



GEORGIA



GEOGRAPHY - POPULATION - POLITICAL

CAPITAL :

Tbilisi

POPULATION :

4,9 Million

POLITICAL SYSTEM :

Republic

CURRENCY :

Lari (GEL)

1 GEL = 0.358385 EUR (2017 JULY)

FORMS OF BUSINESS ORGANIZATIONS

The main company forms in Georgia are the limited liability company and the joint stock company. Other business forms include partnerships, individual entrepreneurs, and branches.

- **Limited liability company** may be formed by one or more persons and is a separate legal entity. There is no minimum share capital requirement. The liability of shareholders is generally limited to the extent of their pledged contribution. A limited liability company is administered by the annual general meeting, and by directors (unless the company's charter states otherwise). A supervisory board is optional.
- **Joint stock company** may be formed by one or more shareholders and is a separate legal entity. There is no minimum share capital requirement. The liability of shareholders is generally limited to the extent of their pledged contribution. A joint stock company is administered by the annual general meeting, and by directors (unless the company's charter states otherwise).
Joint stock companies must appoint a supervisory board with at least three, but no more than 21 members, if the company:
 - Has more than 100 shareholders
 - Is a public accountable enterprise whose securities are tradable on the stock market, or
 - Is licensed by the National Bank of Georgia.

- **Partnership** types available in Georgia are the general partnership and the limited partnership. Both types of partnership are separate legal entities. In a general partnership, the partners are jointly and severally liable for the debts and obligations of the partnership. In a limited partnership, the general partners are jointly and severally liable for the debts and obligations of the partnership; whereas the liability of limited partners is generally limited to the extent of their pledged contribution. Limited partners are not permitted to take part in the management of the partnership, but may inspect a copy of the annual report and check its correctness according to the financial books and records of the partnership. Partnerships are taxed at the partnership level and are subject to profits tax.
- **Branches** : a foreign company may generally conduct business in Georgia through a branch. A branch is not a separate legal entity. Branches of foreign companies must be registered with the Entrepreneurial Registry. Branches are taxed at the corporate level and are subject to profits tax.

Special types of enterprises. The Georgian tax law provides for beneficial tax treatment for enterprises operating in Georgia with the following statuses:

- International Financial Company
- Special Trade Company
- Free Industrial Zone Company
- Virtual Zone Person

- Tourist Enterprise
- Agricultural Cooperative

International Financial Company - A financial institution may obtain the status of International Financial Company for the purpose of tax benefits if its Georgian-source income derived from financial operations or financial services does not exceed 10% of its worldwide income. Income received from financial operations and financial services between International Financial Companies is not considered to be income received from Georgian sources. An International Financial Company must be established outside a Free Industrial Zone. International Financial Companies are exempt from corporate income tax on income derived from financial operations, financial services and the sale of securities issued by non-resident persons.

Special Trade Company - An entity conducting its activities in an authorized warehouse may be granted Special Trade Company status for corporate income tax exemption purposes. A Special Trade Company may supply and re-export foreign goods, as well as purchase foreign goods from an entity without such status for further supply or re-export. A Special Trade Company may also derive income (including Georgian-source income) from other allowable activities if such income does not exceed the sum of GEL1 million and 5% of the customs value of foreign goods brought into Georgia. In addition, a Special Trade Company may derive income exempted from corporate income tax and from the sale of

fixed assets used in economic activities for more than two years. A Special Trade Company is prohibited from importing or purchasing Georgian goods for further supply, rendering of services in Georgia and operating an authorized warehouse. The status of Special Trade Company is canceled for a calendar year if an authorized representative of such company submits an application to the GTA at least five business days before the beginning of the relevant calendar year. A Special Trade Company is exempt from corporate income tax on income received from allowable activities except for income received from the sale of fixed assets.

Free Industrial Zone Company - Status for tax purposes may be granted to a company operating in a Free Industrial Zone. Free Industrial Zone Companies primarily engage in the manufacturing and export of goods outside Georgia from a Free Industrial Zone. The status of Free Industrial Zone Company is subject to cancellation if the company engages in activities prohibited by the law. Free Industrial Zone Companies are exempt from corporate income tax on income from activities allowed within a Free Industrial Zone.

Virtual Zone Person - Status for tax purposes may be granted to a company engaged in information technology activities. Virtual Zone Persons are exempt from corporate income tax on distributions of profits derived from the supply of selfproduced information technology outside Georgia.

Tourist Enterprise - Tourist Enterprise status for tax purposes may be granted to a company that builds a hotel for the purpose of the sale and leaseback of the assets, or part of the assets, of the hotel and

uses the building in hotel operations. Distribution of profit derived from the rendering of hotel services and the incurrence of expenses in the course of such activity by tourist enterprises are exempt from corporate income tax until 1 January 2026.

Agricultural Cooperative - Agricultural Cooperative status for tax purposes may be granted to a company in accordance with the Law of Georgia on “Agricultural Cooperative.” Agricultural Cooperatives are exempt from corporate income tax on income derived from the supply of agricultural products produced in Georgia before their processing (that is, a change of commodity code occurs) until 1 January 2017.

ACCOUNTING AND AUDITING

AUDIT AND ACCOUNTING REQUIREMENTS

Legal entities are generally required to prepare financial statements that demonstrate the financial position and financial performance of the entity. Financial statements must generally be prepared in accordance with International Financial Reporting Standards (IFRS). Small and-medium sized entities (as defined) may prepare their financial statements in accordance with IFRS for SMEs. Enterprises meeting one of the following criteria are required to be audited by an auditor hired annually by the supervisory board:

- Enterprises with more than 100 partners
- Enterprises that are public accountable and whose securities are tradable on the stock market, or
- Enterprises licensed by the National Bank of Georgia.

The auditor must be legally and economically independent from the company, its directors, and its partners. Accounting documents must generally be retained for a period of six years from the end of the accounting period.

The tax legislation of Georgia envisages two types of tax audit –desk and field audits.

DESK AUDIT

Under the desk audit, the tax auditor, without visiting a taxpayer's place of activity, determines the consistency of taxpayer tax liabilities according to the requirements of the Tax Code of Georgia, 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 a taxpayer's place of activity. A field tax audit can be either planned or controlling. For a planned field audit, the taxpayer will receive a notification letter in advance, but will not do so for a controlling field audit. Field audits normally last no longer than three months (plus two months in coordination with the Head of the Revenue Service RS). The auditors may request accounting documents

and/or copies of information related to taxation verified by the taxpayer. In cases where a taxpayer refuses to provide such documentation, auditors are entitled to remove original documents, but must return them by the end of the field audit.

TAX DEAL

With the aim of reducing taxes and/or tax sanctions, the taxpayer may apply to the RS. The decision on any tax deal is made by the government. Based on this decision, a tax deal act (the Act) is concluded between the taxpayer and the Revenue Service RS. The Act defines the revised amount of tax liabilities and the terms of payment. In cases where there is a violation of the terms of payment under a tax deal, a late payment interest of 0.5% will be imposed for every overdue day up to 10% of the tax liability.

PRIVATE TAX AGENT

A taxpayer can use the services of a private tax agent, who is a tax inspector of the GTA (Georgian Taxation System), 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 the duties of a private tax agent.

CORPORATE TAXATION

Resident enterprises, which are enterprises whose place of business and/ or management is based in Georgia, are generally subject to tax on their worldwide income. Other enterprises are generally subject to tax on their Georgian source income, subject to the terms of any relevant tax treaty. The standard profits tax rate is 15%. From 1 January 2017, only distributed profits are set to be subject to taxation, with reinvested profits exempt. Profits from certain oil and gas operations in respect of agreements signed before 1 January 1998 are subject to tax at the rate of 10%.

Taxable income must generally include any taxable capital gains, subject to exemptions. Dividends paid by a resident enterprise to another resident enterprise are not subject to withholding tax in the hands of the paying enterprise, and are not subject profits tax in the hands of the receiving enterprise. Unutilised losses can generally be carried forward for up to five years; certain enterprises may not carry losses forward, including international financial companies, companies located in a free industrial zone, and special trading companies. Enterprises may apply to the tax authority to replace the fiveyear loss carry forward period with a 10-year loss carry forward period.

The tax year is the calendar year. Tax returns are generally due for filing by 1 April of the following year.

Tax Incentives for Businesses - Scientific research, design and development service expenses relating to the receipt of gross income (excluding expenses relating to fixed asset purchases, installation and other capitalisable expenses) may be deducted from taxable income.

The rates of withholding tax on the following payments made abroad by companies are generally:

	TAX RATE
DIVIDENS	5%
INTEREST	5%
ROYALTIES	5%
OIL AND GAS AGREEMENT RELATED PURCHASES	4%
OTHER	10%

Certain payments, including interest and royalties, paid to recipients in countries with preferential tax treatment (as defined), or to offshore countries (as defined), are subject to withholding tax at the rate of 15%. For payments made to recipients in countries with which Georgia has a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty.

DOUBLE TAX TREATIES

Georgia has entered into tax treaties with 52 countries. If the withholding tax rate provided in a treaty exceeds the rate provided by the TCG, the latter rate applies.

INDIVIDUAL TAXATION

Resident individuals are generally subject to income tax on their worldwide income. Non-resident individuals are generally subject to income tax on their Georgian source income. The income tax rate for resident and non-resident individuals is generally 20%, subject to deductions, allowances and exemptions. Taxable income must generally include any taxable capital gains, subject to exemptions (eg for gains from the sale of a residential property held for more than two years). Special tax treatment applies to individuals with micro business status, individual entrepreneurs with small business status, and to those with fixed taxpayer status.

An individual meeting all of the following conditions may apply for micro business status:

- The individual conducts independent economic activity
- There are no employees, and
- Gross annual income does not exceed GEL30,000 (1 GEL = 0,358385 EUR) ; this limit may not apply in certain circumstances.

Individuals that do not pay VAT and that conduct one or more specified activities may apply for fixed taxpayer status. The fixed tax rates vary from GEL1 to GEL2,000, or 3% of revenue. There are no separate wealth, gift, or inheritance taxes in Georgia.

VALUE ADDED TAX (VAT)

The term “taxable supply” refers to the supply of goods and services that are subject to VAT. The term “exempt supply” refers to the supply of goods and services that are not subject to VAT. Persons that make exempt supplies may or may not be entitled to claim the input tax deduction. In Georgia a standard rate of VAT at 18% applies to all taxable supplies of goods and services and imports, unless a specific measure allows an exemption. The 18% rate also applies to transactions subject to the reverse-charge mechanism. A VAT rate of 0.54% applies to temporary imports for each full or partial calendar month in which the goods are located in the customs territory of Georgia, but the maximum VAT rate for these goods is 18%.

DISCLAIMER

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