

Doing business and investing in Georgia



Tbilisi by Elene Akhvlediani

2017 edition

Guide to doing business and investing in Georgia

2017 Edition

The information in this book is based on taxation law, legislative proposals and current practices, up to and including measures passed into law as of 31 October 2017. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

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Partner letter

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

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

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

The Tbilisi office now employs about 100 professional staff with internationally recognised qualifications and western standard methodologies. We are providing different lines of service: Assurance, Advisory, Tax, Legal, Accounting. Our clients represent a variety of businesses from international and government enterprises to financial institutions.

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



Altaf Tapia
Managing Partner

Office location in Georgia



PricewaterhouseCoopers Georgia LLC

King David Business Centre, 7th floor
#12 M. Aleksidze Street
Tbilisi 0160, Georgia
T: +995 32 2508050
E: pwc.georgia@ge.pwc.com
W: www.pwc.com/ge



1 Georgia profile

1.1 Introduction

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

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

1.2 Government structure

The Head of State is the President. He is elected by popular vote for a five-year term. The current President is Giorgi Margvelashvili, sworn on 17 October 2013.

Legislative power is exercised by a single-chamber Parliament, which consists of 150 seats. Seventy-three members are elected by their districts and 77 members are proportionally represented. Each member serves a four-year term.

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

1.3 Legal system

Georgia is a civil law country.

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

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

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

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

1.4 People

Population

The population of Georgia is estimated to be 3.71 million as of January 2017.

Language

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

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

Religion

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

Living standards

Despite ongoing improvement, living standards in Georgia remain poor. The average monthly salary in 2016 was GEL 940 and it is estimated that more than 21.3% of the population lived below the poverty line.

Unemployment

The official (registered) unemployment rate at the end of 2016 was 11.8%. However, unofficial estimations place the unemployment rate significantly higher.

Tips for business visitors and useful links

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



1.5 Economy

General

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

Following the Rose Revolution of 2003, Georgia has undertaken a series of progressive reforms including anti-corruption efforts, reforms of labour and tax codes, and improvements to the general infrastructure of the country. In the World Bank's Doing Business 2017, Georgia was ranked as the 16th friendliest country in which to do business, out of 190 countries worldwide. The reforms to the Georgian economy have resulted in a large influx of foreign direct investment, positive GDP growth and curtailment of inflation.

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

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

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

Natural resources

Georgia has vast natural resources. Among these are forests and hydropower as well as copper, gold, and manganese. There are minor deposits of coal and oil.

The coastal climate and soils enable the growth of tea, citrus, and grapes.

Transit pipelines

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

- The **Baku-Supsa pipeline** (GPC-Georgian Pipeline Company) runs 814 km from Baku to Supsa (444 km in Azerbaijan and 370 km in Georgia) and transports "early oil" from the Caspian Sea region operated by the AIOC (Azerbaijan International Oil Company) consortium off the coast of Azerbaijan. Initial line capacity is 115,000 barrels per day but could be increased to approximately 200,000 barrels per day with additional pumping stations. There are four 40,000 ton storage units at Supsa. Kazakh gas is also transported through the Baku-Supsa pipeline.
- The **Baku-Tbilisi-Ceyhan (BTC) oil pipeline** extends 1750 km across Azerbaijan, Georgia, and Turkey and is designed to transport up to one million barrels of Azeri oil per day. The oil is transported via Georgia to the Turkish port of Ceyhan.
- The **South Caucasus Pipeline (SCP) System** project was completed in late 2006. The initial capacity of the pipeline was 8.8 billion cubic meters (bcm) of gas per year. As part of the transit payment, Georgia will receive 5% of the volume of natural gas transited from Azerbaijan to Turkey.

Transport

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

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

The total length of Georgia's highways is 20,229 km, of which 1,474 km are international roads. Harmonisation of the certification and technical

standards of Georgia with those of the EU, drastic anti-corruption measures, improvements in the customs administration, and the introduction of the "green corridor" regime with Turkey has resulted in an increase in the flow of road transport through Georgia.

Georgia possesses operational airports and airfields in Tbilisi, Kutaisi (Kopitnari), Senaki and Batumi. Tbilisi, Kutaisi and Senaki are the main facilities, providing 97% of all services. Georgia also possesses numerous secondary and minor airfields.

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

- **Poti Port** occupies 49 hectares, has modern cargo handling facilities and meets European standards. In 2003, the port obtained the ISO 9001:2000 Quality Management System Certificate and has also been awarded an IQNET Conformity Certificate. The port has permanent railway-ferry connections with ports of Ilichevsk (Ukraine), Samsun (Turkey), Varna (Bulgaria), and Kavkaz (Russia), and is linked by direct motorway ferry lines to Novorossisk (Russia), Burgas (Bulgaria), and Rize (Turkey).
- **Batumi Port** occupies eight hectares. It has primarily handled bulk cargo, although it has been rapidly increasing its dry cargo processing. The port has the capacity to handle 15-18 million tons of oil products and 2.5 million tons of dry cargo each year.

Communications

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

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

Tourism

Georgia's tourism sector is growing constantly. In 2016 the increase of visitors to Georgia represented 7.7% compared to 2015. The government is encouraging investment in infrastructure, including incentives granted for hotel development in new tourism areas in Kobuleti and Anaklia. The USAID Vocational Education Program has also resulted in two hospitality training centers being established to introduce international standards of hospitality management in Georgia.

1.6 Foreign trade

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

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

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

Table 1: Key economic indicators

	2014	2015	2016
GDP (USD billion)	16.5	13.99	14.33*
GDP growth	4.60%	2.90%	2.70%*
GDP per capita (USD)	3.68	3.77	3.85*
Inflation (year-end)	2.00%	4.90%	1.80%
Officially registered unemployment (year-end)	12.40%	12.00%	11.80%
USD/GEL exchange rate (average)	1.766	2.269	2.367
Foreign direct investments (USD million)	1,758.4	1,564.5	1,565.9
External debt (USD million)	13,852	15,083	15,689
Exports FOB (USD million)	2,861	2,205	2,113
Imports CIF (USD million)	8,602	7,300	7,294
Foreign Exchange Reserves (USD million)	2,491	2,321	2,563

*Preliminary data

Source: GeoStat, National Bank of Georgia

2 Business and investment environment

2.1 Business climate

Following the Rose Revolution in 2003, the Georgian government increased efforts to reduce corruption in public and private sectors and sought to meet international standards. These efforts have resulted in significant improvements in Georgia's ranking in the World Bank's *Doing Business Survey* till the recent periods. In 2014 Georgia is ranked 15-th place after 8-th in 2013.

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

Georgia is continuing its reform program and various performance improvements are reflected in the World Bank's 2011-2017 *Doing Business Survey*:

DB 2017:

Georgia made import and export documentary compliance faster by improving its electronic document processing system. It also introduced an advanced electronic document submission option.

Georgia improved the quality of land administration by increasing coverage of all maps for privately held land plots in the main business city.

Georgia made paying taxes easier by cancelling additional annex to corporate income tax returns and by improving the efficiency of the online system used for filing VAT returns.

DB 2016:

Georgia made dealing with construction permits easier by reducing the time needed for issuing building permits.

Georgia made enforcing contracts easier by introducing an electronic filing system for court users.

DB 2015:

Georgia reduced the maximum duration of fixed-term contracts and introduced a notice period for redundancy dismissals.

DB 2014:

Georgia improved its credit information system by implementing a new law on personal data protection.

DB 2013:

Georgia reduced the time to export and import by creating customs clearance zones.

Georgia made paying taxes easier for companies by enhancing the use of electronic systems and providing more services to taxpayers.

Georgia strengthened its secured transactions system through an amendment to the civil code allowing a security interest to extend to the products, proceeds and replacement of collateral.

Georgia expedited the process of resolving insolvency by establishing or tightening time limits for all insolvency-related procedures, including auctions.

Georgia made enforcing contracts easier by simplifying and speeding up the proceedings for commercial disputes.

Georgia made getting electricity easier by simplifying the process of connecting new customers to the distribution network and reducing connection fees.

DB 2012:

Georgia strengthened investor protections by introducing requirements relating to the approval of transactions between interested parties.

Georgia made paying taxes easier for firms by simplifying the reporting for value added tax and introducing electronic filing and payment of taxes.

Georgia expanded access to credit by amending its civil code to broaden the range of assets that can be used as collateral.

Georgia simplified business start-up by eliminating the requirement to visit a bank to pay the registration fees.

DB 2011:

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

Georgia strengthened investor protections by allowing greater access to corporate information during the trial.

Georgia improved insolvency proceedings by streamlining the regulation of auction sales.

Georgia made the enforcement of contracts easier by streamlining the procedures for public auctions, introducing private enforcement officers and modernizing its dispute resolution system

Tax rates are low:

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

3 Banking, finance and insurance

3.1 Banking system

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

National Bank of Georgia

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

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

Banking sector

At the end of 1994, Georgia had 228 banks. Many of these have since been liquidated, as a result of efforts to increase transparency, improve the quality of assets and services, and strengthen the banking system generally. As of 31 October 2017, there are 16 commercial banks in Georgia, with total assets of GEL 30 billion. Many banks have foreign participation.

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

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

3.2 Foreign currency rules

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

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

The official website is www.gse.ge

4 Importing and exporting

4.1 Trends in customs policy

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

4.2 Import restrictions

There are no restrictions on imports into Georgia (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

CIS countries, are taxed at a 0% rate. Except for construction materials and agricultural products, all kinds of raw materials and equipment delivered to Georgia are exempt from custom fees.

Excise tax

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

Value added tax

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

In most cases, VAT is required to be paid within the period from 5 to 30 days after importing goods, depending on the conditions of the import.

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.

5 Legal Framework in Georgia

5.1 Incorporation

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

- **Joint Stock Company (JSC)** - a company whose capital 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 to the creditors as joint debtors.
- **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 labor 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 Enterprise (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.

The LEPL National Agency of Public Registry (Registry) effects the registration of all types of companies. The registration can be complete on the day that the required documentation is submitted if an interested party will pay 200 GEL, otherwise the terms for registration is 1 business day and the relevant fee consists 100 GEL. There is no restriction for the foreigners to establish a legal entity in Georgia.

In order to register the company, the following documents have to be submitted to the Registry:

- Application for registration.
- Partner 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.

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 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 submit an ID card and application for registration.

5.2 Employment Matters

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

The Labour Code sets forth the following main rules:

- Salaries and wages are subject to agreement between the parties.
- Labour Contract can be concluded for definite or indefinite period. A contract shall be in writing, if labour relations last for more than three months.
- Under Labour Code, employment contracts shall be concluded for one year longer, except in those case 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.
- 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.
- Employees are entitled to be paid maternity leave of 183 days. Maternity leave is paid from the sources of the Social Security Fund.
- The Labour Code provides for exhaustive list of the grounds for terminations 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 labour contract. The maximum of severance payment defined by Code equals to two months salary of an employee.
- A labour agreement may not establish norms different from those provided for by the Labour Code that may deteriorate employees' conditions.

5.3 Visas

Depending on the purpose of travel to Georgia, there are different categories of visas that will apply. 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. Besides, the total period of an alien's entry and stay in Georgia in any 180-day period shall not exceed 90 calendar days.

Certain international travelers 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 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>.

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 enter in Georgia and stay legally. 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 ground is employment relationship or business activities in Georgia – the Labor 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, provided that the total validity term of Temporary Residence Permit should not exceed 6 years.

5.4 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.

5.5 Restrictions on purchase of Agricultural Land Plots

Under the Constitution of Georgia generally the owners of any agricultural land in Georgia can be only State, self-government body, citizen of Georgia. An

organic law will provide exceptions from this general rule.

5.6 Currency Restriction

When offering and/or 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. One of the exception is when offering/advertising provision of service and/or goods by/to a non-resident person. According to the Administrative Offences Code of Georgia, violation of the rule entails warning of offeror or of the advertising customer. The same act committed repeatedly shall carry a fine of GEL 1000 and 5000 for each repeated breach.

5.7 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 private entity application, including by 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 a free industrial zone may be settled in any currency.
- A free industrial one enterprise and a Georgian enterprise shall be settle accounts in any currency.

Under the FIZ Regulations, all actives 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.

5.8 Commissions, penalties, other financial sanctions

Under the Civil Code of Georgia, the monthly interest rate on the mortgage loans of 1 000 GEL and above is subject to the limit published on the official website of

the National Bank of Georgia (NBG). This rule does not apply to the Financial Sector Representatives (FSR) of Georgia (e.g. commercial banks, micro finance organizations etc.). However, the NBG will be entitled to subject FSR to this rule.

The annual effective interest rate on the non-mortgage loan shall not exceed 100% of the loan principal. The same rule applies, when the period of the loan is renewed. This regulation also covers mortgage loans up to 1 000 GEL as well.

The total amount of commission, any financial expenses and penalties or any other financial sanctions accrued per day on the loan shall not exceed annual 150% of the residual principal amount of the loan. The lender shall not impose commissions and/or penalties for prepayment of loans exceeding 2% of the residual principal amount of the loan. This rule applies to the prepayments through refinancing and prepayments made from the borrower's own funds and/or by a third party.

5.9 Intellectual Property

The National Intellectual Property Center 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 tax 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 provides for mandatory registration for copyrights and therefore, the copyright on the work derives from the moments of its creation.

6 Accounting and audit requirements



6.1 Accounting

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

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

The functions of the Accounting Standards Commission are to:

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

Financial statements must be prepared by and submitted as follows:

- Taxpayers – annual financial statements must be submitted before 1 April to the relevant tax inspectorate.

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

6.2 Audit requirements

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.

Scope of Law

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.

Reporting Standards

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

Size of entity	Basis of accounting	Total value of assets GEL	Revenue GEL	Average number of staff
Very small	Special rules	< 1 m	< 2 m	< 10
Small	IFRS/IFRS for SMEs	> 1 m <10 m	> 2 m < 20 m	> 10 < 50
Medium	IFRS/IFRS for SMEs	> 10 m < 50 m	> 20 m < 100 m	> 50 < 250
Large	IFRS	> 50 m	> 100 m	> 250
PIE	IFRS	N/A	N/A	N/A

File accounts by 1 October	Audit	Management report	Effective from 31/12
✓	*	-	2018
✓	*	-	2018
✓	✓	A	2017
✓	✓	A	2017
✓	✓	A, B, C	2017

* **Exempt** unless covered by other legislation

** **Management report** – effective from 1 January 2018

A - Review of the entity's activities

B - Corporate governance statement – only needed if shares are listed on the stock exchange

C - Non-financial report - only needed for those PIEs which meet the large criteria and have more than 500 employees

PIEs - 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.

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 six in 2005.

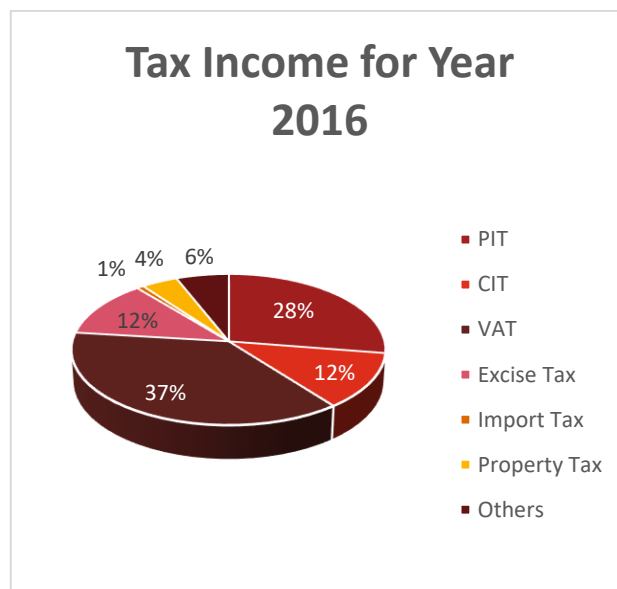
In 2010, another new tax code was enacted to take effect from 1 January 2011. The new code consolidated the tax and customs rules into a single code. In addition, the new code implemented further initiatives under three main objectives:

1. **Taxes should be simplified.** Special rules for individual entrepreneurs should encourage small businesses to legalise their operations. Registered micro businesses (annual turnover below GEL 30,000) will be completely exempt from tax. Registered small businesses (annual turnover below GEL 100,000) will pay a turnover tax of 3% or 5%.
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 Tax Ombudsman. Efforts were also made in the new code to improve the integrity of the administrative appeals process.
3. **Georgian tax legislation should be better aligned with international best practice and EU directives.** New transfer pricing rules were introduced, and the VAT rules were amended to adopt several measures from the EU VAT Directive.

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

7.2 Direct and indirect tax burden

Portion of the taxes accounted for just over 90.81% of government revenues in 2016. Taxes on income, profits and capital gains accounted for 39.49% of tax collections, while 49.58% came from taxes on goods and services, 10.93% 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, are set out in the tax code.

In general, international agreements prevail over local legislation.

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

Georgia does not follow case law.

7.5 Tax treaties

Georgia has 54 tax treaties in force as at 31 October 2017. A summary of withholding rates under the various treaties is provided in Appendix 3.

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

7.6 Administration of the tax system

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

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

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

Corporate income tax

From 2017 Georgia has switched to a new model (so-called 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 pawn shops will be affected by this new profit tax regime after 1 January 2019. Before that they should submit profit tax return by 1 April following the calendar month.

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

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

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

Payments of royalties to non-residents are subject to 5% withholding tax, though when the recipient is registered in black listed 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 for insurance are subject to 0% withholding tax.

Payments to non-residents that are not covered by the rates indicated above are subject to 10% withholding tax. For the payments performed to non-residents

registered in black listed countries the applicable tax rate will be 15%. The Government of Georgia determines the list of black listed countries.

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

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 of time and observing sales activity for a period of 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 the unpaid tax amount for each month past due (up to a maximum of 30% of the total tax due and subject to a minimum penalty of GEL 50).
- An understated tax liability results in penalties of 50% of the understated tax. If the understatement is a consequence of changing the accounting period of the tax liability, it will attract penalty 10% of the understated tax.
- Significant tax evasion (an understatement of more than GEL 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.

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

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

Penalties for other offenses include:

- If a taxpayer (other than a micro business) makes cash sales to customers but does not have a cash register, a penalty of GEL 200 applies.
- Failing to use a cash register in cash settlements with customers is subject to a penalty of GEL 200.
- Issuing cash receipt for an amount that is less than the actual payment is subject to a penalty of GEL 200.
- The loss of a cash register, if it cannot be demonstrated that the loss was caused by the unlawful action of another person, is subject to a penalty of GEL 3,000. Losing a second cash register within 60 days of the first loss is subject to a penalty of GEL 6,000.
- Using metering devices at fuel stations without the seal of the tax authority is subject to a penalty of GEL 1,500. Repeated offences within a 12-month period are subject to a penalty of GEL 15,000.
- Transporting goods that have a market value of GEL 10,000 or less without a proper bill of lading is subject to a penalty equal to the lesser of GEL 500. For a second offence within a 12-month period, the minimum penalty is 5,000.
- The penalties still apply if a bill of lading exists, but it lacks the date and number of the document, the name and identification number of the parties

to the transaction, or information about the name and volume of the goods.

- The penalties will not apply to:
 - Transportation of initial agricultural products.
 - Regular transportation of gas or water.
 - Transportation of goods with appropriate customs documents.
 - Transportation of goods with a special VAT invoice that includes the details envisaged by the bill of lading exists.
 - Transportation of the marketing materials for free of charge distribution purposes which have no independent consumer specifications and are integral part of the delivery of the main product.
 - Transportation of precious metals and stones, if the task is performed with a special safe means of transport or is under control.
 - Persons who have the status of a micro or small business.
- The violation of taxpayer registration procedures is subject to a penalty of GEL 500.
- Resisting an authorised tax official who is observing the activities of a taxpayer is subject to a penalty of GEL 800. Repeated offences within a 12-month period are subject to a penalty of GEL 2,000.
- The violation of seized property ownership, utilisation or disposal rules is subject to a penalty of GEL 4,000.
- Failing to submit accounting documents or other information to the tax authority required under the law is subject to a penalty of GEL 400. Repeated offences within a 12-month period are subject to a penalty of GEL 1,000.
- 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 submits an application 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 if the applicant's annual turnover exceeds GEL 10 million and for non-residents having no permanent establishment in Georgia, otherwise applying fee comprises GEL 5,000.

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.

8 Taxation of corporations

8.1 New corporate tax system

General framework

From 1 January 2017 a new model of Corporate Income Tax (CIT) was enacted in Georgia, which represents of 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.

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.

Exempt transaction

GTC also provides a list of the operations which are not be 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.

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. $GEL\ 5 = 95 / 0.95 * 5$) at source, and will apply 15% on distributed dividend GEL 100 (i.e. $95 + 5$) through grossing up method (i.e. $GEL\ 17.65 = 100 / 0.85 * 0.15$).

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.

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.



Tbilisi

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.

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

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

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

Incentives have been established for entities established as an International Financial Company, a

Special Trading Company or a Free Industrial Zone Company.

A Free Industrial Zone Company is a registered entity located inside a FIZ that has confirmed its status with the tax authorities. Income received by a Free Industrial Zone Company from its permitted activities conducted in a Free Industrial Zone is exempt from profit tax. 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 Financial Company is a financial institution that conducts most of its business with parties outside Georgia, and is located outside a FIZ. Profit received from financial services provided by an International Financial Company is exempt from profit tax, as are gains from the sale of securities issued by an International Financial Company.

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

8.3 Old corporate tax system

Commercial banks, credit unions, insurance companies, microfinance companies and pawn shops are remaining under the CIT regime till 1 January 2019.

Gross income

Accounting period

The reporting year for companies follows the calendar year.

Business profits

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

Accounting for income and expenses

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

Exempt income

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

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

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

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

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	20%

	equipment; electronic devices	
3	Railway, sea and river transport vehicles; power vehicles and equipment; thermal technical equipment; turbine equipment; electric engines and diesel generators; electricity transmission and communication facilities; pipelines	8%
4	Buildings and constructions	5%
5	Other assets	15%

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

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

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

For other assets, a pooling approach is used:

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

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

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

The cost of intangible assets is amortised over their useful using the straight-line method life if the useful life is determinable. If the useful life of an intangible

asset cannot be determined, a 15% rate applies. Each intangible asset is amortised separately.

Expenses on fixed assets

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

Interest

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

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. The lessor would recognise income from a sale of assets and revenues from financing. The lessee would deduct depreciation expense and financing costs.

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

There are some broader tax distinctions between operating and financial leases (as the term is defined in the 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 Financial 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 1 January 2011.

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

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

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

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

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

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

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

Excise tax is also applicable on telecommunication services.

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

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

Property located in a FIZ is exempt from land tax.

Property tax

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

For persons other than financial institutions and government-owned companies, the value of immovable assets is also multiplied by an indexation coefficient based on the age of the assets, unless the entity has financial statements that record fixed assets using revaluation methods (with the most recent revaluation no more than four years ago) and 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 another company is not subject to tax.

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

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%.

9.3 Gross income

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



Employment income

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

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

Income from independent activities

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

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

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

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

sales revenue. Any other salaries paid by a small business are exempt from tax.

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

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

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

Rental income

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

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 in 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.

9.4 Tax-exempt income

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

- Income received from the sale of tangible assets that have been held for more than two years.

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

9.5 Deductions

Business

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

Non-business

Georgia has no substantial personal deductions, allowances or credits.

9.6 Taxation of non-residents

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

9.7 Property tax

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

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

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

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

Compliance

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

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

9.8 Tax compliance

Obligations of withholding agents

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

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

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

Tax returns for individuals

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

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.

10.2 Taxable threshold

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

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

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

10.3 Scope of VAT

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

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

Starting from 2017 Georgian VAT system has been more approximated to the European Union VAT system by means of charging VAT on advances received upon supply of goods / rendering services, except for:

- supply of goods on a regular and contentious basis which among others include water, gas etc.
- Supply of services on a regular and continuous basis.

Place of supply for goods

The place of supply for goods is the place where the goods are located when they are sold. For goods that

are to be delivered, the supply takes place where the goods are located when they are dispatched.

Place of supply for services

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

Specific place of supply rules apply to the following services:

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

VAT on importation

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

Import of specific fixed assets/goods under the national Commodity Nomenclature of Foreign Economic Activities Codes 8401 – 9033 can be exempt from import VAT assuming that such assets/goods are not to be used in the operations exempt from VAT without right to credit. For these purposes, the import operation should be disclosed in the VAT return.

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 1 January 2011, such transactions are now referred to as VAT-exempt transactions with the right to credit (input tax).

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

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 permanent establishment in Georgia have their place of supply outside Georgia, so are not subject to VAT.

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

10.6 Exempt supplies without right to credit

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

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



contributions to equity capital.

- Supplies of goods or services between enterprises in a Free Industrial Zone.

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

10.7 Taxable amount

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

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

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

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

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 for fixed assets (including self-produced assets) depends on the proportion of VAT-exempt (without right to credit) sales to total sales for the previous tax year. For other purchases, the initial credit is based on the proportion of VAT-exempt without right to credit VAT sales to total sales for the quarter.
- An adjustment is made in the December return to reflect the proportion of VAT-exempt without right to credit VAT sales to total sales for the calendar year. However, no adjustment is required in the December quarter if the taxpayer's exempted transactions without right to offset VAT represent less than 5% of total turnover.

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

An input tax credit may not be claimed for:

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

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

10.9 VAT compliance

Information on VAT invoice

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

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

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

VAT liability

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

Reverse charge

Services supplied in Georgia by non-residents that are not registered in Georgia are subject to a VAT reverse charge. The 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 payers gave to pay the corresponding VAT to the budget on the 15th day of the following month.

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

Returns and payments

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

Penalties

A number of specific penalties apply for VAT offenses:

- A penalty of 200% applies if a taxpayer claims an input tax credit based on a real or forged invoice relating to a fictitious transaction.
- Operating without VAT registration is subject to a penalty of 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.

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

11 Introduction to PwC

11.1 PwC worldwide organisation

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

PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than 208,000 people in 157 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice. See www.pwc.com for more information.

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

11.2 PwC in Georgia

PwC has been serving clients in Georgia since 1996, and in September 2005, opened an office in Tbilisi, which now employs about 100 professional staff. Local knowledge coupled with a strong network of global resources allows us to deliver tailored solutions to complex business problems in the Georgian environment.

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

We provide advice and assistance based on our deep financial, analytical and business process skills to

corporations, government bodies and banks.

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

Assurance Services

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

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

Available Assurance services include:

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

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

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

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

Advisory services

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



intermediaries in the implementation of their strategy relating to:

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

Tax Services

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

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

Specific tax areas where we can assist include:

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

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

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

Compliance services: With the increasing focus on governance and regulation, tax compliance has never been so important. Compliance failure represents not only a financial risk but also a serious business risk, as it can damage the reputation of a business with the authorities and the public. PwC can help you manage your tax compliance issues, risks and opportunities,

allowing you to have firm control. We can help you, both within Georgia and cross-border, with preparing and reviewing tax returns and computations, negotiating with tax authorities, corporate income tax, indirect tax, property and land tax compliance, and payroll.

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 clients individual needs. Our services includes 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 low level employees as well as contracts 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 covers 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 Personal Data Protection Inspector is charged to oversee compliance of private companies with respective data protection and privacy requirement. We liaise with the Inspector's office 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 Inspector's Office

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

Kutaisi International Airport also known as David the Builder 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, but it is slower and less comfortable than travel by car.

Normal business hours

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

Statutory holidays

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

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

Useful links

Parliament of Georgia
www.parliament.ge

Ministry of Finance of Georgia
www.mof.ge

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

National Bank of Georgia
www.nbg.gov.ge

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

Georgian National Investment Agency
www.investingeorgia.org/

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

American Chamber of Commerce
www.amcham.ge

Appendix 2: Taxes at a glance

Standard tax rates	As of 31 October 2017
Personal income tax <ul style="list-style-type: none"> Salaries and employer-provided benefits (withheld at source) Other income not from economic activity (rental income, sale of assets) 	20%
Corporate income tax	15%
Value added tax	0% or 18%
Property tax – individuals	Up to 1%
Property tax – corporate	Up to 1%
Customs duties	0%, 5% or 12%
Domestic withholding tax rates	
Dividends paid to resident individuals	5%
Dividends paid to resident companies	0%
Interest paid by a licensed financial institution	0%
Interest paid by a private entrepreneur	5%
Interest paid by a legal entity that is not a licensed financial institution (this is a final tax for individuals and a creditable tax for legal entities)	5%
Payments to non-residents	
Management fees	10%
Insurance premiums	0%
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
Annual filing obligations		
Corporate income tax* and Personal income tax (individual entrepreneurs)	Tax payments are made during the tax year in four equal instalments at 25% of the previous tax year's liability by 15 May, 15 July, 15 September and 15 December. The adjustment payment is made by 1 April of the following year.	1 April of following year
Income tax (individuals)	1 April of following year	1 April of following year
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 pawn shops will switch to new CIT regime after 1 January 2019. Therefore those entities must file annual corporate income tax return on 2017-2018 reporting period.

Appendix 3: Withholding taxes at 31 October 2017

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%	0% / 5% / 10% (4)
Denmark	0% / 5% / 10%(2)	0%	0%
Egypt	10%	10%	10%
Estonia	0%	0%	0%
Finland	0% / 5% / 10%(2)	0%	0%
France	0% / 5% / 10%	0% (5)	0%
Germany	0% / 5% / 10%(6)	0%	0%
Greece	8%	8%	5%
Hungary	0% / 5%	0%	0%
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%
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%
Romania	8%	10%	5%
San-Marino	0%	0%	0%
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%
<ol style="list-style-type: none"> Some agreements defines 0% rate on the interest paid by the government or any of its units or on the interest guaranteed by them; given table doesn't consider the similar provisions. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than EUR 2 million. Royalty rate paid for the enterprise is 5%. 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. 		<ol style="list-style-type: none"> The 0% rate applies to interest on bank loans and commercial credits. The 0% rate applies if the German company owns at least 50% of the Georgian company and has invested more than EUR 3 million. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than GBP 2 million. 	

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