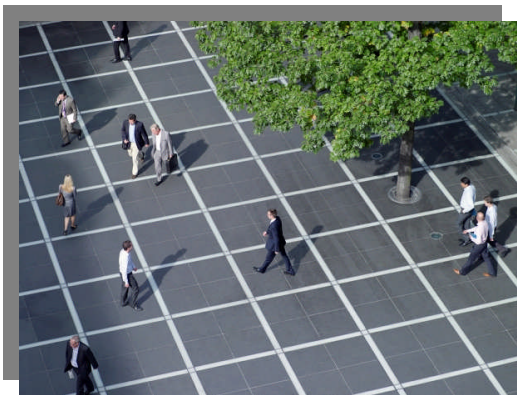


Georgia Pocket Tax Book 2011

*By providing a summary of the
new tax code, PwC enables
taxpayers to understand their
obligations under the new rules.*



Legal Disclaimer: The information in this book is based on the new Georgian tax code, which will come into force on 1 January 2011. 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 or any other regulatory liability in specific circumstances. Professional advice should always be taken before acting in any information in the guide. No liability is accepted by PricewaterhouseCoopers for acts or omissions taken in reliance upon the contents of this publication.

Georgia pocket tax book – 2011 edition

A summary of Georgian tax legislation

Dear Readers

On 17 September 2010, the Georgian Parliament passed a new tax code. The new code is effective from 1 January 2011. PwC is pleased to provide this pocket tax book on Georgian taxes and tax policy for investors and businesses in Georgia.

The information in this book is based on the provisions in the new tax code and covers all the main aspects of the tax system in Georgia.

The new code delegates a lot more responsibility to the Ministry of Finance than the former code. Until the Ministry issues relevant instructions, it is not clear how some provisions will be applied. If the instructions result in significant practical differences, we will issue a revised guide.

We trust you will find this publication useful.



PwC (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 161,000 people in 154 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice. Georgia is a valued part of our network.

Altaf Tapia

Managing Partner, PwC Georgia

Georgia

Official name: Georgia.

Local name: Sak'art'velo.

Location & Size: Georgia is situated at the crossroads of Europe and Asia. About the size of Switzerland, it occupies 69,700 sq. km between the Black and Caspian Seas. It borders Turkey, Russia, Armenia, and Azerbaijan.

Government: Presidential parliamentary democracy.

Language: Georgian, which is over 2,000 years old and has its own alphabet.

Population: 4.6 million; 1.3 million live in Tbilisi, the capital.



View of Tbilisi, capital city of Georgia

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Recent tax and customs reform

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 resulted in significant improvements in Georgia's ranking in the World Bank's Doing Business Survey. Between 2006 and 2009, Georgia jumped from 112th place in the overall rankings for ease of doing business to 15th.

The government also made radical changes to the tax and customs legislation from 2005 to 2008. The 21 taxes that applied in 2004 were reduced to six in 2005. The customs code structure was harmonised with EU legislation in 2007 and provisions for customs appeals and penalties were brought into line with the tax code. Aggregated taxes (personal income and social tax) were reduced by abolishing social tax and implementing a single personal income tax rate from 2009. The government reduced the withholding tax on interest and dividends to non-residents, and signaled the complete elimination of such taxes by 2012. Incentives for free warehouses and enterprises located in free industrial zones were also introduced to encourage development of the trade-transit function within Georgia.

Not everything has been smooth. A Transparency International report released on the Georgian tax system in May 2010 acknowledged that tax administration capacity had been strengthened and tax receipts were up massively from the Rose Revolution period, but also noted that tax administration remained less than efficient and had failed to apply risk analysis or other auditing mechanisms in selecting businesses for tax audits.

In addition, fiscal pressures appear to have been behind the government's decision to defer previously enacted tax cuts for

individuals and on interest and dividends and to increase withholding taxes on non-residents from 2011.

New tax code enacted in 2010

The Georgian Parliament enacted a new tax code on 17 September 2010. The objectives of the new tax code fall under three main headings:

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.*

One positive aspect of the consultation process was the Ministry of Finance's willingness to present the new initiatives to the business community. Another was the establishment of a Tax Working Group of experts to comment on the draft code. The government is continuing to involve the business community to review and comment on the draft implementing rules before they are adopted.

There is room for improvement. The consultative period on the new tax code was shorter than it might have been, and presentations by Ministry of Finance officials before and after enactment of the new code could have been more comprehensive. Nevertheless, consultation was much better than for previous tax measures and the government's commitment to consultation on tax developments seems set to continue. The process for the new tax code was a learning experience for officials and the business community alike, and the indications are that the lessons learned should have a positive impact on future consultations.

Georgia has achieved remarkable success in the development of its tax and regulatory system. It is hoped that this success will continue.

1. Investment incentives

One of the government's strategic initiatives is to develop Georgia's trade-transit function. Because of its location on the Black Sea, Georgia provides an alternative transit route into Central Asia than the more traditional routes through China and Russia. The government has established a framework that is intended to allow investors to conduct processing activities in Georgia in connection with the transit of goods without being subject to Georgian taxes.

A central feature of this strategy is the development of Free Industrial Zones (FIZs). A FIZ may be established on a piece of land exceeding 10 hectares, upon the initiative of the Georgian Government or the request of a resident or non-resident person for land that they own or lease. FIZs have so far been established at Poti Port, Kutaisi and Tbilisi.

One limiting feature of a FIZ is that it is unclear whether output from a FIZ may be sold into the Georgian market. The Law on FIZ suggests such sales are permitted, but the tax code says otherwise. Another concern is that there are constraints on the goods and services that enterprises operating in a FIZ may obtain from Georgian suppliers. We expect the government to clarify these issues.

1. Investment incentives

Free industrial zone (FIZ)

- An International Enterprise is a registered entity located inside a FIZ that has confirmed its status with the tax authorities.
- An International Enterprise will lose its status if it:
 - Supplies goods or services outside a FIZ.
 - Supplies goods or services within a FIZ to a person that is not an International Enterprise.
 - Receives non-permitted services from a person that is not an International Enterprise.
 - Receives goods from a person that is not an International Enterprise that are included on a negative list issued by the Ministry of Finance.
- Transactions in a FIZ may be conducted in any currency. Payment from an international enterprise to a regular Georgian enterprise for permitted goods and services may also be conducted in any currency. A building or structure inside a FIZ may not 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.
- An International Enterprise is exempt from profit tax on income received from permitted activities conducted in a FIZ.
- Supplies within a FIZ are exempt from value added tax (VAT) without right to credit input tax.

1. Investment incentives

- There are no import taxes on goods produced in a FIZ.
- There is no property tax on property located in a FIZ.
- 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.
 - Employees are required to account for their own taxes through self-reporting. The administrative rules are to be established by the Ministry of Finance.
- Goods sold by a Georgian enterprise to an International Enterprise are treated as an export sale, so are exempt from VAT with a right to credit input tax.
- Services rendered by a Georgian enterprise to an International Enterprise have their place of supply in Georgia, so will generally be subject to 18% VAT.

Free Warehouse Enterprise

- A Free Warehouse Enterprise is a warehouse that has confirmed its status with the tax authorities. A Free Warehouse Enterprise may store and sell foreign goods or store goods for re-export.
- A Free Warehouse Enterprise is exempt from profit tax on income received from re-exporting foreign goods.
- The supply of goods to a VAT payer operating as a Free Warehouse Enterprise is exempt from VAT without credit.

1. *Investment incentives*

International Financial Company

- An International Financial Company is a financial institution that has confirmed its status with the tax authorities and that conducts most of its business with parties outside Georgia, and is located outside a FIZ.
- Exemptions from profit tax apply to:
 - Profit received from financial services provided by an International Financial Company.
 - Gains derived by individuals from the sale of securities issued by an International Financial Company.
 - Dividends paid by an International Finance 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.

2. Individuals

Georgia operates a flat 20% tax rate for individuals.

Georgia increased the personal income tax rate from 12% to 25% in 2008, in conjunction with the elimination of social tax. Transitional rules preserved the 12% rate until the end of 2010 for income that had not been subject to social tax. From 2011, such income is subject to normal taxation.

The personal tax rate reduced to 20% from 2009. Further reductions to 18% for 2011 and 15% from 2012 were enacted. However, these reductions were deferred for two years when the new tax code was enacted in 2010.

Georgia applies a territorial tax system for individuals. Since 2009, individuals have not been taxed on income from foreign sources.

The informal economy in Georgia is relatively large. To address this, the government introduced new rules for individual entrepreneurs that take effect from 2011. Individuals with annual turnover of less than GEL 30,000 and no employees who register as a micro business will be exempt from tax on their business income. Individuals with annual turnover of less than GEL 100,000 may register as a small business and pay 5% tax on their turnover. The rate reduces to 3% if the individual has documented expenses (excluding salaries) exceeding 60% of his or her sales.

2. Individuals

General principles

- Georgia taxes individuals (both residents and non-residents) only on their Georgian-source income.
- The standard tax rate is a flat rate of 20%. This rate will reduce to 18% in 2013 and 15% from 2014.
- The tax year is the calendar year.
- Georgia has no social security contributions.

Tax residence

- Because individuals are not taxed on foreign source income, tax residence is mainly relevant for determining whether an individual is entitled to benefit from Georgia's tax treaties.
- An individual is treated as a resident for a tax year if he or she is present in Georgia for more than 183 days in any continuous 12-month period ending in that year, including the time he or she spent outside the country for purposes of medical treatment, vacation, business trip or study.
- An individual is also treated as a resident if he or she worked abroad during the tax year in the Georgian State Service.
- An individual who owns "significant property" may request that the Ministry of Finance and Ministry of Justice issue an order deeming the individual to be treated as a tax resident in Georgia.

2. Individuals

Tax rates for non-residents

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

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 if it has a Georgian source.
- Employment income has a Georgian source if it is paid through a Georgian payroll, regardless of where the employment is exercised. Employment income also has a Georgian source if it relates to employment exercised in Georgia, even if the income is paid outside Georgia.
- 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 personal 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.

2. Individuals

- Interest advantage on loans granted by the employer at an interest rate lower than the rate prescribed by the Ministry of Finance. The rates will be set quarterly in advance.
- 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.

Entrepreneurial income

- An individual must obtain a tax identification number from the tax authorities before starting an economic activity, unless tax on the proceeds from the activity will be withheld at source.
- Special rules have been introduced for micro and small businesses from January 2011.
 - Registered micro businesses (annual turnover below GEL 30,000 with no employees) will be entitled to a complete tax exemption.
 - A micro business is not subject to any formal accounting requirements.
 - 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.
 - Registered small businesses (annual turnover below GEL 100,000) will pay a 5% turnover tax, with exemption from all other taxes.

2. Individuals

- The tax rate reduces to 3% if the business has documented business expenses (excluding salary costs) exceeding 60% of turnover.
- 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.
- Small business will be required to maintain only "purchases and sales journal" and cash registers in accordance with Ministry of Finance rules.
- Small businesses are only required to withhold tax on salaries to the extent that salary expense exceeds 25% of sales revenue.
- The Ministry of Finance is authorized to issue a negative list of activities that will not qualify as small businesses.
- If the tax authorities revoke an individual's status as a micro or small business, the individual will be subject to a GEL 500 fine.
- For individuals who are not registered as a micro or small business, income from independent activities is subject to the standard tax rate.

Rental income and royalties

- Income from property rent and royalties is subject to the standard rate.
- If the income is paid by a Georgian company or the permanent establishment of a foreign company, 15% tax

2. Individuals

should be withheld at source. But this rate will be applied only from January 1, 2014. Before that the rate will be as follows: 20% from January 1, 2011 till January 1, 2013 and 18% from January 1, 2013 till January 1, 2014.

- If the taxpayer is registered as an entrepreneur, he or she should be entitled to deduct expenses to determine net taxable income from property rent or royalties.
 - The 15% withholding tax would be credited against other taxes payable by the individual.
- If the taxpayer is not registered as an entrepreneur, no deductions are permitted in determining taxable income.
- If tax is not withheld at source, the taxpayer is required to self-report income in an annual tax return.

Dividend income

- Dividends are subject to 5% tax. This rate will reduce to 3% for 2013 and 0% from 2014.

Interest income

- Interest income from government bonds and interest paid by a bank is exempt from tax.
- Other interest income is generally subject to 5% tax. This rate will reduce to 0% from 2013.

2. Individuals

Capital gains

- Gains from the sale or exchange of shares or securities, as well as gains from the sale of property that is not connected with an individual's business, are exempt from tax if the shares or securities have been held for more than two years.
- Gains from the sale of government bonds are exempt.
- For other gains from the sale of property not connected with an individual's business, the standard rate applies.

Prizes and winnings

- Income from a lottery of up to GEL 1,000 is tax exempt. Otherwise, the standard tax rate applies.

Exempt income

- In addition to the exemptions indicated above, the following are the main items of income that are exempt from taxation:
 - 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 previous year and year of disposition.

2. Individuals

- Income received by a non-resident from the financial leasing of property if it is not related to a permanent establishment the person has in Georgia.
- Employment income of a non-resident, if the individual spends no more than 30 days in Georgia during the year, the salary is paid by a foreign company, and the cost of the salary is not attributable to a permanent establishment that the employer has in Georgia.

Personal tax deductions

- Georgia has no substantial personal deductions, allowances or credits.

Tax credits

- Georgia does not tax individuals on foreign source income.
- If tax is paid in a foreign country on income that is taxable in Georgia (e.g., income from employment exercised in a foreign country that is paid through a Georgian payroll), the foreign tax is not credited against the individual's Georgian tax liability and will be a cost to the individual.

Tax registration of foreigners

- A non-Georgian national must apply to the tax authorities for a tax identification number before making tax payments or submitting a tax return.

2. Individuals

Withholding tax

- 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 before 1 April of the following year.
 - Special rules are to be issued by the Ministry of Finance to deal with the compliance requirements of individuals who receive salary from an entity located in a Free Industrial Zone.
- 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 return and tax liability

- An annual personal tax return must be filed by individuals receiving income from a Georgian source and whose income is not fully taxed at the source of payment.
- The tax returns must be filed and any corresponding payment made before 1 April of the following year.

2. Individuals

- Individual entrepreneurs are required to make advance quarterly tax payments in equal instalments:
 - The payments must be made before: 15 May, 15 July, 15 September, and 15 December.
 - Each advance payment is equal to 25% of the tax paid for the previous year.
 - If the tax rate has changed since the previous year, the taxpayer may adjust the advance payments based on the tax rate that applies to the current year.
 - If the taxpayer's expected profit is less than 50% of the previous year's profit, the taxpayer is entitled to reduce or eliminate the advance payment by advising the tax authorities before the payment deadline. However, if the 50% reduction does not eventuate, the taxpayer will be subject to a fine (interest) on the underpaid tax.
- A taxpayer with no income tax payable for the previous year is not required to make advance payments.

3. Companies

Georgia adopted a low 15% corporate tax rate in 2008. The deduction of entertainment and representation expenses is restricted. Otherwise, taxable profits are largely determined in the same manner as net income is determined for financial reporting purposes.

In recent years, Georgia has actively sought to implement a tax system to encourage inbound investment. Some of the measures in the new tax code, however, could be interpreted as a policy reversal. Withholding taxes on payments to non-residents will increase from 1 January 2011, and new transfer pricing and thin capitalisation rules will take effect. Potentially, the increased withholding tax is no more than a reaction to a challenging fiscal position, while the new transfer pricing and thin capitalisation rules are no more than a step in the stated aim of aligning Georgia's tax rules more closely with international best practice ... the good and the bad from a taxpayer's perspective. Hopefully the implementing rules will clarify the government's intent.

Overall though, Georgia has a relatively tidy profit tax system with few pitfalls for taxpayers.

3. Companies

General principles

- The standard corporate tax rate is 15%.
- The reporting year for companies follows the calendar year.

Entities subject to corporate income tax

- 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.
- A resident enterprise is any legal entity established under the law of Georgia, or that has its place of effective management in Georgia.
- Non-resident entities are subject to Georgian tax only on income that has a source in Georgia.

Tax base

- 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 expenses that are related to the receipt of gross income, unless a specific provision in the law restricts the deduction.

3. Companies

Accounting rules

- A VAT payer must use the accrual method of accounting for tax purposes.
- Other taxpayers 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 must use the same method of accounting for both financial reporting and tax purposes.
- Under the accrual method:
 - Income is recognised if amounts are payable to the taxpayer or the taxpayer has fulfilled its obligation under a contract.
 - Expenses are recognised if all events have occurred to fix the fact of liability, the liability can be determined with sufficient accuracy, and all of the parties have fulfilled all of their obligations under the agreement.
- For long-term contracts (lasting more than six months and spanning more than one tax year), income and expenses are recognised under a percentage of completion approach. Except for payments by licensed financial institutions, taxpayers may recognise payments to individuals and to non-residents that do not have a permanent establishment in Georgia only when the payment is made.

Exemptions

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

3. Companies

- 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 previous year and year of disposition.
- Interest received by a non-financial institution from a licensed financial institution is exempt.

Deductions

Tax-deductible items

- Expenses that are related to the receipt of income should be deductible, unless a specific provision in the law says otherwise (refer below).
 - Generally, expenses should be supported by proper documents, such as contracts and invoices.
 - The Ministry of Finance is entitled to determine transactions for which taxpayers will be entitled to deduct expenses if they do not have the proper supporting documents.

Non-deductible items

- 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 are not deductible.

3. Companies

- Payments to a micro business are non-deductible.
- Entertainment expenses are not deductible (unless the taxpayer is in the business of providing entertainment services).
- The deduction for expenses for charitable donations is limited to 10% of taxable profit.
- The deduction for representation expenses is limited to 1% of the gross income of the reporting year. Representation expenses include:
 - o Expenses related to events, presentations and receptions organised on behalf of a person (juice, mineral water, soft drinks, tea, coffee, breakfast, dinner, supper, banquet).
 - o Expenses related to excursions, cultural events and sightseeing.
 - o Expenses related to purchase of souvenirs.
 - o Expenses related to services rendered to guests, including consular services (issuance/extending of visas), services related to meeting or seeing off at an airport (VIP service), transportation services, hotel services (reservations of rooms, accommodation fee), expenses related to the organisation of receptions (juice, mineral water, soft drinks, tea, coffee, breakfast, dinner, supper, banquet).

3. Companies

Interest

- As a general rule interest will be deductible if the related debt is used to fund business activities of the taxpayer. The maximum deductible interest rate is determined by the Ministry of Finance (in 2010, the rate was 30%)

Thin capitalisation

- Interest paid on debt in excess of the debt-to-assets safe harbour of 3:1 is non-deductible, if Ministry of Finance prosecutors prove that thin capitalisation was used for tax evasion.
 - The Georgian language does not distinguish between avoidance and evasion, and it will be unclear until implementing rules are issued how this rule will be interpreted.
 - The tax code does not define how the value of assets should be measured.
- The thin capitalisation rules will not apply to:
 - Financial institutions.
 - Entities that have gross income of less than GEL 200,000.
 - Entities with interest expense that is less than 20% of their taxable income before deducting that interest expense.

Royalties and service fees

- Royalties and service fees are deductible payments.

3. Companies

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.

Employee remuneration

- Employee remuneration is deductible.

Other deductions

- 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.
- Realised foreign exchange gains are taxable and realised losses are deductible.
- Georgian taxes, other than income tax, are generally deductible.

3. Companies

Depreciation

Tangible assets

- Special rules apply to leased assets.
- 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 an individual basis.

3. Companies

- 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 (including the market value of any assets that are transferred free of charge).
 - 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.

3. Companies

- 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 that it purchases or produces 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.

Intangible assets

- 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.

Special rules

Related party transactions

- When transactions between related parties are not made on market terms, the tax authorities may substitute the market price for profit tax purposes.
- 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 20% of that entity.

3. Companies

- Two entities that are under direct or indirect control of a third person.
- The five OECD transfer pricing methods (comparable uncontrolled price method, resale price method, cost plus method, net margin method and profit split method) are used to evaluate whether prices are market.

Tax 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. However, this also results in extending the statutory assessment period to 11 years (up from the normal six year limit).
- International Financial Companies, Free Warehouse Enterprises and International Enterprises may not carry forward losses.

Corporate income tax for foreign entities

General principles

- A foreign entity that does not have its place of effective management in Georgia is 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.

3. Companies

- Passive income such as dividends, interest or royalties has a source in Georgia if it is paid by a Georgian resident or a permanent establishment of a foreign entity.
- Income from management, financial and insurance services and income from services related to real estate or movable property located in Georgia or securities issued by a Georgian resident is deemed to have a source in Georgia if the payer is a Georgian resident or a permanent establishment of a foreign entity, regardless of where those services are performed.

Permanent establishment

- 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 15% 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.

Withholding and similar obligations

- Withholding taxes are required to be transferred to the budget on the same day that the income is paid. Withholding tax on non-monetary payments is transferred to the budget on the last day of the month.

3. Companies

- With the exception of employers operating in a FIZ, employers are required to withhold personal income tax at source from their employees' salaries.
- Payments of interest are generally subject to 5% withholding tax, although a number of exemptions exist. The tax rate on interest will reduce to 0% from 2013.
- 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%. The rate will reduce to 3% for 2013 and 0% from 2014. A lower rate may apply under a relevant tax treaty. Dividends paid between resident companies are exempt from income tax.
- Payments of income to non-resident 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 and re-insurance are subject to 0% withholding tax.
- Payments to non-residents that are not covered by the rates indicated above are subject to 15% withholding tax.
- Withholding tax rates for non-residents may be reduced under a relevant tax treaty.
 - Taxpayers are expected to comply with administrative procedures before they are entitled to relief.

3. Companies

- Quarterly personal income tax and withholding tax returns should be submitted by the payer before the 15th day following the end of the quarter.

Corporate tax compliance

Tax period

- The reporting year for companies follows the calendar year.

Filing

- The corporate income tax return (also referred to as the profit tax return) must be filed before 1 April of the following year.

Payment

- Advance quarterly tax payments are made in equal instalments.
 - The payments must be made before 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 before 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.
- A taxpayer who expects its taxable income in the current year to be less than 50% of its taxable income for the previous year may apply for a reduction or exemption from advance tax. However, if the 50% reduction does not eventuate, the taxpayer will be subject to a fine (interest) on the underpaid tax.

3. Companies

Foreign companies

- A foreign company without a permanent establishment in Georgia that derives income from a Georgian source that is not subject to withholding tax is expected to self-report the income through an annual tax return.
 - The foreign company must apply to the tax authorities for a tax identification number before submitting a tax return or making tax payments.

4. Value added tax

Georgia's VAT system is patterned after the EU VAT Directive. In a background presentation on the new tax code delivered in June 2010, the Ministry of Finance indicated that one of the considerations behind the code was to use the best international tax practices and EU directives.

The level of achievement is mixed. The new tax code adopts similar terminology to the EU in replacing the former concept of zero-rated sales (0% VAT) with VAT-exempt sales with the right to credit input tax. The place of supply rules for services are also now aligned more closely with those of the EU. However, it is not clear why the government felt it was useful to combine separate articles to define taxable transactions, the amount of transactions, and the time of supply into a single, complex provision. The government also went beyond the EU rule that deems the time of supply to be the earlier of the VAT invoice or payment date, and used instead the earlier of any invoice date (it seems the drafters may have overlooked that there is only one invoice in the EU system and it is a VAT invoice) and the date of liability to pay. Both variations are likely to cause confusion.

Georgia's VAT system is generally coherent. At some stage though, the government may benefit from adopting the clean drafting of the EU VAT Directive as a whole, rather than adopting only portions of the EU text.

4. Value added tax

General principles

- 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 without consideration or goods are used for non-business purposes).
 - Importation of goods into Georgia.
- The standard rate of VAT is 18%.
- The export of goods is exempt from VAT with a right to credit input tax (formerly referred to as “zero-rated” or “subject to 0% VAT”).
- Georgia uses the input-output model. VAT-registered persons account for output tax after deducting VAT paid on their inputs.
- The liability to account for output VAT on sales arises when goods or services are supplied. However, the purchaser must hold a VAT invoice for the corresponding input tax credit to arise.
- VAT returns and payments are made quarterly.

VAT registration

- A taxpayer is required to register for VAT if its sales for 12 consecutive calendar months exceed GEL 100,000.
 - In determining whether the threshold is exceeded, only sales that would have been taxable if the person were a VAT payer are taken into account (e.g., export sales are excluded because they would be VAT exempt).

4. Value added tax

- The taxpayer is a VAT payer from the moment the threshold is exceeded and must register as a VAT payer within two working days.
- Regardless of its turnover, a taxpayer is required to register for VAT if it produces or imports excisable goods.
- A taxpayer must also register if they will make a one-off taxable transaction in the course of economic activity in a single day in an amount exceeding GEL 100,000.
- Taxpayers whose revenues are below the GEL 100,000 threshold may voluntarily register as VAT payers. The registration is effective from the date of application.
- A taxpayer is entitled to an input tax credit for the balance of inventory existing at the time when VAT registration takes effect.

VAT deregistration

- A taxpayer may deregister from VAT if:
 - The taxpayer's business is liquidated.
 - The taxpayer is a private entrepreneur and dies.
 - If the expected one-time supply exceeding GEL 100,000 that created an obligation to register for VAT is not carried out.
 - The taxpayer has been registered for at least one year, and the total taxable transactions (excluding VAT) during the previous 12 months did not exceed GEL 100,000.

4. Value added tax

- Deregistration is effective from the first day of the month following the month when application for deregistration is made.
- A taxpayer is required to account for output tax on any goods existing at the time when VAT deregistration takes effect on which the taxpayer has claimed an input tax credit.

Administration

- VAT on importation is administered by the customs authorities. All other aspects of VAT are administered by the tax authorities.
- 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.
- A claim for input tax must be supported by one of the following:
 - a valid VAT invoice issued by a VAT-registered person.
 - a duly executed import customs declaration.
 - a document confirming payment of reverse charge VAT to the budget.
 - a document confirming payment of VAT to the budget for a temporary import.
- A VAT invoice is a restricted accounting invoice that is issued by the tax authorities. The completed invoice will include:
 - Data on the parties involved in the transaction.
 - The nature of transaction.
 - The date of the transaction.

4. Value added tax

- The amount of the transaction.
- The Minister of Finance is entitled to introduce electronic VAT invoices for certain VAT payers and to specify the procedure for using such invoices.
- 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.

Tax rates

- The standard rate of VAT on domestic sales of goods and services and the importation of goods is 18%.
- The export of goods is VAT exempt with the right to credit input tax. The same treatment applies to the supply of international transport services (including transit through Georgia), goods or services intended for the official use of foreign diplomatic representations, 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.
- A number of transactions are exempt from VAT without the right to credit input tax under Georgian law. Some of the more common exemptions are:
 - Financial services.
 - 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

4. Value added tax

implement oil and gas operations by investors and operating companies.

- Importation or supply of currency or securities.
- Supplies of goods or services between enterprises in a Free Industrial Zone.
- The supply of goods to a VAT-payer operating as a Free Warehouse Enterprise.
- Supply of land plot.
- Burial services.
- Medical services.
- The transfer of all of the business assets (or a complete business unit) between VAT taxpayers is VAT exempt with the right to credit input tax 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 VAT exempt with the right to credit input tax.
- A taxpayer has the right not to apply an exemption without right to credit VAT to its transactions.
 - The taxpayer would need to apply to the tax authorities.
 - From the first day of the following month, all of the taxpayer's transactions will be subject to normal VAT.
 - The rule is likely to be beneficial to taxpayers who export a significant part of their output, or who sell most of their output to VAT payers.

4. Value added tax

Taxable amount

- In most cases, the amount of VAT will be determined based on the transaction price for the supply of goods or services.
- When goods and services are provided to employees free of charge or goods or services on which an input tax has been credited are used for non-commercial purposes, the supplier is required to account for VAT based on the market value of the goods or services.
- If the tax authorities can demonstrate that the market price is different from the transaction price for transactions between related parties, the authorities may substitute the market price for VAT purposes. The market price is also used when goods or services are supplied free of charge and for barter transactions.
- The amount of VAT must be incorporated into the stated sales price (e.g., the shelf price for shop goods is inclusive of VAT).

Adjustment to transactions

- A taxable transaction may be adjusted when:
 - a taxable transaction has been terminated.
 - the nature of a transaction has changed.
 - the amount of previously agreed compensation is altered.
 - Goods or services are fully or partially returned to a VAT payer.
- If the taxpayer has included the original invoice in its VAT return, the adjustment is made by way of a tax adjustment invoice:

4. Value added tax

- A tax adjustment invoice is a prescribed document issued by the Ministry of Finance.
- The adjustment is reflected in the VAT return for the period in which the change in transaction circumstances occurs.

VAT on importation

- Unless the importation of goods is exempt from tax, 18% VAT will generally be levied when goods cross the Georgian border.
- The taxable value of goods at the time of importation includes the cost of any tariffs, customs charges, and the cost of any services incidental to the importation of those goods.
- A person who 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.
 - Based on the tax code, it appears that relief should be automatic once the GEL 200,000 threshold is exceeded, unless the taxpayer requests that no relief be applied.
- The Minister of Finance has been delegated responsibility to issue instructions on how the relief will work in practice.
- When goods are brought into Georgia as temporary imports and are not entitled to exemption, VAT of 0.54% of the taxable value of the goods applies for each month (or part-month) during which the goods are in Georgia:
 - The VAT is paid monthly with any remaining balance payable on the day the transaction involving temporary importation finished.

4. Value added tax

- The maximum aggregate VAT on temporary imports is 18% of the taxable amount.

Tax period and payments

- The VAT accounting period is a calendar quarter.
- 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 quarter.

VAT accounting rules (time of supply)

- The time of a taxable transaction is the generally the earlier of:
 - The time when goods or services are supplied.
 - The date the supplier of goods or services presents a request for payment (e.g., invoice).
 - The moment when a liability to make payment arises.
- For goods that are to be delivered, the moment of supply is when they are dispatched.
- If goods are rendered on a regular basis (e.g., supply of electricity or thermal energy, gas or water), the time of supply is not later than the last day of the reporting period in which the goods are supplied.
- For long-term contracts, if there is no clear time of supply based on the general time of supply rules, the supplier would be deemed to make a supply in December for the calendar year based on the percentage of the contract that has been completed (calculated based on actual versus expected expenses).

4. Value added tax

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 quarter and pay the corresponding VAT to the budget on the 15th day of the following quarter.
- The recipient will use the evidence of payment to the budget to support a corresponding claim for an input tax credit. The credit arises in the quarter in which the VAT is paid to the budget.

Place of supply

- 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.
- 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.

4. Value added tax

- 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, lease of movable property (other than transportation vehicles), advertising services, financial and insurance transactions, telecommunication, radio and television broadcasting services and services rendered electronically are supplied in the place where the recipient is registered or has a permanent establishment.

Refund of input VAT

- 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 practice, 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.

Input VAT

- The general rules for VAT input tax credits are:
 - VAT paid on goods and services may be claimed as an input tax credit if the goods or services are used to make:

4. Value added tax

- taxable transactions (except exempted transactions without right to credit VAT).
- export of goods.
- rendering services outside of Georgia (e.g., consulting services provided to non-residents).
- VAT incurred to purchase or import goods and services that will be used to make sales that are VAT-exempt without right to credit VAT may not be claimed as a credit.
- When goods and services will be used to make partly taxable and partly VAT-exempt without right to credit VAT sales, and it is not possible to identify directly the input tax connected with the taxable transactions:
 - the input tax credit is apportioned between the taxable and non-taxable sales based on the proportion of VAT-exempt without right to credit VAT sales to total sales for each 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.
 - 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.
- When fixed assets (including self-produced assets) will be used to make partly taxable and partly VAT-exempt without right to credit VAT sales, and it is not possible to identify directly the input tax connected with the taxable transactions:

4. Value added tax

- If the proportion of VAT-exempt (without right to credit) sales to total sales for the previous tax year is less than 20%, full input tax may be claimed in the quarter when the assets are acquired.
- In other cases, an annual input tax credit will arise only in the December quarter.
- There are some year-end adjustment rules.
 - If a taxpayer claims full input tax upon acquisition, the cost of the asset should be spread over 10 years for buildings and five years for other assets and a reduction made to reflect the proportion of annual exempt sales without credit.
 - In other cases, the portion of acquisition costs related to transactions with credit may be claimed over a 10-year period for buildings and five years for other assets.
 - 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.
- 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.

4. Value added tax

VAT and other taxes

- When calculating taxable profit for corporate profits tax purposes, VAT that cannot be reclaimed may be deducted as a business expense or included in the capital costs of assets that are depreciated for tax purposes, as appropriate.
- VAT that is not recovered will normally arise only for entities that make VAT-exempt supplies, or for entities that are not registered for VAT.

5. Excise

Georgia applies excise tax to the traditional excisable products: alcohol, tobacco products, cars and various petroleum products. Taxpayers who produce or import excisable goods are also subject to mandatory VAT registration.

From September 2010, the government has also applied a 10% excise tax to mobile telecommunications services. Excise tax is normally used as a policy instrument to raise revenues while discouraging the consumption of products that create negative social consequences, such as pollution and health costs. By contrast, the excise tax on telecommunications appears to be entirely revenue-driven, as evidenced by a provision in the tax code that indicates that the rate may be amended each year (but with a maximum rate of 10%) based on the government's budgetary needs.

It remains to be seen if the new tax on telecommunications discourage further investment into the telecommunications and IT sectors in Georgia.

5. Excise

Taxpayers

- A taxpayer is subject to excise tax if it:
 - Produces excisable goods in Georgia.
 - Imports or exports excisable goods into or from Georgia.
 - Supplies condensed natural gas or natural gas for motor vehicles.
 - Supplies mobile telecommunications services.

Taxable transactions

- Taxable transactions include:
 - Supply by the producer of excisable goods manufactured in Georgia, or the removal of excisable goods from the warehouse for supply.
 - Transfer to a customer of excisable goods produced in Georgia from the customer's raw materials.
 - Use of self-produced excisable goods to manufacture non-excisable goods.
 - Supply of condensed natural gas and/or natural gas for motor vehicles.
 - Supply of mobile telecommunications services.

Tax rates

- Excise tax rates are fixed per physical unit of excisable good (litre, cm³, kilogram, ton, etc.).
- Current excise tax rates may be found in Appendix 4.

Exempt supplies with credit

- The exports of excisable products (except for export of ferrous/non-ferrous metal scrap) and the supply of Georgian excisable products for sale in duty-free zones are exempt from excise tax with a right to credit.

Exempt supplies without credit

- Goods exempted from excise tax include:
 - Alcoholic beverages produced by a physical person for his or her own consumption.
 - Importation of four litres of alcoholic beverages.
 - Import of 200 cigarettes or 50 cigars or 50 cigarillos or 250 grams of other tobacco products or a combination of these goods with a total weight of no more than 250 grams.
 - Fuel in the petrol tank technologically connected to the engine of the motor vehicle of a person entering Georgia by this vehicle.
 - Import of aviation fuels and lubricants to be supplied on board international flights or international sea passages.

5. Excise

- Import and/or supply of oil products necessary to carry out oil and gas transactions defined by the Law of Georgia “On Oil and Gas.”

Invoicing

- Excise taxpayers must issue a special VAT invoice (which also includes excise information) to a recipient of excisable goods.

Excise tax recovery

- Taxpayers are entitled to a refund or credit of the amount of excise tax paid on excisable materials purchased to produce excisable goods, up to the value of the excisable goods produced by the taxpayer.
- A credit/refund procedure also applies to excise tax paid if goods are imported for use in the production of excisable goods.

Compliance

- The excise tax reporting period is a calendar quarter.
- Excise tax on imports is administered by the Georgian customs authorities. Other excise tax is administered by the tax authorities.
- Taxpayers are required to file an excise tax return and pay the tax liability within 15 days after the end of the quarter. For certain beverages and tobacco products, excise stamps are used to collect the excise tax.

Excise stamps

- The following goods are subject to excise stamping:
 - Alcoholic beverages, including beer, with the alcoholic constituency higher than 1.15 degrees (other than beverages of 50 grams or less, or bottled in vessels of 10 litres or more).
 - Tobacco products except for pipe tobacco.
- Stamping of excisable goods must be carried out in accordance with rules established by the Ministry of Finance of Georgia.

6. Property tax

Property tax is the only tax in Georgia levied by the local government. Local authorities set the tax rates within limits established by the tax code.

Many people in Georgia refer to the property tax and the land tax as if they were separate taxes. Both taxes fall under the heading of “property tax” under the tax code. However, the tax base, assessment and payment mechanisms are independent.

6. Property tax

General principles

- Individuals and legal entities owning or leasing property in Georgia are subject to property tax.
- Property tax is a local tax. Local authorities set the tax rates within limits established by the tax code.

Taxable assets

- Georgian enterprises and individual entrepreneurs are subject to property tax on fixed assets, non-assembled equipment, unfinished capital investments and intangible assets listed on their balance sheet, and assets that they have leased to other persons. Foreign enterprises are subject to property tax on the same type of assets located in Georgia.
- Organizations (not for profit entities) are subject to property tax on the same type of assets used in economic (profit oriented) activities.
- Individuals are also subject to property tax on immovable property.

Business property

- The annual property tax rate for enterprises and organizations should not exceed 1% of the average annual balance sheet value of the taxable assets (excluding land).
 - The balance sheet value is the value reflected in the financial statements of the enterprise. It is not the tax value of the assets.

6. Property tax

- The balance sheet value is adjusted for leased assets:
 - A lessor is required to pay property tax on assets that it has leased to other persons.
 - Leased assets are excluded from the balance sheet of the lessee if the lessor is a Georgian resident.
- For persons other than government-owned companies, the value is also multiplied by an indexation coefficient based on the age of the assets.
 - 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 after 2004, the coefficient is 1.5.
 - An entity is not required to apply coefficients if it 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.
- During a tax audit, the tax authorities may substitute market values for the values reflected in the balance sheet.
 - The taxpayer may appeal the assessment.
 - If the assessment is not appealed successfully, the taxpayer would be obliged to pay taxes (but not interest and penalties) based on the substituted values for the year(s) in question, and to use the determined market value when calculating property tax for the three succeeding years.

6. Property tax

Personal property (excluding land)

- The annual property tax rate for an individual on taxable property (excluding agricultural land) varies according to the amount of annual family revenue of the individual. The rates are applied to the market value of the taxable property. The following are the annual rates:

Annual Family Revenues		Property tax rate
Exceeding (GEL)	Not Exceeding (GEL)	
0	40,000	0%
40,000	100,000	0.05% to 0.2%
100,000	—	0.8% to 1%

- The exact rate within the range is fixed by the local government where the property is located.
- The rates are not progressive (e.g., a family with income of GEL 100,001 would pay 0.8% to 1% tax on all property subject to property tax).

Land

- 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 1.50 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 m², which is further adjusted by a territorial coefficient not exceeding 1.5.

6. Property tax

Exemptions

- Certain types of assets are exempt from property tax, including:
 - Roads.
 - Communications and electronic transmission wires.
 - Property and land used for activities defined by the Law on “Oil and Gas”.
 - Agricultural land plots not exceeding five hectares in the ownership of an individual as of 1 March 2004.
 - Property of medical establishments used for medical activities, except land that is not under the medical establishment.
- All types of assets including land situated on the territory of a Free Industrial Zone are exempt from property tax.

Compliance

- Enterprises must submit property tax returns before 1 April of the year following the year for which tax is 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.
 - If the current tax year tax liability will be 50% or less than the previous year’s liability, the taxpayer may reduce or eliminate the advance payment if it informs the tax authorities by 1 June.

6. Property tax

- If the reduction in liability does not eventuate, the taxpayer will be subject to a fine (interest) on the underpaid tax.
- The balance is due before 1 April of the following year, when the property tax return for the year is filed.
- The amount of property tax on land is subject to assessment by the authorities and must be paid before 15 November.
- Enterprises that were incorporated after the beginning of the calendar year are not subject to the current payment and pay property tax in proportion to the part of the year in which they were active.
- 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 May.
 - The corresponding taxes should be paid before 15 November.

7. Import tax (customs)

Until 2010, customs was dealt with in its own code. From 2011, customs provisions are included in the new tax code. More than 250 articles in the former customs code have been condensed into 36 articles in the new tax code.

This sounds good in theory, but it remains to be seen how things work out in practice. To take an example, the former customs code used more than 3,000 words to explain customs valuation methods. Article 213 in the new code in approximately 100 words merely lists the six WTO valuation methods and notes that they are applied in hierarchal order.

Article 213 also defines interdependent persons. However, because the valuation rules have been truncated, Article 213 no longer contains any specific rules for interdependent persons so the definition is redundant. More generally, it seems little effort was made to harmonise the language of the customs and tax rules. The tax concept of a “Free Industrial Zone” and “Free Warehouse Enterprise” becomes a “free zone” and “free warehouse” under the customs rules.

Georgia has only three import tax rates: 0%, 5% and 12%. Most goods are subject to the 0% rate.

7. Import tax (customs)

Taxpayers

- Import duties are payable by persons whose goods cross the customs border of Georgia. Import duties consist of taxes (import tax, VAT and excise tax) and customs fees.
- Where imported goods are subject to import duties, the importer or his/her authorized representative is responsible for the payment of any import tax at the time the goods are released by customs for free circulation.

Import tax

- Import tax is based on either customs value or per physical unit of goods.
- The rate applicable to the customs value of the goods is fixed at 0%, 5% or 12% according to the classification of the goods. Most goods fall into the 0% rate.
- A 5% rate applies to pork meat (HS 0203) and cheese and curd (HS 0406). Most other food products are subject to the 12% rate.
- Beverages are taxed at EUR 0.20 – EUR 3.00 per litre or 100 litres, depending on alcohol content.
- Construction materials are generally subject to the 12% rate.
- A 12% rate also applies to:
 - Tobacco and manufactured tobacco substitutes (HS 24).
 - Tableware and other household articles, hygiene and toilet items, plastics (HS 3924)

7. Import tax (customs)

- Wood and wooden articles, wood charcoal (HS 4403, 4407, 4409, 4413, 4418).
- Clothes, shoes and headwear (HS 6812 91 000 00).
- Pearls, stones, precious metals, imitation jewellery, coins (HS 7113, 7115-7117).
- Importers should check the tariff rates for the relevant HS code to confirm the tax rate that applies.
- Generally, import tax is imposed as an ad valorem duty, which means that the tax is calculated as a percentage of the customs value of the goods. Importers must take into account specific rules (based on WTO rules) to determine the customs value on which the import tax will be applied.
- As a general rule, import tax is collected on the CIF (cost, insurance and freight) value of the imported goods. For this purpose, the general rule is that the customs value will be the price actually paid or payable for the goods when sold for export to Georgia. This is commonly known as the “transaction value.”
 - A number of additions must be made to the price paid or payable if those elements have not already been included in the selling price. Those elements include: transportation costs, commissions and brokerage, loading and handling charges, warehousing charges, royalties and license fees related to the goods being valued, insurance charges, other similar charges incurred with respect to the goods before their customs clearance.
 - Provided that certain costs are shown separately from the price actually paid or payable, the following are not be included in the customs value: charges for the transport of

7. Import tax (customs)

goods from the customs; buying commissions; charges for the right to reproduce imported goods in Georgia and other similar charges.

- When the transaction value of the goods imported cannot be used, the importer must rely on the following alternatives in the order specified (the fifth and sixth methods may be reversed at the request of the declarant):
 - The transaction value of identical goods (the second method).
 - The transaction value of similar goods (the third method).
 - The unit price of goods (the fourth method).
 - The computed value (the fifth method).
 - The reserve method (the sixth method).
- Each method is to be applied only when the previous method cannot be applied. This is in accordance with the requirements of the World Trade Organisation (WTO) Customs Valuation Agreement, which Georgia as a WTO member must apply.

Goods exempt from import tax

- The list of goods which are exempt from import tax includes:
 - Goods exported, re-exported and goods in transit through Georgia from a foreign country.
 - Import of goods produced in a Free Industrial Zone.
 - Import of goods defined by grant agreements.

7. *Import tax (customs)*

- Import of child and diabetic food products.
 - Import of fuel, lubricants and other materials for international flights and shipment.
 - Import of goods in the framework of the Law of Georgia “On Oil and Gas.”
 - Import of four litres of alcoholic beverages and 200 cigarettes (except by an individual under 18).
 - The import of goods by an individual for non-economic purposes where the value does not exceed GEL 500 and the total weight is not more than 30kg.
- Relief from import tax may also be available under Georgia’s Free Trade Agreements or under the Generalized System of Preferences (GSP).

8. Disputes and penalties

One of the objectives of the new tax code was to increase trust toward the tax system, among other matters by making tax administration more reasonable. To this end, Parliament introduced a special chapter in the tax code dedicated to taxpayer rights, as well as a new tax ombudsman function that allows taxpayers who believe their rights have been violated to may make a complaint to the Tax Ombudsman. Taxpayers may also claim and receive compensation for damages caused by illegal decisions or actions (inactions) of tax officials.

The new code also contains measures suggesting that taxpayers can expect a more balanced approach to tax enforcement. For example, if the tax authorities initiate a field audit, the taxpayer is entitled to request information from the tax authorities in advance about the grounds for the tax audit, attend the audit, and appeal the outcome of the audit and any other actions of the tax authorities. However, the detail of most measures is left for the Minister of Finance to elaborate through implementing rules. Taxpayers will need to wait to see how the rules will be implemented before any real judgements can be made on the effect of the new administration rules.

8. Disputes and penalties

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 primary 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. In rare circumstances, a higher authority may with the agreement of the court audit a period that has been audited previously.

8. Disputes and penalties

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

Other control procedures

- The tax authorities are allowed to undertake various control procedures outside the framework of audits.
- A taxpayer is entitled to attend all control procedures.
- 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. The representative is not permitted to check the taxpayer's documents or material values, or to observe or examine the content of safes, closets or other storage facilities.
 - **check** that persons supplying goods or services to consumers are recording the details of cash payments properly by means of **cash registers**.
- Up to three times per year (and subject to compliance with various administrative requirements), the tax authorities may inventory the materials of an excise tax payer.
- 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. Disputes and penalties

- If the turnover for a seven-day period (excluding the days with the highest and lowest turnover) is 10% or more higher than the turnover recorded for the seven-day period before inspection (again, excluding the days with the highest and lowest turnover), the taxpayer will be subject to a penalty in the amount of 20 times the difference.
- If the turnover for the seven-day observation period (excluding the days with the highest and lowest turnover) is not more than GEL 25,000, the maximum penalty is GEL 100,000.
- If the taxpayer refuses to perform services or attempts to influence a customer not to make a purchase during the review period, a penalty of GEL 2,500 will be imposed.

Assessments

- With the exception of land tax, taxpayers make returns and payments on a self-assessment basis.
- 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.
 - The assessment period may be extended to 11 years if a taxpayer has elected 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 20 calendar days from after receiving the payment order.

8. Disputes and penalties

Appeals

- A taxpayer may choose to appeal to the Revenue Service or the Court against a decision of the tax or customs authorities if:
 - A taxpayer does not agree with tax charges imposed.
 - A taxpayer disagrees with an administrative act of the tax authorities, such as the notification of a tax lien.
- Any appeal must be received by the Revenue Service or the Court within 20 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 20 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 ten 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 ten 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.

8. Disputes and penalties

- 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.
- The taxpayer and/or the taxpayer's authorized representatives are entitled to attend each stage of the appeal review process.
- 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.

Tax fines and penalties

Late filing

- 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).
- The minimum penalty is GEL 200, unless the tax return indicates that no tax is payable.

Late payment of tax

- Late payment of taxes is subject to an interest penalty (referred to in the tax code as a “fine”) of 0.07% of the amount payable for each overdue day.

8. Disputes and penalties

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

Understated tax liabilities

- An understated tax liability results in penalties of 50% of the understated tax, increased to 75% if the understated tax exceeds 50% of the amount of tax properly payable.

Tax evasion

- An understatement of more than GEL 25,000 is considered to be significant tax evasion, and is treated as a criminal case.

Voluntary disclosures

- If a taxpayer makes a voluntary disclosure of underpaid taxes before the taxpayer receives notification from the tax authorities of an impending tax audit, the only penalty that will apply is interest for late payment.

Penalties specific to VAT

- 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.

8. Disputes and penalties

Cash register offences

- If a taxpayer (other than a micro business) makes cash sales to customers but does not have a cash register, a penalty of GEL 500 applies. A second offence within a 12-month period is subject to a penalty of GEL 5,000. Repeated offences within a 12-month period are subject to a penalty of GEL 10,000.
- Failing to use a cash register in cash settlements with customers is subject to a penalty of GEL 500. A second offence within a 12-month period is subject to a penalty of GEL 1,500. Repeated offences within a 12-month period are subject to a penalty of GEL 2,500.
- Issuing a cash receipt for an amount that is less than the actual payment is subject to a penalty of GEL 400. A second offence within a 12-month period is subject to a penalty of GEL 1,500. Repeated offences within a 12-month period are subject to a penalty of GEL 2,500.
- 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.

Inadequate documentation for transported goods and inventory

- 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

8. Disputes and penalties

to the lesser of GEL 1,000 or the market value of those goods. For a second offence within a 12-month period, the minimum penalty is 5,000. Repeated offences within a 12-month period are subject to a penalty of GEL 10,000.

- 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 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.
- If the tax authorities conduct a stock take of a taxpayer (other than a micro or small business) and identify inventories for which a taxpayer does not have primary tax documents (specifically, a written and dated document that allows the parties to a contract to be identified, and contains a listing and prices of the goods that have been supplied), the taxpayer is subject to a penalty of 500% of the market value of those goods.

8. Disputes and penalties

- If a stock take identifies that the level of inventory holdings is less than the amount reflected in a taxpayer's books, the difference is deemed to be a supply carried out upon its detection at market prices.
 - If the shortage is identified by the tax authorities, the shortage is also subject to a penalty of 50% of the market price of the inventory shortfall.

Other penalties

- The violation of taxpayer registration procedures is subject to a penalty of GEL 200.
- 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.

8. Disputes and penalties

Payments and penalties during appeal

- The tax authorities may use tax liens and seizure of property (including bank accounts) to secure the tax liability under dispute, unless the taxpayer provides the tax authorities with a bank guarantee, insurance policy or property under a lien sufficient to satisfy the disputed tax amount.
- If a tax dispute is resolved in the taxpayer's favour, all measures taken during the dispute to secure the tax debt are abolished.

Tax agreements to settle outstanding taxes

- A tax agreement involves the possibility of concluding a tax settlement between a taxpayer and the Government.
 - 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 rules and terms for concluding the tax contract will be defined in a Government resolution.

8. Disputes and penalties

- The taxpayer will be unable to adjust the data in its tax returns for the covered period.
- 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.

Tax clarifications

- Taxpayers may request written explanations from the tax authorities on the application of specific tax laws.
- Explanations are not legally binding and do not provide solid protection against tax assessments and penalties.

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 Revenue Service may refuse to issue an advance ruling if:

8. Disputes and penalties

- The application relates to an issue or period that was already covered in a tax audit and discussed in the audit report.
- A criminal prosecution has been initiated against the taxpayer for violating tax rules.
- The cost of applying for an advance ruling is:
 - GEL 10,000 if capital exceeds GEL 1,000,000 or annual turnover exceeds GEL 10,000,000.
 - GEL 5,000 otherwise.
 - The MOF schedule of charges suggests that a ruling may be issued within 10 days if the taxpayer pays a triple fee.
- A taxpayer who received a negative ruling may appeal the advance ruling through the appeals process, or refine the facts and ask the authorities to reconsider their decision.

Establishing a legal presence

Establishing a legal presence in Georgia is a relatively painless process.

Any person wishing to establish a business entity or branch office in Georgia must file prescribed documents with the National Agency of Public Registry in the Ministry of Justice. Registration may be completed within one day if the higher application fee for one-day processing is paid. Otherwise, registration will take 2-3 days.

Most of the time required to register a presence is spent arranging documents in the proper form. If documents are prepared abroad, they must be legalised or apostiled. Documents prepared in a foreign language must be translated in Georgia into the Georgian language, and the translation notarised.

Most foreign investors establish a Limited Liability Company (LLC), Joint Stock Company (JSC) or register a branch of a foreign company to do business in Georgia.

Establishing a legal presence

- There are no restrictions on foreign ownership of companies in Georgia.
- Business activities may be conducted in any of the legal forms below.
 - A **Joint Stock Company (JSC)** is a legal entity having a charter and capital divided into shares with equal nominal value.
 - A JSC's liability to creditors is limited only by its property. Shareholders are not liable for the company's liabilities.
 - Capital of a JSC can be specified in any amount. A JSC is entitled to issue ordinary and privileged shares if the company charter does not provide otherwise.
 - An annual shareholders' meeting must be held within two months after the preparation of the balance sheet to consider the annual results and other issues if the company charter does not provide otherwise. A shareholders' meeting is not needed if decisions are made by a shareholder who owns more than 75% of the capital of the company.
 - A **Limited Liability Company (LLC)** is a legal entity whose liability to creditors is limited to its property.
 - Partners (founders) are not liable for company liabilities. Capital of a LLC can be specified in any amount.
 - A partners' meeting must be held to consider the annual results and other issues.
 - An LLC may be founded by one person.

Establishing a legal presence

- A **Joint Liability Company (JLC)** is a legal entity where two or more persons carry out entrepreneurial activities jointly under a single entity name. Partners are jointly liable to creditors with all their property. The liability of a partner is not limited.
- A **Limited Partnership** is a legal entity where two or more persons (individuals or legal persons) carry out entrepreneurial activities under a single entity name.
 - o The liability of some partners (Comandites) to creditors is limited to a certain warranty amount. The liability of the other partners (full partners, or Complementars) is not limited.
 - o Partners with limited liability (Comandites) are not allowed to participate in the management of a Limited Partnership.
- A **Cooperative (Co-op)** is a legal entity where its members carry out entrepreneurial activity mostly in the agricultural or labour sectors. The primary motive of a cooperative is to satisfy the interest of its members, rather than generating profits. A partners' meeting must be held at least once a year to consider the annual results and other issues.
- An **Individual Enterprise** is not a legal entity under Georgian law. An Individual Enterprise is personally liable to creditors. Registration is free.

Appendices

Appendix 2: Tax filing and payments

Standard tax rates	2011-12	2013	2014
Personal income tax	20%	18%	15%
Corporate profit tax	15%	15%	15%
Value added tax	18%	18%	18%
Property tax:			
Individuals	varies	varies	varies
Businesses (% of net assets)	1%	1%	1%
Import tax (customs)	0% / 5% / 12%	0% / 5% / 12%	0% / 5% / 12%

Domestic withholding tax rates	2011-12	2013	2014
Dividends paid to resident companies	0%	0%	0%
Dividends paid to individuals	5%	3%	0%
Interest paid by a licensed financial institution	0%	0%	0%
Interest paid by a private entrepreneur or legal entity who is not a licensed financial institution ¹	5%	0%	0%

1. This is a final tax for individuals and a creditable tax for legal entities.

Quarterly tax obligations	Tax payment deadline	Return filing deadline
Personal income and non-resident withholding tax subject to withholding at source	Upon payment of the income	15th day of the following quarter
Value added tax	15th day of the following quarter	15th day of the following quarter
Excise tax	15th day of the following quarter	15th day of the following quarter

Establishing a legal presence

Annual tax obligations	Tax payment deadline	Return filing deadline
Corporate income tax and Personal income tax (individual entrepreneurs)	Taxes are paid in four instalments of 25% of the previous tax year's liability before 15 May, 15 July, 15 September and 15 December. The adjustment payment is made before 1 April of the following year.	1 April of the following year
Micro and small businesses	15th day of the following quarter	1 April of the following year
Income tax (individuals)	1 April of the following year	1 April of the following year
Personal income and non-resident withholding tax subject to withholding at source	Upon payment of the income	30 January of the following year
Property tax (individuals)	15 November of the following year	1 May of the tax year
Property tax (on land)	15 November of the tax year	1 April of the tax year
Property tax (except land)	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 the following year

Appendix 3: Non-resident withholding

Dividends, interest and royalties

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. In the analysis below, the rate in domestic law is indicated when this is lower than the treaty rate. The rates are effective as at 1 January 2011:

Country	Dividends		Interest (1)	Royalties
	Non-portfolio %	Portfolio %	%	%
Non-treaty	5 (2)	5 (2)	5 (3)	15
Armenia	5	5	5	5
Austria	0 / 5 (4)	5	0	0
Azerbaijan	5	5	5	10
Belgium	5	5	5	5 / 10 (5)
Bulgaria	5	5	5	10
China	0 / 5 (4)	5	5	5
Czech Republic	5	5	5	0 / 5 / 10 (6)
Denmark	0 / 5 (4)	0	0	0
Estonia	5	5	5	10
Finland	0 / 5 (4)	5	0	0
France	0 / 5 (7)	5	0	0
Germany	0 / 5 (7)	5	0	0
Greece	5	5	5	5
Iran	5	5	5	5
Ireland	0 / 5 (4)	5	0	0

Country	Dividends		Interest (1)	Royalties
	Non-portfolio %	Portfolio %	%	%
Italy	5	5	0	0
Japan (8)	5	5	5	0 / 10 (9)
Kazakhstan	5	5	5	10
Latvia	5	5	5	10
Lithuania	5	5	5	10
Luxembourg	0 / 5 (4)	5	0	0
Malta	0	0	0	0
Netherlands	0 / 5 (4)	5	0	0
Poland	5	5	5	0
Romania	5	5	5	5
Singapore	0	0	0	0
Turkey	5	5	5	10
Turkmenistan	5	5	5	0
Ukraine	5	5	5	10
United Kingdom	0 / 5 (10)	5	0	0
Uzbekistan	5	5	5	10

- Several treaties contain a 0% rate on interest paid to or guaranteed by a government or one of its agencies. The table does not analyse such provisions.
- The rate will reduce to 3% in 2013 and 0% from 2014.
- The rate will reduce to 0% from 2013.
- The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than EUR 2 million.
- The 5% rate applies to royalties paid to enterprises.
- The 0% rate applies to consideration paid for any copyright of literary, artistic or scientific work (except software) and for films or tapes; the 5% rate applies to equipment leasing.
- The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than EUR 3 million.

8. The Japanese treaty is carried over from the Soviet Union. It is the only remaining tax treaty concluded by the former Soviet Union that the authorities will recognise in practice.
9. The 0% rate applies to consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films or tapes for radio or television broadcasting.
10. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than GBP 2 million.

In addition to the above list, Georgia has concluded a double taxation prevention agreement with 12 countries, including ratified with five countries (Switzerland, Israeli, Egypt and Kuwait), initialled with seven countries (Cyprus, Spain, Qatar, United Arab Emirates, Bahrain, India, Slovenia, Slovakia). At the same time, negotiations are underway with 14 countries (Argentina, Hungary, Sweden, Norway, Portugal, Seashells Islands and Belarus).

Other income

Management fees paid to non-residents.....	15%
Insurance premiums paid to non-residents	0%
Payment to non-residents of income from international transport or international communications	10%
Payment to non-residents of income from oil and gas operations	4%
Payments of other Georgian-source income to a foreign company that is not connected to a permanent establishment that company has in Georgia	15%

Appendix 4: Excise tax rates

#	Name of Goods	Commodity nomenclature code	Unit of measure	Tax rate (GEL)
1	Other fermented beverages (cider, Perry, mead); mixture of fermented beverages; and mixture of fermented beverages and soft drinks not specified in this table	2206 00	1 litre	2.50
2	Ethyl spirit	2207	1 litre	2.60
3	Spirits obtained by distilling grape wine or grape marc	2208 20	1 litre	4.60
4	Whisky	2208 30	1 litre	5.00
5	Rum and tafia	2208 40	1 litre	5.00
6	Gin and wine liquor	2208 50	1 litre	5.00
7	Vodka	2208 60	1 litre	3.00
8	Liquors and cordials	2208 70	1 litre	4.60
9	Other alcoholic beverages	2208 90	1 litre	5.00
10	Beer	2203 00	1 litre	0.40
11	Tobacco products (except tobacco raw materials):			
	- cigars, cigars with cut ends containing tobacco	2402 10 000 01	1 unit	0.90
	- cigarillo (slim cigars) containing tobacco	2402 10 000 02	20 units	1.00
	- filtered cigarettes containing tobacco	2402 20	20 units	0.60
	- all other unfiltered cigarettes and cigarette	2402 20	20 units	0.15
	- other products produced from tobacco and its replacements,	2403 (except 2403 10 900 00, 2403 99	1 kg	20.00

#	Name of Goods	Commodity nomenclature code	Unit of measure	Tax rate (GEL)
	homogenized or restored tobacco, tobacco extracts and essences	900 00, 2403 91 000 00)		
12	Passenger automobiles (in accordance with the difference between the year of the taxable transaction and issuance year, or, in case of import, difference between registration of the customs declaration and issuance year):			
	Up to 2 years	8703	1 cm ³ of engine capacity	1.50
	2 years			1.40
	3 years			1.30
	4 years			1.20
	5 years			1.00
	6 years			0.70
	7-12 years			0.50
	13 years			0.60
	14 years			0.70
	More than 14 years			0.80
13	Condensed natural gas, except for pipeline	2709 00 100 00 2711 11 000 00 2711 21 000 00	1,000m ³	80.00
14	Oil distillates			
	light	2710 11	1 ton	250.00
	medium	2710 19 110 00– 2710 19 290 00	1 ton	220.00
	heavy	2710 19 310 00– 2710 19 490 00	1 ton	150.00
15	Oil and other products borne from distillation of coal tar at the high temperature, other similar	2707 (except 2707 10 100 00–2707 60 000 00; 2707 91 000	1 ton	350.00

#	Name of Goods	Commodity nomenclature code	Unit of measure	Tax rate (GEL)
	production in composition of which amount of aromatic components exceed amount of non-aromatic components (other than naphthalene and creosote oil, that are used to saturate wooden sleepers (commodity code 4406 10 000 00) or produce carbons (commodity code 2803 00)	00; 2707 99 910 00)		
16	Oil gas and gas-like hydrocarbons	2711 12 2711 13 2711 14 000 00 2711 19 000 00	1 ton	120.00
17	Oil and oil products produced from bituminous minerals, except for crude oil; products, not indicated elsewhere, oil and oil products produced from bituminous minerals with consistency of 70% or more. At the same time this oil represents the main component of the products; used oil products.	2710 (except 2710 11 110 00–2710 19 490 00; 2710 19 510 00–2710 19 690 00; 2710 99 000 00)	1 ton	400.00
18	Liquid products of pyrolysis	3911 90	1 ton	400.00
19	Additives, solvent, antiknock	2707 10 100 00– 2707 60 000 00 (except 2707 40 000 00) 2712 20 2902 11 100 00– 2902 30 900 00 2905 11 000 00– 2905 16 800 00 3811 11 100 00– 3811 90 000 00 3814 00 100 00–	1 ton	400.00

#	Name of Goods	Commodity nomenclature code	Unit of measure	Tax rate (GEL)
		3814 00 900 00		
20	Lubricant minerals and means	3403 11 000 00 3403 19 100 00 3403 19 910 00 3403 19 990 00 3403 91 000 00 3403 99 100 00 3403 99 900 00	1 ton	400.00
21	Other waste oil – oil polluted water	2710 99 000 00	1 ton	50.00
	Other waste oil	2710 99 000 00	1 ton	400.00
	Export of ferrous or non-ferrous metal scrap		1 ton	120.00
	Telecommunication services (other than to non-resident entities)		Revenue	10%

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 60 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.

Our services are organised into three service lines – Assurance Services, Advisory Services, and Tax and Legal Services.

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.

Services include: audit – statutory and regulatory audit and treasury services, accounting and regulatory advice – corporate structures, technical accounting advice (supported by Global Corporate Reporting (GCR)), review of treasury operations, attest and attest-related services, public services for audit and advisory – audit, internal audit and associated services for government, education and other non-profit organisations, corporate training and development, services in the area of finance and accounting, IT systems, risk management, and management development.

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, and transaction services.

Tax services

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 include assistance with all matters regarding Georgia's personal income taxation legislation.

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.

Contact details

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