



GEORGIA

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Georgia is a democratic republic in Eastern Europe located between the Caspian Sea and the Black Sea. There are borders in the north to Russia, in the south to Turkey and Armenia and to Azerbaijan in the east. The capital city is Tiflis and other large cities are Batumi, Suchumi, Kutaissi, Rustawi and Sugdidi. The area of the country is 69,700 square kilometres, the size of the population is approximately 4.5 million.

The official language is Georgian (as well as Abkhazian in the territory of the autonomous area of Abkhaz). Common foreign languages are German, English and Russian. The official national currency is the Lari (GEL) which consists of 100 Tetri. This currency has been in circulation since 1995.

Its attractive geostrategic position as a transit country for oil and natural gas into the EU, the existing high level of education and the political plans to further promote education as well as the countryside and history are positive aspects for potential investors. The developing tourism and banking sectors makes the country even more attractive for foreigners.

Legal forms of business

According to Georgian law, business partnerships and joint stock companies are conceivable as possible legal forms.

Business partnerships:

Open trading company (general partnership)

In the open trading company the shareholders carry unlimited personal liability for the liabilities of the company. An open trading company is founded by the union of two or three natural persons. The partners are jointly and severally liable. There are no regulations which regulate the minimum amount of capital for an open trading company. The company has its own legal personality.

Limited partnership

The Georgian limited partnership is comparable to the German model. It consists of at least two or three natural persons or legal entities. It is a company in which the general partners are liable for the obligations of the company with all of their assets and the limited partners are only liable to the extent of the capital they have paid in and as a result they do not participate in the company management. The Georgian legal system does not define a minimum amount of capital for a limited partnership.

In Georgia the form of the business partnership is not often used. It hardly offers shareholders any tax advantages and due to the personal liability is associated with a high level of risk. Due to this the joint stock company is the most common legal form of company in Georgia.

Joint stock companies

Company with limited liability

This company is comparable to the German GmbH. The liability risk is limited to the assets of the company and the shareholders are only liable to the extent of their investment in the company. The company can be founded by a natural person or legal entity. The company with limited liability can be founded by a single person.

The enterprise act in Georgia defines a share capital for a GmbH which can be set to be any amount in the articles of association (in certain cases, e.g. for insurance companies, a minimum share capital is required in order to receive a licence). This must be paid in when the company is founded.

The shareholders' meeting is the highest administrative body of the GmbH and as a result decides the strategic direction of the company. The daily business and the representation are made by the company management (director(s)). The company is liable for all business related actions of the director, but not for any dishonest conduct for which the director is responsible.

Joint stock company

The founding of a joint stock company also only requires a single shareholder. Just as with a GmbH, the liability here is also limited to the company assets and for the shareholder to the extent of his investment contribution. The founding of a joint stock company also requires share capital, whereby the upper or lower limit of the capital is not defined by law but is contractually fixed by the shareholders. In order to acquire the shares of the company, a contribution must be made to the share capital.

The issue of shares can be made in the form of preference shares or ordinary shares, whereby the holders of preference shares do not have a right to vote but do have a right to a fixed dividend. Ordinary shares on the other hand guarantee the shareholder voting rights at the general meeting to the extent of the shares held.

The most important body of the joint stock company is the general meeting which decides the strategic direction and the election of the supervisory board of the company. A supervisory

board is obligatory with open companies or companies registered with the Georgian national bank and with closed companies only from 100 shareholders. The supervisory board defines and monitors the company management of the joint stock company.

Cooperative

The cooperative (Co) is an organisation where the members can be natural persons or a legal entity. The cooperative is founded through the payment of a minimum membership amount defined by the members. The organisation serves to promote common economic benefits and increase the profits for members. In this process, the cooperative should primarily act in the interests of members and only secondarily promote their financial interests. The liability for the obligations of the organisation is limited to the assets of the cooperative.

Forms of activity for foreign investors

In Georgia, foreign legal entities and natural persons can engage in economic activity without restrictions. Foreign investors can found a new company according to Georgian law or acquire an interest in an existing Georgian company. Apart from that, in Georgia it is also possible to open up a representation or branch office of a foreign company.

The principle of freedom for economic activity is valid in Georgia for domestic and foreign investors. Some types of economic activity which for example are classed as particularly dangerous require a licence which is issued by a ministry or other administrative organ. The types of activity which require a licence are defined by the Georgian legal regulations.

Branch offices (representation)

Under the Georgian enterprise act a branch office is not a legal entity. The opening of an office does not require registration for the company. The opening of a branch office by a foreign legal entity, however, is subject to compulsory registration in the public register of Georgia (enterprise department). In spite of the missing legal personality, the office can undertake all actions which are required for the purpose of doing business in Georgia. The taxation of the office is the same as it would be for a legal entity, but the withholding tax on dividends is not applicable. The liability for the obligations of the offices is carried by the parent company.

Other forms of activity for foreign investors

In Georgia the representation of a foreign enterprise is not limited to branch offices because Georgian law prescribes special forms for the legal authority of commercial enterprises.

Especially important are the regulations regarding a commercial agent, power of attorney and legal commercial power of attorney.

According to article 11 of the Georgian law relating to commercial enterprises, the business transactions of the enterprise and the commercial agent are regulated through a contract concluded with the commercial agent. The commercial agent is not defined in the Georgian legislation, but in general a commercial agent is a self-employed business person who is commissioned to enter into commercial transactions for one or more other enterprises (suppliers) or to conclude transactions in his or their name (agent for a single company or for a number of companies). He works in a third party's name and for the account of others. The labour law is not applicable for the regulation of the legal situation.

As already mentioned, the commercial agent is seen as a self-employed person. He makes transactions on behalf of third parties and on the account of others. According to article 709 of the Georgian civil code acceptance of the order obliges the person commissioned to supply one or more business transactions in the name and at the cost of the ordering party. The relationship between a foreign legal entity and a commercial agent can be regulated by a service contract. In 1986 the council of the European Union issued a directive for the regulation of the legal relationship between the commercial agent and company. This directive can also serve as a basis for a contract.

General power of attorney

According to article 10 par. 3 of the Georgian civil code, a person accorded general power of attorney must be registered in the commercial register. The power of attorney entitles the holder to represent the company in all types of judicial and extra-judicial business and legal acts which are associated with the operation of a trading business. The person with power of attorney is only permitted to dispose of and burden real estate to the extent that he has been explicitly given the authority to do so.

A limitation of the scope of the power of attorney is invalid with respect to third parties. This is in particular true for the restriction that the power of attorney shall only be exercised for certain transactions, certain types of business, under certain circumstances, for a certain period of time, or at individual locations. A restriction of the power of attorney on the operation of one or more branch offices of the company owner is only valid in respect to third parties when the offices are operated under different companies. Companies are considered to be different in the sense of this regulation if the branch office has an affix added on, which is then considered to be the company name of the branch office.

Mobility of the enterprise

Thanks to the open economic policy, in Georgia enterprises enjoy extensive mobility. Accordingly, the founding of a company and procedures for foreign investors can be completed in Georgia or by Georgian enterprises abroad and the respective location of the enterprise can be moved across the border. A foreign company which is founded and registered in Georgia can therefore move its headquarters from Georgia to outside the country without having to give up business operations or commercial activity.

The relocation of the company's domicile is possible when at the time of the relocation

- › an appropriate international agreement allows this,
- › the company is not involved in insolvency, criminal or civil proceedings, and
- › there are no outstanding tax liabilities of the company in Georgia.

Conversion of a company

Georgian law allows the conversion of a company in three ways: change of the legal form, a merger or a split. All conversions are subject to compulsory registration. They must therefore be registered at the commercial register of the national registry office, whereby all creditors of the enterprise must be listed. These must also be informed when the conversion is to take effect in order to ensure a settlement is made.

A change of legal form can be made from each legal form to another legal form. The basis of the conversion is the decision of the shareholders, whereby the possibility of a conversion should already be part of the articles of association. Depending on the existing legal form the procedure to change the legal form is made differently. In order to convert a company with limited liability into a joint stock company and vice versa, the approval of at least 75 % of the shareholders is required.

All other form changes have to be unanimously agreed. This regulation does not apply when the shareholders have included a deviating regulation in the articles of association. Mergers can be divided into two categories: the merging of two companies and a takeover. The merging of at least two companies results in a new company. In this case the new company takes over the rights and the obligations of the earlier companies.

In the case of a takeover at least one company is taken over by a second company. In this case a new company is not formed. The company doing the takeover integrates the company taken over into its own structure and from that moment on also takes over the rights and obligations of the company taken over.

The merger of a company with a GmbH, a joint stock company or cooperative requires the approval of 75 % of the shareholders present at the general meeting. All other forms of merger require unanimous agreement. It is possible to dispense with this procedural regulation, however, when an appropriate condition is included in the articles of association.

The splitting of a company is the third form of conversion. In this case a company is split into two or more companies. The companies created in this way exist independently of each other. However, they are severally liable for the obligations of the split company. The legal succession must be regulated in the resolution to split the company.

Liquidation of a company

The first step towards liquidation of a company is a corresponding shareholders' resolution. After that the shareholders, or if authorised accordingly the supervisory board or company management, appoints an insolvency administrator.

In order to start the liquidation process a corresponding entry is required in the public register. The national registry then informs the Georgian tax authorities which determines the tax liabilities of the enterprise. This should take up to 90 days after the registration has been made. In addition, the creditors of the enterprise are informed about the liquidation.

The insolvency administrator disposes of the assets of the company and passes on the generated revenues to a court or a notary. The received funds are used to pay creditors. When all the demands of creditors have been satisfied, the remaining amount is distributed to the shareholders after three months. After that the company is removed from the public register and is thereby liquidated.

Labour law

One of the advantages of Georgia is certainly the structure of the population. Around 65 % of the population is between 15 and 59 years of age and the education standard is generally quite high. Furthermore, it is particularly attractive for foreign investors that Georgian labour law is one of the most liberal in the world. The labour law is standardised in the Georgian labour code. It regulates the relationships, rights and obligations of the parties, working conditions and termination of the employment contract, etc.

Pre-contractual relationships

Georgian labour law grants employers the right to obtain all information about applicants. At the same time it obliges employees to communicate to their employers all information about circumstances which might represent a danger for third parties or which could cause problems during the execution of the employment activity. An applicant is entitled to receive comprehensive information about the workplace in question, the work time, conditions, etc. There is no right, however, which requires an explanation of why an applicant is or is not selected.

Trial period

In order to determine the ability of a person in relation to the required activity, a contract can be concluded with the candidate for a trial period of a maximum of six months. The employment contract for a trial period may only be concluded once. The contract must be concluded in writing as otherwise it is valid as a normal employment contract. A person who has concluded a contract for a trial period has a right to remuneration for his work. If the trial period or employment contract ends, the activity of the employee must be remunerated according to the work hours performed.

Labour protection

The working age begins at the age of 16. The employment of a younger person requires the permission of the parents or its legal representative. Apart from that, the planned employment must not have a negative influence on the physical or mental development of the respective person or restrict his possibilities to receive education.

Persons under 14 years of age may only be engaged in the areas of sport, culture, art and advertising. Furthermore, the law prohibits night work (from 10 pm until 6 am) for pregnant women, women who have recently given birth, breastfeeding mothers or minors without their express agreement. It is prohibited to employ persons under the age of 18 years in casinos, night clubs and pornographic activities or in the distribution or transport of toxic pharmaceutical substances. Persons under 18 years of age and pregnant women may also not be engaged in dangerous or heavy work.

Georgian labour law prohibits the direct or indirect discrimination of employees. Discrimination is defined as the treatment of certain persons with the aim of creating a hostile, humiliating, degrading or offensive environment or to worsen the conditions in comparison to other employees. The differentiation between certain persons due to the importance or special points of their work is not considered to be discrimination.

Working conditions

Georgian labour law does not require a minimum wage and therefore the parties can agree to any wage or salary. The usual working time is 40 hours per week. Extra-contractual overtime must be remunerated. The breaks between the individual work days must be at least 12 hours, whereby a deviation here is not allowed. In addition, the employer is obliged to provide safe working conditions and provide employees with all necessary information. In the case of an occupational injury the employer shall indemnify the employee for all damages.

Overtime

The employee must agree to work overtime hours in the following cases: a) in order to remove a natural catastrophe and/or its consequences without remuneration; b) in order to remove an industrial accident and/or its consequences – against reasonable remuneration, whereby it is prohibited to employ a pregnant woman, or a women who has recently given birth or a handicapped person for overtime hours without their approval. Overtime hours mean the provision of work by the employee when the time period exceeds the 40 hours per week for adults, 36 hours per week for young people between 16 and 18 years of age and 24 hours per week for young people between 14 and 16 years of age.

Holidays

The labour law grants employees paid holidays of at least 24 work days per year. In addition, employees have a right to unpaid holiday of 15 work days. An employee only has a right to holidays after eleven months of employment. Pregnant women and mothers of small children have a right to maternity leave for the birth and afterwards up to 730 days of which 183 days are paid (200 days in the case of complications during birth or multiple births). An employee who adopts a newly born child has the right to 550 days of holiday (of which, however, only 90 days are paid holidays). Maternal leave and holidays due to an adoption are financially supported by the state. The parties of an employment contract can agree to additional remuneration arrangements.

Paid public holidays:

- › **January 1/2** – New Year's day holidays
- › **January 7** – Christmas day
- › **January 19** – Epiphany – the baptism of Christ
- › **March 3** – Mother's day
- › **March 8** – International women's day

- › **April 9** – the day when the law to re-establish the independence of Georgia was passed; day of national unity, civil accordance and the common remembrance of all those who died for the national integrity of Georgia
- › **Easter days** – Good Friday, Easter Saturday, Easter, the day after Easter – the day of praying for the dead on Monday (dates are variable)
- › **May 9** – the day of victory against fascism
- › **May 12** – Remembrance day for the holy apostle Andreas, founder of the Georgian Apostolic church
- › **May 26** – Independence day in Georgia
- › **August 28** – Day for Maria
- › **October 14** – Mtskheta
- › **November 23** – Giorgoba

Termination of the employment relationship

The ending of the employment relationship can be made mutually or from one side. Mutual grounds to end the contract may be the end of a time-limited contract, the death of one of the contract parties or a cancellation contract.

In addition, the contract relationship can be cancelled from one side. If the employee wishes to cancel the contract, he must notify the employer about this one month in advance. If the employer declares the termination, he must pay the employee a settlement amounting to one month's salary.

The termination must also be based on a ground as defined by the labour law, for example:

- › economic reasons, technological or organisational changes which lead to a reduction in the number of employees in the production or services area;
- › dismissal on the request of the employee;
- › dismissal through agreement between employer and employee;
- › insufficient professional suitability of the employee for the position occupied due to a lack of qualifications, professional knowledge or experience;
- › gross violation of obligations which the employee according to the employment contract has agreed to or which are foreseen by the internal regulations of the employer or works agreement;
- › infringement of the employee of the work discipline or negligent acts with non compliance of the conditions of the employment contract, the internal regulations of the employer or the works agreement within one year after the previous warning or application of disciplinary measures;

- › unless otherwise specified by the employment contract, a long incapacity for work of over 40 successive calendar days or of over 60 calendar days within six months. In that case according to the civil code the employee has a right to paid and unpaid holidays;
- › other objective circumstances which justify dismissal.

Real estate and acquisition of land

The Georgian civil code specifies that articles are either movable or immovable. In the Georgian civil code there is only one definition of immovable articles and this includes land and its raw materials, plants growing on the land and buildings and other structures connected to the land so that they cannot be removed without destruction of their purpose.

An item of real estate can belong to a natural person or legal entity or the state. A right of ownership to real estate is recognised and guaranteed within the scope of Georgian law. In order to prove ownership of real estate, the owner requires an extract from the national agency for registration of real estate.

Third parties can assume that the entries are correct and complete in the national registration agency of Georgia. Some time ago the land was mainly owned by the state. Today most of the country has already passed into private ownership. Due to its main function, immovable assets are strongly connected to where the property is situated. The regulations with regard to real estate are frequently decided by the states themselves. The same idea is explained in the national law of Georgia. Article 10 of these regulations postulates the exclusive jurisdiction of the courts of Georgia for disputes concerning land in Georgia.

Georgian law distinguishes between pieces of real estate according to their purpose. Real estate is divided into agricultural and non-agricultural areas. For a piece of real estate to be valid as agricultural it must be registered as such in the national registration agency. In addition, it must be used for growing crops or livestock breeding. Since June 2013 the ownership of agricultural areas has been restricted. Only Georgian natural persons or legal entities may purchase or inherit agricultural areas in Georgia.

The constitution of Georgia stipulates that the general law regarding ownership, the acquisition or disposal of property and the right to inherit property are recognised and cannot be removed. This means that there are a number of possibilities to become the owner of real estate of which one can be privatisation and the purchase of the real estate.

Procedures and regulations are specified in the law pertaining to property owned by the state which foresees three forms of the privatisation of real estate:

- › auction
- › direct sale
- › direct sale on the basis of preliminary selection procedures

Law concerning foreigners

In 2011 the requirement for a visa to enter Georgia for a stay up to 360 days was removed. This relaxation of the residence regulations is valid for the EU states and also for Albania, Andorra, Antigua-Barbuda, Argentina, Australia, Bahrain, Barbados, Belize, Bolivia, Bosnia and Herzegovina, Botswana, Brunei, Canada, Chile, Columbia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Iraq, Iceland, Israel, Japan, Korea, Kuwait, Lebanon, Liechtenstein, Malaysia, Mauritius, Mexico, Monaco, Montenegro, New Zealand, Norway, Oman, Panama, Paraguay, Peru, Qatar, Russia, San Marino, Saudi Arabia, Switzerland, Serbia, Seychelles, Singapore, South Africa, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Surinam, Thailand, Trinidad and Tobago, Turkmenistan, Uruguay, the US and Vatican. For persons from most of these countries, an ID card will suffice as a travel document.

Otherwise, according to Georgian law there are three possibilities to enter Georgia and stay there. These are: with a visa, a residence permit or a special permit (for citizens of certain countries).

Visa

A visa is issued by the Georgian consulate in the respective home country (or by civil registration if the foreigner is already resident in Georgia). It entitles a person to enter Georgia and to reside for a certain time period.

There are four types of visa: an ordinary visa, a business visa, a diplomatic visa and the student visa. Diplomatic visas are issued for government members, members of diplomatic service (and their families), etc. Business visas are issued to persons who represent international organisations in Georgia or who are making an official visit to Georgia. An ordinary visa is issued to persons visiting Georgia for business, entrepreneurial, tourist or work related purposes. A student visa is issued to persons who possess an invitation to an accredited educational institution.

Visas can be issued for time periods of 90 days (for single or multiple visits) or up to 360 days (only for multiple visits). In accordance with international agreements, diplomatic visas, work visas and ordinary visas can be issued for up to 15 years. Student visas are only issued for 360 days. If a student wishes to remain in Georgia, an application for a residence permit must be made.

Residence permit

A residence permit can be issued to be temporary or permanent.

A temporary residence permit can be issued for up to six years to persons who:

- › work in Georgia;
- › study in Georgia or are undergoing medical treatment in the country;
- › are invited by the government in the national interest as a highly qualified professional or expert;
- › are a guardian of a person with Georgian citizenship;
- › have a Georgian citizen as their guardian;
- › have a Georgian parent, spouse, brother or sister or grandparents;
- › are a victim of human smuggling.

A permanent residence permit can be issued to an applicant who:

- › has lived for the last six years in Georgia (with the exception of time periods for studies and medical treatment);
- › is a grandchild, child, parent, brother or sister or spouse of a Georgian citizen;
- › is a scientist, artist, sportsperson and its residence in Georgia is in the national interest;
- › who has lost his Georgian citizenship.

Tax law

Protection of taxpayer rights

One of the most important elements of the tax law is the protection of taxpayer rights. Georgian tax law includes corresponding regulations. The new civil code added a number of new regulations.

Furthermore, in a similar way to the legal systems of western states, Georgian tax law recognises the elementary principles of access to information, the confidential treatment

of data and the restitution of overpaid tax. All natural persons and legal entities subject to payment of tax are entitled to view data recorded about them and to obtain fiscal information. In addition, they can rest assured that all data – excluding data included in the public registry (legal form, identification number, address, etc.) – is treated as confidential. Overpaid taxes or fines are also refunded or offset against future taxes. The taxpayer is also granted the opportunity to safeguard his interests directly or via a representative (tax agent).

A special feature introduced with the revision of the Georgian tax law is the tax ombudsman who in co-ordination with the parliamentary chairperson is appointed by the Georgian Prime Minister to monitor the protection of taxpayer rights. The ombudsman examines the objections submitted by taxpayers and writes an annual report and passes on recommendations to the tax authorities as to how the respective offence can be compensated.

Furthermore, taxpayers have the right to contest the decisions of the tax authorities, to receive decisions concerning tax investigations, to apply for exemption from tax fines and not to comply with instructions from the tax authorities which are unlawful.

An appeal against a decision of the tax authorities at the finance ministry or in court is permissible within 30 days after receipt of the tax assessment. After the appeal is received at the finance ministry, the examination of the alleged infringement is made either by the tax authorities or by the arbitration council. If the decision is not rectified, further legal action remains an option.

In order to promote economic co-operation and investment measures, Georgia has concluded a double taxation agreement with Germany, Austria, Switzerland and also Armenia, Azerbaijan, Belgium, Bulgaria, China, Czech Republic, Denmark, Estonia, Finland, France, Greece, India, Iran, Ireland, Israel, Italy, Kazakhstan, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Qatar, Romania, Singapore, Spain, Turkey, Turkmenistan, UK, Ukraine, Uzbekistan and the United Arab Emirates. In addition, in 2011 preparations were set in motion to conclude a double taxation agreement with Albania, Argentina, Belarus, Brazil, Iceland, Iraq, Jordan, Liechtenstein, Marshall Islands, Mexico, Montenegro, Oman, Panama, San Marino, South Korea, Syria and Vietnam.

Taxes

Georgian tax law specifies only six types of taxes. There are five national taxes (income tax, corporation tax, sales tax, consumer tax, import tax) and only the wealth tax is a local tax in the sense of a municipal tax.

Income tax

All natural persons have to pay income tax. A person who has a residence in Georgia is subject to tax without restrictions which therefore includes his income worldwide. The obligation to pay this tax is also valid for non-resident persons subject to limited income tax liability. Thanks to the double taxation agreement, however, tax is only paid on income generated in Georgia. Income in the sense of Georgian tax law is income generated from an employment relationship (salary/wage and cash-value benefits), economic activity (especially dividends) and other income which can include, for example, the beneficial acquisition of goods or also income from private sale transactions. Tax loss carried back is excluded while tax loss carried forward to future years is possible depending on the engagement of the taxpayer as a company. The taxation is made for the calendar year and currently amounts to 20 %. Interest and dividends are subject to a tax rate of 5 %.

Corporate tax (tax on profits)

Just as with income tax, corporation tax is also based on the calendar year. The tax rate amounts to 15 %. In view of the double taxation agreement, foreign companies are subject to corporation tax if they have a branch office in Georgia or generate other forms of income. Companies and sole traders are obliged to pay corporation tax on a quarterly basis and to the amount of respectively 25 % of the total corporation tax amount based on the income from the last tax year. Payments must be made at the latest by the May 15, July 15, September 15 and December 15. Companies which have not made a taxable profit are not subject to this advance. The corporation tax is based on the IFRS and a number of fiscal modifications. Companies are treated as corporation tax subjects unless they are classified as a micro business or a small business. Micro-businesses or small businesses may be subject to simplified financial accounting rules and tax advantages (taxation only according to the tax law). The classification of these orients to criteria such as the employment of workers and annual income.

Furthermore, certain incomes may be exempt from corporation tax, e.g.:

- › income from international organisations, legal entities and non-profitmaking organisations financed by the state which are not derived from commercial activity;
- › membership fees, donations and scholarships received from non-profitmaking organisations;
- › income from the disposal of bonds of the Georgian state or the Georgian national bank and also interest from deposits at the national bank;
- › income realised and reinvested before 2014 derived from agricultural activity;
- › income from the liability of a Georgian insurance;
- › certain income from the field of IT;

- › various income arising from the promotion of medical supply and modernisation or the promotion of tourism;
- › various income from international financial companies, special trading companies and companies in free industrial zone companies.

Tax loss carried forward is also possible for corporation tax, but not tax loss carried back. In addition, Georgian tax law recognises numerous tax deductions. In principle, items are tax deductible which are consumed in order to generate the taxable income such as the manufacturing costs of goods for sale, working materials or salaries and wages. Expenses of a company which are not tax deductible are in general those which do not promote the own company and do not serve to promote the purpose of the company such as, for example, corporation tax itself, fines and penalties, but also expenses which are incurred when utilising a micro-business.

Furthermore, depending on the object or group subject, the instrument of depreciation is applicable using different methods. Dividends are subject to a withholding tax to the amount of 5 % but only to the extent they are distributed to private persons, non-profit organisations or foreign companies. Otherwise they are not subject to tax. The tax rate on interest income is 5 %. Under certain conditions, however, the adding of interest to taxable income is not made.

Sales tax

The Georgian sales tax rate is 18 % and must be paid on a monthly basis. Sales tax is due with the performance of any service or delivery of goods in Georgia including the import or export of goods in and out of Georgia. Imported goods temporarily in transit are subject to a tax rate of 0.54 % per started month, but in total not higher than 18 %.

Only registered taxpayers or those who would be subject to registration are entitled to deduct sales tax. The obligation to register exists for business operators who within a time period of 12 successive months record business transactions amounting to a total of 100,000 GEL unless their activity is restricted solely to a free trade zone. Registration is also, for example, obligatory within two days for persons who export one or more goods with a total value of over 100,000 GEL. Furthermore, a voluntary registration can be made by any taxpayer. Registration is uncomplicated and is usually made in one day. Deregistration is possible in the case of liquidation or on request.

According to Georgian tax law, there are two types of tax exemption, one with the right to deduct input tax and one without the right to deduct input tax.

The following business transactions do not result in a right to deduct input tax:

- › export of operable and strategic financial services;
- › import of goods and services governed by Georgian law relating oil and gas;
- › (temporary) import of goods for the personal use of foreigners working in the oil industry;
- › delivery of agricultural original products (e.g. grains and seeds) by agricultural workers;
- › delivery of services related to education or medicine;
- › deliveries to real estate;
- › certain imports with a limited quantity of tobacco products and alcohol by private persons (except import from a free trade zone);
- › certain imports with a limited quantity and value of goods depending on the period of absence from Georgia (except the import from free trade zone);
- › transfer of shareholdings in a partnership, except when in return for the shareholding individual assets are acquired;
- › transfer of assets of the partnership to their exclusively natural owner to the extent that since the founding no conversion took place;
- › delivery/import of certain medicines, vehicles, publications and mass media including baby products;
- › lottery and gambling services;
- › temporary import of goods which are completely exempt from sales tax, etc.

Input tax can be deducted for the following examples of business transactions:

- › export of goods;
- › delivery of goods to foreign diplomatic representatives;
- › services in the area of export/re-export of goods and goods in transit;
- › delivery of gas to thermal power plants;
- › cross-border transport of goods and passengers;
- › transfer of assets in the course of conversions;
- › asset contributions to share capital;
- › delivery of gold to the Georgian national bank;
- › tourism services;
- › services for ships which import goods into Georgia.

Consumer taxes

In Georgia, consumer taxes are levied on drinks containing alcohol, tobacco goods, vehicles and minerals resources such as oil and gas. The fixing of the amount is determined by the volume of amount generated whereby the tax rate is different depending on the type of

consumer good. In addition, alcohol products (from 1.15 ‰) and tobacco must have a corresponding tax seal. While the consumer tax for imported goods is paid directly in the import process, there is currently an additional requirement for information on a monthly basis.

Consumer taxes must be paid in cases with:

- › the manufacture of goods subject to tax in Georgia;
- › imports or exports of goods subject to tax into or out of Georgia;
- › manufacture of goods not subject to tax from goods which are subject to tax;
- › the supply of liquid gas and/or natural gas for vehicles;
- › the providing of a mobile telephone service.

Exemption from consumer taxes with a right to deduct input tax exists with the export of goods subject to tax (except scrap metal) and the delivery of Georgian goods for sale in duty free zones.

For the following business transactions, however, there is a tax exemption without the right to deduct input tax:

- › alcoholic beverages manufactured by natural persons for own consumption;
- › import of 400 cigarettes, 50 cigars, 50 cigarillos, 250 grams of other tobacco goods or a combination of all the mentioned products up to a total quantity of 250 grams by natural persons within a calendar day by an aircraft or within 30 days by other means of transport including import of four litres of alcoholic beverages;
- › fuel in the fuel tank of the vehicle with which a person enters Georgia;
- › import and/or delivery of aviation fuel, lubricants or other auxiliary products for international flights or international sea voyages;
- › import of goods for private consumption of diplomatic representatives and their relatives in a broad sense;
- › vehicles with the number 8703 according to the classification of goods according to the nomenclature for export products;
- › consumer goods which within three years after their export return to Georgia unchanged and are re-imported.

Import tax

Import tax must be paid by persons who import goods into the economic area of Georgia. The tax is calculated either on the value or volume of the goods. The tax rate of the import tax is according to the type of the goods to be imported.

Differentiation is made between three main groups:

- › 1. Group: food, mineral water, juices, wood, concrete, stone, clothes and jewellery goods taxed at 12 %,
- › 2. Group: private property, cables, pork meat, cheese and further certain types of foods at 5 %,
- › 3. Group: including alcoholic beverages and vehicles are taxed with a variable tax rate.

Numerous goods are exempt from tax. These in particular include humanitarian goods and goods which assist in the removal of natural catastrophes. Goods are also exempt which serve international passenger traffic, baby foods, diabetic foods and goods from a special economic zone.

Wealth tax

This tax is also based on the calendar. The local wealth tax may not exceed a highest rate of 1 %. The charging of the tax is different for private persons and companies.

For private persons within Georgia the reference point for the taxation is the legal position of the property. Taxable objects are all forms of real estate and land inclusive their buildings (regardless of how advanced), yachts and motor boats, aircraft and helicopters and objects leased by foreigners/foreign companies. Foreigners with business activities in Georgia on the other hand have to pay wealth tax on all tangible and intangible assets. Domestic and foreign private persons, however, can benefit from tax exemptions.

The taxation of the domestic and foreign companies is made according to the tangible assets recorded on the balance sheet, machines not installed, plant under construction, fixed assets and rented items of property.