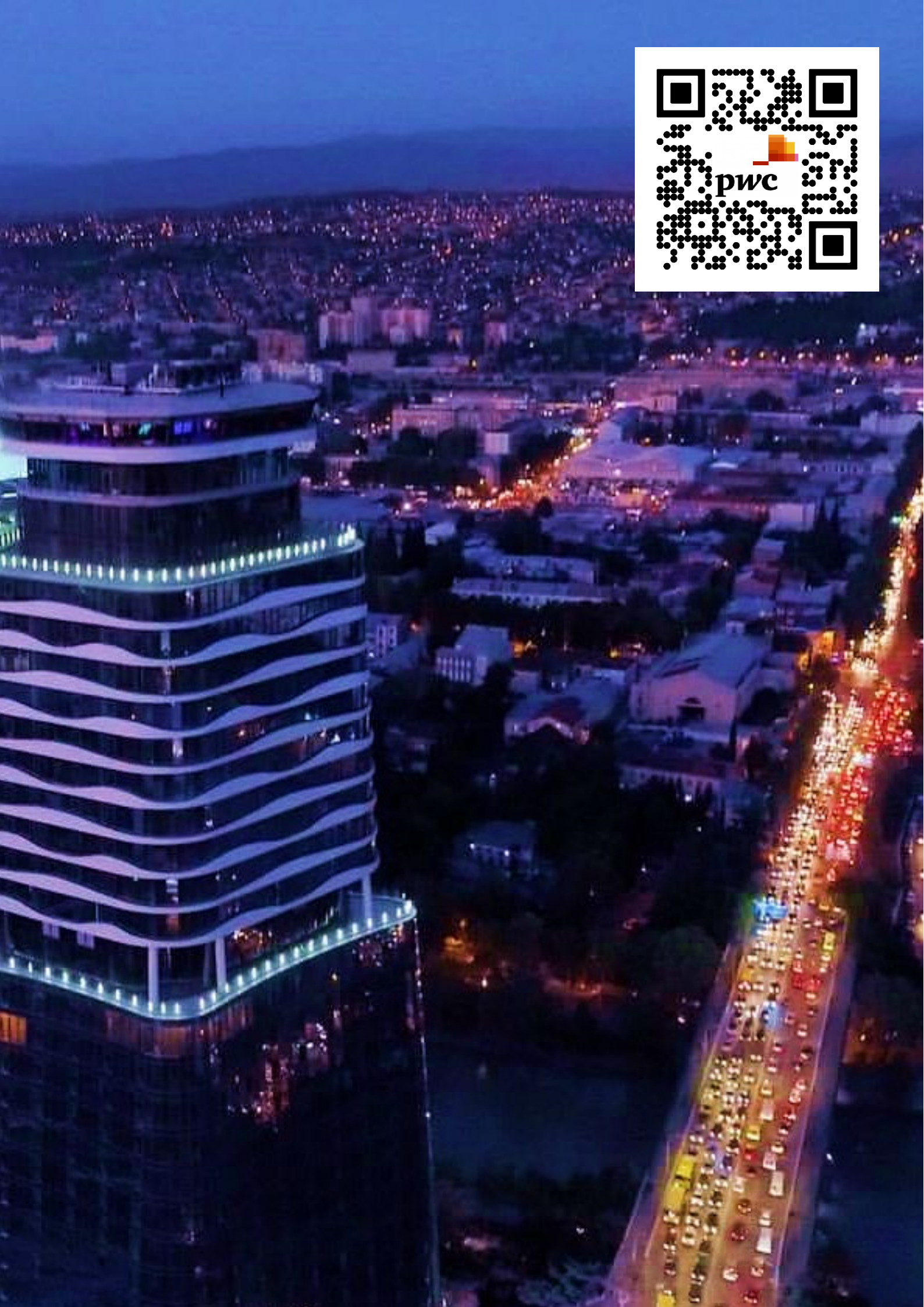


Doing Business 2021

A guide for Georgia

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Guide to Doing Business and Investing in Georgia

2021 Edition

Doing Business and Investing in Georgia

By PricewaterhouseCoopers Georgia LLC

This guide has been prepared for the assistance of those interested in doing business in Georgia. It does not cover exhaustively the subjects it treats, but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws, regulations and legal decisions of the country and to obtain appropriate professional advice. Whilst we have made every attempt to ensure the information contained in this guide is accurate, neither PwC nor the author can accept any responsibility for errors or omissions in the factual content. The material contained in this guide reflects the position as of 31 March 2021.

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I am pleased to present the PwC's publication **Doing Business and Investing in Georgia 2021**. Georgia is an interesting country, attractive with its geographic location, history, investment opportunities and business environment.

The guide is to provide a broad understanding of the key aspects of doing business and investing in Georgia. We answer questions that foreign businesses and entrepreneurs might have while making their first venture into the market and readily available information can help to take decisions about investments - the economic climate, industries and business segments, what it is like to live in Georgia and workforce aspects. It describes the most popular legal forms of businesses in Georgia and the key aspects of tax, human resources, employment law and audit and accountancy.

PwC operates in Georgia since 2005. It offers a single contact to facilitate business and offers customized world class service, which recognizes us as the first option for trusted advisors in most of the negotiations that take place in our region and country.

It is to be noted, that this publication is only for general orientation purposes and shall not be interpreted as a professional advice. Should you need more information, our advisors are ready to help you individually.

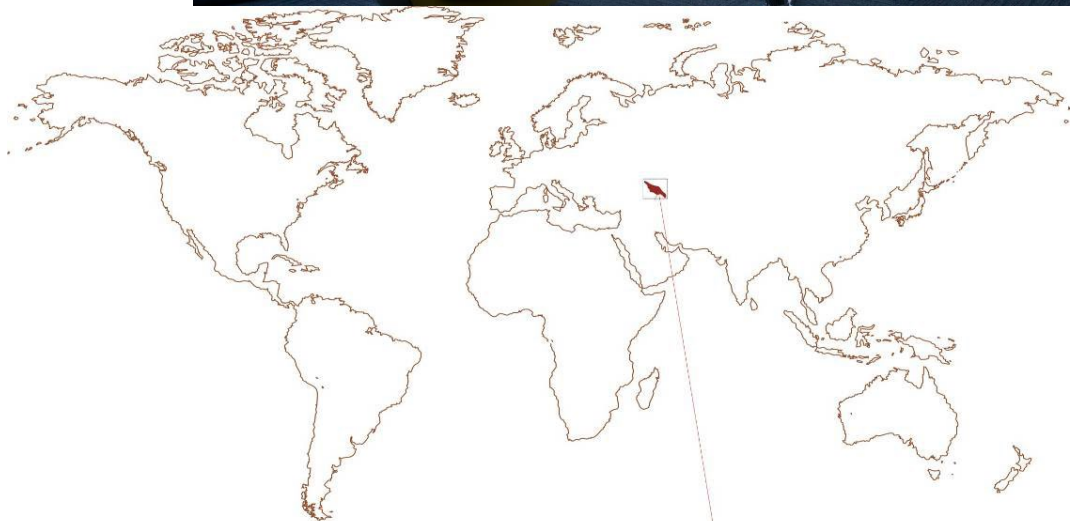
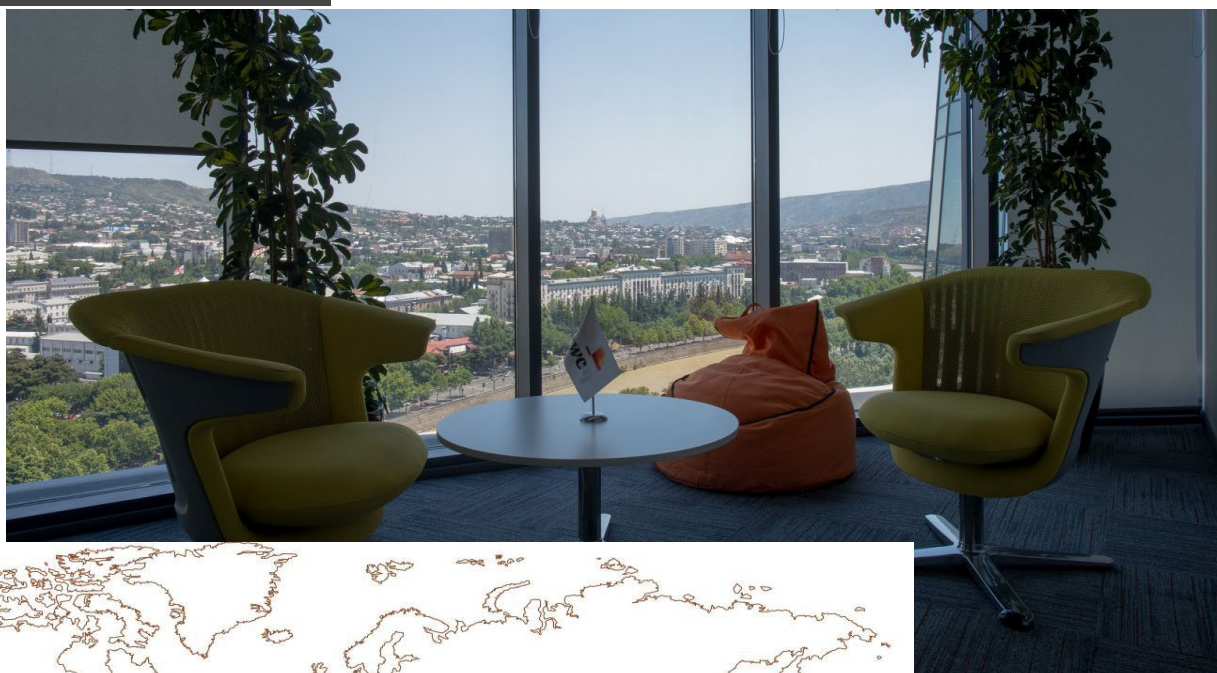
I welcome you to visit our office in Tbilisi and on behalf of PwC Georgia, I wish you every success in our country.



Lasha Janelidze
Country Managing Partner
and Assurance Leader

A stylized handwritten signature in blue ink, consisting of a large loop and a smaller loop, enclosed within a horizontal oval shape.

Office location in Georgia



PricewaterhouseCoopers Georgia LLC

King David Business Centre, 7th floor
#12 M. Aleksidze Street
Tbilisi 0171, Georgia
T: +995 32 2508050
E: ge_office@pwc.com
W: www.pwc.com/ge

Georgia Profile



1 Georgia Profile

1.1. Introduction

Georgia is located between Asia and Europe, bordering Turkey to the southwest, Azerbaijan to the east, Russia to the north and Armenia to the south.

Ethnic Georgians account for 84% of the population, with other ethnicities including Armenians, Greeks, Russians, Jews, Azerbaijanis, Ossetians, and Abkhazians.

Georgian Jews are one of the oldest Jewish communities on earth.

Teritorial area:	69,700 sq km.
Population:	3,982,384 million (2021).
Capital:	Tbilisi (population: 1 118.300).
Tbilisi:	the name in Georgian means "warm place," referring to the numerous sulfuric hot springs in the area.
Other cities:	Kutaisi, Rustavi, Batumi, Sokhumi, Gori, Poti, Zugdidi, Telavi.
Language:	Georgia is spoken by 71% of the population. Most Georgians speak English. Additional languages used are Azeri, Armenian, and Russian.
National currency:	Georgian Lari, 1 USD = approximately 3.32 GEL (NBG March 2021).
Religion:	84% of Georgians are Orthodox Christian. Muslims (9.9%), Armenian Apostolic (3.9%) and Catholics (0.8%).
Declared independence:	9 April 1991.

1.2. Government structure

Chief of state: President Salome ZOURABICHVILI (since 16 December 2018)

Head of government: Prime Minister Irakli GARIBASHVILI (since 22 February 2021)

Cabinet: Cabinet of Ministers

Current Speaker of Parliament: Kakha KUCHAVA.

Elections/appointments: president directly elected by absolute majority popular vote in 2 rounds if needed for a 5-year term; last election held on 28 November 2018.

According to constitutional amendments the 2018 elections was the last where the president was directly elected; future presidents will be elected by a 300-member College of Electors; in light of these changes, ZOURABICHVILI was allowed a six-year term.

Legislative power of the country is exercised by a single-chamber Parliament - 150 seats; 120 members directly elected in a single nationwide constituency by closed, party-list proportional representation vote and 30 directly elected in single-seat constituencies by at least 50% majority vote, with a runoff if needed; no party earning less than 40% of total votes may claim a majority; members serve 4-year terms.

1.3. Legal system

Georgia is a civil law country. The Justice in Georgia is exercised by the common courts through civil, administrative and criminal proceedings. The common courts of Georgia are divided into the three instances:

1st instance - District (city) courts;

2nd instance - Courts of Appeal;

3rd instance - Supreme Court of Georgia.

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

One of the main functions of the Constitutional Court of Georgia includes reviewing the constitutionality of the normative acts with respect to the human rights defined in the Constitution.

The Constitution of Georgia - history: previous 1921, 1978 (based on 1977 Soviet Union constitution); latest approved 24 August 1995, effective 17 October 1995.

Amendments: The constitution has been amended several times, last in 2020 (legislative electoral system revised).

The Legislation related to foreign investment includes the Constitution, the Civil Code, the Tax Code, and the Customs Code. Other relevant legislation includes the Law on Entrepreneurs, the Law on Promotion and Guarantee of Investment Activity, the Law on Rehabilitation and Collective Satisfaction of Creditors', the Law on Courts and General Jurisdiction, the Law on Competition, the Law on Accounting, Reporting and Auditing, the Law on Licences and Permits and the Securities Market Law.

The Georgian government has committed to greater transparency and simplicity of regulation.

The government publishes laws and regulations in Georgian in the official gazette, the Legislative Herald, 'Matsne' (www.matsne.gov.ge).

Georgia Break out regions

After independence in 1991 and civil war Abkhazia and South Ossetia became breakout regions of Georgia. The central government does not have effective control over these areas.

In August 2008, tensions in the region of South Ossetia culminated in a brief war between Georgia and Russia. Russia invaded undisputed Georgian territory and continues to occupy South Ossetia and Abkhazia.

Tensions still exist both inside the occupied regions and near the administrative boundary lines.

Living standards

Unemployment

The unemployment rate in Georgia increased to 18.50 percent in December 2020 from 17.6 percent previous year. The Labour Force Participation Rate decreased to 50.48 percent in 2020 from 51.79 percent in 2019.

The average monthly salary, according to 20 December 2020 data, was GEL 1,315. According to Asian Development Bank 2018 data - in Georgia, 20.1% of the population lives below the national poverty line.

1.4. Economy

General

Georgia's main economic activities include cultivation of agricultural products such as grapes, citrus fruits, and hazelnuts; mining of manganese, copper, and gold; and producing alcoholic and non-alcoholic beverages, metals, machinery, and chemicals in small-scale industries. The country imports nearly all of its needed supplies of natural gas and oil products. It has sizeable hydropower capacity that now provides most of its electricity needs.

Georgia has overcome the chronic energy shortages and gas supply interruptions of the past by renovating hydropower plants and by increasingly relying on natural gas imports from Azerbaijan instead of from Russia. Construction of the Baku-Tbilisi-Ceyhan oil

pipeline, the South Caucasus gas pipeline, and the Baku-Tbilisi-Kars railroad are part of a strategy to capitalize on Georgia's strategic location between Europe and Asia and develop its role as a transit hub for gas, oil, and other goods.

The country is pinning its hopes for faster growth on a continued effort to build up infrastructure, enhance support for entrepreneurship, simplify regulations, and improve professional education, in order to attract foreign investment and boost employment, with a focus on transportation projects, tourism, hydropower, and agriculture. Georgia, since 2004, has simplified the tax code, increased tax enforcement, and cracked down on petty corruption, leading to higher revenues.

The government has received high marks from the World Bank for improvements in business transparency. Since 2012, the Georgian Dream-led government has continued the previous administration's low-regulation, low-tax, free market policies, while modestly increasing social spending and amending the labour code to comply with International Labour Standards.

In mid 2014, Georgia concluded an association agreement with the EU, paving the way to free trade and visa-free travel. In 2017, Georgia signed Free Trade Agreement (FTA) with China as part of Tbilisi's efforts to diversify its economic ties. Georgia is seeking to develop its Black Sea ports to further facilitate East-West trade.

Based on the United States CIA World FactBook, breakdown of GDP by sector of origin is as follows: services 67.9%, industry 23.7% and agriculture 8.2%. Milk, grapes, maize, potatoes, wheat, watermelons, tomatoes, tangerines/mandarins, barley, apples are listed as the agricultural products. Steel, machine tools, electrical appliances, mining (manganese, copper, gold), chemicals, wood products, wine etc. are listed under the industries of Georgia. The page of CIA was last updated in September 2021.¹ As for GeoStat's Gross output preliminary raw data – the biggest sector in 2020 was manufacturing (19.7%) followed by construction (12.9%).

Industries present in Georgia include aircraft manufacturing². There is JSC Tam Tbilaviamsheni – an active enterprise in Georgia, along with "Delta" - <http://www.delta.gov.ge/>³ - product categories of which include aircraft as well, but mainly focused on military machines and vehicles.

Georgia imports nearly all its natural gas and oil products⁴. The largest energy-producing source is hydropower. The electricity distribution network was privatised in 1998, and the government began the privatisation of hydroelectric stations in 2006⁵.

¹ [Link to the Source](#)

² [Link to the National Register](#)

³ [Link to the Delta website](#)

⁴ [Link to the source](#)

⁵ [USAID Article](#)

Country Ratings

Agency	Long-Term Rating	Outlook
Standard & Poor's	BB	Stable
Moody's	Ba2	Stable
Fitch	BB	Negative

Standard & Poor's (S&P) Global Ratings has affirmed its 'BB/B' long- and short-term foreign and local currency sovereign credit ratings of Georgia with a stable outlook.

S&P reported on August 28 that 'the coronavirus pandemic has pressured Georgia's economic, external, and fiscal metrics by hitting tourism, remittances and foreign direct investment (FDI) inflows'.⁶

S&P noted in its report that the ratings are supported by Georgia's 'relatively strong institutional arrangements when compared regionally; its floating exchange rate regime; and the availability of timely, concessional financing from IFIs under extenuating circumstances'.

It also said that Georgia's economy 'will only recover' to 2019 levels in 2022:

- The COVID-19 pandemic and associated restrictions on activity will cause Georgia's economy to contract by 6% in 2020.
- Concessional IFI loans will support the policy response and stave off balance-of-payments pressures.

S&P expects 'the external environment to remain challenging in the wake of the COVID-19 outbreak'.

Nevertheless, it said, 'policymakers' efforts to widen Georgia's economic base, diversify its export geography and foreign investment, and develop its infrastructure are likely to maintain strong economic growth while gradually reducing external imbalances in the medium term'.

Moody's credit rating for Georgia was last set at Ba2 with stable outlook.⁷

Fitch Affirms Georgia at 'BB'; Outlook Negative.⁸

Georgia's ratings are supported by strong structural indicators such as governance and business environment relative to 'BB' category peers. A consistent and credible policy framework has underpinned Georgia's resilience to previous shocks. These credit strengths are balanced by a high share of foreign-currency denominated government debt,

low external liquidity and higher external financing requirements relative to peers.

The Negative Outlook reflects the significant impact of the coronavirus pandemic on Georgia's economy. The pandemic is causing a sharp contraction of Georgia's small open economy with a large tourism sector, a deterioration in fiscal accounts, including markedly higher public debt, and increasing risks stemming from Georgia's higher external debt and wider structural current account deficit relative to the median of its 'BB' category peers.

Natural resources

Georgia's natural resources are forests and hydropower as well as copper, gold, and manganese. There are minor deposits of coal and oil.

The coastal climate and soils enable the growth of tea, citrus, and grapes. In March 2018, the natural resource and environmental protection committee published strategy 2018-2030 and action plan 2018-2020, developed with the support of UNDP and EU programs.

Transit pipelines

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

According to GOGC ten-year development plan for Georgian Gas Transmission Network 2018-2027, Operator of North-South Gas pipeline (NSGP) - Georgian Gas Transportation Company (GGTC) was annually receiving gas for transit of gas to Armenia based on the contract signed with the Russian "GazProm". A new contract was signed in the first half of 2019.

Three pipelines currently exist:

- The **Baku-Supsa pipeline** runs 833 km from Baku to Supsa (458 km in Azerbaijan and 375 km in Georgia) and transports "early oil" from the Caspian Sea region operated by the AIOC (Azerbaijan International Operating Company). Azerbaijan International Oil Consortium financed full rehabilitation works of the pipeline as well as the construction of new buildings. BP is the largest shareholder of the consortium and operates the Georgian section of WREP⁹. There are four 160,000-ton storage units at Supsa.
- The **Baku-Tbilisi-Ceyhan (BTC) oil pipeline**: According to BP the length is 1768km with 249 km in Georgia. Oil flow through Baku-Tbilisi-Ceyhan pipeline exceeds 3.4B barrels in 14 years. The pipeline mainly carries ACG crude oil and Shah Deniz condensate from Azerbaijan.¹⁰
- The **South Caucasus Pipeline (SCP) System** The expansion of the South Caucasus Pipeline is part of the Shah Deniz Full Field Development project. The pipeline has been operational since late 2006 transporting gas to Azerbaijan and

⁶ [S&P's rating](#)

⁷ [Moody's rating](#)

⁸ [Fitch rating](#)

⁹ [BP website](#)

¹⁰ [BP info](#)

Georgia and starting from July 2007 to Turkey from Shah Deniz Stage 1. The length of the pipeline is 691km, with 443 km in Azerbaijan and 248 km in Georgia. As from 20 March 2020 technical operatorship of the South Caucasus Pipeline (SCP) has been transferred from BP Exploration (Shah Deniz) Limited to SOCAR Midstream Operations Limited, a fully owned subsidiary of SOCAR. In the first quarter of 2020, SCP spent about \$12 million in operating expenditure and about \$2 million in capital expenditure in total. During the quarter, the daily average throughput of SCP was 33.6 million cubic metres of gas per day.¹¹

Transport

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

Georgia is the part of Trans Caspian International Transport Route. It starts from Southeast Asia and China, runs through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and further to European countries. (November 7, 2013 As part of the II International Transport and Logistics Business Forum "New Silk Road" in Astana, the leaders of JSC "National Company" Kazakhstan Temir Zholy", CJSC "Azerbaijan Railways", JSC "Georgian Railway" signed Agreement on the establishment of Coordination Committee for the development of the Trans-Caspian International Transport Route).

Georgia has a railway network of 1,992 kilometres of track¹². Direct rail connections exist between Georgia and Armenia and between Azerbaijan and Russia (though the latter is not currently utilised).

As per Roads department of Georgia, the total length of the highways of international significance in Georgia is 1,603 km. whereas the length of internal state roads is 5,298.1 km. The figures do not include the roads of local importance. As for the roads of local importance the list of roads, with respective kilometres is published separately by each municipality¹³.

Georgia possesses operational airports and airfields in Tbilisi, Kutaisi (Kopitnari), Batumi, Mestia and Ambrolauri, the latter being constructed in 2017 as a domestic airport. Out of the five listed airports, three are international and two domestics.

As per GNTA report, all of the airports fully comply with the International Civil Aviation Organization standards. Tbilisi and Batumi International Airports are run by Turkish TAV Airports Holding Company.

The capacity of Tbilisi and Batumi International Airports annually is 6.1 mln and 600,000 passengers respectively. The capacity of the other airports is the following: Kutaisi International Airport: 600,000;

Ambrolauri: 50,000; and Mestia: 50,000 passengers/year.¹⁴

According to the Georgian Civil Aviation Agency (GCAA), Wizz Air Hungary is the dominant air company operating in Georgia and carries the largest number of passengers. In 2019, it served 825,290 (16.1%) passengers. Turkish Airlines is the second most popular airline, with 572,181 (11.2%) passengers, followed by Georgian Airways: 500,482 (9.8%).¹⁵

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

Poti Port - "The Poti Sea Port is the largest port in Georgia, handling liquids, dry bulk, passenger ferries and 80% of Georgia's container traffic. The multi-purpose facility has 15 berths, a total quay length of 2,900 meters, more than 20 quay cranes and 17 km of rail track."^{16 17}

Batumi Port occupies 22 hectares.¹⁸

Operating data

	2013	2014	2015	2016	2017	2018	2019	2020
Dry cargo turnover, thousand MT	1 721	1 203	1 046	862	795	1189	694.5	913
Oil&oil products, million MT	5.8	4.5	3.9	3.4	2.1	1.0	0.9	1.2
Containers turnover, TEU	72123	61980	54695	55781	76025	90002	116081	103302
Ships call, unit	714	585	570	663	527	584	578	589

Communications

The telecommunications sector remains one of the fastest growing areas of the Georgian economy, accounting for between 5% and 7% of GDP. There is still room for further growth, with penetration rates in the mobile and broadband segments relatively low by the standards of European benchmark countries.

Growth in mobile broadband has been steady, supported by the auction of spectrum in the 800MHz and 2100MHz bands which has enabled the network operators to expand the reach and capabilities of LTE services. LTE services now cover the vast majority of the population. The regulator has also developed a strategy to introduce 5G, incorporating elements such as coverage obligations, network access, and the possibility of a joint venture to build the network. Spectrum considered for 5G is in line with European guidelines.

The Communication Commission of Georgia is working to introduce mobile virtual network operators (MVNOs) in the country in coming years.

¹¹ [BP website](#)

¹² [GR statistics](#)

¹³ [Roads Department of Georgia](#)

¹⁴ [GCCA data](#)

¹⁵ [GNTA data](#)

¹⁶ [APM terminals](#)

¹⁷ [article](#)

¹⁸ [Batumi Port data](#)

Tourism¹⁹

According to Georgian National Tourism Administration report from 2019 Domestic and international tourism were important factors in the Georgian economy. Foreign visitors' expenditures had a significant effect on Georgia's balance of payments. Approximately 71% of Georgia's service export revenue came from tourism. Revenues from international tourism displayed an increasing trend and reached 3.3 billion USD in 2019. Tourism made up 8.1% of total GDP. This was due to a 511 million GEL increase in value-added from tourism-related activities.

Due to pandemic the visits of international travellers to Georgia decreased by 94.5 per cent in April 2020 and came out to 35,497.

The largest number of visitors came from:

Turkey (14,219 visitors)

Armenia (8,018 visitors)

Russia (3,778 visitors)

Under the state of emergency declared because of the coronavirus pandemic, only Georgian citizens, truck drivers, diplomats, and humanitarian workers were able to cross the Georgian border. The data includes 12,192 Georgian citizens who have been evacuated from abroad amid the coronavirus pandemic.

Georgia has opened the international flights. Georgian ambassadors to reintroduce Georgia to the world as 'safe tourism destination'

Meanwhile, other data from the National Statistics Office of Georgia (Geostat) said that in the first quarter of 2020 the number of arrivals of international non-resident travellers to Georgia equalled 1.3 million, which is 17.6 per cent lower compared to the previous year.

Geostat said that the largest number of visitors (197,200 visitors) was from Azerbaijan, which amounts to 22.3 per cent of total number of visitors and is 7.3 per cent decrease compared to Q1 2019.

The purpose of the majority of visits (31.9%) was holiday, leisure and recreation and were made to the Georgian capital city of Tbilisi (965,300 visits) and the Kvemo Kartli region of Georgia (371,700 visits).

Expenditures during visits made in Q1 of 2020 equalled 1 billion GEL, which is a 12.9 per cent decrease compared to the previous year. Average expenditure per visit increased 3.7 per cent compared to Q1 of 2019 year and amounted to 922.4 GEL.

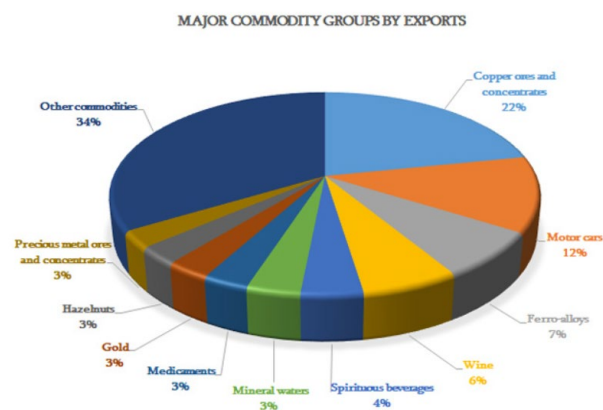
7 out of top -10 global hotel chains have a presence in Georgia - Marriot International, Best Western Hotels & Resorts, Wyndham Hotels and Resorts, Sheraton, Holiday Inn, Biltmore, Radisson and many other

famous global hotel chains are operating in Georgia. It's worth mentioning that the number of the hotels meeting the international standards is increasing every year both in the capital and in the regions. They are present in 7 Georgian regions out of 12 (Kartli, Mtskheta-Mtianeti, Imereti, Adjara, Guria, Kakheti and Samtskhe-Javakheti), have 11 locations of which 7 are resorts (Batumi, Sairme, Borjomi, Likani, Shekvetili, Goderdzi and Gudauri).

Marriott International represents the largest and most diverse brands and hotels on the Georgian market. The corporation includes 6 brands, 11 hotels.

1.5. Foreign trade

Georgia's main export partners are China, Azerbaijan, Russia, Bulgaria, Ukraine and Turkey. Exports include copper, motor vehicles, ferro-alloys, wine, mineral water, medicaments, gold, hazelnuts.



As per the Ministry of Economy and Sustainable Development of Georgia, the main import partners of Georgia in 2020 were Turkey, Russia, China, Azerbaijan and Armenia, in respective order. As for

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

In June 2014, On 1 September 2014, the Association Agreement (AA) between the EU and Georgia

¹⁹ [GNTA statistics](#)

partially came into force. Its main pillar is a “deep and comprehensive free trade agreement” (DCFTA).²⁰

In May 2017, Free Trade Agreement was signed between the Ministry of Economy and Sustainable development of Georgia and Ministry of Commerce of the People’s Republic of China. The Agreement will free the exported Georgian goods from the customs taxes by almost 94%. ²¹

²⁰ [Association Agreement](#)

²¹ [source](#)

Table 1: Key economic indicators

	2018	2019	2020	2021 (Jan. March)
GDP (USD billion) ²²	17.6	17.5	15.9	-
GDP growth	4.8%	5.0%	-6.2%	-
GDP per capita (USD)	4.72	4.69	4.27	-
Inflation (year-end) ²³	2.6%	4.9%	5.25%	7%
Officially registered ²⁴ unemployment (year-end)	19.2%	17.6%	20.4%	-
USD/GEL exchange rate (average) ²⁵	2.535	2.81	3.27	3.40
Foreign direct investments (USD million) ²⁶	1,306.3	1,310.80	616.90	-
External debt (USD million) ²⁷	17,795	18.6	19.7	-
Exports FOB (USD million) ²⁸	3,37	3,37	3,34	494.7
Imports CIF (USD million)	9 361.6	9 516.9	8 029.8	1 159.3
Foreign Exchange Reserves (USD million) ²⁹	3,089	3,38	3,891	-

²² GDP²³ See market inflation report²⁴ <https://www.geostat.ge/ka/modules/categories/683/dasakmeba-umushevroba>²⁵ NBG Statistics²⁶ GeoStat FDI²⁷ See Gross external debt BPM 5²⁸ GeoStat exports and imports²⁹ See International reserves and foreign currency reserves liquidity template



Business and Investment Environment



2. Business and Investment Environment

2.1. Business climate

Georgia has made sweeping economic reforms. Country's ranking in the Ease of Doing Business 2020 among the 190 countries covered by the World Bank Group annual report Georgia's position is 7, with the score 83.7 points.

DB measures regulations affecting 10 areas of the life of a business. Ten of these areas are included in this year's ranking on the ease of doing business. Georgia's rank in each field are as follows:

1. Starting a business - 2
2. Dealing with construction permits – 21
3. Getting electricity – 42
4. Registering property - 5
5. Getting credit - 15
6. Protecting minority investors - 7
7. Paying taxes - 14
8. Trading across borders - 45
9. Enforcing contracts - 12
10. Resolving insolvency – 64

Fiscal and monetary policy are focused on low deficits, low inflation, and a floating real exchange rate, although the latter has been affected by pandemic and regional developments. Public debt and budget deficits remain under control.

Policies Towards Foreign Direct Investment

Georgia is open to foreign investment, and the Georgia National Investment Agency (www.investingorgia.org) is implementing an aggressive marketing campaign to encourage more foreign investors to come to Georgia. Legislation establishes favourable conditions for foreign investment, but not preferential treatment for foreign investors. The Law on Promotion and Guarantee of Investment Activity protects foreign investors from subsequent legislation that alters the condition of their investments for a period of ten years.

Limits on Foreign Control and Right to Private Ownership and Establishment

There are no specific licensing requirements for foreign investment other than those that apply to all companies. By law, the Government has 30 days to make a decision on licenses, and if the licensing authority does not state a reasonable ground for rejection within that time, the license or permit is

deemed to be issued. The government only requires licenses for activities that affect public health, national security, and the financial sector.

The government currently requires licenses in the following areas: weapons and explosives production, narcotics, poisonous and pharmaceutical substances, exploration and exploitation of renewable or non-renewable substances, exploitation of natural resource deposits, establishment of casinos and gambling houses and the organization of games and lotteries, banking, insurance, securities trading, wireless communication services, and the establishment of radio and television channels.

The law requires the state to retain a controlling interest in air traffic control, shipping traffic control, railroad control systems, defence and weapons industries, and nuclear energy. Only the state may issue currency, banknotes, and certificates for goods made from precious metals, import narcotics for medical purposes, and produce control systems for the energy sector.

Business Facilitation

The Georgian National Investment Agency is a governmental institution accountable to the Prime Minister of Georgia. It plays the role of moderator between foreign investors and the Government of Georgia, ensuring that the investor receives different types of updated information and has means of effective communication with Government bodies. The Agency's web page offers useful information (<http://www.investingorgia.org/en/>), and any investor is eligible to use the Agency's services free of charge.

In general, the process of registering a business in Georgia is quick and streamlined, and Georgia tops the list of countries in the World Bank's Doing Business Report with regard to this particular component.

The registration process takes only one day to complete. Registration of companies is carried out by the [National Agency of Public Registry \(NAPR\)](http://www.napr.gov.ge) (www.napr.gov.ge is in Georgian only), located in the Public Service Halls (PSH) under the Ministry of Justice of Georgia. The web page of the PSH (<http://www.psh.gov.ge/main/page/2/85>) outlines procedures and requirements for business registration in English. For registration purposes, the law does not require a document verifying the amount or existence of charter capital. A company is not required to

complete a separate tax registration. The initial registration includes both the state and tax registration together.

The following information is required to register a business in Georgia: personal information of the founder and principal officers, articles of incorporation, and the company's area of business activity. Other required documents depend on the type of entity to be established. Registration fees are minimal.

To register a business, you must first pay the registration fee, register the company with the Entrepreneurial Register and obtain an identification number and certificate of state and tax registration.

Registration fees are: GEL 100 (around USD 45) for regular registration, GEL 200 (USD 90) for expedited registration, plus GEL 1 (bank charges). Second, you must open a bank account (free of charge).

Outward Investment

The Georgian government does not have any specific policy on promoting or restricting domestic investors from investing abroad and Georgia's outward investment is insignificant.

Bilateral Investment Agreements and Taxation Treaties

Georgia has bilateral agreements on investment promotion and mutual protection with 32 countries, **including:** *the United States, Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, the Czech Republic, Estonia, Egypt, Finland, France, Germany, Greece, Iran, Israel, Italy, Kazakhstan, Kyrgyzstan, Kuwait, Latvia, Lithuania, Luxembourg, Moldova, the Netherlands, Romania, Sweden, Turkey, Turkmenistan, Uzbekistan, the United Kingdom, and Ukraine.*

Negotiations are under way with the governments of 24 countries: *Bangladesh, Belarus, Bosnia and Herzegovina, Croatia, Cyprus, Denmark, Iceland, India, Indonesia, Jordan, Korea, Lebanon, Malta, Norway, the Philippines, Portugal, Saudi Arabia, Slovakia, Slovenia, Spain, Switzerland, Syria, Tajikistan, and Qatar.*

On June 27, 2014, Georgia signed an Association Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union.

In 2016, the government signed a free trade agreement with the European Free Trade Association (EFTA) countries of Iceland, Liechtenstein, Norway, and Switzerland.

On 13 May 2017, Georgia signed a free trade agreement (FTA) with China. The FTA took effect on 1st January 2018.

On 28 June 2018, Georgia and Hong Kong signed the FTA, which entered into force on 13 February 2019.

A free trade agreement is in force with the Commonwealth of Independent States and others exist bilaterally with Ukraine, Russia (though trade is

restricted by the Russian Government), Kazakhstan, Azerbaijan, Armenia, Moldova, Turkmenistan, and Turkey.

Bilateral Taxation Treaties

The United States and Georgia are beneficiaries of the U.S.-Georgia Bilateral Taxation Treaty.

Georgia has concluded agreements for avoidance of double taxation with 56 countries: *Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium, Bulgaria, China, Cyprus, the Czech Republic, Croatia, Denmark, Estonia, Egypt, Finland, France, Germany, Greece, Hungary, Iceland, India, Iran, Ireland, Italy, Israel, Japan, Kazakhstan, Kingdom of Saudi Arabia, Korea, Kuwait, Latvia, Lithuania, Liechtenstein, Luxembourg, Malta, Moldova, the Netherlands, Norway, Poland, Portugal, Qatar, Romania, San Marino, Serbia, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Turkmenistan, UAE, Ukraine, the UK, and Uzbekistan.*

Georgia has six types of taxes: corporate profit, value added tax (VAT), property, income, excise, and dividend.

The tax on corporate profits is 15 percent. However, in January 2017, the government adopted a corporate profit tax scheme that exempts from income taxation undistributed, reinvested, or retained corporate profits.

The VAT is 18 percent. The tax on personal income is 20 percent.

The dividend income tax rate is 5 percent.

There are no dividend and capital gains taxes for publicly traded equities (a free float in excess of 25 percent).

There are excise taxes on cigarettes, alcohol, fuel, and mobile telecommunication. Most goods, except for some agricultural products, have no import tariffs.

For goods with tariffs, the rates are five or 12 percent unless excluded by an FTA.

Banking and Finance Systems



3. Banking and Financial Systems

3.1. Banking system

The banking system remains the biggest part of the Georgian financial market.

The central bank is the National Bank of Georgia (NBG). It sets monetary policy, issues licenses, and supervises the activities of banking institutions and currency exchange offices. To regulate circulating money and encourage deposits in Georgian Lari (GEL), the national legal tender, the NBG requires commercial banks to keep a certain percentage of their foreign currency deposit liabilities in reserve.

Banks continue offering business, consumer, and mortgage loans. The International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), U.S. Overseas Private Investment Corporation (OPIC), Millennium Challenge Corporation (MCC), Asian Development Bank (ADB), and other international development agencies have a variety of lending programs that make credit available to large and small businesses in Georgia.

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

Commercial banks require a license from the NBG. The NBG applies the principle of “prudent regulation.”

As of 31 March 2020, there are 15 commercial banks operating in Georgia:

- TBC Bank JSC
- Bank of Georgia JSC
- Liberty Bank JSC
- BasisBank JSC
- VTB Bank of Georgia JSC
- ProCredit Bank JSC
- Cartu Bank JSC
- Terabank JSC
- Credo Bank JSC
- Halyk Bank JSC
- PASHA Bank Georgia JSC
- Isbank JSC
- FINCA Bank JSC
- Ziraat Bank JSC
- Silk Road Bank JSC

National Bank of Georgia

The National Bank supervises the financial sector in order to facilitate the financial stability and transparency of the financial system, as well as to protect the rights of the sector's consumers and investors. Through the Financial Monitoring Service of Georgia, a separate legal entity, the NBG undertakes measures against illicit income legalization and the financing of terrorism.

In addition, the NBG is the banker and fiscal agent of the government. (www.nbg.gov.ge)

Georgia's two largest banks – TBC and Bank of Georgia. Both banks are on London Stock Exchange.

3.2. Foreign currency rules

Georgian official currency (GEL) is the sole legal tender for payments on the territory of Georgia, except for the operations related to export-import and free industrial zone.

3.3. Capital markets

The Georgian Stock Exchange (GSE) is the only organized securities market in Georgia. Designed and established with the help of USAID and operating under a legal framework drafted with the assistance of American experts, the GSE complies with global best practices in securities trading and offers an efficient investment facility to both local and foreign investors. The GSE's automated trading system can accommodate thousands of securities that can be traded by brokers from workstations on the GSE floor or remotely from their offices. The official website is www.gse.ge

Customs Duties Importing and Exporting



4. Importing and Exporting

4.1. Trends in customs policy

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

4.2. Import restrictions

There are no restrictions on imports into Georgia (except for the limitations set for the goods requiring special permissions and licensing). Georgia has no quantitative restrictions (quotas) on trade.

4.3. Customs duties

Classification of goods

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

Valuation rules

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

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

Tariff rates

The following goods are exempt from customs duties:

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

Goods originating in WTO member states are taxed at lower rates. Oil products, including oil products from

Rates of duty on imported goods fall into three bands; 0 %, 5 %, and 12 %. Nearly 90 % of goods benefit from a zero rate of duty.

Import of agricultural goods, food products, clothes, construction materials, wood and wood products, plastics, wire and cable, iron, steel, soap, organic surface-active agents, and washing preparations which are produced in Georgia in whole or in part, are major areas of goods taxed at higher rates.

A combined rate of customs tariffs is applied to alcoholic beverages. A fee of €5 is charged per customs declaration for goods valued below 3000 GEL (\$1,310) and €60 (\$67) for goods valued above GEL 3000.

As of January 1, 2015, the customs tariff on passenger cars will remain 0.05 GEL (\$0.022) per cubic centimetre of the engine capacity plus 5 percent of the amount of the customs tariff per each year of the use of a vehicle.

An 18 percent value added tax (VAT) applies to most imported goods. Fixed excise tax rates apply to certain goods such as alcoholic drinks, ethyl alcohol, ethyl petrol for cars, and cigarettes. The customs value of goods for customs clearance is defined based on the customs declaration. Export, transit, and re-export of goods are exempt from customs duties and fees. Chapter 39(1) of the Georgian Tax Code defines the amount of the customs tariffs and exemptions.

Once every 30 day period, individuals are allowed to import the following goods free of customs duties, VAT, and excise duties within the following limits: *Import of vegetables, fruit (including dried), tea, coffee, macaroni, bakery, sugar, confections (with the exception of chocolate), sausages, milk and dairy products that have a maximum total weight of 30 kg, and a total value of less than 500 GEL (\$150).*

Import of 200 cigarettes, or 50 cigarillos, or 50 cigars, or 250 grams of tobacco product or any combination of these for personal use is permitted but must not exceed 250 grams in total weight.

Excise tax

Taxable amount for excise goods is determined for:

Alcoholic drinks – by alcoholic drinks volume.

Tobacco products – by tobacco products quantity or weight.

Oil products – by oil product weight (volume).

Motor cars – by year of production of the vehicle and engine volume.

Value added tax

VAT rate is: 18 percent of import amount which is determined on the day of registration of import cargo declaration;

Import amount is a total of:

- Customs value;
- Import Duties and taxes, excluding VAT to be paid in Georgia;
- Service costs, excluding VAT, that in accordance of Tax Code are part of goods import.

4.4. Customs processing fee, documents and procedures

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

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

An entity is subject to a fee of GEL 400 per customs declaration if the value of goods exceeds GEL 15,000, GEL 300 per declaration if the value of goods is between GEL 3,000 and 15,000, and GEL 100 if the value of goods is less than GEL 3,000. Customs fees for temporarily imported goods vary with respect to the weight of goods.

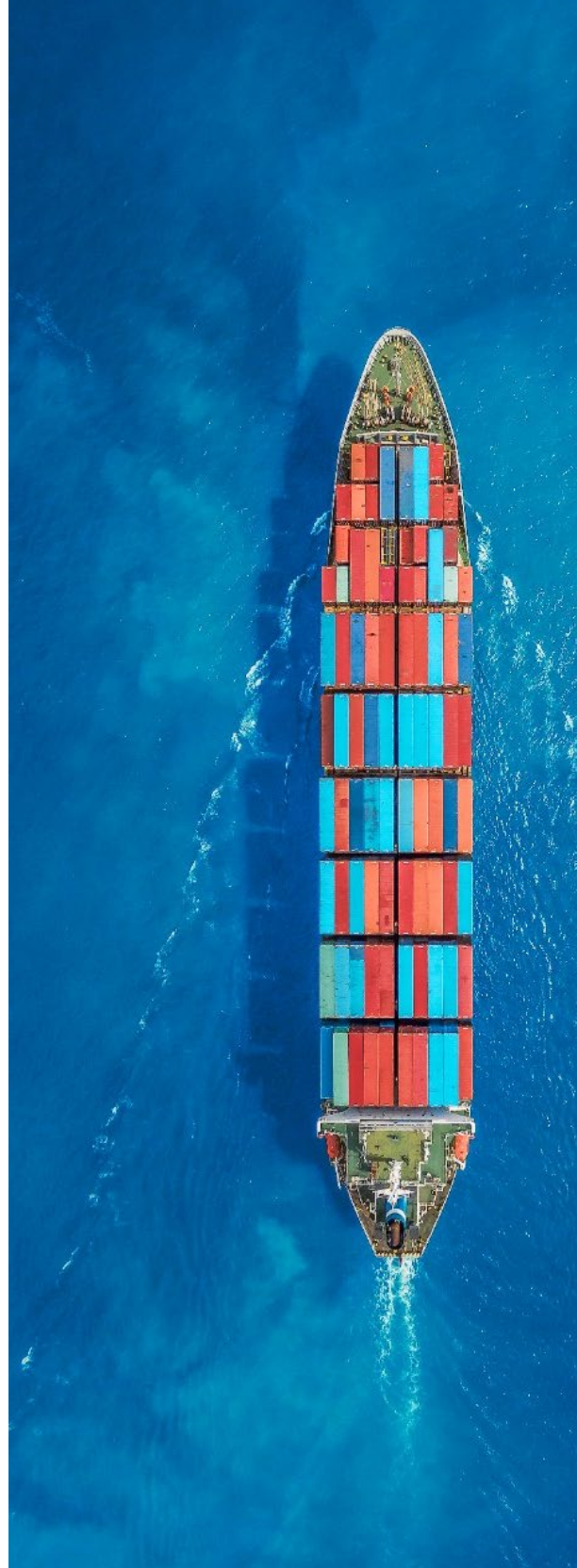
Payment

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

4.5. Exports

Export duties

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



Legal Framework



5. Legal Framework

5.1. Incorporation

The Law of Georgia on Entrepreneurs provides for the following legal forms of enterprises:

- Joint Stock Company (JSC) - a company the capital of which is divided into shares of a certain class and quantity as determined by the charter of the company. When founding a JSC, the capital can be determined in any amount. The charter may determine a value below which the price of the stocks may not be set for the initial issuance for a given class (par value). The company's liability to its creditors is limited to all of its assets and the shareholders are not liable for the company's obligations. A JSC may issue ordinary and preferred shares. JSCs where number of shareholders exceed 50, shall maintain the share register through an independent registrar.
- Limited Liability Company (LLC) – a company, whose liability to creditors is limited to its assets. The capital of a limited liability company may be fixed in any amount and is divided into shares. A share shall be transferable. Majority of the companies in Georgia are established as LLCs.
- General Partnership (GP) – company in which several persons (partners) conduct entrepreneurial activity jointly, under one common company name, and are jointly and severally liable with all their assets as joint debtors to the creditors.
- Limited Partnership (LP) - a company in which several persons carry out entrepreneurial activity under one common company name. The liability of several partners to creditors of the partnership is limited to payment of a fixed guarantee amount (limited partners) while other partners (general partners) are jointly and severally liable.
- Cooperative (CO) - a company based on the labour activity of its members or established for developing the business and increasing the income of the members. The main objective of a cooperative is to satisfy the members' interests and not to gain the profit. The liability of a cooperative to creditors is limited to its own property.
- Branch Office (BO) – a company may establish its sub-unit in Georgia that is not a separate legal entity. The BO of the Georgian company is not subject to registration at NAPR.
- Individual Entrepreneur (IE) - IE is an individual engaged in the business activities. IE shall fulfil his/her rights and obligations as an individual and therefore, is subject to personal liability.

NAPR effects the registration of all types of companies. The registration can be completed on the day that the required documentation is submitted and costs 200 GEL. Otherwise, the terms for registration is 1 business day and the relevant fee consists of 100 GEL. There is no restriction for the foreigners to establish a legal entity or branch in Georgia.

In order to register the company/branch, the following documents have to be submitted to the NAPR:

- Application for registration;
- Shareholder's Resolution on incorporation of the company/branch, including appointing the director of the company/branch;
- Charter of the company;
- If the founder is a foreign entity – a document confirming founder's registration in a foreign country and the authority of its representative individuals;
- Passport copies of the company's director(s) and the founder(s) (if the founder is an individual);
- Document confirming the consent of the owner on using its property as the company's legal address;
- Director's consent to be appointed as the director of the company/branch;
- Receipt confirming payment of registration fees;

All the documents issued outside Georgia shall be notarized and apostilled or legalized, then translated in Georgian and notarized. No legalization/apostille is required for documents issued in the signatory country of 1993 Minsk Convention on Civil, Family and Criminal Law Issues Legal Assistance and Legal Relationships ("Minsk Convention").

In order to register as an IE, an interested person shall apply for registration, ID card and receipt confirming payment of registration fees.

5.2. Employment Matters

The Labour Code of Georgia ("Labour Code") regulates labour and related relations on the territory of Georgia.

The Labour Code sets forth the following main rules:

- Salaries are subject to agreement between the parties.
- Employment contract can be concluded for definite or indefinite period. It shall be concluded in a written form if its term exceeds 1 (one) month.
- Under Labour Code, employment contracts shall be concluded for at least one-year period, except in those cases when:
 - A specific amount of work is to be performed.
 - The seasonal work is to be performed.
 - The amount of work has temporarily increased;
 - An employee being temporarily absent from work due to suspended labour relations is replaced.
 - There are other objective circumstances justifying conclusion of a fixed-term agreement.
- Probation period should not exceed six months.
- The working hours shall not exceed 40 hours a week; the working hours in enterprises with specific operating conditions requiring more than eight hours of uninterrupted production/work process must not exceed 48 hours a week. The Government of Georgia shall compile a list of industries with specific operating conditions. Working time shall not include breaks and rest time.
- If working time amounts to at least 6 hours a day, an employee shall be entitled to a break of at least 60 minutes.
- The length of overtime work for minors shall not exceed 2 (two) hours a day, and 4 (four) hours a week; An employer is obliged to inform an employee in a written form about overtime work 1 (one) week earlier, except in cases, when due to objective circumstances, such a warning is impossible.
- Vacation period shall not be less than 24 working days annually; an employee may also enjoy an unpaid leave of at least 15 calendar days annually.
- An employee shall, upon her request, be granted paid maternity leave of 126 calendar days, and in the case of complications during childbirth or the birth of twins, maternity leave of 143 calendar days; Maternity leave is paid by the state, but the employer and employee may agree on additional payment.
- An employee shall, upon his/her request, be granted parental leave of 604 calendar days, and in the case of complications during childbirth or the birth of twins, a parental leave of 587 calendar days. 57 calendar days of the leave shall be paid.
- Both a father and a mother may take a parental leave (leave for childcare). In such cases, an employee is obliged to notify an employer at least two weeks in advance of taking the leave; The Labour Code provides for exhaustive list of the grounds for termination of employment contract. The employer may not terminate employment for any ground other than the ones provided in the Labour Code.
- Severance payment and notification term depends on the ground of termination of employment contract. The severance payment defined by the Labour Code of Georgia should be no less one-month salary of an employee but no less two months' salary in case of short-term notification about dismissal.
- Employment contract may not establish norms different from those provided for by the Labour Code that may deteriorate employees' conditions.
- In a company regularly employing at least 50 employees, employer shall ensure provision of information and consultation with employees.

- The right of employees to information and consultation may be exercised through employees' representative(s) which is (are) elected for a fixed term, by a majority of votes, at a meeting that is attended by not less than half of the employees.

5.3. Labour Safety

In 2018 Georgia implemented regulations related to the occupational safety and enacted the Labour Safety Code.

The Labour Safety Code requires from every employer, irrespective of their field of activity, to implement occupational safety system (set of documents and procedures related to protection of life and health of employees) and have an occupational safety specialist.

Occupational safety specialists are persons who have completed either an accredited course in Georgia or have internationally recognized certificate (e.g. NEBOSH or IOSH).

The quantity of occupational safety specialists depends on the number of employees and is required as follows:

- 0-20 employees – no separate specialist is needed if the employer himself/herself is an accredited specialist
- 20-100 employees – 1 safety specialist
- >100 employees – 2 safety specialists

Depending on specifics of work – safety department as well as physician ("Internal Medicine", "Family Medicine", "Public Health", "Professional Pathology") may be required to ensure appropriate safety on workplace.

5.4. Visas

Depending on the purpose of travelling to Georgia, there are different categories of applicable visas. There are short-term and long-term visas with the right of a single entry or multiple entries. A short-term visa can be issued with the right of a single entry or multiple entries into Georgia, and a long-term visa can only be issued with the right of multiple entries. A short-term single-entry visa can be issued according to the number of days indicated by an alien in a visa application but for not more than 30 calendar days. A short-term multiple-entry visa can be issued for a maximum of five years.

Certain international travellers may be eligible to travel to Georgia without a visa if they meet the requirements for visa-free travel. The visa policy of Georgia became comparatively liberal, allowing citizens of 98 countries, (including EU states, USA, Argentina, Australia, Bahrain, Brazil, Brunei, Canada, Iceland, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Oman, Qatar, Saudi Arabia, Singapore, South Africa, Korea Republic, Switzerland, Thailand, United Arab Emirates, United States, Armenia, Azerbaijan) to enter, reside, work and study

in Georgia for 1 year without the need to obtain either visa or residence permit. For a complete list of countries, please see the following website <https://www.geoconsul.gov.ge/HtmlPage/Html/View?id=956&lang=Eng>.

Moreover, those foreigners who have either visa or residence permit of the countries, defined by the Government of Georgia, are allowed to enter the country without visa with the condition that the total period of an entry and stay in Georgia in any 180-day period shall not exceed 90 calendar days.

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

The Residence Permit is one of main grounds for a foreigner to stay legally in Georgia. The Residence Permit is issued to a foreigner with the right of temporary or permanent residence. The grounds for residence permit can be various. One of the grounds is employment relationship or business activities in Georgia – the Work Residence Permit.

To obtain Residence Permit in Georgia or prolong its validity term, a foreigner staying in Georgia applies to any territorial office of Public Service Hall or Public Service Development Agency.

Temporary Residence Permit is issued for at least 6 months for the first time and its validity term shall not exceed 1 year. Its validity term might be prolonged for other 5 years, but the total validity term of Temporary Residence Permit should not exceed 6 years.

Additional information on residence permits and residence cards is available on the websites: www.sda.gov.ge; www.psh.gov.ge; www.cenatri.gov.ge.

5.5. Licences and Permits

The law of Georgia on Licenses and Permits provides for the exhaustive areas of activities that are subject to special licenses or permits. The Law defines a comprehensive list of the types of licenses and permits, and lays down the procedures for issuing, changing, and repealing licenses and permits.

5.6. Restrictions on purchase of Agricultural Land Plots

An Organic Law of Georgia on Agricultural Land Ownership provides detailed regulations regarding ownership of agricultural land, restrictions regarding aliens and exceptions from general rule.

As a rule, agricultural land may be:

- a) in the ownership of the state of Georgia, an autonomous republic of Georgia, a municipality of Georgia;

b) in the ownership of a legal entity under public law of Georgia in the cases provided for by the legislation of Georgia;

c) in the ownership of a citizen of Georgia;

d) in the ownership of a legal entity under private law registered in Georgia, whose dominant partner is an entity determined by sub-paragraphs (a)-(c) above;

e) in the ownership of an organisational entity, that is not a legal person, if the entities determined by sub-paragraphs (a)-(d) constitute the majority of its members and at the same time have a practical ability to have a decisive influence on the decisions of the organisational entity in relation to agricultural land.

Agricultural land may be:

a) in the ownership of an alien if the land was inherited by the alien;

b) in the ownership of a legal entity under private law registered in Georgia, whose dominant partner is an alien - on the basis of an investment plan, according to the decision of the Government of Georgia.

5.7. Currency Restriction

GEL shall be the only method of payment on the territory of Georgia, except in cases of the free industrial zones, free trade points and / or the cases defined by the National Bank of Georgia.

When offering/advertising property for sale/or provision of services by an entrepreneur in the territory of Georgia, the price shall be in GEL. The National Bank of Georgia provides for the list of exceptions from the rule.

5.8. Free Economic Zone

Free Industrial Zone (FIZ) is a part of Georgian territory (not less than 10 HA) with defined boundaries, special legal status granted under law and established for a specific period of time. Companies registered in FIZ are given significant tax and other incentives.

FIZs are established either at the initiative of the Government of Georgia (GoG) or natural or legal person (including non-resident). FIZs are managed by FIZ organizer itself, or by an administration appointed by the organizer. The Organizer and/or the Administrator cannot be FIZ companies and are subject to standard tax and legal regulations.

The main characteristics of the FIZ are the following:

- Accounts within FIZ may be settled in any currency.
- Accounts between FIZ enterprise and a Georgian enterprise can be settled in any currency.

Under the FIZ Regulations, all activities are permitted in the FIZ, except:

- Manufacturing or selling weapons and military equipment.
- Manufacturing or selling nuclear and radioactive substances.
- Importing, storage, manufacturing and/or selling drugs and psychotropic substances etc.
- Carrying in, keeping, manufacturing or sale of raw materials or products of tobacco (except for on-site consumption).

5.9. Commissions, penalties, other financial sanctions

The monthly interest rate and expenses of any mortgage-backed loan shall not exceed the rate indicated in the Civil Code of Georgia.

The annual effective interest rate on the non-mortgage loan shall not exceed 50% of the loan principal.

The amount of fees for issuance of loan, financial expenses and penalties shall not exceed 0.27% of the remaining principal amount of the loan, for each day due to violation. For the purposes of 0.27% calculation, financial sanctions shall not include: (i) in case of a delay in payment, a single penalty imposed on a borrower amount of which does not exceed 20 GEL; (ii) a fee and/or a penalty for advance payment. In case of default, any fees, financial expenses or penalties imposed on a borrower in total shall not exceed the remaining principal amount of the loan 1.5 times.

5.10. Intellectual Property

The National Intellectual Property Centre of Georgia "Sakpatenti" is a governmental agency – a legal entity of public law that determines the policy in the field of intellectual property.

Under Georgian legislation, the patent is a monopoly right granted by the state to the inventor or his successor on the basis of which the patent holder may prohibit any person from using his/her invention or utility model protected by the patent. A patent certificate issued by the Sakpatenti confirms the granting of such monopoly rights to an individual or legal entity. The validity term of a patented invention is 20 years from the filing an application with the Sakpatenti. In case of utility mode, such term is 10 years.

A trademark as well as a design are subject to registration at Sakpatenti. Such registration entitles the holder to prohibit unauthorized use of his/her trademark or design. The validity term of the registration is 10 years with possibility of its further extension.

Georgian legislation does not provide for mandatory registration for copyrights and therefore, the copyright on the work derives from the moment of its creation.



Accounting and Audit Requirements



6. Accounting and Audit Requirements

6.1. Accounting

Accounting is governed by the Law on Accounting, Reporting and Auditing (“the Law”) and is regulated by the Service for Accounting, Reporting and Auditing Supervision (“the Agency”).

Scope of Law

The new Law on Accounting, Reporting and Audit has entered into force in June 2016. The law aims to harmonize accounting, reporting and audit activities carried out in private sector with EU Directives.

The law provides legislative grounds for preparation and submission of accounting, financial and managerial reporting; for reports on payments made to the state budget; for professional certification and quality assurance; for state supervision on audit and accounting services.

Supervisory Body

A special body (Agency) has been established within the Ministry of Finance, which ensures state supervision over the accounting, reporting and auditing activities. The law provides that the body in charge for supervision of auditing and accounting services shall publish audit register and reports provided by the companies.

The functions of the Service for Accounting, Reporting and Auditing Supervision are to:

- develop common policy, rules and the other normative acts in the area of financial accounting and reporting and auditing.
- define rules and requirements for auditing.
- define rules for quality control system and monitor quality control system of Auditors/ Audit Firms.
- define requirements for professional certification, examination procedures and continuous education in accordance with International Education Standards set by the IFAC and EU Directives and approve respective standards.
- exercise compliance monitoring of professional organizations, examination bodies and other persons engaged in professional educational activities with this Law and regulations and standards of the Agency.

Financial statements must be prepared by and submitted as follows:

- legal entities of public and private law, except for budgetary organizations provided for in the Budget Code of Georgia
- branches of non-resident entities
- sole proprietors

All the mentioned reporting entities should meet the size criteria for enterprises specified by the Law.

The International Financial Reporting Standards (IFRS) has been translated, fully adopted, and made mandatory together with International Financial Reporting Standards for Small and Medium-sized Entities considering the category of reporting entity prescribed by the Law and the standard on the financial reporting for the IV category entities.

Reporting Standards and Audit Requirements

For the purposes of application of accounting and financial reporting standards and defining obligation of mandatory audit, the companies are divided into 4 following categories according to different criteria, which is summarised in the below table:

Category	Reporting	Total assets value	Income	Average number of employees
PIE *	IFRS Management report	N/A	N/A	N/A
First	IFRS Management report	> 50 million GEL	> 100 million GEL	> 250 people
Second	IFRS for SMEs Management report	<50 million GEL	<100 million GEL	<250 people
Third	IFRS for SMEs	<10 million GEL	<20 million GEL	<50 people
Fourth	In accordance with the standard of financial reporting for enterprises of the 4th category.	<1 million GEL	<2 million GEL	<10 people

***PIE** - Companies that are listed on the stock exchange; banks, insurance companies, micro-finance organizations and credit unions; non-state pension schemes; investment funds; and other entities defined as PIE by the Government.

Management report includes the following parts:

1. Review of the entity's activities;
2. Corporate governance statement – only needed if shares are listed on the stock exchange;
3. Non-financial report - only needed for those PIEs which meet the large criteria and have more than 500 employees.

Mandatory audit is required for PIEs, 1st and 2nd category enterprises.

Tax System and Administration



7. Tax System and Administration

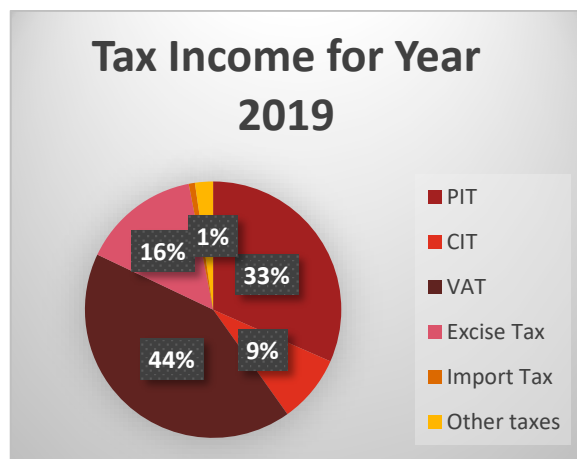
7.1. Tax system

In 2005, Georgia introduced a new tax code that made radical changes to the tax system. Low tax rates were introduced and the 21 taxes that applied in 2004 were reduced to 6 in 2005.

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

1. **Taxes should be simplified.** Special rules for individual entrepreneurs should encourage small businesses to legalise their operations. Registered micro businesses (annual turnover below GEL 30,000) will be completely exempt from tax. Registered small businesses (annual turnover below GEL 500,000) will pay a turnover tax of 1% or 3%.
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 Business 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.** Under EU-Georgia Association Agreement signed in 2014 Georgia took an obligation to approximate, among others, the Georgian VAT system with the European Council Directive 2006/112/EC dated 28.11.2006 on the Common System of Value Added Tax.

As a result, from 1st January 2021, substantial legislative changes coming into force in VAT to adhere it to EU VAT regulations.



From September 2019, new Customs Code was introduced, which is more harmonized with the EU regulations.

7.2. Direct and indirect tax burden

Portion of the taxes accounted for just over 90.5% of government revenues in 2019. Taxes on income, profits and capital gains accounted for 41% of tax collections, while 58% came from taxes on goods and services, 1% came from property tax, import tax and other taxes.

7.3. Principal taxes

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

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

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

7.4. Legislative framework

Taxes and levies, as well as penalties for non-compliance and offences, are set out in the Tax Code and Customs Code of Georgia.

In general, international agreements prevail over local legislation.

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

conflict with the tax authorities before taking a position based on the law.

Georgia does not follow case law.

7.5. Tax treaties

Georgia has 56 tax treaties in force as of December 2020. A summary of withholding rates under the various treaties is provided in Appendix 3.

Under current rules, taxpayers are not required to obtain confirmation of treaty relief from the authorities, however certain administrative procedures should be followed which involve filing an application form, along with a certificate of tax residence that has been apostilled or legalised in the investor's home country.

7.6. Administration of the tax system

All taxes are administered by the Revenue Service of the Ministry of Finance of Georgia.

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

7.7. Registration requirements

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

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

7.8. Tax returns and payments

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

Corporate income tax

From 2017 Georgia switched to a new model (so-call Estonian model) of taxation of companies' profits. This means that, Georgian companies and non-residents having permanent establishment in Georgia are no longer subject to corporate income tax on the accrued profits but should levy tax once they are distributed. Under the new model, they are required to submit their corporate income tax return (also referred to as the profit tax return) and pay the corresponding taxes on monthly bases before 15th of the following month.

Commercial banks, credit unions, insurance companies, microfinance organizations, and loan issuer entities will be affected by this new profit tax regime after 1st January 2023. Before that they should submit profit tax return by 1 April following the calendar year.

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

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

Individual income tax

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

Value added tax

The accounting period for VAT is a calendar month.

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

Property (and land) tax

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

- Property tax is paid in two instalments. An advance payment is made on 15 June, equal to the property tax payable for the previous year. The balance is then due before 1 April of the following year, when the property tax return for the year is filed.
- The amount of land tax is subject to assessment by the authorities and must be paid before 15 November.

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

7.9. Assessments

Taxpayers make returns and payments on a self-assessment basis. However, if the tax authorities determine that the tax disclosed on the return is incorrect, they may assess taxes within three years from the end of the year in which the return is filed. Statutory period is 3 years and this period could be extended to 11 years if a taxpayer elects to carry forward losses beyond the normal five-year loss carry forward period.

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

7.10. Appeals

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

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

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

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

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

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

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

7.11. Withholding taxes

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

Withholding exemption applies to International Company Regime as well. In particular, when paying salaries to the employees, international company is not liable to withhold tax at the source.

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

Payments of royalties to non-residents are subject to 5% withholding tax, though when the recipient is registered in blacklisted country the taxable rate would comprise 15%.

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

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

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

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

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

7.12. Tax audits

Georgian tax law envisages two types of tax audit:

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

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

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

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

7.13. Other control procedures

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

- Pose as a customer and make a controlled purchase of goods from a taxpayer.
- Observe the areas and buildings belonging to the person under review.

- Check that persons supplying goods or services to consumers are recording the details of cash payments properly by means of cash registers.

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

7.14. Penalties

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

- Late submission of a tax return results in a penalty of 5% of tax to be assessed for payment on the basis of the tax return/tax calculation, if the delay period does not exceed 2 months and if such delay period exceeds 2 months - 10% of tax to be assessed for payment on the basis of the tax return/tax calculation; if the sum of a tax to be assessed for payment under a tax return/tax calculation equals zero, no fine is imposed on a person.
- An understated tax liability results in penalties of 10 percent of the understated tax amount if it does not exceed 5 % of the tax amount filed in the tax return; If the understated tax amount is more than 5 percent of but does not exceed 20 percent of the tax amount filed in the tax return, a taxpayer will be fined with 25 % of understated tax; in other cases, understatement of the tax amount is subject to a fine of 50 % of the understated tax amount;
If the understatement is a consequence of changing the accounting period of the tax liability, it will attract penalty 10% of the understated tax. The total amount of fines assessed as a result of a tax inspection must not exceed the amount of principal taxes accrued as a result of the tax inspection.
- Significant tax evasion (an understatement of more than GEL 100,000) could be treated as a criminal case.
- Late payment of taxes is subject to an interest penalty of 0.05% of the amount payable for each overdue day. The penalty ("fine") is imposed only on the underlying tax liability and does not apply to tax penalties.

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

Penalties for other offenses include:

- If a taxpayer (other than a micro business) makes cash sales to customers but does not have a cash register, a penalty of GEL 200 applies.
- Failing to use a cash register in cash settlements with customers is subject to a penalty of GEL 200.
- Issuing cash receipt for an amount that is less than the actual payment is subject to a penalty of GEL 200.

- The loss of a cash register, if it cannot be demonstrated that the loss was caused by the unlawful action of another person, is subject to a penalty of GEL 3,000. Losing a second cash register within 60 days of the first loss is subject to a penalty of GEL 6,000.
- Using metering devices at fuel stations without the seal of the tax authority is subject to a penalty of GEL 1,500. Repeated offences within a 12-month period are subject to a penalty of GEL 15,000.
- Transporting goods that have a market value of GEL 10,000 or less without a proper bill of lading is subject to a penalty equal to the lesser of GEL 500. For a second offence within a 12-month period, the minimum penalty is 5,000.
- The penalties still apply if a bill of lading exists, but it lacks the date and number of the document, the name and identification number of the parties to the transaction, or information about the name and volume of the goods.
- The penalties will not apply to:
 - Transportation of initial agricultural products.
 - Regular transportation of gas or water.
 - Transportation of goods with appropriate customs documents.
 - Transportation of goods with a special VAT invoice that includes the details envisaged by the bill of lading exists.
 - Transportation of the marketing materials for free of charge distribution purposes which have no independent consumer specifications and are integral part of the delivery of the main product.
 - Transportation of precious metals and stones, if the task is performed with a special safe means of transport or is under control.
 - Persons who have the status of a micro business.
- The violation of taxpayer registration procedures is subject to a penalty of GEL 500.
- Resisting an authorised tax official who is observing the activities of a taxpayer is subject to a penalty of GEL 800. Repeated offences within a 12-month period are subject to a penalty of GEL 2,000.
- Disposal of seized property, removal of the seal of the tax authority or of the National Bureau for Enforcement without agreement of the tax authority 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.
- Revealing the shortage of inventory is qualified as their supply at market price. Besides, if the inventory shortage has been revealed by the tax authorities through stocktaking exercise it would additionally lead penalty 10% of market price of the revealed inventory

- The penalty for offences that are not subject to specific penalties is GEL 100.

VAT-specific penalties are discussed in section 11.8.

7.15. Tax settlements

In late 2009, the government introduced the concept of Tax Agreement. A Tax Agreement involves the possibility of concluding a tax settlement between a taxpayer and the Government:

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

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

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

7.16. Tax clarifications

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

7.17. Advance (binding) rulings

Any taxpayer may apply for an advance ruling for a completed or proposed transaction. The ruling must be issued within 90 days of the application. The ruling is binding on the tax authorities, but only for the taxpayer for whom it is issued.

The cost of applying for an advance ruling is GEL 10,000, except for resident individual persons, for whom cost is GEL 5,000.

Any taxpayer may as well apply to for the advance ruling on specific customs matters. In particular, advance ruling can be obtained on determining HS codes of the goods and country of origins of the goods. The ruling on mentioned matters are issued in 5 (cost -GEL 500), 10 (cost – GEL 250) or 30 calendar days (cost – free of charge).

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



Taxation of Corporations



8. Taxation of Corporations

8.1. New corporate tax system

General framework

From 1st January 2017 a new model of Corporate Income Tax (CIT) was enacted in Georgia, which represents the adoption of the Estonian model of CIT. The main purpose of the new CIT model is to encourage domestic and foreign investments by taxing the businesses when they will extract the profits. This means, that the retained profit will no longer be taxable until they are distributed. New model is mostly designated to defer the taxation moment.

Companies

Georgian entities and foreign entities doing business in Georgia through a permanent establishment will no longer need to determine taxable gross income and allowable deductions in order to arrive at the taxable profits. They rather should apply a standard CIT rate of 15% on grossed up profits once they are distributed or deemed distributed to shareholders being a non-resident or an individual.

Distributable profits should be determined as per financial accounting of the company.

Since 1st January 2019, organisations conducting economic activities are taxed under CIT on the taxable transactions of the new regime (except for profit distribution) in case such transactions are related to their economic activities and/or the purposes of the organisation.

Taxable transaction

According to new regime the following transactions are taxable subject to CIT:

- Profit distribution.
- Non-business expenses.
- Free delivery of goods/services and/or transfer of funds.
- Representative cost incurred over the certain limit.

Transfer pricing adjustment is deemed as a profit distribution and is subject to CIT.

Besides, the tax code lists type of operations related to the entities registered in the countries with preferential tax regimes and to the taxpayers exempt from Georgian CIT, which are subject to taxation:

- Purchase of debt securities issued by such entities.
- Payment of the contractual fines and penalties.
- Payment of advances.
- Provision of the loans.
- Acquisition of debt claim toward such entities.
- Losses derived from transfer the right of claim to such entities.
- Losses derived from discharging of claims receivable from such entities.
- Acquisition of shares/stocks of the non-residents and companies exempt from CIT and contribution into equity of such entities (Please note that here is concerned not only persons registered in the countries with preferential tax regime, but generally all non-residents).

The list of countries (or separate territories of certain jurisdictions) with the preferential tax regime is defined by the Georgian government.

CIT credit mechanism

It should be noted that the tax legislation introduces special mechanism in order to mitigate double taxation of the distribution of profit earned before 2017 (i.e. profits earned and taxed under old CIT regime).

In short, when a company distributes profits related to period 2008-2016, the law allows to credit the CIT paid under the old regime on the same profits. Credit amount should not exceed the actual payable amount on the profit distribution as per the new regime.

Exempt transaction

GTC also provides a list of the operations, which are not subject to taxation. It inter alia includes:

- Distribution of dividends to companies which are also taxable under the new CIT regime;
- Distribution of dividends which in turn are received from a foreign company, other than received from a non-resident registered in the country having preferential tax regime;
- Payments to shareholders in case of liquidation of a company or buy-out of

stocks/shares, when such payments do not exceed the contributions of the shareholders;

- Distribution of profit earned by the permanent establishment of a non-resident enterprise before 1st January 2017.

Dividends

While paying dividends to individuals and foreign entities not having a permanent establishment in Georgia the companies must withhold tax at a rate of 5%. A lower rate may apply under a relevant tax treaty.

As for the CIT due, it is determined at a flat rate of 15% applied on the grossed-up value of the taxable transaction. For instance, company paying net dividend in the amount of GEL 95 will withhold tax at 5% (i.e. $GEL\ 5 = 95 \times 0.05$) at source and will apply 15% on distributed dividend GEL 100 (i.e. $95 + 5$) through grossing up method (i.e. $GEL\ 17.65 = 100 \times 0.85 \times 0.15$).

Dividends paid between resident companies are exempt from income tax.

Territoriality

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

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

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

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

Consolidation

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

Permanent establishments

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

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

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

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

8.2. Incentives

Free industrial zone (FIZ)

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

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

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

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

International Company, Special Trade Company and Free Industrial Zone Company

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

A Free Industrial Zone Company is a registered entity located inside a FIZ that has confirmed its status with the tax authorities. Income received by a Free Industrial Zone Company from its permitted activities conducted in a Free Industrial Zone is exempt from profit tax. It should pay tax 4% on market price of the goods supplied to a person registered under the Georgian law (excluding on the supplies to other FIZ Company).

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

An International Company is a company that is engaged in specific IT services and has confirmed its

status with Georgian Government. Distribution of dividends by International Company is not taxed at source of payment. Salary income earned by an individual hired by an International Company is subject to reduced 5% personal income tax. CIT rate for the International Company is 5% and is exempt from property (except from land) tax on the property that is intended or used for the execution of its activities.

8.3. Old corporate tax system

Commercial banks, credit unions, insurance companies, microfinance companies and loan issuer entities are remaining under the old CIT regime till 1st January 2023.

Gross income

Accounting period

The reporting year for companies follows the calendar year.

Business profits

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

Accounting for income and expenses

The taxpayer may use either the cash or accrual method of accounting for tax purposes if 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.

Exempt income

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

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

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

Deductibility of expenses

Business expenses

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

Non-deductible expenses

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

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

Inventories

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

Depreciation and amortisation

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

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

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

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

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

For other assets, a pooling approach is used:

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

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

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

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

Expenses on fixed assets

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

Interest

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

No thin capitalization rules are applicable in Georgia.

Foreign exchange

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

Bad and doubtful debts

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

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

Royalties and services fees

Royalties and service fees are deductible payments.

Leasing

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

Before 2010, financial leases were treated as a sale for profit tax purposes. This treatment changed from 1st January 2010, the law was amended, and the same VAT and profit tax treatment generally applies to both financial and operating leases.

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

Employee remuneration

Employee remuneration is deductible.

Taxes

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

Losses

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

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

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

8.4. Related party transactions

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

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

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

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

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

New rule has been added to tax code according to which Georgian resident ultimate owner of the group consisting of multinational enterprises (note: aggregate consolidated income of the group should be more than EUR 750 mln.) is liable to submit the country by country report to the tax authorities. The deadline for submission is determined as 31st of December following the reporting year. First reporting period comes on 2020 with the deadline by 31 December 2021.

8.5. Other taxes

Excise tax

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

Excise tax applies to alcoholic drinks, tobacco products, raw tobacco and waste tobacco, automobiles, motorcycles, petroleum gas product and natural gas (except for pipeline), petroleum products, petroleum distillates and used oil products, biodiesel, liquid product of pyrolysis, oils and other products distilled at high temperature from coal tars, admixture, solvent, anti-detonator, lubricants, fluid for electronic cigarettes.

The export of excisable goods is taxed at 0%.

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

Land tax

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

Annual property tax rate for agricultural land varies according to the administrative unit and the land quality. The base tax rate per 1 hectare varies from

GEL 5 to GEL 100. The tax is further adjusted by a territorial coefficient of up to 150%, depending on the location.

The base tax rate payable on non-agricultural land that is used for economic activity (including rent) is GEL 5 per square metre, and the actual rate set by the relevant local government body should not be more than 150% of this rate.

Land located in a FIZ is exempt from land tax.

Property tax

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

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

- For assets acquired before 2000 (or if no acquisition information is available), the coefficient is 3.
- For assets acquired between 2000 and 2004, the coefficient is 2.
- For assets acquired in 2004, the coefficient is 1.5.

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

Property located in a FIZ is exempt from property tax.

8.6. Branch versus subsidiary

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

Dividends paid by a subsidiary are subject to 5% withholding tax, while, repatriation of income from branches is not subject to withholding tax.

8.7. Holding companies

There are no rules to permit the grouping or consolidation of income and losses among a commonly owned group.

Dividend income received from foreign company is not subject to tax.



Taxation of Individuals



9. Taxation of Individuals

9.1. Territoriality and residence

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

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

Tax residence

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

9.2. Tax rates

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

Dividends are subject to 5% tax.

Interest is subject to 5%.

Gross income

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

Employment income

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

- Goods or services sold to an employee for less than their market price.
- Life and health insurance and pension fund premiums or other similar payments made by the employer for the benefit of an employee.
- Reimbursement of an employee's expenses or payments for his or her family's benefit.
- Use of an employer's automobile for private use.
- Per-diems and accommodation expenses received in excess of the established norms.

- Interest advantage on loans granted by the employer at an interest rate lower than the market rate.
- Debt forgiveness by the employer.
- Assistance for education of an employee or his or her dependents, unless those training programs directly relate to the economic activity of the employer.

Employment income does not include the following:

- Business trip expense reimbursement within the defined limits;
- Reimbursement of representative expenses;
- Organized transportation of an employee by an employer from home to working place and vice versa, provided that the use of public transport is impossible, or such transportation implies incurring of unreasonable costs and/or time by the employee;
- Pension contributions made by the employer in favour of the employee under the Law of Accumulative Pension;
- Reimbursement of mandatory insurance premium by the employer to the employee;
- Provision of accommodation and/or catering services and/or reimbursement of relevant costs by the employer to the employee, provided that certain conditions are met.

Income from independent activities

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

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

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

Registered small businesses will pay a 1% turnover tax, with exemption from all other taxes. The tax rate increases to 3% if gross income earned by the business exceeds GEL 500,000. A small business is required to maintain only "purchases and sales journal" and cash registers in accordance with Ministry of Finance rules. A salary of up to GEL 6,000 paid in total during a calendar year by a person having the status of a small business to hired persons

shall not be taxed at source if there is one of the following conditions:

- he/she is registered as an individual entrepreneur and is granted the status of a small business within the same calendar year;
- the gross income he/she received during the previous calendar year does not exceed GEL 50,000.

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

A small business will lose its status if the gross income received from the economic activities of a person according to two calendar years exceeds GEL 500,000 in each calendar year or a person has been fined at least three times within a calendar year for the non-compliance with the cash register usage procedures.

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

Rental income

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

Gross revenue from renting out a residential area to organizations, legal entities and individuals for dwelling purposes is subject to 5% tax in case if the lessor does not carry out deductions from the aforementioned income and it refers to tax authorities to apply this regime.

Income from prizes and winnings

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

Investment income

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

Dividends are subject to 5% tax.

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

Gross royalties are subject to 20% tax.

Disposal of real estate and movable property

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

9.3. Tax-exempt income

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

- Income received from the sale of tangible assets that have been held for more than two years.
- Alimony.
- Income received by non-residents from financial leasing of property if it is not related to a permanent establishment they have in Georgia.
- Interest received on government bonds or from a bank.
- Gains derived from the sale of government bonds.
- the following transactions related to securities issued by a resident legal entity through public offering in Georgia and vested on the organized market recognized by the National Bank of Georgia:
 - Income received from supplying such debt securities.
 - Interest income received before 1st January 2023 from such debt securities.
 - Income received by supplying such participation securities.

9.4. Deductions

Business

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

Non-business

Georgia has no substantial personal deductions, allowances or credits.

9.5. Taxation of non-residents

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

9.6. Property tax

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

- immovable property.
- buildings and uncompleted construction.
- registered cars in Georgia (excluding heavy load vehicles).

- assets listed on the balance sheet (in case of conducting economic activity)
- Families with annual household taxable income of less than GEL 40,000 are exempt from property tax on their taxable property (excluding land). Taxable property owned by families with higher income is subject to tax at rates varying from 0.05% to 0.2% of the property value if annual family income is less than GEL 100,000 and from 0.8% to 1% of the property value if annual family income is GEL 100,000 or more.
- Owners of land located in Georgia and those who use state-owned land in Georgia are subject to property tax. Specific rates apply to land, depending on the location and fertility of the land.

Compliance

- If the gross income of a family exceeds GEL 40,000, an annual property tax return should be filed at the tax authorities according to the place of tax registration. Filing should be made before 1 November and the corresponding taxes should be paid before 15 November.
- The amount of property tax on land (commonly referred to as "land tax") is subject to assessment by the authorities and must be paid before 15 November.

9.7. Tax compliance

Obligations of withholding agents

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

However, the list of recipients who are not subject to taxation at source includes the following:

- Individual entrepreneur;
- Individual registered as a VAT payer;
- Notary;
- Private executive;
- Individuals having micro business / fixed payers' status.

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

Currently, withholding tax from payments to individuals must be transferred to the State Budget on

the same day that the individual is paid. If compensation is provided in non-monetary form, taxes should be paid to the budget no later than the last day of the month.

Tax returns from individuals

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

9.8. Pension fund

In August 2018, Law of Georgia on Accumulative Pensions entered into force.

According to the law, joining a pension scheme from 1st January 2019 became mandatory for all employees, except for:

- Individuals who have been 60 years/ in case of women - 55 years / before the enactment of the law;
- self-employed individuals.

Employees who had reached 40 years before enacting the Law had the right to refuse to participate in the pension scheme and request to opt out from it within five months from starting from Jan-2019. Pension scheme will be financed as follows:

- Each employer will transfer 2% of the employee's salary income to his/her private pension account while paying the salary.
- Each employer will transfer 2% of the employee's salary income to his/her private pension account on behalf of its employee.
- Each self-employed individual will transfer 4% of his/her annual income to the individual pension account.
- The government will transfer (i) 2% of the income of the participant to his/her private pension account when the annual salary of the participant/income of the self-employed individual is less than GEL 24,000; and (ii) 1% of the income of the participant when the annual salary of the participant/income of the self-employed individual is between GEL 24,000 and GEL 60,000. In case the annual salary of an employee/income of the self-employed individual is greater than GEL 60,000, the Government will only contribute to the extent of GEL 60,000.

Value Added Tax



10. Value Added Tax

10.1. Introduction

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

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

From 2021 new VAT regulations coming into force in Georgia. Legislative changes are a result of the EU-Georgia Association Agreement signed in 2014 by virtue of which Georgia took an obligation to approximate, among others, the Georgian VAT system with the EU VAT Directive.

As a result, significant changes have been introduced in Georgian VAT rules, among them:

- A definition of VAT taxable person has been broadened and formulated differently;
- A notion of a fixed establishment has been introduced;
- Certain aspects of mandatory VAT registration rules have been changed;
- Concepts of supply of goods and services has been defined differently;
- The rules of place of supply has been significantly changed and concepts of Business-to-Business (B2B) and Business-to-Customer (B2C) supplies have been introduced;
- Changes affected certain aspect of VAT chargeable amount, the moment when VAT becomes chargeable and input VAT deduction rules;
- A new approach of VAT treatment has been introduced in relation of transfer of going concern, corporate reorganizations and in-kind contribution of goods/services into equity;
- Rules governing VAT refunds for EU based businesses has be reformulated;
- VAT rules has been established in relation to non-Georgian established businesses providing digital services to Georgian consumers along with the relevant compliance procedures;

10.2. Taxable threshold

Taxpayers are required to register for VAT if their sales for the 12 preceding calendar months exceeded

GEL 100,000, or if they produce or import excisable goods.

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

VAT exempt transactions do not count towards determination of GEL 100,000 threshold. However, starting from January 2021, the following VAT exempt transactions will need to be considered while calculating the GEL 100K threshold:

- Financial operations or operations related to immovable things, if they represent the main business activity of a taxable person;
- Exportation of goods;
- Other types of exempt transactions which among others include transportation of goods/passengers.

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

In addition, a foreign established taxpayer who has a fixed establishment in Georgia should register as a VAT payer in Georgia from the first taxable supply.

10.3. Scope of VAT

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

- Supply of goods and services for consideration where the place of supply is in Georgia; and
- Importation of goods into Georgia.

Besides, the following transactions are also subject to VAT:

- Free of charge supply of goods/provision of service by the employer to the employee;
- Free of charge supply of goods, on which taxpayer has previously claimed a VAT deduction;
- Free of charge supply of service if such supply does not serve the business purpose of the taxpayer.
 - Self-construction of building or repairment of own building if a taxpayer has operations exempt from VAT without right to credit.

Place of supply for goods

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

Place of supply for services

Under the new VAT law, general place of supply rules are as follows:

- Where B2B sales are concerned, place of supply is determined according to the place where service recipient is established;
- Where B2C sales are concerned, place of supply is determined according to the place where service provider is established.

Apart from general rules, the law defined particular rules with respect to certain services for which place of supply should be determined differently.

VAT on importation

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

45 days payment deadline applies for import of specific fixed assets/goods under the national Commodity Nomenclature of Foreign Economic Activities Codes 8401 – 9033.

10.4. VAT-exemption with credit

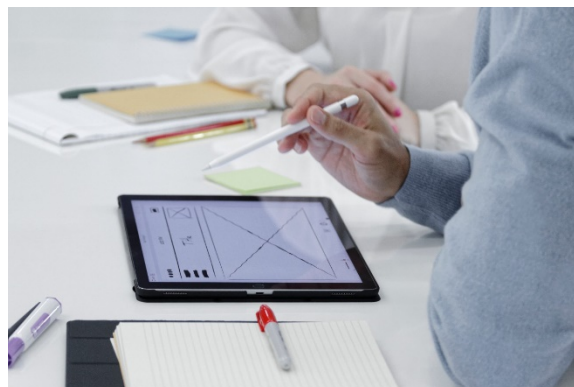
Until 2010, certain goods and services were subject to 0% VAT. Under the new tax code that took effect from 1st January 2011, such transactions are now referred to VAT-exempt transactions with the right to credit (input tax).

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

10.5. Transactions outside the scope of VAT

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

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



10.6. Exempt supplies without right to credit

A number of transactions are exempt from VAT without the right to credit, including, but not limited to:

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

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

10.7. Taxable amount

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

When free of charge supply of goods or services are subject to VAT, the taxable base is determined based on the value of the costs of such goods/services.

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

10.8. Non-deductible input VAT

The general rules for VAT input tax credits are:

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

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

An input tax credit may not be claimed for:

- Goods and services intended for non-economic activities.
- Expenses related to charity, social and entertainment events.
- Invoices that do not allow the seller of the goods or services to be identified, or that are not included in a VAT return by the end of the calendar year in which goods or services were acquired.

10.9. VAT compliance

Information on VAT invoice

A VAT-registered person is required to issue a VAT invoice for every taxable sale of goods or services made to another VAT-registered person. In case of supply to final consumer, it should be issued upon request.

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

VAT liability

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

Reverse charge

Services supplied in Georgia by non-residents that are not registered in Georgia are subject to a VAT reverse charge. The VAT registered recipient must include the transactions in their VAT return for the month and at the same time is entitled to claim input tax credit for the assessed tax in the same month providing that it does not have turnover exempt from VAT without right to credit.

Taxpayers not registered as a VAT payer must pay the corresponding VAT to the budget on the 15th day of the following month.

Returns and payments

The VAT accounting period is a calendar month. A taxpayer is obliged to submit a VAT return to the local tax authorities and pay VAT tax within 15 days after the end of the accounting period.

Penalties

A number of specific penalties apply for VAT offenses:

- A penalty of 200% of credited amount 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 5% of the VAT taxable operations.
- Failing to provide the purchaser of good or services with a VAT invoice upon request is subject to a penalty of 100% of the VAT amount for the sale.

Refunds

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

A VAT payer of an EU member state is entitled to the refund of VAT paid, when purchasing goods (other than real property) and/or services in Georgia, or when importing goods to Georgia subject to the conditions set out in the Georgian Tax Code.



PwC Globally and in Georgia



11. PwC Globally and in Georgia

11.1. PwC worldwide organisation

PricewaterhouseCoopers Global (PwC) is one of the world's most extensive networks of professional services firms. In its current form, the network of firms was established in 1998 through the merger of Price Waterhouse and Coopers & Lybrand, both of which were headquartered in London.

PwC Global operates in 155 countries and employs more than 284 000 people. PwC helps organisations and individuals create the value they are looking for, by delivering quality in assurance, tax, legal and advisory services.

Firm's clients range from the world's leading multinational companies to new and growing enterprises, from large family businesses and governments to NGOs, and private individuals. The company aims to create trust in society and solve important problems.

11.2. PwC in Georgia

PwC has been serving clients in Georgia since 1996, and in September 2005 opened an office in Tbilisi. Over the past years, the Firm has made significant investments in the local economy and community and will continue to do so. Having started with 15 people, PwC Georgia now employs over 110 staff. PwC Georgia serves business organizations, government bodies and public associations bringing to them the benefit of 170 years of expertise, high end knowledge, and practical experience accumulated in PwC globally.

From the base of core services – assurance and tax advice – over the past few years PwC Georgia has responded to the needs of the clients by expanding their capabilities into the areas of legal advice, business advisory services and training, through the PwC Academy. In addition to the quality of the services PwC provides to the clients, they are fully committed to the development of their people. In the past years PwC Georgia has trained and developed a large number of high-quality professionals, and thus contributed in development of business community in Georgia.

The Firm's continuous presence in the region has been possible as a result of our vision and commitment and PwC Georgia's continues work to support the country on its journey to prosperity.



Lasha Janelidze
Country Managing Partner & Assurance Leader
lasha.janelidze@pwc.com

Audit & Assurance

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

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

Assurance Services



Nino Kadagishvili
Assurance Director
nino.kadagishvili@pwc.com

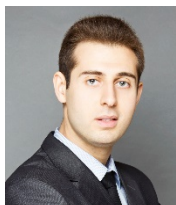
Audit

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

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

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

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



Levan Kankava
Director & Service Leader
levan.kankava@pwc.com

Financial services

We focus on the future of financial services, effectively working with clients as they reevaluate their strategies in light of the COVID-19 pandemic, while advising on key issues such as the impact of risk and regulation, cyber and financial crime, new technologies and FinTech, and the changing face of the customer.



Sergi Kobakhidze
Tax & Legal Partner
sergi.kobakhidze@pwc.com

Tax Services

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

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

Specific tax areas where we can assist include:

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

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

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

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



Shota Kvachakidze
Service Leader
shota.kvachakidze@pwc.com

Systems and Process Assurance (SPA) and IT Services

Our systems and process assurance (SPA) practice provides services related to controls around the financial reporting process, including financial business process and IT management controls.



Nana Chkhobadze
Service Leader
nana.chkhobadze@pwc.com

Capital Markets and Accounting Advisory Services

PwC's capital markets and accounting advisory services (CMAAS) professionals advise our clients across the deal spectrum to capture value. With a consulting mindset, we solve our clients' complex accounting and financial reporting issues around deals or other transformational events.



Tamta Shermadini
Consulting Director
tamta.shermadini@pwc.com

Consulting 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.
- Public Sector services.

corporate income tax, indirect tax, property and land tax compliance, and payroll.



Vano Gogelia
Service Leader
vano.gogelia@pwc.com

Legal Services

PwC Georgia Legal Services offers a full range of legal support in corporate and commercial law, corporate reorganizations, corporate secretarial work, M&A, competition compliance & litigation, secured transactions, employment law, immigration, construction law and other.

Corporate Governance: Corporate legal framework in Georgia is quite liberal and unrestrictive, but at the same time does not provide proper guidance how to resolve range of corporate legal matters. We are not only up to date with the current corporate law requirements but provide best practice advice fitted and suited to client's individual needs. Our services include the following:

- Providing full legal support in relation to entity set-up;
- Advising on corporate forms and structuring;
- Drafting corporate charters, shareholder agreements, by-laws;
- Registration of corporate changes, directors, shareholders, legal address, etc.;
- Arranging for translation, notarization, apostil certification and filings with Public registry and other relevant authorities;
- Drafting Shareholder and Board Director Resolutions;
- Arranging Shareholder Meetings; preparing Minutes of the Meetings;
- Providing advice in relation to general compliance with corporate governance requirements.

Employment matter: Employment law in Georgia has undergone significant changes in recent years, becoming more demanding for employers. Our team has extensive experience in employment matters, has been at the forefront of the changes and is best positioned to advice on the ways to achieve the employment objectives set by the clients.

- Drafting employment contracts, templates/standard contracts for employees including for executive level employees.
- Drafting and advising on employee handbooks and policies.
- Advising on employment termination, vacation, leaves, over-time hours, working conditions, etc.
- Negotiations with trade unions, employees.
- Representation in non-complex employment disputes.

Routine Commercial Matters: We assist clients in all aspects of their routine commercial operations. Our lawyers have extensive experience in drafting complex and non-complex commercial agreements, assisting clients in negotiations, advising on proper legal instruments to achieve their business objectives.

- Drafting, advising and reviewing on non-complex security, suretyship, mortgage, pledge agreements.
- Drafting, advising and reviewing ongoing, non-complex sale and purchase agreements.
- Filings with Public Registry and other immovable property.
- High-level checks of the legal standing of the contracting parties, mortgage/pledge on their property, tax obligations, public restrictions, etc.
- Assistance in day-to-day non-complex negotiations with contractors, suppliers, purchasers, customers, etc.

Immigration: We deal with our clients' immigration matters on daily basis and help them bring their professionals in Georgia. We liaise with the Ministry of Foreign Affairs as well as with other relevant authorities and provide clients with swift advice on how to obtain and maintain legal presence of their personnel in Georgia.

- Advice on visas, residence permits, work permits, citizenship issues.
- Liaising with the Public Registry.
- Filings and applications to obtain respective documents.

Regulatory Compliance: PwC Georgia through its Assurance, Advisory, Tax & Legal service lines cover all major business industries and sectors. Our professionals have in-depth knowledge of the industry developments and regulations. No matter in which industry you are operating, we can add value by bringing to you updates and developments and provide advice to get and maintain compliance with applicable regulatory requirements.

- Advice on regulatory changes and impacts on the specific business activities of the client.
- Non-complex compliance checks with the respective legal requirements.
- Liaising and representing the client with the regulatory bodies.
- Filings, applications and secretarial support to maintain compliance with the respective regulations.
- Support during the regulatory supervisions and/or inspections.
- Advice with respect to licenses and permits.

Data Protection: The State Inspector's Service is charged to oversee compliance of private companies with respective data protection and privacy requirement. We liaise with the Inspector's Service and regularly update our clients on new policies and requirements that they need to comply with.

Full legal support on Personal Data Protection matters, including advice on duties of the Personal Data controller, Trans-border flow, filing system, catalogues registry, data security etc.

Advice on what information can be gathered by the companies, stored, maintained, and how respective requirements shall be complied with

Representing the companies with The State Inspector's Service

Filings, applications and representation during the Data Trans-border transaction permit obtaining process.

Appendix 1: Tips for business visitors and useful links

Travel to and within Georgia

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

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

Kutaisi International Airport also known as David the Builder (David Agmashenebeli) Kutaisi International Airport was officially opened in 2012, it is located 20 km west of Kutaisi. This is the first International Airport which offers customers low cost-airline services. Headquarters of most companies are in Tbilisi, a city of approximately 1.1 million people. Other major cities include Kutaisi, Telavi, Rustavi, Batumi, and Poti. Below are approximate travel times by car to these destinations:

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

Travel by train is possible to most locations in western Georgia.

Normal business hours

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

Statutory holidays

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

Independence Day is celebrated on 26 May, as 26 May 1918 was the date of independence from Soviet Russia. The date of independence from the Soviet Union was 9 April 1991.

Due to Covid-19, days between 3 and 6 January 2021 as well as between 8 and 15 January 2021 were determined as public holidays.

Useful links

Parliament of Georgia
www.parliament.ge

Ministry of Finance of Georgia
www.mof.ge

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

National Bank of Georgia
www.nbg.gov.ge

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

Georgian National Investment Agency
www.investingeorgia.org/

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

American Chamber of Commerce
www.amcham.ge

Appendix 2: Taxes at a glance

Standard tax rates		As of 31 October, 2019
Personal income tax		
• Salaries and employer-provided benefits (withheld at source)		20%
• Other income not from economic activity (rental income, sale of assets)		
Corporate income tax		15%
Value added tax		0% or 18%
Property tax – individuals		Up to 1%
Property tax – corporate		Up to 1%
Customs duties		0%, 5% or 12%
Dividends paid to resident individuals and non-resident entity		5%
Dividends paid to resident companies		0%
Interest paid by a licensed financial institution		0%
Interest paid by a private entrepreneur		5%
Interest paid by a legal entity that is not a licensed financial institution (this is a final tax for individuals and a creditable tax for legal entities)		5%
Management fees		10%
Insurance premiums paid to non-residents		0%
Royalties		5%
Income from international transport or international communications		10%
Income from oil and gas operations		4%
Other Georgian-source income that is not connected to a permanent establishment a foreign company has in Georgia		10%


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

*Commercial banks, credit unions, insurance companies, microfinance companies and pawnshops will switch to new CIT regime after 1 January 2023. Therefore, those entities must file annual corporate income tax return on 2018-2022 reporting period.

Appendix 3: Withholding taxes at 30 November 2020

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 rate applicable under domestic law, which is 5%. Therefore, where a cap exceeds 5% under the treaty, the applicable rate would be 5%.

	Dividends	Interest (1)	Royalties
Country	%	%	%
Non-treaty	5%	5%	5%
Armenia	5% / 10%	10%	5%
Austria (2)	0% / 5% / 10%	0%	0%
Azerbaijan	10%	10%	10%
Bahrain	0%	0%	0%
Belarus	5% / 10%	5%	5%
Belgium	5% / 15%	10%	5% / 10% (3)
Bulgaria	10%	10%	10%
China	0% / 5% / 10%(2)	10%	5%
Croatia	5%	5%	5%
Cyprus	0%	0%	0%
Czech Republic	5% / 10%	8%	5% / 10% (4)
Denmark	0% / 5% / 10%(2)	0%	0%
Egypt	10%	10%	10%
Estonia	0%	0%	0%
Finland	0% / 5% / 10%(2)	0%	0%
France	0% / 5% / 10%	0% (5)	0%
Germany	0% / 5% / 10%(6)	0%, 5%	0%
Greece	8%	8%	5%
Hungary	0% / 5%	0%	0%
Iceland	5% / 10%	5%	5%
India	10%	10%	10%
Iran	5% / 10%	10%	5%
Ireland	0% / 5% / 10%	0%	0%
Israel	5%	0% / 5%	0%
Italy	5% / 10%	0%	0%
Japan	15%	0%/10%	0%/10%
Kazakhstan	15%	10%	10%
Korea	5% / 10%	10%	10%
Kuwait	0%/5%	0%	10%
Latvia	5%/10%	5%	5%
Liechtenstein	0%	0%	0%
Lithuania	5% / 15%	10%	10%
Luxemburg	0% / 5% / 10%	0%	0%
Malta	0%	0%	0%
Moldova	5%	5%	5%
Netherlands	0% / 5% / 15%(2)	0%	0%
Norway	5/10%	0%	0%
Poland	10%	10%	10%
Portugal	5% / 10%	10%	5%
Qatar	0%	0%	0%
Rumania	8%	10%	5%
San-Marino	0%	0%	0%
Saudi Arabia	5% / 0%	5% / 0%	5% / 8%
Serbia	5%/10%	10%	10%
Singapore	0%	0%	0%
Slovakia	0%	5%	5%
Slovenia	5%	5%	5%
Spain	0% / 10%	0%	0%
Sweden	0%/10%	0%	0%
Switzerland	10%	0%	0%
Turkey	10%	10%	10%



Turkmenistan	10%	10%	10%
Ukraine	5% / 10%	10%	10%
United Arab Emirates	0%	0%	0%
United Kingdom	0% / 15% (7)	0%	0%
Uzbekistan	5% / 15%	10%	10%
<div> <div> 1. Some agreements define 0% rate on the interest paid by the government or any of its units or on the interest guaranteed by them; given table doesn't consider the similar provisions. 2. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than EUR 2 million. 3. Royalty rate paid for the enterprise is 5%. 4. 0% rate refers to the copyright, any literature, art or scientific works (except the software) and films and records; 5% rate refers to lease of techniques. </div> <div> 5. The 0% rate applies to interest on bank loans and commercial credits. 6. The 0% rate applies if the German company owns at least 50% of the Georgian company and has invested more than EUR 3 million. 7. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than GBP 2 million. </div> </div>			

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