts most of its business with parties outside Georgia, and is located outside a FIZ. Profit received from financial services provided by an International Financial Company is exempt from profit tax, as are gains from the sale of securities issued by an International Financial Company.

If an International Financial Company's income from Georgian sources exceeds 10% of its gross income, it will be subject to a 100% penalty on the excess amount.

9.3 Gross income

Accounting period

The reporting year for companies follows the calendar year.

Business profits

Taxable profits are defined to be the difference between a taxpayer's gross income and deductible expenses. Gross income encompasses all revenues received by a taxpayer from all economic activities, unless the revenues are expressly exempted under the law. Deductible expenses encompass all necessary and documented expenses that are directly related to conducting business or earning profit, unless a specific provision in the law restricts the deduction.

Accounting for income and expenses

The taxpayer may use either the cash or accrual method of accounting for tax purposes as long as one method is applied consistently throughout the year. However, the taxpayer has to use the same method of accounting for both financial reporting and tax purposes.

Exempt income

Dividends derived by a Georgian entity (including dividends from foreign companies) are exempt.

Interest received from government bonds and gains derived from the sale of those bonds are exempt.

Gains from the sale of bonds when more than 25% of their issue have been traded on the Georgian Stock Exchange for the last two years are exempt.

Interest received by a non-financial institution from a licensed financial institution is exempt.

9.4 Deductibility of expenses

Business expenses

Properly documented expenses that are necessarily incurred in the furtherance of a taxpayer's business activities should be deductible, unless a specific provision in the law says otherwise (refer below).

Non-deductible expenses

The following are the main items that are not deductible for corporate income tax purposes:

- Expenses not related to a taxable business or connected with the derivation of tax-exempt income.
- Expenses for charitable donations are limited to 10% of taxable profit
- Representation expenses are limited to 1% of the gross income of the reporting year.
- Payments to a micro business are non-deductible.

Inventories

Raw materials, goods supplied, work in progress and finished goods are valued at cost, including costs relating to their acquisition. The law permits the use of the weighted average, first in-first out (FIFO) as well as the separate valuation of inventory items.

Depreciation and amortisation

The declining balance method of depreciation is applied to fixed assets for tax purposes. The rate and approach to depreciation depends on the group into which each asset falls.

Group	Description of assets	Rate
1	Passenger cars, tractor equipment for use on roads; office furniture, automotive transport rolling stock; trucks, buses, special automobiles and trailers; machinery and equipment for all the sectors of industry and the foundry industry; forging and pressing equipment; construction equipment; agricultural vehicles and equipment	20%
2	Special tools, inventory and equipment; computers, data processing peripheral devices and equipment; electronic devices	20%
3	Railway, sea and river transport vehicles; power vehicles and equipment; thermal technical equipment; turbine equipment; electric engines and diesel generators; electricity transmission and communication facilities; pipelines	8%
4	Buildings and constructions	5%
5	Other assets	15%

Buildings and constructions (Group 4 assets) are depreciated on individual basis.

Assets costing less than GEL 1,000 are deducted as expenses in their period of acquisition.

Land, artworks and museum exhibits and objects of historical significance are not able to be depreciated.

For other assets, a pooling approach is used:

- All of the assets of each group are aggregated in a pool.
- The depreciation deduction for the year is determined by applying the relevant depreciation rate to the book value of the assets in the group.
- The book value is calculated as the opening book value for the group, increased by the value of any group assets acquired in that year and reduced by the proceeds from the disposition of any group assets in that year. If the book value of the assets in a group is less than GEL 1,000, the full amount would be deducted (rather than applying the normal depreciation rate).
- If the book value of the assets of a group is negative (the proceeds from disposing of assets in the group exceed the opening book value plus the cost of any acquisitions), the negative amount is reported as taxable income and the book value of the group is reset to zero.
- If all of the fixed assets of a group are sold or liquidated but the book value of the group exceeds zero, the book value of the group is deducted as an expense and the book value of the group is reset to zero.

For groups 2 and 3, a taxpayer may use rates up to double the standard depreciation rate.

A taxpayer may also elect to fully expense the cost of fixed assets in the year in which the fixed assets are put into operation (a form of capital allowance). However, should a taxpayer choose this approach, the 100% deduction method may not be changed for five years.

The cost of intangible assets is amortised over their useful using the straight-line method life if the useful life is determinable. If the useful life of an intangible asset cannot be determined, a 15% rate applies. Each intangible asset is amortised separately.

Expenses on fixed assets

Expenses incurred in the repair and maintenance of a fixed asset are deductible, unless the expense improves the condition of the fixed asset. The deduction is limited to 5% of the book value of the relevant asset at the end of the previous year. Any excess is capitalised and included in the base for depreciation purposes.

Interest

As a general rule interest will be deductible if the related debt is used to fund business activities of the taxpayer. Currently, the maximum deductible interest rate is 24%.

Thin capitalisation rules have been introduced by the new Georgian Tax Code with effect from 1 January 2013. The rules have a debt-to-equity safe harbour of 3:1 (5:1 in respect of leasing companies). Interest paid on debt in excess of the safe harbour will be non-deductible. In determining the non-deductible interest expense, the interest on loans with the highest interest rates is disallowed.

The thin capitalisation rules do not apply to financial institutions, entities with gross income of less than GEL 200,000, and entities with interest expense that is less than 20% of their taxable income before deducting such interest expense.

Foreign exchange

Realised foreign exchange gains are taxable and realised losses are deductible.

Bad and doubtful debts

A taxpayer is entitled to deduct bad debts only if the following conditions are all met:

- The debt relates to goods or services sold by the taxpayer.
- Income received from the sale of goods or services was previously included in taxable gross income.
- The debt has been written off and recorded as such in the taxpayer's accounting records, based on a decision by the courts that the debtor is bankrupt or unable to repay the debt.

Royalties and services fees

Royalties and service fees are deductible payments.

Leasing

Lease payments on operating leases are deductible. The lessor claims a deduction for depreciation of the leased assets.

Before 2010, financial leases were treated as a sale for profit tax purposes. The lessor would recognise income from a sale of assets and revenues from financing. The lessee would deduct depreciation expense and financing costs.

This treatment changed from 1 January 2010. Policymakers were concerned about how to address the challenge of determining whether there was a substantive sale for tax purposes, and what to do if title never transferred to the lessee. To address this, the law was amended and the same VAT and profit tax treatment generally applies to both financial and operating leases.

There are some broader tax distinctions between operating and financial leases (as the term is defined in the tax code).

- Non-residents are exempt from profit tax on income from financial leases, unless the income relates to a permanent establishment of the non-resident in Georgia. There is no exemption for income from operating leases.
- Generally, the lessor is responsible for paying property tax on leased assets. However, if the lessor under a financial lease is a non-resident and the lessee is an individual, the liability for property tax falls on the lessee.

Employee remuneration

Employee remuneration is deductible.

Taxes

Georgian taxes, other than income tax, are generally deductible. Revenues and expenses are determined net of VAT.

Losses

Companies are entitled to carry forward losses to the five subsequent income years.

A taxpayer may extend the loss carry-forward period from five to ten years by applying to the tax authorities at their place of registration. One consideration is that this also results in extending the statute of limitations period to 11 years (up from the current six year limit).

International Financial Companies, Special Trading Companies and Free Industrial Zone Companies may not carry forward losses.

9.5 Related party transactions

The government enacted new transfer pricing rules with effect from 1 January 2011.

The tax authorities may adjust prices for tax purposes when the value of a transaction between related parties differs from the market price.

Taxpayers are related if special relations exist between them that may affect the conditions or economic results of their activities. Special relations are defined to include specifically:

- An entity and any person who directly or indirectly owns at least 50% of that entity.
- Two entities that are under direct or indirect control of a third person.

The tax code recognises the five OECD transfer pricing methods (comparable uncontrolled price method, cost plus method, resale price method, net margin method and profit split method) as acceptable methods to evaluate whether prices are market.

At the time of writing, detailed implementing rules have not been issued.

9.6 Other taxes

Excise tax

Excise tax is levied on specified goods which are produced in Georgia or imported. Excise tax is generally calculated with reference to the quantity of goods (e.g. volume, weight), or in the case of automobiles on the basis of the engine's displacement and vehicle age.

Excise tax applies to alcoholic drinks, condensed natural gas (except for pipeline), oil distillates, goods produced from crude oil, tobacco products, automobiles and ferrous and non-ferrous metal scrap.

The export of excisable goods is taxed at 0%, with the exception of the export of ferrous and non-ferrous metal scrap.

Excise duties on imported goods are paid upon importation. Other excise duties must be paid and excise tax returns submitted before the 15th day of the month following the taxable transaction.

Land tax

Land tax rates depend on the use of the land plot and its location.

Annual property tax rate for agricultural land varies according to the administrative unit and the land quality. The base tax rate per 1 hectare varies from GEL 5 to GEL 100. The tax is further adjusted by a territorial coefficient of up to 150%, depending on the location.

The base tax rate payable on non-agricultural land that is used for economic activity (including rent) is GEL 0.24 per square metre, and the actual rate set by the relevant local government body should not be more than 150% of this rate.

Property located in a FIZ is exempt from land tax.

Property tax

Property tax is payable at maximum rate of 1% on the annual average residual value of fixed assets (except land) on the balance sheet of Georgian entities or foreign entities with taxable property in Georgia.

For persons other than financial institutions and government-owned companies, the value of immovable assets is also multiplied by an indexation coefficient based on the age of the assets, unless the entity has financial statements that record fixed assets using revaluation methods (with the most recent revaluation no more than four years ago) and that have been audited by an approved audit company.

- For assets acquired before 2000 (or if no acquisition information is available), the coefficient is 3.

- For assets acquired between 2000 and 2004, the coefficient is 2.

- For assets acquired in 2004, the coefficient is 1.5.

Generally, the lessor is responsible for paying property tax on leased assets. However, if the lessor under a financial lease is a non-resident and the lessee is an individual, the liability for property tax falls on the lessee.

Property located in a FIZ is exempt from property tax.

9.7 Branch versus subsidiary

The income of branches and subsidiaries are taxed on the same basis.

Repatriation of income from branches is not subject to tax. Dividends paid by a subsidiary are subject to 5% tax.

9.8 Holding companies

There are no rules to permit the grouping or consolidation of income and losses among a commonly owned group. Dividend income received from another company is not subject to tax.

10 Taxation of individuals

10.1 Territoriality and residence

At the start of 2009, Georgia shifted from taxing residents on worldwide income to a territorial system of taxation. Both resident and non-resident individuals are subject to tax only on income that has a Georgian source.

Georgian source rules generally follow international norms. An important exception, however, is that salary has a Georgian source if it is paid through a Georgian payroll, regardless of where the employment is exercised.

Tax residence

An individual is treated as a resident if he or she is present in Georgia for more than 183 days in any continuous 12-month period, including the time he or she spent outside the country for purposes of medical treatment, vacation, business trip or study.

10.2 Tax rates

A flat tax of 20% applies to most forms of income.

Dividends are subject to 5% tax.

Interest is subject to 5%.

10.3 Gross income

Resident taxpayers are liable to pay tax in respect of any income that has its source in Georgia.

Employment income

All income received or credited from employment in monetary form or in kind during a calendar year is subject to personal income tax. Taxable benefits include:

- Goods or services sold to an employee for less than their market price.
- Life and health insurance and pension fund premiums or other similar payments made by the employer for the benefit of an employee.
- Reimbursement of an employee's expenses or payments for his or her family's benefit.
- Use of an employer's automobile for private use.
- Per-diems and accommodation expenses received in excess of the established norms.
- Interest advantage on loans granted by the employer at an interest rate lower than the market rate.
- Debt forgiveness by the employer.
- Assistance for education of an employee or his or her dependents, unless those training programs directly relate to the economic activity of the employer.

Income from independent activities

Income from independent activities is generally subject to the standard rate.

Special rules apply from 1 January 2011 for individuals operating as a micro or small business.

Registered micro businesses (annual turnover below GEL 30,000 with no employees) will be entitled to a complete tax exemption. A micro business is also not subject to any formal accounting requirements.

Registered small businesses (annual turnover below GEL 100,000) will pay a 5% turnover tax, with exemption from all other taxes. The tax rate reduces to 3% if the business has documented business expenses (excluding salary costs) exceeding 60% of turnover. A small business is required to maintain only "purchases and sales journal" and cash registers in accordance with Ministry of Finance rules. A small business is also required to withhold tax on salaries only to the extent that salary expense exceeds 25% of sales revenue. Any other salaries paid by a small business are exempt from tax.

A micro business will lose its status if the tax authorities conduct a stock take and identify that the taxpayer has inventory exceeding GEL 45,000.

A small business will lose its status if the tax authorities conduct a stock take and identify that the taxpayer has inventory exceeding GEL 150,000.

From 20 December 2011 a Fix Tax Payer status was introduced. A fix tax payer can be a person (either an entity or an individual) who is not a VAT payer and conducts business activities prescribed by the Georgian government. Tax rate may vary from 1 to 2000 Gel on a taxable object or 3 % of the return from a taxable activity. Apart from the activity subject to fix taxation, a fix tax payer is allowed to conduct business activities only permissible by the Georgian government. In this regime using of a cash register is not compulsory (but only in the part of activities subject to fix taxation).

Rental income

Gross revenues from property leases are subject to 20% tax.

Income from prizes and winnings

Income from lottery of up to GEL 1,000 is exempt from tax. Otherwise, 20% tax applies.

Investment income

Gains from the sale or exchange of shares or securities are exempt from tax if the shares or securities have been held for more than two years. Otherwise, a 20% rate applies.

Dividends are subject to 5% tax.

Interest (other than interest on government bonds and interest paid by a bank) is subject to 5% tax.

Gross royalties are subject to 20% tax.

Disposal of real estate and movable property

Gains from the sale of property that is not connected with an individual's business are exempt from tax if the property has been held for more than two years. Otherwise, a 20% rate applies.

10.4 Tax-exempt income

In addition to the exemptions indicated in the discussion on gross income, the following are the main items of income that are exempt from taxation:

- Income received from the sale of tangible assets that have been held for more than two years.
- Alimony.
- Gains from the sale of securities issued by an International Financial Company.
- Gains from the sale of bonds when more than 25% of their issue have been traded on the Georgian Stock Exchange for the last two years.
- Income received by non-residents from financial leasing of property if it is not related to a permanent establishment they have in Georgia
- Interest received on government bonds or from a bank.
- Gains derived from the sale of government bonds.

10.5 Deductions

Business

For individuals who do not operate their businesses as micro or small businesses, documented expenses incurred directly and exclusively for the purpose of generating business income are deductible.

Non-business

Georgia has no substantial personal deductions, allowances or credits.

10.6 Taxation of non-residents

Non-residents are subject to the same tax rules as for residents. However, relief from Georgian tax may be available under a relevant tax treaty.

10.7 Property tax

Property tax is levied on the following types of property located in Georgia owned by individuals:

- immovable property
- buildings and uncompleted construction
- assets listed on the balance sheet (in case of conducting economic activity)

Families with annual household taxable income of less than GEL 40,000 are exempt from property tax on their taxable property (excluding land). Taxable property owned by families with higher income is subject to tax at rates varying from 0.05% to 0.2% of the property value if annual family income is less than GEL 100,000 and from 0.8% to 1% of the property value if annual family income is GEL 100,000 or more.

Owners of land located in Georgia and those who use state-owned land in Georgia are subject to property tax. Specific rates apply to land, depending on the location and fertility of the land.

Compliance

If the gross income of a family exceeds GEL 40,000, an annual property tax return should be filed at the tax authorities according to the place of tax registration. Filing should be made before 1 November and the corresponding taxes should be paid before 15 November.

The amount of property tax on land (commonly referred to as “land tax”) is subject to assessment by the authorities and must be paid before 15 November.

10.8 Tax compliance

Obligations of withholding agents

Any income payment by a tax agent (resident legal entity, individual entrepreneur or permanent establishment of a non-resident legal entity), other than an entity located in a Free Industrial Zone, to an individual is subject to withholding.

If an individual receives Georgian source income that is not subject to withholding, he or she must generally register with the tax authorities, self-report that income in an annual tax return and pay the corresponding taxes directly by 1 April of the following year. However, when salary is earned from an entity located in a Free Industrial Zone, the taxes should be paid by the 15th day of the following month.

Currently, withholding tax from payments to individuals must be transferred to the State Budget on the same day that the individual is paid. If compensation is provided in non-monetary form, taxes should be paid to the budget no later than the last day of the month.

Tax returns for individuals

Individuals whose income is not fully taxed at the source of payment must file a personal income tax return before 1 April of the following year. The corresponding tax payment is also due before 1 April.

11 Value added tax

11.1 Introduction

Georgia operates the input-output model of VAT. Persons subject to VAT deduct the VAT paid on their inputs from the VAT charged on their sales and account for the difference to the tax authorities.

The standard rate of VAT on domestic sales of goods and services and the importation of goods is 18%. Exported goods and related services are VAT exempt with the right to credit input tax.

11.2 Taxable threshold

A taxpayer is required to register for VAT if their sales for the 12 preceding calendar months exceeded GEL 100,000, or if they produce or import excisable goods.

A taxpayer must also register if they will make a one-off taxable transaction in the course of economic activity in an amount exceeding GEL 100,000.

Taxpayers whose revenues are below the GEL 100,000 threshold may voluntarily register as VAT payers.

11.3 Scope of VAT

Unless there is an express exemption in the law, VAT applies to:

- Supply of goods and services where the place of supply is in Georgia (including when supply is made to employees without consideration or goods are used for non-business purposes); and
- Importation of goods into Georgia.

Place of supply for goods

The place of supply for goods is the place where the goods are located when they are sold. For goods that are to be delivered, the supply takes place where the goods are located when they are dispatched.

Place of supply for services

The general rule is that services are supplied in the place where the service provider's business is located.

Specific place of supply rules apply to the following services:

- Services related to real estate are supplied in the place where the real estate is located.
- Services related to movable property are supplied in the place where the services are performed.
- Services related to culture, art, education, tourism, recreation, physical fitness and sports are supplied in the place where the services are performed.
- Transportation services are supplied in the place where the transportation passengers or cargo originates.
- When either the supplier or the recipient are outside Georgia, services related to the transfer of intellectual property rights, consulting, legal, accounting, engineering, data processing, staffing the lease of movable property (other than transportation vehicles), and services rendered electronically are supplied in the place where the recipient of the services derives the economic benefit from those services.

VAT on importation

Unless expressly exempted under the law, imported goods are subject to 18% VAT during customs clearance. The taxable base is the customs value of the goods, plus the amount of any import duties and excise duties (if any). The imposition of VAT by Customs is not affected by whether the importer is registered with the tax authorities. VAT is required to be paid with the import duties within the period from 5 to 30 days after customs clearance, depending on the conditions of the import.

A taxpayer that has declared and paid VAT (output tax less input tax) for any continuous 12-month period in an amount exceeding GEL 200,000 is entitled to relief from VAT upon importation of goods.

11.4 VAT-exemption with credit

Until 2010, certain goods are services were subject to 0% VAT. Under the new tax code that took effect from 1 January 2011, such transactions are now referred to VAT-exempt transactions with the right to credit (input tax).

The export of goods and the supply of services that are incidental to the export of goods are VAT-exempt with the right to credit. The same treatment also applies to the supply of international transport services (including transit through Georgia), tourist service packages provided to foreign tourists, the supply of gold to the National Bank of Georgia and the supply of natural gas to thermo-electric power stations.

11.5 Transactions outside the scope of VAT

Georgian law distinguishes VAT-exempt transactions from transactions that are outside the scope of VAT. For example, professional services provided by a Georgian company to a non-resident that does not have a permanent establishment in Georgia have their place of supply outside Georgia, so are not subject to VAT.

In effect, such transactions have the same treatment as VAT-exempt transactions with the right to credit. Non-taxable sales are not taken into consideration in determining the portion of creditable VAT input tax (see Section 11.8).

11.6 Exempt supplies without right to credit

A number of transactions are exempt from VAT without the right to credit, including:

- Financial services.
- Supply and importation of securities.
- Importation of materials and semi-finished goods intended for producing export goods.
- Supply of assets within the state privatisation process.
- Importation of machinery, means of transportation, spare parts and materials needed for the oil and gas industry, as well as the supply of goods and services necessary to implement oil and gas operations by investors and operating companies.
- Importation or supply of currency, securities and contributions to equity capital.
- Supplies of goods or services between enterprises in a Free Industrial Zone.

The transfer of all of the business assets (or a complete business unit) between VAT taxpayers is not subject to VAT if the recipient notifies the tax authorities within 15 days of the supply. The supply of assets in the reorganisation of an entity is also not subject to VAT.

11.7 Taxable amount

In most cases, the amount of VAT will be determined based on the transaction price for the supply of goods or services.

If the tax authorities can demonstrate that the market price is different from the transaction price, the authorities may substitute the market price for VAT purposes.

When goods and services are provided to employees free of charge or goods or services are used for non-commercial purposes, the supplier is required to account for VAT based on the market value of the goods or services.

The amount of VAT must be incorporated into the stated sales price (e.g., the shelf price for shop goods is inclusive of VAT).

11.8 Non-deductible input VAT

The general rules for VAT input tax credits are:

- VAT paid on goods and services that will be used to make taxable sales or VAT-exempt sales with credit may be claimed as an input tax credit.
- VAT incurred to purchase or import goods and services that will be used to make sales that are VAT-exempt without credit may not be claimed as a credit.
- When goods and services will be used to make partly taxable and partly non-taxable sales, and it is not possible to identify directly the input tax connected with taxable transactions:
  - The input tax credit is apportioned between the taxable and non-taxable sales. The initial credit for fixed assets (including self-produced assets) depends on the proportion of VAT-exempt (without right to credit) sales to total sales for the previous tax year. For other purchases, the initial credit is based on the proportion of VAT-exempt without right to credit VAT sales to total sales for the quarter.
  - An adjustment is made in the December return to reflect the proportion of VAT-exempt without right to credit VAT sales to total sales for the calendar year. However, no adjustment is required in the December quarter if the taxpayer's exempted transactions without right to offset VAT represent less than 5% of total turnover.

A claim for input tax must be supported by a VAT invoice issued by a supplier or a duly executed import customs declaration.

An input tax credit may not be claimed for:

- Goods and services intended for non-economic activities.
- Expenses related to charity, social and entertainment events.

- Invoices that do not allow the seller of the goods or services to be identified, or that are not included in a VAT return by the end of the quarter following the one in which goods or services were acquired.

Generally, VAT paid that is not able to be claimed as input tax credit is treated as part of the cost of acquisition for purposes of profit tax or income tax.

11.9 VAT compliance

Information on VAT invoice

If requested by the buyer, a VAT-registered person is required to issue a VAT invoice for every taxable sale of goods or services no later than 30 days after the request.

The invoice must include data on the parties involved in the transaction, the nature of transaction, the date of the transaction and the amount of the transaction. VAT invoices are restricted accounting invoices that are issued or provided by the tax authorities.

When a sale is made that involves the joint supply of taxable and exempt goods or services, the taxable and exempt portions are treated as separate transactions and must be documented separately.

VAT liability

The VAT liability is calculated using the input-output method. The VAT liability in any accounting period will be the total amount of output tax charged on sales, less the input VAT paid relating to taxable sales.

Reverse charge

Services supplied in Georgia by non-residents that are not registered in Georgia are subject to a VAT reverse charge. The recipient must include the transactions in their VAT return for the month and pay the corresponding VAT to the budget on the 15th day of the following month.

The recipient will use the evidence of payment to the budget to support a corresponding claim for an input tax credit.

One practical issue that non-resident suppliers need to be conscious of is that the law does not clearly state who should bear the cost of the VAT. To reduce the risk of dispute, the supplier of services should make it clear up front that VAT will be for the account of the local entity (in principle, the local entity will be entitled to claim an input tax credit), and ensure that this is reflected in any contractual arrangements that are concluded.

Returns and payments

The VAT accounting period is a calendar month, however, particular categories of tax payers are gradually shifting to the quarterly accounting period. A taxpayer is obliged to submit a VAT return to the local tax authorities and pay VAT tax within 15 days after the end of the accounting period.

Penalties

A number of specific penalties apply for VAT offenses:

- A penalty of 200% applies if a taxpayer claims an input tax credit based on a real or forged invoice relating to a fictitious transaction.
- Operating without VAT registration is subject to a penalty of 15% of the VAT that should have been paid to the budget for that period of operation.
- Failing to provide the purchaser of good or services with a VAT invoice upon request is subject to a penalty of 100% of the VAT amount for the sale.

Refunds

Excess input tax arising from export sales or the purchase or production of fixed assets should be refunded within one month. In other cases, the excess should be carried forward and offset against future VAT liabilities or refunded after three months.

In practise, obtaining a refund can be a time-consuming process. To speed the process, many companies apply the overpaid VAT to meet other tax obligations, rather than receiving a refund in cash.

12 Introduction to PwC

12.1 PwC worldwide organisation

PwC the world's largest professional services organisation helps its clients build value, manage risk and improve their performance.

PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than 163,000 people in 154 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice. See www.pwc.com for more information.

PwC refers to the US firm of PricewaterhouseCoopers LLP and other members of the worldwide PwC organisation.

12.2 PwC in Georgia

PwC has been serving clients in Georgia since 1996, and in September 2005, opened an office in Tbilisi which now employs more than 40 professional staff. Local knowledge coupled with a strong network of global resources allows us to deliver tailored solutions to complex business problems in the Georgian environment.

PwC has demonstrated its commitment to the Caucasus region by our growth in professional staff and our commitment to professional training. Training and development in internationally-recognised accounting qualifications, International Financial Reporting Standards (IFRS) and our global advisory and audit methodology are considered an integral part of their employment. PwC professionals from our Georgian practice are trained in the same audit tools and methodologies used by our consultants in the United States and Europe.

We provide advice and assistance based on our deep financial, analytical and business process skills to corporations, government bodies and banks.

Our services are organised into three lines of service – advisory, assurance, and tax – each staffed with qualified, experienced professionals and leaders in our profession. These resources, combined with our global leadership structure, allow us to provide the support you need, where you need it, and when you need it at home and abroad.

Assurance Services

Assurance Services provides assurance on the financial performance and operations of our clients' business, through external and internal audits, financial and accounting reviews and investigations, regulatory consulting and training courses.

PwC 's knowledge and experience enables our specialists to advise not only on assurance matters, but also to put them in context and to advise on the likely impact that the pace and direction of economic and financial change will have on a commercial activity in Georgia.

Available Assurance services include:

Audit: Statutory and regulatory audit and treasury services. Our audit is aligned with business functions, not just financial processes. Businesses need auditors and advisors who understand their strategy and can reflect this in their audit approach. Using our approach and working alongside our clients, our lead partner provides strong control from the centre. We put great emphasis on understanding our clients' strategy and the need to address all risks. This approach represents, we believe, an important step forward in client service, audit quality and efficiency.

Accounting and regulatory advice: Corporate structures, technical accounting advice (supported by Global Corporate Reporting (GCR)), review of treasury operations, compliance with current and new regulations.

Attest and attest-related services: Independent assessment of financial and non-financial data.

Public services audit and advisory: Audit, internal audit and associated services for government, education and other non-profit organisations.

Advisory services

We provide advice and assistance based on our extensive financial, analytical and business process skills to corporations, government bodies and intermediaries in the implementation of their strategy relating to:

- Performance Improvement.
- Corporate governance solutions.
- Operational effectiveness.
- Transaction Services.

Tax Services

Effective tax planning is vital for the growth and development of any organisation. Very few major business decisions can be taken without considering their tax implications. In Georgia, where the tax and legal system is complex and subject to constant revision, professional advice is even more of a necessity to achieve success.

Our team of local and expatriate professionals have the skills and experience in all areas of taxation – corporate and personal, direct and indirect – to help clients maximise their tax advantages and minimise their exposures. We advise international companies based upon our knowledge of Georgian tax legislation and its interrelationship with national and international laws and also treaties. This knowledge, together with our focus on specific markets and industries, helps us to add value to our clients' businesses and give them the edge they need in the marketplace.

Specific tax areas where we can assist include:

Corporate tax: We advise clients based on Georgian laws and their interpretation by tax authorities, as well as their interrelation with international regulations and treaties. We advise on all aspects of inward investments into Georgia, and the structuring of those investments in terms of corporate income tax, withholding tax, dividend tax and local tax regulations. The team provides proactive advice on international tax planning and structuring, mergers and restructuring, and undertakes company health checks and due diligence projects, as well as assistance with tax authorities (during tax inspections and lodging of objections).

Value added tax (VAT): We help clients resolve complex issues related to indirect taxes, including VAT consultancy and tax reviews, VAT planning and efficiency schemes for domestic and cross-border operations, assistance during tax inspections, and support and advice during appeals.

Personal tax: Our services related to individuals range from assisting with obtaining residence permits to advice and assistance with all matters regarding Georgia's personal income taxation legislation and social security system.

Compliance services: With the increasing focus on governance and regulation, tax compliance has never been so important. Compliance failure represents not only a financial risk but also a serious business risk, as it can damage the reputation of a business with the authorities and the public. PwC can help you manage your tax compliance issues, risks and opportunities, allowing you to have firm control. We can help you, both within Georgia and cross-border, with preparing and reviewing tax returns and computations, negotiating with tax authorities, corporate income tax, indirect tax, property and land tax compliance, and payroll.

Appendix 1: Tips for business visitors and useful links

Travel to and within Georgia

Most international flights arrive at Tbilisi International Airport. The airport is a 20-30 minute drive from the centre of Tbilisi. The average cost of a ride from the airport is GEL 30, and the price should be negotiated before leaving the airport. It is advised only to use the marked taxis.

The Batumi International Airport now has flights to/from Istanbul. Arrival in Batumi's airport might be more convenient for those only doing business in the western part of the country, such as at the ports of Batumi and/or Poti.

Headquarters of most companies are in Tbilisi, a city of approximately 1.1 million people. Other major cities include Kutaisi, Telavi, Rustavi, Batumi, and Poti. Below are approximate travel times by car to these destinations:

- Kutaisi: 3½ - 4 hours
- Telavi: 2 hours
- Rustavi: 30 - 45 minutes
- Batumi: 5 - 6 hours
- Poti: 5 - 5½ hours

Travel by train is possible to most locations in western Georgia, but it is slower and less comfortable than travel by car.

Normal business hours

Normal business hours are usually from 9 am till 6 pm including lunch hour, but we would note that many businesses are not open before 10. It is unlikely that meetings with Georgian businessmen will take place early in the morning or even begin on time. It is more common for early evening meetings to be scheduled, usually over a long dinner.

Statutory holidays

January 1, 2	New Year Holidays
January 7	Christmas
January 19	Epiphany
March 3	Mother's Day
March 8	Women's Day
May 9	Victory Day
May 12	St. Andrew's Day
May 26	Independence Day
August 28	Mariamoba
October 14	Mtskhetoba
November 23	St. George's Day
Easter Holidays	(2 days)

Independence Day is celebrated on 26 May, as 26 May 1918 was the date of independence from Soviet Russia. The date of independence from the Soviet Union was 9 April 1991, but this is not a statutory holiday.

Useful links

Parliament of Georgia
www.parliament.ge

Ministry of Finance of Georgia
www.mof.ge

Ministry of Foreign Affairs of Georgia
www.mfa.gov.ge

National Bank of Georgia
www.nbg.gov.ge

Ministry of Justice of Georgia
www.justice.gov.ge

Georgian National Investment Agency
www.investingeorgia.org/

Investment guide of American Chamber of Commerce
www.investmentguide.ge/

American Chamber of Commerce
www.amcham.ge

Appendix 2: Taxes at a glance

Standard tax rates	2013
Personal income tax	
• Salaries and employer-provided benefits (withheld at source)	20%
• Other income not from economic activity (rental income, sale of assets)	20%
Corporate income tax	15%
Value added tax	0% or 18%
Property tax – individuals	Up to 1%
Property tax – corporate	Up to 1%
Customs duties	0%, 5% or 12%
Domestic withholding tax rates	
Dividends paid to resident individuals	5%
Dividends paid to resident companies	0%
Interest paid by a licensed financial institution	0%
Interest paid by a private entrepreneur	5%
Interest paid by a legal entity that is not a licensed financial institution (this is a final tax for individuals and a creditable tax for legal entities)	5%
Payments to non-residents	
Management fees	10%
Insurance premiums	0%
Income from international transport or international communications	10%
Income from oil and gas operations	4%
Other Georgian-source income that is not connected to a permanent establishment a foreign company has in Georgia	10%

Monthly filing obligations	Tax payment deadline	Return filing deadline
Personal or corporate income tax subject to withholding at the source of payment	Upon payment of income	15th of following month
Value added tax	15th of following month	15th of following month
Excise tax	15th of following month	15th of following month
Annual filing obligations		
Corporate income tax and Personal income tax (individual entrepreneurs)	Tax payments are made during the tax year in four equal instalments at 25% of the previous tax year's liability by 15 May, 15 July, 15 September and 15 December. The adjustment payment is made by 1 April of the following year.	1 April of following year
Income tax (individuals)	1 April of following year	1 April of following year
Personal or corporate income tax subject to withholding at the source of payment	Transfer the tax to the budget upon making payments to the persons concerned	30 January of following year
Property tax (individuals)	15 November of following year	1 November of tax year
Property tax (on land for entities)	15 November of tax year	1 April of tax year
Property tax (except land for entities)	Current tax payment is made by 15 June of the tax year; the adjusted payment is made by 1 April of the following year	1 April of following year

Appendix 3: Withholding taxes at 1 January 2013

Georgia has adopted low rates of withholding tax in its domestic law. As a consequence, the maximum tax rates specified in treaties often exceed the applicable rate under domestic law.

	Dividends	Interest (1)	Royalties
Country	**%**	**%**	**%**
Non-treaty	5	5	10
Armenia	5% / 10%	10%	5%
Austria(2)	0% / 5% /10%	0%	0%
Azerbaijan	10%	10%	10%
Bahrain	0%	0%	0%
Belgium	5% / 15%	10%	5% / 10% (3)
Bulgaria	10%	10%	10%
China	0% / 5% / 10%(2)	10%	5%
Czech Republic	5% / 10%	8%	0% / 5% / 10% (4)
Denmark	0% / 5% / 10%(2)	0%	0%
Egypt	10%	10%	10%
Estonia	0%	0%	0%
Finland	0% / 5% / 10%(2)	0%	0%
France	0% / 5% / 10%	0% (5)	0%
Germany	0% / 5% /10%(6)	0%	0%
Greece	8%	8%	5%
Hungary	0% / 5%	0%	0%
India	10%	10%	10%
Iran	5% / 10%	10%	5%
Ireland	0% / 5% /10%	0%	0%
Israel	5%	0% / 5%	0%
Italy	5% / 10%	0%	0%
Kazakhstan	15%	10%	10%
Latvia	5%/10%	5%	5%
Lithuania	5% / 15%	10%	10%
Luxemburg	0% / 5% /10%	0%	0%
Malta	0%	0%	0%
Netherlands	0% / 5% / 15%(2)	0%	0%
Norway	5/10%	0%	0%
Poland	10%	10%	10%
Qatar	0%	0%	0%
Rumania	8%	10%	5%
Serbia	5%/10%	10%	10%
Singapore	0%	0%	0%
Slovakia	0%	5%	5%
Spain	0% / 10%	0%	0%
Switzerland	10%	0%	0%
Turkey	10%	10%	10%
Turkmenistan	10%	10%	10%
Ukraine	5% / 10%	10%	10%
United Arab Emirates	0%	0%	0%
United Kingdom	0% / 15% (7)	0%	0%
Uzbekistan	5% / 15%	10%	10%

1. Some agreements defines 0% rate on the interest paid by the government or any of its units or on the interest guaranteed by them; given table doesn't consider the similar provisions.
2. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than EUR 2 million.
3. Royalty rate paid for the enterprise is 5%.
4. 0% rate refers to the copyright, any literature, art or scientific works (except the software) and films and records; 5% rate refers to lease of techniques.
5. The 0% rate applies to interest on bank loans and commercial credits.
6. The 0% rate applies if the German company owns at least 50% of the Georgian company and has invested more than EUR 3 million.
7. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than GBP 2 million.

www.pwc.com/ge