



Georgia Tax Guide 2012

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions. This handy reference guide provides clients and professional practitioners with comprehensive tax and business information for 100 countries throughout the world.

As you will appreciate, the production of the WWTG is a huge team effort and I would like to thank all tax experts within PFK member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication. I would also like thank Richard Jones, PKF (UK) LLP, Kevin Reilly, PKF Witt Mares, and Kaarji Vaughan, PKF Melbourne for co-ordinating and checking the entries from countries within their regions.

The WWTG continues to expand each year reflecting both the growth of the PKF network and the strength of the tax capability offered by member firms throughout the world.

I hope that the combination of the WWTG and assistance from your local PKF member firm will provide you with the advice you need to make the right decisions for your international business.

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PREFACE

The PKF Worldwide Tax Guide 2012 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of 100 of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current as of 30 September 2011, while also noting imminent changes where necessary.

On a country-by-country basis, each summary addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

In addition to the printed version of the WWTG, individual country taxation guides are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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PKF International Limited (PKFI) administers the PKF network of legally independent member firms. There are around 300 member firms and correspondents in 440 locations in around 125 countries providing accounting and business advisory services. PKFI member firms employ around 2,200 partners and more than 21,400 staff.

PKFI is the 10th largest global accountancy network and its member firms have \$2.6 billion aggregate fee income (year end June 2011). The network is a member of the Forum of Firms, an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide.

Services provided by member firms include:

- Assurance & Advisory
- Corporate Finance
- Financial Planning
- Forensic Accounting
- Hotel Consultancy
- Insolvency – Corporate & Personal
- IT Consultancy
- Management Consultancy
- Taxation

PKF member firms are organised into five geographical regions covering Africa; Latin America; Asia Pacific; Europe, the Middle East & India (EMEI); and North America & the Caribbean. Each region elects representatives to the board of PKF International Limited which administers the network. While the member firms remain separate and independent, international tax, corporate finance, professional standards, audit, hotel consultancy, insolvency and business development committees work together to improve quality standards, develop initiatives and share knowledge and best practice cross the network.

Please visit www.pkf.com for more information.

STRUCTURE OF COUNTRY DESCRIPTIONS

A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES
COMPANY TAX
CAPITAL GAINS TAX
BRANCH PROFITS TAX
SALES TAX/VALUE ADDED TAX
FRINGE BENEFITS TAX
LOCAL TAXES
OTHER TAXES

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES
DEPRECIATION
STOCK/INVENTORY
CAPITAL GAINS AND LOSSES
DIVIDENDS
INTEREST DEDUCTIONS
LOSSES
FOREIGN SOURCED INCOME
INCENTIVES

C. FOREIGN TAX RELIEF

D. CORPORATE GROUPS

E. RELATED PARTY TRANSACTIONS

F. WITHHOLDING TAX

G. EXCHANGE CONTROL

H. PERSONAL TAX

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

INTERNATIONAL TIME ZONES

AT 12 NOON, GREENWICH MEAN TIME, THE STANDARD TIME ELSEWHERE IS:

A

Algeria	. . . . .	1 pm
Angola	. . . . .	1 pm
Argentina	. . . . .	9 am
Australia -		
Melbourne	. . . . .	10 pm
Sydney	. . . . .	10 pm
Adelaide	. . . . .	9.30 pm
Perth	. . . . .	8 pm
Austria	. . . . .	1 pm

B

Bahamas	. . . . .	7 am
Bahrain	. . . . .	3 pm
Belgium	. . . . .	1 pm
Belize	. . . . .	6 am
Bermuda	. . . . .	8 am
Brazil	. . . . .	7 am
British Virgin Islands	. . . . .	8 am

C

Canada -		
Toronto	. . . . .	7 am
Winnipeg	. . . . .	6 am
Calgary	. . . . .	5 am
Vancouver	. . . . .	4 am
Cayman Islands	. . . . .	7 am
Chile	. . . . .	8 am
China - Beijing	. . . . .	10 pm
Colombia	. . . . .	7 am
Croatia	. . . . .	1 pm
Cyprus	. . . . .	2 pm
Czech Republic	. . . . .	1 pm

D

Denmark	. . . . .	1 pm
Dominican Republic	. . . . .	7 am

E

Ecuador	. . . . .	7 am
Egypt	. . . . .	2 pm
El Salvador	. . . . .	6 am
Estonia	. . . . .	2 pm

F

Fiji	. . . . .	12 midnight
Finland	. . . . .	2 pm
France	. . . . .	1 pm

G

Gambia (The)	. . . . .	12 noon
Georgia	. . . . .	3 pm
Germany	. . . . .	1 pm
Ghana	. . . . .	12 noon
Greece	. . . . .	2 pm
Grenada	. . . . .	8 am
Guatemala	. . . . .	6 am

Guernsey	. . . . .	12 noon
Guyana	. . . . .	7 am

H

Hong Kong	. . . . .	8 pm
Hungary	. . . . .	1 pm

I

India	. . . . .	5.30 pm
Indonesia	. . . . .	7 pm
Ireland	. . . . .	12 noon
Isle of Man	. . . . .	12 noon
Israel	. . . . .	2 pm
Italy	. . . . .	1 pm

J

Jamaica	. . . . .	7 am
Japan	. . . . .	9 pm
Jersey	. . . . .	12 noon
Jordan	. . . . .	2 pm

K

Kazakhstan	. . . . .	5 pm
Kenya	. . . . .	3 pm
Korea	. . . . .	9 pm
Kuwait	. . . . .	3 pm

L

Latvia	. . . . .	2 pm
Lebanon	. . . . .	2 pm
Liberia	. . . . .	12 noon
Luxembourg	. . . . .	1 pm

M

Malaysia	. . . . .	8 pm
Malta	. . . . .	1 pm
Mauritius	. . . . .	4 pm
Mexico	. . . . .	6 am
Morocco	. . . . .	12 noon

N

Namibia	. . . . .	2 pm
Netherlands (The)	1 pm
New Zealand	12 midnight
Nigeria	1 pm
Norway	1 pm

O

Oman	4 pm
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P

Panama	7 am
Papua New Guinea	10 pm
Peru	7 am
Philippines	8 pm
Poland	1 pm
Portugal	1 pm
Puerto Rico	. . . . .	8 am

Q

Qatar8 am

R

Romania2 pm

Russia -

 Moscow3 pm

 St Petersburg3 pm

S

Sierra Leone 12 noon

Singapore7 pm

Slovak Republic1 pm

Slovenia1 pm

South Africa2 pm

Spain1 pm

Sweden1 pm

Switzerland1 pm

T

Taiwan8 pm

Thailand8 pm

Tunisia 12 noon

Turkey2 pm

Turks and Caicos Islands7 am

U

Uganda3 pm

Ukraine2 pm

United Arab Emirates4 pm

United Kingdom(GMT) 12 noon

United States of America -

 New York City7 am

 Washington, D.C.7 am

 Chicago6 am

 Houston6 am

 Denver5 am

 Los Angeles4 am

 San Francisco4 am

Uruguay9 am

V

Venezuela8 am

Vietnam7 pm

GEORGIACurrency: Georgian Lari
(GEL)

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Dial Code Out: 00

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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 state-wide, 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.

STANDARD TAX RATES

Corporate income tax: 15%

Withholding tax for companies and individuals

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 Company	exempt
Dividends paid by International Company	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 Company	exempt
Interest paid on debt securities issued by Georgian legal entities and listed on a recognized foreign stock exchange	exempt
Royalties paid to resident individuals	20% (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
Other Information	
Carry back of losses	0 years
Carry forward of losses	exempt
Carry forward of losses (for companies and individual entrepreneurs)	5 years or 10 years (in the latter case the statute of limitation increases from 6 to 11 years)
Carry forward of losses (for Small Business)	0 years

TAX RATES FOR AN INTERNATIONAL FINANCIAL COMPANY

Corporate Income Tax (financial operations and/or financial services, gain from sale of securities issued by non-resident persons)	exempt
Value Added Tax (financial operations and/or financial services)	exempt
Other Information	
Carry back of losses	0 years
Carry forward of losses	0 years

TAX RATES FOR A FREE WAREHOUSE COMPANY

Corporate Income Tax (re-exporting of goods from Free Warehouse)	exempt
Value Added Tax (supply of goods to a VAT payer in Free Warehouse)	exempt
Import Tax	exempt
Other Information	
Carry back of losses	0 years
Carry forward of losses	0 years

TAX RATES FOR A FREE INDUSTRIAL ZONE COMPANY

Corporate Income Tax	exempt
Value Added Tax (supply within Free Industrial Zone)	exempt
Import Tax (goods produced in Free Industrial Zone)	exempt
Property Tax (including on land)	exempt
Other Information	
Carry back of losses	0 years
Carry forward of losses	0 years

NB. Corporate income tax exemption applies only to a Free Industrial Zone Company that has obtained the status of an International Company

COMPANIES**CORPORATE INCOME TAX****GENERAL PRINCIPLES**

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

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

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

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

The tax rate is a flat 15%. See rates for withholding taxation for companies in section "Tax Rates at a Glance".

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

TAX BASE

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

The tax base includes the following: trading income, capital gains, income from financial activities, dividend income, gratuitously received goods and services, etc. Income received in foreign currency is converted into GEL at the daily exchange rate published by the National Bank of Georgia (NBG) for the date of receipt of the income.

Generally, a deduction is allowed for all documented expenditures contributing to the generation of taxable income, except for special non-deductible or partially deductible expenses. The Minister is authorised to define special cases when documenting of the expenditure is not obligatory.

Realised capital gains are included in taxable income and are subject to tax at the regular corporate income tax rate. Capital losses together with other losses can be carried forward for up to 5 or 10 years against future profits (see section "Losses").

COMPLIANCE

Corporate income tax returns can be filed either personally, electronically or sent via insured mail within three months following the end of the tax period. The submission date can be extended for up to a further three months if the Georgian Tax Authorities are notified before the deadline expires, and a taxpayer has made the advance tax payments (or has no obligation to make advance tax payments) due for the current tax year. Corporate income tax return can be amended within the statute of limitation.

Georgian companies, including PEs of foreign companies in Georgia conducting economic activities, must make advance corporate income tax payments either via bank or e-paying systems at 25% of the tax liability for the preceding tax year. The due dates for the payments are 15 May, 15 July, 15 September, and 15 December of the current tax year.

Advance payments of tax are applied against the corporate income tax liability for the current tax year. The balancing payment is due 1 April after the end of the tax year.

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

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

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

BRANCH PROFITS TAX

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

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

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

- Storage or demonstration of goods belonging to a foreign company or non-resident individual
- Keeping a stock of goods belonging to a foreign company or non-resident individual, only for the purpose of processing by another person
- Purchase of goods or collection of information for a foreign company or non-resident individual
- Performance of any other activities that are preparatory or auxiliary in nature on behalf of a foreign company or non-resident individual

- Preparation and/or signing of contracts for granting loans, supplying goods or rendering technical assistance on behalf of a foreign company or non-resident individual
- Execution of any combination of the above activities.

Further, the transfer of property under operating lease, finance lease, usufruct or under any similar substance in the territory of Georgia does not result in a PE of a foreign company or a non-resident individual.

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

VALUE ADDED TAX (VAT) TAXABLE TRANSACTIONS

VAT taxable transactions include:

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

PLACE OF SUPPLY PLACE OF SUPPLY FOR GOODS

- The place of supply is wherever the goods are actually supplied from or where transportation of goods starts, if supply of goods require transportation
- The place of supply of electrical or thermal energy, gas and water is the place of receipt of these goods
- The place of supply of exported goods is Georgia.

PLACE OF SUPPLY FOR SERVICES

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

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

INVOICING

- If the taxpayer is a VAT registered it must issue a tax invoice on VAT taxable transactions to customers upon their request no later than 30 calendar days from the request. A tax invoice is issued either in paper in the format approved by the Minister or in electronic form.

VAT REGISTRATION

A Taxpayer can register for VAT voluntarily. Compulsory registration is required where the taxpayer:

- carries out economic activities and the total amount of VAT taxable transactions carried out in any continuous period of 12 calendar months exceeds GEL 100,000.

The taxpayer must file an application for VAT registration to the Georgian Tax Authorities within two months of this

- produces or imports excisable goods into Georgia (except for excisable goods exempt from VAT taxation upon import). An application for registration is required before the supply of excisable goods in Georgia
- intends to carry out a single VAT taxable supply, or a set of VAT taxable supplies in one day with a total amount exceeding GEL 100,000. An application for registration is required before the supply is made
- is an entity established as a result of a reorganization and at least one of the parties to the reorganization is a VAT payer. An application for registration is required before any VAT taxable transactions are carried out, and no later than 10 calendar days after the reorganization;
- is a legal entity or partnership and a VAT payer shareholder/partner invested goods/services in the capital of the entity or partnership. Registration is required no later than 10 calendar days after such a contribution. The registration procedure is straightforward and the taxpayer can register for VAT normally within one working day.

VAT DEREGISTRATION

VAT registration is cancelled in the following circumstances:

- upon liquidation of a business
- upon decease of an individual
- if an expected one-time supply exceeding GEL 100,000 leading to mandatory VAT registration is not carried out.

A taxpayer may also deregister though filing an application for VAT deregistration if the sum of taxable transactions, excluding VAT during the last 12 calendar months, does not exceed GEL 100,000, provided he, she or it has been registered for at least one year. The GTA may also request the cancellation of VAT registration and deregister a taxpayer if the latter agrees.

VAT registration is cancelled from the first day of a month following the reporting period when (a) obligation to deregister arises or (b) the taxpayer submits an application or (c) the taxpayer agrees to the de-registration request.

VAT RATES

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

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

EXEMPT SUPPLIES

VAT exempt supplies are not subject to VAT taxation; however, if taxpayer makes such supplies they may or may not be entitled to reclaim input VAT deduction.

TRANSACTIONS EXEMPT WITH THE RIGHT TO RECLAIM INPUT VAT

The list of exempt items with the right to reclaim input VAT includes:

- Export of goods
- Supply of goods/services intended for the official or personal use of foreign diplomatic and equal representative offices
- Transportation of passengers and luggage and related services provided that either departure or destination point is located outside Georgia
- Import and/or supply of aviation fuel, lubricants and other supplementary products to be provided on board for international flights or international sea passages
- Supply of Georgian goods for sale in duty free zone and sale of goods/provision of food services therein
- Supply of assets under reorganization
- Contribution of assets into the capital of a legal entity/partnership, where the latter has theoretically credited VAT on these assets upon the contribution
- Supply of gold to the NBG
- Organized foreign tours into Georgia by tour operators and the supply of tourist packages by the latter
- Supply of business as a going concern by one VAT payer to another, provided that both parties notify the GTA within 15 days from supply etc.

TRANSACTIONS EXEMPT WITHOUT THE RIGHT TO RECLAIM INPUT VAT

The list of exempt items without the right to reclaim input VAT includes:

- Conduct of financial operations and/or supply of financial services
- Privatization sales

- Import and/or supply of goods and services under the Law of Georgia on Oil and Gas
- Import and/or temporary import of goods intended for personal use of citizens of foreign countries employed at oil and gas exploration and extraction works
- Import and/or temporary import of goods for the official and personal use of foreign diplomatic and equal representative offices
- Import and/or supply of certain medicines, passenger cars, publications and mass media and baby products
- Supply of educational and medical services
- Initial supply of agricultural products (except for eggs) before their reproduction (i.e. change of code) by individuals engaged in agricultural activities
- Supply of land plots
- Supply of betting and gaming services
- Import of 200 cigarettes or 50 cigars or 50 cigarillos (slim cigars) or 250 grams of other tobacco products or combination of all mentioned products up to 250 grams by an individual during one calendar day by air transport or during 30 days by other means of transportation, also import of 4 litres of alcoholic beverages
- Import of goods under 30 kilograms and with the value between GEL 300 and GEL3,000 depending on the type of the goods and means of transportation (except for import of goods from Free Industrial Zone or Free Warehouse); further, import of goods with the value up to GEL 15,000 depending on the period spent outside Georgia
- Supply of goods/services between Free Industrial Zone Companies
- Supply of goods/services to VAT payer in Free Warehouse
- Supply of the shares (not attached with the property) in partnership, except for receiving the property in individual ownership in exchange for the shares
- Supply of property by the partnership to its members, provided that the members are individuals only, the composition of the partnership has not changed since its establishment and the partnership is not a registered VAT payer etc.

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

VAT RECOVERY

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

For input VAT to be creditable, certain conditions should be met, including:

- The taxpayer must be a registered VAT payer
- A valid tax invoice for the purchase must be reported to the Georgian Tax Authorities in a reporting period following the reporting period the invoice relates to
- The goods/services purchased must be used in taxable transactions, except for exempt transactions without the right to reclaim input VAT, in export of goods or for the rendering of services outside the territory of Georgia.

If goods and services are used for both exempt supplies with the right to reclaim input VAT, and exempt supplies without the right to reclaim input VAT, the taxpayer is obliged to account for them separately:

- Input VAT directly related to exempt supplies with the right to reclaim is recoverable in full
- Input VAT directly related to exempt supplies without the right to reclaim is not recoverable
- Input VAT that may not be directly attributed to supplies exempt with or without the right to reclaim is recoverable in proportion to the exempt supplies.

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

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

The adjustment value of input VAT is calculated at:

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

Cases where no VAT credit is allowed include:

- Social, entertainment and representation expenses
- Tax invoices, where the seller of goods/services cannot be identified
- Bogus operations or fictitious agreements
- Expenses incurred for the production of goods/services used in exempt supplies without the right to reclaim input VAT.

SPECIAL RULES FOR IMPORTS

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

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

Taxpayer may disapply this treatment in writing.

REFUND OF VAT PAID ON GOODS PURCHASED BY CITIZENS OF FOREIGN COUNTRIES

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

- Goods are taken out of the territory of Georgia within 45 calendar days from their purchase
- Price of purchased goods per each receipt is more than GEL 200 (exclusive of VAT)
- The receipt for the purchase is issued by an authorised seller in the format approved by the Minister

REVERSE CHARGE VAT (RCVAT)

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

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

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

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

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

COMPLIANCE

The VAT reporting period is quarterly for some VAT payers and in all other cases the VAT reporting period is monthly. From 1 January 2013 the reporting period will be quarterly for all VAT payers.

VAT payers are required to file a VAT return either personally, electronically or send it via insured mail and pay VAT, including RCVAT, either via bank or e-paying system no later than the 15th of the month following the reporting period. VAT on imports is paid at the moment the goods are imported into Georgia. VAT on temporary imports is paid no later than the 15th of the following month, the last payment made on the last day of temporary import.

Taxpayer may pay VAT on temporary imports in a lump sum.

B. DETERMINATION OF TAXABLE INCOME

EXEMPTIONS

Income exempt from corporate income tax includes:

- Income of budgetary, international and charitable not-for-profit entities, except for income received from economic activity
- Grants, membership fees, and donations received by a not-for-profit entity
- Portion of income of medical establishments (irrespective of legal form) received from medical activities which has been reinvested (rehabilitation of the establishment, provision for technical base)
- Up to 1 January 2014 income received from the initial supply of agricultural products before their reproduction (i.e. change of code), if such income does not exceed GEL 200,000 during a calendar year
- Up to 1 January 2014 income gained from agricultural activities reinvested in agriculture
- Income of an International Financial Company received from performance of financial operations and/or provision of financial services and/or sale of securities issued by non-resident persons (for taxation of International Financial Company see section "Beneficial Tax Regimes")
- Gains received from sale of securities issued by an International Financial Company
- Gains received from sale of free floating securities
- Georgian source income of a non-resident received from insurance, re-insurance and leasing services not related to a PE in Georgia
- Interest income and gains received from the sale of Government or NBG bonds and interest accrued on accounts with the NBG
- Income of a Free Warehouse Company received from re-exporting of goods from Free Warehouse
- Income of an International Company received from the supply of goods and services to other International Companies in the territory of a Free Industrial Zone or outside the economic territory of Georgia
- Income of an investment fund received from the supply of financial instruments, performance of financial operations or provision of financial services, if the investment fund is an International Financial Company
- Income received from the supply outside Georgia of IT produced by a Virtual Zone Person 1.

DEDUCTIBLE EXPENSES

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

Tax-deductible expenses include the following:

- Cost of goods sold
- Consumables, including fuel and lubricants
- Salary expenses
- Expenses for employee business trips
- Advertising expenses
- Interest paid or payable, including interest on foreign loans, up to an annual limit of the interest rate established by the Minister and pro rated for respective periods; deduction of interest is further limited for those companies in which at least 20% of shares is owned by entities exempt from corporate income taxation or residents of low tax jurisdictions/offshore countries; thin capitalisation rules may apply in certain cases (see section "Thin Capitalisation Rules")
- Royalties and service fees incurred
- Bad debts, if they have been included in taxable income of the previous periods and then subsequently written off in the accounts
- Impairment of outdated or defective inventory items (impairment on fixed assets is not deductible), provided that prior approval from the Georgian Tax Authorities has been obtained, etc.

Further to the above, banks may deduct provisions on loans within the limits established by the NBG. Insurance companies may deduct (i) the increase in incurred but not reported reserves created according to the rules established by the NBG, and (ii) net claims incurred over a tax year, excluding income from regression and subrogation.

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

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

NON-DEDUCTIBLE EXPENSES

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

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

DEPRECIATION/AMORTIZATION

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

TANGIBLE FIXED ASSETS

Depreciation of land, works of art, museum items, historical objects (except for buildings), fixed assets with a value below GEL 1,000 and animals is not deductible. Fixed assets with a value below GEL 1,000 can be fully deducted from gross income in the year of expenditure.

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

The amount of depreciation for each group is calculated by applying the depreciation rate for the group to the value of the group at the end of the tax year. Notably, full annual depreciation can be charged to all assets of the group irrespective of the purchase date.

INTANGIBLE FIXED ASSETS

Intangible assets with a value below GEL 1,000 can be fully deducted from gross income in the year of expense.

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

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

ALTERNATIVE DEPRECIATION METHOD

Taxpayers may use an alternative method to compute the deduction of expenditure on fixed assets, other than non-amortised fixed assets or fixed assets contributed into the capital of a company or supplied under finance lease. A company may fully deduct the cost of such assets in the year of their exploitation, including their

capital repair expenses. Those fixed assets are not further included in the asset groups for depreciation. If such assets are sold later, the sales price (market price in case of gratuitous supply) is included in the gross income. If a company elects the alternative method, it must be used for all purchased (produced) fixed assets for at least five years.

TAXATION OF DIVIDENDS

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

For dividends withholding taxation rates see section "Tax Rates at a Glance".

TAXATION OF INTEREST

- Interest sourced in Georgia and paid by a Georgian tax resident including the Permanent Establishment (PE) of a non-resident is subject to withholding taxation
- Interest paid to resident banks is not subject to withholding taxation
- Interest income received from financial institutions licensed according to the Georgian tax legislation is not subject to withholding taxation. At the same time, such interest is not further included in the taxable income of the recipient, unless the latter is itself a licensed financial institution
- Interest income received from free floating securities is not subject to withholding taxation and is not further included in taxable income
- Interest income received from debt securities issued by Georgian enterprises and listed on a recognized foreign stock exchange is not subject to withholding taxation and is not further included in taxable income
- Interest income received from an International Company is not subject to withholding taxation and is not further included in taxable income.

For interest withholding taxation rates see section "Tax Rates at a Glance"

TAXATION OF ROYALTIES

Royalties paid by a Georgian tax resident including PEs of non-residents to resident individuals are subject to withholding tax. For royalties withholding taxation rates see section "Tax Rates at a Glance".

TAXATION OF RENTAL INCOME

Rental payments (except for finance lease payments) by a Georgian tax resident including PEs of non-residents to resident individuals are subject to withholding tax. For rental income withholding taxation rates see section "Tax Rates at a Glance".

THIN CAPITALISATION RULES

Thin capitalisation occurs when a company's "debt to equity" ratio exceeds 3:1. Where thin capitalisation occurs, a company is not allowed to deduct paid or payable interest expenses from its gross income over and above the established ratio of 3/1.

Thin capitalisation rules do not apply:

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

Thin capitalisation is determined according to the average annual ratio, in line with the rules determined by the Minister. Thin capitalisation rules also only apply to cases when the Investigation Services of the Ministry of Finance of Georgia (the Ministry) proves that thin capitalisation has been used as a deliberate tax evasion mechanism.

LOSSES

Losses can be carried forward for up to five years against future profits. Further, a taxpayer can elect a 10-year loss carry forward period. In the latter case, the statute of limitation is 11 years. A 10-year carry forward period can still be changed to a five-year carry forward period when the losses carried forward are used up. Losses cannot be carried forward by an International Financial Company, Free Warehouse Company, and International Company.

No carry back is allowed.

C. FOREIGN TAX RELIEF

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

D. CORPORATE GROUPS

There is no system of group taxation in Georgia.

E. RELATED PARTY TRANSACTIONS

CORPORATE INCOME TAXATION FOR FOREIGN COMPANIES GENERAL PRINCIPLES

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

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

F. WITHHOLDING TAX

Income earned by foreign companies and non-resident individuals from Georgian sources without a PE in Georgia is subject to withholding taxation. For withholding taxation rates see section "Tax Rates at a Glance", although, double taxation treaties may reduce the tax rates.

A resident payer of income (legal entity or individual entrepreneur) is responsible for withholding the tax from the income paid, without taking into consideration associated expenses, and transmitting it to the state budget. Returns are filed either personally, electronically or via insured mail by the 15th of the month following the reporting period (monthly or quarterly) in which the payment was made. Further, the information about payments made to non-residents and taxes withheld shall be submitted to the Georgian Tax Authorities annually within 30 days following the end of the tax year. A non-resident subject to withholding tax in Georgia may wish to file a tax return for the purposes of reclaiming any amounts above the treaty rate before 1 April of the year following the reporting year. In this case, a non-resident will be taxed as receiving income through its PE in Georgia, associated expenses being deductible.

Currently Georgia has effective double taxation treaties with 30 countries (see Table "Tax Treaty Withholding Tax Rates"). A Georgian resident paying to a non-resident must file an application form for avoidance or reduction of withholding tax. The application form must be filed with the Georgian tax authorities before the payment or within six months of the payment. If the application form is submitted after this, a penalty for the failure to submit information to the Georgian Tax Authorities will apply. If tax was withheld, a non-resident can claim the refund by filing an application form.

H. PERSONAL TAX

	2011	2012	2013	2014
	20%	20%	18%	15%
Personal Income Tax for Micro Business	Exempt	Exempt	Exempt	Exempt
Personal Income Tax for Small Business	3% or 5%	3% or 5%	3% or 5%	3% or 5%

GENERAL PRINCIPLES

Individuals, who are resident in Georgia for tax purposes, pay Georgian personal income tax on their worldwide income under Georgian tax law. However, as outlined below (see section "Exemptions"), income received from foreign sources is exempt from personal income taxation.

Individuals who are not resident in Georgia for tax purposes are subject to Georgian tax only on income sourced in Georgia. Individuals are considered resident in Georgia for tax purposes if they:

- are actually present in Georgia for 183 or more cumulative days in any period of 12 consecutive calendar months ending in the tax year, including any time spent abroad, for medical treatment, vacation, business trips and/or educational purposes or
- are in Georgian State Service abroad during the tax year.

Individuals in the above categories are not resident in Georgia for tax purposes if they:

- have diplomatic or consulate status or are family members of such individuals
- are not citizens of Georgia but are staff members of an international not-for-profit entity under Georgian international agreements, or in the State Service of a foreign country, and/or are family members of such individuals
- are moving from one foreign country to another through the territory of Georgia
- reside in Georgia for medical treatment or vacation/tourism purposes only.

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

The tax year is a calendar year.

The tax rate is a flat 20% that will be reduced to 18% starting 1 January 2013, and further to 15% starting 1 January 2014. For withholding taxation rates for individuals see section "Tax Rates at a Glance". Those rates are applied on income received from sources in Georgia without deduction for expenses. Individuals starting economic activities are required to register with the Georgian Tax Authorities prior to their start-up and to obtain a Tax ID.

Georgian citizens who are non-entrepreneurial individuals may use their Personal ID to declare and pay taxes without prior registration. They are registered for tax, based on the information provided in filed tax returns and/or tax payment orders presented to the bank. However, foreign citizen non-entrepreneurial individuals have to register with the Georgian Tax Authorities prior to filing their annual personal income tax returns, and obtain a Tax ID.

HIGH NET WORTH INDIVIDUALS BECOMING RESIDENTS OF GEORGIA

There is a special rule established for high net worth individuals to become residents of Georgia without satisfying the above outlined general residency criteria.

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

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

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

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

INCOME

For Georgian personal income tax purposes, income is divided into the following categories:

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

INCOME FROM EMPLOYMENT

Taxable income from employment includes all remuneration received from employment, including benefits in kind (non-monetary benefits). Non-monetary benefits are included in gross income at their market price, reduced by any payments made by the employee to the employer for those benefits.

Taxable benefits may include:

- Private use of employer owned or provided car
- Interest free or low interest loan from the employer
- Receipt of goods or services from the employer
- Receipt of housing and rental allowances from the employer
- Reimbursement of personal expenses by the employer

- Life or health insurance plans paid by the employer for the employee
- Business trip allowances paid by the employer in excess of the statutory limits.

Remuneration and benefits paid by a Georgian employer are generally taxed through periodic (monthly or quarterly) payroll withholding.

INCOME FROM ECONOMIC ACTIVITIES

These include:

- Income received from the supply of goods/services
- Realised capital gains (unrealised gain is not subject to taxation)
- Income received as a result of limiting economic activities or close of an enterprise
- Income received from sale of fixed assets
- Dividends, royalty and interest income except for interest received by individuals on the funds existing on accounts at banks
- Rental and leasing income
- Benefit received as a result of debt write off, etc.

In case of gratuitous supplies, the income is measured at market prices.

OTHER INCOME NOT RELATED TO EMPLOYMENT AND ECONOMIC ACTIVITIES

Other income includes any type of income not classified as either income from employment or income from economic activities. This may include any property or benefit received in-kind from other parties. Such benefits are included in gross income at their market prices, reduced by any payments made by the recipient to other parties for those property or benefits, similarly to in-kind benefits received from an employer.

DEDUCTIBLE EXPENSES

To arrive at the taxable base, taxpayers are allowed to deduct all expenses contributing to the generation of taxable income except for non-deductible or partially deductible expenses. Business deductions are structured similarly as deductions for the purpose of corporate income tax (see section "Corporate Income Tax"). Expenses incurred for the receipt of employment income cannot be deducted from an individual's taxable income.

ALLOWANCES AND THRESHOLDS

For personal income tax there are no personal allowances. No marital status, dependency or other types of allowances are taken into consideration when calculating the taxable income of an individual. Similarly, there are no threshold limits, e.g. thresholds for non-taxable income, etc.

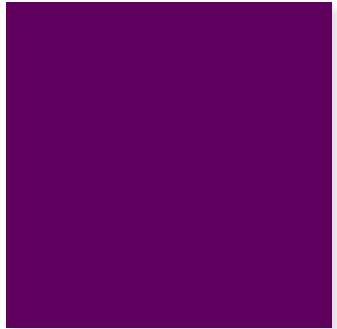
LOSSES

Individual entrepreneurs (individuals who are engaged in regular trading/commercial activities) may carry forward operating losses for up to five years against future operating profits. A taxpayer can elect a 10-year loss carry forward period, where the statute of limitation is increased from six to 11 years. A 10-year carry forward period can still be changed to a five-year carry forward period when the losses carried forward are used up. Individual entrepreneurs can carry forward capital losses up to five years (or 10 years) only against income from a similar business activity.

I. TAX TREATY WITHHOLDING TAX RATES

Country	Dividends	Interest	Royalties
Armenia	5/10	10	5
Austria	0/5/10	0	0
Azerbaijan	10	10	10
Belgium	5/15	0/10	5/10
Bulgaria	10	10	10
China	0/5/10	10	5
Czech Republic	5/10	0/8	0/5/10
Denmark	0/5/10	0	0
Estonia	0	0	0
Finland	0/5/10	0	0
France	0/5/10	0	0
Germany	0/5/10	0	0
Greece	8	8	5
Iran	5/10	10	5

Country	Dividends	Interest	Royalties
Ireland	0/5/10	0	0
Italy	5/10	0	0
Kazakhstan	15	10	10
Latvia	5/10	10	10
Lithuania	5/15	10	10
Luxemburg	0/5/10	0	0
Malta	0	0	0
The Netherlands	0/5/15	0	0
Poland	10	8	8
Qatar	0	0	0
Romania	8	10	5
Singapore	0	0	0
Spain	0/10	0	0
Switzerland	0/10	0	0
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	5/10	10	10
United Kingdom	0/5/10/15	0	0
United Arab Emirates	0	0	0
Uzbekistan	5/15	10	10
<i>Non-Treaty Countries</i>	5	5	15



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