



## WHAT ARE THE MOST COMMON INTERCOMPANY TRANSACTIONS IN GEORGIA?

Intercompany transactions are widely considered to be the backbone of multinational companies. Even though the vast majority of multinational companies enter into intercompany transactions on a regular, even daily basis, it is important to know when these transactions fall into the realm of Georgian transfer pricing (“TP”). According to the Georgian Tax Code (“GTC”), an inter-company transaction is subject to TP inspection if the counter-party of the transaction is a related party or a resident of low tax jurisdiction. Group entities are considered to be related parties, if one entity actually controls the business decisions or owns over 50% of another entity or if same entities participate in the management, control or capital of other enterprises. As for the low tax jurisdiction, it is defined as a territory where the corporate income tax does not exceed 5%, or is fully relieved. The transactions with the enterprise, which is a resident of low tax jurisdiction is subject to TP inspection, irrespective of whether the parties are related or not.

Based on our experience, the most common inter-company transactions with related parties and residents of low tax jurisdiction documented in Georgia are the following: receiving or provision of back office support services, purchase/sale of products, manufacturing activities, inter-company financing, license of intellectual properties (e.g. royalty payments for trade-mark, software license payments etc.), secondment, expatriation, guarantee fee payments, corporate cost allocations etc. In this article, we discuss three inter-company types of transactions that PwC Georgia encounters most frequently:

### Management and back office support services

It is common practice for multinational companies to attempt to find the optimal way of structuring its business, whether that be to save money or increase overall efficiency. For this reason, headquarter companies, regional hub entities, shared service centres, etc. might centralize certain management and back office support services. These services are then standardized as far as possible and subsequently provided to entities globally or regionally, depending on the size of the group and the overlap in the services.

In general, the types of services which we tend to see being centralized include management of human resources (“HR”), information technology (“IT”) services, finance, tax, accounting, marketing, legal and other business support services. In practice, a Georgian based company would normally receive such services when it either complements or enhances its local functions or if the local company does not have the functions at all.

For example, in case of HR services, the foreign related service provider might be responsible for putting in place all the required processes related to HR management, such as how the recruiting procedures should be managed, personnel management, remuneration, insurance etc. The local Georgian entity would then subsequently be responsible for implementing the processes, with some assistance from the foreign related service provider.

In case of IT services, usually the group policy is to standardize the systems used by the group entities, which is beneficial in terms of cost efficiency and integration of the group’s organizational structure, harmonization of the business models and the maintenance and in time replacement of outdated information systems. The same benefits are received from provision of centralized finance, tax, accounting, marketing and legal services.



However, in most cases, some of the daily operations of these functions are managed locally, and some of the strategic management functions that are based on global guidelines generally for the entire group, are provided through management personnel located in different geographic regions. For example, specific employees might be assigned to develop standardized risk or remuneration policies for the group, certain employees might be designated to group employee development and training, etc.

Apart from this, a company, which is depended for its success on availability of personnel with specific knowledge or expertise, might lack the employees locally. If this is the case, certain enterprises might reach out to foreign group entities to receive assistance in terms of assigning specialists, receiving necessary trainings or guidance or might completely sub-contract specific services to the foreign related parties. These type of transactions are also classified as provision of inter-company services and are subject to Georgian TP regulations.

When considering that any amount paid for management and back office support services is technically a pre-tax amount, the large scope that some of the services could have, and the various ways in which the services could be priced, is a constant area of investigation for both the GRS as well as revenue services around the world. The fact that almost every entity, which forms part of a larger group, receives management services, it further increases the focus on this transaction.

## Purchase of goods, both as raw materials and finished products

Another inter-company transaction that is often documented is the purchase of goods from related entities. The purchased products might include raw materials, spare parts or any other finished or semi-finished goods, which primarily refers to purchase of inventory. Purchased goods further might be used either for local production or resale purposes. Apart from this, purchased goods might include all the machinery and equipment employed by the local entities in day-to-day activities as well as the goods they produce. Group-wide procurement of goods is beneficial practice for multinational enterprises, since in terms of economy of scale it might be cost-efficient and at the same time complied with group quality requirements.

Based on our experience, more frequently, local entities import goods into Georgia from its related parties in neighbouring countries primarily for distribution purposes however, the goods might also be employed into the local manufacturing process. Purchased goods are imported into Georgia primarily using ships, which attracts additional attention from the Georgian tax authorities as this affects customs and VAT as well.

## Intercompany financing

In order to support steady business operations, make large investments, expand its operation or cover adverse cash flow, the majority of multinational groups makes use of inter-company financing. Taking into account that in most cases large amount of funds are available within the group, in treasury or even holding companies, obtaining funding from within the group is normally easier to obtain, in most cases less expensive and more flexible than traditional funding from financial institutions. Funding can also be set up with different terms such as fixed or floating rates as well as different currencies, further increasing the flexibility of the funding.

Considering that intercompany financing does fall within the ambit of the Georgian TP regulations, the interest rate, as well as the terms of the financing, should be set in line with the arms' length principle. During the last year, we have noticed a sharp increase in the amount of questions asked and disputes opened by the GRS concerning intercompany financing.



## Have you looked at your company's transactions?

Interacting with other entities within a multinational group is one of the biggest benefits of being part of a group however, these types of inter-company transactions might be subject to TP regulation in Georgia, according to the GTC. Based on our experience, the focus of the GRS has increased significantly in recent times, focusing on a wide arrange of intercompany transactions. With the increase in attention from the GRS, has your company considered which of its transactions are subject to Georgian TP regulations? Are your company's intercompany transactions documented in enough detail based on what the GRS require?

PwC Georgia has one of the best transfer pricing teams in Georgia with an extensive experience both in the Georgian as well as international markets, which consists of a local director and two managers. Our team offers a full scale of TP consulting services to multinational enterprises operating in Georgia and arranges meetings with the companies who are still uncertain whether their business is affected by the Georgian TP regulations or not.

## **In case of interest, the PwC Georgia Team is ready to answer your questions:**

**Sergi Kobakhidze**  
**Director, Tax Services**

Tel.: (+995 32) 250 80 66  
Email: [sergi.kobakhidze@pwc.com](mailto:sergi.kobakhidze@pwc.com)

**Ben Pietersen**  
**Manager**

Tel.: (+995 32) 250 80 50  
Email: [ben.pietersen@pwc.com](mailto:ben.pietersen@pwc.com)

**Anastasia Kipiani**  
**Manager**

Tel.: (+995 32) 250 80 50  
Email: [anastasia.kipiani@pwc.com](mailto:anastasia.kipiani@pwc.com)

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with over 255,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com). PwC refers to Georgia member firm, which is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

© 2019 PricewaterhouseCoopers Georgia LLC. All rights reserved