DOING BUSINESS

IN GEORGIA

The network for doing business

CONTENTS

1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Georgia has been provided by the office of UHY representatives:

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A detailed firm profile for UHY's representation in Georgia can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at January 2017.

We look forward to helping you do business in Georgia.

2 – BUSINESS ENVIRONMENT

Georgia is an independent state in the Caucasus region of Eurasia, located at the crossroads of western Asia and Eastern Europe.

Georgia is pleased to emerge and serve as a physical and political bridge connecting European and Western markets to the vast potential of the markets in the Caspian/central Asian region. This has been achieved through the ongoing implementation of several major energy and transport projects. Four existing sea ports, upgraded railway infrastructure, three international airports and a highway of international standards passing from the eastern border of Georgia to the Black Sea, are creating the fastest transit possibilities for goods from central Asia to Europe, and vice versa.

GEOGRAPHY

The country is bounded to the west by the Black Sea, to the north by Russia, to the south by Turkey and Armenia, and to the south-east by Azerbaijan. The exclaves of Abkhazia and South Ossetia are under Russian military occupation.

The capital of Georgia is Tbilisi. Georgia covers a territory of 69,700km² and its population is around 4.4 million (UN estimate 2013).It is a very mountainous country.Forests cover around 40% of Georgia's territory while the alpine/subalpine zone accounts for roughly around 10% of the land. The climate of Georgia is extremely diverse, though there are two main climatic zones, roughly separating eastern and western parts of the country. Georgia has a transitional climate from humid subtropical to continental.

GOVERNMENT

On 9 April 1991, shortly before the collapse of the Soviet Union, Georgia declared its independence. Georgia is a democratic semi-presidential republic, with the president as the head of state and prime minister as the head of government. The executive branch of power is made up of the president and the cabinet of Georgia. The cabinet is composed of ministers, headed by the prime minister, and appointed by the president. Notably, the ministers of defence and interior are not members of the cabinet and are subordinated directly to the president of Georgia. Legislative authority is vested in the parliament of Georgia. The parliament is unicameral and has 150 members, known as deputies, from which 75 members are proportional representatives and 75 are elected through a single-member district plurality system, where they represent their constituencies. Members of parliament are elected for four-year terms.

Georgia is a member of the United Nations, the Council of Europe, the World Trade Organisation, the Organisation of the Black Sea Economic Cooperation, the Organisation for Security and Cooperation in Europe, the Community of Democratic Choice, the GUAM Organisation for Democracy and Economic Development, and the Asian Development Bank. Georgia is currently working to become a full member of the European Union (EU) and the North Atlantic Treaty Organisation (NATO). Georgia has signed an Association Agreement with EU in 2014.

COUNTRY BACKGROUND

CURRENCY

The national currency of Georgia is the Lari (GEL), where one GEL is equivalent to USD 2.2 or to EUR 2.4.

LANGUAGE

The official language of the country is Georgian, the most widely spoken of the Kartvelian languages and neither Indo-European, Turkic nor Semitic. The second official language is Abkhazian, spoken in the Abkhazian Autonomous Republic, occupied by the Russian Federation. Georgian is the primary language of approximately 71% of the population, followed by 9% speaking Russian, 7% Armenian, 6% Azeri, and 7% other languages.

POPULATION

Ethnic Georgians constitutearound 84% of Georgia’s population of 4,935,880 (July 2014 est.). Other ethnic groups include Abkhazians, Jews, Azeris, Bulgarians, Estonians, Germans, Russians, Belarusians, Greeks, Armenians, Ossetians, Moldovans, Poles, Turks and Ukrainians. Georgia’s Jewish community is one of the oldest Jewish communities in the world. A large majority of Georgia’s population (84%, 2002 census) practices Orthodox Christianity. Religious minorities in Georgia include Roman Catholics, Muslims and Armenian Christians.

The urban population comprises 53.5% of total population (2014) and urbanisation has a -0.1%annual rate of change (2010-15 estimate).

THE ECONOMY

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

Georgia has overcome the chronic energy shortages and gas supply interruptions of the past by renovating hydropower plants and by increasingly relying on natural gas imports from Azerbaijan instead of from Russia. Construction of the Baku-T'bilisi-Ceyhan oil pipeline, the South Caucasus gas pipeline, and the Kars-Akhalkalaki Railroad are part of a strategy to capitalize on Georgia's strategic location between Europe and Asia and develop its role as a transit point for gas, oil, and other goods. The expansion of the South Caucasus pipeline, as part of the Shah Deniz II Southern Gas Corridor project, will result in a $2 billion foreign investment in Georgia, the largest ever in the country. Gas from Shah Deniz II is expected to begin flowing in 2019.

Georgia's economy sustained GDP growth of more than 10% in 2006-07, based on strong inflows of foreign investment and robust government spending. However, GDP growth slowed following the August 2008 conflict with Russia, and sunk to negative 4% in 2009 as foreign direct investment and workers' remittances declined in the wake of the global financial crisis. The economy rebounded in 2010-13, but FDI inflows, the engine of Georgian economic growth prior to the 2008 conflict, have not recovered fully. Unemployment has also remained high.

Georgia has historically suffered from a chronic failure to collect tax revenues; however, since 2004 the government has simplified the tax code, improved tax administration, increased tax enforcement, and cracked down on petty corruption, leading to higher revenues. The country is pinning its hopes for renewed growth on a determined effort to continue to liberalize the economy by reducing regulation, taxes, and corruption in order to attract foreign investment, with a focus on hydropower, agriculture, tourism, and textiles production. The government has received high marks from the World Bank for its anti-corruption efforts. Since 2012, the Georgian Dream-led government has continued the previous administration's low-regulation, low-tax, free market policies, while modestly increasing social spending, strengthening anti-trust policy, and amending the labour code to comply with International Labour Standards.

The government published its 2020 Economic Development Strategy in early 2014 and former Prime Minister BidzinaIvanishvili launched the Georgian Co-Investment Fund, a $6 billion private equity fund that will invest in tourism, agriculture, logistics, energy, infrastructure, and manufacturing.

In mid-2014, Georgia signed an association agreement with the European Union, paving the way to free trade and visa-free travel.

TABLE 1

Economic data, 2012 (estimated and actual)

	2014
GDP (purchasing power parity)	USD 34.27 billion
GDP (official exchange rate)	USD 16.13 billion
GDP – real growth rate:	5%
GDP – per capita (PPP)	USD 7,700
GDP – composition by sector • Agriculture • Industry • Services	 9.1% 21.8% 69.1%
Labour force – by occupation • Agriculture • Industry • Services	 55.6% 8.9% 35.5%
Unemployment rate	14.9% (2014 estimated)
Investment (gross fixed)	22.8% of GDP(2012 estimated)
Budget • Revenues • Expenditure	 USD 4.594 billion USD 5.048 billion
Taxes and other revenues	28.5% of GDP
Inflation rate (consumer prices)	3.3%
Agriculture – key products	Citrus, grapes, tea, hazelnuts, vegetables; livestock
Main industries	Steel, machine tools, electrical appliances, mining (manganese, copper, and gold), chemicals, wood products, wine

Exports	USD 4.493 billion
Exports – commodities	Vehicles, ferro-alloys, fertilizers, nuts, scrap metal, gold, copper ores
Exports – partners	Azerbaijan 24.3%, US 5.1%, Germany 4.1%, Bulgaria 5.6%, Turkey 7%, Ukraine 6.3%, Canada 4.2%, Russia 4.4%, Armenia 9%
Imports	USD 8.328 billion
Imports – commodities	Fuels, vehicles, machinery and parts, grain and other foods, pharmaceuticals
Imports – partners	Turkey 16%, China 8.3%, Ukraine 7.7%, Russia 6.7%, Azerbaijan 7.3%, US 4.3%, Germany 5.6%, Japan 4% (2013)

Source: CIA Factbook

Tourism increasingly plays a significant part in the Georgian economy. Georgia is also developing into an international transport corridor through its Batumi and Poti ports, and also with its oil pipeline from Baku through Tbilisi to Ceyhan – the Baku-Tbilisi-Ceyhan pipeline (BTC) –and a parallel gas pipeline, the South Caucasus Pipeline.

3 – FOREIGN INVESTMENT

To protect investors and to enhance Georgia's role as an investment destination, it has established bilateral treaties on investment promotion and protection with 32 countries and has concluded double taxation treaties with 30 countries across the globe.

BILATERAL INVESTMENT TREATIES

Bilateral investment treaties have been signed with: Armenia, Austria, Azerbaijan, Belgium, Luxemburg, Bulgaria, China, the Czech Republic, Egypt, Estonia, Finland, France, Germany, Greece, Iran, Israel, Italy, Kazakhstan, Kyrgyzstan, Kuwait,Latvia, Lithuania, Moldova, the Netherlands, Romania, Sweden, Turkey, Turkmenistan, Ukraine, the UK, the USA and Uzbekistan.

DOUBLE TAXATION TREATIES

Double taxation treaties have been concluded with: Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iran, Ireland, Italy, Japan, Kazakhstan, Latvia, Lithuania, Luxemburg, the Netherlands, Poland , Romania, Russia, Turkey, Turkmenistan, Ukraine, the UK and Uzbekistan.

INVESTOR PROTECTION

Promoting investments is considered to be a primary goal of state economy policy. Georgian legislation provides for the protection of investors and their assets through domestic regulations, as well as through a number of bilateral investment treaties and international agreements with partner countries and organisations. Foreign investors are guaranteed fair and equal treatment under the law regardless of their nationality, and have the same rights and guarantees as Georgian companies.

CHOICE OF LAW

Georgian legislation provides for the possibility of foreign investors having their contractual obligations governed by the law of the country they choose. These choices of law provisions are legal, valid and binding under the laws of Georgia and will be recognised and followed by Georgian courts.

DISPUTE RESOLUTION

According to the Law of Georgia on Promotion of Investment Related Activities, unless otherwise agreed between the parties, any dispute arising out of or in connection with an investment activity between the government of Georgia and a foreign investor shall be resolved by the courts of Georgia.However, the most commonly favoured tribunal is the International Centre of Settlement of Investment Disputes where decisions are final and binding on the parties and are easily enforceable through the 1958 New York Convention of Recognition and Enforcement of Foreign Arbitral Awards to which Georgia joined on 2 June 1994.

INTERNATIONAL AGREEMENTS

Georgia is party to the European Neighbourhood Policy, a European Union (EU) initiative which, from a legislation standpoint, means that Georgian legislation should be brought in line with EU laws. Furthermore, Georgia has recognised technical regulations of the European Council, the Organisation for Economic Cooperation and Development (OECD) and Georgia's main trading partner countries and permitted comparable activities, which will help to promote the development of thebusiness environment and the reduction of technical obstacles in trading.

INTERNATIONAL TRADE AGREEMENTS

Georgia has been a member of the World Trade Organisation (WTO) since 2000 and benefits from the 'Most Favoured Nation Regime' with WTO members, which provides for lower tariffs among WTO members. It has joint major bilateral agreements within the WTO.

Georgia is a beneficiary of the EU's Generalised Scheme of Preferences Plus (GSP+) trading regime, which allows Georgia to export products to the EU market duty free.

BUSINESS ENVIRONMENT

An attractive and liberal investment environment and an equal approach to local and foreign investors make the country an attractive destination for foreign direct investment (FDI). Large inflows of FDI have been a driving factor behind rapid economic growth in Georgia since 2003.

Other key factors which contribute to ensuring Georgia offers a solid base for successful businesses are:

- A stable economic development
- A liberal and free market-oriented economic policy
- The existence of only six taxes and reduced tax rates
- A reduced number of licences and permissions
- Dramatically simplified administrative procedures
- Preferential trade regimes with foreign countries
- An advantageous geographic location
- Well-developed, integrated and multimodal transport infrastructure
- An educated, skilled and competitive workforce.

From 2003–2011, FDI in Georgia amounted to USD 8 511.5 million. The highest volume of FDI – USD 2,015 million – was attained in 2007, with a 69.3% yearly growth. The high rate of investment was maintained until 2008 and then in 2009, FDI inflows were characterised by a decreasing trend. The main reasons for this decrease were the Russian-Georgian war and the global financial crisis. In 2009–2011, the largest shares of FDI were in the industrial sector (31.2%) amounting to USD 765 billion and in the real estate sector (15.8%) amounting to USD 389 billion.

Georgia undertook a number of profound institutional reforms aimed at modernising the economy and improving the business climate. Such institutional reforms created an effective, professional and transparent public sector, which is motivated to protect the principles of democracy.

Due to the economic deregulation policy, the number of state regulated spheres has decreased sharply, and regulation procedures have also been simplified.

Georgia has succeeded in tackling the corruption that was one of the main obstacles for development. This success has been recognised by different rating agencies. According to Transparency International, Georgia is the top country for fighting corruption in the post-Soviet region. According to Transparency International's 'Corruption Perception Index 2011', Georgia ranks 61st (up from 85th in 2002). By the 'Global Corruption Barometer 2010', Georgia ranks first among countries for decreasing corruption levels. According to the International Finance Corporation (IFC) Business Perception Survey 2012 only 0.11% of those surveyed (1 respondent out of 920) named corruption as a problem in relation to Georgia's public organisations.

Georgia has the most liberal tax jurisdiction in Europe. The number of taxes has decreased from 21 to only 6, with tax rates also lowered. In addition, significant procedural and institutional reforms have been implemented –a simplified system for tax disputes has been established, the tax administration system was streamlined and most taxes can now be paidonline.

Due to customs reform, customs procedures have been dramatically simplified. Customs tariffs reform significantly simplified and sharply reduced the costs connected to foreign trade. A number of import tariffs were abolished on approximately 90% of products and only three tariff rates remain (compared with the previous 16). Currently, 86% of tariff lines are duty free (compared with 26% in 2005). Modern 'customs clearance zones' have been established and procedures for clearing customscan take from as little as 15 minutes only.

The modernisation of the system of licences and permits has resulted in a decrease in the number of licences and permits and the simplification of related administrative procedures.

PRIVATISATION OF STATE PROPERTY

Starting from 2004, a transparent privatisation policy became one of the important reforms undertaken by the government of Georgia which is committed to the denationalisation of any remaining state property in order to attract foreign investments, increase and develop the private sector and ensure the effective use of the country's resources.

Liberal labour legislation has simplified relations between employers and employees. As a result of labour reform, the Heritage Foundation and other analytical centres have named the Georgian Labour Code as one of the most liberal in the world, because it has significantly reduced hiring and firing expenses.

SIMPLIFIED ADMINISTRATIVE PROCEDURES

Georgia offers the most simplified procedures and unique service for the registration of business and property, and for obtaining documentation via 'One-Stop-Shops', where most procedures can be performed online. The 2012 World Bank 'Doing Business' report placed Georgia 16th in its 'Ease of Doing Business' index (up from 112th in 2006), naming Georgia as the top reformer among 174 countries over the last five years. Georgia is also among the leaders in other ratings, namely for registering property – 1st place, dealing with construction permits – 4th, starting a business – 7th and getting credit– 8th place.

4 – SETTING UP A BUSINESS

Setting up a business in Georgia is a straightforward process.

Procedures are simple and efficient, and based on a transparent system that promotes the establishment of new enterprises. In fact, the registration process takes only one day to complete.

As industries in Georgia develop, firms and investors are looking for opportunities to invest. The combination of dynamic growth, pro-business legislation, a liberal tax code, a strong legal framework to protect investors and an educated and skilled workforce present a solid platform for successful business opportunities in Georgia.

Based on the official information from the National Statistics Office in Georgia, there are approximately 260,000 businesses operating in Georgia, with more than 4,600 businesses established by foreign capital or with its involvement.

SIMPLIFIED LICENSING PROCEDURES

The number of licences and permits required in Georgia are minimal, and rules for obtaining them are simple.

Since 2003, the Georgian government increased efforts to reduce corruption in public and private sectors and sought to meet international standards. These efforts have resulted in significant improvements in Georgia's ranking in the World Bank's Doing Business Survey. The Georgian tax system was simplified, customs duties were reduced and procedures for granting licences and permits were simplified. Georgia enjoys competitive trade regimes with many countries.

GETTING CREDIT

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

PROTECTING INVESTORS

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

ENFORCING CONTRACTS

Georgia made contract enforcement easier by streamlining procedures for public auctions, introducing private enforcement officers and modernising its dispute resolution system.

CLOSING A BUSINESS

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

REGULATORY LEGISLATION

The following major pieces of legislation (in addition to tax laws) affect foreign investment into Georgia:

- Law on Entrepreneurs
- Law on Licences and Permits

- Law on Supervision on Entrepreneurship
- Civil code, which is the main law of Georgia regulating private relations between individuals and legal entities
- General Administrative Code
- Law on Bankruptcy
- Free trade and Competition Act, which establishes the rules and measures for the protection of fair competition
- Labour Code.

INVESTMENT CLIMATE

Georgia encourages foreign trade and investment, and laws allow foreigners to purchase businesses and property, repatriate revenue and profits, and receive compensation when property is nationalised.

RESTRICTIONS ON FOREIGN INVESTMENT

Foreign enterprises and individuals are permitted to own up to 100% foreign ownership of the capital of Georgian companies. There are some limitations on the activities that may be conducted, however, and foreign investment in the defence and security sectors in not permitted.

INVESTMENT INCENTIVES

Georgia offers incentives for businesses located in free industrial zones, and for entities established as an international financial company, free warehouse enterprise or international enterprise.

FOREIGN EXCHANGE

The government maintains a free floating and freely convertible currency, the Georgian Lari (GEL).

GUARANTEES AND RIGHTS

Under the Law of Promotion and Guarantees of Investment Activity, foreign investments are not to be subject to nationalisation, confiscation, expropriation, requisition, or any other measure of similar effect, except in cases of natural disaster or an epidemic. In such cases, fair compensation must be provided to the investor no later than four months after the incident. Foreign investors are guaranteed the right to repatriate freely any funds in convertible currency after payment of appropriate taxes and other fees, which are specified by the law. The only things that may restrict an investor’s rights are bankruptcy or breach of criminal or civil laws.

The Georgian National Investment Agency was established in 2001 to facilitate foreign direct investment in Georgia. The agency serves as a liaison point between investors and the government and can assist in finding business opportunities, facilitating meetings with companies and government officials, and helping to obtain necessary licences and permissions.

5 – LABOUR

Georgia has one of the most liberal Labour Codes in the world.

According to the Heritage Foundation, Georgia’s rating on the Labour Freedom Index was 99.9. Georgia is a member of the International Labour Organisation (ILO)and investors are guaranteed authorisation to hire foreign workers, who are permitted to transfer their income abroad once they have complied with all state duties and levies.

The new Labour Law was amended by the Georgian parliament in July 2013. The Labour Code regulates employment and employment-associated relations throughout the territory of Georgia, unless they are otherwise regulated by special laws or by international treaties.

EMPLOYMENT

Issues relating to employment relations that are not regulated by the Labour Code or other special laws are regulated by the norms of the Civil Procedure Code of Georgia.

Any type of discrimination due to race, colour, ethnic and social category, nationality, origin, property and position, residence, age, gender, sexual orientation, limited capability, membership of a religious organisation or union, a person’s family conditionsor due to political or other opinions are prohibited in employment relations.

The legal employment age is 16 years. Employment agreements shall not be concluded with under-aged persons. In addition, pregnant or breastfeeding women should not be expected to perform physically arduous, hazardous or dangerous tasks.

An employment agreement is executed in writing or verbally, for a definite or indefinite term or for the period of the employment’s duration.The employment agreement must be executed in writing if the period of employment exceeds three months.

In order to assess the suitability of a candidate to a certain role, upon agreement of the parties, an employment agreement can be drawn up for a probation period. This can be concluded with a candidate only once and last for no longer than six months. An employment agreement for a probationary period may be made only in writing; in other cases an agreement shall be deemed as the employment agreement. An employee should be paid during any probation period.

Unless otherwise addressed by the employment agreement, the duration of the business day is determined by the employer, but the assignments or work of any employee should not exceed forty hours a week. The duration of leave between work days (shifts) should not be less than 12 hours.

Employment of an under-aged person is prohibited, as is employment in evening hours (from 10pm until 6am) of a pregnant or new mother or breastfeeding motheror employment of a person taking care of a child under three years or with limited capabilities without his/her consent.

Employeesare authorised to take paid leave of not less than 24 business days per annum. Employeesare alsoentitled to take unpaid leave of not less than 15 calendar days per annum.

The form and amount of any labour compensation is determined by the employment agreement. The norms of any present agreement shall be applied only on occasions when the employment agreement does not state otherwise.

Employment wages/compensation shall be issued once a month at the workplace. In cases where there isa delay of any compensation or settlement, the employer must pay 0.07% of the overdue amount for each delayed day.

6 – TAXATION

Only six taxes remain in Georgia at low rates.

Tax free regimes may also be established in the country. Low tax rates together with tax exemptions make Georgia one of the most attractive tax jurisdictions in the world. Currently Georgia has established double tax treaties with a number of counties, and is planning to extend this list annually.

Georgian tax legislation considers these benefits to be unique opportunities and extends options to manufacturers to invest under the tax regimes described below.

BENEFICIAL TAX FREE REGIMES

FREE INDUSTRIAL ZONES

The Law of Georgia on Free Industrial Zones and the Tax Code of Georgia give manufacturers a unique opportunity to process, produce and export goods with a minimum tax burden. With Georgian free trade agreements, a business can export goods free of trade barriers to global markets comprisingmore than 300 million consumers. Thousands of goods can be exported from Georgia to the EU market free of trade barriers under GSP+ arrangements (see p9 ‘International Trade Agreements’).

FREE WAREHOUSE COMPANY

Georgia’s goal to provide the shortest and fastest transit route between Europe and central Asia is ensured by relevant legislation. A free warehouse company, from a taxation perspective, is designed as an integral logistical unit for international transit companies. The benefits include:

- Exemption from corporate income tax applied to income received from re-exporting goods from free warehouses via the free warehouse company
- Exemption from VAT on the supply of goods by a free warehouse company to a VAT payer in a free warehouse.

The free warehouse company categorisation can effectively be used by international cargo companies, large regional network distributors, and any stakeholder desiring to transport goods from central Asia to global economic markets, or vice versa, in the fastest and least costly way.

INTERNATIONAL FINANCIAL COMPANY

Georgian tax legislation offers another unique opportunity to serve offshore companies in the most efficient and least costly way. An international financial company (IFC) is a financial institution established in accordance with Georgian tax legislation which carries out most of its services with parties outside of Georgia. An IFC is not required to obtain a licence from the National Bank of Georgia and the activities of an IFC are tax exempt. Corporate income tax exemptions apply to:

- Profits received from financial services provided by an IFC
- Gains from sale of securities issued by an IFC
- Dividends paid by an IFC.

Businesses involved in the following activities can effectively use the status and privileges of an IFC:

- Wealth management
- Asset management
- Financial intermediation activities
- Other similar activities.

TAXES

A new Tax Code came into force on 1 January 2011.

It is a unified document containing the old tax and customs codes which were abolished from this date. The new Tax Code aims to increase confidence in the Georgian tax system and enhance trust in the Georgian tax authorities, by improving communication between taxpayers and the tax authorities, by protecting the taxpayers' rights, by making administration more efficient and by harmonising Georgian laws with the best international tax practices and EU directives.

The new Tax Code offers low tax rates on the remaining few taxes or total exemption. Withholding taxes on interest and dividends will be annulled by 2014. From 2014, individuals will also benefit from the gradually reduced personal income tax rate which will decrease to 15%. The micro and small business status will reduce the overall administrative and tax burden on individual taxpayers.

The simplified rules for obtaining a residency status in Georgia is an opportunity for 'high net worth' individuals, as they can become Georgian residents without an actual presence in Georgia.

Extended filing periods, automatic refunds and simplified taxation on imports are included in the constantly expanding list of benefits offered to taxpayers. Income and gain received from listed securities and government bonds have been exempted from taxation for both corporate and individual taxpayers. It is also important to note that Georgia has already started convergence to European tax standards, in that it has recognised the technical regulations of the Organisation for Economic Cooperation and Development (OECD) and has introduced the generally accepted transfer pricing rules within the new Tax Code. This will help to promote the development of the business environment and cross-border trading.

The tax administration system has been simplified and developed, and now offers a wide range of E-services to taxpayers. Communication between a taxpayer and the tax authorities will be improved by the newly introduced Advance Tax Ruling, Private Tax Agent and Tax Deal mechanisms.

The new function of a tax ombudsman secures the protection of taxpayers' rights and the role has the responsibility of facilitating a healthy tax environment in Georgia.

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.

TAX RATES

TABLE 2
Standard tax rates

	RATE
Personal income tax	20%
Personal income tax for micro businesses	Exempt
Personal income tax for small businesses	3% or 5%
Corporate income tax	15%

TABLE 3
Withholding tax for companies and individuals, other taxes

	RATE
Dividends paid to individuals and non-residents	5% (2014 –0%)
Dividends paid to resident companies	Exempt
Dividends paid on free floating securities	Exempt
Dividends paid by international financial companies	Exempt
Dividends paid by international companies	Exempt
Interest paid	5% (2014 – 0%)
Interest paid to resident banks	Exempt
Interest paid by licensed financial institutes	Exempt
Interest paid on free floating securities	Exempt
Interest paid by international companies	Exempt
Interest paid on debt securities issued by Georgian legal entities and listed on a recognised foreign stock exchange	Exempt
Royalties paid to resident individuals	20% (2014 – 15%)
Rental income (excluding finance lease rentals) paid to resident individuals	20% (2014 – 15%)
Management fees paid	15%
Payment of income from international transport or international communications	10%
Insurance premiums paid to non-residents	Exempt
Finance lease income paid to non-residents	Exempt
Payment of income from oil and gas operations	4%
Payments of other Georgian source income to non-residents not connected to their PE in Georgia	15%
Value added tax	18%
Excise tax	Varies
Import tax	0%, 5% or 12%
Property tax – corporate	Up to 1%
Property tax – individual	Up to 1%
Property tax – land	Varies

TABLE 4
Other information

	PERIOD
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 businesses)	0 years

TRANSFER PRICING RULES

The Georgian transfer pricing rules generally apply to cross-border transactions between related parties. In special cases these rules may also apply to transactions between related Georgian entities or transactions between unrelated entities where one of the parties is a resident of a low tax jurisdiction/offshore country, or is registered in the free industrial zone.

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.

A detailed description of transfer pricing methods, their application rules and other procedural matters are defined by the order of the Minister.

TAX ADMINISTRATION

The Georgian taxation system (GTA) incorporates a self-assessment system under which taxes are calculated, paid and reported in accordance with prevailing tax legislation and regulations.

Property tax for individuals is calculated by the GTA based on tax returns filed.A notification of the amount of tax assessed is thereby issued.

STATUTE OF LIMITATION

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

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

LATE PAYMENT INTEREST AND PENALTIES

TABLE 5
Interest and penalties

	PENALTY
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 liability/overstatement of tax credit in a tax return	Up to 50% – 50% of the understated amount 50% and over– 75% of the understated amount (for more than GEL 25,000 criminal proceedings may also be instituted)
Crediting tax based on bogus operations or fictitious agreements or fake VAT documents.	200% of credited tax

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 their responsibility to submit the corresponding amendments to the tax return.

A taxpayer may submit their tax return either personally, electronically or via the insured mail.

MEASURES TO ENSURE FULFILMENT OF TAX LIABILITIES

Fulfilment of tax liabilities can be pursued by the GTA using the following measures:

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

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

A decision to cease enforcement measures is made by the Minister, a person authorised by the Minister, or the Head of the Revenue Service. A decision to cease enforcement measures for up to one year will be made by the Head of the GTA, if a taxpayer has signed a guarantee contract or submitted a bank guarantee to the GTA to ensure the fulfilment of tax liabilities.

The cessation of enforcement measures to fulfil tax liabilities does not release a taxpayer from late payment interest on overdue taxes.

TAX CONTROL PROCEDURES

Tax control procedures include:

- Current tax control procedures
- A tax audit.

CURRENT TAX CONTROL PROCEDURES

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

CHRONOMETRIC EXAMINATION

Chronometric examination isthe carrying out of an observation by the GTA on economic activities of a taxpayer to determine the taxpayer’s income, volume of supplied goods/services and number of employees. Such an 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.

The taxpayer will be penalised on any difference between the turnover of the continuous seven days determined by chronometric examination (excluding the highest and the lowest figures) and the turnover of the previous continuous seven days presented by the taxpayer (excluding the highest and the lowest figures).

The penalty will be imposed only if the difference exceeds a threshold defined by the government that may not be less than 10%. The penalty will be calculated as 20 times the difference. The penalty is limited to a maximum of GEL 100,000 if the turnover of the continuous seven days determined by the chronometric examination (excluding the highest and the lowest figures) does not exceed GEL 25,000.

TAX AUDIT

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 RS). The auditors may request accounting documents and/or copies of information related to taxation verified by the taxpayer. In cases wherea 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 RS. The Act defines the revised amount of tax liabilities and the terms of payment. In caseswhere 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, 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.

7 – ACCOUNTING & REPORTING

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

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

The functions of the Accounting Standards Commission are to:
- Approve the Georgian IFRS translations and interpretations for implementation
- Approve temporary accounting standards (for those issues currently not covered by IFRS)
- Approve a chart-of-accounts structure based on IFRS.

Financial statements must be prepared by and submitted as follows:
- Taxpayers – annual financial statements must be submitted before 1 April to the relevant tax inspectorate
- Accountable JSC and other security issuer companies– six-month interim financial statements must be submitted before 15 August and audited annual financial statements before 15 May to the National Bank of Georgia
- Banking institutions and insurance companies – audited annual financial statements must be submitted before 15 May to the National Bank of Georgia.

8 – UHY REPRESENTATION IN GEORGIA

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UHY ABG Consulting provides services to more than 2000 Georgian and International Companies.
The company's values in service provision are high quality, responsibility, confidentiality and partner ethics.
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Service insured for 2 million Gels.
Team of professionals- 110 employees.
The company's services are:

1. Accounting;
2. Consultations;
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