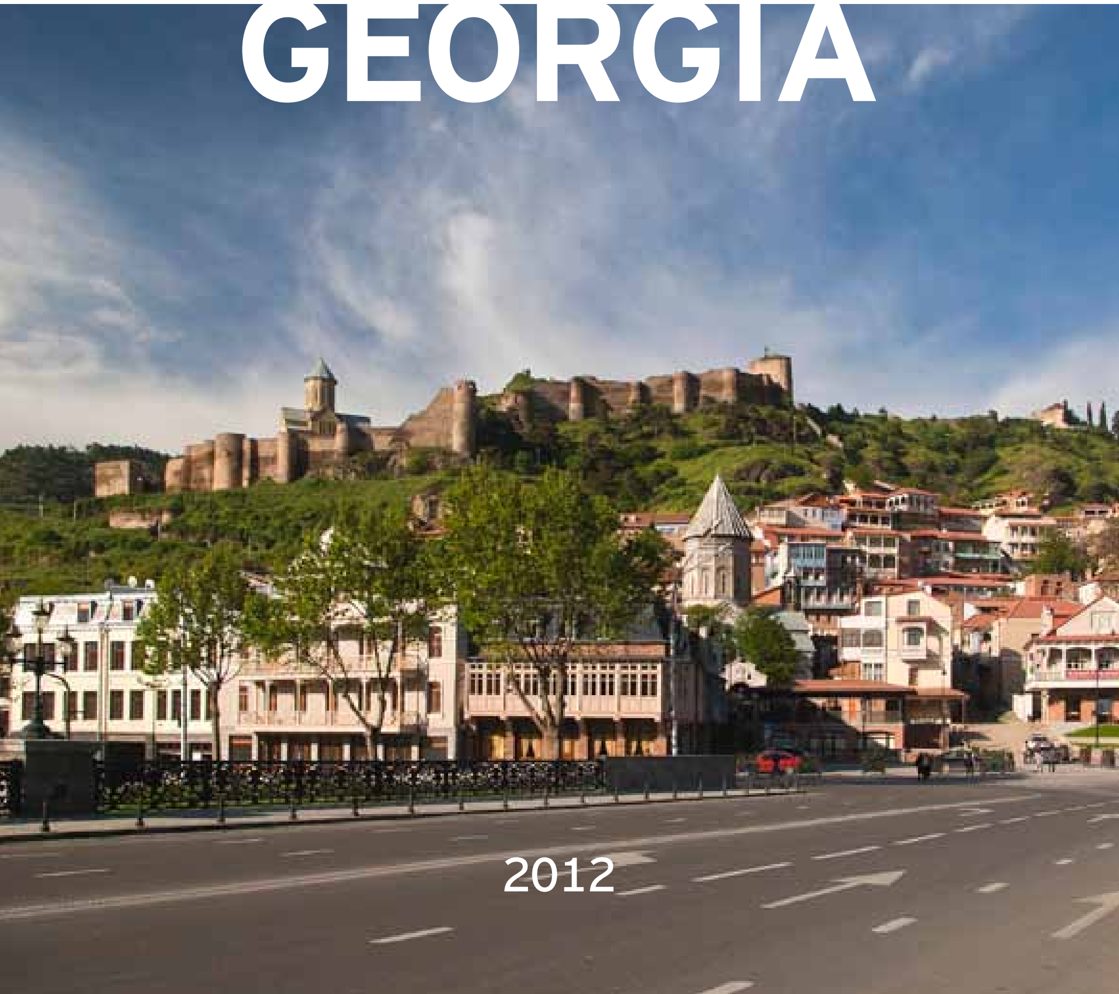
Pocket
Tax Book

GEORGIA



2012

This publication has been prepared and edited by the Ernst & Young practice in Georgia and the Ministry of Finance of Georgia. The book is intended to be a general guide on taxation. It is thus not expected to be a substitute for detailed research or the exercise of professional judgment on taxation matters in Georgia. Companies and individuals currently operating, or planning to operate, in Georgia are strongly advised to obtain current and detailed information from experienced professionals.

None of the organizations mentioned above, nor their members, employees or agents accept liability for the consequences of you and anyone else acting or refraining to act on the information contained in this publication or for any decision based on it.

Dear readers,

This pocket tax book provides a detailed account of tax policy and practice in Georgia. In recent years, we in Georgia have implemented deep and comprehensive reforms aimed at creating a level-playing field for the development of private enterprise. Georgia has been constantly leading in global ease of doing business rankings. All our tax and customs reforms and innovations have been designed and implemented with the following set of objectives: help businesses to develop and expand hiring, help people to unleash their creative potential and provide a significant number of high-quality services offered by the Revenue Service of the Ministry of Finance of Georgia. Low tax burden, absence of bureaucratic hurdles, culture of compliance, flat and simple taxation, fair fiscal administration, streamlined customs practices, innovations at the points of service delivery – all this aims at making sure that Georgia enjoys sustainable private sector-driven growth. Our dialogue with the business community, auditors and international organizations has allowed us to generate new ideas, fine-tune legislative norms, engender new practices and secure constant improvement in the quality of our tax and customs-related services. The effort will continue into the future.

Tax and customs policy and administration is at the very core of Georgia's competitiveness vision, and we thus take it very seriously. Georgia has incrementally established itself as a regional hub economy. We have created a full set of structural and policy-related prerequisites to espouse this 'hub economy' vision. We have a stable macroeconomic environment, flexible labor legislation, stable energy supply, deep structural reforms implemented in all areas, public service which is pro-business and corruption-free, trade openness and excellent geography with important road, air and maritime access routes. Considered together, these factors make us unique. This serves well all companies – Georgian and foreign alike – who wish to do business in Georgia. Invest in Georgia, work with Georgia, employ in Georgia. We stand by your side.

Please send any feedback on this document to: central@mof.ge.

This document can be found on the official website of the Ministry of Finance of Georgia at http://www.mof.ge.

Sincerely,

Dimitri Gvindadze
Minister of Finance of Georgia

Table of Contents

Abbreviations

BO	Branch Office
CIT	Corporate Income Tax
DRC	Disputes Resolution Council under the Ministry of Finance of Georgia
EUR	Euro
GEL	Georgian Lari
GP	General Partnership
GTA	Georgian Tax Authorities
HS	The Harmonized Commodity Description and Coding System
ID	Identification Number
IE	Individual Enterprise
IFRS	International Financial Reporting Standards
IT	Information Technologies
JSC	Joint Stock Company
LLC	Limited Liability Company
LP	Limited Partnership
NBG	National Bank of Georgia
NBV	Net Book Value
PE	Permanent Establishment
PIT	Personal Income Tax
RCVAT	Reverse Charge Value Added Tax
RS	Revenue Service
TCG	Tax Code of Georgia
USD	United States Dollar
USSR	The Union of Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organization
VAT	Value Added Tax
WTO	World Trade Organization

1. Tax Rates at a Glance

There are only six taxes in Georgia, of which five (Personal Income Tax, Corporate Income Tax, Value Added Tax, Excise Tax and Import Tax) are nationwide, and one (Property Tax) is a local tax. There are no capital gains, inheritance, wealth, property transfer, social, branch remittance, or other taxes imposed in Georgia.

1.1. Standard Tax Rates

	2012
Personal Income Tax	20%
Personal Income Tax for Micro Business	Exempt
Personal Income Tax for Small Business	3% or 5%[1]

Dividends paid to individuals, organizations[2] and non-residents	5%
Dividends paid to resident companies[3]	exempt
Dividends paid on free floating securities[4]	exempt
Dividends paid by International Financial Company	exempt
Dividends paid by Free Industrial Zone Company	exempt
Interest paid	5%
Interest paid to resident banks	exempt
Interest paid by licensed financial institutions	exempt
Interest paid on free floating securities	exempt
Interests paid by Free Industrial Zone Company	exempt
Interest paid on debt securities issued by Georgian legal entities and listed on a recognized foreign stock exchange	exempt
Royalties paid to resident individuals	20%
Management fees paid to non-residents[5]	10%

[1] If a Small Business has documented expenses (other than salary expenses) up to 60% of its total income, it is subject to taxation at 3%. Otherwise, it is taxed at 5% rate.

[2] A non-profit organization that does not carry out economic activities.

[3] An entity that carries out economic activities or has been established to perform economic activity.

[4] Debt or equity securities listed on stock exchange with free float rate in excess of 25% as of 31 December of the current and preceding reporting year, pursuant to the information provided by the issuer of these securities to the stock exchange.

[5] Payment for management services rendered by non-resident.

Payment of income from international transport[6] or international communications[7]	10%
Insurance premiums paid to non-residents	exempt
Lease income paid to non-residents	exempt
Payment of income from oil and gas operations[8]	4%
Payments of other Georgian source income to non-residents not connected to their PE in Georgia	10%
Corporate Income Tax	15%
Value Added Tax	18%
Excise Tax	Varies
Import Tax	0%, 5% or 12%
Property Tax – Corporate	Up to 1%
Property Tax – Leasing Companies	Up to 0.6%
Property Tax – Individual	Up to 1%
Property Tax – Land	Varies

Other Information	
Carry back of losses	0 years
Carry forward of losses (for companies and individual entrepreneurs)	5 years or 10 years (in the latter case the statute of limitation increases from 6 to 11 years)
Carry forward of losses (for Small Business)	0 years

1.2. Tax Rates for an International Financial Company

Corporate Income Tax (financial operations and/or financial services, gain from sale of securities issued by non-resident persons)	exempt
Value Added Tax (financial operations and/or financial services)	exempt

Other Information	
Carry back of losses	0 years
Carry forward of losses	0 years

[6] Any transportation of passengers, goods (including mail) on a motor vehicle or a railway transport, sea, river or aircraft between two points in different states, one of which is Georgia, but excluding conveyance of goods through a pipeline and an electrical transmission line shall not fall under the international transportation.

[7] Transmission of information between two points in different states, one of which is Georgia via telephone, radio, television, interest, etc.

[8] Oil and gas prospecting and production in the depths determined under the contract and license, also operations directly related to those works (accumulation, preparation, measuring and keeping the produced oil and gas).

1.3. Tax Rates for a Special Trade Company

Corporate Income Tax (allowable activities other than supply of fixed assets used in economic activities for more than 2 years)	exempt
Value Added Tax (supply of foreign goods in a customs warehouse)	exempt
Import Tax	exempt

Other Information	
Carry back of losses	0 years
Carry forward of losses	0 years

1.4. Tax Rates for a Free Industrial Zone Company

Corporate Income Tax (allowable activities)	exempt[i]
Value Added Tax (supply within Free Industrial Zone)	exempt
Import Tax (goods produced in Free Industrial Zone)	exempt
Property Tax (including on land)	exempt

Other Information	
Carry back of losses	0 years
Carry forward of losses	0 years

1.5. Tax Rates for a Tourist Zone Entrepreneur

Corporate Income Tax	0 years
Property Tax (including on land)	0 years

2. Individuals

2.1. Personal Income Tax

2.1.1. General

Personal income tax (PIT) is a tax levied on the income of individuals. Individuals who are tax residents in Georgia pay PIT on their worldwide income, whereas tax non-residents pay PIT only on their Georgian source income, subject to double taxation treaty relief. Notably, although foreign source income of tax residents is subject to PIT taxation, it is specifically exempted from taxation as outlined below (see section *"Exemptions"*, p. 16). Thus, effectively both tax residents and non-residents of Georgia pay PIT on their Georgian source income. In this regard it is crucial for individuals to define income generated from the source in Georgia. Although the rules to define place of income are complicated, a general principle is that if activities of an individual to generate income are carried out in Georgia, that respective income will be sourced therein.

Individuals starting economic activities are required to register with the GTA prior their start-up and obtain a Tax ID. Georgian citizen non-entrepreneur individuals may use Personal ID while declaring and paying taxes without prior registration. They are registered for tax based on the information provided in filed tax returns and/or tax payment orders presented to the bank. However, foreign citizen non-entrepreneur individuals have to register with the GTA prior to filing their annual personal income tax returns and obtain a Tax ID.

2.1.2. Tax Residency

A tax year for PIT is a calendar year. Individuals are considered tax residents in Georgia for the whole tax year if they:

- are actually present in Georgia for 183 or more cumulative days in any period of 12 consecutive calendar months ending in the subject tax year, or are in the Georgian State Service abroad during the subject tax year
- are citizens of Georgia and apply to the GTA for residency status in Georgia, provided they are a not tax resident of any other country
- are high-net worth individuals (see section *"High Net Worth' Individuals Becoming Residents of Georgia"*, p. 10).

The time of actual presence constitutes the time spent in Georgia, or spent abroad for medical treatment, vacation, business trip and/or educational purposes.

The time of actual presence does not constitute time spent in Georgia by the following individuals:

- Persons with diplomatic/consulate status as well as their family members
- Staff members of an international organization under Georgian international agreements, state servants of a foreign country, including their family members, but excluding citizens of Georgia
- Persons moving from one foreign country to another through the territory of Georgia
- Persons residing in Georgia for medical treatment or vacation/tourism purposes only.

The status of residency is determined for each tax year. Days based on which an individual was qualified as a tax resident for one tax year are not taken into account in determining residency for the next tax year.

Example 1

An individual was residing in Georgia for the last 183 days of 2010 and the first day of 2011. This individual will be a resident of Georgia for the whole 2010, as he/she was residing the country for 183 days during the period of 1 January – 31 December 2010 (a 12 consecutive calendar months period ending in 2010). The same individual will not be a resident for 2011, as days used to qualify her/him as a resident in 2010 are not counted to define residency for 2011.

However, by the same rule, should the person spend only the last 182 days of 2010 and the first day of 2011 he/she would become a resident for 2011 instead of 2010. This is because 182 days would not be enough to qualify a person as a resident for 2010, thus they would count for defining residency in 2011.

2.1.3. "High Net Worth" Individuals Becoming Residents of Georgia

There is a special rule established for "high net worth" individuals to become tax residents of Georgia even if they do not qualify for other residency criteria outlined above.

A "high net worth" individual is an individual who holds property with a value in excess of GEL 3 million, or whose annual income has persistently exceeded GEL 200,000 for the last 3 years.

A "high net worth" individual can become a tax resident of Georgia if he/she:

- proves that his/her Georgian source income amounts to GEL 25,000 or more per tax year
- holds a residence permit or local Personal ID card.

Provided the above conditions hold, tax residency for a tax year is granted to "high net worth" individuals by the Minister of Finance of Georgia within nine days of submitting an application. No actual presence in Georgia is required.

"High net worth" individuals shall apply to the tax authorities and request tax residency in Georgia for each tax year.

2.1.4. Tax Rates

The PIT rate is a flat 20%. For withholding taxation rates for individuals, see section "*Tax Rates at a Glance*", p. 6. Those rates are applied to income received from sources in Georgia without deductions.

2.1.5. Income

For Georgian personal income tax purposes, total income comprises any income received in any form and/or from any activity, that is divided into the following categories:

- Income from employment
- Income from economic activities
- Other income not related to employment and economic activities.

Income from Employment

Income from employment includes all remuneration received from employment, including cash and benefits in kind. Benefits in kind are included in employment income at their market price reduced by any payments made by employee to employer for those benefits.

Taxable benefits may include:

- Private use of an employer owned or provided car
- Receipt of goods and/or services from the employer
- Receipt of housing and/or rental allowances from the employer
- Reimbursement of personal expenses by the employer
- Life and/or health insurance plans paid by the employer
- Business trip allowances paid by the employer in excess of the statutory limits
- Interest free or low interest loan from the employer, etc.

Notably, the Minister of Finance of Georgia determines the market interest rate for calculation of benefits received in the form of an interest free or low interest loan. The benefit is determined as the difference between the interest amount calculated at this market rate and the rate the loan is actually issued at. The rate was set at 20% for 2011.

Expenses incurred for the receipt of employment income cannot be deducted from an individual's total income.

Remuneration and benefits paid by a Georgian employer are generally taxed through monthly payroll withholding taxation. Certain employers may gradually move to quarterly reporting until 1 January 2013 according to a resolution of the Government of Georgia.

Example 2

An employee's gross salary in November 2011 was GEL 1,000. In the same month an employer provided to him goods free of charge and a one month loan of GEL 1,200 (extended on 1 November 2011) with an annual interest rate of 4%. Market price of the goods was GEL 400 and market interest rate on a similar loan at the time of its extension (1 November 2011) was 20% per annum.

Calculation of employment income of November 2011

	GEL	Note
Base salary	1,000	
Employment income from the goods provided free of charge	500	(a)
Employment income from the low interest rate loan	20	(b)
Total employment income of November 2011	1,520	

Notes: (a) A net employment income from the goods provided free of charge is GEL 400. In order to arrive at the GEL 500 gross income the net income is grossed up by a flat personal income tax rate of 20% (400:(1-20%)=500).

(b) A net interest income is GEL 16 (1200×(20%-4%):12 months=16) and it is grossed up by the same 20% personal income tax rate (16:(1-20%)=20).

Income from Economic Activities

Income from economic activities includes:

- Income received from supply of goods and/or services
- Gain received from sale of assets
- Income received as a result of limiting economic activities or closure of an enterprise
- Income received from sale of fixed assets
- Dividends, royalty and interest income except interest received by individuals on the funds deposited at the banks and other credit entities
- Rental and leasing income
- Benefit received as a result of debt write off, etc.

Income from free-of-charge supply of goods and/or services is measured at their market prices.

To arrive at the taxable income received from economic activities, total income is reduced by deductible expenses that contributed to the generation of the total income.

Other Income not related to Employment and Economic Activities

Other income includes any type of income not classified as either income from employment or income from economic activities. This may include any goods, services or benefits in kind received from other parties and assessed at their market prices, reduced by any payments made by the recipient to other parties for those benefits in kind received from employer.

Other income can also be reduced by tax allowable expenses, if any, to arrive at a taxable income.

2.1.6. Deductible Expenses

To arrive at a taxable base, taxpayers are allowed to deduct all expenses contributing to generation of taxable income except non-deductible or partially deductible expenses. Expenses to be deducted shall be documented, except for a few cases defined by the Minister of Finance of Georgia, where no documentation is required.

Business deductions for individuals are structured similarly as deductions for the purpose of corporate income tax (see section "*Corporate Income Tax*", p. 26).

As noted above, expenses incurred for the receipt of employment income are not tax allowable.

Example 3

During 2011 an individual operating a grocery shop purchased goods of GEL 200,000 and sold them at a 25% mark-up on costs. In addition to the cost of goods sold, his annual business related expenses included:

	GEL
▸ Rent	12,000
▸ Depreciation of store equipment	2,000
▸ Utility charges	2,400
▸ Net salary of a shop assistant	4,800
▸ Entertainment expenses	1,000

Calculation of employment income of November 2011

	GEL	Note
Income from sale of goods	250,000	(a)
Deductible expenses:		
Cost of goods sold	200,000	
Rent	12,000	
Depreciation of store equipments	2,000	
Utilities	2,400	
Salary of a shop assistant	6,000	
Entertainment	0	(b)
Total deductible expenses	222,400	(c)
Total taxable income from economic activities	27,600	

Notes: (a) As the goods are sold at a 25% mark-up on costs, the sales revenue will amount to GEL 250,000 (200,000 × (1 + 25%) = 250,000).

(b) To arrive at a gross salary of GEL 6,000 the net salary of the shop assistant is grossed up by a flat personal income tax rate of 20% (4,800 : (1 – 20%) = 6,000).

(c) Entertainment expenses are not tax deductible.

2.1.7. Allowances and Thresholds

Georgian tax law does not envisage any personal allowances (such as on dependency, educational charges, mortgage loans, etc.) for personal income tax purposes. Similarly, there are no threshold limits, e.g. thresholds for non-taxable income, etc. However, after abolishing social tax on 1 January 2008 personal income tax became the only direct tax applied to individuals' income.

2.1.8. Losses

Individual entrepreneurs (individuals who are engaged in regular trading/commercial activities) may carry forward operating losses for up to five years against future operating profits. A taxpayer can apply to the GTA and elect a 10-year loss carry forward period, where the statute of limitation is increased from 6 to 11 years. A 10-year carry forward period can still be changed to a 5-year carry forward period when the losses carried forward are used up. The GTA shall be notified about this change. Notably, moving to 10-year carry forward period may not apply to previous tax years. Individual entrepreneurs can carry forward losses from sale of assets up to five years (or 10 years) only against gains received from sale of the same type of assets.

Non-entrepreneur individuals can offset losses from sale of assets against gains received, from sale of the same type of assets in the current tax year. No carry forward of losses is possible.

Losses may not be carried back.

Example 4

A non-entrepreneur individual purchased a table, a sofa and a cupboard in 2010. The table was sold in the same year at a loss of GEL 100, the sofa in 2011 at s loss of GEL 50 and the cupboard in 2011 at s gain of GEL 200.

Calculation of taxable income of 2011

	GEL	Note
Gain from the sale of the cupboard	200	
Minus losses from the sale of:		
the table	0	(a)
the sofa	50	(a)
Total loss subject to offset	20	(b)
Total taxable income	1,520	

Notes: (a) The loss of GEL 100 from the sale of the table incurred in 2010 cannot be carried forward, whereas the loss of GEL 50 from the sale of the sofa is subject to offset against the gain from the similar asset (the cupboard) realized in the same year of 2011.

(b) A net interest income is GEL 16 (1200×(20%-4%):12 months=16) and it is grossed up by the same 20% personal income tax rate (16:(1-20%)=20).

2.1.9. Exemptions

Income exempt from personal income tax includes:

- Gain received from disposal of residential apartment (house) together with the attached land plot held for more than two years
- Gain received from disposal of assets held for more than two years and not used for economic activities
- Gain received from disposal of tangible assets held for more than a total two years by an individual (I level legatee) and a decedent
- Gain received from disposal of vehicles held for more than six months
- Gain received on transfer of real estate in exchange for a partner's share held for more than two years
- Grants, state stipends, state compensations, state scholarships, etc.
- Alimony
- Property inherited or gifted by I and II level legatees
- Property with a value up to GEL 1,000 gifted during the tax year, except property gifted by employer
- Gain received from sale of securities issued by International Financial Company
- Gain received from sale of free floating securities
- Georgian source income of a non-resident received from insurance, re-insurance and lease services not related to his/her permanent establishment (PE) in Georgia
- Interest income and gain received from sale of bonds issued by the Government of Georgia and/or National Bank of Georgia (NBG)
- Income (including benefits) of resident individuals received from foreign sources
- Income received by non-resident individuals from employment in the territory of Georgia, up to 30 calendar days throughout a tax year paid by non-resident employers, provided that salary expenses are not attributable to the permanent establishment of a non-resident in Georgia, irrespective of whether the payment is made by the permanent establishment or not
- Income received by non-resident individuals from employment at foreign diplomatic and equal representative offices
- Up to 1 January 2014 income received from initial supply of agricultural products before their processing (i. e. change of code) as well as salaries of individuals employed at this agricultural production, if income from supply of agricultural products does not exceed GEL 200,000 during a calendar year
- Lottery winnings up to GEL 1,000
- Income received from transfer of property by the partnership to its members provided that by the moment of the transfer (i) the members of the partnership are individuals only, (ii) the members have not changed since the establishment of the partnership

and (iii) the partnership is not a VAT payer (for taxation of partnerships see section "*Partnerships*", p. 25)

- Income of a gambling club, gaming machines saloon and totalizator organizing persons received from the noted activities, except income received from system-electronic games. Notably, person organizing totalizator in system-electronic form shall be taxed at a fixed 5% rate of its total income.

2.1.10. Compliance

All individuals who receive income in Georgia not taxed at source must file an annual personal income tax return either personally, electronically, or send it via insured mail and pay tax either via bank or the e-paying system (see section "*E-services*", p. 78) by 1 April of the year following the tax year. A tax return should be submitted to the GTA in accordance with the individual's place of residence.

Individuals who are not obliged to submit a personal income tax return may do so voluntarily to claim overpaid personal income tax. For example, an individual that is exempted from personal income taxation has been taxed at source on the salary income as she has not submitted the respective certificate to her employer. Such an individual, although not obliged to file a tax return (as well as pay tax) as taxed at source, may still file a tax return for the purpose of reassessment of tax and apply the overpaid tax amount against future tax liabilities or get refund.

The tax return submission date can be extended by up to three months if the GTA are notified before filing deadline expires and the individual has made the advance tax payments (or has no obligation to make advance tax payments) due for the current tax year (see section "*Filing of Tax Returns*", p. 72). Personal income tax return can be amended within the statute of limitation of 6 years (see section "*Statute of Limitation*", p. 71).

Personal income tax, except those withheld at the source of payment, is paid directly by the liable taxpayer. Alternatively, the tax is withheld by the payer of the income (i. e. tax agent) except non-entrepreneur individuals, at the moment of payment for the following types of income: salary, interest, dividend, royalties, business income of individuals not registered as taxpayers, gambling winnings, etc. (for the withholding taxation rates see section "*Tax Rates at a Glance*", p. 6). However, dividends received by a resident individual who has been taxed at source are not included in the taxable income of a receiver and are not subject to further taxation. At the same time, interest income received by an individual that has been taxed at source is not included in the taxable income of this individual and is not subject to further taxation.

Further, royalties received by an individual (other than an individual entrepreneur) who has been taxed at source are not included in the taxable income of a receiver and are not subject to further taxation. Individual entrepreneurs can credit withheld tax on royalties paid in Georgia against their personal income tax liability.

Free Industrial Zone Company is not obliged to withhold tax at the source on salary payments to resident individuals (for taxation of Free Industrial Zone Company see section "*Beneficial Tax Regimes*", p. 65). A non-resident person making salary payments that are not attributable to its permanent establishment in Georgia is also exempted from the obligation to withhold tax at the source of payment. In this case the employee may calculate his/her own tax liability, file annual tax return and pay tax.

Tax agents who withhold personal income tax submit returns by 15 of the month following the reporting period, declaring income paid and taxes withheld in this reporting period. The reporting period is a month. However, certain tax agents may gradually move to quarterly reporting until 1 January 2013, according to the resolution of the Government of Georgia. Further, a tax agent files an annual form including the information about the income recipients, income paid and taxes withheld within 30 calendar days following a tax year.

Individuals engaged in economic activities in Georgia must make advance personal income tax payments. Each payment is equal to 25% of the income tax liability for the preceding tax year. Due dates for the payments are 15 May, 15 July, 15 September and 15 December. Advance payments of tax are applied against the income tax liability for the current tax year. Balancing payment should be made before 1 April of the subsequent tax year. If total advance payments exceed the tax due for the tax year, the excess is applied against any outstanding liabilities for other taxes, or is refunded.

Taxpayers who did not have taxable income during the previous tax year or an individual who has cancelled the Micro Business status for the current tax year are not required to make advance tax payments during the current tax year, although they have taxable income for the previous tax year.

2.2. Property Tax

2.2.1. Taxable Assets

Taxable assets of individuals include their owned immovable property (including construction in progress, buildings or their parts), land plot it is fixed to, yachts, motor boats, planes and helicopters. Taxable assets of individuals also include assets leased in from non-residents.

Individuals conducting economic activities in Georgia are subject to property tax on the following assets listed on their balance sheet: fixed assets, not-installed equipment and intangible assets. Their taxable assets also include leased out property.

Further, land plots held by an individual (excluding land plots to which the immovable property owned by this individual is fixed to) are subject to property taxation.

The tax period for property tax is a calendar year.

2.2.2. Tax Rates

Annual property tax rate (excluding for land) varies according to the annual family income of the individual for the previous tax year.

For property taxation purposes, annual family income comprises all income, including those exempted from personal income taxation, but excluding:

- Value of property inherited, gifted from family members or received upon divorce
- Gain received from disposal of an apartment (house) held for more than 2 years
- Foreign source income of non-resident Georgian citizens.

The annual property tax rates are applied to the market value of taxable property and are set as follows:

Annual Family Income for the Preceding Tax Year, GEL	Property Tax Rate, %
<100,000	0.05 to 0.2
≥100,000	0.8 to 1

As property tax is a local tax, the exact rate within the above range is fixed by the local government where the property is located (immovable) and/or registered (movable).

Annual property tax rate for agricultural land varies according to the administrative unit it is located in and the land quality. The annual base tax rate is set by the central government and varies from GEL 1.5 to GEL 100 per 1 hectare. The exact rate for land is fixed by the local government up to 150 % of the above annual base tax rate.

The annual base tax rate for non-agricultural land is GEL 0.24 per 1 square meter, which is further adjusted by the territorial coefficient up to 1.5 fixed by the local government.

2.2.3. Exemptions

Certain types of assets, except land plots transferred under rent, usufruct or any similar arrangement are exempted from property tax, such as:

- property (except land) belonging to an individual with annual family income not exceeding GEL 40,000 for a year preceding the current tax year
- agricultural land plots received by individuals and requiring cultivation (the exemption is valid for five years after receiving of the land plots)
- agricultural land plots up to five hectares in the ownership of an individual as of 1 March 2004
- property located in Free Industrial Zones
- biological assets (animals and plants)
- assets leased in from Georgian residents
- movable property, including leased in movable property, of an individual used in live stock agriculture, etc.

2.2.4 Compliance

Individuals submit annual property tax returns either on their own property, or the property of all their family members no later than 1 November of a calendar year. The submission date can be extended for up to a further three months if the GTA are notified before the deadline expires (see section *"Filing of Tax Returns"*, p. 72). Property tax returns can be amended within the statute of limitation (see section *"Statute of Limitation"*, p. 71).

The data reflected in the tax return on taxable property is according to the preceding tax year and on taxable land – according to the current tax year.

Individuals pay property tax either via a bank or the e-paying system (see section *"E-services"*, p. 78) no later than 15 November of a calendar year.

Filing of property tax return is not required if:

- due to exemptions envisaged under the TCG an individual has no tax liability in the current tax year. At the same time, if an individual was a property taxpayer in the previous years, than he/she must notify the GTA about the decision of not filing a tax return prior to 15 November of a current tax year
- the quantity and quality of taxable objects has not changed since the filing of the previous year's tax return, as well as tax liability of the previous tax year. In this case a taxpayer is deemed to have filed a property tax return to the GTA and the latter has sent a tax request to the taxpayer.

Example 5

A family consists of two individuals. Their annual income for the preceding tax year is summarized in the table below:

Individual	Resident of Georgia?	Citizen of Georgia?	Total annual income, GEL	Including income received from the foreign source, GEL	Including income exempt from personal income taxation in Georgia, GEL
1st	Yes	No	30,000	5,000	7,000
2nd	No	Yes	90,000	10,000	12,000
TOTAL			**120,000**	**15,000**	**19,000**

The individuals owned the following assets:

Description	Owned	Assessment date	Assessment (market) value	Area
Apartment	During whole preceding tax year	31 December of the preceding tax year	GEL 200,000	N/A
Car	During whole preceding tax year	N/A	N/A	N/A
Vineyard	By 1 April of the current tax year	N/A	N/A	N/A
Agricultural land	By 1 April of the current tax year	1 April of the current tax year	N/A	10 hectare
Non-agricultural land	By 1 April of the current tax year	1 April of the current tax year	N/A	600 sq. meter

Calculation of annual family income for the preceeding tax year

	GEL	Note
Annual income of the individuals	120,000	
Total loss subject to offset	10,000	(a)
Annual family income for the purposes of property tax of the current tax year	110,000	

Calculation of property tax of the current tax year

Description	Market value or area	Tax rate	Property tax
Apartment	GEL 200,000	0.8% (b)	GEL 1,600
Car	Is not subject to property taxation		
Vineyard	Is exempted from property taxation as a biological asset		
Agricultural land	10 hectare	GEL 100 per hectare (c)	GEL 1,000
Non-agricultural land	600 sq. meter	GEL 0.36 per sq. meter (c)	GEL 216

Notes: (a) Foreign source income of a non-resident citizen of Georgia is excluded from calculation of annual family income. Incomes exempt from personal income taxation in Georgia are not excluded from calculation of annual family income for property tax purposes.

(b) As the annual family income for the preceding tax year is more than GEL 100,000 the tax rate for the current tax year will be between 0.8–1%. By assumption the local government fixed it at the rate of 0.8%.

(c) Local government fixed tax rates on agricultural and non-agricultural lands respectively at GEL 100 per hectare and GEL 0.36 per sq. meter.

2.3. Special Tax Regimes

2.3.1. General

Individuals may obtain the special status of Micro Business and individual entrepreneurs, the status of Small Business. Upon obtaining these statuses they become eligible for certain simplified accounting rules and tax benefits.

The rules of assigning the status of Micro Business and Small Business and issuance of the certificates, as well as the rules for the cancellation of the mentioned statuses, are established by the Minister of Finance of Georgia.

2.3.2. Micro Business

Granting and Cancellation of the Status

Based on the application filed to the GTA, the status of Micro Business can be assigned and respective certificate issued to an individual who:

- conducts certain economic activities independently without hiring employees

- receives annual income not exceeding GEL 30,000
- maintains inventory balance not exceeding GEL 45,000
- undertakes activities that are not banned for Micro Business as defined by the Government of Georgia.

The status of Micro Business is cancelled for the current tax year if:

- any of the above requirements for Micro Business are violated
- an individual with the status of Micro Business applies to the GTA for cancellation of this status
- an individual with the status of Micro Business applies to the GTA for assigning the status of Small Business
- an individual with the status of Micro Business registers for VAT.

Tax Benefits and Compliance

Micro Business is exempted from personal income taxation. Micro Business shall keep all primary tax documentation.

The rules of tax compliance for Micro Business are the same as for individuals with the exception of Micro Business operating in the territory of Special Trade Zone. The latter is exempted from obligation to file personal income tax return and pay tax, but the Special Trade Zone Organizer[9] bears this tax compliance obligation on behalf of a Micro Business. However, an individual with Micro Business status shall file the property tax return to the GTA himself/herself.

An individual files a personal income tax return and pays tax accrued by the moment of cancellation of the status of Micro Business within 30 calendar days from cancellation of the status.

2.3.3. Small Business

Granting and Cancellation of the Status

Based on the application filed to the GTA, the status of Small Business can be assigned and respective certificate issued to an individual entrepreneur who:

- receives annual income from certain business activities not exceeding GEL 100,000
- maintains an inventory balance not exceeding GEL 150,000
- is not a registered VAT payer
- undertakes activities that are not banned for Small Business as defined by the Government of Georgia
- has not been penalized for not using a cash machine more than three times during a calendar year.

[9] A legal entity with a status of Special Trade Zone renting space to individuals including Small and Micro Businesses on the territory of the zone.

The status of Small Business is cancelled for the current tax year if:

- any of the above requirements for Small Business are violated
- an individual entrepreneur with the status of Small Business applies to the GTA for cancellation of this status
- an individual with the status of Small Business registers as a VAT payer.

An individual entrepreneur may re-obtain the status of Small Business for the year, that follows a 12 month period from cancellation of this status, if his/her total income for this 12 month period does not exceed GEL 100,000 and he/she is not a registered VAT payer.

Tax Benefits and Compliance

A Small Business is liable for personal income tax at a 5% rate. The applicable personal income tax rate further reduces to 3% if the Small Business has documentary proof of expenses (except salary expenses) related to the receipt of income in the amount of 60% of total income.

Small Business should keep all primary tax documentation. However, they may keep records of expenses in the simplified register according to the rules defined by the Minister of Finance of Georgia. Small Business is not entitled to loss carry forward.

Upon cancellation of the status of a Small Business, an individual entrepreneur:

- may record the balance of inventory in the respective document at its market price, but only up to GEL 30,000 and such document qualifies as a documentary proof for tax deduction purposes
- shall include the value of the balance of inventory in the total income
- may credit VAT on the balance of inventory if he/she registers as a VAT payer and the documents backing VAT recovery are present.

Losses may not be carried back.

The rules of tax compliance for Small Business are the same as for individual entrepreneurs, with the exception of a Small Business operating in the territory of the Special Trade Zone. As in the case of Micro Business, the tax obligations (except property tax compliance) of a Small Business operating in the territory of this Zone will be fulfilled by the Special Trade Zone Organizer.

A Small Business is liable to make advance tax payments by 15 of the month following each quarter. Further, a Small Business has no obligation to withhold taxes on compensation payments for received services and salary payments in the amount not exceeding 25% of its total income.

2.4. Partnerships

A partnership is not a separate legal person. Rather, it represents a joint ownership/activity arrangement of several persons (members). Profit of the partnership, no matter how it is distributed or distributed or not distributed, shall be attributed to its members on a pro rata basis according to their shareholdings. Such profit shall be included in the total income of the members and taxed respectively.

The Partnership is liable to withhold tax at the source of payment when distributing income to the members who are not registered as taxpayers.

The loss incurred by the Partnership is attributable to its members on a pro rata basis too, in accordance to their share portion. The mentioned loss cannot be deducted from total income of the member. It can be deducted only from a member's part of taxable income in the Partnership in the following years. The loss can be carried forward for up to 5 or 10 years.

Taking of the Partnership's property into private ownership and/or receipt of services from the Partnership by its members is considered as supply of goods/services by the Partnership at market price[10] (for details of VAT taxation of Partnerships, see section "*Value Added Tax*", p. 45).

The Partnership is liable to file a tax return before 1 April of the year following the reporting year, indicating information on the amount of taxable income (loss) and the distributions to the members.

[10] Applies to partnerships established since 7 August 2009.

3. Companies

3.1. Corporate Income Tax

3.1.1. General

A company is treated as a Georgian company if it is either incorporated or has its place of management in Georgia. Georgian companies are liable to Georgian corporate income tax (CIT) on their worldwide income, subject to double taxation or other international treaty reliefs. In general, any effective international agreement has precedence over domestic Georgian legislation, including the TCG.

Foreign companies are subject to tax on Georgian source income[11] only, subject to double taxation treaty relief. A foreign company, carrying out business activities through a permanent establishment in Georgia, generally has to assume the same tax obligation as a Georgian company (see section "*Corporate Income Tax for Foreign Companies*", p. 41).

Consolidated tax returns cannot be filed under Georgian legislation, and each group member company must report its taxes separately. Branches and other units of Georgian companies do not report and pay CIT independently, but consolidate their taxable income (or loss) with the main company, which pays the total CIT.

The tax period for corporate income tax is a calendar year.

Tax rate is a flat 15%. See rates for withholding taxation of companies in section "*Tax Rates at a Glance*", p. 6.

Companies are required to obtain tax registration together with legal registration at the Entrepreneurial and Non-Entrepreneurial (Non-Commercial) Registry of Legal Persons (the Agency), which is a Public Law Legal Entity – the National Agency of Public Register under the Ministry of Justice of Georgia.

3.1.2. Tax Base

Income subject to corporate income tax (i. e. tax base) is currently computed on the basis of IFRS and modified by certain tax adjustments.

The tax base may include trading income, gains from realization of assets, income from financial activities, dividend income, gratuitously received goods and services, etc. Income received in foreign currency is converted into GEL at the daily exchange rate published by the NBG for the date of receipt of the income.

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[11] In general source of income is in Georgia if activities leading to generation of income are carried out herein.

Generally, a deduction is allowed for all documented expenditures contributing to the generation of taxable income, except for special non-deductible or partially deductible expenses. The Minister of Finance of Georgia is authorized to define special cases when documenting of the expenditure is not obligatory, as well as the types of documents that shall be treated as the documentary proof of the expenditure.

Gains from realization of assets are included in taxable income and are subject to tax at the regular corporate income tax rate. Losses from realization of assets together with other losses can be carried forward against future profits for up to 5 or 10 years (see section *"Losses"*, p. 38).

3.1.3. Exemptions

Income exempt from corporate income tax includes:

- Income of budgetary, international and charitable organizations, except income received from economic activities
- Grants, membership fees and donations received by an organization
- Income of medical establishments (irrespective of their legal form) received from medical activities which has been reinvested in rehabilitation of the establishment and/or provision for technical base
- Up to 1 January 2014 income received from an initial supply of agricultural products before their processing (i. e. change of code), if total income received from such activities does not exceed GEL 200,000 during a calendar year
- Up to 1 January 2014 income received from agricultural activities reinvested in agriculture
- Income of an International Financial Company received from performance of financial operations and/or provision of financial services, as well as gain received from sale of securities issued by non-resident persons (for taxation of International Financial Company see section *"Beneficial Tax Regimes"*, p. 65)
- Gain received from sale of securities issued by an International Financial Company
- Gain received from sale of free floating securities
- Georgian source income of a non-resident received from insurance and reinsurance of risk
- Income of a non-resident received from leasing out of property not related to its permanent establishment in Georgia
- Interest income and gain received from sale of Government or NBG bonds and interest accrued on funds deposited at the NBG
- Income of a Free Industrial Zone Company received from activities allowable in a Free Industrial Zone other than income received from supply of goods to Georgian registered taxpayer (except Free Industrial Zone Company) (for taxation of Free Industrial Zone Company see section *"Beneficial Tax Regimes"*, p. 65)

- Income of an investment fund received from supply of financial instruments, performance of financial operations and/or provision of financial services, if the investment fund is an International Financial Company
- Income received from IT technologies produced by a Virtual Zone Person[12] and supplied outside of Georgia
- Income of a Special Trade Company received from allowable activities, other than income received from the supply of fixed assets that has been used in economic activities for more two years (for taxation of Special Trade Company see section "*Beneficial Tax Regimes*", p. 65)
- Income of a Tourist Zone Entrepreneur received from hotel services until 1 January 2026, where the hotel services shall be determined by the Government of Georgia (for taxation of Tourist Zone Entrepreneur see section "*Beneficial Tax Regimes*", p. 65)
- Value of land plots received by a Tourist Zone Entrepreneur, where such land spots are supplied to investors free of charge
- Income of gambling club, gaming machines saloon totalizator organizing persons received from the noted activities, except income received from system-electronic games. Notably, a person organizing totalizator in system-electronic form shall be taxed at a fixed 5% rate of its total income.

3.1.4. Deductible Expenses

Generally, tax-deductible expenses are those that the taxpayer incurs to contribute to the generation of its taxable income. Documentation, such as receipts and invoices, must be kept to support tax deductibility of the expenses, except certain cases defined by the Minister of Finance of Georgia where no documentation is required. For tax audit purposes, a Georgian translation of the documents may be required.

Tax-deductible expenses include the following:

- Cost of goods sold
- Consumables, including fuel and lubricants
- Salary expenses
- Expenses for employee business trips
- Advertising expenses
- Interest paid and/or payable, including interest on foreign loans, up to an annual limit of interest rate established by the Minister of Finance of Georgia and prorated for the respective period; deduction of interest is further limited for those companies in which at least 20% of shares is owned by entities exempt from corporate income taxation; thin capitalization rules may also apply in certain cases (see section "*Thin Capitalization Rules*", p. 36)
- Royalties and service fees incurred

[12] A legal entity having obtained a status of Virtual Zone Person and conducting IT activities.

- Bad debts[13], if they have been included in the taxable income of previous periods and then subsequently written off in the accounts
- Impairment on outdated or defective inventory items (impairment on fixed assets is not deductible), provided that prior approval from the GTA has been obtained, etc.

Further to the above, banks and credit unions may deduct provisions on loans within the limits established by the NBG. Insurance companies may deduct net claims incurred over a tax year, excluding income from regression (i. e. income received from a third party who caused the accident or other incident) and survived property.

Leasing companies may deduct allocations to reserves for bad debts derived from leasing activities from their total income according to the rules set by the Minister of Finance of Georgia[14].

A Virtual Zone Person may deduct expenses related to the receipt of income from supplying IT technologies in and outside Georgia in proportion to the income received from supplies made in Georgia in its total income.

Example 6

A Virtual Zone Person (entity) started operations in the tax year 2011 and generated/incurred the following incomes/expenses:

Income	GEL
Georgian source income from supply of IT technologies	20,000
Foreign source income from supply of IT technologies	60,000
Total income	80,000
Expenses	
Total expenses incurred on the incomes received in and outside of Georgia	56,000

Calculation of taxable income and income tax for the tax year 2011

	GEL	Notes
Income subject to tax	20,000	(a)
Minus: deductible expenses	14,000	(b)
Taxable income	6,000	
Corporate income tax payable	900	(c)

[13] There are complicated conditions set out in the TCG to qualify debts as "bed debts".

[14] Leasing company is defined as an entity which income from leasing out of property during a tax year comprises at least 70% of its total income, where leasing is defined as per the Civil Code of Georgia and the lease object is a depreciable asset.

Notes: (a) A foreign source income of Virtual Zone Person from supply of IT technologies (GEL 60,000) is exempted from CIT taxation.

(b) As the income subject to tax (GEL 20,000) is 25% of the total income (20,000:80,000=25%), only worth of GEL 14,000 expenses (56,000×25%=14,000) is deductible against income subject to CIT taxation.

(c) Corporate income tax payable is calculated at 15% of the taxable income.

A taxpayer may deduct income from receipt of gratuitous supplies of goods/services from its total income in a tax year when these goods/services where used in economic activities.

In case of payments made to an individual or a non-resident company for the rendering of services that does not belong to a permanent establishment of a non-resident in Georgia, the moment of payment shall be considered the moment of incurring expenditures. Notably, the aforesaid cash basis rule does not apply to licensed financial institutions.

Further, fines and penalties defined by the agreement shall also be accounted on a cash basis rule.

3.1.5. Non-Deductible Expenses

The tax law restricts deductions of certain expenses (qualified according to the accounting legislation in Georgia – IFRS). Generally, these are expenses regarded as not related to generation of income. The following expenses are non-deductible:

- Corporate income tax
- Entertainment expenses
- Representation expenses in excess of 1% of total income before deductions
- Contributions to charity organizations in excess of 10% of taxable income before deduction of charitable expenses
- Expenses related to the generation of income exempt from corporate income tax
- Expenses on goods/services that are outside the scope of corporate income taxation, except gratuitous supplies to the state and/or local governments
- Penalties and late payment interest paid or payable to the Georgian state budget
- Interest expenses above the established limit and subject to thin capitalization rules in certain cases
- Expenses on goods/services purchased from Micro Business
- Fixed asset capital repair expenses in excess of 5% of the balance value of the corresponding tax depreciation group of fixed assets at the end of the previous tax year (see

section "*Depreciation/Amortization*", p. 32). This excess amount of the capital repair expenses is capitalized and added to the balance value of the corresponding group of fixed assets

- Expenses above the customs value of foreign goods incurred on purchase of these goods form a Special Trade Company
- Interest paid to non-residents that are exempted from withholding taxation. Further, deducted interest expenses shall be included into the total income upon its contribution into the capital of the payer of the interest.

Example 7

A Georgian company started operations in the tax year 2011 and generated/incurred the following incomes/expenses:

Income	GEL
Georgian source income	50,000
Foreign source income	30,000
Exempt income included in Georgian source income	10,000
Expenses	
Expenses incurred on exempt income	5,000
Expenses on services purchased from Micro Business	2,000
Contributions to charity organizations (charitable expenses)	3,000
Other expenses incurred on taxable income (all deductible)	55,000

Calculation of taxable income and income tax for the tax year 2011

Income	GEL	Notes
Georgian source income	50,000	(a)
Foreign source income	30,000	(a)
Minus: exempt income	10,000	(b)
Total income	70,000	
Deductible expenses		
Expenses incurred on exempt income	0	(c)
Expenses on services purchased from Micro Business	0	(c)
Other deductible expenses	55,000	
Taxable income before charitable expenses	15,000	
Charitable expenses	1,500	(d)

Taxable income	13,500	
Corporate income tax payable	2,025	(e)

Notes:
(a) Georgian companies pay corporate income tax on their worldwide income that is sum of Georgian and foreign source income.

(b) Total income for CIT purposes does not include exempt income.

(c) Expenses incurred on exempt income as well as on services purchased from Micro Business are not deductible.

(d) Charitable expenses are deductible within 10% of taxable income before applying charitable expenses.

(e) Corporate income tax payable is calculated as 15% of the taxable income.

3.1.6. Depreciation/Amortization

Depreciation charges for fixed assets used in economic activities are deductible for tax purposes in accordance with the rates and conditions set out in the Georgian tax legislation. The depreciation method used for corporate income tax purposes is the diminishing balance method (i.e. current depreciation charges are calculated by applying the underlying depreciation rate to the net value, inter alia, reduced by previous depreciation charges of the respective fixed assets group).

Tangible fixed assets

Depreciations are not assessed on land, works of art, museum items, historical objects (except buildings), fixed assets with a value below GEL 1,000, biological assets, etc. Fixed assets with a value below GEL 1,000 can be fully deducted from total income in the year of their exploitation and expenditure on biological assets in the year when it was incurred.

Fixed assets are allocated to groups, which are depreciated as whole units. Each building represents a separate group. The value of a particular group at the end of a tax year equals its value at the end of the previous tax year, increased by cost of added fixed assets and other capital expenditures defined by the TCG, and reduced by tax depreciation charges of the previous tax year, and the sales price of fixed assets (market price in case of gratuitous supply). If at the end of a tax year all fixed assets in a group are realized or liquidated or a balance value of the group is less than GEL 1,000, then the entire balance value of the group can be claimed as tax deductible. If the amount received upon the sale of fixed assets of a group in the course of a tax year exceeds the book value of the group at the end of the tax year, the surplus amount is included in total income and the book value of the group is equal to zero.

The amount of depreciation for each group is calculated by applying the depreciation rate for the group to the value of the group at the end of the tax year. Notably, full annual depreciation can be charged to all assets of the group irrespective of the purchase date (for depreciation rates see table "*Fixed Assets Depreciation Rates*" in Appendix, p. 87).

Taxpayers may apply accelerated depreciation rates for groups 2 and 3, but these rates cannot be more than twice the amount of the rates set for the respective groups.

Each fixed asset supplied under lease is recorded as a separate group by the lessor. Fixed assets supplied under lease are amortized according to the discounted value of lease payments, where the latter are determined according to the lease terms and the book value of the respective group.

On the expiration or termination of a lease agreement, if the leased asset is not redeemed by the lessee, this asset remains in the same group without further depreciating until leased again.

If the asset which has been leased and returned to the lessor is used for any purpose other than leasing, its value is determined at the book value of the group in which this asset was accounted for before leasing.

Notably, the corporate income tax provisions effective before 1 January 2010 apply to assets leased before the noted period.

Example 8

A Georgian company started operations in the tax year 2011 and had following movements of the depreciable fixed assets:

All figures are in GEL unless otherwise stated	Tax year 2011		Tax year 2012	
	Group I	Group III	Group I	Group III
Purchase price	15,000	25,000	20,000	35,000
Sales price	3,000			12,000

Calculation of tax depreciation charges of 2011and 2012

All figures are in GEL unless otherwise stated	Tax year 2011		Tax year 2012	
	Group I	Group III	Group I	Group III
Purchase price	15,000	25,000	20,000	35,000
Sales price	3,000			12,000
Group value at the end of the previous tax year	0 (a)	0 (a)	12,000	25,000
Depreciation charges of the previous year	0 (a)	0 (a)	2,400	2,000
Group value at the end of the tax year	12,000 (b)	25,000 (b)	29,600 (b)	46,000 (b)

Depreciation charges of the previous year	0 (a)	0 (a)	2,400	2,000
Group value at the end of the tax year	12,000 (b)	25,000 (b)	29,600 (b)	46,000 (b)
Depreciation rate	20%	8%	20%	8%
Depreciation charges of the current year	2,400 (c)	2,000 (c)	5,920 (c)	3,680 (c)

Notes: (a) The company did not exist in the previous year (2010), therefore respective group value and depreciation charges are zero.

(b) Group value at the end of the tax year equals to:

Group value at the end of the previous tax year

Plus: Cost of purchased depreciable assets during the current tax year

Minus: Sales price of assets sold during the current tax year

Minus: Depreciation charges of the previous tax year.

(c) Depreciation charges of the current tax year equals to the group value at the end of the current tax year multiplied by the depreciation rate of the respective group.

Intangible assets

Intangible assets with a value below GEL 1,000 can be fully deducted from total income in the year when the respective expense was incurred.

Intangible assets are amortized over their useful lives or at a 15% rate per annum if it is impossible to define the useful life of a particular intangible asset. Intangible assets are recorded as a separate group. The amortization expenses on intangible assets are tax-deductible.

Expenses incurred to purchase or produce amortized fixed assets are not capitalized if they had previously been deducted from total income.

Alternative depreciation method

Taxpayers may use an alternative method to compute the deduction of expenditure on fixed assets, other than on non-depreciated fixed assets or fixed assets contributed to the capital of a company. A company may fully deduct the cost of such assets in the year of their exploitation, including their capital repair expenses. Those fixed assets are not further included in the asset groups for depreciation. If such assets are sold later, the sales price (market price in case of gratuitous supply) is included in total income. If a company elects to use the alternative method, it must be used for all purchased (produced) fixed assets for at least five years.

Leasehold improvements on rented fixed assets

Leasehold improvements incurred on rented assets that do not reduce the rental payments are capitalized as a separate tax depreciation group. Such improvements are deductible from total income over the rent period by applying the 15% diminishing balance method.

Upon expiry or early termination of a rental agreement when the rented asset is returned to the lessor, the book value of the group is equal to zero, while the remaining balance is not deductible from total income.

3.1.7. Taxation of Dividends

- Dividends paid to individuals (including non-resident individuals), organizations and non-resident companies are subject to withholding taxation
- Dividends paid to resident companies are not subject to withholding taxation and are not further included in taxable income
- Dividends received from an International Financial Company are not subject to withholding taxation and are not further included in taxable income
- Dividends received from free floating securities are not subject to withholding taxation and are not further included in taxable income
- Dividends received from a Free Industrial Zone Company are not subject to withholding taxation and are not further included in taxable income.

For dividends withholding taxation rates, see section "*Tax Rates at a Glance*", p. 6.

3.1.8. Taxation of Interest

- Interest sourced in Georgia and paid by a Georgian tax resident or the permanent establishment of a non-resident or on their behalf is subject to withholding taxation
- Interest paid on credits (loans) to resident banks is not subject to withholding taxation.
- Resident companies and permanent establishments of foreign companies can credit withheld tax on interest paid in Georgia against corporate income tax liability
- Interest income received from a financial institution licensed according to Georgian legislation is not subject to withholding taxation. At the same time, such interest is not further included in the taxable income of the recipient, unless the latter is itself a licensed financial institution
- Interest income received from free floating securities is not subject to withholding taxation and is not further included in taxable income
- Interest income received from debt securities issued by Georgian enterprises and listed on a recognized foreign stock exchange is not subject to withholding taxation and is not further included in taxable income

- Interest income received from a Free Industrial Zone Company is not subject to withholding taxation and is not further included in taxable income.

For interest withholding taxation rates see section "*Tax Rates at a Glance*", p. 6.

3.1.9. Taxation of Royalties

Royalties paid by a Georgian tax resident or a permanent establishment of a non-resident or on their behalf to resident individuals, other than individuals registered as VAT payers, are subject to withholding taxation.

For royalties withholding taxation rates see section "*Tax Rates at a Glance*", p. 6.

3.1.10. Thin Capitalization Rules

Thin capitalization occurs when the "debt to equity" ratio exceeds 5:1. In case of thin capitalization, a company is not allowed to deduct paid and/or payable interest expenses from its total annual income. At the same time, thin capitalization rules do not restrict deduction of interest expenses on debt below the established ratio of 5:1. Thin capitalization rules do not apply:

- to financial institutions
- to entities with total annual income not exceeding GEL 200,000
- if interest expenses do not exceed 20% of the taxable income before deduction of interest expenses.

Thin capitalization is determined according to the average annual ratio, in line with the rules determined by the Minister of Finance of Georgia.

Notably, thin capitalization rules apply only to cases when the Investigation Service of the Ministry of Finance of Georgia proves that thin capitalization is used as a deliberate tax evasion mechanism.

3.1.11. Related Party Transactions

The GTA can adjust the tax base if there is evidence that the arm's length price was not used in a transaction between related parties. Parties are recognized as related if special relations between them may affect the conditions or economic results of their activities. Such special relations include, in particular, relations where:

- persons are founders (participants) of the same enterprise and their total share amounts to at least 20%
- a person has a direct or indirect interest in an enterprise, where such interest is at least 20%
- an enterprise is under control of another person
- an individual is subordinated to another individual

- a person is under direct or indirect control of another person
- persons are under direct or indirect control of another person
- persons jointly directly or indirectly control another person
- individuals are relatives
- individuals are members of a partnership.

For the purpose of determining the existence of special relations between the persons, control means:

- being a member of a supervisory board, director, or a person authorized to appoint others to these positions
- having 20% of voting rights.

3.1.12. Transfer Pricing Rules

Georgian transfer pricing rules generally apply to cross-border transactions between a Georgian company and a related foreign company. For the purpose of transfer pricing rules, two persons are related if:

- one person is directly or indirectly involved in the management or control of another person, or directly or indirectly holds the capital of this person
- same persons are directly or indirectly involved in the management or control of two other persons, or directly or indirectly hold the capital of those other persons.

For the purpose of the above, a person is considered to be directly or indirectly involved in the management or control of a company, or directly or indirectly hold the capital of that company if she directly or indirectly holds more than 50% of another person or in fact controls the decision making in the latter.

In certain cases these rules may also apply to transactions between a Georgian company and an unrelated foreign company, where the latter is a resident of low tax jurisdiction/offshore country.

The following are the generally accepted transfer pricing methods:

- Comparable uncontrolled price method
- Resale price method
- Cost plus method
- Net profit margin method
- Profit split method.

The head of the RS is authorized to issue an advance tax ruling on such cross-border transactions upon the taxpayer's request. The ruling is issued for a certain period of time before the start of operations. It sets the method, comparable operations and respective corrections, significant assumptions, etc. for the purpose of determining the price for the operations. If a person acts in accordance with the ruling issued to the latter, the GTA shall not impose additional taxes and/or tax sanctions later on.

An advance tax ruling becomes invalid if:

- the facts and circumstances mentioned in the advance tax ruling are different from actual ones
- the provisions of the TCG upon which advance tax ruling is based have been cancelled or amended.

3.1.13. Losses

Losses can be carried forward for up to five years against future profits. Further, a taxpayer can elect a 10-year loss carry forward period. In the latter case, the statute of limitation is 11 years. A 10-year carry forward period can still be changed to a 5-year carry forward period when the losses carried forward are used up.

Losses cannot be carried forward by an International Financial Company, Special Trade Company or Free Industrial Zone Company (for taxation of International Financial Companies, Special Trade Companies and Free Industrial Zone Companies see section *"Beneficial Tax Regimes"*, p. 65).

No carry back is allowed.

Example 9

Taxable income of a Georgian company for the tax year 2011, before applying incomes and expenses on depreciable assets as well as carrying forward losses from previous years, equaled GEL 120,000. The company uses an alternative (full) depreciation method for all its qualifying assets. During 2011 the company bought a passenger car for GEL 24,000, used it for administrative purposes, incurred repair expenses of GEL 3,000 and in the same year sold it for GEL 19,000. The car was the only depreciable asset bought in 2011. Unused balance of the loss incurred in 2004 amounted to GEL 8,000, and in 2006 to GEL 25,000.

Calculation of taxable income and corporate income tax for the tax year 2011

	GEL	Note
Taxable income	120,000	
Proceed from selling of the car	19,000	(a)
Subtotal 1	139,000	
Depreciation expenses	24,000	(a)
Car repair expenses	3,000	(a)
Subtotal 2	112,000	
Carry forward of losses of 2004	0	(b)
Carry forward of losses of 2006	25,000	(b)
Taxable income	87,000	(c)
Corporate income tax payable	13,050	

Notes:

(a) If full depreciation method is employed, then cost of the purchased asset that is put into exploitation as well as repair expenses on it are fully deductible. On the other hand, any proceeds received from the sale of such assets are added to total income.

(b) Standard loss carry forward period is 5 years. Therefore, losses from 2004 cannot be carried forward in 2011.

(c) Corporate income tax payable is calculated as 15% of the taxable income.

3.1.14. Foreign Tax Relief

Foreign corporate income tax paid on income generated from a foreign source may be credited against the Georgian tax imposed on the same income, limited to the amount of such Georgian tax (i. e. only up to the amount of the corporate income tax which would be payable on such income in Georgia). For the purpose of crediting foreign tax paid abroad, the payment evidence shall be provided to the GTA.

3.1.15. Compliance

Corporate income tax returns can be filed either personally, electronically (see section "*E-services*", p. 78) or sent via insured mail within three months following the end of the tax period. The submission date can be extended for up to a further three months if the GTA are notified before the deadline expires, and a taxpayer has made advance tax payments (or has no obligation to make advance tax payments) due for the current tax year (see section "*Filing of Tax Returns*", p. 72). Corporate income tax returns can be amended within the statute of limitation (see section "*Statute of Limitation*", p. 71).

Georgian companies and permanent establishments of foreign companies in Georgia conducting economic activities must make quarterly advance corporate income tax payments either via bank or e-paying system (see section "*E-services*", p. 78) at 25–25% of the tax liability for the preceding tax year. The due dates for the payments are 15 May, 15 July, 15 September and 15 December of the current tax year.

Advance payments of tax are applied against the corporate income tax liability for the current tax year. The balancing payment for the current period shall be made before 1 April of the year subsequent to the current tax year.

The excess of the total advance payments over the tax due for the tax year can be applied against any outstanding or future tax liabilities or be refunded according to specified procedures.

If the tax rate changes in the current tax year, a taxpayer has the right to calculate and make advance corporate income tax payments applying the current tax rate to the taxable income of the preceding tax year.

A taxpayer with no taxable income during the previous tax year does not have to make advance corporate income tax payments during the current tax year.

Example 10

A Georgian company started operations in the tax year 2011. Its taxable income for 2011 and 2012 was respectively GEL 60,000 and GEL 90,000. Income tax rate for both years equals to 15%.

Calculation of income tax payments for 2011and 2012

As 2011 is the first year of operations no advance payments for CIT will take place in 2011. Entire CIT for 2011 amounting to GEL 9,000 (60,000×15%) will be paid in 2012 before 1st April of 2012.

As for the year 2012, the company will make four equal advance tax payments by 15 May, 15 July, 15 September and 15 December of 2012 in the amount of GEL 2,250 each (9,000:4). As CIT for the year 2012 amounts to GEL 13,500 (90,000×15%) a balancing amount of 4,500 (13,500 – 4×2,500) will be payable by 1st April of 2013.

If in 2012 CIT rate goes down to 10%, then advance and balancing payments of CIT for 2012 would respectively equal to GEL 1,500 (60,000×10%:4) and GEL 3,000 (90,000×10%:4×1,500).

3.1.16. Corporate Income Taxation for Foreign Companies

3.1.16.1. General

A company is treated as a foreign company if it is not a Georgian company (i.e. neither incorporated nor has its place of management in Georgia). Foreign companies are generally subject to Georgian tax on income generated in Georgia. This Georgian source income is taxed by applying either a regular taxation scheme (i.e. applicable to Georgian companies, that is 15% of a taxable income) if it is earned through a permanent establishment of a foreign company in Georgia, or is subject to withholding taxation if it is not earned through a permanent establishment.

3.1.16.2. Permanent Establishment

Income earned through a permanent establishment (PE) in Georgia, reduced by tax-deductible expenses, is taxed at a regular flat corporate income tax rate of 15%. A PE is defined as any fixed location for the business activities of a foreign company in Georgia through which this foreign company carries out, in full or in part, an economic activity in the territory of Georgia, including activity carried out by an authorized person. The following are equivalent to PE in Georgia:

- Construction sites, assembly or building facilities and the exercise of controlling activities connected with them
- Installations, structures, drilling equipment, ships used for surveying of natural resources, as well as the exercise of controlling activities connected with such facilities
- A permanent base where a non-resident individual carries out economic activity
- The place of management of a foreign company, branch, representative office, department, bureau, office, agency, workshop, mine, pit, other place for extraction of natural resources or any other separate unit or place of activity of such company

Domestic tax law and applicable double taxation treaties list activities that do not result in a taxable PE, including:

- Storage or demonstration of goods belonging to a foreign company or non-resident individual
- Keeping a stock of goods belonging to a foreign company or non-resident individual, only for the purpose of processing by another person
- Purchase of goods or collection of information for a foreign company or non-resident individual
- Performance of any other activities that are preparatory or auxiliary in nature on behalf of a foreign company or non-resident individual
- Preparation and/or signing of contracts for granting loans, supplying goods or rendering technical assistance on behalf of a foreign company or non-resident individual
- Execution of any combination of the above activities.

Further, the mere transfer of property under rent, lease, usufruct or any similar substance in the territory of Georgia does not result in PE of a foreign company or a non-resident individual, other than when such person regularly carries out service and control of activities of property recipient either personally or via its representative/employee.

Simply holding ordinary shares in Georgian companies, securities issued by the later or owning the property in the territory of Georgia without having any characteristics of PE mentioned above does not result in PE of a foreign company or a non-resident individual.

Georgian law allows foreign investment in various forms, including investments through 100% foreign-owned subsidiaries, share participation in Georgian companies and in joint ventures with Georgian legal entities and individuals, permanent establishments (affiliates, branches) and other types of participation.

3.1.16.3. Withholding Taxation

Income earned by foreign companies and non-resident individuals from Georgian sources without a permanent establishment in Georgia is subject to withholding taxation at the source of payment (for withholding taxation rates see section "*Tax Rates at a Glance*", p. 6). However, double taxation treaties may reduce the tax rates.

A resident payer of income (legal entity or individual entrepreneur) is responsible for withholding the tax from the income paid, without taking into consideration associated expenses, and transferring it to the state budget upon the payment (on the last day of the month for non-cash payments) to the foreign person. Returns are filed by 15 of the month following the reporting period (monthly or quarterly) in which the payment was made. Further, the information about payments made to non-residents and taxes withheld shall be submitted to the GTA annually within 30 days following the tax year. A non-resident taxed at the source of payment in Georgia may wish to file a tax return for the purpose of tax recalculation and refund before 1 April of the year following the tax year. In this case, a non-resident will be taxed as receiving income through its permanent establishment in Georgia, associated expenses being deductible.

Currently Georgia has effective double taxation treaties with more than 30 countries (see table "*Double Tax Treaty Withholding Tax Rates*" in Appendix, p. 91). The rules on utilization of benefits granted by the double taxation treaties are established by the Order of the Minister of Finance of Georgia.

According to these rules:

- A Georgian resident paying to a non-resident must file to the GTA a duly completed form #1 for avoidance or reduction of withholding tax by 1 April of the year following the tax year. If the application form is not submitted within the deadline, the penalty for the failure to submit information to the GTA will apply
- If a resident has withheld the tax upon payment, a non-resident can claim the refund by filing a duly completed form # 2 during the statute of limitation.

For more about tax treaties see section "*Agreements for the Avoidance of Double Taxation*", p. 83.

Example 11

A foreign company operating in Georgia through an affiliated branch (a permanent establishment – PE) generated/incurred the following income/expenses in 2011:

Income	GEL
▸ Georgian source income generated through the PE	150,000
▸ Georgian source income from consulting services received from a Georgian entity and generated without the PE	40,000
▸ Dividend income received from a Georgian entity	10,000
▸ Foreign source income	700,000
Expenses	
▸ Expenses incurred on Georgian source income generated through the PE	110,000
▸ Expenses incurred on Georgian source income generated without the PE	20,000

Calculation of taxable income and corporate income tax for the tax year 2011

	GEL	Note
Taxation of income generated through the PE		
Georgian source income	150,000	
Minus: respective expenses	110,000	(a)
Taxable income	40,000	
Corporate income tax payable	6,000	(a)
Withholding taxation of incomes generated without the PE		
Dividend income	10,000	
Minus: respective expenses	0	(b)
Taxable dividend income	10,000	
Withholding tax payable	500	(c)
Georgian source income from consulting services	40,000	
Minus: respective expenses	0	(b)
Taxable consulting service income	40,000	
Withholding tax payable	4,000	(d)

Notes: (a) Georgian source income of a foreign entity generated through a PE is taxable on a regular scheme, i. e. total income of the PE is reduced by deductible expenses and remaining taxable income is taxed at a regular 15% corporate income tax rate.

(b) No deductions are allowed to income of a foreign entity taxable at a source in Georgia.

(c) Dividend income of a foreign entity received from a Georgian entity is taxable at a 5% withholding tax rate.

(d) Georgian source income from consulting services received from a Georgian entity and generated without a PE is taxable at a 10% withholding tax rate.

(e) Foreign source income of a foreign company is not taxable in Georgia.

3.2. Value Added Tax (VAT)

3.2.1. Taxable Transactions

VAT is an indirect tax, thus by and large end-users of goods and services bear costs on it. To put it simply, an end-user is a person who discontinues a chain of VAT taxable transactions. VAT taxable transactions include:

- Supply of goods/services that is considered as carried out in the territory of Georgia (including barter, and/or gratuitous supplies)
- Use of VAT taxable goods/services for non-economic purposes, if taxpayer has obtained a VAT credit for these goods/services
- Upon cancellation of VAT registration, the balance of goods for which taxpayer has obtained a VAT credit
- Use of self-constructed buildings as fixed assets
- Transfer of ownership on goods/services in exchange for share in legal entity/partnership
- Upon expiry or early termination of rental agreement, supply of leasehold improvement to the lessor
- Supply of goods/services by a taxpayer to its employees with or without compensation
- Export/re-export of goods outside Georgia
- Import and/or temporary import of goods into Georgia.

3.2.2. Place of Supply

As noted above, supply of goods or services is subject to VAT taxation if it is considered as carried out in the territory of Georgia. Thus, it is crucial for VAT taxation to define the place of supply of goods and services.

Place of supply for goods

- Place of supply is wherever the goods are actually supplied or where transportation of goods starts, if supply of goods requires transportation
- Place of supply of electrical or thermal energy, gas and water is the place of receipt of these goods.

Place of supply for services

Depending on the nature of service, the place of supply is:

- the location of immovable property if the service is related to this property
- the place of actual supply if the service is related to movable property or is rendered in the sphere of culture, art, education, tourism, recreation, gymnastic or sport
- the location of passengers or cargo upon start of their transportation, if the service is related to this transportation
- the place of registration or management of a service recipient or location of its permanent establishment (if the service is related to the latter), if the service provider and the service recipient are located in different countries; This provision stands for supply of intangible assets; consultation, legal, accounting, engineering and similar services; staff provisioning services; advertising services; financial, insurance and re-insurance operations; renting movable property except means of transportation; telecommunication, radio and television services; services provided electronically (e. g. web-sites, web-hosting, software support, distance learning, etc.
- if place of supply is not described under any of the above categories, the place of supply is the place of economic activities of a service provider.

If a particular service qualifies for more than one of the above cases, the place of its supply is defined based on the first case. For example, if consulting services are provided with respect to immovable property located in Georgia, then such service would qualify for the first, as well as the forth case. However, as the first case prevails, Georgia may be considered as a place of supply.

3.2.3. Invoicing

A registered VAT payer must issue a tax invoice on its VAT taxable transactions (except barter transactions) to the customers within 30 calendar days of request. There is no such obligation if a customer is an individual not registered as a taxpayer (except cases determined by the Order of the Minister of Finance of Georgia). A tax invoice may be issued either in paper form authorized by the Minister of Finance of Georgia or in electronic form.

3.2.4. VAT Registration

A VAT taxable transaction attracts VAT only if it is carried out by a person registered as a VAT payer, or one who is liable to register as such. Taxpayers are liable to register as a VAT payer if they:

- carry out VAT taxable transactions and their aggregated value exceeds GEL 100,000 in any continuous period of 12 calendar months; notably, a person supplying only in the territory of a Special Trade Zone does not have an obligation to register as a VAT payer
- pt from VAT taxation upon import); a taxpayer must file an application for VAT registration to the GTA before supply of excisable goods in Georgia
- intend to carry out a single VAT taxable supply, or a set of VAT taxable supplies in one day with a total amount exceeding GEL 100,000; a taxpayer must file an application for VAT registration to the GTA no later than 2 working days from such supply(s)
- represent entities established as a result of reorganization and at least one of the parties to reorganization is a VAT payer; a taxpayer must file an application for VAT registration to the GTA before a VAT taxable transaction is carried out, but no later than 10 calendar days from reorganization
- represent legal entities/partnerships and a VAT payer shareholder/partner contributed goods/services into their capital; a taxpayer must file an application for VAT registration to the GTA before a VAT taxable transaction is carried out, but no later than 10 calendar days from such contribution.

The registration procedure is straightforward and the taxpayer can register for VAT normally within one working day.

Taxpayers may register as a VAT payer voluntarily.

3.2.5. VAT Deregistration

VAT registration is cancelled:

- upon liquidation of a business
- upon decease of an individual
- upon filing an application by a taxpayer to the GTA or upon agreement of a taxpayer to the GTA's request for deregistration, if the sum of a taxpayer's taxable transactions (excluding VAT) during the last 12 calendar months does not exceed GEL 100,000 and it has been registered as a VAT payer for at least one year.

VAT registration is cancelled from the:

- date of liquidation of a business or decease of an individual
- first day of a month following the reporting period when a taxpayer submits an application or a taxpayer agrees to the deregistration request from the GTA.

Example 12

A taxpayer started operations in January 2010. Its monthly VAT taxable and exempt supplies for the first 12 month period amounted to GEL 8,000 and GEL 2,000 for each month respectively. In the 2nd 12 month period the same figures were GEL 9,000 and GEL 1,000 and afterwards – GEL 5,000 and GEL 3,000:

Mandatory VAT registration

In the first 12 month period the total amount of VAT taxable operations amounted to GEL 96,000 (12 months × GEL 8,000 = GEL 96,000. Notably, exempt operations are not taken into consideration for mandatory VAT registration needs). As this amount is less than the established threshold of GEL 100,000 the taxpayer will not be required to register as a VAT taxpayer, however she can do so voluntarily.

Starting from the 13th month value of VAT, taxable operations per month increase by GEL 1,000 (again, VAT exempt operations are irrelevant). As a result, at the end of 16th month the taxpayer will reach the GEL 100,000 threshold (8 months × GEL 8,000 + 4 months × GEL 9,000 = GEL 100,000). This means that an aggregated value of VAT taxable operations of the taxpayer will get bigger than GEL 100,000 on the next day. Thus, she will be required to obtain a VAT registration.

From the 25th month the amount of VAT taxable operations per month will drop down to GEL 5,000. As a result of this, at the end of 26th month the aggregated value of VAT taxable operations for the last 12 months will fall to the level of GEL 100,000 (10 months × GEL 9,000 + 2 months × GEL 5,000 = GEL 100,000). However, the taxpayer may not apply to the GTA for VAT deregistration as the time passed from the last registration (beginning of the 17th month) is less than a year. By the same reason the taxpayer may apply for VAT deregistration starting from 29th month.

3.2.6. VAT Rates

The VAT rate is 18% for all taxable transactions and imports unless a specific provision allows an exemption.

The same rate applies to RCVAT.

The VAT rate of 0.54% applies to temporarily imported goods for each complete/incomplete calendar month while they are located in the customs territory of Georgia, but only up to the VAT amount calculated at 18%.

3.2.7. Exemptions

VAT exempt supplies are those VAT taxable supplies that are specifically exempt from VAT taxation. VAT exempt supplies may be either with the entitlement to credit input VAT or without it.

The TCG defines a list of transactions that are exempted with the entitlement to credit. Having such transactions, a taxpayer has the right to credit input VAT in full against output VAT assessed on taxable transactions. For example, a taxpayer has local sales that are subject to VAT taxation at 18%. At the same time, the taxpayer exports goods outside Georgia, which is an exempt transaction. However, the exemption does not limit the right of the taxpayer to credit input VAT. Thus, the taxpayer offsets input VAT in full against VAT payable on local sales.

Further to the exempt truncations with the entitlement to credit, the TCG lists the truncations that are exempt without the entitlement to credit. Having such transactions, a taxpayer does not have a right to credit input VAT related with such transactions against output VAT assessed on taxable transactions. For example, a taxpayer has local sales that are subject to VAT taxation at 18%. At the same time, the taxpayer has a financial transaction that is an exempt transaction. Thus, the taxpayer is not allowed to credit input VAT up to the amount attributable to such exempt transaction. On the other hand, the taxpayer offsets input VAT attributable to taxable transactions.

Transactions exempt with the entitlement to credit

The list of exempt items with the entitlement to credit input VAT includes:

- export/re-export of goods
- supply of goods/services intended for the official use of foreign diplomatic and equal representative offices, as well as for personal use of staff of such agencies (or their family members)
- transportation of passengers and luggage and supply of related services, provided that either departure or destination point is located outside Georgia
- transportation of goods placed in export, re-export, external processing or transit operations, and supply of related services
- transportation of goods, placed in import, warehouse, temporary import, internal processing or free zone operations before entering into the territory of Georgia, from the customs border of Georgia to the destination point, and supply of related services (except storage services)
- transportation of goods, placed in import, warehouse, temporary import, internal processing or free zone operations before entering into the territory of Georgia, from the economic border of Georgia to the destination point, and supply of related services (except storage services)
- supply of services related to transportation, loading, reloading and storage of empty transportation means (e. g. containers, carriages) used in transportation

- import and/or supply of goods to be provided on board international flights and international sea passages
- supply of Georgian goods for sale in a duty free zone
- supply of goods and/or food services in a duty free zone
- supply of assets under reorganization
- contribution of assets into the capital of a legal entity/partnership, where the latter has theoretically credited VAT on these assets upon the contribution
- supply of gold to the NBG
- organized foreign tours into Georgia by tour operators and the supply of tourist packages by the latter
- supply of business as a going concern by one VAT payer to another, provided that both parties notify the GTA within 15 days from such supply
- supply of foreign goods in a customs warehouse
- initial supply of agricultural products (except eggs) produced in Georgia before their processing (i. e. change of code), other than supply by persons engaged in agricultural activities (see section "*Transactions exempt without the entitlement to credit*" below)
- supply of beef, pork, sheep and goat meat, as well as industrially processed cheese produced from local materials, other than supply by persons engaged in agricultural activities (see section "*Transactions exempt without the entitlement to credit*" below), etc.

Transactions exempt without the entitlement to credit

The list of exempt items without the entitlement to credit input VAT includes:

- conduct of financial operations and/or supply of financial services
- import and/or supply of goods and services under the Law of Georgia on Oil and Gas
- import and/or temporary import of goods intended for personal use of citizens of foreign countries employed at oil and gas exploration and extraction works
- import and/or supply of certain medicines, passenger cars, publications and mass media and baby products
- supply of educational and medical services
- initial supply of agricultural products (except eggs) before their processing (i.e. change of code) by persons engaged in agricultural activities;
- supply of land plots
- supply of betting and gaming services
- import of 400 cigarettes or 50 cigars or 50 cigarillos (slim cigars) or 250 grams of other tobacco products or combination of all mentioned products up to 250 grams by an individual during one calendar day by air transport or during 30 days by other means of transportation, also import of 4 liters of alcoholic beverages (except import of goods from Free Industrial Zone)

- import of goods under 30 kilograms and with a value between GEL 300 and GEL 3,000 depending on the type of goods and means of transportation (except import of goods from Free Industrial Zone); further, import of goods with the value up to GEL 15,000 depending on the period spent outside Georgia
- supply of goods/services between Free Industrial Zone Companies (see section "*Beneficial Tax Regimes*", p. 65)
- supply of shares (not attached with the property) in partnership, except receiving the property in individual ownership in exchange for the shares (for taxation of partnerships see section "*Partnerships*", p. 25)
- supply of property by the partnership to its members, provided that the members are individuals only, the composition of the partnership has not changed since its establishment and the partnership is not a registered VAT payer (see section "*Partnerships*", p. 25)
- temporary import of fully exempt goods from VAT taxation, etc.

A taxpayer may apply to disuse the exemption without the entitlement to credit. The exempt supplies will become subject to VAT and the taxpayer will have the right to reclaim input VAT against output VAT. This option becomes effective from the first day of the reporting period following the submission of an application and is valid for 12 calendar months for all transactions. The GTA must register a taxpayer for VAT and the latter must accrue VAT on all transactions, including exempt ones.

3.2.8. Crediting of Input VAT

VAT paid or payable (input VAT) can be credited against output VAT or other taxes payable, or may be refunded.

Input VAT should meet certain conditions to become creditable, including:

- taxpayer must be a registered VAT payer
- taxpayers reporting quarterly to the GTA must report a valid purchase tax invoice in a reporting period following the reporting period this invoice corresponds to, but no later than in a tax return of a last reporting period (i. e. calendar quarter)
- taxpayers reporting monthly to the GTA must report a valid purchase tax invoice to the GTA within three reporting periods following the reporting period this invoice corresponds to, but no later than in a tax return of a last reporting period (i. e. December)[15]
- the goods/services purchased must be used in taxable transactions, except (a) for exempt transactions without the entitlement to credit, (b) in export/re-export of goods, or (c) for rendering services outside the territory of Georgia.

[15] Notably, this and the previous cases do not apply to input VAT on fixed assets that are only creditable in the last reporting period of the respective year.

If goods and services are used for both exempt supplies with the entitlement to credit and exempt supplies without the entitlement to credit, the taxpayer is obliged to account for them separately:

- Input VAT directly related to exempt supplies with the entitlement to credit is creditable in full
- Input VAT directly related to exempt supplies without the entitlement to credit is not creditable at all
- Input VAT that may not be directly attributed to supplies exempt with or without the entitlement to credit is creditable in proportion to the exempt supplies with the entitlement to credit in total annual turnover.

Crediting of input VAT on fixed assets is similar to other goods described above, with the following exception. If fixed assets are used in exempt transactions both with and without the entitlement to credit, and the input VAT cannot be directly attributed to these transactions, then the input VAT is creditable in full in the first reporting period if exempt supplies without the entitlement to credit are less than 20% of total turnover of the previous tax year. The creditable VAT is adjusted by the end of each calendar year in proportion to the exempt supplies with the entitlement to credit in total turnover of the respective calendar year.

If exempt supplies without the entitlement to credit are more than 20% of total turnover of the previous tax year, input VAT is creditable only in the last reporting period of a tax year, in proportion to the exempt supplies with the entitlement to credit in total turnover of this calendar year.

The adjustment value of input VAT is calculated at:

- 1:10 of total input VAT for 10 calendar years for buildings
- 1:5 of total input VAT for 5 calendar years for other fixed assets

Cases where no VAT credit is allowed include:

- social, entertainment and representation expenses
- tax invoices, where the seller of goods/services cannot be identified
- bogus operations or fictitious agreements
- expenses incurred for the production of goods/services used in exempt supplies without the entitlement to credit, etc.

Example 13

During 2012 a VAT payer carried out supply of goods and services (output operations) in the amount of GEL 250,000 subject to 18% VAT taxation (output VAT), GEL 50,000 – exempt supply with the entitlement to credit and GEL 100,000 – exempt supply without the entitlement to credit. During the same period, the VAT payer purchased goods and services (input operations) with total VAT amount of GEL 30,000 (input VAT).

This input VAT satisfied all the requirements for creditable VAT, except as described in the *"Calculation of Creditable VAT"* below. The allocation of input VAT among output operations were as follows: input VAT corresponding to output operations taxed at 18% VAT – GEL 12,000; input VAT corresponding to exempt output operations with the entitlement to credit – GEL 5,000; input VAT corresponding to VAT exempt output operations without the entitlement to credit – GEL 9,000, input VAT that does not directly correspond to any of the output operations (indirect input VAT) – GEL 4,000.

Calculation of creditable VAT

Input VAT corresponding to VAT taxable output operations and VAT exempt output operations with the entitlement to credit can be credited. Thus input VAT in the amount of GEL 17,000 (12,000 + 5,000 = 17,000) is creditable. By the same logic, input VAT in the amount of GEL 9,000, corresponding to VAT exempt output operations without the entitlement to credit cannot be credited. As for the indirect input VAT (that does not directly correspond to any of output operations), it must be allocated between creditable and non-creditable input VAT in proportion to the values of VAT taxable and other output operations. This allocation is demonstrated bellow:

Total output supply	GEL 400,000	(a)
VAT taxable and qualifying VAT exempt output supply	GEL 300,000	(b)
Percentage of VAT taxable and qualifying exempt supply	75%	(c)
Total indirect input VAT	GEL 4,000	
Creditable indirect input VAT	GEL 3,000	(d)
Non-creditable indirect input VAT	GEL 1,000	(e)

To summarize, total creditable VAT for 2012 equals GEL 20,000 (f) and non-creditable VAT is GEL 10,000 (g).

Calculation of VAT payable.

For 2012 output VAT equals to GEL 45,000 (h) and creditable input VAT is GEL 20,000. Thus, VAT payable for 2012 will be GEL 25,000 (i).

Notes: (a) 250,000 + 50,000 + 100,000.
(b) 250,000 + 50,000.
(c) 300,000 : 400,000.
(d) 4,000 × 75%.
(e) 4,000 - 3,000.
(f) 17,000 + 3,000.
(g) 9,000 + 1,000.
(h) 250,000 × 18%.
(i) 45,000 - 20,000.

3.2.9. Special Rule for VAT Taxation of Import

If a taxpayer is a VAT payer and has declared and paid to the state budget VAT (except VAT paid on import, temporary import or export) in excess of GEL 200,000 during the last 12 calendar months, the taxpayer will be subject to a special rule for VAT taxation of import, from the first day of the month following the reporting period when this condition is met.

On the other hand, a taxpayer may apply to this special rule if it submits a written obligation to the GTA about importing assets with a customs value of at least GEL 5 million for use as fixed assets and/or for fixed assets for the following 12 consecutive calendar months.

Under this rule, import is not subject to VAT taxation. However, the VAT that should have been paid on such import is theoretically considered to be credited in the respective reporting period.

A taxpayer may declare in writing the refusal to qualify for this special rule.

3.2.10. Refund of VAT Paid on Goods Purchased by Citizens of Foreign Countries

If a taxpayer is a citizen of a foreign country and has purchased goods in Georgia, the taxpayer may be refunded VAT paid on these goods, provided the following criteria are met:

- Goods are taken out of the territory of Georgia within three months from their purchase
- Price of purchased goods per each receipt is more than GEL 200 (exclusive of VAT)
- The receipt for the purchase is issued by an authorized seller in the form approved by the Minister of Finance of Georgia

3.2.11. Reverse Charge VAT

RCVAT mechanism applies when a supplier of VAT taxable services is a non-resident (except a Georgian citizen individual) and has no VAT registration in Georgia. The tax-registered resident (except a non-entrepreneur individual or a Free Industrial Zone Company) and a permanent establishment of non-resident, paying for non-resident services, must report and pay RCVAT.

Further, if service/goods products (projection documents, technical documentation, technological scheme, program, etc.) are supplied outside the territory of Georgia by a non-resident through the Internet or any other means of electronic communication, and accordingly do not cross the customs border of Georgia in the form of an integral scheme or any other type of information bearer, such supply is subject to RCVAT as well.

Paid RCVAT is creditable against VAT payable in the same manner as directly paid input VAT.

Refund of RCVAT is based on the same rules as for ordinary VAT, but the document verifying the payment of RCVAT is used as the tax invoice. Taxpayers can only credit/refund RCVAT if they are registered VAT payers.

The supply of goods by a non-resident in Georgia through its tax resident representative is considered as supply made by this representative for VAT taxation purposes.

Example 14

In February 2012 a non-resident having no permanent establishment in Georgia provided a Georgian company with technical consulting service. The service fee to be paid to the non-resident as per the service contract amounts to GEL 6,750. The Georgian company has not yet paid for this service.

Calculation of RCVAT

The consulting service rendered by a non-resident to a Georgian company is considered as rendered in Georgia for VAT purposes, thus is subject to local VAT taxation via the reverse charge rule. At the same time, the service is subject to withholding taxation as the non-resident receives income from Georgian source. Thus, the Georgian company was liable to assess RCVAT on a service fee amount at 18%, declare and transfer to the state budget. Further, the Georgian company will be liable to assess withholding tax at 10% upon payment to a non-resident and transfer to the budget as well.

	GEL	Note
Total service fee amount	6,750	
RCVAT taxable base	7,500	(a)
RCVAT payable	1,350	(b)
WHT payable	750	(c)

Further, the Georgian company will credit RCVAT against output VAT when paid.

Notes: (a) As the WHT tax rate on the subject service is 10% net service fee is grossed up by 10% [6,750 : (100% – 10%)].

(b) 7,500 × 18%.

(c) 7,500 × 10%.

3.2.12. Compliance

The VAT reporting period is a month. However, certain VAT payers will gradually move to quarterly reporting until 1 January 2013, according to the resolution of the Government of Georgia.

VAT payers are required to file a VAT return either personally, electronically (see section "*E-services*", p. 78) or send it via insured mail and pay VAT, including RCVAT, either via a bank or the e-paying system (see section "*E-service*", p. 78) no later than 15 of the month following the reporting period. VAT on import is paid at the moment the goods are imported into Georgia. VAT on a temporary import is paid no later than 15 of every next month, the last payment made on the last day of temporary import. Taxpayers may pay VAT on a temporary import in a lump sum.

3.3. Excise Tax

3.3.1. General

Alcoholic beverages, tobacco products, oil & gas and cars are generally excisable goods and are subject to excise taxation in Georgia.

3.3.2. Taxable Transactions

Taxable transactions include:

- supply of excisable goods manufactured in Georgia by the producer and/or removal of excisable goods from the warehouse for supply
- transfer of excisable goods produced with customer's raw materials in Georgia to the customer
- use of self-produced excisable goods for manufacturing of non-excisable goods
- supply of condensed natural gas and/or natural gas to motor vehicles
- rendering of mobile communication services
- import of excisable goods into Georgia
- export of excisable goods outside Georgia.

3.3.3. Tax Rates

Excise tax rates are fixed per physical unit of excisable good (liter, cm^3, kilogram, ton, etc.) and varies from product to product (for excise tax rates see table "*Excise Tax Rates*" in Appendix, p. 88).

Excise tax rate for mobile communication services is 10% of the value of taxable transaction. The Government of Georgia may review and change this rate within the 0% to 10% range for each calendar year. The amount of taxable transaction is compensation received or receivable (inclusive of taxes, duties and other fees) except excise tax, VAT and/or fines in the reporting period. Compensation from international mobile communication services rendered to non-resident entities is not included in taxable amount.

3.3.4. Exemptions

Exemptions from excise tax could be with or without the entitlement to credit.

Transactions exempt with the entitlement to credit include:

- export of excisable goods, except export of ferrous and/or non-ferrous scrap metal
- supply of excisable Georgian goods for sale in a duty free zone.

Transactions exempt without the entitlement to credit include:

- alcoholic beverages produced by an individual for own consumption
- import of 400 cigarettes or 50 cigars or 50 cigarillos (slim cigars) and/or other tobacco products with the total weight up to 250 grams by an individual during one calendar day by air transport or during 30-day period by other means of transportation, also import of 4 liters of alcoholic beverages
- fuel in the petrol tank technologically connected to the engine of the motor vehicle of a person entering Georgia by this vehicle
- import and/or supply of goods to be provided on board for international flights and international sea passages
- import of goods for the official use of foreign diplomatic and equal representative offices, for personal consumption of diplomatic and administrative-technical staff of such agencies (including their family members residing thereof), in the form whereby such exemption is stipulated under relevant international agreements which party is Georgia
- import of goods for personal use of citizens of foreign countries (including their family members) employed at oil and gas exploration and extraction works
- import and/or supply of oil products necessary to carry out oil and gas operations defined by the Law of Georgia on Oil and Gas
- cars classified under HS code no. 8703 with electric engine
- return of excisable goods into Georgia in the same condition within 3 years from their export.

3.3.5. Invoicing

If a taxpayer is an excise taxpayer, they must issue and submit a tax invoice (which also includes excise information) to a recipient of goods/services upon their request within 30 calendar days from such request.

3.3.6. Crediting of Input Excise Tax

If a taxpayer conducts excise taxable transactions, she is entitled to a credit or refund of excise tax paid on excisable goods (materials) purchased to produce excisable goods, but up to the excise tax payable on such excisable goods.

Credit or refund of excise tax shall be validated by a tax invoice and/or customs declaration that proves the payment of excise tax to the producer of excisable goods (materials) and/or upon import of such goods.

If excisable materials are used in the production of both excisable and non-excisable goods, the credit of excise tax is obtained in proportion with produced excisable goods, but up to the excise tax payable on such excisable goods.

Example 15

In February 2012 a company paid GEL 1,000 excise on the purchased excisable raw materials. In the same month, the company produced and sold excisable goods using 70% of these materials. Excise tax applied to the sold good amounted to GEL 600. The rest of the raw materials were used for the production of non-excisable goods.

Calculation of creditable excise tax in February 2012

Excise tax paid on the raw materials used for production of the excisable goods:

70% × GEL 1,000 = GEL 700

Excise tax payable on the sale of the excisable goods produced:

GEL 600 (as given above)

Creditable excise tax paid:

GEL 600 (as the excise tax payable was only GEL 600)

Non-creditable excise tax paid:

GEL 1,000 - GEL 600 = GEL 400

Providers of mobile communication services credit excise tax paid on such services against excise tax payable, provided that they are not final consumers.

Further, 50% of excise tax paid on imported cars classified under HS code no. 8703 may be refunded back in case the same car is exported from Georgia within 15 working days of their import.

3.3.7. Excise Stamps

The following goods are subject to excise stamping, except specific exempt cases:

- Alcoholic beverages, including beer, with an alcohol content higher than 1.15 degrees
- Tobacco products except pipe tobacco.

Upon purchase of excise stamps either personally or via e-filing system (see section *"E-services"*, p. 78), excise tax and nominal value of such stamps is paid. Excise stamps may also be issued electronically.

Stamping of excisable goods is carried out according to the rules established by the Minister of Finance of Georgia.

3.3.8. Compliance

The excise tax reporting period is a month. However, taxpayers may gradually move to quarterly reporting until 1 January 2013, according to the resolution of the Government of Georgia.

Taxpayers are required to file an excise tax return and pay excise tax by 15 of the month following the reporting period. Excise tax on imports is paid at the moment the goods are moved into Georgia.

Example 16

An excise taxpayer company imported 2,000 liters of Ethyl alcohol (a HS code no. 2207, containment of pure alcohol of 80%) in November 2011, produced bottled Vodka (a HS code no. 2208 60, containment of pure spirit of 40%) in December 2011 and sold it in the same month. By assumption normal losses in the production of bottled Vodka established by an authorized person in Georgia amounts to 3% of volume.

Calculation of excise tax payable in December 2011

Excise tax paid at the import of the ethyl alcohol in November 2011:

2,000 liters × GEL 2.60 = GEL 5,200

Volume of Vodka produced in December 2011:

2,000 liters × 80% : 40% × (1-3%) = 3,880 liters

Excise tax applied on the Vodka sold in December 2011:

3,880 liters × GEL 3,00 = GEL 11,640

Excise tax payable on the Vodka sold in December 2011:

GEL 11,640 - GEL 5,200 = GEL 6,440

3.4. Import Tax

3.4.1. General

Import taxpayer is a person moving goods on the customs border of Georgia, except export.

Import tax is based on either the customs value or per physical volume of goods (for methods of determining the customs value of goods upon import see section "*Movement of Goods in the Customs Territory of Georgia*", p. 79).

Certain motor vehicles are taxed according to the special formula outlined below.

The assessed import tax is paid at the moment goods are brought into the customs territory of Georgia.

3.4.2. Tax Rates

The rate applicable to the customs value of goods is fixed at 0%, 5% or 12% according to the HS codes. Most goods fall into the 0% rate category. Most food products and construction materials fall under the 5% or 12% tax rates.

Beverages are taxed at EUR 0.2 - EUR 3 per liter or 100 liters, depending on alcohol content.

Import tax on a temporary import is fixed at 3% of the amount of import tax for each complete/incomplete month of the goods located in the customs territory of Georgia that would have been paid on a usual import, but up to the amount of this import tax.

Import tax charged on motor cars classified under HS code no. 8703 is calculated using the following formula:

$IT = GEL\ 0.05 \times V \times (1 + 5\% \times N)$, where

IT – is the import tax on the motor vehicle in GEL,
V – volume of the engine of the motor vehicle in cubic centimeters
N – age of the motor vehicle in years.

3.4.3. Exemptions

The list of operations which are exempted from import tax includes:

- placement of goods under any operation upon bringing them into the customs territory of Georgia, except import and/or temporary import
- placement of goods in a duty free zone
- import of goods produced in a Free Industrial Zone
- import of goods defined by the grant agreements
- import and/or temporary import of goods for personal use of citizens of foreign countries (including their family members) employed at oil and gas exploration and extraction works

- import and/or temporary import of goods for official use of foreign diplomatic and equal representative offices, for personal consumption of diplomatic and administrative-technical staff of such agencies (including their family members residing thereof) in the form whereby such exemption is stipulated under relevant international agreements to which Georgia is the party
- import of baby and diabetic food products
- import of goods to be provided on board for international flights and international sea passages
- import of goods in the framework of Law of Georgia on Oil and Gas
- import of tobacco products and/or tobacco raw materials until 1 January 2013
- import of 400 cigarettes or 50 cigars or 50 cigarillos (slim cigars) or 250 grams of other tobacco products (except tobacco raw materials) or combination of all mentioned products up to 250 grams, by an individual during one calendar day by air transport, or during 30 days by other means of transportation, also import of 4 liters of alcoholic beverages
- import of goods under 30 kilograms and with a value between GEL 300 and GEL 3,000, depending on the type of goods and means of transportation, further, import of goods with a value up to GEL 15,000 if stayed outside Georgia for more than 6 months
- import of goods returned into Georgia in the same condition within three years from their export.

Example 17

In March 2011 an individual imported a Mercedes E270 car (HS code no. 8703) into Georgia. The car was produced in November 2005 and has an engine of 2700 cubic centimeters (cm^3).

Calculation of excise and import taxes of the car	Notes
Excise tax	
2700 cm^3 × GEL 0.7 = GEL 1,890	(a)
Import tax	
2700 cm^3 × GEL 0.05 (1 + 5% × 6 years) = GEL 175.50	(b)

Notes: (a) Age of the car for excise tax purposes is six years (the difference between the year when the respective declaration on the import was registered (2011) and a year of production of the car (2005). An excise tax rate for a six year-old car equals to GEL 0.7 per each cubic centimeter of volume of its engine (see table "*Excise Tax Rates*" in Appendix, p. 88).

(b) Import tax is calculated at GEL 0.05 per each cubic centimeter of the volume of the engine of the car increased by 30% (6 years × 5%).

3.5. Property Tax

3.5.1. Taxpayers and Taxable Assets

Georgian resident companies and organizations are subject to property tax on fixed assets, non-installed equipment, construction in progress and intangible assets listed on their balance sheet, as well as leased out property.

Non-resident companies are subject to property tax on the same types of assets located in Georgia, including property transferred under rent, usufruct or any similar type of arrangement.

3.5.2. Tax Rates

Property other than land and leased out taxable assets

The annual property tax rate for companies and organizations should not exceed 1% of the average annual net book value (NBV) of the taxable assets (except land), where the latter is calculated as the average of the net book value of assets at the beginning and at the end of a calendar year.

The average annual NBV of immovable property shall be increased (indexed):

- three times for assets received before 2000
- two times for assets received from 2000 to 2004
- one and a half times for assets received during 2004
- three times for assets with no purchase information.

The average annual NBV of taxable assets of a company is not subject to the above indexation provided the company uses the revaluation method of accounting for immovable property and has financial statements audited by the firms defined by the Decree of the Government of Georgia. Such audited financial statements are valid for four years for the purpose of indexation.

Leased out taxable assets

Annual property tax rate for leased out taxable assets should not exceed 1% of their average annual NBV, where the NBV is calculated upon transfer under lease arrangement. For each following year the value of leased out taxable assets is the net book value of such assets as if they have not been leased out.

For leasing companies the annual property tax rate for leased out taxable assets should not exceed 0.6% of the net book value of such assets upon leasing for the lease period.

During a tax audit, the GTA may recalculate the average annual NBV of the assets applying the market prices, except in the case where the company uses the revaluation method of accounting for immovable property and has financial statements audited by the firms defined by the Decree of the Government of Georgia as outlined above.

The decision of the GTA on application of market prices can be appealed (see section "*Tax Dispute Resolution*", p. 75). If it is proved that the market price exceeds the book value of taxable property, the property tax accrued on the resulting difference becomes due. However, no sanctions apply for the periods prior to the acceptance of the additional tax assessment. Taxpayers shall use the NBV adjusted by the GTA for three tax years going forward.

Taxable land

Annual property tax rates for agricultural and non-agricultural lands applicable to companies/ organizations are identical to those applied to individuals (for property tax rates on land see section "*Property Tax" for Individuals*, p. 19).

3.5.3. Exemptions

Certain types of assets, except land plots and/or buildings transferred under rent, usufruct or any similar arrangement, are exempted from property tax, such as:

- roads
- communication and electronic transmission wires
- property of an organization, including leased in property, except land and property used for economic activities
- property and land used for activities defined by the Law of Georgia on Oil and Gas
- property owned or leased by medical institutions and used for medical activities, except land
- land plots attached to the buildings of medical institutions used for medical activities
- property located in a Free Industrial Zone
- biological assets
- property leased in from residents of Georgia
- agricultural land plots received by legal entities and requiring cultivation for five years
- movable property (including leased in movable property) of a legal entity used in live stock agriculture
- property related to the hotel services rendered by the Free Tourist Zone Entrepreneur until 1 January 2026, etc.

3.5.4. Compliance

Companies and organizations submit annual property tax returns either personally, electronically (see section *"E-services"*, p. 78) or via insured mail no later than 1 Aprilthe current tax year. The submission date can be extended for up to a further three months if the GTA are notified before the deadline expires (see section *"Filing of Tax Returns"*, p. 72). Property tax returns can be amended within the statute of limitation (see section *"Statute of Limitation"*, p. 71).

Information presented in property tax returns with regard to taxable land is as of 1 April of a current tax year and for the remaining property – as of 31 December of the previous tax year.

Before 15 June taxpayers are liable to make an advance tax payment in the amount of full property tax of a previous tax year. The balancing payment of property tax is due no later than 1 April of a following tax year.

Companies that were incorporated after the beginning of a calendar year are not liable to make advance tax payments. Companies that existed for an incomplete calendar year pay property tax in proportion to this period.

Property tax on land is payable no later than 15 November of a calendar year. No advance tax payment is required for property tax on land.

Example 18

A company had the following assets (except land) listed on its balance sheet as of 31 December 2011 and a non-agricultural land plot as of 1 April 2011:

Description	Year of receiving of the assets	NBV at the beginning of 2011	NBV at the end of 2011	Area
Current assets (cash, receivables, inventory)	N/A	N/A	GEL 200,000	N/A
Fixed assets (except biological assets, leased assets and non-agricultural land)	2003	GEL 500,000	GEL 400,000	N/A
Biological assets	N/A	N/A	N/A	N/A
Leased assets	N/A	N/A	N/A	N/A
Non-agricultural land	2010	N/A	N/A	2,000 sq. meters
Intangible assets	2007	GEL 60,000	GEL 54,000	

Calculation of property tax, including land tax, for 2011

Description	Tax base	Tax rate	Property tax
Current assets (cash, receivables, inventory)	Is not subject to property taxation		
Fixed assets (except biological assets, leased assets and non-agricultural land)	GEL 900,000 (a)	1% (b)	GEL 9,000
Biological assets	Is exempted from property taxation		
Leased assets	Is exempted from property taxation		
Non-agricultural land	2,000 sq.	GEL 0.36 (c)	GEL 720
Intangible assets	GEL 57,000 (d)	1%	GEL 570

Notes: (a) An average annual NBV equals GEL 450,000 [(500,000 + 400,000) : 2] that is indexed up by a coefficient of 2 as the assets were received between 2000 and 2004. Thus a property tax base for these assets amounts to GEL 900,000 (450,000 × 2).

(b) By assumption, local government fixed the property tax rate to the available maximum of 1%.

(c) By assumption local government fixed the property tax rate on non-agricultural land at GEL 0.36 per sq. meter, thus property tax on the land amounts to GEL 720 (2,000 × 0.36).

(d) An average annual NBV of the intangible asset amounts to GEL 57,000 [(60,000 + 54,000) : 2]. No indexation is required as the assets were received after 2004.

3.6. Beneficial Tax Regimes

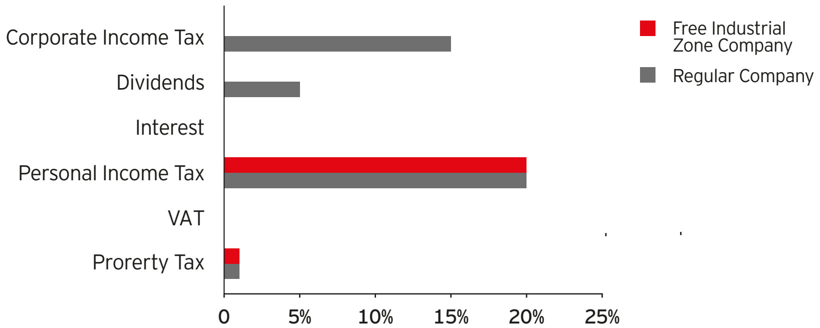
3.6.1. General

Companies can optimize their tax effectiveness in Georgia by obtaining the status of International Financial Company, Special Trade Company or Free Industrial Zone Company. The GTA grants these statuses to eligible companies based on the rules defined by the Minister of Finance of Georgia.

3.6.2. International Financial Company

An International Financial Company is a financial institution established outside of a Free Industrial Zone that, based on the certificate of status granted by Georgian fiscal authorities, generates income from financial operations/services from the source in Georgia not exceeding 10% of its worldwide income.

An International Financial Company benefits from tax exemptions, including those listed below and illustrated in the following graph:



- Income/gain of an International Financial Company (including Investment Funds with such status) received from financial services/operations and/or sale of securities issued by non-resident persons is exempted from corporate income tax
- Gain of individuals received from sale of securities issued by an International Financial Company is exempted from personal income tax
- Gain of entities received from sale of securities issued by an International Financial Company is exempted from corporate income tax
- Dividends paid by an International Financial Company is not taxed at the source of payment and is not further included in the total income of a receiver.

Further, in general:

- conduct of financial operations and/or provision of financial services in Georgia is exempted from VAT without the entitlement to credit
- interest received from a financial institution licensed according to Georgian legislation is not taxed at the source of payment and is not further included in the total income of a receiver provided the latter is not also a licensed financial institution.

Thus, an International Financial Company can also benefit from these tax exemptions with respect to its financial services/operations and interest payments.

No carry back or carry forward of losses is allowed for an International Financial Company.

3.6.3. Special Trade Company

A Special Trade Company is a company that, based on the certificate of status granted by the Georgian fiscal authorities for the purposes of receiving CIT exemptions, conducts operations in a customs warehouse in Georgia. A foreign company operating in Georgia through a permanent establishment herein may register another local permanent establishment for the purpose of warehouse operations and obtain the status of Special Trade Company upon registration.

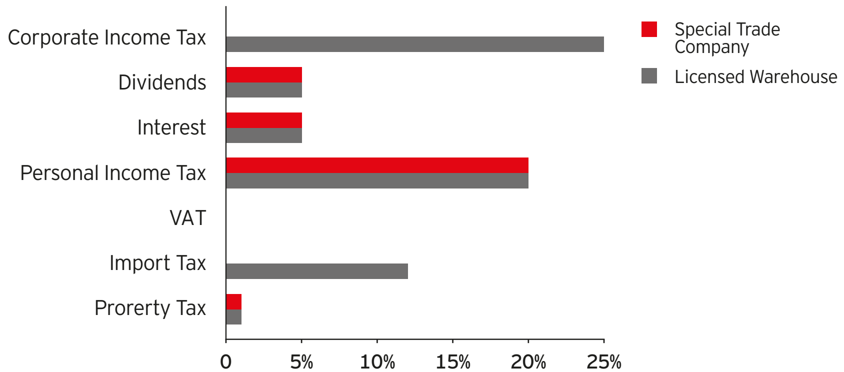
A Special Trade Company may carry out the following activities:

- re-export of foreign goods
- supply of foreign goods
- purchase of foreign goods at least at customs value of these goods from the companies without the status of Special Trade Company for the purpose of re-export and/or supply
- receive income that is exempted from corporate income tax
- receive income from supply of fixed assets used for at least two years in the customs activities
- receive other Georgian source income up to GEL 1 million and 5% of the tariff value of foreign goods brought into Georgia during a tax year.

A Special Trade Company is prohibited from:

- importing goods in Georgia, except fixed assets of the company
- purchasing Georgian goods in Georgia for subsequent supply
- rendering services from Georgian resident persons or permanent establishments of foreign companies in Georgia
- holding a customs warehouse.

A Special Trade Company benefits from tax exemptions, including those listed below and illustrated in the following graph:



- Income of a Special Trade Company received from allowable activities, other than income received from the supply of fixed assets used for more than two years in economic activities, is exempted from corporate income tax.

Further, in general

- supply of foreign goods in a customs warehouse, as well as export of goods from Georgia is exempted from VAT with the entitlement to credit
- bringing foreign goods into the customs territory of Georgia and placing them in a warehouse regime is not considered as import of goods.

Thus, a Special Trade Company can also benefit from VAT exemption with respect to supply of foreign goods in a customs warehouse and export. It can also avoid applying import tax when bringing goods into Georgia.

No carry back or carry forward of losses is allowed for a Special Trade Company.

3.6.4. Free Industrial Zone Company

A Free Industrial Zone Company[16] that, based on the certificate of status granted by Georgian fiscal authorities, conducts permitted operations.

Operations permitted to a Free Industrial Zone Company include all operations permitted to a regular company with some exceptions that are outlined below.

A Free Industrial Zone Company is liable:

- upon supply of goods to a Georgian registered taxpayer (except Free Industrial Zone Company) to assess and pay tax at 4% of income received/receivable (in case of free of charge supply – market value) from such supply by 15 of the month following the month of supply
- upon purchase of goods from a Georgian registered taxpayer (except Free Industrial Zone Company) to assess and pay tax at 4% of market value of purchased goods by 15 of the month following the month of purchase.

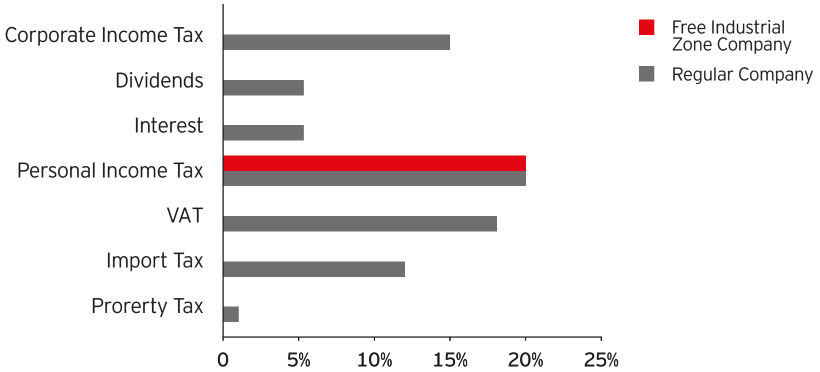
Not permitted operations of a Free Industrial Zone Company include the following:

- supply of services to Georgian registered taxpayer (except Free Industrial Zone Company)
- purchase of services from a Georgian registered taxpayer (except Free Industrial Zone Company), except purchases of:
  - security and/or property rental or lease services from an organizer and/or administrator of a Free Indusial Zone
  - transportation, communication, water supply, sewerage, audit and/or consulting services
  - financial operations and/or financial services by licensed financial institutions

[16] A company registered in a free industrial zone located in Georgia may have any legal form or ownership status.

- fixed assets construction and installation services
- other services defined by the Government of Georgia.

A Free Industrial Zone Company benefits from tax exemptions, including those listed below and illustrated in the following graph:



- Income of a Free Industrial Zone Company is exempted from corporate income tax
- Interest and dividends paid by a Free Industrial Zone Company are not taxed at source, and are not further included in total income of a receiver
- Exempted from VAT taxation without the entitlement to credit upon supply of goods/ services to another Free Industrial Zone Company
- Not obliged to withhold personal income tax upon salary payments to its resident employees
- Not liable to asses and pay RCVAT.

Further, in general:

- export is exempted from VAT with the entitlement to credit
- import of goods produced in a Free Industrial Zone into the customs territory of Georgia is exempted from import tax
- property, including land, located in a Free Industrial Zone is exempted from property tax.

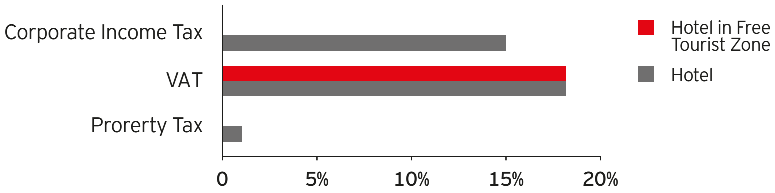
Thus a Free Industrial Zone Company can also benefit from these tax exemptions with respect to export, import of goods produced in a Free Industrial Zone and property located in a Free Industrial Zone.

No carry back or carry forward of losses is allowed for a Free Industrial Zone Company.

3.6.5. Tourist Zone Entrepreneur

A Tourist Zone Entrepreneur is a person that, based on the certificate of status granted by the Georgian fiscal authorities, builds a hotel and ensures its operation according to the Law of Georgia on Promotion of the Development of Free Tourist Zones.

A Tourist Zone Entrepreneur benefits from tax exemptions, including those listed below and illustrated in the following graph:



- Income of a Tourist Zone Entrepreneur derived from rendering hotel services is exempted from corporate in¬come tax until 1 January 2026
- The value of land plot(s) supplied gratuitously to a Tourist Zone Entrepreneur is exempted from corporate income tax
- The property of a Tourist Zone Entrepreneur related to hotel services is exempted from property tax until 1 January 2026.

3.6.6. Tourist Enterprise

A Tourist Enterprise is a legal entity that, based on the certificate of status granted by the Georgian fiscal authorities, builds a hotel for the purpose to supply the assets/part of assets of the hotel to another person and then lease back from the latter.

A legal entity may apply for the status for each object (i.e. hotel) if the following conditions hold:

- Ensures the object operates as a hotel business for the first eight years of exploitation
- More than 40% of the building space is used for hotel rooms
- Income received from hotel business during the first eight years of operation should not be less than income received from supplying the building to another person.

One should also note that a person financing the construction of a hotel building by purchasing this building from a Tourist Enterprise and then leasing back to the latter is allowed to get a refund of paid VAT within 3 months of this purchase operation, even if the person is not registered as a VAT payer in Georgia.

4. Tax Administration

4.1. Tax Assessments

The Georgian taxation system represents a self-assessment system under which taxes are calculated, paid and reported in accordance with prevailing tax legislation. Property tax for individuals is calculated by the GTA based on tax returns filed, and a notification of the amount of tax assessed is thereby issued.

4.2. Statute of Limitation

The statute of limitation in Georgia is six years. It is automatically extended to 11 years when a taxpayer chooses a 10-year carry forward of losses. Tax cannot be reassessed after this period has elapsed.

If a taxpayer files a tax return, customs declaration or calculation (including amended forms) within 12 calendar months of the end of a 6-year (11-year) period, the statute of limitation is extended by one year for tax accruals made based on these returns or calculations.

4.3. Tax Sanctions

Late payment of tax	0.07% of the tax due for each complete/incomplete overdue day
Late filing of tax return	5% of the tax stated in the tax return for each complete/incomplete overdue month minimum GEL 200 and maximum 30% of the tax stated in the tax return.
Understatement of tax (other than due to incorrect timing)	50% of the understated amount
Understatement of tax due to incorrect timing	10% of the understated amount
Crediting tax based on bogus operations or fictitious agreements or fake VAT documents	200% of credited tax

Note: There are some other penalties envisaged in the tax legislation of Georgia.

The above stipulated penalties for understatement of tax shall not be imposed if a person:

- has submitted to the GTA amended tax return prior to being notified of upcoming tax audit by the latter
- has submitted to the GTA an amended tax return on the basis of the tax audit conducted by an authorized person outside the GTA (see section "*Tax Control Procedures*", p. 73).

Notably, the head of the Tax Agency or DRC may waive sanctions for a taxpayer if its actions have not brought damages to the state budget and, at the same time, the violations were due to the taxpayer's mistake or unawareness, i. e. a good faith taxpayer.

4.4. Filing of Tax Returns

If a taxpayer applies to the GTA for an extension of the deadline for submitting a personal income tax, corporate income tax or property tax return before the deadline expires, and has made the advance tax payments (or has no such obligation) due for the current tax year, the deadline will be automatically extended for a further three months. The granting of an extension does not affect the deadline for advance tax payments and does not suspend assessment of late payment interest on unpaid taxes.

If a taxpayer identifies changes leading to a reduction or increase of the tax liability in the submitted tax return, it is that person's responsibility to submit corresponding amendments to the tax return.

A taxpayer may submit the tax return either personally, electronically (see section "*E-services*", p. 78) or send it via insured mail.

4.5. Measures to Ensure Fulfillment of Tax liabilities

The GTA may apply the following measures to ensure fulfillment of tax liabilities:

- Collection of funds from taxpayer's bank account
- Withdrawal of cash from taxpayer's cash-desk
- Tax lien/hypothecation
- Enforcement of payment on a third party
- Seizure of taxpayer's property
- Disposal of taxpayer's seized property.

The GTA are entitled to choose the sequence of these measures.

A decision to cancel enforcement measures is made by the Minister of Finance of Georgia, or an authorized person by the Minister, or head of the RS. Further, the head of the Tax Agency may postpone enforcement measures up to one year, if a taxpayer has signed a guarantee contract, submitted a bank guarantee or insurance policy issued by the persons defined by the Government of Georgia ensuring the fulfillment of tax liabilities. The cessation of enforcement measures to fulfill tax liabilities does not release a taxpayer from late payment interest on overdue taxes.

4.6. Tax Control Procedures

Tax control procedures conducted by the GTA include:

- current tax control procedures
- tax audit
- alternative tax audit.

4.6.1. Current Tax Control Procedures

The GTA may carry out current tax control procedures over a taxpayer's activities without preliminary notification. It can be done during official working hours and/or during any actual working period. The taxpayer is allowed to attend fulfillment of these control procedures.

Chronometric Examination

Chronometric examination implies the GTA observing the economic activities of a taxpayer to determine the taxpayer's income, volume of supplied goods/services and number of employees. Such examination is performed for at least seven days by non-stop recording of the volume of produced and/or supplied goods/services by a taxpayer during a workday.

Stock-Taking

The purpose of inventory stock-taking is a comparison of the accounting records of the taxpayer and any relevant inventory holdings.

The GTA have a right to carry out inventory stock-taking of a person owning excisable goods under the order of the Head of the Tax Agency. If a person owns non-excisable goods, the order of the Head of the Tax Agency is required for carrying out stock-taking only two times a year, and the order of the head/deputy of the RS is required for the third time.

Lack of inventory holdings will be penalized by 50% of the market value of such holdings. In case of surplus inventory the penalty amounts to the market value of such inventory. A taxpayer may not be penalized in case a lack, or surplus, of inventory holdings is less than 2% of the same type of accounted inventory.

There are some other types of current tax control procedures that may be carried out by the GTA, including:

- inspection
- tax monitoring
- test purchases of good/services
- control over the adherence to the rules for use of cash registers (machines).

4.6.2. Tax Audit

Georgian tax legislation envisages two types of tax audit: desk and field audits.

Desk Audit

Under the desk audit, the tax auditor, without visiting the taxpayer's place of activity, determines the consistency of taxpayer tax liabilities according to the requirements of the TCG, based on analysis of financial reports, tax returns and other data in the possession of the GTA. If errors are revealed during the desk audit, the taxpayer is notified about them in writing.

Field Audit

A field audit consists of a full or random audit of documents related to the calculation of taxes. It is carried out at the taxpayer's place of activity. Field tax audit can be either planned or controlling. For a planned field audit, the taxpayer will receive a notification letter 10 working days in advance either in paper or electronic form, but not for a controlling field audit. Field audits normally last no longer than three months (plus two months in co-ordination with the Head of the RS). The auditors may request accounting documents and/or copies of information related to taxation that is verified by the taxpayer. In case of the taxpayer's refusal to provide this documentation, auditors are entitled to remove original documents. However, the auditors must return them by the end of the field audit.

4.6.3. Alternative Tax Audit

According to the new initiative of the GTA, a taxpayer who is subject to auditing is eligible to make use of the tax audit service of a private firm. Such firms may include qualified tax consulting firms or individual tax consultants authorized by the Order of the Minister of Finance of Georgia. Notably, a taxpayer is not subject to tax sanctions if non-compliance is detected by a private auditing firm.

4.6.4. Direct and Indirect Methods of Determining Taxpayer's Tax Liabilities

The GTA are authorized to determine a taxpayer's tax liabilities by applying direct and indirect methods (i.e. considering the volume of assets, operational revenues and expenses, as well as analyzing any similar information) if at least two conditions out of the following are met:

- A person does not maintain accounting records in compliance with Georgian legislation
- Accounting documentation is lost or destroyed
- Assets of a person has increased without substantiation
- Total income of a person and/or volume of the operations and/or profit margins are changing considerably over the tax periods
- Expenses of a person incurred for economic activities and/or for personal purposes exceed the declared revenues.

4.7. Tax Deal

For certain taxes and/or tax sanctions a taxpayer may apply to the RS to conclude a tax deal with the aim of:

- reducing taxes and/or tax sanctions
- determining and/or reducing of undeclared tax liabilities for the period(s) and for types of taxes noted in the application
- postponing of future tax liabilities to be declared in the future period(s) up to three years and at 4% interest rate per annum; in case of postponing the future liabilities for more than three years the interest rate is agreed for each separate tax deal at or above the 4% annual interest rate.

The decision about a tax deal is made by the Government of Georgia. Based on this decision a tax deal act (the Act) is concluded between taxpayer and the RS.

The Act defines the revised amount of tax liabilities and the terms of payment, as well as interest rate if applicable. In case of violation of the terms of payment under a tax deal, a late payment interest of 0.5% will be imposed for every overdue day, but up to 10% of the tax liability.

4.8. Taxpayers' Rights

4.8.1. Tax Dispute Resolution

Taxpayer may appeal against the decisions of the GTA in the following circumstances:

- The GTA refuse to satisfy taxpayer's legitimate request
- Taxpayer does not agree with tax charges imposed by the GTA
- Taxpayer does not agree with any decision and/or action of the GTA against them.

A taxpayer may appeal the decision of the GTA either to the Ministry of Finance of Georgia or directly to the Court within 30 calendar days from receipt of the decision. The taxpayer may submit the appeal either in written or electronic form (see section "*E-services*", p. 78).

If taxpayer chooses to appeal to the Ministry of Finance of Georgia, the dispute may be resolved in the first instance by the RS or may be escalated to the DRC.

Taxpayers or their authorized representatives are entitled to attend each stage of the appeal review process. The RS has 20 calendar days to review appeals and 5 working days to send an official resolution to the taxpayer. A taxpayer has a right to object to the RS decision if it has received a rejection or no response before deadline. The objection can be addressed to the DRC or to the Court.

The DRC must take a decision on the appeal within 20 calendar days and send the taxpayer the resolution within five working days. The resolution can be further appealed within

20 calendar days from its receipt. If not appealed, on the 21st calendar day the resolution becomes effective.

If a taxpayer chooses to address the appeal to the Court, she must do this within the same deadlines as established for appeal to the Ministry of Finance of Georgia.

If a taxpayer does not present her appeal within the deadlines at any stage of the dispute process, the decision of the GTA under dispute comes into force and an appeal submitted without adhering to the deadlines will not be considered.

The liability to pay the amount under dispute, as well as assessed late payment interest and penalties, is halted during the dispute period. However, the accrual of late payment interest on the disputed amount still continues.

Upon commencement of a dispute, the taxpayer must present evidence that they have:

- a bank guarantee, or
- a guarantee agreement, or
- an insurance policy issued by the authorized entities defined by the Decree of the Government of Georgia, or
- placed their own property under the right of tax lien/hypothecation.

The total value of guarantees presented shall not be less than the amount under dispute. If the taxpayer does not present any of the above guarantees, or if the dispute is not resolved in her favor, the GTA are authorized to use enforcement measures for the amount of disputed tax liabilities without a Court order.

If a tax dispute is resolved in the taxpayer's favor, their secured guarantees, as well as any enforcement measures initiated by the GTA will be annulled.

4.8.2. Tax Ombudsman

The tax ombudsman is a person appointed by the Prime Minister of Georgia in coordination with the Chairman of the Parliament of Georgia. The functions of the tax ombudsman include:

- monitoring the protection of taxpayers' rights and their legitimate interests, disclosing violations and taking remedial actions
- considering taxpayers' claims regarding the violation of their rights by the GTA or other Government bodies
- obtaining explanations from the GTA regarding the taxpayers' claims
- providing recommendations to the respective body on the means of restoring the violated rights of taxpayers
- presenting an annual report to the Parliament of Georgia providing a general overview of taxpayers' rights protection. The ombudsman report should also contain general assessments, conclusions and recommendations in relation to the protection of taxpayers' rights.

4.9. Taxpayer Services

4.9.1. Advance Tax Ruling

The RS is authorized to issue an advance tax ruling upon taxpayer's request. The ruling shall stipulate the GTA's view about taxpayer's reporting obligations and/or tax liabilities arising out of the transactions that either have already been carried out or will be carried out in the future. An advance tax ruling may also be issued for determination of HS code or country of origin of the goods.

An advance tax ruling is issued within 60 days from submission of the request by the taxpayer and is effective only for the latter. If the person acts in accordance with the advance tax ruling, the GTA shall not impose additional taxes and/or tax sanctions later on.

An advance tax ruling becomes invalid if:

- the facts and circumstances mentioned in the advance tax ruling are different from actual ones
- the provisions of the TCG upon which advance tax ruling is based have been abolished or amended.

An advance tax ruling on HS code or country of origin of the goods shall be issued before filing the customs declaration at the customs border of Georgia and is valid for three years only for the goods specified in the ruling.

An advance tax ruling can be appealed by the taxpayer.

4.9.2. Private Tax Agent

A taxpayer can use the services of a private tax agent who is a tax officer of the GTA in order to improve communications with the GTA. The agreement concluded between a taxpayer and a private tax agent defines the rules and conditions of providing the services. Determination of the amount of tax liability of a taxpayer is excluded from duties of a private tax agent.

4.9.3. District Tax Officer

The GTA has introduced the status of district tax officer, who is a tax officer of the GTA and is responsible to visit taxpayers, provide regularly updated information and assist them with problematic tax issues. Notably, even if a district tax officer detects a tax violation, his/her only obligation is to advise a taxpayer – there is no authority to issue a penalty.

4.9.4. E-services

E-filing

The RS offers taxpayers a wide range of electronic services. Taxpayers may conduct correspondence and/or filing with the tax authorities electronically via the web-portal of the RS.

Electronic correspondence and/or filing include:

- filing a tax return
- issuing a tax invoice
- issuing a waybill
- filing an application requesting tax invoices
- filing an application requesting excise duties
- filing an appeal, etc.

Electronic documents sent by taxpayers and/or tax authorities have legal force equal to paper documents.

A taxpayer may register for e-services within one working day from submission of the application. A taxpayer may deregister from e-services in favor of paper forms again. Registration/deregistration for e-services can also be conducted online via a Skype video-call with a tax officer.

E-paying

A taxpayer may perform tax payments via the online payment system of the RS.

5. Movement of Goods in the Customs Territory of Georgia

The customs territory of Georgia shall comprise the land area of Georgia, the territorial and internal waters of Georgia and the airspace above the territory. The customs territory of Georgia also comprises the areas of installations and structures created in a special marine economic zone and synthetic islands to which the special jurisdiction of Georgia extends.

The customs border coincides with the state border of Georgia.

5.1. Customs Control Procedures

The RS is responsible for conducting certain control procedures that ensure the fulfillment of requirements of the legislation related to the movement of goods in the customs territory of Georgia. Customs control is mainly exercised in the control zone that is a part of the customs territory of Georgia and aims to check the correctness of the information declared by a declarant.

Subject to customs control are:

- individuals crossing the border
- goods and transportation means under customs supervision, which implies the conduct of a set of measures by the RS in order to comply with trade policy measures[17], limitations and prohibitions
- territory, where the goods and transportation means subject to customs supervision are located
- activities of a person related to the goods and transportation means in the customs territory of Georgia.

The forms of customs control include:

- check of documentation and data
- oral enquiry
- obtaining explanations
- observation (video and audio recording)
- inspection of goods, transportation means and territory
- sample selection for laboratory research purposes.

[17] Effective tariff (import tax) and non-tariff (permits, licenses, prohibitions, restrictions, etc.) measures according to the Acts regulating the movement of goods in the customs territory of Georgia.

- inspection of an individual
- check after release of the goods
- conduct of phytosanitary, veterinary and sanitary control of goods.

5.2. Declaration

The declarant and/or owner of the goods must submit the goods at customs checkpoint[18], terminal[19] or any other place defined by the Minister of Finance of Georgia upon bringing into or taking out of the customs territory of Georgia. This rule does not apply to goods moving through pipelines, electronic transmission wires or by air and water transportation in the customs territory of Georgia.

To formalize goods brought in or taken out of the customs territory of Georgia, a declarant shall submit a general customs declaration to the RS. The general declaration is a main source of information to fulfill the formalization procedures. In order to specify quantity, value and type of goods, a declarant can amend an already registered declaration. Such an amendment will not lead to any penalty if it is performed:

- before releasing of the goods (provided the GTA has not notified the declarant about the intention to check the declaration, or has not revealed that the information contained in the declaration is misleading)
- after releasing of the goods, but before initiation of a post-release check by the GTA.

At the same time, penalties will not apply to undeclared goods (other than those moved secretly) detected by the GTA upon inspection performed before the goods are released, if the customs value of undeclared goods is less than 5% of customs value of declared goods and within GEL 15,000

Customs operation on goods must be specified within 30 days from the registration of a general declaration, that the RS may reduce or extend by 60 days. The latter term is five calendar years for temporary storage of goods in a customs warehouse.

Goods placed in any customs operation (other than export) may be stored in a customs warehouse up to five calendar years, in case of export – up to 120 days.

After checking the customs declaration, the goods shall be released immediately if all requirements of the law are fulfilled. The customs supervision and control may still be retained on released goods.

[18] Customs control zone located at the customs border of Georgia, where the procedures defined by the TCG are conducted with respect to passengers, goods and transportation means

[19] Customs control zone of the RS, where the goods are stored.

5.3. Customs Value of Goods

One of the key pieces of information indicated in the registered customs declaration is customs value of goods. The RS may change the customs value if it believes that the information is misleading.

The following methods are used for defining customs value of goods:

- **1st method:** the transaction value of goods
- **2nd method:** the transaction value of identical goods
- **3rd method:** the transaction value of similar goods
- **4th method:** the unit price of goods
- **5th method:** the computed value
- **6th method:** the reserve method.

Each subsequent method is to be applied only when the application of the previous method is not possible. This is according to the requirements of the WTO Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 (customs valuation), which Georgia must apply as a Member of the WTO. However, declarants can reverse the order of the 4th and 5th methods of valuation.

5.4. Operations on Goods

Upon formalization of the goods, the following customs operations on goods can be selected:

- Import
- Export
- Re-export
- Transit
- Warehouse
- Free Zone
- Temporary import
- Internal processing
- External processing.

According to the conditions of the operations on goods, the declarant and/or owner of goods is liable to pay duties and/or submit the guarantee upon formalization of the goods. The detailed rules about the use of operations on goods as well as placing the goods in any operation are determined by the Minister of Finance of Georgia.

5.5 Import and Export Duties

The obligation to pay import/export duties for any customs operation arises on the registration date of customs declaration. If no declaration requirement exists, the obligation arises upon the registration of the relevant document at customs checkpoint, customs terminal, or any other place defined by the Minister of Finance of Georgia.

The obligation is determined based on the rates of import and export duties effective on the date the obligation arises.

Import duties include import tax, excise tax and VAT due upon bringing the goods into the customs territory of Georgia.

Export duty is a tax due upon taking the goods out of the customs territory of Georgia.

5.6 Returned Goods

Georgian goods (other than processed goods) taken out from the customs territory of Georgia can be returned back within 3 years from the declaration if identifiable. No import duties will be payable upon the return of these goods provided that they are returned in the same condition as upon taking them out of the customs territory of Georgia.

5.7 Simplified Rules

A person on the "Gold List" can benefit from the simplified rules upon bringing goods into the customs territory of Georgia. Such persons will benefit from simplified procedures at the border and beneficial payment terms of import duties, such as:

- no inspection of the imported goods at the border
- one month tax credit for import tax.

In order a company to qualify for the Gold List certain criteria shall be met:

- Volume of import/export operations
- Amount of import tax paid
- Presence of tax violations, etc.

6. Agreements for the Avoidance of Double Taxation

Georgia has already entered into double tax treaty agreements with 36 countries: Armenia, Austria, Azerbaijan, Belgium, Bulgaria, the Czech Republic, China, Denmark, Estonia, Finland, France, Germany, Greece, India, Iran, Ireland, Israel, Italy, Kazakhstan, Latvia, Lithuania, Luxemburg, Malta, the Netherlands, Poland, Qatar, Romania, Singapore, Spain, Switzerland, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom and Uzbekistan. Georgia considers none of the tax treaties of the former USSR to be in force (for withholding taxation rates under these treaties see table *"Double Tax Treaty Withholding Tax Rates"* in Appendix, p. 91).

Georgia has signed and ratified tax treaties with 6 countries: Bahrain, Hungary, Kuwait, Egypt, Slovakia and Norway, but these treaties are not yet in force.

Tax treaties are initialled with 8 countries: Portugal, Slovenia, Serbia, Croatia, Cyprus, Sweden, Oman and San Marino.

Tax treaty negotiations are initiated with 36 countries: Belarus, Jordan, South Korea, Liechtenstein, Iceland, Albania, Montenegro, Iraq, Marshall Islands, Panama, Argentina, Brazil, Mexico, Syria, Vietnam, Moldova, Indonesia, Malaysia, Saudi Arabia, Cuba, Ecuador, Lebanon, Colombia, Mauritius, Monaco, Mongolia, Morocco, New Zealand, Peru, Philippines, Tajikistan, Uruguay, Kyrgyzstan, Australia, Chile and South Africa.

Tax benefits granted by these tax treaties can be utilized following the rules established by the Instruction of the Minister of Finance of Georgia (see section *"Withholding Taxation"*, p. 43).

7. Establishing a Legal Presence in Georgia

Choosing the right business form is an important step towards starting a business in Georgia.

The Law of Georgia on Entrepreneurs is the principal piece of Georgian law that governs business organizations and sets forth the registration and other requirements. A company is deemed to be established only after it has been duly registration at the Entrepreneurial Registry.

Business activities can be conducted in any of the legal forms listed below:

- **Joint Stock Company (JSC)** is a legal entity having capital divided into certain number and types of shares defined by the company charter. A JSC's liability to creditors is limited only by its property. Shareholders are not liable for the company's liabilities. Capital of a JSC can be any amount. A JSC is entitled to issue ordinary and preferred shares if the company charter does not provide otherwise. An annual shareholders' meeting must be held within 2 months after the preparation of the balance sheet to consider the annual results and other issues, if company charter does not provide otherwise. A shareholders' meeting is not required if decisions are made by a shareholder who owns more than 75% of the capital of the company
- **Limited Liability Company (LLC)** is a legal entity whose liability to creditors is limited to its property. Partners (founders) are not liable for company's liabilities. Capital of a LLC can be specified in any amount. The capital of an LLC is divided into shares. A Partners' meeting must be held to consider the annual results and other issues. An LLC can be founded by one person
- **General Partnership (GP)** is a legal entity where two or more persons carry out entrepreneurial activities jointly under a single entity name. Partners are jointly liable to creditors with all their property. The liability of a partner is not limited
- **Limited Partnership (LP)** is a legal entity where two or more persons carry out entrepreneurial activities under a single entity name. The liability of some partners (Limited Partners) to creditors is limited to a certain warranty amount, while the liability of other partners i.e. full partners (General Partners), is not limited. Partners of an LP can be both legal entities and individuals. Partners with limited liability (Limited Partners) are not allowed to participate in the management of the LP
- **Cooperative (Co-op)** is a legal entity where its members carry out entrepreneurial activity mostly in agricultural or labour sectors. It is more oriented to satisfy the interests of its members, rather than to get profits. Co-op's liability to creditors is limited to its property. A general meeting must be held at least once a year to consider the annual results and other issues

- **Individual Enterprise (IE)** – is not a legal entity under Georgian company law. An IE is personally liable to creditors
- **Branch Office (BO)** is the structural sub-unit of a business entity and is not a separate legal entity.

According to the Law of Georgia on Public Registry, there is an accelerated company registration service. For example, if an interested party wishes to register their business structure (except for Individual Enterprises[20]) on their application submission date, then such interested party should pay GEL 200 as the fee for accelerated registration service[21]. However, the fee for registration of a business structure within one business day is GEL 100. Any person wishing to establish a business entity and/or branch office in Georgia must file all documents, in accordance with company law, to the Agency. There are no restrictions on foreign ownership of companies in Georgia. Any of the business structures described above could be set up with foreign participation.

Auditing of financial statements of Georgian business entities is not obligatory except for banks, insurance companies, companies listed on a stock exchange, and for some other businesses.

Most foreign investors set themselves up as Limited Liability Companies, Joint Stock Companies, or Branch Offices to do business in Georgia.

[20] Fee for registration of Individual Enterprise within one business day is GEL 20 (normal registration). Fee for registration of Individual Enterprise on application submission date is GEL 50 (accelerated registration).

[21] Fee for registration of business structure involved in food/animal food production within one business day is GEL 15.

Appendix

Tax Calendar

Period/Type of Tax	Tax Payment Deadline	Tax Return Filing Deadline
Monthly/Quarterly Tax Obligations		
Personal or Corporate Income Tax subject to withholding at the source of payment	upon payment of the income (on last working day of the month for benefits in kind)	15 of the month following the reporting period
Value Added Tax	15 of the month following the reporting period	15 of the month following the reporting period
Excise Tax	15 of the month following the reporting period	15 of the month following the reporting period
Annual Tax Obligations		
Corporate Income Tax and Personal Income Tax (individual entrepreneurs)	Advance tax payments are made during the tax year in four equal instalments at 25% of a previous tax year's liability by 15 May, 15 July, 15 September and 15 December. The balancing payment is made before 1 April of the following year.	before 1 April of the following year
Small Business	Advance tax payments are made during the tax year in four equal instalments at 25% of the previous tax year's liability by 15 April, 15 July, 15 October and 15 January. The balancing payment is made before 1 April of the following year.	before 1 April of the following year
Personal Income Tax	before 1 April of the following year	before 1 April of the following year
Withholding tax	N/A	30 January of the following year

Period/Type of Tax	Tax Payment Deadline	Tax Return Filing Deadline
Property Tax for individuals, including individual entrepreneurs (except for land)	15 November of the following year	1 November of the following year
Property Tax for individuals, including individual entrepreneurs (on land)	15 November of the year	1 November of the year
Property Tax for entities/ organizations (except for land)	Advance tax payment is made by 15 June of the year. The balancing payment is made by 1 April of the following year	1 April of the following year
Property Tax for entities/ organizations (on land)	15 November of the year	1 April of the year

Note: Tax year is a calendar year.

Fixed Assets Depreciation Rates

Group	Assets	Depreciation Rate, (%)
1	Passenger cars; automobile equipment for use on roads; office furniture; automotive transport rolling stock; trucks, buses, special automobiles and trailers; machinery and equipment for all sectors of industry and the foundry industry; forging and pressing equipment; construction equipment; agricultural vehicles and equipment	20
2	Special instruments, inventory and equipment; computers, peripheral devices and data processing equipment; electronic devices	20
3	Railway, naval 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 premises	5
5	Assets subject to depreciation not included in other groups	15

Excise Tax Rates

#	Name of Goods	HS Code No.	Measure-ment Unit	Excise Tax Rates (GEL)
1.	Other fermented beverages (cider, perry, mead); mixture of fermented beverages; and mixture of fermented beverages and soft drinks not specified in this table	2206 00	1 litre	2.50
2.	Ethyl spirit	2207	1 litre	2.60
3.	Spirits obtained by distilling grape wine or grape marc	2208 20	1 litre	4.60
4.	Whisky	2208 30	1 litre	5.00
5.	Rum and Sugarcane tafia rum	2208 40	1 litre	5.00
6.	Gin and wine liquor	2208 50	1 litre	5.00
7.	Vodka	2208 60	1 litre	3.00
8.	Liquors and cordials	2208 70	1 litre	4.60
9.	Other alcoholic beverages	2208 90		
	a. Raki	2208 90 110 00 2208 90 190 00	1 litre	2.50
	b. Plum, pear or cherry alcoholic beverages (except liqueurs)	2208 90 330 00 2208 90 380 00	1 litre	3.00
	c. Alcoholic beverages and other alcoholic drinks:			
	- Uzo	2208 90 410 00	1 litre	3.50
	- Others		1 litre	3.00
	d. Alcoholic beverages (except liqueurs):	2208 90 710 00		
	Distilled from fruit:	2208 90 450 00	1 litre	3.50
	Kalvados	2208 90 520 00	1 litre	4.00
	Korn	2208 90 540 00	1 litre	4.00
	Tequila	2208 90 750 00 2208 90 480 00	1 litre	4.00
	Others	2208 90 560 00 2208 90 770 00	1 litre	3.00
	Other alcoholic beverages with 7% vol. % or less actual concentration of aalcohol	2208 90 690 01	1 litre	1.00
	Other alcoholic beverages with more than 7% vol. % actual concentration of alcohol	2208 90 690 09	1 litre	3.00
	Other alcoholic drinks	2208 90 780 00	1 litre	3.00
	Non-denatured ethyl alcohol with less than 80% vol.% concentration of alcohol	2208 90 910 00 2208 90 990 00	1 litre	3.00
10.	Beer	2203 00	1 litre	0.40

#	Name of Goods	HS Code No.	Measure-ment Unit	Excise Tax Rates (GEL)
11.	a. Tobacco products (except for tobacco raw materials):			
	- cigars, cigars with cut ends containing tobacco	2402 10 000 01	1 unit	0.90
	- cigarillo (slim cigars) containing tobacco	2402 10 000 02	20 units	1.00
	- filtered cigarettes containing tobacco	2402 20	20 units	0.60
	- all other unfiltered cigarettes and cigarette	2402 20	20 units	0.15
	- other products produced from tobacco and its replacements, homogenized or restored tobacco, tobacco extracts and essences	2403 (except for 2403 10 900 00, 2403 99 900 00, 2403 91 000 00)	1 kg	20.00
12.	Passenger cars (according to the difference between the year of the taxable transaction and issuance year, or, in the case of import – differences between registration of the customs declaration and issuance year):	8703	1 cm^3 of the engine capacity	
	Up to 1 year			1.50
	1 year			1.50
	2 years			1.40
	3 years			1.30
	4 years			1.20
	5 years			1.00
	6 years			0.70
	7 years			0.50
	8 years			0.50
	9 years			0.50
	10 years			0.50
	11 years			0.50
	12 years			0.50
	13 years			0.60
	14 years			0.70
	more than 14 years			0.80
13.	Condensed natural gas and natural gas, except for pipeline	2709 00 100 00 2711 11 000 00 2711 21 000 00	1000 m^3	80.00
14.	Oil distillates			
	light	2710 11	1 ton	250.00
	medium	2710 19 110 00 – 2710 19 290 00	1 ton	220.00
	heavy	2710 19 310 00 – 2710 19 490 00	1 ton	150.00

#	Name of Goods	HS Code No.	Measure-ment Unit	Excise Tax Rates (GEL)
15.	Oil and other products borne from distillation of coal tar at high temperature, other similar productions in composition, of which the amount of aromatic components exceed amount of non-aromatic components (other than creosote oil indicated in this table, that are used to saturate wooden sleepers (4406 10 000 00) or produce carbons (2803 00)	2707 (except for 2707 10 100 00 – 2707 50 900 00; 2707 91 000 00; 2707 99 800 00; 2707 99 910 00)	1 ton	350.00
16.	Oil gas and gas-like hydrocarbons	2711 12 2711 13 2711 14 000 00 2711 19 000 00	1 ton	120.00
17.	Oil and oil products produced from bituminous minerals, except for crude oil; products, not indicated elsewhere, oil and oil products produced from bituminous minerals with consistency of 70% or more. At the same time this oil represents the main component of the products.	2710 (except for 2710 11 110 00 – 2710 19 490 00, 2710 19 510 00 – 2710 19 690 00; 2710 99 000 00)	1 ton	400.00
18.	Liquid products of pyrolysis	3911 90	1 ton	400.00
19.	Additives, solvent, antiknock	2707 10 100 00 – 2707 50 900 00 (except for 2707 40 000 00); 2707 99 800 00; 2712 20; 2902 11 100 00 – 2902 30 900 00; 2905 11 000 00 – 2905 16 800 00; 3811 11 100 00 – 3811 90 000 00; 3814 00 100 00 – 3814 00 900 00	1 ton	400.00
20.	Lubricant minerals and means	3403 11 000 00 3403 19 100 00 3403 19 910 00 3403 19 990 00 3403 91 000 00 3403 99 100 00 3403 99 900 00	1 ton	400.00
21.	Worked-out oil products – water contaminated with oil, tank (storage container of oil products) washing	2710 99 000 00	1 ton	50.00
	Other worked-out oil products	2710 99 000 00	1 ton	400.00

Double Tax Treaty Withholding Tax Rates

Country	Dividends	Interest	Royalties
Armenia	5/10 (a)	10	5
Austria	0/5/10 (b)	0	0
Azerbaijan	10	10	10
Belgium	5/15 (c)	0/10 (d)	5/10 (e)
Bulgaria	10	10	10
China	0/5/10 (b)	10	5
Czech Republic	5/10 (f)	0/8 (g)	0/5/10 (h)
Denmark	0/5/10 (i)	0	0
Estonia	5/15 (j)	10	10
Finland	0/5/10 (k)	0	0
France	0/5/10 (l)	0	0
Germany	0/5/10 (m)	0	0
Greece	8	8	5
India	10%	10%	10%
Iran	5/10 (a)	10	5
Ireland	0/5/10 (n)	0	0
Israel	0/5 (o)	5	0
Italy	5/10 (e)	0	0

Country	Dividends	Interest	Royalties
Kazakhstan	15	10	10
Latvia	5/10 (p)	10	10
Lithuania	5/15 (q)	10	10
Luxemburg	0/5/10 (r)	0	0
Malta	0	0	0
The Netherlands	0/5/15 (s)	0	0
Poland	10	10	10
Qatar	0	0	0
Romania	8	10	5
Singapore	0	0	0
Spain	0/10 (t)	0	0
Switzerland	0/10 (t)	0	0
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	5/10 (a)	10	10
United Arab Emirates	0	0	0
United Kingdom	0/5/10 (u)	0	0
Uzbekistan	5/15 (v)	10	10
Non-treaty countries	5	5	10

Note that whenever the treaty withholding tax rate is above the rate established by the TCG, the TCG rate applies.

(a) The 5% rate applies if the actual recipient is a company (except for partnership) that directly holds at least 25% share in the capital of the payer of the dividend. The 10% rate applies in all other cases.

(b) The 0% rate applies if the beneficial owner is a company that directly or indirectly holds at least a 50% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 2 million (or the equivalent amount in GEL). The 5% rate applies if the beneficial owner is a company that directly or indirectly holds at least 10% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 100,000 (or the equivalent amount in GEL). The 10% rate applies in all other cases.

(c) The 5% rate applies if the beneficial owner is a company that holds at least 25% share in the capital of the payer of the dividend. The 15% rate applies in all other cases.

(d) The 0% rate applies if the recipient is the beneficial owner of the interest on commercial debt-claims, including debt-claims represented by commercial paper, resulting from deferred payments for goods, merchandise or services supplied by an enterprise. The 0% rate applies if the recipient is the beneficial owner of the interest on loans of any nature, not represented by bearer instruments, granted by a banking enterprise. The 10% rate applies in all other cases.

(e) The 5% rate applies, if the beneficial owner of the royalty is a legal entity. The 10% rate applies in all other cases.

(f) The 5% rate applies if the beneficial owner is a company (except for partnership) that directly holds at least 25% share in the capital of the payer of the dividend. The 10% rate applies in all other cases.

(g) The 0% rate applies if the recipient is the beneficial owner of the interest on the sale on credit of any industrial, commercial or scientific equipment. The 8% rate applies in all other cases.

(h) The 0% rate applies if the recipient is the beneficial owner of the royalties paid for the use of, or the right to use any copyright of literary, artistic or scientific work except for computer software and including cinematograph films, and films or tapes for television or radio broadcasting. The 5% rate applies if the recipient is the beneficial owner of the royalties paid for the use of, or the right to use any industrial, commercial or scientific equipment. The 10% rate applies if the recipient is the beneficial owner of the royalties paid for the use of, or the right to use any patent, trade mark, design or model, plan, secret formula or process and computer software, or for information concerning industrial, commercial, or scientific experience.

(i) The 0% rate applies if the actual recipient is a company that directly or indirectly holds at least a 50% share in the capital of the payer of the dividend and has invested in the payer more than EUR 2 million (or the equivalent amount in Danish Krone (DKK) or GEL). The 5% rate applies if the actual recipient is a company that directly or indirectly holds at least a 10% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 100,000 (or the equivalent amount in DKK or GEL). The 10% rate applies in all other cases.

(j) The 5% rate applies if the actual recipient is a company (except for partnership) that directly holds at least a 25% share in the capital of the payer of the dividend, and has invested in the payer at least EUR 100,000 (or the equivalent amount in GEL). The 15% rate applies in all other cases.

(k) The 0% rate applies if the actual recipient is a company (except for partnership) that directly holds at least a 50% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 2 million (or the equivalent amount in GEL). The 5% rate applies if the actual recipient is a company (except for partnership) that directly holds at least a 10% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 100,000 (or the equivalent amount in GEL). The 10% rate applies in all other cases.

(l) The 0% rate applies if the actual recipient is a company that directly or indirectly holds at least a 50% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 3 million (or the equivalent amount in GEL). The 5% rate applies if the actual recipient is a company that directly or indirectly holds at least a 10% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 100,000 (or the equivalent amount in GEL). The 10% rate applies in all other cases.

(m) The 0% rate applies if the actual recipient is a company (except for partnership) that directly holds at least a 50% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 3 million (or the equivalent amount in any currency). The 5% rate applies if the actual recipient is a company (except for partnership) that directly holds at least a 10% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 100,000 (or the equivalent amount in any currency). The 10% rate applies in all other cases.

(n) The 0% rate applies if the beneficial owner is a company that directly or indirectly holds at least 50% of the voting rights in the company paying the dividends, and that has invested in the payer at least EUR 3 million (or the equivalent amount in GEL). The 5% rate applies if the beneficial owner is a company that directly or indirectly holds at least 10% of the voting rights in the payer of the dividends, and that has invested in the payer more than EUR 100,000 (or the equivalent amount in GEL). The 10% rate applies in all other cases.

(o) The 0% rate applies if the beneficial owner is a company (except for partnership) that directly holds at least 10% of the capital of the payer of the dividends. The 5% rate applies in all other cases.

(p) The 5% rate applies if the beneficial owner is a company (except for partnership) that directly holds at least a 25% share in the capital of the payer of the dividend, and that has invested in the payer more than USD 75,000. The 10% rate applies in all other cases.

(q) The 5% rate applies if the beneficial owner is a company (except for partnership) that directly holds at least a 25% share in the capital of the payer of the dividend, and that has invested in the payer at least EUR 75, 000. The 15% rate applies in all other cases.

(r) The 0% rate applies if the actual recipient is a company that directly or indirectly holds at least a 50% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 2 million (or the equivalent amount in GEL). The 5% rate applies if the actual recipient is a company that directly or indirectly holds at least a 10% share in the capital of the payer of the dividend, and that has invested in the payer more than EUR 100,000 (or the equivalent amount in GEL). The 10% rate applies in all other cases.

(s) The 0% rate applies if the beneficial owner is a company that directly or indirectly holds at least a 50% share in the capital of the payer of the dividend, and that has invested in the payer more than USD 2 million (or the equivalent amount in Euro or GEL). The 5% rate applies if the recipient is a company that holds at least 10% share in the capital of the payer of the dividend. The 15% rate applies in all other cases.

(t) The 0% rate applies if the beneficial owner of the dividends is a company (except for partnership) which directly holds at least 10% of the capital of the company paying the dividends. The 10% rate applies in all other cases.

(u) The 0% rate applies if the beneficial owner is a company that directly or indirectly holds at least 50% of the voting rights in the company paying the dividends, and that has invested in the capital of the payer at least GBP 2 million (or the equivalent amount in GEL). The 5% rate applies if the beneficial owner is a company that directly or indirectly holds at least 10% of the voting rights in the company paying the dividends. The 10% rate applies in all other cases.

(v) The 5% rate applies if the actual recipient is a company (except for partnership) that directly holds at least a 25% share in the capital of the payer of the dividend. The 15% rate applies in all other cases.

Notes

Contacts

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Ministry of Justice of Georgia:
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