Dear Readers,

I am pleased to introduce our first publication of Georgia's pocket tax book. The information it contains is based on taxation law and practice in force as of December 2008 and covers all the main aspects of the tax system in Georgia.

We have recently given special attention to developing our investment potential and attracting foreign investments. In the last few years, the tax system has been simplified, several taxes abolished and rates reduced on the remaining taxes.

According to the World Bank, Georgia has the lowest total tax burden in Central and Eastern Europe. According to the Forbes Tax Misery and Reform Index of 2008 Georgia ranks 4th best in the world in terms of tax burden.

Please send any feedback on this document via email to: eusupport@mof.ge

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

The Ministry of Finance of Georgia

GEORGIA

Official name: Georgia
Local name: Sak'art'velo
Location & Size: Georgia is situated
at the crossroads of Europa and Asia.
About the size of Switzerland it occupies 69,700 sq. km between
the Black and Caspian Seas. It borders Turkey, Russia, Armenia, and Azerbaijan.
Government: Presidental Parlamentary Democracy
Language: Georgian, which is over 2,000 years old and has its own alphabet
Population: 4.6 million
Capital: Tbilisi, 1.3 million

LEGEND

Town		
Road	Church	Archaeological Site
Railway	Fortification	Beach
Mountain Peak	Cave Town	National Park
Port	Historic Towers	Word Heritage Site

Reform of the Georgian Tax and Customs System: 2004–2008

The economy is an indicator of a country's strength, and taxation policy is fundamental to economic success. During recent years, radical changes have been made to tax and customs legislation in Georgia. A new tax code came into force on 1 January 2005 and a new Customs Code on 1 January 2007 with the objectives of:

Facilitating economic growth – with a minimum number of taxes and low tax rates;

Establishing a stable investment environment – by setting up a solid legal framework and introducing liberal economic principles;

Supporting legal business – by using strengthened and flexible administration mechanisms to identify and deter dishonest taxpayers;

Ensuring an increased culture of taxpaying – through simplified administrative mechanisms and improved taxpayer support.

The new tax and customs codes were developed following a fundamental review of tax and customs policies to introduce a more liberal regime. Out of 21 taxes under the former tax code, only 6 exist today. The customs code structure was harmonised with EU legislation and provisions for customs appeals and penalties were brought into line with the tax code. Customs approved treatment or use also underwent some improvement; namely, out of the previously existing 15 customs procedures, 7 are left and the rest have been formulated as customs-approved treatment or use.

Following adoption of the new tax and customs codes, amendments were made in the following years to remove shortcomings, such as vague provisions, ambiguous wordings and other problems. To maintain the pace of economic growth, direct taxes were further liberalised in 2007 to encourage investments and exports, and to increase competitiveness of domestically produced goods by reducing production costs and encouraging reinvestment. Aggregated taxes (personal income and social tax) were reduced by abolishing social tax and a single personal income tax rate of 25% was established. For individuals who were not social tax payers (and used to pay only 12% personal income tax) a preferential tax regime will be maintained until 2011.

During 2008, further changes were introduced as follows:

- Income tax will be reduced annually until 2013 when it will go to 15%;
- Tax on income from interest and dividends will be reduced annually until 2012, when it will go to 0%.

Especially important are changes to the tax code aimed at establishing new international financial institutions within the country, attracting inward investment, encouraging economic growth and sustainable development. The introduction of free warehouses and international enterprises into the tax and legal systems will encourage the trade-transit function within Georgia.

Tax reliefs and concessions for corporate income and property taxes, the abolition of withholding taxation on interest and dividends, and of taxation of gains received from sale of their shares are being introduced for the above entities. These concessions aim to attract strong international financial companies into Georgia and to encourage the establishment of new companies. Free industrial zones to realise and increase the country's industrial potential, will make use as effectively as possible of the country's trade-transit function.

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Abbreviations

BO	Branch Office
BP	Business Partnership
CCG	Customs Code of Georgia
Co-op	Cooperative
EUR	Euro
GCA	Georgian Customs Authorities
GEL	Georgian Lari
GP	General Partnership
GTA	Georgian Tax Authorities
IE	Individual Enterprise
IFRS	International Financial Reporting Standards
JSC	Joint Stock Company
LLC	Limited Liability Company
LP	Limited Partnership
NBG	National Bank of Georgia
PE	Permanent Establishment
RCVAT	Reverse Charge Value Added Tax
TCG	Tax Code of Georgia
USD	United States Dollar
VAT	Value Added Tax

1. Tax Rates at a Glance

There are six taxes in Georgia, of which five (personal income tax, corporate income tax, value added tax, excise tax and customs tax) are state-wide and one (property tax) is a local tax. There are no capital gains, inheritance, wealth, property transfer, social, branch remittance and other taxes imposed in Georgia.

1.1 Standard Tax Rates

Personal income tax*	25% (2009 - 20%)

* Personal income tax rate will be gradually reduced from 25% to 15% over a five-year period starting from 1 January 2009

Other Information

Carry back of losses for individual entrepreneurs	0 years
Carry forward of losses for individual entrepreneurs	5 years

Corporate income tax	15%

Withholding tax for companies and individuals

Dividends paid to individuals and non-residents**	10% (2009 - 5%)
Dividends paid to resident companies	0%
Dividends paid on publicly-traded equity securities having free float in excess of 25%	10% (2009 - 0%)
Dividends paid by International Financial Company	10% (2009 - 0%)
Interest paid**	10% (2009 - 7.5%)
Interest paid to resident banks	0%

Interest paid by licensed financial institutes	10% (2009 - 0%)
Interest paid on publicly-traded debt securities having free float in excess of 25%	10% (2009 - 0%)
Royalties paid for patents, know-how, etc	10%
Management fees paid	10%
Payment of income from international transport or international communications	4%
Insurance premiums paid	4% (2009 - 0%)
Payment of income from oil and gas operations	4%
Payments of other Georgia-source income of foreign companies not connected to their permanent establishments in Georgia	10%

** Rates for dividends and interest will be gradually reduced from 10% to 0% during a three-year period starting from 1 January 2009

Value added tax	0% or 18%
Excise tax	Varies
Customs tax	0%, 5% or 12%
Property tax – corporate	Up to 1%
Property tax – individual	Varies

Other Information

Carry back of losses	0 years
Carry forward of losses	5 years

1.2 Specific Tax Rates for a Free Industrial Zone

Corporate income tax for international companies*	0%
Value added tax on supplies within Free Industrial Zone	0%
Customs tax on goods produced in a Free Industrial Zone	0%
Property tax (corporate and individual)	0%

* A company registered as an international company and operating in a Free Industrial Zone

Other Information

Carry back of losses for international companies	0 years
Carry forward of losses for international companies	0 years

1.3 Specific Tax Rates for a Free Warehouse Company*

Corporate income tax (re-exporting of goods)	0%
Value added tax (supply of goods to a VAT taxpayer)	0%

* A Georgian company registered as a Free Warehouse Company and operating in a Free Warehouse

Other Information

Carry back of losses	0 years
Carry forward of losses	0 years

1.4 Specific Tax Rates for an International Financial Company*

Corporate income tax (financial services)	0%
Value added tax	0%

* A company registered as an international financial company and engaged in the provision of financial services

Other Information

Carry back of losses	0 years
Carry forward of losses	0 years

2. Tax Administration

2.1 Tax Filing and Payment Procedures

Period / Type of Tax	Tax Payment Deadline	Tax Return Filing Deadline
Monthly Tax Obligations		
Personal or corporate income tax subject to withholding at the source of payment	Upon payment of the income	15th of the following month
Value added tax	15th of the following month	15th of the following month
Excise tax	15th of the following month	15th of the following month
Annual Tax Obligations		
Corporate income tax and Personal income tax (individual entrepreneurs)	Tax payments are made during the tax year in four equal instalments at 25% of the previous tax year's liability by 15 May, 15 July, 15 September and 15 December. The adjustment payment is made by 1 April of the following year.	1 April of the following year
Income tax (individuals)	1 April of the following year	1 April of the following year
Personal or corporate income tax subject to withholding wat the source of payment	N/A	30 January of the following year
Property tax (individuals)	15 November of the following year	1 May of the tax year
Property tax (on land for entities and individual entrepreneurs)	15 November of the tax year	1 April of the tax year
Property tax (except land for entities and individual entrepreneurs)	Current tax payment is made by 15 June of the tax year; the adjusted payment is made by 1 April of the following year.	1 April of the following year

2.2 Tax Assessments

Georgia taxation is a self-assessment system under which taxes are calculated, paid and reported in accordance with the prevailing tax legislation and regulations. Property tax for individuals (and in some other cases) is calculated by the appropriate office of the Georgian Tax Authorities (GTA) and a notification of the amount of tax is issued.

2.3 Statute of Limitation

The statute of limitation in Georgia is 6 years. It is automatically extended to 11 years when a taxpayer chooses a ten-year carry forward of losses. Tax cannot be reassessed after this period has elapsed. In addition, under the Amnesty Law introduced in 2005, tax and customs liabilities which arose and were not satisfied before 1 January 2004 by resident and non-resident physical and legal persons are deemed as satisfied liabilities and there will be no criminal, administrative or other prosecutions as defined under the legislation.

These provisions apply to taxpayers who have not declared or paid tax liabilities up to 1 January 2004. The provisions of the Amnesty Law of 2005 do not apply to unpaid tax and customs liabilities that had been lawfully declared, accrued and recorded at state agencies under the rules established by the legislation or to tax amounts regarded as overpaid as a result of bogus and fictitious transactions/deals. Such amounts are subject to mandatory annulment.

In addition, under the Amnesty Law of 2005, the controlling agencies defined by Georgian legislation, including the Georgian Tax and Customs Authorities (GTA and GCA), as well as law enforcement agencies, cannot carry out any inspection in any form of taxpayers who qualify under the amnesty in the period covered by the Amnesty Law.

2.4 Fines and Penalties

Late payment of tax	0.07% of the overdue tax amount for each complete or incomplete day of delay
Late filing of tax return	5% of the payable tax stated in the return for each month (part-month) of delay – minimum Georgian Lari (GEL) 200 for each month (part-month) of delay

Understatement of tax in a tax return:

Up to GEL 15,000	25% of the understated amount
GEL 15,000 – GEL 25,000	50% of the understated amount
More than GEL 25,000	75% of the understated amount and criminal proceedings may also be instituted

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

2.5 Tax Audit

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

For the desk audit, the tax auditor, without visiting your place of activity, determines the consistency of your tax liabilities with the requirements of the Tax Code of Georgia (TCG), based on an analysis of financial reports, tax returns and other data in the possession of the GTA. If errors are revealed during the desk audit, you are notified about it in writing.

A field audit consists of a full or random audit of documents related to the calculation of taxes at your place of activity.

Field tax audit can be planned or controlling. For a planned field audit you will receive a notification letter in advance, but not for a controlling field audit. Field audits normally last no longer than 2 months (plus 1 month if GTA needs to prolong it; plus 2 months in coordination with the head of GTA if the gross income exceeds GEL 2 million at least for one year during the past three calendar years). The auditors must provide you with a tax audit program, a card defining your rights and other documents required by the legislation. If auditors consider that documents proving violation of tax laws may be destroyed they are entitled to remove accounting documents and/or copies of information related to taxation that is verified by you, but must return them to you within 5 days.

2.6 Filing of Tax Returns

If you apply to GTA for an extension of the deadline for submitting a personal income tax, corporate income tax or property tax return before the deadline expires, and pay the tax due at the time, the deadline will be automatically extended by three months. The granting of an extension does not affect the deadline for payment of the tax and does not suspend assessment of late payment fines on unpaid taxes.

If you identify changes leading to a reduction or increase of the tax liability in the submitted tax return, it is your responsibility to submit corresponding amendments to the tax return.

2.7 Measures to Ensure Fulfilment of Tax liabilities

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

- Seizure of tax, penalty and fine amounts from bank accounts;
- Withdrawal of cash from taxpayer's cash-desk;
- Tax lien (or hypothecation);
- Enforcement of levy on property in possession of a third party;
- Seizure of the taxpayer's property;
- Sale of seized property;

GTA is entitled to choose the sequence of these measures. During a tax dispute you are required to provide written notice, together with a bank or financial guarantee, to ensure fulfilment of your tax liabilities.

A decision to cease enforcement measures will be made by GTA if tax liabilities do not exceed GEL 250,000 and the extension term does not exceed 6 months. The decision is made by the Revenue Services of the Ministry of Finance of Georgia, if tax liabilities do not exceed GEL 1,000,000 and the extension term is under 1 year.

The cessation of measures to fulfil tax liabilities does not release you from paying late payment interest on overdue tax payments.

3. Tax Dispute Resolution

You may appeal against GTA decisions in the following circumstances:

- The GTA refuse to satisfy your legitimate request;
- You do not agree with tax charges imposed by GTA.

If GTA refuses to satisfy your legitimate request, you may appeal the refusal within 20 calendar days from receipt of the refusal either with the Ministry of Finance or directly to the Court. If you do not receive a reply within 15 calendar days, the request is considered as rejected.

If you choose to appeal to the Ministry of Finance, the dispute may be resolved in the first instance by the GTA but may be escalated to the Disputes Resolution Board of the Ministry. In either case, both sides reserve the right to appeal to the Court at any time.

You or your authorized representative are entitled to attend each stage of the appeal review process. The Revenue Service has 20 calendar days to review the appeal and 3 business days to send an official resolution to the taxpayer. If you do not receive a response from the Revenue Service within this deadline, the appeal is considered as rejected, and you have the right to object to the Revenue Service decision within 5 calendar days from receipt of the rejection or from the deadline within which it should have been received. The objection can be addressed to the Disputes Resolution Board or to the Court.

The Disputes Resolution Board or to the Court must make a decision on the appeal within 20 calendar days and send you the resolution within 5 business days. The resolution can be further appealed within 9 calendar days from its receipt. If not appealed, on the tenth day the resolution becomes effective.

If you choose to address the appeal to the Court, you must do this within the same deadlines established for appeal to the Minister of Finance (see above).

If you do not present your appeal within the deadlines at any stage of the dispute process, the notice or demand for tax payment or any other administrative-legal act under dispute comes into force, and an appeal submitted without adhering to the deadlines will not be considered.

The liability to pay the amount under appeal, as well as accrued late payment fines and penalties, is halted during the appeal period but the accrual of late payment interest on the disputed amount continues.

If you appeal against a demand for tax payment, you must provide evidence that, within 20 calendar days from receipt of the notice, you have:

- A bank guarantee for the amount in dispute;
- Placed money on bank deposit;
- A policy of financial risks insurance for the amount;
- Placed your own property under the right of tax lien/ hypothecation.

The total value of guarantees must not be less than the amount of tax in dispute. If you do not deliver the above guarantees, or if the dispute is not resolved in your favour, the GTA is authorized, after a 10 day period, to use enforcement measures for the amount of disputed tax liabilities without a Court order. These measures include:

- Seizure of bank accounts;
- Seizure of any kind of property.

If a tax dispute is resolved in your favour, your secured guarantees will be annulled, any seizures by the tax administration will be removed and tax liens/hypothecations will be annulled.

If the decision goes against you, disputed taxes and subsequent sanctions will be assessed from the date that the disputed tax liabilities arose.

4. Establishing a Legal Presence in Georgia

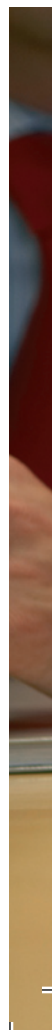
Choosing the right business structure is an important step towards starting business in Georgia. Business activities can be conducted in any of the legal forms listed below. The Law of Georgia on Entrepreneurs (Georgian company law) regulates legal procedures for establishing a legal presence in Georgia. The respective office of GTA is responsible for registration of business structures within one working day upon the submission of all necessary documents by the law. Any person wishing to establish a business entity and/or branch office in Georgia must file all documents, in accordance with company law, with GTA. There are no restrictions on foreign ownership of companies in Georgia. Any of the business structures below can be set up with foreign participation.

Business structures permitted by Georgian legislation:

- **Joint Stock Company (JSC)** is a legal entity having a charter and capital divided into shares with equal nominal value. A JSC's liability to creditors is limited only by its property. Shareholders are not liable for the company's liabilities. Capital of a JSC can be specified in any amount. A JSC is entitled to issue ordinary and privileged shares if the company charter does not provide otherwise. An annual shareholders' meeting must be held within 2 months after the preparation of the balance sheet to consider the annual results and other issues if the company charter does not provide otherwise. A shareholders' meeting is not needed if decisions are made by a shareholder who owns more than 75% of the capital of the company. GTA must register a JSC upon the receipt of all documents provided by the law.
- **Limited Liability Company (LLC)** is a legal entity whose liability to creditors is limited to its property. Partners (founders) are not liable for company liabilities. Capital of a LLC can be specified in any amount. A partners' meeting

must be held to consider the annual results and other issues. An LLC can be founded by one person and GTA must register it upon the receipt of all necessary documents.

- **General Partnership (GP)** is a legal entity where two or more persons carry out entrepreneurial activities jointly under a single entity name. Partners are jointly liable to creditors with all their property. The liability of a partner is not limited. GTA must register a GP within one working day from receipt of the application and all documents provided by the law.
- **Limited Partnership (LP)** is a legal entity where two or more persons carry out entrepreneurial activities under a single entity name. The liability of some partners (Comandites) to creditors is limited to a certain warranty amount, while the liability of the other partners i.e. full partners (Complementars) is not limited. Partners of an LP can be both legal entities and individuals. Partners with limited liability (Comandites) are not allowed to participate in the management of an LP. GTA must register it within one working day from receipt of the application and all necessary documents.
- **Cooperative (Co-op)** is a legal entity where its members carry out entrepreneurial activity mostly in agricultural or labour sectors. It is more oriented to satisfy the interests of its members, rather than to get profits. A partners' meeting must be held at least once a year to consider the annual results and other issues. GTA must register a Co-op upon the receipt of all documents provided by the law.
- **Individual Enterprise (IE)** is not a legal entity under Georgian law. An IE is personally liable to creditors. Registration is free. GTA must register an IE upon the receipt of application for registration.



- **Business Partnership (BP)** is not a legal entity under Georgian law. GTA must register a BP upon receipt of an application for registration. Participants (individuals) of a BP, if they are not registered as entrepreneurs, must register as individual entrepreneurs by submitting to GTA the relevant application along with the application for the BP's registration. Registration of a BP is free.
- **Branch Office (BO)** is the structural sub-unit of a business entity and is not a separate legal entity. GTA must register the BO of any foreign business entity upon submission of all documents required by law.

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

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

5. Personal Income Tax

5.1 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 "Exemptions") income received from foreign sources will be exempted from personal income taxation starting from 1 January 2009.

Individuals who are not resident in Georgia for tax purposes are subject to Georgian tax only on income arising in Georgia.

Individuals are considered resident in Georgia for tax purposes if they:

- Reside in Georgia for 183 or more cumulative days in any period of 12 consecutive calendar months ending in the tax year;
- Were 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 a family member of a such person;
- Are not citizens of Georgia, but are staff members of an international organization under Georgian international agreements, or in the State Service of a foreign country, and/or are family members of a such person;
- Are moving from one foreign country to another through the territory of Georgia;
- Reside in Georgia for medical treatment or vacation/tourism purposes only (such days shall not be taken into account when determining the tax residency status of the person).

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 the calendar year.

Tax rate is a flat 25% that will be gradually reduced to 15% over a five-year period starting from 1 January 2009.

Before 1 January 2011 the 12% rate applies to the income that was exempted from social tax at the moment of the abolition of the latter (31 December 2007), Starting from 1 January 2011 this type of income will be taxed at a standard personal income tax rate.

See rates for withholding taxation for individuals in section "Tax Rates at a Glance".

Individuals starting entrepreneurial economic activities are required to register with GTA within 10 days of start-up. All other individuals are required to register as taxpayers before submitting their annual personal income tax return.

5.2 Compliance

All individuals who have received income in Georgia not taxed at source as well as resident individuals who hold money on accounts in foreign banks must file an annual personal income tax return and pay tax by 1st April of the following year. A tax return should be submitted to GTA in accordance with the individual's place of residence.

Personal income tax may be paid directly by the liable taxpayer, or withheld by the payer of the income (a tax agent) at the moment of payment for the following types of income: employment income, interest income, dividend income, business income of individuals not registered for tax, gambling winnings (see "Tax Rates at a Glance").

Tax agents who withhold personal income tax submit monthly returns before 15th of the next month showing income paid and taxes withheld in the reporting month. an international company of a Free Industrial Zone is exempted from the obligation to withhold tax at the source of payment.

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

Taxpayers who did not have income during the previous tax year are not required to pay advance tax payments in the current tax year.

Individuals who are not obliged to submit a personal income tax return may do so voluntarily to claim overpaid personal income tax.

5.3 Allowances and Thresholds

For personal income tax there are no personal allowances. No marital status, dependency or other type 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.

5.4 Income

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

- Income from employment;
- Income from economic activities (including entrepreneurial and non-entrepreneurial 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, whether monetary or non-monetary, including benefits in kind provided to an employee. Non-monetary benefits are included in gross income at their market price.

Taxable benefits may include:

- Private use of employer owned or provided cars;
- 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 to 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 (in most cases monthly) payroll withholding taxation.

Income from Entrepreneurial and Non-Entrepreneurial Economic Activities

Income from entrepreneurial activities includes income from the regular supply of goods and services as well as other types of active commercial income.

Income from non-entrepreneurial activities includes dividends, interest and royalty, income from the supply of assets not used for economic activities, rental and leasing income, as well as other types of passive income.

Other Income

Other income includes any type of income not classified as income from employment or income from economic activities. This may include any property or benefits received in-kind from other parties.

5.5 Tax Base

Capital gains are included in the tax base and taxed at the standard personal income tax rate.

To arrive at a tax base, taxpayers are allowed to deduct all expenses contributing to generating taxable income except for special non-deductible or partially deductible expenses. Business deductions are structured similarly as deductions for the purpose of corporate income tax.

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

Individual entrepreneurs (individuals who are engaged in regular trading/commercial activities) may carry forward operating losses for up to five years. Further, they may choose a ten-year carry forward period for losses generated in 2010 and after. Losses may not be carried back.

Individual entrepreneurs can only carry forward capital losses up to five years (or ten years for losses generated in 2010 and after) against income from a similar business activity.

5.6 Exemptions

Income exempted from personal income tax includes:

- Capital gains from disposal of tangible assets held for more than 2 years and not used for entrepreneurial activities;
- Capital gains from disposal of vehicles held for more than 6 months;
- Capital gains from real estate used in lieu of a partner's share held for a period of more than 2 years;

- Grants, state stipends, state compensations, state scholarships, etc;
- Alimony;
- Property inherited by I and II level legatees;
- Income of entrepreneurs who do not use other labour and which falls under certain codes of standard industrial classification (mainly income of craftsmen and small manufacturers);
- Income received from the sale of securities issued by a company registered as an International Financial Company and engaged in the provision of financial services (is effective from 1 January 2009);
- Income received from the sale of publicly-traded debt securities having free float in excess of 25% (is effective from 1 January 2009);
- Georgian sourced income of a non-resident from insurance, re-insurance and leasing services not related with its permanent establishment (PE) in Georgia (is effective from 1 January 2009);
- Interest income and gain received from the sale of Government (and National Bank of Georgia (NBG)) bonds (is effective from 1 January 2009); ;
- Income of resident individuals received from foreign sources (is effective from 1 January 2009).

5.7 Foreign Tax Relief

Foreign income tax paid on foreign sourced income that is also subject to taxation in Georgia may receive a credit against Georgian tax liability, limited to the amount of such Georgian tax. In order to obtain credit for foreign income tax, you must provide evidence of tax payments made in the foreign country.

Case 1: Personal Income Tax

Background information

During the tax year (the same as a calendar year) of 2008 a tax registered resident individual, who is married and has two dependant children, received the following income from a source in Georgia: base salary of GEL 30,000, benefit from an interest-free loan from the employer in the amount of GEL 18,000 that was extended for six months and was repaid on time (average market interest rate on similar loans published by National Bank of Georgia was 15% per annum at the date of extending the loan.), benefit from employer-paid health insurance plan in the amount of GEL 1,500 per year, net interest and dividend incomes in the amount of GEL 2,700 and GEL 900 respectively, rent income from an apartment in the amount of GEL 12,000.

Calculation of annual income taxable in Georgia (tax base)

	GEL	Notes
Base salary	30,000	(a)
Employment benefit on interest free employment loan	1,800	(b)
Employment benefit on health insurance	2,000	(c)
Total employment income	33,800	
Interest and dividend incomes	4,000	(d)
Rent income	12,000	(e)
Total gross annual income taxable in Georgia	49,800	

Notes:

(a) No marital status, dependency or other type of allowances are taken into consideration while calculating taxable income of an individual;

(b) Net employment benefit on interest-free loan equal to GEL 1,350. This benefit is calculated as an interest income earned during a six month period at the interest rate of 15% established for the date of extending the loan

(18,000*15%/12*6=1,350). In order to arrive at the gross benefit of GEL 1,800 the net benefit is grossed up for 25% flat personal income tax rate applied to employment income (1,350/(100%-25%)=1,800);

(c) Net employment benefit on health insurance equalled to GEL 1,500. In order to arrive at the gross benefit of GEL 2,000 the net benefit is grossed up for 25% flat personal income tax rate applied to employment income (1,500/(100%-25%)=2,000);

(d) Net interest and dividend incomes amounted to GEL 3,600 (2,700+900=3,600). As those two types of income are taxed (withheld) at the source of payment in Georgia at a flat 10% rate, the net amount is grossed up by 10% to arrive at the gross income of GEL 4,000 (3,600/(100%-10%)=4,000);

(e) Rent income received by tax registered individual is not taxed at the source of payment.

Calculation of personal income tax

	Tax base, GEL	Tax rate	Tax amount, GEL	Notes
Employment income	33,800	25%	8,450	(f)
Interest and dividend incomes	4,000	10%	400	(g)
Rent income	12,000	12%	1,440	(h)
Total taxable income and personal income tax	49,800		10,290	
Personal income tax withheld at source			8,850	
Personal income tax payable			1,440	

Notes:

(f) Employment income is taxed at source at a 25% flat rate;

(g) Interest and dividend income is taxed at the source of payment in Georgia by 10% flat rate. No further taxation applies to net interest and dividend incomes received by an individual;

(h) Rent income received by an individual is taxed at 12%.

6. Corporate Income Tax

6.1 General Principles

A company is treated as a Georgian company if it is either incorporated in or has its place of management in Georgia. Georgian companies are subject to Georgian corporate income tax on their worldwide income, subject to double taxation or other international treaty reliefs. In general, any effective (duly signed and ratified) international agreement has precedence over domestic Georgian legislation, including 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 have to assume the same tax obligation as a Georgian company (See "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.

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

Companies are required to obtain a tax registration together with a legal registration. However, theoretically the tax registration requirement arises only after they start economic activities.

6.2 Compliance

The corporate income tax return must be filed within three months following the end of the tax period. The submission date can be extended for up to a further three months if GTA is notified; however, the relevant tax payment has to be made in order to avoid late payment interest. Tax returns can be amended/adjusted within the statute of limitation (see heading "Statute of Limitation").

Both Georgian and foreign companies conducting business activities in Georgia through a PE must make advance corporate income tax payments.

Each payment is equal to 25% of the corporate income 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 adjustment payment (balance of tax due for the current period) should be made before 1 April of the subsequent year of the current tax year.

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

A taxpayer with no income during the previous tax year is not obliged to make advance corporate income tax payments during the current tax year.

6.3 Tax Base

Income subject to corporate income tax (tax base) is currently computed on the basis of International Financial Reporting Standards (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; and other items of income (benefits, etc). Income received in foreign currency is converted into GEL at the daily exchange rate determined by the NBG for the date of receipt of the income.

Generally, a deduction is allowed for all expenditures contributing to the generation of taxable income, except for special non-deductible or partially deductible expenses.

Realised capital gains are included in taxable income and are subject to tax at the regular corporate income tax rate. Capital losses can be carried forward for up to either a five-year or ten-year period together with other losses.

6.4 Exemptions

Income exempted from corporate income tax includes:

- Income of budgetary, international and charitable organizations, except for income received from economic activity;
- Grants, membership fees and donations received by an organization;
- Portion of income of medical establishments (irrespective of organisational and legal form) received from medical activities which has been reinvested (rehabilitation of the establishment, provision for technical base) or used for the purposes of employee's material incentives;
- Up to 1 January 2010 income received from initial supply of agricultural products before their reproduction (change of code), if such income does not exceed GEL 100,000 during a calendar year;
- Up to 1 January 2010 income gained from agricultural activities reinvested in agriculture;

- Georgian sourced income of an International Financial Company received from the provision of financial services (is effective from 1 January 2009);
- Income received from sale of securities issued by an International Financial Company (is effective from 1 January 2009);
- Income received from the sale of publicly-traded debt securities having free float in excess of 25% (is effective from 1 January 2009);
- Georgian sourced income of a non-resident received from insurance, re-insurance and leasing services not related with its PE in Georgia (is effective from 1 January 2009);
- Interest income and gain received from the sale of Government (and NBG) bonds (is effective from 1 January 2009);
- Income of a company registered as a Free Warehouse Company and operating in a Free Warehouse, received from re-exporting operations from a Free Warehouse (is effective from 1 January 2009);
- Income of an international company received from the supply of goods and services to other international companies on the territory of a Free Industrial Zone or outside the territory of Georgia.

6.5 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. 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, including interest on foreign loans, up to an established limit of 24% per annum. For Georgian transfer pricing purposes, interest charged between related parties should be at arm's length rates; otherwise the deductibility of interest may be challenged (see also "Related Party Transactions".);
- Royalties and service fees incurred;
- Bad debts if they have been included in taxable income of the previous tax year and then subsequently written off in the accounts;
- Impairment on outdated or defective inventory items (Impairment on fixed assets is not deductible);
- Other expenses.

Further to above, banks may deduct reserve provisions for bad debts on loans, within the limits established by NBG; and insurance companies may deduct allocations to reserve funds for claims payouts.

6.6 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 generating taxable income. The following expenses are non-deductible expenses:

- Corporate income tax;
- Entertainment expenses;
- Representation expenses in excess of 1% of taxable revenue before deductions;
- Contributions to non-profit charity funds, in excess of 8% of taxable income before deduction of charitable expenses;
- Expenses related to generating of income exempted from corporate income taxation;
- Penalties and fines paid or payable to the Georgian state budget;
- Interest expenses above the established limit of 24% per annum;
- Fixed asset capitalisable repair expenses in excess of 5% of the balance value of the corresponding group of fixed assets at the end of the tax year (see "Tax Depreciation" below). This excess amount of the capitalisable repair expenses is added to the balance value of the corresponding group of fixed assets.

6.7 Taxation of Dividends

- Dividends paid to individuals (including non-resident individuals) and non-resident companies are subject to 10% 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 (is effective from 1 January 2009);
- Dividends received on publicly-traded equity securities having free float in excess of 25% are not subject to withholding taxation and are not further included in taxable income (is effective from 1 January 2009).

For dividend withholding taxation rates, see also the section "Tax Rates at a Glance".

6.8 Taxation of Interest

- Interest sourced in Georgia and paid by a Georgian tax resident is subject to 10% withholding tax;
- Interest paid to resident banks is not subject to withholding tax;
- Resident companies can credit withheld tax on interest paid in Georgia against corporate income tax liability, if relevant documentation exists;
- Interest income received from licensed financial institutions is not subject to withholding tax and is not further included in taxable income (is effective from 1 January 2009);
- Interest income from publicly-traded debt securities having free float in excess of 25% is not subject to withholding tax and si not further included in taxable income (is effective from 1 January 2009).

For interest withholding tax rates, see also the section "Tax Rates at a Glance".

6.9 Related Party Transactions

GTA can adjust the tax base and assess penalties if there is evidence that arm's-length prices were not used in transactions between related parties. Parties are recognized as related if special relations between them may affect the conditions or economic results of their activities. Such special relations include, in particular, relations where:

- Parties are founders (participants) of the same enterprise, if their total share amounts to not less than 20%;
- One party has a direct or indirect interest in another party, where such an interest is not less than 20%;
- An enterprise is under control of another party;
- One individual is subordinated to another individual in terms of his business, position or one person is under control (directly or indirectly) of the other person;
- Parties are subsidiary enterprises or are under direct or indirect control of a third party;
- Parties jointly (directly or indirectly) control a third party;
- Individuals are relatives.

6.10 Thin Capitalisation Rules

Currently, there are no thin capitalization rules in Georgia. This means that there is no restriction by TCG with respect to "Debt to Equity" ratio in terms of deductibility of interest expenses (except for a general 24% threshold rule on interest deductibility per annum as outlined above).

6.11 Losses

Losses can be carried forward for up to 5 years. Further, losses generated in 2010 and after can be carried forward for up to 10 years. However, the statute of limitation is 11 years for a ten-year carry forward period. A ten-year carry forward period can still be changed to a five-year carry forward period.

A loss cannot be carried forward if it is generated by an international financial company, international company or Free Warehouse Company (effective from 1 January 2009).

No carry back is allowed.

6.12 Depreciation

Depreciation charges for long-term (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 underlying depreciation rate to the net value, reduced by previous depreciation charges, of the respective fixed assets group).

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

Fixed assets are allocated to groups, which are depreciated as whole units. The value of a particular group at the end of a tax year is equal to its value at the previous tax year increased by the cost of added fixed assets and other capitalisable expenses defined by TCG, and reduced by tax depreciation charges of the previous tax year and the sales price of sold fixed assets. If at the end of a tax year all fixed assets in a group are realized or liquidated or the 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 the 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 particular date of their purchase during a respective tax year.

The following are the principal assets and depreciation rates for each group.

Group	Assets	Depreciation Rate (%)
1	Passenger cars; automobile equipment for use on roads; office furniture; automotive transport rolling stock; trucks, buses, special automobiles and trailers; machinery and equipment for all sectors of industry and the foundry industry; forging and pressing equipment; construction equipment; and agricultural vehicles and equipment	20
2	Special instruments, inventory and equipment; computers, peripheral devices and data processing equipment; and electronic devices	20

3	Railway, naval and river transport vehicles; power vehicles and equipment; thermal technical equipment and turbine equipment; electric engines and diesel generators; electricity transmission and communication facilities; and pipelines	8
4	Buildings and premises	5
5	Assets subject to depreciation not included in the other groups	15

Taxpayers may apply accelerated depreciation rates for groups 2 and 3, but these rates can not be more than twice the amount of the rates provided in the above table for the respective groups.

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

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

Taxpayers may use an alternative method to compute the deduction of expenditure on fixed assets that are purchased, produced or obtained through capital lease. A company may fully deduct the purchase or production cost of such assets in the year of their exploitation. Those fixed assets are not further included in the asset groups for depreciation.
If a company elects the alternative method, it must be used for all fixed assets purchased, produced or leased for at least a five-year period. This measure applies to fixed assets purchased, produced or leased on or after 1 January 2005.

6.13 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 the income in Georgia). For the purpose of crediting foreign tax paid abroad, you must provide GTA with evidence of the tax paid abroad. In general, procedures to receive foreign tax relief are complicated for practical application.

6.14 Corporate Income Taxation for Foreign Companies

6.14.1 General Principles

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

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

6.14.2 Permanent Establishment (PE)

Income earned through a 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 permanent location for business activities of a foreign enterprise in Georgia through which this foreign enterprise carries out, in full or in part, a commercial activity (economic activity) on the territory of Georgia, including activity carried out by an authorized person. The following are equivalents to PE in Georgia:

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

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

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

6.14.3 Withholding Taxation

Income earned by foreign companies and individuals from Georgian sources without a PE in Georgia is subject to withholding taxation at the source of payment (See "Tax Rates at a Glance"). However, double taxation treaties may reduce the tax rates.

A resident payer of income is responsible for withholding the tax from the income paid, without taking into consideration associated expenses, and transferring it to the state budget upon the payment to the foreign person. Further, filing of returns is due by the 15th day of the month following that in which the payment was made.

Currently Georgia has effective double taxation treaties with various countries. A Georgian resident wishing to apply for the provisions of a particular double taxation treaty must file the application forms for avoidance or reduction of withholding taxation rate with GTA. If the application forms have been submitted before payments are made, resident companies do not withhold the tax; otherwise tax has to be withheld and can be reclaimed upon completing the application process.

Case 2: Corporate Income Tax

Background information

The income and expenses for a Georgian company for a tax year (the same as a calendar year) of 2008 are the following: trading income - GEL 110,000; gross interest income from resident bank – GEL 20,000; dividend income from its Georgian subsidiary – GEL 35,000; salary expenses – GEL 25,000; raw materials expenses – GEL 35,000; fuel and utilities expenses - GEL 10,500; representative expenses - GEL 3,000; accounting depreciation expenses - GEL 8,670; tax depreciation expenses - GEL 5,700; tax fine and penalty expenses - GEL 1,760; property tax expenses - GEL 700. The machinery and equipment of tax depreciation group 1 were repaired (capital repair) at GEL 560; balance value of tax depreciation group 1 by the end of the previous tax year comprised GEL 8,000. Tax loss of 2007 was GEL 3,000.

Calculation of annual income taxable in Georgia

	GEL	Notes
Gross income		
Trading income	110,000	
Interest income	20,000	
Dividend income	0	(a)
Total gross income	130,000	
Deductible expenses		
Salary expenses	25,000	
Raw materials expenses	35,000	
Fuel utilities expenses	10,500	
Representative expenses	1,300	(b)

Depreciation expenses	5,700	(c)
Tax fine and penalty expenses	0	(d)
Property tax expenses	700	
Capital repair expenses	400	(e)
Total deductible expenses	78,600	
Net income	51,400	
Losses carried forward	3,000	
Taxable income	48,400	
Corporate income tax	7,260	
Tax withheld at source	2,000	(f)
Corporate income tax payable	5,260	

Notes:

(a) Dividend paid to Georgian company is not subject to taxation at source and is not further included in the taxable revenue of the Georgian company;

(b) Deductible representative expenses are limited to 1% of total gross income, i.e. GEL 1,300 (130,000*1%=1,300);

(c) Only tax depreciation can be deducted for corporate income tax purposes;

(d) Tax fine and penalty expenses are not deductible for corporate income tax purposes;

(e) Capital repair expenses are deductible up to 5% of respective fixed assets group value, i.e. GEL 400 (8,000*5%=400); the rest of the capital repair expenses is added to the respective fixed assets group;

(f) As the interest income has already been taxed at source in the amount of GEL 2,000 (20,000*10%=2,000) this withheld tax can be credited against total income tax liability of the company provided it presents respective documents to GTA.

7. Value Added Tax (VAT)

7.1 Taxable Transactions

VAT taxable transactions include:

- Supply of goods or services made on the territory of Georgia (including gratuitous supply);
- Supply of goods or services by a taxpayer to its employees with or without payment;
- Deemed supply of goods at the moment of termination of VAT registration (goods owned by VAT taxpayer at the moment of termination of VAT registration for which taxpayer has obtained or is entitled to obtain a VAT credit are considered as supplied at their cost or balance sheet value);
- Export of goods from Georgia;
- Import of goods into Georgia.

When goods are temporarily imported into Georgia VAT is paid at 3% of the amount of VAT payable for each complete/incomplete month.

Transactions that are not subject to VAT taxation include:

- Supply of cash or land;
- Supply of assets when an entity is reorganized;
- Supply of assets contributed to the authorized capital of another entity;
- Supply of all assets of an independently operating unit of a VAT taxpayer entity to another VAT taxpayer in a single transaction, provided that both parties notify GTA within 15 days after the supply.

7.2 Place of Supply

The place of supply is wherever the goods are actually supplied or where transportation of goods starts in Georgia. Depending on the nature of the service, the place of supply is either a place of actual supply of the service, place of registration of the service provider, or place where the benefits from the supply are derived.

7.3 Invoicing

VAT registered taxpayers must issue VAT invoices to customers on request no later than the second day after a VAT taxable transaction is carried out irrespective of whether the customer is a taxpayer or not.

7.4 VAT Registration

You can register voluntarily as a VAT taxpayer, but you must register if you:

- Carry out economic activities and the total amount of VAT taxable transactions in any continuous period of 12 calendar months exceeds GEL 100,000;
- Produce and/or import excisable goods for business purposes (except for production and/or import of motor vehicles);
- Intend to carry out a single VAT taxable supply, or a set of VAT taxable supplies in one day with a total amount exceeding GEL 100,000 (registration must be done before the supply is made).

The registration procedure is straightforward and you can register for VAT within one working day.

7.5 Termination of VAT Registration

You can terminate a VAT registration:

- Upon liquidation of a business;
- Upon decease of an individual;
- If the one time supply exceeding GEL 100,000 is not carried out;
- If total taxable transactions excluding VAT during the last 12 months do not exceed GEL 100,000, provided you have been registered for at least 2 years.

Your registration is terminated on 1st of the month following the month when you apply for termination and/or when the obligation to apply arises.

7.6 VAT Rates

VAT is either 18% or 0%.

7.7 Zero Rated Supplies

Zero rated supplies include:

- Exports;
- Supplies of goods or services intended for the official use of foreign diplomatic and comparable representative offices;
- Organized foreign tours into Georgia by tour operators and the supply of tourist packages to them;
- International transportation of freight and passengers;
- Supply of gold to the National Bank of Georgia;
- Supply, transfer and delivery of electric power.

7.8 Exempted Supplies

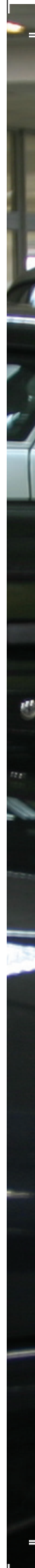
The list of exempted items is fairly long and includes financial and insurance services, privatization sales, import and supply of goods and services under the Law of Georgia "On Oil and Gas", import and supply of certain medicines, educational services, medical services, transit, supplies of baby products, publications and mass media; initial supply of agricultural products (except for eggs) by individuals engaged in agricultural activities before industrial processing (i.e. change of code), import of 2 litres of alcoholic beverages and 200 cigarettes, import of goods under 5-50 kilogram and with the value GEL 300-7,500 depending on the type of the goods, means of transportation and the period stayed outside Georgia (except for import of goods from Free Industrial Zone or Free Warehouse); supply of goods and services within Free Industrial Zone; supply of goods and services to VAT taxpayer in Free Warehouse; etc.

7.9 VAT Recovery

VAT paid or payable (input VAT) can be credited against VAT or other taxes payable, or may be refunded, with some exceptions (e.g. VAT paid on purchases not intended for economic activity, or purchases for social, charitable, entertainment and representation purposes, etc.).

For VAT paid to be creditable certain conditions apply, including:

- You must be a registered VAT payer;
- A valid VAT tax invoice for the purchase must be presented to GTA within 45 days from the end of the month this invoice corresponds to;
- The goods and services purchased must be intended solely for economic activities. If goods and services are used for both economic and non-economic purposes, only the VAT paid on goods and services used for economic purposes is creditable (where necessary, calculated on a pro rata basis);



- The goods and services purchased must be intended solely for VAT taxable operations[1]. If goods and services are used for both taxable and non-taxable operations, only the VAT paid on goods and services used for taxable operations is creditable (where necessary, calculated on a pro rata basis; the amount of such VAT should be adjusted according to the percentage of annual taxable turnover in the total annual turnover).

Cases where no VAT credit is allowed include:

- Cars (except for cars purchased by persons whose principal activity is the purchase/sale, lease or rent of cars);
- Social, entertainment and representation expenses;
- Goods and services intended for production of goods and services that are exempted from VAT;
- Goods and services intended for non-economic activities.

[1] Unlike VAT exempted transactions, zero rated transactions are VAT taxable transactions and there are no restrictions for refunding VAT paid on purchases.

Case 3: Creditable VAT and Payable VAT

Background information

During 2008 a VAT taxpayer carried out supply of goods and services (output operations) in the amount of GEL 250,000 subject to 18% VAT taxation (output VAT), GEL 50,000 – subject to 0% VAT taxation and GEL 100,000 – exempted from VAT taxation. During the same period the VAT taxpayer purchased goods and services (input operations) with total VAT amount of GEL 30,000 (input VAT). This input VAT satisfied all the requirements for creditable VAT, except for as described in the section "Calculation of Creditable VAT" below. The allocation of input VAT among output operations were as follows: input VAT corresponding to output operations taxed at 18% VAT – GEL 12,000; input VAT corresponding to output operations taxed at 0% VAT – GEL 5,000; input VAT corresponding to VAT exempted output operations – GEL 9,000, input VAT that does not directly correspond to any of output operations (indirect input VAT) – GEL 4,000

Calculation of creditable VAT

Input VAT corresponding to VAT taxable output operations can be credited. Thus input VAT in the amount of GEL 17,000 (12,000+5,000=17,000) is creditable. By the same logic input VAT in the amount of GEL 9,000, corresponding to VAT exempted output operations can not be credited, As for the indirect input VAT (that does not directly correspond to any of output operations), it must be allocated between creditable and non-creditable input VAT in proportion of values of VAT taxable and other output operations. This allocation is demonstrated bellow:

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

To summarize, total creditable VAT for 2008 equals to 20,000 (f) and creditable VAT is 10,000 (g).

Calculation of VAT payable

For 2008 output VAT equals to GEL 45,000 (h) and creditable input VAT is GEL 20,000. Thus, VAT payable for 2008 will be GEL 25,000 (i).

Notes:
(a) 250,000+50,000+100,000;
(b) 250,000+50,000;
(c) 300,000/400,000;
(d) 4,000*75%;
(e) 4,000-3,000;
(f) 17,000+3,000;
(g) 9,000+1,000;
(h) 250,000*18% + 50,000*0%;
(i) 45,000-20,000.

7.10 Reverse Charge VAT (RCVAT)

A reverse charge VAT (RCVAT) mechanism applies when a supplier of VAT taxable services is non-resident and has no VAT registration in Georgia. The resident paying for the non-resident service must report and pay RCVAT.

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

Refund of RCVAT is based on the same rules as usual VAT but the document verifying the payment of RCVAT is used as the VAT tax invoice. Credit can only be made if a taxpayer is registered for VAT.

7.11 Compliance

The VAT reporting period is a calendar month.

VAT is administered by GTA, except for VAT on imports, which is administered by GCA.

VAT taxpayers are required to file a VAT return and pay VAT liability within 15 days after the end of the reporting month. RCVAT is payable at the time of filing a standard VAT return for the month in which services were rendered by a non-resident.

8. Excise Tax

8.1 Taxpayers

You are an excise taxpayer if you:

- Produce excisable goods in Georgia;
- Import or export excisable goods into Georgia;
- Temporarily import excisable goods into Georgia;
- Supply condensed natural gas or natural gas for motor vehicles.

8.2 Taxable Transactions

Taxable transactions include:

- Supply of excisable goods manufactured in Georgia by the producer or removal of excisable goods from the warehouse for the supply;
- Transfer of excisable goods, produced from customer's raw materials in Georgia, to the customer;
- Use of excisable goods of own production for manufacturing of non-excisable goods;
- Export of excisable goods;
- Supply of condensed natural gas and/or natural gas for motor vehicles;
- Import of excisable goods into the territory of Georgia;
- Temporary import of excisable goods into the territory of Georgia.

When goods are temporarily imported into the territory of Georgia excise tax is paid at 3% of the amount of excise tax normally payable for imports, for each complete/incomplete month.

8.3 Tax Rates

Excise tax rates are fixed per physical unit of excisable good (litre, cm^3, kilogram, ton, etc.) as outlined below:

#	Name of Goods	Commodity Nomenclature Code	Measurement Unit	Excise Tax Rates in GEL
1.	Other fermented beverages (cider, Perry, mead); mixture of fermented beverages; and mixture of fermented beverages and soft drinks not specified in this table	2206 00	1 litre	2.50
2.	Ethyl spirit	2207	1 litre	1.30
3.	Spirits obtained by distilling grape wine or grape marc	2208 20	1 litre	2.30
4.	Whisky	2208 30	1 litre	2.50
5.	Rum and tafia	2208 40	1 litre	2.50
6.	Gin and wine liquor	2208 50	1 litre	2.50
7.	Vodka	2208 60	1 litre	1.50
8.	Liquors and cordials	2208 70	1 litre	2.30
9.	Other alcoholic beverages	2208 90	1 litre	2.50
10	Beer	2203 00	1 litre	0.20
11.	a. Import of tobacco products (except for tobacco raw materials):			
	‣ cigars, cigars with cut ends containing tobacco	2402 10 000 01	1 unit	0.90
	‣ cigarillo (slim cigars) containing tobacco	2402 10 000 02	20 units	1.00
	‣ filtered cigarettes containing tobacco	2402 20	20 units	0.60
	‣ all other unfiltered cigarettes and cigarette	2402 20	20 units	0.15

	‣ other products produced from tobacco and its replacements, homogenized or restored tobacco, tobacco extracts and essences	2403 (except 2403 10 900 00, 2403 99 900 00)	1 kg	20.00
	b. Local tobacco products (except for tobacco raw materials):			
	‣ cigars, cigars with cut ends containing tobacco	2402 10 000 01	1 unit	0.70
	‣ cigarillo (slim cigars) containing tobacco	2402 10 000 02	20 units	0.80
	‣ filtered cigarettes containing tobacco	2402 20	20 units	0.40
	‣ all other unfiltered cigarettes and cigarette	2402 20	20 units	0.10
	‣ other products produced from tobacco and its replacements, homogenized or restored tobacco, tobacco extracts and essences:	2403 (except 2403 10 900 00, 2403 99 900 00)	1 kg	20.00
12.	Passenger automobiles (in accordance with the difference between the year of the taxable transaction and issuance year, or, in case of import, difference between registration of the customs declaration and issuance year):	8703	1cm^3 of the engine capacity	
	Up to 1 year			
	1 year			1.50
	2 years			1.50
	3 years			1.40
	4 years			1.30
	5 years			1.20
	6 years			1.00
	7 years			0.70
	8 years			0.50
	9 years			0.50
	10 years			0.50

	11 years 12 years 13 years 14 years More than 14 years			0.50 0.50 0.50
13.	Condensed natural gas, except for pipeline	2709 00 100 00 2711 11 000 00 2711 21 000 00	1000m^3	80.00
14.	Oil distillates light medium heavy	2710 11 2710 19 110 00 - 2710 19 290 00 2710 19 310 00 - 2710 19 490 00	1 ton 1 ton 1 ton	250.00 220.00 150.00
15	Oil and other products borne from distillation of coal tar at the high temperature, other similar production in composition of which amount of aromatic components exceed amount of non-aromatic components (other than naphthalene and creosote oil, that are used to saturate wooden sleepers (commodity code 4406 10 000 00) or produce carbons (commodity code 2803 00)	2707(except 2707 10 100 00 - 2707 60 000 00; 2707 91 000 00; 2707 99 910 00)	1 ton	350.00
16.	Oil gas and gas-like hydrocarbons	2711 12 2711 13 2711 14 000 00 2711 19 000 00	1 ton	120.00
17.	Oil and oil products produced from bituminous minerals, except for crude oil; products, not indicated elsewhere, oil and oil products produced from bituminous minerals with consistency of 70% or more. At the same time this oil represents the main component of the products; used oil products.	2710 (except for 2710 11 110 00 - 2710 19 490 00 and 2710 19 510 00 - 2710 19 690 00)	1 ton	400.00

18.	Liquid products of pyrolysis	3911 90	1 ton	400.00
19.	Additives, solvent, antiknock	2707 10 100 00 - 2707 60 000 00 (except for 2707 40 000 00); 2712 20; 2902 11 100 00 - 2902 30 900 00; 2905 11 000 00 - 2905 16 800 00; 3811 11 100 00 - 3811 90 000 00; 3814 00 100 00 - 3814 00 900 00	1 ton	400.00
20.	Lubricant minerals and means	3403 11 000 00 3403 19 100 00 3403 19 910 00 3403 19 990 00 3403 91 000 00 3403 99 100 00 3403 99 900 00	1 ton	400.00
21.	Export of ferrous and/or non-ferrous metal scrap		1 ton	25.00

8.4 Zero Rated Supplies

Zero rating (with credit) is applicable to exports (except for export of ferrous/non-ferrous metal scrap) and supply of Georgian excisable products for sale in duty-free zones.

8.5 Exempted Supplies

Goods exempted from excise tax include:

- Alcoholic beverages produced by a physical person for own consumption;
- Import of 2 litres of alcoholic beverages and 200 cigarettes by an individual;
- Fuel in the petrol tank technologically connected to the engine of the motor vehicle of a person entering Georgia by this vehicle;
- Import of aviation fuels and lubricants to be supplied on board for international flights or international sea passages;
- Excise goods imported for the personal use of personnel of diplomatic representative offices;
- Import and/or supply of oil products necessary to carry out oil and gas transactions defined by the Law of Georgia "On Oil and Gas", etc.

8.6 Invoicing

If you are a taxpayer of excise tax, you must issue a special VAT invoice (which also includes excise information) to a recipient of goods (service) upon his/her request no later than the second day after a taxable transaction is carried out and submit it to the recipient irrespective of whether the latter is a taxpayer or not.

Case 4: Excise Tax

Background information

A Georgian company imports and sells excise product - filter cigarettes containing tobacco (commodity nomenclature code 240220) purchased from a non-resident supplier. On 30 January 2008 the company imported 2,000,000 units and sold the total amount to its customers.

Calculation of excise tax

Excise tax on imported filter cigarettes containing tobacco is GEL 0.6 for 20 units. Thus, excise tax on import is GEL 60,000 (a)

Note:

(a) Excise tax is calculated as (2,000,000/20) * 0.6. No further excise tax is payable at the moment of sale of imported excisable goods. Paid excise tax is included in the cost of goods.

8.7 Excise Tax Recovery

You are entitled to a refund or credit of the amount of excise tax paid on excisable materials purchased to produce excisable goods. A similar credit/refund procedure applies to excise tax paid if you import goods to use in the production of excisable goods. Credit or refund is also allowed for the excisable goods used: as samples for analysis or for inspection in the course of production; for scientific research; for medical purposes by hospitals and pharmacies.

8.8 Compliance

The excise tax reporting period is a calendar month.

Excise tax is administered by GTA except for excise tax on imports, which is administered by Georgian Customs Authorities (GCA).

Taxpayers are required to file an excise tax return and pay the tax liability within 15 days after the end of the reporting month. For certain beverages and tobacco products, excise stamps are used to collect the excise tax.

8.9 Excise Stamps

The following goods are subject to excise stamping:

- Alcoholic beverages, including beer, with the alcoholic constituency higher than 1.15 degrees (other than beverages of 50 grams and less as well as bottled in vessels of 10 litres and more);
- Tobacco products except for pipe tobacco.

Upon purchase of excise stamps, the nominal value of such stamps is paid. Stamping of excisable goods is carried out in accordance with the rules established by the Ministry of Finance of Georgia.

9. Customs Duties

9.1 Taxpayers

The Customs Code of Georgia (CCG) regulates the customs procedures in Georgia. CCG defines various customs regimes under which goods are brought in or taken out of the customs territory of Georgia. Most frequently used customs regimes are import, export, temporary import and transit. Taxpayers of customs duties are persons who cross the customs border of Georgia with the goods.

Where imported goods are subject to customs duties, the importer or his/her authorized representative is held responsible for the payment of any customs duties due at the time the goods are released by customs for free circulation.

Goods that enter the customs territory of Georgia from a foreign country are referred to as "foreign goods". In order to import these goods, you must:

- Lodge a customs declaration for the goods;
- Submit invoices and make the goods available for inspection by customs;
- Pay any import duties owed;
- Submit a license or certificate in order to check the compliance of goods with the regulations in the area of safety, health, economy and environment upon the import of goods.

Once all these conditions have been satisfied and customs clearance procedures completed, the foreign goods will be regarded as Georgian goods. They may then be transported, stored or offered for sale, without being subject to any further customs formalities.

Customs duties include taxes and fees payable upon bringing goods in or taking them out of the customs territory of Georgia, and for some special goods a license fee is payable. Taxes include customs tax, VAT[2] and excise tax, while fees include customs fee. VAT and excise tax are described in above chapters; license fees are set out in the legislation "About License and Permit Fees" and "About Licenses and Permits". Customs tax and customs fee are discussed below.

9.2 Customs Tax

Customs tax, as regulated by the TCG, is based on either customs value or per physical unit of goods and the rate applicable to the customs value of the goods is fixed at 0%, 5% or 12% according to the classification of the goods. Most goods fall into the 0% rate. Most food products and construction materials fall under the 5% or 12% tax rates. Beverages are taxed at EUR 0.2 – EUR 5 per litre or 100 litres, depending on alcohol content.

Generally, customs tax is imposed as an *ad valorem* duty, which means that the tax is calculated as a percentage of the customs value of the goods, determined according to the rules contained in CCG and the customs secondary legislation. Importers must therefore take into account specific rules to determine the customs value on which the import tax will be applied.

As a general rule, GCA collect customs tax on the CIF (cost, insurance and freight) value of the imported goods. For this purpose, the general rule is that the customs value will be the price actually paid or payable for the goods when sold for export to Georgia. This is commonly known as a "transaction value".

[2] VAT payable on imported goods by both VAT registered and non-VAT registered persons.

However, a number of additions must be made to the price paid or payable if those elements have not already been included in the selling price. Those elements include: transportation costs, commissions and brokerage, loading and handling charges, warehousing charges, royalties and license fees related to the goods being valued, insurance charges, other similar charges incurred with respect to the goods before their customs clearance.

Provided that certain costs are shown separately from the price actually paid or payable, the following shall not be included in the customs value: charges for the transport of goods from the customs; buying commissions; charges for the right to reproduce imported goods in Georgia and other similar charges.

When the transaction value of the goods imported cannot be used, the importer must rely on the following alternatives in the order specified below, except that the last two options can be reversed at the request of the declarant:

- The transaction value of identical goods (the second method);
- The transaction value of similar goods (the third method);
- The unit price of goods (the fourth method);
- The computed value (the fifth method);
- The reserve method (the sixth method).

Each of the next methods is to be applied only when the application of the previous method cannot be made. This is in accordance with the requirements of the World Trade Organisation (WTO) Customs Valuation Agreement, which Georgia as a WTO member must apply.

Until 1 January 2009, the amount of customs tax charged on motor cars which are classified in Code No. 8703 of the Foreign Economic Activity Commodity Nomenclature is calculated according to the following formula:

CT=GEL 0.05 * V * (1+5%*N), where
CT is the customs tax on the vehicle in GEL,
V is the volume of the engine of the vehicle in cubic centimetres,
N is the age of the vehicle in years.

After 1 January 2009, customs taxation of the above motor cars will be fulfilled in accordance to a standard customs taxation scheme (i.e. customs value multiplied by applicable customs tax rate).

9.3 Goods Exempt from Customs Tax

The list of goods which are exempt from customs tax is long and includes goods exported, re-exported and goods in transit through Georgia from a foreign country; import of goods produced in a Free Industrial Zone; import of goods defined by the grant agreements, import of goods for diplomatic purposes, import of child and diabetic food products, import of fuel, polish and other materials for international flights and shipment, import of goods in the framework of Law of Georgia "On Oil and Gas", import of 2 litres of alcoholic beverages and 200 cigarettes (except for by an individual under 18), import of goods under 5-50 kilogram and with the value GEL 300-7,500 depending on the type of the goods, means of transportation (international post, airplane, etc.), and the period stayed outside Georgia.

9.4 Customs Fees

Customs fees are payable at the time of declaration of the goods to customs and are due on import, export, or transit of goods into, out of, or through Georgian customs territory, as well as on registering of temporarily imported transportation means.

9.5 Customs Fee Rates

The rates of customs fees are as follows:

(a) Fee for customs procedures (except for temporary import):
EUR 5.00 per customs declaration, if the value of the declaration does not exceed GEL 3,000;
EUR 60.00 per customs declaration, if the value of the declaration exceeds GEL 3,000.

(b) Fee for customs procedures related to temporary import:
GEL 0.01 for each kilogram of goods up to 10,000 kilograms, and GEL 0.03 for each kilogram in excess;
GEL 0.025 for each kilogram of goods imported for exhibition purposes.

Case 5: Customs Duties

Background information

A Georgian resident company imported equipment in the customs territory of Georgia on 1 May 2008. According to the invoice presented by the company the cost of the product is EUR 20,000, transportation cost from the seller abroad to Georgia is EUR 1,000 and insurance cost is EUR 500.

Calculation of customs duties

The company will be subject to the following taxes and fees at customs:

Customs fee is GEL 136.87 (a)

Customs value is GEL 49,182.67 (b)

Customs tax is 0 (c)

Customs VAT is GEL 8,852.88 (d)

Notes:

(a) Customs fee is EUR 60 on each customs declaration exceeding GEL 3000. In order to convert the amount in foreign currency into GEL, the exchange rate fixed by the National Bank of Georgia on 1 May 2008 should be used; thus customs fee is calculated as follows: EUR 60*2.2812;

(b) (20,000 + 1,000 + 500)*2.2812 + 136.87; exchange rate fixed by the National Bank of Georgia on 1 May 2008 is used,

(c) Import of equipment falls into the 0% customs tax rate; thus customs tax is calculated as follows: 49,182.67* 0%;

(d) Customs VAT is calculated on the sum of customs value and customs tax (if applicable); thus customs VAT is calculated as follows: (49,182.67 + 0)*18%. Further, customs VAT is a creditable VAT and can be refunded, while customs fee and customs tax can not be added to the balance value of the product and are therefore expendable.

10. Property Tax

10.1 Taxpayers

Individuals and legal entities owning or leasing property in Georgia are subject to property tax.

Property tax is a local tax. Local authorities set the tax rates within the limits established by TCG.

10.2 Taxable Assets

Georgian enterprises and individual entrepreneurs are subject to property tax on fixed assets, non-assembled equipment, unfinished capital investments and intangible assets listed on their balance sheet. Foreign enterprises are subject to property tax on the same type of assets located in Georgia.

Organizations (not for profit entities) are subject to property tax on the same type of assets used in economic (profit oriented) activities.

Taxable assets of individuals include owned or leased immovable property, passenger cars, motor boats, planes and helicopters registered in Georgia but not assets used in an entrepreneurial activity.

10.3 Tax Rates

Annual property tax rate for enterprises, organizations and individual entrepreneurs should not exceed 1% of the average annual balance-sheet value of the taxable assets (excluding land).

Annual property tax rate for an individual on a taxable immovable property (excluding land) that is not used for economic activities varies according to the amount of annual family revenue of the individual. The rates are applied to the market value of the taxable property. The following are the annual rates:

Annual Family Revenues		Property Tax Rate
Exceeding	Not Exceeding	
GEL	GEL	%
–	60,000	0.05 to 0.2
60,000	100,000	0.2 to 0.4
100,000	–	0.4 to 0.8

The exact rate within the range is fixed by the local government where the property is located.

Annual property tax rate for individuals on passenger cars, according to engine capacity and age of the vehicle, varies from GEL 5 to GEL 300 as follows:

#	Engine Capacity of a Passenger Automobile	Age of a Passen-ger Automobile	Tax Amount (in GEL)
1.	Up or equal to 2000 cm^3	Up to 1 year 1-3 years 3-4 years 4-5 years 5-6 years More than 6 years	50 40 30 20 10 5
2.	From 2001cm^3 to 3000 cm^3	Up to 1year 1-3 years 3-4 years 4-5 years 5-6 years More than 6 years	150 130 110 80 25 5
3.	More than 3000 cm^3	Up to 1 year 1-3 years 3-4 years 4-5 years 5-6 years More than 6 years	300 250 200 100 50 5

Annual property tax rate for individuals on motor boats, planes and helicopters varies according to the type and power of the engine. The tax varies from GEL 2 to GEL 7 per 1 horse-power of the engine, and the schedule is given in the table below:

#	Type of Transport	Nomenclature Code	Tax Rate
1.	Yacht (motor boat)	89031090000 89039210000 89039299000 89039999000	Not less than GEL 3 and no more than GEL 7
2.	Plane	8802 20 8802 30 8802 40	Not less than GEL 2 and no more than GEL 5
3.	Helicopter	8802 11 8802 12	Not less than GEL 2 and no more than GEL 5

Annual property tax rate for agricultural land varies according to the administrative unit and the land quality. The base tax rate per 1 hectare varies from GEL 2 to GEL 57. The tax is further adjusted by a territorial coefficient of 50% to 150%.

The base tax rate payable on non-agricultural land is GEL 0.24 per 1 square meter, which is further adjusted by the territorial coefficient not exceeding 1.5.

Case 6: Property Tax

Background information

A Georgian company has the following fixed assets on its balance sheet for the following calendar (i.e. tax) years:

	31/12/2007	31/12/2008
Computers	175,400	158,350
Office furniture	35,560	38,900

Calculation of property tax

Property tax on fixed assets for 2008 is GEL 2,041.05 (a)

Current payment of property tax for 2009 is GEL 2,041.05, which is payable before 15 June 2009.

Note:

(a) property tax on fixed assets = average balance value of fixed assets * 1% =
= [(175,400+35,560) + (158,350+38,900)]/2 * 1% = GEL 2,041.05

10.4 Tax Exemptions

Certain types of assets are exempted from property tax, such as:

- Roads;
- Communications and electronic transmission wires;
- Land plots used for railway transportation;
- Property of an organization not used for economic activities;
- Property and land used for activities defined by the Law on "Oil and Gas";
- Agricultural land plots not exceeding 5 hectares in the ownership of individual as of 1 March 2004;
- Property used for medical activities and belonging to an individual with annual family revenue not exceeding GEL 40,000 for the year preceding the tax year, etc.

Further, all types of assets including land situated on the territory of a Free Industrial Zone are exempted from property tax.

10.5 Compliance

Enterprises and individual entrepreneurs must submit annual property tax returns (excluding land) no later than 1 April of the following tax year. Before 15 June taxpayers are liable to make the current payment of property tax in full of the previous tax year's property tax liability. Enterprises that were incorporated after the beginning of the calendar year are not subject to current payment and they pay property tax in proportion to the part of the year in which they were active.

Property tax on land shall be reported no later than 1 April of a tax year and the respective payment shall be made no later than 15 November of a tax year.

The annual property tax return on a non-entrepreneurial taxable property of an individual must be submitted no later than 1 May of the current tax year. Family returns can also be submitted. The deadline for full payment is 15 November of the current tax year.

Case 7: Individual Property Tax

Background information

An individual owns a 150 sq. meter flat with market price of GEL 200,000 in a 9 floor block (the size of each floor is 500 sq. meter; the total area belonging to the building is 800 sq. meter) in Tbilisi, Georgia and a 2 years old car with engine capacity of 2,500 cm^3. The annual income of the individual's family totalled GEL 55,000 during the previous year.

Calculation of property tax

Property tax for the individual for the reporting tax year will be the following:

Since the individual's gross family income exceeded GEL 40 000, he/she has to pay property tax.

The individual's property tax consists of tax on the car and the flat.

Tax on 2 year old car with engine capacity of 2,500 cm^3 is GEL 130.

As individual's revenue fell in the range GEL 0 – 60,000, he/she is subject to tax rate between 0.05-0.2%. Property tax on flat is GEL 400 (a).

The land plot located under the block will not be subject to taxation (b).

Thus, total property tax is GEL 530 (c).

Notes:

(a) Property tax on flat = market price * defined percentage = 200,000 * 0.2% = GEL 400 (annual property tax rate for individual was fixed by the local government at 0.2%);

(b) (size of the flat/total size of building)*size of the land = (150/ (9*500)) * * 800 = 26,7, which is less than 30 sq. meter;

(c) Property tax on the car GEL 130 + property tax on the flat GEL 400

11. Agreements for the Avoidance of Double Taxation

Georgia considers none of the tax treaties of the former USSR to be in force, with the exception of the USSR's treaty with France. Georgia has already entered into tax treaties with 24 other countries. The following table lists the withholding taxation rates under these treaties.

Country	Dividends	Interest	Royalties
Armenia	5/10 (a)	10	5
Austria	0/5/10 (b)	0	0
Azerbaijan	10	10	10
Belgium	5/15 (c)	10	5/10 (d)
Bulgaria	10	10	10
China	0/5/10 (b)	10	5
Czech Republic	5/10 (e)	8	0/5/10 (f)
Estonia	5/15 (g)	10	10
Finland	0/5/10 (h)	0	0
Germany	0/5/10 (i)	0	0
Greece	8	8	5
Iran	5/10 (a)	10	5
Italy	5/10 (e)	0	0
Kazakhstan	15	10	10
Latvia	5/10 (j)	10	10
Lithuania	5/15 (k)	10	10
The Netherlands	0/5/15 (l)	0	0
Poland	10	10	10
Romania	8	10	5
Turkmenistan	10	10	10

Ukraine	5/10 (a)	10	10
United Kingdom	0/5/10 (m)	0	0
Uzbekistan	5/15 (n)	10	10
Non-treaty countries	10	10	10

General note: whenever the dividend/interest withholding tax rate is above the rate established by TCG (10 %), the TCG rate applies.

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

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

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

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

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

(f) The 0% rate applies to the royalties on copyrights on any literature, art, and scientific work, except for films, television or radio content. The 5% rate applies to the royalties on industrial, trade or scientific equipment. The 10% rate applies on the royalties on any patents, trademarks, blueprints or models, planes, secret formulas or interest, software, or rights to use information with industrial, trade, or scientific content.

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

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

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

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

(k) The 5% rate applies if the beneficial owner is a company (except partnership) that owns at least 25% share in the capital of the payer of the dividend and if the total value of the recipient's investment is at least EUR 75,000. The 15% rate applies in all other cases.

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

(m) The 0% rate applies if the beneficial owner is a company that controls directly or indirectly at least 50% of voting power in the company paying the dividends and has invested at least GBP 2 million (or the equivalent amount in GEL) in the share capital of the company paying the dividends at the date of payment of the dividends. The 5% rate applies if the beneficial owner is a company which controls directly or indirectly at least 10% of the voting power in the company paying the dividends. The 10% rate applies in all other cases.

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

Georgia has signed and ratified tax treaties with Denmark, France, Luxemburg, Russia and Turkey but these treaties have not yet entered into force.

Tax treaty negotiations are underway with Cyprus, Ireland, Israel, Kuwait, Kyrgyzstan, Singapore, Spain and Switzerland.