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# TAX CODE OF GEORGIA

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## **PART 1. GENERAL PROVISIONS**

### **Chapter 1. Tax System of Georgia**

#### **Article 1. Relations Regulated by the Tax Code**

1. This Code regulates the general principles of formation and functioning of the tax system of Georgia, relations regarding collection and payment of taxes making up the tax system, legal status of taxpayers and tax agencies, responsibility for violation of the tax legislation, appeal procedures and conditions in respect of illegal actions of tax agencies and officials thereof.
2. The concepts and norms specified by this Code are employed only in regulating matters connected with taxation, unless otherwise stated by the legislation.
3. The payment of customs tax and duty is regulated by the customs legislation.

#### **Article 2. Tax System**

The tax system of Georgia comprises an aggregate of tax payment principles, forms and methods (their imposition, replacement and elimination) as provided by this Code, as well as types of tax agencies and tax control and responsibility for violation of the tax legislation.

#### **Article 3. Legal Basis for Introduction and Payment of Taxes**

1. A physical or legal person is obliged to pay the national and local taxes imposed by this Code in respect to which the person is deemed as a taxpayer.
2. It is prohibited to oblige anybody to pay a tax not specified by this Code.
3. A tax charged under this Code is a debt to the state and is subject to mandatory payment to the budget.
4. Supreme representative bodies of the Abkhazian and Ajarian Autonomous Republics, as well as local self-government bodies may impose local taxes specified by this Code.

#### **Article 4. Tax Legislation**

1. The tax legislation of Georgia consists of this Code and subordinated normative acts adopted consistent to the Code.
2. The subordinated normative acts shall not contravene the Code. In case of such conflict, the provisions of the Code shall apply.
3. If there is a conflict between the provisions of the Code and normative acts of other spheres of the legislation in cases concerning tax matters, provisions of this Code shall prevail.
4. For the tax purposes, the published acts of the tax legislation in force on the day when the tax liability arises are applied.

5. Imposition or abolishment of taxes, any changes in the tax payment procedures are effected by making the relevant amendments to this Code, while any changes in the payment procedures regarding local taxes - by amending the corresponding normative acts. The procedure for restructuring arrears in respect to the taxes specified by the Code is defined by the relevant law.(12.12.97 #1194 Parliamentis Utskebani #1-2)
6. Acts of the tax legislation shall not exercise the retroactive force of law, unless otherwise defined by the relevant normative act.
7. It is prohibited to regulate issues connected with taxation under the non-tax legislation, except for:
  - a) provisions concerning administrative offenses included in the Administrative Offenses Code;
  - b) provisions concerning tax crimes included in the Criminal Code;
  - c) provisions concerning priority of tax obligations included in the law of Georgia “ On Bankruptcy”;
  - d) customs legislation;
  - e) legislation regarding imposition of levies.
  - f) provisions of the Law of Georgia “on the Road Fund of Georgia”(13.12.2000 #684)
8. If an international treaty signed and ratified by Georgia establishes norms other than those provided in the tax legislation of Georgia, except for cases specified in part 9 of this Article, the norms of the international treaty shall apply.
9. Tax concessions granted by the international treaties regarding avoidance of double taxation do not apply to a resident of the party (state) concerned due to which a non-resident of the party concerned enjoys the relevant concessions.

#### **Article 5. Concept of a Tax**

A tax is a mandatory payment to the budgets and special state funds (hereinafter - state fund) specified by this Code and effected by a taxpayer based on the obligatory, non-equivalent and gratuitous nature of payment.

#### **Article 6. Kinds of Taxes**

1. National and local taxes are in effect in Georgia.
2. The following belong to the national taxes:
  - a) income tax;
  - b) profit tax;
  - c) value added tax;
  - d) excise;

- e) property tax;
  - f) land tax;
  - g) tax on ownership of motor vehicles;
  - h) tax on transfer of property;
  - i) social tax;
  - j) tax on use of natural resources;
  - k) tax on pollution of environment with harmful substances;
  - l) tax on entering motor vehicles onto the territory of Georgia and overload.(01.05.98 #1369 Parliamentis Utskebani #19-12)
3. The following belong to the local taxes:
- a) tax on economic activity;(08.06.99 #2056 Legal Gazette #20(27))
  - b) gambling tax ;
  - c) resort tax;
  - d) hotel tax;
  - e) advertisement tax;
  - f) tax on use of local symbols.( 30.10.98. #1666 Legal Gazette #4)
4. The procedure for allocating taxes among budgets is defined in accordance with the laws of Georgia «On Budget System and Budgetary Powers» and «On Long-term Economic Norms of Tax Revenues Allocations to Budgets of the Abkhazian and Ajarian Autonomous Republics and Other Territorial Units of Georgia”.
5. Taxes are calculated in monetary form and paid in GEL.
6. An exemption from the national taxes stipulated by this Code may be granted or tax rate reduced by making the relevant amendments and additions to this Code. An exemption from the local taxes may be granted by amending this Code, while granting of other privileges by amending the relevant normative acts.
7. Tax concessions may not be granted by other legal acts.
8. Establishment of individual tax concessions is prohibited for any physical and legal person. (01.05.98. #1369. Parliamentis Utskebani. #19-20)

## Chapter 2. Definition of Concepts and Terms Used in the Code

### Article 7. Economic Activity

1. *Economic activity* is recognized as any activity undertaken with the intent to gain profit, income or compensation, regardless of the results of such activity, unless otherwise stipulated by this Article.
2. The following activities are not regarded as economic activities:
  - a) activities of governmental agencies and local self-government bodies that are directly related to execution of the function entrusted to them by the legislation, except for rendering of services paid for on a contractual basis and other entrepreneurial activities;
  - b) charitable activities;
  - c) religious activities.
3. Economic activity can be *entrepreneurial* and *non-entrepreneurial*.

### Article 8. Entrepreneurial and Non-entrepreneurial Activity

1. *Entrepreneurial activity* is recognized as an activity defined by Article 1.1 of law of Georgia “On Entrepreneurs”, namely an economic activity carried out in the form of commercial or other economic transactions.
2. *Non-entrepreneurial activity* is recognized as a transfer of property (including cash assets) for payment by one person to another for temporary possession, use or management, without transfer of title to this property or a part thereof as well as right to dispose of it, if such a transfer is not a financial activity and does not impose additional obligations not related to the target use of the transferred property or obligations related to the payment of compensation for possession, use or management of the above property on the property recipient, unless otherwise provided by this Article
3. Non-entrepreneurial activity includes:
  - a) fulfillment of works by a physical person working for hire consistent to Article 9 of this Code;
  - b) placing money on deposit at banks or other credit institutions;
  - c) renting of property, except for cases stipulated by part 4 of this Article;(13.07 2000 3470 Legal Gazette #30)
  - d) property management by proxy;
  - e) unless otherwise prescribed by part 4 of this Article (13.07 2000 #470 Legal Gazette #30)purchase (sale) of securities or share of the authorized capital of an enterprise, acquisition (sale) of bonds or any other promissory notes; purchase (sale) of share in a investment fund as well as sale of copyright or similar right owned by the seller are deemed to be equivalent to non-entrepreneurial activity;



- f) activities of a physical person independently engaged in activities defined by Article 1.2 of the law of Georgia «On Entrepreneurs».(13.07 2000 #470 Legal Gazette #30)
4. Economic activity related to the on (sale) of securities or any other property is recognized as entrepreneurial activity providing application of one of the following circumstances :
- a) this activity is performed on a continuous basis and is a professional activity of the person carrying out the above transactions;
  - b) sale of goods (works, services) produced (fulfilled, rendered) by a seller;
  - c) such transactions are carried out within the framework of trade, trade-intermediary (including dealer' s activities), or intermediary activities.

### **Article 9. Employment**

1. For the purpose of this Code, *employment* means:
- a) fulfillment of obligations by a physical person within the framework of relations regulated by labor legislation or legislation related to the state service;
  - b) fulfillment of obligations by a physical person directly related to service in the of the armed forces, law enforcement or equivalent agencies;
  - c) work in positions of managing director of enterprises, organizations.
2. A physical person who works for hire is called *an employee* in this Code. A person who pays for the services rendered by such physical person (employee) is deemed an *employer*, and such payment- *wages*.

### **Article 10. Charitable Activity**

1. For the purposes of the Code, *charitable activity* means direct financial support, including grants or any other assistance (support) to physical persons in need of this assistance or to organizations, including charitable organizations as well as educational and research activity performed by an organization in the public interest, unless otherwise provided by the Article.
2. Unless otherwise provided by part 3 of this Article, charitable activity includes the following assistance (support) to:
- a) low income physical persons or physical persons in need of social adaptation or social protection;
  - b) children with no parent(s) as well as to preschool or other child institutions and other organizations providing care to such children;
  - c) disabled or elderly persons or to organizations providing care to disabled or elderly persons;

- d) physical persons who need medical care (support or special care) in the form of payment for medical or related treatment (including transportation expenses to the place where these services are provided) or to organizations having the status of medical institutions;
  - e) educational institutions, including setting up of scholarships;
  - f) R & D as well as cultural institutions ;
  - g) gifted physical persons for developing their talents;
  - h) protect population or nature from pollution or other harmful influence;
  - i) religious organizations;
  - j) penitentiary institutions for improving medical or care services rendered to the inmates.
3. Provision of assistance (support) to a person shall not be regarded as charitable activity if:
- a) a person receiving such assistance (support) incurs an obligation of a property or non-property nature (except for an obligation to use the received funds or property exclusively as targeted) in respect to the person providing such assistance;
  - b) a person receiving such assistance (support) and a person rendering the above assistance (support) are treated as related persons in accordance with Article 24 of this Code;
  - c) assistance (support) is of a political nature, including transfer of funds to any political party, public organization (movement), election union or a physical person for participation in an election campaign.

### **Article 11. Religious Activity**

1. For the purposes of this Code, *religious activity* means activity of the duly registered religious organizations and associations aimed at faith and expansion of religious belief, including those achieved through:
- a) organizing and holding of religious rites, ceremonies, prayer gatherings, or any other religious actions;
  - b) granting believers the opportunity to have or use houses of prayer or ritual - oriented buildings for joint or individual satisfaction of their religious requirements;
  - c) receiving and sending of religious delegations, pilgrims and representatives of various beliefs, organization of national or international religious meetings, congresses and seminars as well and providing hotels (or other accommodations), transport, meals, and cultural services to participants in the above events;
  - d) maintaining monasteries, churches and seminaries, training students or novices of such seminaries, and running charitable institutions (hospitals, hospices, and nursing homes for the elderly or disabled), and any other similar charter activity defined by canonical rules.

2. The following activities shall be regarded as equivalent to religious activities: activities of enterprises of religious organizations (associations) publishing religious (theological) literature or producing (manufacturing) religious items; activities of the above organizations (associations) or their enterprises related to sale (distribution) of religious (theological) literature or items; use of proceeds from the above activities to carry out religious activities of the religious organizations (associations).

### **Article 12. Enterprises**

1. For the purposes of this Code, *enterprises* are recognized as entities performing economic activity or established to perform such activity, namely:
  - a) legal persons established consistent to the legislation of Georgia;
  - b) corporations, companies, firms, and other entities established consistent to the legislation of foreign states;
  - c) branches and other separate units which are structural units of the entities indicated in item «a» of this part and which have their own balance sheet and a separate settlement or other account.
2. The term “enterprise” does not include individual enterprise (a sole proprietor).

### **Article 13. Georgian Enterprise and Foreign Enterprise**

1. A *Georgian enterprise* is an enterprise that operates (a place of its activity) in Georgia or is managed in Georgia.
2. A *foreign enterprise* is an enterprise that is not a Georgian enterprise pursuant to this Article.

### **Article 14. The Place of Activity of an Enterprise**

*The place of activity of an enterprise* is the place of state registration of an enterprise, or the place indicated in founding documents of the enterprise (charter, agreement, and regulations), should such be lacking.

### **Article 15. The place of activity of an individual enterprise**

*The place of activity of an individual enterprise* is the place of economic activity of a physical person - entrepreneur.

### **Article 16. The Place of Management of an Enterprise**

*The place of management of an enterprise* is the place of actual management of the enterprise, which means the place where the management of the enterprise fulfills its managerial function.

### **Article 17. Permanent Establishment**

1. A *permanent establishment* of a foreign physical person or enterprise in Georgia is recognized as a taxpayer's establishment through which his/her economic activity (01.05.98. #1369 Parliamentis Utskebani #19-20) is partially or fully carried out, including activities of a proxy, except for the cases envisaged by part 3 of this Article.
2. The following are equivalent to a permanent establishment:
  - a) a construction site, assembly or erection site as well as carrying out of control activities related to the above objects;
  - b) equipment or structure, drilling equipment or ship used for survey of natural resources, as well as carrying out of control activities related to the above;
  - c) a permanent base where a non-resident physical person carries out entrepreneurial activity.
3. A place is not considered a permanent establishment of a foreign enterprise in Georgia if used (regardless of who uses it) only to :
  - a) store goods or products belonging to the foreign enterprise;
  - b) keep a stock of goods or products belonging to the foreign enterprise only for the purpose of their processing by another person;
  - c) purchase goods or products or collect information for the foreign enterprise;
  - d) perform any other preparatory or auxiliary activities depending on the interests of a foreign enterprise;
  - e) carry out any mixture of the activities indicated in items "a- d".

### **Article 18. Individual Enterprise (Sole Proprietor)**

1. An *individual enterprise* is recognized as an enterprise that is not a legal person and whose sole participant and manager is a single physical person (proprietor of the enterprise).
2. The following is equivalent to an individual enterprise:
  - a) an enterprise operated only by family members, regardless of whether they manage the above enterprise jointly or only one of them does this by joint consent;
  - b) a farm established in the order prescribed by the legislation, without establishment of a legal person and whose sole owner is an individual or members of his family.

### **Article 19. Organizations**

1. The following entities are regarded as *organizations*:
  - a) public or religious organizations (associations), funds, institutions, associations (unions) or other organizations that are non-entrepreneurial legal persons under the

legislation of Georgia, or that are established and operate consistent to the legislation of a foreign state;

- b) interstate and intergovernmental organizations.
2. The place of activity and the place of management of an organization is defined in accordance with the procedure established for enterprises.
  3. An organization shall be classified as a Georgian or foreign organization in accordance with the procedure established by this Code.
  4. If an organization carries out economic activity, the part of its property and activities that is directly related to its economic activity (01.05.98. #1369 Parliamentis Utskebani #19-20) shall be regarded as activities and property of an enterprise.

### **Article 20. Budgetary Organization**

A *budgetary organization* is deemed as an organization set up on the basis of state (municipal) property, including governmental and self-government bodies performing duties assigned to them by the state through the funds allocated from the budget in accordance with established norms, standards, and rules.

### **Article 21. Charitable Organizations**

1. For the purposes of this Code, a *charitable organization* is recognized as an organization established for charitable purposes, registered consistent to the procedures determined by legislation that carries out charitable activities and meets requirements established by this Article.
2. An organization shall not be regarded as a charitable organization (regardless of its legal and organizational status or name) if :
  - a) it pursues political goals or carries out political activities, including direct or indirect participation in the election campaign of any political party, public organization (movement) or a physical person;
  - b) income or assets of an organization benefit any person, *inter alia* his property and services fee, except for benefit gained as a result of his/her charitable activities.

### **Article 22. Religious Organization**

For the purposes of this Code, a *religious organization* is recognized as an organization set up for the purpose of carrying out religious activity and registered as such consistent to the procedure established by legislation.

### **Article 23. Tax Agent**

1. A *tax agent* is recognized as a person who, under this Code or any other act of the tax legislation, is obliged to calculate a tax, withhold it from a taxpayer and transfer to the relevant budget (state fund).

2. In respect to the rights and obligations, a tax agent has the same status as a taxpayer, unless otherwise defined by the Code.
3. A tax agent is obliged to:
  - a) correctly and timely calculate the relevant taxes, withhold them from a taxpayer, and pay to budgets (state funds);
  - b) record income paid to every taxpayer and amount of taxes withheld and transferred to budgets (state funds);
  - c) submit the relevant documents necessary to control accuracy of tax calculation, withholding and payment procedures to tax agencies;
  - d) perform other duties assigned by the tax legislation.
4. For non-performance or improper performance of the duties assigned to him/her by the tax legislation, a tax agent bears responsibility according to the procedure established by this Code or other legislative acts of Georgia.

#### **Article 24. Related Persons**

1. Persons are recognized as *related* if special relations existing between them may directly affect the conditions or economic results of transactions concluded by them.
2. Such special relations include, in particular, relations where:
  - a) persons are founders (participants) of the same enterprise, if their total share is not less than 20 percent;
  - b) one person has a direct or indirect interest in another person- enterprise, where such an interest is not less than 20 percent;
  - c) one person is subordinate to the other person in terms of his/her work position or one person is under control (directly or indirectly) of the other person;
  - d) persons are subsidiary enterprises or are under direct or indirect control of the third person;
  - e) persons jointly (directly or indirectly) control the third person;
  - f) persons are relatives.

#### **Article 25. Physical Person -Resident**

1. A physical person is recognized as *a resident* if he actually resides in Georgia for more than 182 days in any 12-month period ending in a tax year, or is abroad working in the Public Service of Georgia during a tax year.
2. For purposes of part 1 of this Article, a time during which a physical person was in Georgia is not considered a time of actual residence on the territory of Georgia if he stayed:
  - a) as a person having diplomatic status or as a family member of such person;

- b) as a staff member of an international organization, or as a person who is in the Civil Service of a foreign country, and/or a family member of such a person, except citizens of Georgia;(30.10.98 #1666 Legal Gazette #4)
  - c) only for movement from one foreign country to another through the territory of Georgia.
3. A day of residence in Georgia is considered to be any day during which a physical person was actually located on the territory of Georgia, regardless of duration of this stay.
  4. A physical person is regarded as a *non-resident* of Georgia if he/she is not a resident of Georgia in accordance with this Article.
  5. The status of a resident or non-resident is established for each tax period.

#### **Article 26. Physical Person - Entrepreneur**

1. A physical person is considered *an entrepreneur* if he/she is an individual entrepreneur in accordance with Article 2 of the Law of Georgia «On Entrepreneurs», and if he/she carries on entrepreneurial activity independently and at his own risk, without establishing a legal person.
2. The performance by a physical person of entrepreneurial activity in violation of procedures established for obtaining registration, license, certificate, or any other similar documents is not considered as the basis for non-recognition of the physical person as an entrepreneurial for the purpose of taxation.

#### **Article 27. Market Price**

1. The *market price* of goods (works, services) shall be considered to be a free market price resulting from the interaction of market demand and supply of identical (or, in their absence, similar) goods (works, services) and on the basis of transactions concluded on the relevant market of goods (works, services) between persons not deemed as related under article 24 of the Code.
2. The market price of goods (work, service) shall be determined on the basis of information about the relevant transactions in respect of identical (similar) goods (works, services) carried out at the time of sale of goods (work, service).
3. While determining the market price of goods (works, services), transactions between related persons can be taken into account only if their interdependence has not affected the results of such transactions.
4. The market of goods (works, services) shall be deemed as sphere of circulation of these goods (works, services) determined by the capacity of the seller (purchaser) to actually and without significant expenses, sell (purchase) goods (work, service) on the territory nearest to the seller (purchaser) within or outside Georgia.
5. If no transactions in respect of the identical (similar) goods (works, services) have been concluded on the relevant market of goods (works, services), or if there is no supply of such goods (works, services) on the market, the market price shall be determined by

prices established in the relevant transactions with the identical (similar) goods (works, services) as of the day closest to the time of sale of the aforementioned good (work, service), either preceding or following it, but no more than 30 days remote from the time of sale of goods (work, service). At the same time the market price of a security is determined by the stock exchange quotation for an identical security of the same issuer on the day closest to the time of sale of the aforementioned security and preceding the moment of sale of the security, and for which quotations were announced.

6. If the provisions of parts 1-5 of this Article cannot be applied, the market price of goods (works, services) shall be determined according to the procedure prescribed by the Ministry of Economy in coordination with the Ministry of Finance. At the same time, account shall be taken of regular costs in respect of production and /or sale (purchasing price and depreciated value) of the goods (works, services), transportation, storage, insurance and other similar costs that are customary in such instances, as well as additional charges or discounts regular for transactions between non-related persons, considering factors of supply and market demand of goods (works, services). The aforementioned discounts shall be taken into account in the case of quality deterioration or loss of other consumer qualities of the goods, or expiration (forthcoming expiration date) of the service life period or sale period of the goods.
7. Exchange transactions (barter transactions) of goods (works, services) shall be considered as transactions in accordance to which each of the exchanging parties sells its goods (works, services) and purchases other goods (works, services). The market price of the goods (works, services) sold (purchased) in the course of these transactions shall be determined pursuant to this Article.
8. A taxpayer is entitled to afford proofs to a tax agency and a tax agency, providing there exists sufficient grounds, shall agree to use procedures other than specified by this article when defining and approving price of goods (works, services) in respect of the relevant transaction.
9. For the determination and approval of the market price of goods (works, services) official sources of information in respect of market prices of goods (works, services) and exchange quotations, database of the relevant executive institutions of a state, information provided to tax agencies by taxpayers as well as other reliable information shall be used.
10. For the purposes of natural resources tax calculations, the price in accordance with types and groups of natural resources indicated in Part 10 of this Code (except for natural resources indicated in Article 194.2 and 3)(13.07.2000 #470 Legal Gazette #30) is determined by Ministry of Economy, Industry and Trade by recommendations of Interdepartmental License-Expert Council for Use of Natural Resources (30.10 98. #1666 Legal Gazette \$4), whereas for the natural resources referred in Article 194. 2 and 3, the price shall be determined under the recommendations by the State Forestry Department.( 13.07.2000 #470 legal Gazette #30)
11. The market price can be *wholesale* and *retail*.



### **Article 28. Tax Liability**

1. Tax liability shall be regarded as liability of taxpayer to pay a tax imposed by the law.
2. The procedures and conditions in respect of establishment, change, cancellation as well as compliance with a tax liability shall be regulated only by this Code and/or other acts of the tax legislation.
3. A taxpayer is required to comply with a tax liability from the moment the circumstances providing for payment of the tax as established by the tax legislation arise.

### **Article 29. Definitions of Terms Used in the Code**

For the purposes of this Code, the terms used have the following meanings:

1. *Person* - legal or physical persons defined as such consistent to the Civil Code of Georgia;
2. *Taxpayer Identification Number (TIN)* - a number assigned by the tax agency to physical or legal persons;
3. *Tax Administration* - aggregate of forms and methods necessary to calculate, pay, declare and control taxes, as well as to record and inform taxpayers that are implemented by tax agencies while executing the tax legislation;
4. *Relatives*:
  - a) spouses;
  - b) ancestors or descendants;
  - c) sisters (brothers);
  - d) nephews and nieces;
  - e) spouse of a sister (brother);
  - f) sisters (brothers) of parents;
  - g) persons who, as a result of a long-time guardianship, are connected as parents and children;
  - h) for the purposes of relationship, stepsisters (brothers) shall have the same status as natural sisters (brothers), and adopted children shall have the same status as natural children; guardianship relations shall be regarded as a family (where persons are related to one another as parents and children) which is equalized to relationship; termination of the residence in family between the above persons shall not be taken into account if the parent-child relations are maintained.
5. *Location of Taxable Property* – a place where the property is actually located or registered according to procedures established by the legislation.
6. *Residence of a Physical Person* - a place where a physical person actually resides.

7. *Resident* - a resident physical person, a Georgian enterprise, as well as an individual enterprise with place of management or place of activity in Georgia.
8. *Non-resident* - a person who is not a resident.
9. *Taxable Turnover* - total of taxable transactions.
10. *Rendering of Service* - any economic activity carried out for compensation which is not a supply of goods or fulfillment of works, as well as such service which for the VAT purposes does not imply the transfer of ownership of money or land or the rendering of services to an employer by an employee.

Services include:

- a) transport and shipping services, including transportation of gas, oil, oil products, and electric and thermal energy;
  - b) leasing of movable and immovable property;
  - c) communications , consumer, housing, and communal services;
  - d) physical training and sports services;
  - e) advertising services;
  - f) innovation, data processing and information services;
  - g) services for the preparation of goods for sale;
  - h) services for the storage of goods or other property and/or protection;
  - i) other services.
11. *Works* - geological survey, construction, assembly and repair works as well as research & development, pilot and experimental works.
  12. *Fulfillment of Works* – fulfillment of works for compensation.
  13. *Goods* - any tangible or intangible property, including electric or thermal energy, gas, and water, except for money and land for the VAT purposes.(18.09.97.#870-Parlamentis Utskebani #37-38)
  14. *Export of Goods* - *re-export of goods, import of goods, re-import of goods, the customs territory of Georgia, transit of goods, temporary import of goods - according to the customs legislation of Georgia.*
  15. *Supply of Goods* - transfer of ownership of goods, including a sale, an exchange, a gratuitous transfer, payment of wages in kind, and other payments in kind.
  16. *Financial Services:*
    - a) granting or transferring credits, credit guarantees and any other collateral for a monetary transaction, including management of credits and credit guarantees by a person;

- b) transactions related to the services of deposits and accounts of clients, settlements, money order ( 18.09.97. #870 Parliamentis Utskebani #37-38), debt obligations and payments instruments;
  - c) transactions related to the circulation of legal tender - currency, money and banknotes (except for those used for numismatic purposes);
  - d) transactions and the relevant services related to circulation of share of authorized capital, stocks, bonds, certificates, bills, checks and other securities (except for safekeeping and registration services in respect of securities);(13.07.2000. #470 Legal Gazette #30);
  - e) transactions and services related to financial derivative and synthesis instruments, forward agreements, options and similar instruments;(13.07.2000 #470 Legal Gazette #30)
  - f) services related to the management of investment funds;
  - g) insurance and re-insurance transactions.
17. *Dividend* - portion of the net profit that is distributed by a legal person among the partners considering tax year outcome (21.12.2001 # 1212-Is, “Legislative Bulletin”), or income from the distribution of property upon liquidation of a legal person, except for property of authorized and issued capital. (13.07.2000 #470 Legal Gazette #30)
18. *Income from a Georgian source:*
- a) income earned from hire employment in Georgia;
  - b) income earned from sale of goods, fulfillment of works and/or rendering of services in Georgia;
  - c) income attributable to a permanent establishment located on the territory of Georgia, including income attributable to sales in Georgia of goods of the same or similar kind as those sold through such permanent establishment as well as income obtained from entrepreneurial activity in Georgia which have the same or similar nature to the activity performed by the permanent establishment;
  - d) income earned from cancellation of the liabilities due to writing off bad debts (01.05.98. # 1369 Parliamentis Utskebani # 19-20) and income from sale of fixed assets according to Article 54.7 of this Code or income from compensation according to Article 79 of the Code;
  - e) dividend received from a resident legal person and income obtained from sale of a partner’s share of such legal person;
  - f) income earned from residents in the form of interest;
  - g) a pension paid by a resident;
  - h) income earned in the form of interest received from a person with a permanent establishment or property located on the territory of Georgia if the indebtedness of such person is related to such permanent establishment or property;

- i) income earned from a permanent establishment located on the territory of Georgia or a person owning property in the form of interest, providing the outstanding amount due from this person is related to his/her permanent establishment or property.
- j) income earned from rights or property existing or used in Georgia in the form of royalties; income obtained as a result of sale or transfer of property existing or used in Georgia as defined by part 21 of this article; income from leasing movable property used in Georgia;
- k) income earned from lease of movable property used in Georgia;
- l) income earned from immovable property located in Georgia and used in course of entrepreneurial activity, including income from the sale of a partner's share in such property;
- m) income earned from sale of stocks or partner's share in an enterprise, the value of whose assets mostly directly or indirectly, consists of the value of immovable property located in Georgia;
- n) other income from the sale of property by a resident, which is not connected with entrepreneurial activity;
- o) income earned from management, financial, and insurance services (including reinsurance services) if it is paid by a Georgian enterprise or a permanent establishment located on the territory of Georgia, or is received on the basis of a contract with such an enterprise or permanent establishment;
- p) income earned in the form of insurance payments paid under agreements for the insurance or reinsurance of risk in Georgia;
- q) income earned from telecommunications or transportation services in international communications or shipments between Georgia and other states;
- r) miscellaneous income earned by a resident from sale of property which is not related to entrepreneurial activity;
- s) income earned either from a Georgian enterprise or a permanent establishment located on the territory of Georgia for its management as well as for financial and insurance services (including re-insurance services) or on the basis of contract concluded with them;
- t) income earned in Georgia on the basis of risk insurance or re-insurance agreement in the form of insurance fee;
- u) income earned from telecommunications or transportation services in the spheres of international communications or international transportation between Georgia and other state;
- v) miscellaneous income earned from activities carried out in Georgia;
- w) The place of receipt of income shall not be taken into consideration when determining the source of income specified under items "a"- "w" of this part

19. *Fixed Assets* - tangible assets with a service life of more than one year which are subject to depreciation in accordance with Article 54 of this Code.
20. *Interest* - any charge related to a debt obligation, including those for credits (loans) and for deposits (accounts).
21. *Royalty*:
- a) payment for the right to extract mineral resources as well as use them when processing formations of technogenic nature;
  - b) income received in the form of payments:
    - ?? for the use or the right to use copyrights, software, patents, blueprints or models, trademarks or other ancillary types of rights;
    - ?? for the use or the right to use industrial, trade or research & development equipment;
    - ?? for the use of know-how;
    - ?? for the use or the right to use (cinema) films, video films, sound or other recording means;
    - ?? for rendering technical assistance in respect of the rights stipulated by this part, or for the forbearance of use of any of the above.
22. *Family* - spouses, children, and parents residing jointly and maintaining a common household.
23. *Net profit* - profit less profit tax.
24. *Partner (participant)* - according to Law of Georgia “On Entrepreneurs”.
25. *Indirect Tax* –a tax (VAT, excises, etc.) which is imposed as an addition (value added) to the price of the supplied goods (works, services) and which is payable by the customer when purchasing the good at the price increased with this tax.
- The liability to transfer a indirect tax to the budget is borne by a supplier of goods (work, services) who, for the purposes of Parts III and IV of this Code, is deemed as a taxpayer.
26. *International Transportation* – shipment of cargo by any transportation facility for which a unified transportation document is written out on the customs territory of countries of dispatch, destination and transit, crossing one or several frontiers, from any dispatch customs territory to the destination customs territory via one or several intermediate customs territory.(18.09.97 #870 Parliamentis Utskebani #37-38)
27. *Issued Capital* – difference between total proceeds from selling shares issued by an enterprise and the total nominal value of these shares.
28. *Bad Debt* – arrears generated due to the unpaid taxes, penalties and interests defined by the tax legislation of Georgia and when by application of enforcement measures against a taxpayer’s property it is decided that a taxpayer does not possess property and assets, or the property is so scarce that it is not enough to cover judicial expenses.

29. *Doubtful Debt* – amount partially or fully to be paid by a taxpayer, which is regarded as non-collectable due to its age and other factors in consistence with international accounting standards.(13.07.2000 #470 Legal Gazette #30)
30. *Shortage*- loss disclosed as a result of comparison made between the accounting records of an enterprise and the relevant inventory list of material valuables and goods. In respect of the goods that can not be counted and thus, physically inventoried (such as electric power, natural gas and etc.), shortage shall be regarded as a difference between the valuables purchased (consistent to the supporting purchasing document) and those sold, i.e. valuables actually taken out of the enterprise, in case if a debtor (person who reimburses) or/and a person who has misappropriated is not identified. In case if the loss threshold is determined by the relevant authorized agencies, any amount exceeding it shall be deemed as a shortage. Shortage in all cases shall be regarded as a supply carried out at the moment of its disclosure at market price or in the event of regulated prices, at regulated price.(10.11.2000. #606)

### **Chapter 3. General Rules Regarding Meeting of Tax Liabilities**

#### **Article 30. Meeting of Tax Liabilities.**

1. Duly payment of a tax shall be regarded as meeting of tax liability.
2. One of the basis responsibilities of a taxpayer is to meet a tax liability. Tax liability shall be met regardless of other non-tax liability of a taxpayer.
3. A taxpayer meets his/her liabilities directly, unless otherwise provided by the tax legislation. In the cases established by tax legislation another authorized person can meet a tax liability.
4. Unilateral refusal to meet tax liabilities, or unilateral amendment of procedures for their satisfaction by a taxpayer or other legally obliged persons is not allowed if it is not considered in the tax legislation.
5. A taxpayer or other legally obliged person is liable to meet tax liabilities with all his property, unless otherwise established by this Code.

#### **Article 31. Meeting of Tax Liability in the Case of the Liquidation of an Enterprise (Organization)**

1. Tax liabilities of an enterprise (organization) being liquidated are met by the liquidation commission of the enterprise (organization) from its monetary funds, including means from the sale of the property of the enterprise (organization). Under this regime tax liabilities of its branches and other separate units recognized as enterprises under Article 12 of this Code (18.09.97 #870 Parliamentis Utskebani #37-38) must also be satisfied by the liquidation commission. Tax liabilities of a branch or other structural unit of an enterprise (organization) being liquidated are met directly by the enterprise (organization) of which the separate unit was a part; if this enterprise (organization) is also being liquidated, the tax liabilities are met by the liquidation commission of the enterprise (organization).

2. If an enterprise (organization) being liquidated does not have enough monetary resources, including proceeds of its property sale, to meet its tax liabilities in full, the outstanding amount shall be covered by the partners of this enterprise (organization), if pursuant to the law, charter or any other constituent document they are jointly liable for the liabilities of the enterprise (organization). Similarly, the owner of the property of an individual enterprise being liquidated shall be responsible for payment of the outstanding amount.
3. The tax liability of an enterprise (organization) being liquidated is met within one month of the beginning of liquidation. A tax agency is entitled, to extend the period to meet the tax liabilities no longer than two months providing there are justifiable circumstances. Such extension does not suspend assessment of fines pursuant to Article 252.

**Article 32. Meeting of Tax Liabilities in the Case of the Reorganization of an Enterprise (Organization)**

1. Tax liability of a reorganized enterprise (organization) shall be met by its successor (successors) as defined pursuant to this Article.
2. The successor (successors) of a reorganized enterprise (organization) shall be responsible to meet tax liabilities regardless of whether the facts or circumstances concerning incomplete meeting or not meeting of tax liabilities by the reorganized enterprise were or were not known to the successor (successors) before the completion of reorganization. A successor (successors) is required to pay all the fines assessed to a reorganized enterprise (organization) and a penalty imposed for violation of the tax legislation before the completion of reorganization. The provisions of this part apply to the successor (successors) of those reorganized enterprises (organization) that him/herself has been recognized as a successor of other enterprise (organization) and that has not met or incompletely met tax liabilities resulting from such succession in respect of taxes and fines and penalties due.
3. Reorganization of an enterprise (organization) does not change the terms specified to meet tax liabilities by the successor (successors) of the enterprise (organization).
4. In the case of a merger of several enterprises (organizations), the enterprise (organization) established as a result of the merger shall be recognized as their successor with regard to meeting of tax liabilities of each of the enterprises (organizations).
5. In the case when an enterprise (organization) joins another enterprise (organization), the enterprise (organization) which the first enterprise (organization) joined shall be recognized as the successor with regard to satisfaction of tax obligations of the joining enterprise (organization).
6. In the case where an enterprise (organization) disaggregates into several enterprises (organizations) the enterprises (organizations) established as a result of this process shall be recognized as the successors with regard to meeting tax liabilities of a primary enterprise (organization).
7. If there are several successors, each successor shall meet tax liabilities of the reorganized enterprise (organization) to the extent defined by a separation balance sheet or other hand-over document. If share of a successor of a reorganized enterprise (organization) can not

be determined or any of each successors is not required to fully meet its tax liabilities under the above documents, newly established enterprises (organizations) shall bear joint liability to meet tax liabilities of a reorganized enterprise (organization) or its respective part.

8. If the organizational and legal form of an enterprise (organization) is changed, the enterprise (organization) established as a result of such reorganization is recognized as a successor responsible to meet of tax liabilities of a reorganized enterprise (organization).
9. In the case when one or several enterprises (organizations) are disaggregated from an enterprise (organization), the separated enterprises (organizations) shall not be responsible to meet tax liabilities of a reorganized enterprise (organization) providing such reorganization does not serve to evade tax liabilities by a reorganized enterprise (organization).

### **Article 33. Meeting of Tax Liabilities of Deceased, Missing or Incompetent Physical Person**

1. Tax liability of a deceased physical person is met by his heir (heirs) to the extent of the inherited property value as of the time of receipt of the inheritance and pro rate to his/her inheritance share.
2. In the absence of an heir (heirs), tax liability of a deceased physical person is annulled.
3. Tax liability of a physical person recognized by a court as incompetent or missing is met by a person in charge of the property of this incompetent or missing person, at the expense of this property.
4. Tax liability of a physical person recognized as missing or incompetent under the established procedures as well as the assessed fines and penalties shall be written off if his/her property is insufficient to meet his/her tax liabilities and pay the relevant penalties and fines.
5. The validity of previously written off tax obligations, assessed fines and penalties will be restored from the day of termination of decision concerning recognition of a physical person as incompetent or missing.

### **Article 34. Procedure Defining Meeting of Tax Liabilities**

1. A taxpayer independently calculates a tax due for the reporting period, based on a tax base, tax rate, and tax concessions, unless otherwise stipulated by the tax legislation
2. In the cases established by this Code or other act of the tax legislation, the responsibility to calculate the tax due may be delegated to a tax agency or tax agent.
3. Tax shall be calculated in accordance with the procedure established for the relevant tax by this Code or other act of the tax legislation.
4. The tax due by the established deadline is paid (transferred) by the taxpayers or other obliged person.



## **PART II. INCOME AND PROFIT TAXES**

### **Chapter 4. Income Tax**

#### **Article 35. Taxpayers**

Income taxpayers are resident and non-resident physical persons.

#### **Article 36. Object of Taxation**

1. The object of taxation for the personal income tax of a resident is a taxable income, determined as a difference between a gross income for a calendar year and the amount of deductions stipulated by the Tax Code for this period.
2. A non-resident taxpayer engaging in activities in Georgia through a permanent establishment is a income taxpayer in respect of a taxable income related to a permanent establishment determined as a difference between a gross income for a calendar year from Georgian sources related to a permanent establishment and the amount of deductions stipulated by the Tax Code with respect to such income for this period.
3. Gross income of a non-resident person not stipulated in part 2 of this Article is subject to taxation at the source of payment, if so specified in Article 64, without deductions.
4. A non-resident taxpayer (physical person) receiving employment income or income from the sale of the property used for entrepreneurial activity, is an income taxpayer in respect of a gross income for a calendar year from a Georgian source, reduced by the deductions which are attributable to such income for this period.

#### **Article 37. Gross Income**

1. Gross income of a resident taxpayer consists of income received by him in and outside Georgia.
2. Gross income of a non-resident taxpayer consists of income received from Georgian sources.
3. All types of income received from the economic activity belong to gross income, including:
  - a) income received in the from of wages;
  - b) income gained from economic activity not connected with employment. (This Article should not apply the budget organizations till January 1, 2001.)

#### **Article 38. Income Received in the Form of Wages**

1. Any payments or gains received from employment including income in the form of a pension and other income received in a previous place of employment or income from a future place of employment of a physical person belong to income received in the form of wages.

2. For the purposes of part 1 of this Article, the value of gains equals the sum indicated below less any payment of the employee for the received gains:
  - a) in case of receiving an automobile of any type for the purposes private usage - 0.05 percent of the value of a new automobile of that type at the beginning of the tax year for each day during which the automobile is at the disposal of the employee for private use;
  - b) in case of receiving loans at an interest rate that is lower than the market interest rate - an amount equal to the interest to be paid at the market rate;
  - c) in case of the sale of goods (works, services) or gratuitous transfer thereof by an employer to his employee - the market value of these goods (works, services);
  - d) in case of financial assistance in the education of an employee or his dependents (excluding training programs directly connected with performance of the employee's duties) - the cost of education assistance paid by employer;
  - e) in case of the reimbursement of expenses by the employer to an employee the amount of reimbursement;
  - f) in case of forgiveness of a debt or obligation to his employer - the sum of the debt or obligation;
  - g) in case of life and health insurance premiums and other similar sums paid by an employer to the employee - the cost of the premiums and other sums paid by the employer;
  - h) in any other case, the market price of the gains, in accordance with article 27 of this Code.
3. Gross income does not include business trip or representation expenses for an employee that are paid within the limits of norms established by the Ministry of Finance of Georgia to the extent that it is proven that these expenses were moderate and necessary for the activity of the employer.
4. The value and costs defined by part 2 of this Article include excise, VAT, and any other tax subject to payment by an employer.

### **Article 39. Income from Economic Activity Not Connected with Employment**

The following belong to income from economic activity not connected with employment:

- a) income from the entrepreneurial activity, namely:
  - income received from a supply of goods (work, service);
  - surplus income from the sale of assets used for entrepreneurial activity;
  - income received from the restriction of entrepreneurial activity of an enterprise or as a result of its closing;

- sums received from the sale of fixed assets included in income in accordance with part 7 of Article 54 of this Code;
- compensated deductions in accordance with Article 79.

b) income from non-entrepreneurial activity, namely:

- income earned in the form of interest;
- dividends;
- income from the lease or rent of property;
- royalties;
- income from writing off of debts;
- surplus received from the sale of assets, other than surplus income provided for by section «a» of this Article;
- other proceeds (income) with the exception of salaries, that increase taxpayer's net assets excluding contributions of the partners of the enterprise (shareholders), in authorized capital and emission capital. (13.07.2000 Legal Gazette #30). Also, in case of receiving property or gain by one person from another, value of the property or gain to be included into the gross income is to be determined according to Article 38.2 of this Code. (30.10.98. #1666 Legal Gazette #4)

#### **Article 40. Adjustment of Gross Income**

Dividends and interest earned by physical persons previously taxed at the source of payment in Georgia in accordance with Article 62 or 63 shall be excluded from gross income.

#### **Article 41. Right to Monthly Deductions**

A physical person is entitled to a deduction in the amount of GEL 9 of the non-taxable minimum during a tax year. Such deduction is allowed only against wages at the principal place of employment.

## Article 42. Income Tax Rates

1. A taxable income of a physical person shall be taxed at the following rates:

	Amount of taxable income during a year (13.07.2000. # 470 Legal Gazette #30)	Tax Rate
1	up to GEL 200	12% of the amount of a taxable income
2	GEL 201 to 350	GEL 24 + 15% of the amount in excess of GEL 200
3	GEL 351 to 600	GEL 46.5 + 17% of the amount in excess of GEL 350
4	starting from GEL 601	GEL 89 + 20% of the amount in excess of GEL 600

2. The income tax calculated according to an annual tax return pursuant to part 1 of this article is reduced in the amount of the tax paid on received dividends and interest up to GEL 3,000 per year, if there are documents confirming the payment.

## Article 43. Tax Concessions

1. The following types of income of physical persons shall not be subject to an income tax:
  - a) employment income of a non-resident employee of diplomatic or equalized organizations located on the territory of Georgia; (01.05.98 # 1360 "Parlamentis Utskebani" #19-20)
  - b) value of the property received from a physical person in the form of a gift or inheritance; (30.10.98 #1666 Legal Gazette #4)
  - c) grants, state pensions, state scholarships, and state benefits, including benefits for pregnancy and birth, in connection with the loss of fitness for work as a result of injury and/or for the loss of a breadwinner;
  - d) alimony;
  - e) lump-sum payment and material assistance provided from the budget, as well as assistance provided from the budget during a natural calamity;
  - f) income from the sale by physical persons of self-produced farm production produced in a private enterprise of such person before its industrial processing;

- g) surplus received by a physical person from the sale of tangible (18.09.97. #870 “Parlamentis Utskebani” #37-38) assets, with the exception of surplus received from the sale of assets used for entrepreneurial activity;
  - h) monetary compensation (13.07.2000. #470 Legal Gazette #30) of the cost of clothes of special form for employees of budget-funded organizations.
  - i) amount to be paid to physical person (donor) for food in compensation for his blood;
  - j) means necessary for labor protection given to employed physical persons, as it is envisaged by Articles 146 and 147 of the Labor Code of Georgia as well as food and aerated salted water within the norm stipulated for workers and servants working under harmful conditions and in foundries in consistence with articles 148 and 149 of the Labor Code of Georgia; (13.07.2000. #470 Legal Gazette #30)
  - k) monetary and other type of rewards, received by sportsmen and trainers for being prizewinner in Olympic games, World and European Championships, and financed by the state. (11.10.2000#544 Legal Gazette #)
2. A taxable income of the following physical persons shall not be subject to taxation, up to GEL 3,000 in the course of a calendar year:
    - a) invalids from childhood, as well as invalids in blindness groups I and II;
    - b) citizens of Georgia, participants in the Second World War and military operations for the integrity of Georgia;
    - c) persons awarded the honorary title of “ Mother of Georgia”;
    - d) single mothers;
    - e) persons who adopted a child, within one year from adoption;
    - f) person, who has adopted a child for upbringing. (25.06.99 #2180 Legal Gazette # 26(33))
  3. A taxable income of invalids in groups I and II (other than those mentioned in part 2 of this Article) is not taxable up to GEL 1,500 in the course of a calendar year.
  4. The inhabitant of high mountainous regions with many children (three and more) is exempt from income tax, if his annual income is less than GEL 3,000 and for those with one or two children the income tax is reduced by 50 percent. (09.06.99. #2080 Legal Gazette #24(31)). (To be effective from January 1. 2001)

## **Chapter 5. Profit Tax**

### **Article 44. Taxpayers**

1. Profit taxpayers are Georgian enterprises and foreign enterprises.
2. Branches described in Article 12.1.c of this Code are not independent profit taxpayers.
3. If a foreign person is not a physical person and does not prove its joint ownership according to article 75 of this Code, it is deemed as an enterprise for the purposes of this Part.

### **Article 45. Object of Taxation**

1. The object of taxation is the profit of a Georgian enterprise. Profit is defined as the difference between the gross income of the taxpayer (which is determined according to article 37 of this Code) and the deduction stipulated by Chapter 6 of this Code. At the same time, gross income will include all income which affects profits of the taxpayer, including in the form of gratuitously received property and monetary funds, except of the exempt income.
2. A foreign enterprise engaging in activities in Georgia through a permanent establishment shall be considered as a taxpayer with respect to its gross income from Georgian sources related to a permanent establishment, reduced by the amount of deductions stipulated by this Code with respect to such income.
3. The gross income of a foreign enterprise not related to a permanent establishment shall be subject to taxation at the source of payment, which is defined in accordance with Article 64 of this Code without deductions, if the source of income is located in Georgia.
4. A foreign enterprise receiving income from the sale of property provided for by part 5 of this Article that is not related to its permanent establishment in Georgia is a profit taxpayer in respect of a gross income of a calendar year received from Georgian sources and reduced by the deductions stipulated by the Tax Code which are attributable to such income for this period.
5. Income received from the sale of property stipulated by part 4 of this Article are:
  - a) profit from the sale of common stocks of a resident legal person;
  - b) profit from the sale of assets or property stipulated by item 21 of Article 29 of this Code;
  - c) profit from the sale of property described in (18.09.97 #870 "Parlamentis Utskebani" #37-38) Article 29.18. *k* or *l* of this Code

## **Article 46. Tax Rates**

1. Profit of a Georgian enterprise shall be subject to taxation at the rate of 20 percent.
2. Profit of a foreign enterprise from activity not related (18.09.97 #870 "Parlamentis Utskebani" #37-38) to its permanent establishment shall be taxed at the rates defined in Article 64 of this Code.

## **Article 47. Tax Exemptions**

The following are exempted from profit tax:

- a) profit from the sale by the Patriarchy of Georgia of crosses, candles, icons, books, and calendars, used exclusively for religious purposes;
- b) profit of budget-funded and charitable organizations, except for profit from economic activity;
- c) grants, membership fees and donations received by an organization;
- d) profit from profile activities of prosthetic and orthopedic enterprises;
- e) profit from the production of technical means necessary for disabled people and their rehabilitation;
- f) profit of public associations and enterprises of disabled people, providing the number of the disabled engaged in these enterprises is at least 70 percent (at least 50 percent - for associations and enterprises of the blind and the deaf-and-dumb) and the wages paid to disabled persons during the tax year, is not less than 70 percent of the wage bill of public associations and enterprises (for associations and enterprises of the blind not less a 50 percent); Pursuant to this section, the amount exempt from the profit tax shall not exceed three times the amount of the remuneration of disabled people paid by public associations and enterprises during the tax year. (18.09.97. #870 "Parlamentis Utskebani" #37-38)
- g) profit of international organizations, except the profit from economic activity;
- h) profit of the National Bank of Georgia.
- i) profit from performed works or rendered services by navigation enterprises (ship owners), established by non-residents of Georgia, not carrying out any entrepreneurial activity on the territory of Georgia and having boat(s) sailing under the Georgian state flag. (29.05.98. #1406 "Parlamentis Utskebani #21-22")
- j) Profit received from generation and realization of energy renewable sources (sun, wind, geothermal, biological energy, and hydroenergy) consumer appliances and energy saving equipment (energy saving bulb). (09.06.99 #2080 Legal Gazette #24(31)). (In force since January 1, 2000).
- k) Part of the profit of the enterprises located in high mountainous regions gained as a result of the enterprise's activities carried out on that exact territory (except for trading enterprises). (23.07.99. # 2343 Legal Gazette #38(45)).

## **Chapter 6. Deductions and Losses**

### **Article 48. Outlays Connected with the Receipt of Income**

All the expenses related to the receipt of such income, with the exception of expenses for the acquisition of fixed assets, their installation and other expenses of a capital nature in accordance with Article 81 of this Code, and expenses that are nondeductible according to Article 49 of this Code and other provision of this Chapter shall be deducted from a gross income.

### **Article 49. Nondeductible Expenses**

1. Expenses not related to economic activity shall not be subject to deductions.
2. No deductions shall be allowed in respect of entertainment expenses. Representation expenses will be deducted according to the norms stated by the Ministry of Finance. (01.05.98 #1369 "Parlamentis Utskebani" #19-20)
3. Part 2 of this Article does not apply to a taxpayer whose active economic activity is in the nature of entertainment, providing the expenses are incurred within the bounds of such activity.
4. Deductions shall not be allowed for the expenses of a physical person for the personal consumption as well as expenses connected with the earning of employment income.

### **Article 50. Limitation on Interest Deduction**

1. Subject to part 2 of this Article, interest paid on credit shall be deducted to the extent of interest amount determined at the level of 150 percent of the interbank credit auction of the National Bank of Georgia.
2. In case of an enterprise in which more than 20 percent of the authorized capital is owned, directly or indirectly, by legal persons exempt from profit tax, the maximum amount of interest that may be deducted is limited to the taxpayer's interest income, plus 50 percent of the taxpayer's gross income reduced by the deductions allowed (other than the deductions for interest).

### **Article 51. Doubtful Debt Deduction**

1. A taxpayer is entitled to a deduction for doubtful debts related to the sold goods, work, and services if income from them was previously included in a gross income received from entrepreneurial activity.
2. The doubtful debt deduction shall be allowed only if (18.09.97. #870 "Parlamentis Utskebani #37-38) the debt is written off in the taxpayer's books.
3. Banks are entitled to deduct payments to a reserve fund to cover doubtful and bad debts under the rules for formation of the reserve fund established by the National Bank of Georgia.



### **Article 52. Deduction for Allocations to Reserve Funds**

1. A legal person engaged in insurance activity is entitled to deduct allocations to insurance reserve funds with norms established by legislation of Georgia.
2. No deductions for allocations to reserve funds shall be taken other than the deductions stipulated by part 2 of Article 51 and part 1 of this Article.

### **Article 53. Deductions for Expenditures on Scientific-Research, Project-Design, and Experimental-Design Work**

Expenditures on scientific-research, project-design, and experimental-design work related to the receipt of income, with the exception of expenditures for the acquisition of fixed assets, their installation, and other outlays of a capital nature shall be subject to deductions.

### **Article 54. Depreciation Charges and Deductions for Fixed Assets**

1. Depreciation charges for fixed assets used in economic activity shall be deducted in accordance with the conditions of this article.
2. Assets subject to depreciation do not include land, fine art, and other not depreciated assets.
3. Fixed assets subject to depreciation are divided into groups with the following depreciation levels:

Group number	Property	Depreciation level as a percentage
1	Passenger automobiles, automobile and tractor equipment for use on roads; special instruments; sundries and accessories; computers, peripherals and equipment for data processing and storage	20
2	Automotive transport rolling stock; trucks, buses, special automobiles, and trailers; machines and equipment for all sectors of industry and the foundry industry; forging and pressing equipment; electronic equipment; construction equipment; agricultural machines and equipment; office furniture	15
3	Railway, sea, and river transport vehicles; power machines and equipment; turbine equipment; electric motors and diesel generators; electricity transmission and communication facilities; pipelines	8

4	Buildings, structures	7
5	Assets subject to depreciation not included in other groups	10

4. Subject to decision of a taxpayer, the sums of depreciation charge under each group shall be calculated by applying the depreciation norms not exceeding those indicated in part 3 of this Article to the balance of the group at the end of the tax year, but in consistence with actual charge. (21.12.2001 # 1212-Is, “Legislative Bulletin”).
5. Depreciation for buildings and structures (hereinafter - buildings) shall be charged for each building separately.
6. The balance value of a group by the end of the year is the amount determined as follows: balance value of a group is reduced by depreciation amount, accrued for the preceding tax year and by deductions carried out in accordance with the parts 8 and 9 of this article, plus value of the fixed assets added to the group according to Article 81, also fixed asset repair expenses above the limited level that have incurred in the course of the preceding taxable year in accordance with part 2 of Article 55 and less the sums received through the sale of the fixed assets during the course of the year. Besides, considering the balance by the end of the year, balance value of the group is to be reduced by residual value of the fixed assets transferred to the conservation regime, which shall be restored by the same amount in the group balance value of the year when these fixed assets are removed from conservation regime. (13.07.2000 #470 Legal Gazette #30)
7. If the amount received upon the sale of fixed assets from a group in the course of a tax year exceeds the balance of the group at the end of year, the excess is included in gross income (18.09.97. #870 “Parlamentis Utskebani” #37-38) and the balance value of the group becomes equal to zero.
8. If the balance of the group at the end of the year is less than GEL 100, the amount of the balance value is subject to deduction.
9. If all fixed assets of a group were realized or liquidated, the balance of the group at the end of the tax year is subject to deduction from gross income. (18.09.97. #870 “Parlamentis Utskebani” #37-38).
10. Taxpayers are allowed to use an accelerated depreciation norm only for levels 2 and 3, but not higher than double the norm stated in part III of this Article.(01.05.98. #1369 “Parlamentis Utskebani” #19-20).

#### **Article 55. Deduction of Expenses for Fixed Assets Repairing**

1. A deduction is permitted in respect of each group for expenses on the repair of fixed assets belonging to that group for each year in the amount of 5 percent of the balance of the group at the end of the year.
2. An amount exceeding the restriction established in part 1 of this Article shall go to increase the value of the balance of the group. (13.07.2000 Legal Gazette #30).

**Article 56. Deduction of Expenses on Insurance Payments**

Insurance premiums that are paid by insured parties under insurance agreements and at the time of compulsory medical insurance shall be deducted, with the exception of insurance premiums under agreements of a cumulative and repayable nature.

**Article 57. Expenditures on Geological Surveying and Work to Prepare for the Extraction of Natural resources**

1. Expenditures on geological surveying and work to prepare for the extraction of natural resources are deductible from gross income in the form of depreciation charges at the depreciation rate for group 2 fixed assets and shall form a separate group.
2. This Article also applies to expenditures on intangible assets borne by the taxpayer in connection with the acquisition of rights to geological surveying and processing or exploitation of natural resources.

**Article 58. Expenditures on Intangible Assets**

1. Intangible assets include expenses of legal and physical persons on intangible objects used over long periods of time in economic activity, if these have a limited useful life.
2. Expenditures on intangible assets are deductible in the form of depreciation charges at the rate of depreciation of group 5 fixed assets and shall form a separate group.
3. The value of intangible assets subject to depreciation does not include expenditures on their acquisition or production if they were already deducted upon calculation of taxable profit (income) of the taxpayer.

**Article 59. Limitation on Deduction of Taxes and Fines**

No deduction is allowed for:

- a) profit tax or income tax paid on the territory of Georgia and in other states;
- b) penalties and fines paid or payable to the budget.

**Article 60. Losses upon the Sale of Property**

Losses arising upon the sale of property by a physical person - entrepreneur are compensated from gains received upon the sale of such property. If the losses cannot be compensated in the year in which they took place, they are carried forward for a period of up to five years and compensated from income from gains upon the sale of this property.

**Article 61. Carrying Forward of Losses**

1. Deductions stipulated by the Code in respect of a physical person in excess of the gross income not related to employment shall be deducted at the expense of wages. They are carried forward for a period of up to five years to be covered from gross income of future periods.

2. Deductions in respect of a legal person stipulated by this Code in excess of gross income shall be carried forward for a period of up to five years to be covered at the expense of profit of future periods.

## **Chapter 7. Withholding of Tax at the Source of Payment**

### **Article 62. Withholding of Tax on Dividends at the Source of Payment**

1. Dividends paid by Georgian enterprises shall be subject to taxation at the source of payment at the rate of 10 percent.
2. Dividends received by physical persons, taxed at the source of payment, are not subject to further taxation.
3. Georgian enterprises receiving dividends previously taxed at the source of payment in Georgia are entitled to a credit in the amount of tax previously withheld, if there exists documentation confirming the payment.

### **Article 63. Withholding of Tax on Interest at the Source of Payment**

1. Interest paid by a resident or by or on behalf of a permanent establishment of a nonresident shall be taxed at the source of payment at the rate of 10 percent of the payable sum, if the income from a Georgian source. (18.09.97. #870 "Parlamentis Utskebani" #37-38)
2. Interest on credits (loans) paid to resident banks shall not be subject to taxation at the source of payment.
3. Interest received by a physical person, taxed at the source of payment, shall not be subject to further taxation.
4. A resident legal person whose profit is subject to taxation and who has received interest previously taxed at the source in Georgia is entitled to a tax credit in the amount of the sum paid to the budget at the source of payment, if there exists documentation confirming payment.

### **Article 64. Withholding of Tax on income of Nonresidents at the Source of Payment**

1. Income of a nonresident from Georgian source (16.03.2001 #807) that is not attributable to a the nonresident's permanent establishment located on the territory of Georgia is subject to taxation at the source of payment at the following rates:
  - a) dividends - according to Article 62;
  - b) interest - according to Article 63;
  - c) insurance payments by a Georgian enterprise or individual enterprise under agreements for the insurance or reinsurance of risks - 4 percent;
  - d) payments by a Georgian enterprise or individual enterprise for telecommunication and transport services in international communications, shipments and transportation of passengers between Georgia and other states (30.10.98. #1666 Legal Gazette #4) - 4

percent, as well as income received by non-resident subcontractors carrying out oil and gas transactions determined by Law of Georgia “On Oil and Gas” is subject to taxation at a rate above; (09/09.99. #2386 Legal Gazette #43(50))

- e) the following payments by a Georgian enterprise or individual enterprise: royalties, management fees, income from performing work or rendering of services (with the exception of income received in the form of wages), as well as income stipulated by paragraphs “b”, “i”, “j”, “n” of part 18 of Article 29 of this Code (with the exception of income from insurance and reinsurance services) -10 percent;
  - f) income in the form of wages paid by a Georgian enterprise or individual enterprise - at the rates defined in Article 42.
2. For purposes of this Article, payments made by or on behalf of a permanent establishment shall be considered as made by a Georgian enterprise.

## **Chapter 8. International Taxation**

### **Article 65. Foreign Tax Credit**

1. Amounts of income tax or profit tax paid outside Georgia are credited upon payment of tax in Georgia.
2. The amount of the credit stipulated by part 1 of this Article must not exceed the amount of tax charged in Georgia on that income at the rates in effect in Georgia.

### **Article 66. Income Earned in Countries with Preferential Taxation System**

1. If a resident directly or indirectly owns more than 10 percent of the authorized capital of a foreign enterprise, or has more than 10 percent of the voting shares of a legal person, which in its turn earns income from a country with preferential taxation system, then the resident’s income or its share is included in its taxable income.
2. A foreign state is considered to be a country with preferential taxation system if, in that country, the tax rate is 1/3 lower than determined by this Code, or if laws on confidentiality of financial information exist which guarantee anonymity of an actual owner of property or income.

## Chapter 9. Tax Accounting Rules

### Article 67. Tax Year

A tax year is a calendar year.

### Article 68. Principles for Recording Income and Expenditures

1. A taxpayer is obliged to maintain accurate and timely records of income and expenditures on the basis of documented data, using methods provided for in this Chapter, assigning them to the relevant reporting period in the course of which they were received or borne in such a manner as to clearly reflect the taxable income (profit). A taxpayer is required to maintain records for tax purposes using the cash basis method or the accrual basis method.
2. A taxpayer is obliged to record all transactions related to its activities and ensure the control of their beginning, course, and end. “Besides the stated, for the purpose of economic activity, upon supply of goods within the country it is obligatory to issue strict registration bill of lading, according to the form and procedure defined by the Ministry of Tax Revenues. Without this kind of document transportation storage and sale of goods is prohibited.” (13.07.2000 “Legal Gazette” #30).
3. Taxable income shall be defined by the same method used by a taxpayer for bookkeeping. At the same time, the adjustment of income shall be made only in compliance with the requirements of this Code. (18.09.97. #870 “Parlamentis Utskebani” #37-38). If according to the deductions foreseen in the Code, the accounting data of taxpayer and marginal norms stated by the Code are different, then in order to determine a taxable object, a taxpayer is required to provide tax recording of the deductions. (30.10.98. #1666 “Legal Gazette” #4).
4. Taking into account the provisions of this Article, the taxpayer is required to maintain records for the tax purposes using the cash basis method or the accrual basis method, on condition that the taxpayer uses the same method during the tax year.
5. If a taxpayer maintains records using the accrual basis method, the moment of receipt of income shall be deemed to be the period following 90 days from the moment of supply of goods, fulfillment of a work, or rendering of a service; but if the payment is made prior to that period, then the moment of payment. (18.09.97. #870 “Parlamentis Utskebani” #37-38).
6. In case of a physical person, the requirement to keep records using the accrual basis method applies only to income from entrepreneurial activity.
7. If an accounting method of the taxpayer has changed, adjustments to elements connected to the taxpayer must be made in the year the accounting method is changed, so that none of the elements is left out or included twice.

### **Article 69. Recording Income and Expenditures Using the Cash Basis Method**

A taxpayer using the cash basis method of accounting shall record income upon its receipt or the receipt of the right to use and dispose of it, and shall deduct expenditures once the payment has been made. (18.09.97. #870 "Parlamentis Utskebani" #37-38)

### **Article 70. Moment of Receipt of Income When Using the Cash Basis Method**

1. In case of paying cash the moment of receipt of income shall be considered the moment of receipt of cash monetary resources; if non-cash payment is made, it is the moment of transfer of monetary resources to its settlement account at a bank or to another account which it may manage or from which it is entitled to receive said resources.
2. In case of fulfillment of a financial obligation of a taxpayer, in particular, in case of mutual offsetting, the moment of receipt of the income is considered the moment when the obligation is annulled or fulfilled.
3. If a taxpayer receives a promissory note (or any other debt obligations) from his/her debtor for the purposes of repayment of his financial obligations, the moment of receipt of the income is considered the nearest possible moment when it is to present the promissory note (debt obligation) for repayment. (13.07.2000 #470 "Legal Gazette" #30)

### **Article 71. Moment of Carrying out of Expenditures When Using the Cash Basis Method**

1. The moment of carrying out of expenditures when a taxpayer uses the cash basis method in tax accounting is considered to be the moment when the taxpayer actually makes the expenditures, except for the cases stipulated by part 3 of this Article.
2. In case of cash basis payment the moment of carrying out of expenditures is considered to be the moment of payment of monetary resources by the taxpayer; if non-cash payment is made it is the moment the bank withdraws monetary resources from the taxpayer's settlement or other accounts. (13.07.2000 #470 "Legal Gazette" #30)
3. In case of the annulment or fulfillment of a financial obligation to a taxpayer, in particular, in the case of mutual offsetting, the moment of performance of the expenditures is considered to be the moment when the financial obligation is annulled or fulfilled.
4. If a taxpayer receives income or carries out expenditure in non- monetary form, the moment of receipt or carrying out of expenditures or of such income is specified under the same procedure as in the case of defining the moment of receipt of income and carrying out of expenditures in the form of monetary resources.
5. When paying interest on a debt obligation or when making payments for rental property, if the term of the debt obligation or rental agreement extends over several reporting periods, the amount of actually paid interest (rent) that is deducted for the tax year is the

amount of interest (rent) which is calculated in accordance with the accrued (accruable) sum for each reporting period. (18.09.97. # 870 "Legal Gazette" # 37-38)

#### **Article 72. Recording Income and Expenditures Using the Accrual Basis Method**

A taxpayer maintaining records using the accrual basis method should record income and expenditures based on the time of the acquisition by the taxpayer of the right to that income or acknowledgment of the expenditures respectively, regardless of the moment of actual receipt of income or performance of payments.

#### **Article 73. Moment of Receipt of Income when Using the Accrual Basis Method**

1. The right to receive income shall be considered as acquired if the relevant amount is subject to payment to a taxpayer or a taxpayer has fulfilled all its obligations under the transaction (agreement).
2. If a taxpayer fulfills work (renders services), the right stipulated in part 1 of this Article shall be considered to be acquired at the moment of completion of fulfillment of work (service) by him stipulated according to the transaction (agreement).
3. If a taxpayer earns or has the right to earn income in the form of interest or income from the rent of property, the right to receipt of the income shall be considered to be acquired at the moment of expiration of the term of the debt obligation or rental agreement. If the term of the debt obligation or rental agreement extends over several reporting periods, the income is distributed among these reporting periods according to its accrual (accruable) amounts.

#### **Article 74. Moment of Carrying out of Expenditures When Using the Accrual Basis Method**

1. Except for the cases stipulated by part 3 of this Article, the moment of carrying out of expenditures connected with a transaction (agreement) when a taxpayer uses the accrual basis method in tax accounting is considered to be the moment when all the following conditions are fulfilled:
  - a) the taxpayer's acceptance of a financial obligation can be acknowledged indisputably;
  - b) the amount of the financial obligation can be valued with sufficient accuracy;
  - c) all the parties in respect of a transaction (agreement) have actually fulfilled all their obligations under the transaction (agreement) or the relevant amount (other income) is subject to unconditional payment.
2. Financial obligation means an obligation assumed as a result of a transaction (agreement) for the purpose of fulfilling which the other party to the transaction (agreement) will be required to supply the income corresponding to it in monetary or other form.
3. When paying interest on a debt obligation or when making payments for rented property, the moment of carrying out expenditures is considered to be the moment of expiration of the term of the debt obligation or rental agreement. If the term of a debt obligation or



rental agreement extends over several reporting periods, the expenditure is distributed among these reporting periods in accordance with its accrual.

#### **Article 75. Joint Ownership**

In the case of a joint ownership arrangement that involves ownership by more than one person but without the establishment of a legal person, the incomes and deductions are attributed to their owners and are taxed according to their share.

#### **Article 76. Income and Deductions under Long-Term Contracts**

1. In case of a taxpayer using the accrual method of accounting, income and deductions in connection with long-term contracts are recorded during a tax year with regard to the percentage of their actual completion.
2. The amount of fulfillment of contract is determined by comparing the expenditures borne prior to the end of the tax year against the total expenditures under the contract.
3. “Long-term contract” means a contract for manufacture, installation, or construction, or the performance of related services, which is not completed within the tax year in which work under the contract commenced, other than a contract estimated to be completed within six months of the date on which work under the contract commenced.

#### **Article 77. Procedure for Recording Stocks of Commodities and Materials**

1. A taxpayer is obliged to include in commodity and material stocks any processed or partially processed goods in its ownership, regardless of their location, in particular, raw materials and materials acquired for subsequent sale or for production of goods, fulfillment of work, or rendering of services.
2. When determining taxable income, the value of commodity and material stocks at the beginning of the period is subtracted (18.09.97 #870 “Parlamentis Utskebani” #37-38) from the amount of a gross income, and the value of commodity and material stocks at the end of the period is added from gross income.
3. When recording commodity and material stocks, a taxpayer is obliged to reflect in the tax accounting the value of goods produced or acquired by it, to be determined on the basis of outlays or the price of their acquisition, respectively. (30.10.98 #1666 “Legal Gazette” #4) Also, the taxpayer is obliged to include in the value of such goods the outlays on their storage and transportation.
4. When recording commodity and material stocks, a taxpayer is entitled to assess the value of a product having defects, being obsolete or out of fashion or which cannot be sold at a price in excess of the outlays for its production (its acquisition price) assessed for possible sale price.
5. If a taxpayer does not keep individual records for goods, being his own the taxpayer is entitled to select and use one of the following methods of accounting for commodity and material stocks:

- a) the FIFO method - in accordance with which the goods considered to be sold first during the period are those allocated to inventory at the beginning of the reporting period and then the goods produced (acquired) during the reporting period according to the time of their production (acquisition);
- b) the LIFO method - in accordance with which the first goods considered sold during the reporting period are those produced (acquired) last;
- c) the method of valuation at average cost.

#### **Article 78. Leasing (Financial Rent)**

1. If a lessor utilizes a lease (financial rental) arrangement to rent fixed assets subject to depreciation in accordance with part 2 of this Article, then for purposes of taxation the lessee shall be considered as an owner of the property.
2. The rent of fixed assets subject to depreciation for purposes of taxation shall be considered to be leased (financial rental) if it corresponds to one of the following conditions:
  - a) the lease term exceeds 80 percent of the period of service of the fixed assets;
  - b) the lessee is entitled to purchase the fixed assets at a fixed price or at the end of the rental at a determined price;
  - c) the expected residual value of the rented fixed assets at the end of the rental is less than 20 percent of their value at the start of the rent.
  - d) the current discounted value of payments over the entire rental period exceeds 90 percent of the value of the rented assets.
3. In respect of part 2 of this Article, the lease term is considered to include any period, for which a right to extend the lease may be exercised.

#### **Article 79. Compensated Deductions and Reduction of Reserves**

1. If previously deducted expenses, losses, or doubtful loans are reimbursed, then the amount received becomes income for the year in which it was reimbursed.
2. If previously deducted reserves are reduced, then the amount reduced is included in gross income.

#### **Article 80. Income and Losses upon Supply of Assets**

1. Profit from a supply of assets is a positive difference between income from a supply and the cost of assets as determined in accordance with Article 81 of this Code. Upon a supply of assets on a gratuitous basis or at a reduced price, the profit of a supplier shall be determined as a positive difference between the market price of the supplied property and its value as determined in accordance with Article 81 of this Code.
2. Loss incurred, as a result of a supply of assets is the negative difference between income earned as a result of a supply of these assets and their value.

3. Parts 1 and 2 do not apply to the assets subject to depreciation under the group method.

### **Article 81. Value of Assets**

1. The value of assets includes outlays for their acquisition, production, construction, assembly and installation as well as other outlays that increase their value. (01.05.98. #1369 "Parlamentis Utskebani" #19-20)
2. In case of supplying only a part of an asset, the value of the asset at the moment of a supply is distributed between the remainder and the supplied parts.

### **Article 82. Non-recognition of Profit or Loss**

1. No profit or loss is taken into account in determining a taxable income on:
  - a) a transfer of assets between spouses;
  - b) a transfer of assets between former spouses at the time of a divorce;
  - c) an involuntary destruction or confiscation of assets, if the relevant receipts are reinvested in an asset of the same nature before the end of the second year following the year in which the destruction or confiscation takes place.
2. The value of asset to be replaced defined in accordance with part 1.c of this Article is determined with reference to the value of the replacing asset at the moment of destruction or confiscation.
3. In cases under part 1.a or b of this Article the value of transferred assets is the value of the assets for the transferor at the time of the transaction.
4. The provisions of this Article does not apply to assets subject to depreciation using the group method under Chapter 6 of this Code, except for cases when all the assets of the group are transferred simultaneously in accordance with part 1. a and b.

### **Article 83. Liquidation**

1. For the purposes of this Code, the complete liquidation of a legal person shall be treated as a sale of their shares by the partners.
2. If a legal person is liquidated and an asset is transferred to a partner which is a legal person, the value of the asset is commensurate to a partner's share in a legal person, and if a partner had a 50 percent or more interest in a legal person directly before the liquidation, then:
  - a) such transfer is not treated as a sale of the asset by a liquidated legal person;
  - b) the value of the asset transferred to a partner is the same as the value of such asset before its transfer to the liquidated legal person ;
  - c) distribution of the asset is not a dividend;
  - d) profit and loss is not taken into account upon cancellation of a partner's share in the liquidated legal person.

3. The provisions of this Article do not apply to assets subject to depreciation under the group method in accordance with Chapter 6 of this Code, unless all the assets in the group are transferred simultaneously.
4. In case of an asset specified by part 3 of this Article, the value of the above asset for its recipient shall be regarded as the value balance of a group at the moment of such transfer; where more than one such asset is transferred, the value balance of the groups shall be distributed among assets pro rata to their market value at the time of such transfer.
5. The provisions of Part 2 of this Article apply only if it is ascertained by a tax agency that the main reason of the complete liquidation is not tax evasion.

#### **Article 84. Procedures Determining Value of Assets Transferred in lieu for a Partner's Share**

1. The sale of the transferred assets shall not be treated as a supply of assets, if:
  - a) a person or a group of persons transfers assets (with or without any outstanding liability) to a legal person in lieu of a partner's share in the legal person; (18.09.97. #870 "Parlamentis Utskebani" #37-38)
  - b) a person or a group of persons directly has 50 or more percent of share in the legal person after such exchange. (18.09.97. #870 "Parlamentis Utskebani" #37-38)
2. In cases defined by part 1 of this Article, the value of an asset for its recipient is the same as the value of this asset for the supplier at the moment of a supply.
3. The value of a partner's share received in an exchange under part 1 of this Article is equal to the value of an asset or assets transferred less any liability transferred.
4. The provisions of this Article do not apply to an asset that is subject to depreciation under the group method under Chapter 6, unless all the assets in the group are transferred simultaneously.
5. If case of an asset defined in part 4 of his Article :
  - a) its recipient shall treat the value balance of the group at the moment of transfer as takes as the value of an asset. If more than one such asset is transferred the value balance of the groups is distributed among the assets pro rate to their market price at the moment of a transfer, and
  - b) a transferor shall treat the value balance of the group at the moment of a transfer as the value of a partner's share.
6. The provisions of this Article do not apply to a transferor of an asset if the outstanding liability transferred by him/her exceeds the value of the assets transferred.

#### **Article 85. Reorganization of Legal Persons**

1. The value of property and share owned by a legal person or legal persons that are parties to an approved reorganization transactions is the same as the value of such property and share before the reorganization.

2. Transfer of property and share among the legal persons that are parties to an approved reorganization transaction shall not be treated as a sale of property.
3. Any exchange of shares in a resident legal person that is a party to an approved reorganization transaction for shares in another resident legal person that is also a party to the above transaction shall not be treated a sale of the shares.
4. The value of the shares exchanged under part 3 of this Article shall equal the initial value of the share.
5. The distribution of shares in a legal person that s a party to an approved reorganization transaction and share produces similar rights to in another legal person that is also a party to such transaction is not a dividend.
6. The value of the original shares referred to in part 5 of this Article shall be allocated to the distributed shares by using the ratio which is determined as the difference between value of division shares and the original share value after distribution.
7. Provided that the merger, acquisition, takeover or division is approved by a tax agency as not having tax evasion as the main reason, reorganization includes:
  - a) a merger of two resident legal persons;
  - b) the acquisition or takeover of 50 percent or more of the shares with voting rights and 50 percent or more of the total value of shares by value of a resident legal person solely in exchange for shares with similar rights of a party involved in the transaction of the acquisition or takeover;
  - c) the acquisition of 50 percent or more of the assets of a resident legal person by another resident legal person solely in exchange for voting shares with no preferential rights as to dividends;
  - d) a division of a resident legal person into two or more resident legal persons.
8. As a party of the reorganization transaction is considered resident legal person that directly involved in the reorganization transaction, and resident legal person, which possesses or is owned by a resident legal person which is directly involved in this transaction.
9. For purposes of part 8 of this Article, ownership of a legal person means ownership of 50 percent or more of the shares with voting rights and 50 percent or more of the value of all other shares of the legal person.
10. This Article does not apply to assets depreciated using the group method under Chapter 6, unless all assets in the group are transferred simultaneously.
11. This Article applies to an asset referred to in part 10 if:
  - a) the transferee of the assets takes as the cost of the asset the balance value of the group at the moment of transfer, in case more than one such asset is transferred the balance value of the group is divided among the assets in proportion to their market values at the moment of transfer;

- b) the transferor includes the balance value of the group at the moment of transfer in the cost of shares received.

### **Article 86. Limitation of the Carrying forward of a Loss and Deduction in the case of Change of Ownership of Shares of a Legal Person**

Where there has been a change of 50 percent or more of partners with shares with voting rights in the underlying ownership of a legal person, as compared with the previous year, the carrying forward of a loss, deduction and credit from a previous tax year ceases to be available, starting with the tax year in which the change occurred, unless for a period of three years after the change, the legal person continues conduct of the same entrepreneurial activity and starts a new entrepreneurial activity with the consent of tax agencies.

## **Chapter 10. Tax Administration Provisions**

### **Article 87. Filing of Tax Returns**

1. A tax return for income tax and for profit tax and statements of accounts provided for under legislation are presented to the tax agency at the place of registration prior to April 1 of the year following the reporting year by the following taxpayers:
  - a) resident physical persons having income not taxed at the source of payment in Georgia;
  - b) resident physical persons having monetary resources in accounts with foreign banks;
  - c) resident legal persons;
  - d) non-resident physical or legal persons having income from a Georgian source that is not taxed at the source of payment;
  - e) resident physical persons whose expenditure incurred during the tax year exceeds GEL 25.000 (30.10.98. #1666 "Legal Gazette" #4)
2. Upon cancellation of entrepreneurial activity in Georgia by a taxpayer, a tax return concerning gross income and deductions shall be submitted by him to a tax agency within 30 days.
3. Upon liquidation of a legal person, the liquidation commission or a taxpayer shall immediately notify a tax service in written form. Within 15 days after the decision to liquidate the legal person, the liquidation committee shall file a declaration with the tax agencies.
4. A physical person who is not obliged to submit a return may file a return in order to claim a refund of tax.
5. A nonresident taxpayer having no permanent establishment in Georgia, who receives income as stipulated by subsections "c", "d" and "e" of part 1 of Article 64, and is taxed at the source of payment, is entitled to submit a return claiming a refund of tax. The return

shall be submitted within the terms as defined in part 1 of this Article (according to extension of the time provided for in Article 232 of this Code). (18.09.97. #870 "Parlamentis Utskebani" #37-38)). Such taxpayer is taxed under the same rules as if the income were connected with a permanent establishment of the taxpayer in Georgia. The expenses of the taxpayer incurred in connection with such income are deductible under the procedure established for permanent establishments, provided that the tax shall not exceed the amount of tax withheld at the source of payment as stipulated by Article 64 of this Code.

### **Article 88. Procedure for Withholding Tax at the Source of Payment**

1. The following tax agents are obliged to withhold tax at the source of payment (18.09.97. #870 "Parlamentis Utskebani" #37-38):
  - a) a physical person - entrepreneur who makes payments to physical persons working as employees in his individual enterprise;
  - b) a legal person who makes payments to physical persons working as employees;
  - c) a physical or legal person paying out pensions to a person, with the exception of pensions paid under the state social security system;
  - d) a resident legal person that pays dividends to physical and legal persons;
  - e) a physical or a legal person that pays interest to physical and legal persons;
  - f) a physical or a legal person that makes payments stipulated in Article 64 of this Code.
2. A physical or legal person paying income bears responsibility for withholding and transferring taxes to the budget. If amounts of tax are not withheld, a physical or legal person paying income is obliged to pay to the budget the tax not withheld and the associated fines and penalties. The amount of tax and the associated fines and penalties may be paid by the income recipient. (18.09.97. #870 "Parlamentis Utskebani" #37-38).
- 2 <sup>1</sup> For the purposes of this article branches and other separate units stipulated in Article 12.c are independent persons and obligations stipulated in this article apply to them. (16.03.2001. #807).
- 3 Physical and legal persons withholding tax at the source of payment in accordance with part 1 of this article are obliged:
  - a) to transfer the tax to the budget upon making the payment to physical or legal persons;
  - b) upon payment of wages, to issue to the physical person receiving the income, upon his request, a statement indicating his last name and initials, the amount and type of income and the amount of tax withheld (if tax was withheld);
  - c) within 30 days from the end of the tax year, to present a statement reflecting the registration number of that person, his name or last name and initials, the total amount of income, and the total amount of tax withheld during the accounting year to the tax agencies, and also to send to a physical and a legal person-recipient of income in accordance with part 1 of this Article, upon their request.

4. A person who is not the principal employer of a taxpayer is required to withhold tax at the top marginal rate according to Article 42 of this Code.
5. “Obligations defined by part1 of this article are not applied to those persons who implement projects in terms of international treaties signed and ratified by Georgia and who pays out salaries to employees. In accordance with the Article 231 the mentioned persons are obliged to provide appropriate tax agency detailed information concerning their employees and amount of wages paid to the employees. In case of failing of submission information and not complying with demands of tax agencies, the stated persons will be considered to be tax agents according to the part 1 of this article.” (13.07.2000. #470 “Legal Gazette” #30)

### **Article 89. Current Tax Payment**

1. Physical and legal persons engaged in entrepreneurial activity are obliged to make current payments to the budget according to the annual tax of the previous tax year in the following amounts:
  - a) before May 15 – 30 percent;
  - b) before August 15 – 30 percent;
  - c) before November 15 – 40 percent.
2. The taxpayers not having taxable income during the previous tax year shall make current payments according to the actual income of the previous quarter of the reporting year, taking into account expenses occurred in that quarter. For this reason, taxpayer has to submit a return to the tax agency no later than the 20<sup>th</sup> of the second month of a quarter. (13.07.2000 #470 “Legal Gazette” #30)
3. If a taxpayer proves that his expected income in the current tax year will be at least 30 percent less than in the previous year and ask the tax agency to reduce it one month prior to the date of payment, upon the decision of the chairman of the Tax Department the current payments will be reduced proportionally according to the reduction of income. But, in case of increasing income after reducing the current payments, taxpayer is obliged to make extra current payments within the frames of reduced amount. At the same time, in case when expected income reduction is not confirmed by the presented annual actual results and taxpayer has not paid the reduced amounts of the current payments during the tax year, then taxpayer is to be paid penalty in consistence with Article 252 of this Code within the period from the date set for current payments to the date set for submitting tax return. (30.10.98. #1666 “Legal Gazette” #4)
4. The current payments made to the budget are included into the tax charged against the taxpayer for the tax year.



## **PART III. VALUE ADDED TAX**

### **Chapter 11. General Provisions**

#### **Article 90. Concept of Value Added Tax**

The value added tax (hereinafter - VAT) as an indirect tax is a mandatory payment of a portion of the value added in the process of production and circulation of goods, works, and services on the territory of Georgia as well as portion of the value of all taxable goods imported onto the territory of Georgia. The value added tax is payable at all stages of the production and sale of goods, fulfillment of goods, and rendering of services. The VAT amount payable in respect of a taxable turnover is determined as the difference between the amount of charged tax on this turnover and the sum of tax that is creditable according to issued tax invoices.

#### **Article 91. Taxpayers**

1. A VAT taxpayer is a person who is registered or is required to be registered for the VAT.
2. A registered person is considered as a taxpayer from the moment the registration takes effect. A person who is not registered, but who is required to apply for registration, is a taxpayer from the moment when the duty to apply for registration arose.( 16.03.2001 #807 Legal Gazette #8)
3. A person carrying out a taxable import of goods to Georgia shall be considered a VAT taxpayer in respect of such import.
4. A non-resident person who renders services or fulfills works and who subject to reverse charge without the VAT registration under Article 108 shall be considered a taxpayer with respect to such works or services.
5. Branches, divisions, and other structural subdivisions described in Article 12(1)(c) are independent persons for purposes of this Part. They are required to be registered as VAT taxpayers if gross taxable turnover of enterprises and branches (01.05.98 #1369 Parliamentis Utskebani #19-20) exceeds the amount stipulated by part 1 of Article 92 of this Code.

#### **Article 92. Mandatory Registration**

1. A person who carries out economic activity in any continuous period up to 12 calendar months and who carries out VAT taxable transactions, the total amount of which exceeds GEL 24 000, is required to submit an application for VAT registration to the tax agency not later than on the second day from the occurrence of the above.(13.07.2000 #470 Legal Gazette #30)
2. A person who has purchased and/or imported goods, the value of which exceeds GEL 24,000 as a result of one-time supply, is required to submit an application to the tax agency for the VAT registration before carrying out a supply.(13.07.2000 #470 Legal Gazette #30)
3. For the purposes of the VAT mandatory registration of a non-resident, only the supply of goods, rendering of services and fulfillment of works carried out through a permanent

establishment in Georgia by a non-resident are taken into account while determining the total value of taxable transactions.

### **Article 93. Voluntary Registration**

4. A person who is not required to be registered for VAT but carries out a taxable transaction (13.07.2000 #470 Legal Gazette #30) may voluntarily apply to tax agencies to be registered as a VAT taxpayer.

### **Article 94. Registration**

1. A person applying to the tax agency for the VAT registration is required to do it in a manner specified by the Tax Revenue Ministry of Georgia. (24.03.2000. #238 Legal Gazette)
2. A tax agency is required to register a person for the VAT and issue a certificate of registration to him not later than on the second day after submission of an application that states: the full name and other relevant details of the taxpayer, the date from which the registration takes effect, the taxpayer identification number. If a tax agency failed to register a person within the stated period or did not issue to him a written justified refusal, the relevant tax official shall bear responsibility under the procedure established by the law.
3. The effective date of registration is deemed to be the date of submission of a registration application to a tax agency by a taxpayer; (16.03.2001. #807 Legal Gazette #8)
4. A tax agency is required to maintain a register containing details of all persons registered for VAT.
4. If a person is required to register for the VAT and has not applied to be registered, the tax agency shall register the taxpayer on its own initiative and submit the relevant certificate to him.
5. A person registered as a VAT taxpayer is required to use his/her taxpayer identification number on all invoices, tax returns and official communications with tax agencies.

### **Article 95. Termination of Registration**

1. A taxpayer is required to apply to a tax agency to have his/her VAT registration terminated, if he/she has ceased to carry out taxable transactions.
2. A taxpayer may apply to have his/her registration for VAT terminated at any time after a period of two years from the date of his most recent registration for the VAT if the taxpayer's total taxable transactions during the preceding twelve months do not exceed the GEL 24 000 threshold. (13.07.2000 #470 Legal Gazette #30) Date specified in this section shall not be taken into account in case of increasing VAT mandatory registration threshold. (16.03.2001 #807 Legal Gazette #8)
3. A revocation of registration takes effect at the date when the taxpayer ceased taxable transactions, or in the cases stipulated by part 2 of this Article - from the time when the person applied to the tax agency to have his registration revoked.

4. In case of cancellation of the VAT registration, a tax agency is required to remove the person's name and other details from the register.

## **Chapter 12. Objects of Taxation**

### **Article 96. Objects of Taxation**

1. The object of VAT taxation is a taxable transaction and taxable import.
2. A taxable transaction is a supply of goods (fulfillment of works and rendering of services), including those on a gratuitous basis, if it is considered to be carried out on the territory of Georgia under Article 106 or 107 of this Code, other than a supply of goods (fulfillment of works or rendering services) exempt under this Part. Taxable transactions do not include services rendered or works fulfilled outside Georgia in accordance to Article 107 of this Code.
3. A taxable import is an import of goods, except for goods exempt under this Part.
4. If a taxpayer has purchased the VAT taxable goods (works, services) and obtained (or has the right to claim) the relevant VAT credit, then the use of the above goods (works, results of the services rendered) for non-economic purposes is deemed as a taxable transaction.
5. A supply of goods, fulfillment of works or rendering of services by a taxpayer to his/her employees, with or without payment, is a taxable transaction.
6. The goods on hand at the effective date of cancellation of the VAT registration is deemed as a taxable supply carried out at that time. (18.09.97. #870 Parliamentis Utskebani #37-38)
7. A supply of goods by a person who acquired such good in a VAT taxable transaction, but who was not entitled to a VAT credit on the acquisition of the good according to Article 114 of this Code shall not be treated as a taxable transaction. If a VAT credit has been partially disallowed, then the amount of a taxable transaction is reduced pro rata to the disallowed amount.
8. The value of returnable containers shall not be included in the taxable amount, except in case of retail trade, where taxable turnover decreases by amount paid by purchaser to consumer upon returning of container by the latter. (21.12.2001 # 1212-Is, "Legislative Bulletin").
9. The transfer of goods, rendering of services, or fulfillment of works between branches or other structural units of a legal person which are considered to be separate taxpayers shall be treated as a taxable transaction.

### **Article 97. Supply of Enterprise**

1. A supply of an enterprise by a taxpayer to another taxpayer shall not be deemed as a taxable transaction.

2. The recipient person accepts the rights and obligations of the supplier indicated in this Part related to the supplied enterprise or its part.
3. The provisions of this Article shall apply only if a supplier and a recipient notify a tax agency in a written form within 10 days about such supply.

## **Chapter 13. Determination of Taxable Turnover and of Taxable Import**

### **Article 98. Amount of Taxable Transaction**

1. The amount of a taxable transaction shall be determined in accordance with the amount of VAT exclusive compensation a taxpayer receives or is entitled to receive from a customer or any other person (including any duty, taxes, or other fee payable).
2. If a VAT taxpayer receives or is entitled to receive goods, works, or services in exchange for a taxable transaction, the amount of a taxable transaction includes VAT exclusive market price of these goods, works or services (including any duties, taxes, or other fees payable).
3. If a taxpayer does not receive or is not entitled to receive goods, works, services or compensation in lieu of a taxable transaction (including goods on hand at the termination of registration), the amount of the taxable transaction is defined by the VAT exclusive market price of the goods, works or services supplied, fulfilled, or rendered (including any taxes, duties or other fees payable).
4. If the goods (works or services) are used for non-economic activity according to part 4 of Article 96 of this Code or a taxpayer supplies them to his/her employees according to part 5 of Article 96 of this Code, then the amount of the taxable transaction is defined by the VAT exclusive market price of the goods (works, services) (including any taxes, duties, or other fees payable). (09.09.99 #2386 Legal Gazette #43 (50)).

### **Article 99. Adjustment of the Amount of Taxable Turnover**

1. This Article applies where:
  - a) a taxable transaction is terminated;
  - b) the nature of a transaction is changed;
  - c) the amount of the previously agreed compensation for a transaction is altered, whether due to a reduction of prices or for any other reason;
  - d) goods (works, services) are returned in full or in part to a VAT taxpayer.
2. Upon occurrence of one or more of the events described in part 1 of this Article, the amount of the taxable transaction is adjusted according to part 2 of Article 113 or part 5 of Article 114 if a taxpayer has:
  - a) submitted a VAT invoice, and the VAT sum shown on the invoice is incorrect; or

- b) declared the incorrect VAT sum on a VAT return.
- 3. Adjustment of a taxable turnover is made in case if a purchaser has written out and submitted an adjustment tax invoice in respect of the supplied goods (fulfilled works, rendered services) to a buyer, according to which a seller's taxable turnover decreases or increases, and VAT and excise exclusive value of the purchased goods (works, services) of a purchaser increases or decreases. (16.03.2001 #807 Legal Gazette #8). Value of a returnable container shall not be included in a taxable amount. If a returnable container is not returned within 90 days after a supply of goods, it shall be deemed as sold and taxed consistent to the procedures established by this Code.
- 4. An adjustment tax invoice is a strict reporting form specified by the Tax Revenue Ministry confirming the adjustment of taxable transaction and together with the information given in the tax invoice specified in article 115.2 contains the following data:
  - a. the number, serial number and date of the tax invoice adjusted;
  - b. type of adjustment;
  - c. VAT and excise exclusive price of goods (work, service) for a seller before and after adjustment.
- 5. An adjustment tax invoice will be issued in four copies, the first and the third copies are to be submitted to a purchaser and the seller keeps the second and the fourth copies. A seller is required to submit the fourth copy of an adjustment tax invoice to the tax agencies for the purposes of tax control, and the third copy shall be submitted a local tax agency by a purchaser. (16.03.2001. #807 Legal Gazette #8)

#### **Article 100. Amount of a Taxable Import**

- 1. The amount of a taxable import is the customs value of the goods determined in accordance with the customs legislation of Georgia and a sum of duties and taxes payable upon the import of the goods into Georgia, except for VAT payable in Georgia.(12.12.97 #1194 Parliamentis Utskebani #1-2)
- 2. In the case of services considered part of an import under part 2 of Article 110 of this Code, their value is added to the amount of a taxable import excluding VAT.

### **Chapter 14. Tax Concessions**

#### **Article 101. Exemption from Tax**

- 1. The following supplies of goods, fulfillment of works, and rendering of services, as well as the following types of imports, are exempt from payment of VAT:
  - a) rendering of financial services;

- b) supply or import of national or foreign currency (except for that used for numismatic purposes), and of securities;
- c) import of gold to be transferred to the National Bank of Georgia;
- d) supply or/and import of postage stamps (except for collection stamps), excise stamps of Georgia and special stamps.(24.11.2000)
- e) supply and/or import of valuables that are confiscated or have no owner, treasure and bought-up valuables, as well as valuables that are inherited by the state, the proceeds from which go to the budget;
- f) supply of a state property under the privatization scheme;
- g) rent payment for an apartment, supply of immovable property, except for newly constructed residential buildings (a residential building is considered to be newly constructed during the two year period from the date of construction);(01.05.98. #1369 Parliamentis Utskebani #19-20)
- h) medical services, activities envisaged by the state health care programs;
- i) care services of sick, disabled, and elderly people;
- j) supply and/or import of pharmaceutical raw materials and substitutes with the foreign economic activity commodity classification codes 121110000, 121120000, 130120000, 150420, 151530, 1520, 170211000, as well as those specified in Chapters 28 and 29, pharmaceutical goods as given in Chapter 30, vaccines and goods specified in 391212000, 391231000, 701010000, 701090470, 960200000 (gelatinous capsules) codes.(13.07.2000 #470 Legal Gazette #30)
- k) supply and/or import of goods specified in codes 8419 20000, 8423 10, 9001 30000, 9001 40, 9001 50, 9018 through 9022, 9025 11 910, 9402, invalid wheelchairs, iodized salt, x-ray films, insulin syringes, diagnostic testing systems specified in codes 8713, 8714 20000, as well as glucometers (test systems of which are registered by the Ministry of Health of Georgia);(30.10.98. #1666 Legal Gazette #4)
- l) supply and/or import of diabetic foodstuffs specified as such upon wholesale or retail supply; (30.10.98. #1666 Legal Gazette #4)
- m) supply or import of baby food and infant hygiene products;
- n) rendering of educational services provided to children and teenagers in hobby groups or study circles, as well as child care services for children at preschool institutions and orphanages;
- o) supply, publishing and/or import of scientific literature, schoolbooks and children's literature that are approved by the Ministry of Education of Georgia in agreement with the Committee of Taxes and Revenues as well as the Committee of Education, Science and Culture of the Parliament;(30.10.98. #1666 Legal Gazette #4)
- p) educational services rendered by educational institutions, import of computers, equipment and chemical reagents for scientific and educational activities:(18.09.97. #870 Parliamentis Utskebani #37-38)

- q) printing and supply of theatre, circus, classic music concert tickets(30.10.98. #1666 Legal Gazette #4) as well as supply of museum tickets;
- r) import of books and journals on science, art, and fiction, the authors of which are Georgian citizens, as well as the import of Georgian classical literature published abroad;
- s) printing, supply, import and services related to sale of newspapers, magazines and belles-lettres;
- t) supply of notebooks;
- u) supply by the Georgian Patriarchate of crosses, candles, icons, books, and calendars and other church plate used exclusively for religious purposes; construction, restoration and painting by order of the Georgian Patriarchate of cathedrals, monasteries, as well as reconstruction, restoration, conservation works and archeological excavations provided by state programs for protection and revival of the historical and cultural monuments of Georgia included in the list of the treasury of world heritage;(18.09.97. #870 Parliamentis Utskebani #37-38)
- v) burial services (including transport services);
- w) import of goods to be supplied to the state and public institutions of Georgia for liquidation of natural disasters, accidents, and catastrophes or for the purposes of humanitarian assistance and charitable purposes as well as of goods specified under the agreement on grants; fulfillment of works under a contract financed for the above-mentioned purposes by an international organization, one of the parties of which is a state executive body of Georgia in accordance with the decree of the President of Georgia; the procedure for the import of goods for purposes of this part as well as fulfillment of works, contemplated by contracts on grants is specified by order of the President of Georgia;
- x) urban and inter-regional public transport services (except for taxis) with state-controlled fares and tariffs;(18.09.97. 3870 Parliamentis Utskebani #37-38)
- y) (deleted)
- z) import of pedigree-animals, cultural plants, planting stocks, chemical weed and pest killers and other means of plant protection used in agriculture according to yearly quotas approved by the Ministry of Finance, the Ministry of Agriculture and Food, the Ministry of Economic and the Customs Department of the Tax Revenue Ministry of Georgia;(13.10.98. #1625 Legal Gazette #2)
- aa) import of goods described in Chapters 84-85, 88 and 90 of the code system for foreign economic activity (except goods listed in the following groups: 8415, 8418, 8422 11 000, 8422 19 000, 8423 10 100, 8423 10 900, 8450, 8507, 8509-8513, 8516-8524, 8525 20 910, 8525 30, 8525 40, 8527, 8528, 8531, 8540, 8544-8546, 9003, 9004, 9006-9010, 9016 00)(24.12.98. #1777 Legal gazette #7), including heavy freight trucks, trailers, and others (code 8701 20; 8716 39 300; 8716 39 510; 8716 39 590;8716 39 800), travel buses (code 8702), swimming facilities (code 8904 00; 8905), wooden railroad ties (code 4406 10 000, 4406 90 000), rails (code 7302 10 310) radar,

communications and navigation equipment (code 8525 10; 8525 20 100; 8525 20 990; 8526; 8531 10 100), as well as the supply of fixed assets among structural units of a legal person(30.10.98. #1666 Legal Gazette #4)

- bb) import of goods intended for the official use of foreign diplomatic and equalized representative offices as well as for the personal use of diplomatic, administrative, and technical personnel of these representative offices (including family members living with them) to the extent that the exemption is required by the relevant international agreements to which Georgia is a party, as well as import of goods of Georgian diplomatic representatives outside Georgia. A supply of goods, works or services, intended for official use of foreign diplomatic and equalized representative offices(01.05.98 #1369 Parliamentis Utskebani #19-20), as well as for personal use by the personnel (including family members living with them) of these organizations as well as import personal effects and household items for the personal use of the foreign citizens and their families that are involved in oil and gas extraction industry in Georgia;(16.04.99 #1894 Legal Gazette #13 (20))
- cc) import of raw materials and semi-finished goods intended for the manufacture of export goods as well as the import of packaging material to the extent of actually exported finished products. On importing the above raw materials, semi-finished goods, and packaging material the payment of VAT or the retention of a bank guarantee is effected, while in case of export of finished products a taxpayer is entitled to a refund of the paid amount of VAT from the customs services, or the bank guarantee is canceled to the extent of the actually exported finished goods;
- dd) transit, re-import, or temporary entry of goods onto the customs territory of Georgia, rendering of transport and other services directly related to the international transportation of passengers and goods (excluding air transportation of passengers and goods) or fulfillment of works, shipment operations, acting as an agent in ports;(01.05.98. #1369 Parliamentis Utskebani #19-20)
- ee) import of goods intended for re-export; on importing goods intended for re-export the payment of VAT is required, and/or the retention of a bank guarantee of goods of respective value is effected by the customs service, while in the case of export of the above goods the customs service refunds the paid VAT, cancels the bank guarantee or returns the goods retained as a guarantee according to the value of the actually exported goods;
- ff) import of goods by physical persons below the limit established for exemption from the customs duties;
- gg) import of machinery, means of transportation, spare parts and materials needed for oil and gas industry according to the law of Georgia “On Oil and Gas” (16.04.99 #1894 Legal Gazette #13(20)) as well as a supply of goods (works, services) necessary to implement oil and gas transactions by investors and operating companies in compliance with agreements specified by above-mentioned law and/or licenses issued for carrying out of oil and gas transactions;(09.09.99 #2386 Legal Gazette #43(50))



hh) (16.04.99 #1894 Legal Gazette #13(20)) Fulfillment of work or rendering of services by navigation enterprises (ship owners) founded by non-residents of Georgia not carrying out any entrepreneurial activity on the territory of Georgia and sailing under the Georgian flag. (16.04.99 #1894 Legal Gazette #13(20))

2. VAT exemptions apply to the entire territory of Georgia and operate only in respect of a supply of goods, fulfillment of works and rendering of services within Georgia.
3. The exemptions that are specified in subsections «bb»- «ff» of part I of this Article are applied only in the cases when the conditions for exemption from customs duty are met. In particular, if for purposes of the customs duty an import is subject to a return regime or if the customs duty is payable upon violation of the conditions for exemption, then the same regime is applied to the VAT.

## **Chapter 15. Transactions Taxed at a Zero Rate**

### **Article 102. Taxation of Export of Goods**

The export of goods is taxed at a zero rate. (16.04.99 #1894 Legal Gazette #13(20))

### **Article 103. Taxation of International Transportation**

Services related to international air transportation of passengers and goods as well as aviation fuel, lubricants and other auxiliary substances supplied on board for international flights are taxed at a zero rate. (16.04.99 #1894 Legal Gazette #13(20))

### **Article 104. Taxation of Gold transferred to the National Bank of Georgia**

A supply of gold to the National Bank of Georgia is taxed at a zero rate.

## **Chapter 16. Time and Place of Taxable Transaction and Special Rules**

### **Article 105. Time of Taxable Transaction**

1. Except as provided in part 2 of this Article, a taxable transaction occurs:
  - a) 90 days after a supply of goods, fulfillment of works or rendering of services;
  - b) if a supply of goods involves shipment of goods - 90 days after the time the goods have been shipped;
  - c) at the moment of cash payment if the payment takes place within 90 days from a supply or shipment of goods (works, services).
2. For the purposes of subsection “c” of part I of this Article, if two or more payments are made for a taxable transaction, each payment is treated as though made for a separate transaction to the extent of the payment.

3. If services are rendered on a regular or continuing basis, a rendering of services is treated as taking place on each occasion at the time when a VAT invoice is issued in connection with any part of that transaction.
4. In the case of the use of goods (works, services) for other purposes of non-economic activity in accordance with Article 96(4) of this Code, the time of the taxable transaction is the time that the use of the goods (works, services) begins. In the cases specified in Article 96(5) of this Code, the time the taxable transaction occurs is the time of supply of the goods, fulfillment of the works, or rendering of the services to the workers.
5. In case of the cancellation of the registration according to Article 96(6), the time of supply for the goods remaining on hand is immediately before the cancellation takes effect.

#### **Article 106. Place of Supply of Goods**

1. If a supply of goods involves the transportation of goods, a supply takes place at the location of the goods when transportation starts. In other cases the supply of goods takes place where the goods are transferred.
2. A supply of electric or thermal energy, gas or water takes place where the goods are received. If they are exported from Georgia, a supply is considered to take place in Georgia.

#### **Article 107. Place where Works are Fulfilled or Services are Rendered**

1. For purposes of this Part the place of fulfillment of works or rendering of services is:
  - a) location of immovable property , if the works (services) are directly related to that property;
  - b) the place where the works (services) are actually carried out, if they are related to movable property;
  - c) the place where services are actually carried out, if they are rendered in the field of culture, art, education, natural fitness, or sports, or in another similar activity;
  - d) the place where transportation of goods or passengers actually takes place, if the works (services) are related to that transportation. For the purposes of Article 103 of this Code transactions related to fulfillment of works or rendering of services by a taxpayer outside the territory of Georgia are considered as carried out on the territory of Georgia;
  - e) location of a permanent establishment of the purchaser of the services to which the services most closely relate. The provisions of this subsection are applied to the following services:
    - transfer of ownership or concession of patents, licenses, trademarks, copyrights, or other similar rights;
    - consulting, legal, accounting, engineering, and advertising services, as well as data processing services, and other similar services;

- staffing services;
  - leasing of movable property (except for vehicles of transportation enterprises);
  - rendering of services specified in this item by an agent acting on behalf of the main party of a contract (enterprise or physical person)
- f) the place where the economic activity of the person engaged in fulfillment of works or rendering of services is carried out.
2. The place of fulfillment of works or rendering of services that are described in more than one of the subsections in part I of this Article shall be determined according to the first of those subsections.

### **Article 108. Reverse Charge**

1. If a nonresident person, who is not registered for VAT in Georgia, renders services or fulfills works on the territory of Georgia for a tax agent indicated in part 2 of this Article, fulfillment of works or rendering of services is taxed according to this Article.
2. For the purposes of this Article, a tax agent is any VAT registered person or any resident legal person.
3. In case where part 1 of this Article applies, a tax agent charges VAT on the sum payable to the nonresident. The VAT amount is determined by applying the tax rate under Article 112.1 of the Tax Code.(23.07.99 #2343 Legal Gazette #38(45))
4. If a tax agent is registered for VAT, the assessed VAT is payable upon submission of a VAT return for the month, in which works were fulfilled or services rendered. The document confirming the payment of the assessed VAT is considered to be a tax invoice, which gives a tax agent the right to claim input tax credit in compliance with the Article 114 of this Code. (23.07.99. #2343 Legal Gazette #38(45))
5. If a tax agent is not registered for VAT, he/she is required to pay the assessed VAT in compliance with the procedures defined by the Tax Revenue Ministry of Georgia (24.03.2000 #238 Legal Gazette #13) within 15 days of the date when the works fulfilled or services rendered.(23.07.99 #2343 Legal Gazette #38(45)).
6. The reverse charge rule defined by this article is also applied to the transactions carried out by an agent of the principal. In case if the principal is not registered for VAT, a supply of goods, fulfillment of work or rendering of services is considered to be carried by an agent. (30.10.98.#1666 Legal Gazette #4)

### **Article 109. Time of Import**

The import of goods takes place when the goods become liable to the customs duty under the customs legislation. If the goods are exempt from the customs duty, the import of goods takes place when the customs duty would be payable if the goods were not exempt.

### **Article 110. Mixed Transactions**

1. A supply of goods, fulfillment of works, or rendering of services which is incidental to a main supply of goods, fulfillment of works, or rendering of services, is treated as a part of the latter.
2. Fulfillment of works or rendering of services incidental to the import of goods is a part of the import of goods.
3. A taxable transaction involving independent elements, one or more of which if separately supplied, rendered, or fulfilled would be exempt from tax, is treated as separate transactions. An exempt transaction with independent elements, one or more of which is separately supplied, rendered, or fulfilled would be taxable for VAT, is treated as separate transactions.

### **Article 111. Transaction by Agent**

1. A supply of goods, rendering of works, or fulfillment of services by a person acting as an agent (proxy) for another person (the principal) is considered as a transaction made by the principal.
2. Part 1 of this Article does not apply to services rendered by an agent to the principal.
3. Part 1 of this Article does not apply to a supply of goods in Georgia by a resident agent of a nonresident person (18.09.97 #870 Parliamentis Utskebani #37-38) who is not registered for VAT in Georgia. In this case for the VAT purposes a supply is considered as carried out by an agent (proxy).

## **Chapter 17. VAT Calculation and Payment Procedures**

### **Article 112. VAT Rates**

1. The VAT rate is 20 percent of the amount of the taxable turnover or taxable import.
2. A taxable turnover is the total value of taxable transactions during the reporting period.

### **Article 113. VAT on Taxable Turnover Payable to the Budget**

1. The VAT payable to the budget in respect of the taxable turnover is determined as the difference between the sum of tax charged on the taxable turnover in accordance with Article 112(1) and the sum of tax creditable under Article 114 of this Code.
2. In case of adjustment of the taxable transactions according to Article 99 of this Code, where the VAT payable exceeds the VAT actually declared by a taxpayer, the amount of the excess is treated as the VAT due for the accounting period in which the event referred to in part 1 of Article 99 of this Code occurred and is added to the amount of the tax payable for the accounting period under part 1 of this Article.

### **Article 114. VAT creditable in Determination of Payments to the Budget**

1. Subject to the provisions of this Article, the VAT creditable is a sum of tax paid in respect of the issued tax invoices or paid in accordance with the customs declaration (30.10.98 #1666 Legal Gazette #4) for taxable imports and taxable transactions where the goods, works, or services are used or are to be used for the purposes of the taxpayer's economic activity, even if they are not included into the production costs. The VAT is shall be creditable if it is paid to the budget of Georgia.(12.12.97. #1194 Parliamentis Utskebani #1-2)
2. When the VAT paid by a taxpayer in respect of the issued tax invoices for import of goods and/or (31.10.98. #1666 Legal Gazette #4) the VAT paid by a taxpayer in respect of taxable transactions is partly for the purposes of the taxpayer's economic activity and partly for other purposes, the VAT shall be credited on a pro rata basis.
3. No VAT credit is allowed:
  - a) on cars, except for sale or rent - for persons whose principal activity is a purchase and sale or rent of cars;
  - b) on expenses for entertainment or representation for charitable or social purposes;
  - c) taking into account provisions in part 4 of this article, the VAT paid for those goods (works, services) that are used to produce goods (works, services) not subject to taxation according to this chapter;
  - d) for tax invoices which does not identify a seller of goods (works, services).
4. In case where a VAT taxpayer has taxable transactions and VAT exempt transactions in accordance with this Code, the VAT credit is determined pro rata to the amount of goods (works, services) used in taxable transactions. If such differentiation is impossible, the VAT credit is determined on the basis of the ratio of the taxable turnover to the total amount of the turnover. This part applies after the requirements of the part 2 of this article are met. (13.07.2000 #470 Legal Gazette #30)
5. Where the VAT declared in a tax return or invoice exceeds the VAT payable, the excess amount shall be offset in the reporting period in which the event referred to in part 1 of Article 99 of this Code occurred.

### **Article 115. Tax Invoice**

1. Subject to part 4 of this Article a VAT taxpayer that carries out a taxable transaction is required to write out and issue a tax invoice to the person who receives the goods, works or services. The invoice is to be written out in four copies, the first and the third copies shall be submitted to the purchaser, whereas the second and the fourth copy shall be left with the seller. The fourth copy is to be submitted later to the tax agencies by the seller for the purposes of tax control, and the third copy -to a local tax agency by the purchaser to receive VAT credit. A purchaser and a seller are to submit tax invoices to the tax agencies on a monthly basis, no later than 15th of following month.(16.03.2001 #807 Legal Gazette #8) A person who is not registered for VAT does not have the right to issue a tax invoice. (13.07.2000 #470 Legal Gazette #330)

2. A tax invoice is an invoice executed in the strict reporting form stipulated by the Tax Revenue Ministry (24.03.2000 #238 Legal Gazette #13) confirming the fact of the VAT payment and containing the following information (30.10.98. #1666 Legal Gazette #4):
  - a) family name, initials or name of the taxpayer and the purchase (client), and taxpayer's trade name, if different from the legal name;
  - b) identification number of the taxpayer and the purchaser (client);
  - c) number and date of the VAT registration certificate;
  - d) brief description of the goods shipped, works fulfilled, or services rendered;
  - e) amount of compensation for the taxable transaction, and amount of the taxable transaction;
  - f) amount of excise for excisable goods;
  - g) the VAT due on the given taxable transaction;
  - h) serial number and the issue date of the tax invoice.
3. A taxpayer is obliged to write out a tax invoice upon delivery of goods (works, services) and issue it to the purchaser not later than on the second day from the delivery of goods (works, services). In any case upon supply of goods a strict registration bill of lading should be issued in consistence with Article 68 of this code.
4. It is prohibited for the supplier to issue tax invoice of goods (works, services) to the purchaser with incorrect information or one that is erroneously completed. Such tax invoice, along with the corresponding monthly VAT return, should be submitted to the tax agencies in order to be cancelled.
5. The Ministry of Tax Revenue of Georgia is authorized to establish a different format of special tax invoices for some goods as well as the procedure for their registration and use.
6. A VAT taxpayer is required to keep a special register of taxable turnover and tax invoices issued for purchased goods (works, services) in accordance with the procedure defined by the Ministry of Tax Revenues of Georgia. (13.07.2000 #470 Legal Gazette #30)

## **Chapter 18. Administrative and Concluding Provisions**

### **Article 116. Filing of Returns and Payment of VAT**

1. A VAT taxpayer is required:
  - a) to file a VAT return with a tax agency at the place of registration for each reporting period not later than the 15th of the month following the reporting period.
  - b) to pay the VAT to the budget for every reporting period by the deadline for filing the return.
2. [Deleted] (16.03.2001 # 807 Legal Gazette # 8)
3. The provisions of part (16.03.2001 # 807 Legal Gazette # 8) do not apply to the persons deemed as taxpayers only in respect of import of goods.

4. In case of the taxable import the VAT is assessed and collected by the customs agencies in accordance with this Code and customs legislation.

#### **Article 117. VAT Reporting Period**

The reporting period for VAT is a calendar month.

#### **Article 118. Relations to the Budget in Cases Where the Sum of VAT to Be Credited Exceeds the Amount of Tax Charged for the Accounting Period**

1. If during the reporting period not less than 25 % of a taxpayer's taxable turnover is zero-rated, the excess of the VAT creditable over the VAT chargeable in the reporting period shall be refunded within 15 days after receipt of the relevant application from the taxpayer by the tax agency.
2. For other VAT taxpayers, the excess of the VAT creditable over the VAT chargeable in the reporting period shall be carried forward to the next reporting period and offset against future payments or be refunded from the budget within 15 days after receipt of the relevant application from the taxpayer.
3. If any sum is erroneously refunded by the tax agency, the tax agency may demand the return of the above sum according to the VAT payment procedures.

#### **Article 119. VAT Refund for Goods Purchased by Grants**

1. A recipient of the grant who purchases goods and/or works or services provided for in the grant agreement is entitled to claim the VAT refund in respect of these goods, works or services after submitting a tax invoice to a tax agency. (30.10.98. #1666 Legal Gazette #4)
2. The VAT shall be refunded only in case if a request for the refund is filed within three months after the taxable transaction takes place. The provisions of parts 1 and 3 of Article 118 of this Code apply to refunds under this Article as well.

#### **Article 120. Responsibility of Taxpayers and Control of Tax Agencies**

1. The responsibility for the correct calculation and timely payment of VAT to the budget and submission of a tax return to the tax agencies by the prescribed deadline rests on the taxpayers and their authorized persons by virtue of this Code, and case where the VAT collection is within the terms of reference of customs agencies of Georgia - in accordance with the customs legislation of Georgia.
2. The tax and customs agencies, within their terms of reference, shall be liable to carry out control over application of the tax legislation in accordance with this Code and with the customs legislation of Georgia.

#### **Article 121. Financial Sanctions Applied in the Event of Non-meeting of Requirements Provided for in This Part**

1. If the requirements of this Part are not met, a person is subject to financial sanctions as stipulated in Articles 252 - 254 of this Code.
2. In addition to the sanctions under part 1 of this article, the tax agencies collect the following :
  - a) when operating without the VAT registration- 100 percent of the VAT due to the budget for the entire period of operating without VAT registration,
  - b) in case if a taxable turnover and the VAT due is not declared or misdeclared in the VAT invoice or a tax invoice is not issued or is incompletely filled out and therefore, a purchaser can not be identified (30.10.98. #1666 Legal Gazette #4) – 50 percent of the VAT due in respect of the transaction carried out or as shown on a tax invoice. In case of misdeclaration of a taxable turnover and the VAT amount on a tax invoice providing the revenue due to the budget is not reduced, a taxpayer is subject to a sanction of 20% of the VAT due. (30.10.98 #1666 Legal Gazette #4)
  - c) In case if there exists a difference between the VAT amount shown on the copies of a tax invoice -100 per cent of the highest VAT amount shown.(30.10.98 #1666 Legal Gazette #4)

## **PART IV. EXCISE**

### **Chapter 19. Excise**

#### **Article 122. Concept of Excise**

1. Excise is an indirect tax to be paid upon supply of excisable goods and included in their price.
2. Production of excisable goods on the territory of Georgia or their import is liable to an excise, providing these goods are not tax exempt.

#### **Article 123. Taxpayers**

1. A physical or a legal person producing the excisable goods on the territory of Georgia or importing them is deemed as an excise taxpayer, unless otherwise provided by this Part.
2. With respect of goods produced on the territory of Georgia from raw materials supplied by a customer, a producer is deemed as an excise taxpayer.
3. For the purposes of this Part, branches and separate structural units under Article 12. c are independent persons.(16.03.2001 #807 Legal Gazette #8)

#### **Article 124. Object of Taxation**

The object of excise taxation includes the import of excisable goods, a supply of goods produced in Georgia from customer-supplied raw materials and/or the removal goods from warehouse of an enterprise (18.09.97 #870 Parliamentis Utskebani #37-38),including the transfer



of excisable goods produced from raw materials of a customer.

#### **Article 125. Taxable Transaction**

1. The amount of a taxable transaction in respect of the goods produced on the territory of Georgia is determined on the basis of the compensation received or receivable by a taxpayer from a customer or any other person, excluding the amount of the excise tax and VAT, but no less than the excise and VAT exclusive wholesale market price. In respect of the goods sold by a taxpayer at a retail market price, the amount of the taxable transaction is determined on the basis of excise and VAT exclusive wholesale market price. In respect of the alcoholic beverages, a taxable transaction is the volume of imported and/or supplied (transferred) alcoholic beverages.(01.05.98. #1369 Parliamentis Utskebani #19-20)
2. In case of import, the amount of a taxable transaction shall be the customs value of the goods determined in accordance with the customs legislation of Georgia (but not less than a excise and VAT exclusive wholesale market price, plus the amount of duties and taxes payable on the import of the goods into Georgia (except for excise and the VAT).
3. The amount of excise taxable transaction shall not include value of the returnable containers, except for value of containers used for a supply of goods at retail.

#### **Article 126. Time of Taxable Transaction**

1. In respect of production of the excisable goods in Georgia, time of a taxable transaction is considered as:
  - a) 90 days from a supply (transfer) of goods;
  - b) time of payment, if it has taken place not later than 90 days from a supply (transfer) of goods.
2. According to part 1.b of this Article, if two or more payments have been made for a taxable transaction, each payment is treated as though made for a separate transaction to the extent of the payment.
3. In case of import, a tax point is deemed as the time of import according to the customs legislation.(01.05.98 #1369 Parliamentis Utskebani #19-20)
4. The moment of a supply of goods is deemed as the time of a taxable transaction in respect of the excisable goods subject to stamping.(30.10.98. #1666 Legal Gazette #4)

#### **Article 127. Taxation of Export**

Export of the excisable goods is taxed at a zero rate.

#### **Article 128. Tax Exemptions**

1. The following are exempt from excise:
  - a) alcoholic beverages produced for the personal consumption by a physical person;
  - b) import of two liters of the alcoholic beverages and two hundred cigarettes by a physical person for the personal consumption and, in case of a person entering Georgia by automobile, fuel filled in the petrol tank;

- c) transit and temporary import of excisable goods into the customs territory of Georgia;
  - d) re-export of the excisable goods; the excisable goods intended for re-export from the territory of Georgia are subject to excise, the retention of a bank guarantee or goods of the corresponding value in the form of guarantee, and in case of export of the above goods from Georgia, a bank guarantee is canceled, the paid excise is refunded or the goods retained as a guarantee are returned to an excise taxpayer to the extent of the actually exported goods;
  - e) import of automobiles and tires for the purposes of humanitarian aid during the natural disaster.
  - f) aviation fuel to be supplied on board for international flights upon submitting bank guarantee to the customs agencies during the import. (30.10.98. #1666 Legal Gazette #4)
  - g) import and/or supply of oil products necessary to carry out oil and gas transactions specified by Law of Georgia "On Oil and Gas". (09.09.99 #2386 Legal Gazette #43 (50)).
2. The exemptions specified in subsection "c" - "d" of part 1 of this Article are applied, only if the conditions for exemption from customs duty are met. Also, if for the purposes of customs duty, the goods imported into Georgia are subject to the return regime or, if the customs duty is subject to payment due the violation of the conditions for exemption, then the same regime is applied to excise.

#### **Article 129. Excise Credit for Inputs**

1. A person, who purchases the excisable raw material and uses it for the production of other excisable goods for its further supply, shall be entitled to a tax credit in the amount of the excise paid on the purchase of the raw material, or a refund of the excise. The similar procedure of the credit or refund is applied to the goods received by the producer from the importer for producing the excisable goods. (30.10.98. #1666 Legal Gazette #4)
2. A credit or refund is allowed in respect of the excisable goods used:
  - a) as samples for analysis or for inspection in the course of production;
  - b) for scientific research;
  - c) for medical purposes by hospitals and pharmacies.
3. An excise credit or refund under this Article is allowed only upon presentation of a tax invoice indicating payment of excise by a producer of the raw materials, or in case of the import of the raw materials - upon presentation of the corresponding documentation.
4. The amount is refunded to a taxpayer within 15 days after the filing of the documents with a tax agency.

### Article 130. Excise Tax Rates

The excisable products indicated in this Article are subject to tax at the following rates:

	<b>Commodity</b>	<b>Commodity Nomenclature Code</b>	<b>Measurement</b>	<b>Rate (GEL) or (%)</b>
1	2	3	4	5
1.	Sparkling wines (including champagne)	2204 10 2204 21 100 2204 29 100	1 litre	0.50
2.	Fortified wines  Bottled Bulk	2204 21 870 2204 21 990 2204 29 870 2204 29 990	1 litre	1.00 0.05
3.	Vermouth and other wines of fresh grapes flavored with plants or aromatic substances	2205	1 litre	2.00
4.	Wine of fresh grapes not included in items 1 and 2  Bottled Bulk	2204	1 litre	0.20 0.10 (23.07.99 #2343 Legal Gazette #38(45))
5.	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	2.00 (25.06.99 #2180 Legal Gazette #26(33))
6.	Ethyl alcohol	2207	1 litre	0.70
7.	Spirits obtained by distilling grape wine or grape marc	2208 20	1 litre	2.00
8.	Whisky	2208 30	1 litre	2.00
9.	Rum and tafia	2208 40	1 litre	2.00
10.	Gin and wine liquor	2208 50	1 litre	2.00

11.	Liquors and cordials	2208 70	1 litre	2.00
12.	Vodka	2208 60	1 litre	1.00
13.	Other	2208 90	1 litre	2.00
14.	Beer	2203 00	1 litre	0.12
15.	Tobacco products (except for tobacco raw materials): cigar, cigars with ends cut and cigarillo (slim cigars), containing tobacco Filtered cigarettes All other unfiltered cigarettes and tobacco  Other products including tobacco and its substitutes, "homogenized" or "restored" tobacco; tobacco extracts and essences	2402 10 000	1000 units	150.00
		2402 20	1000 units	7.50
		2402 20	1000 units	2.50
		2403	1 kg	20.00
16.	Passenger automobiles	8703		15%
18.	Passenger automobiles tires	4011 10 000; 4012		15%
19.	Salmon and sturgeon caviar and delicacy products of valuable kinds of fish and sea products	160430		20%
		1605		
20.	Oils and other products borne from carbohydrate distillation at the high temperature, other similar production in composition of which ratio of aromatic components exceed amount of non-aromatic components (other than naphthalene and creosote oils used to produce hydro carbonate. (commodity code 2803)	2707 (except for 2707 40 000; 2707 99 910)		60%
21.	Condensed natural gas, except pipeline	2709 00 100		60%
22.	Light, medium and heavy oil distillates	271000 110-271000 190		80%
22.	Oil gas and gas-like hydrocarbons	2711 12 2711 13		60%

		2711 14 000 2711 19 000		
23.	Other products produced from crude oil and bituminous minerals (except for light, medium and heavy oil distillates and mazut)	27 1000 (except for 27 1000 110 27 1000 690 and 27 1000 710-27 1000 780)		60% (25.06.99 #2180 Legal Gazette #26(33))
24.	Liquid products of pyrolysis	39110000 39119090	Ton	400

### **Article 131. Payment of Excise**

1. Excise is to be paid up to the 10th of the next month after carrying out a taxable transaction. (01.05.98. #1369 Parliamentis Utskebani #19-20.
2. Deleted
2. In case of arrears for any period of time, a taxpayer shall not be allowed to supply goods without paying an excise starting from the period the arrears arise until the arrears are recovered. In the above case excise shall be paid at a tax point of a transaction. ((8.09.97 #870 Parliamentis Utskebani #37-38)
3. In case of import, excise is collected by the customs agencies according to the procedure established for the customs duties.
4. Importers and producers of the excisable products subject to excise stamping on the territory of Georgia shall pay a total amount of excise upon purchasing excise stamps. (30.10.98 #1666 Legal Gazette #4)

### **Article 132. Filing of Returns**

1. In cases mentioned in Article 131.1 of this Code, a taxpayer shall file a tax return according to procedures established by the Tax Revenue Ministry of Georgia by the 10th of the month following the reporting month indicating a taxable transactions carried out. 924.03.2000 #238 Legal Gazette #13)
2. An excise taxpayer is required his/her request for a credit specified Article 129 of this Code into the excise tax return. A person who is not an excise taxpayer, but is entitled to claim a credit by virtue of this Article, shall present an application for the receipt of compensation, which may be submitted at any time during one year from the time the right to compensation arose.

### **Article 133. Tax Refund on Re-exports**

1. Excise (pledge) paid on the goods imported to Georgia for their subsequent re-export shall be refunded to the extent of actually re-exported by the customs agencies within 15 days.
2. Part 1 of this Article does not apply to the goods exempt under Article 128.1.c of this

Code.

#### **Article 134. Excise Stamps**

1. Mandatory affixing of excise stamps is required for the alcoholic beverages imported and locally produced designated for consumption in Georgia (23.07.99 #2343 Legal Gazette #38(45)), including beer, the alcoholic constituency of which is higher than 1.15 degrees (other than beverages of 50 grams and less, as well as bottled in vessels holding 10 liters and more) and tobacco products except pipe tobacco. The above goods are subject to a fixed tax rate.(30.10.98. #666 Legal Gazette #4)
2. It is prohibited to supply and import onto the territory of Georgia under a free circulation regime the excisable goods subject to excise stamping without excise stamps. Marking of the above excise goods shall be carried out according to the rules stipulated by Ministry of Finance and the Tax Revenue Ministry. (23.03.2000 #238 Legal Gazette).
3. The tax and customs agencies controlling excise payments shall seize the unstamped imported and provided for sale excise goods according to the established procedure. From the moment of seizure goods are deemed to be a state property and sale or destruction of the unstamped goods shall be carried out according to the procedure stipulated by the Ministry of Finance and the Tax Revenue Ministry. (24.03.2000 #238 Legal Gazette #13) (23.07.99 #2343 Legal Gazette #38(45)).
4. Any shortage of excise stamps (loss, destruction and other, except for force majeure circumstances) by importers and local producers is deemed as an import or/and supply of the corresponding amount of goods and shall be taxed in consistence with the legislation of Georgia. In case of not importing goods during 6 months after having received the excise stamps, an importer is required to return them back. Non-return of excise stamps within the mentioned period shall be deemed as an import of the excisable goods subject to excise stamping and a supply of them on the territory of Georgia and shall be taxed accordingly. During the following period when importing the excisable goods marked with non-returned excise stamps, the amount of taxes due must be calculated pro rata to the amount of actually imported goods. (23.07 #2343 Legal Gazette #38(45)).

#### **Article 135. Tax Invoice**

An excise taxpayer selling the excisable goods is required to write out and issue a tax invoice specified in Article 115 of this Code to a recipient of goods. (16.03.2001 #807 Legal Gazette #8).

## **PART V. PROPERTY TAX**

### **Chapter 20. Property Tax of Physical Persons**

#### **Article 136. Taxpayers**

Profit taxpayers are physical persons with taxable objects under their ownership.

#### **Article 137. Objects of Taxation**

The object of taxation is the immovable property (buildings and structures or their parts) located on the urban territory of Georgia as well as immovable property (buildings and structures or their parts) used for economic activity located on non-urban territory, except for land. (01.05.98. #1369 "Parlamentis Utskebani" # 19-20)

#### **Article 137<sup>1</sup>. Tax Concessions**

The following are exempt from taxation:

- a) The property of persons disabled from childhood, as well as the property of the disabled persons of groups i and ii;
- b) Property located in mountainous regions of the physical person/resident of the region. (13.07.200. #470 "Legal Gazette" # 30)

#### **Article 138. Tax Rates**

The tax is paid annually in the amount of 0.1 percent of the inventory value of the building or structure.

#### **Article 139. Procedure for Calculation and Payment of the Tax**

1. The tax on buildings and structures shall be calculated by the tax agencies as of January 1 of each year on the basis of data on their inventory value, submitted by local authorities. The inventory value of property, for which there is no prior assessment, shall be determined by the local authorities at the average of a per-square-meter valuation of a similar property.
2. The tax on buildings and structures held by several owners shall be paid based on the data of local authorities according to each co-owner's share.
3. Tax agencies shall present tax notifications to taxpayers concerning the payment of tax not later than March 1 of the reporting year.
4. Tax shall be paid according to the property location in two equal parts - prior to June 15 and prior to October 15 of the tax year. (01.05.98. # 1369 "Parlamentis Utskebani" # 19-20)

## **Chapter 21. Tax on Property of Enterprises**

### **Article 140. Taxpayers**

Payers of the tax on property of enterprises consist of:

- a) Georgian enterprises;
- b) branch offices and other similar subsidiary units of the enterprises indicated in section “a” of this Article that have an independent balance sheet and settlement account;
- c) foreign enterprises engaged in economic activity in Georgia (01.05.98 #1369 “Parlamentis Utskebani” # 19-20) through permanent establishments.
- d) organizations, whose property or part of the property are used for economic activity. (30.10.98 #1666 “Legal Gazette” #4)

### **Article 141. Object of Taxation**

1. Objects of taxation consist of fixed assets, uninstalled equipment, incomplete capital investment, and intangible assets that are listed on the balance sheet of the enterprise, as well as such property listed on the balance sheet of an organization and utilized for economic activity. (30.10.98 #1666 “Legal Gazette” #4)
2. The object of taxation of the taxpayers listed in Article 140(1)(c) of this Code includes only the property connected with the permanent establishment. (30.10.98 #1666 “Legal Gazette” #4)

### **Article 142. Determining the Value of Taxable Property**

The taxable value consists of the balance-sheet residual value of the assets described in Article 141 of this Code calculated according to average value of the assets in the beginning and at the end of the calendar year.

### **Article 143. Tax Concessions**

The following are exempt from taxation:

- a) property used for environmental protection and fire protection;
- b) land;
- c) motor roads, communications and electronic transmission wires; (30.10.98 #1666 “Legal Gazette” # 4)
- d) standardizing and test bench equipment of the territorial agencies of the State Department of Standardization, Metrology and Certification of Georgia;
- e) property that has been mothballed in accordance with procedures in force;
- f) property of organizations, except the property used for economic (30.10.98 #1666 “Legal Gazette” # 4) activity; (30.10.98 #1666 “Legal Gazette” # 4)



- g) property of disabled persons public associations and enterprises – according to section “f” of Article 47. (30.10.98 #1666 “Legal Gazette ”# 4)
- h) vessels, registered in the Public Register of Georgia and sailing under the flag of Georgia; (30.10.98 #1666 “Legal Gazette ” # 4)
- i) Property needed for oil and gas industry according to the law of Georgia “On Oil and Gas”; (16.04.99 #1894 “Legal Gazette ” #13 (20))
- j) Property (on the territory of mountain regions) of the enterprises located in mountain regions. (13.07.2000. #470 “Legal Gazette ” # 30)
- k) Means of transportation specified in Chapter VII of this Code. (16.03.2001 # 807 “Legal Gazette ” # 8)

#### **Article 144. Tax Rates and Procedures for Payment of Tax to the Budget**

1. The value of the property of a taxpayer as evaluated in accordance with Article 142 of this Code, is subject to a one-percent tax. If an enterprise operates only during the incomplete calendar year, it pays the tax in proportion to that period.
2. In the course of the reporting year, taxpayers shall calculate payments at the end of each reporting quarter on the basis of the average annual value of taxable assets being on the balance sheet of the enterprises at the end of preceding calendar year which enter the budget in equal portions by the 15th of the second month of the quarter.
3. Current payments made to the budget are credited against tax accrued for the reporting year.

#### **Article 145. Reporting of Property Tax**

1. A taxpayer is obliged before February 1 of the reporting year to submit to the tax agencies the calculation of current payments.
2. The calculation of the property tax from the previous year is submitted to the tax agencies before April 1 of the reporting year.

## **PART VI. LAND TAX**

### **Chapter 22. General Provisions**

#### **Article 146. Taxpayers**

Land taxpayers are physical and legal persons who own or use land plots provided for by the law.

#### **Article 147. Object of Taxation**

1. The object of land taxation is:
  - a) agricultural land;
  - b) non-agricultural land.
2. The area of the taxable land comprises plots of land occupied by buildings and structures which is also necessary for their functioning, and the sanitary-technical zone of the buildings and structures, unless it is under ownership of other physical or legal persons.

#### **Article 148. Principles of Land Taxation**

1. The basis of determining the tax is a document certifying the possession or usage of the land area.
2. The tax on the land plot occupied by buildings and structures, which is possessed or used by a physical or legal person is paid for each buildings in proportion to the area being under usage or joint ownership of each person.
3. The land tax sum does not depend on the results of economic activity of taxpayers, and is determined in the form of a fixed annual tax per land area unit.
4. The land tax is differentiated according to the quality and location of the land.
5. The land tax transferred into the usage of other States is paid under the procedure established by this Code, unless otherwise provided by the agreement between Georgia and that State.

### **Chapter 23. Tax on the Use of Agricultural Land**

#### **Article 149. Object of Taxation**

The object of taxation of agricultural land is:

- a) arable and agricultural lands used for perennial crops; cultivated and natural meadows and pastures;
- b) parcels of forests and wetlands used or to be used under established procedure for agricultural purposes;
- c) farm-stead, garden, truck-garden, and cottage plots;

- d) industrial, transport, communications, preserved, land used for defense purposes and other non-agricultural plots of land located outside population centers and which, in accordance with current procedures, are used for agricultural purposes;
- e) plots of land located within the bounds of population centers of a village settlement, resort or other populated area whose targeted designation has not been changed and their usage for agricultural purposes is permitted in accordance with current procedures;
- f) (01.05.98. #1369 "Parlamentis Utskebani" # 19-20) lands occupied by melioration networks;
- g) other lands, used for agricultural purposes.

### Article 150. Tax Rates on Agricultural Land

1. Base rates for agricultural land tax are differentiated according to administrative regions and are established in GEL per hectare:
  - a) for land outside a city (borough) (25.06.99 #2180 "Legal Gazette" # 26 (33)) administrative unit occupied by sown and perennial crops:

Administrative Unit (25.06.99 #2180 "Legal Gazette" # 26 (33))		Base Rate, GEL/ha		
		Land Quality		
		Good	Poor	Average Regional (city)
N				
1	Tbilisi, Marneuli	57	31	47
2	Bolnisi, Gardabani	52	27	43
3	Rustavi	51	27	43
4	Batumi, Gagra, Gali, Gudauta, Gulripshi, Ochamchire, Sukumi	51	27	43
5	Kobuleti, Khelvachauri, Gurjaani, Dedoplistskaro	44	24	36.5
6	Telavi, Lagodekhi, Signagi	43	22	35
7	Gori, Kvareli, Mtskheta, Akhmeta, Dmanisi, Eredvi	39	21	30
8	Kaspi, Tetriskaro, Samtredia	38	20	27
9	Kareli, Khashuri, Sagarego	36	20	26
10	Kurta, Tsalka	34	19	26
11	Abasha, Zugdidi	34	18	25
12	Akhalkalaki, Akhaltsikhe	34	19	22
13	Martvili, Senaki, Khobi, Poti	33	17	23.5
14	Ninotsminda	33	17	19
15	Akhalgori, Vani, Zestafoni, Lanchkuti, Ozurgeti	30	15	20.5

16	Bagdadi, Terjola, Khoni, Kutaisi	28	15	20.5
17	Tskaltubo, Tsalenjikha, Chkorotsku	24	13	17
18	Sachkeri, Tsageri, Tskinali	22	12	16
19	Ambrolauri, Dusheti, Tianeti, Adigeni, Borjomi	18	11	13
20	Aspinza, Tkibuli, Khulo, Keda	17	9	12
21	Kharagauli, Shuakevi, Chiatura, Chokhatauri, Oni, Mestia, Kazbegi, Djava	13	8	9

b) For use of natural haymaking meadows and pastures:

N	Administrative Unit (01.05.98.# 1369 "Parlamentis Utskebani 319-20)	Base Rate L/Hectare			
		Meadows	Pastures	Cultivated	
				Mea- dows	Pastures
1	Abasha, Akhalkalaki, Gori, Batumi, Bolnisi, Gagra, Gali Gardabani, Gudauta, Gulripshi, Gurjaani, Dedoplistskaro, Dmanisi Zugdidi, Tbilisi, Tetrtskaro, Telavi Lagodekhi, Lanchkuti, Marneuli, Mtskheta, Ninotsminda, Ozurgeti Ochamchire, Rustavi, Samtredia Senaki, Signsgi, Sukhumi, Kutaisi, Kobuleti, Kvareli, Tsalka, Tskaltubo, Kevachauri, Khobi, Poti	6	3	8	4
2	Adigeni, Aspinja, Akhagori, Bagdadi, Borjomi, Vani, Zestaponi, Terjola, Tianeti, Kaspi, Martvili, Sagarego, Sachkere, Tkibuli, Kareli, Keda, Shuakevi, Chokhatauri, Chkorotskhu, Tsalenjikha, Kharagauli, Khashuri, Khoni, Khulo, Akhaltsikhe	4	2	7	3
3	Ambrolauri, Akhmeta, Dusheti, Lenteki, Mestia, Oni, Kazbegi, Tsageri, Tskinali, Chiatura, Java	2.5	1.5	4	2

c) the base tax rate for agricultural plots of land located within the bounds of population centers indicated in subsections "a" and "b" of part 1 of this Article is increased by 20 percent.

1.<sup>1</sup> Local authorities of relevant administrative regional (city) under recommendation of the appropriate organizations of Land Management State Department will be authorised to define the amount of tax regarding the local authorities land with guranteed melioration network(except the lands transferred in private property for agricultural purposes envisaged by the Land Reform) and increase the tax by 100% (considering that agricultural subjects in equal conditions should be equally taxed). (20.07.2001 # 1025)

2. The base tax rate for certain land plots with respect of the land quality and location indicated in subsection “a” and “b” of part 1 of this Article may be increased or reduced by 20 percent without changing the total amount of the tax established for the administrative unit.
3. The tax rate for the concrete land plot shall be established by the representative bodies of local self-government authorities of rural-administrative regions (cities) under the recommendations of the relevant services of the State Land Management Department.

#### **Article 151. Calculation of the Tax on Agricultural Land**

The tax shall be calculated by multiplying the tax rate by the area (in hectares) of the agricultural land plot.

#### **Article 152. Payment Procedures for Agricultural Land Tax**

1. For the purposes of registration of taxpayers and establishing the amount of a tax, the local agencies of the State Land Management Department are required to submit lists of taxpayers indicating the tax rate and the relevant land area to tax agencies by March 1 of the reporting year.
2. Tax agencies shall send tax notices concerning the assessed taxes to taxpayers by June 1 of the reporting year.
3. The deadline for payment of the agricultural land tax is the date prior to November 1 of the reporting year. In addition, the deadline for payment of the tax for the leased state-owned agricultural land (18.09.97 #870 “Parlamentis Utskebani # 37-38) is established under the lease agreement, but not later than November 1 of the reporting year.

### **Chapter 24. Non-Agricultural Land Tax**

#### **Article 153. Object of Taxation**

The object of taxation is a land plot which, according to Article 149 of this Code, is not to be used for the agricultural purposes.

#### **Article 154. Tax Rates on Non-Agricultural Land**

The base rates of the non-agricultural land tax shall be determined in the amount of GEL 0.24 per one square meter on an annual basis.

#### **Article 155. Calculation of the Non-agricultural Land Tax**

1. The non-agricultural land tax shall be calculated by multiplying the annual base tax rate by the territorial coefficient and the land area.
2. Differentiation of the land tax territorial coefficient shall be made in accordance with location and zones of the land plot.
3. Determination of area boundaries and the differentiation of the land tax territorial coefficient shall be made on the basis of expert social and economic evaluation of the area with regard to the building scheme of the settlement or indices of other urban construction documents which are to be approved by the local self-government bodies under recommendations of the relevant services of the State Land Management Department

#### **Article 156. Payment Procedure for Non-agricultural Land Tax**

1. The registration of taxpayers and tax assessment is effected every year as of March 1.
2. For the purposes of registering taxpayers and determining amounts of tax, the local authorities of the State Land Management Department by March 1 of the reporting year shall submit lists of taxpayers, indicating the tax rate and the relevant land area to the tax agencies.
3. The tax notice is required to be submitted to the taxpayers not later than June 1 of each year. (18.09.97.# 870 "Parlamentis Utskebani" # 37-38)
4. The calculation of the tax for a newly allocated land plot is required to be submitted to physical and legal persons within two months following allocation of land.

#### **Article 157. Imposition of the Non-Agricultural Land Tax**

1. The land tax shall be imposed to physical and legal person from the month following the month when the right to use the land arises.
2. Non-agricultural land tax shall be paid in equal portions prior to August 15 and prior to November 15 of the reporting year.

### **Chapter 24<sup>1</sup>. Exemptions from Land Tax** (30.10.98 # 1666 "Legal Gazette" #4)

#### **Article 158. Exemptions from Land Tax**

1. The following are not taxed:
  - a) the portion of state-owned land allocated to budget-funded organizations, other than lands used for purposes of entrepreneurial activity; (30.10.98 #1666 "Legal Gazette" #4)

- b) land plots which are allocated to functioning of scientific-research, educational institutions, experimental breeding stations and experimental farm plots, used for scientific and educational purposes financed from the budget;
- c) plots which are allocated for the purposes of the functioning of societies, associations, enterprises, and organizations for the blind, deaf-and-dumb, retarded persons, or physically under-developed children, and veterans of war, as well as centers of social adaptation and work-related rehabilitation of teens for executing their main functions (01.05.98 # 1369 "Parlamentis Utskebani" # 19-20) funded from the budget. Plots of land used by orphanages, boarding schools, children villages and kinder gardens, that perform child care and education free of charge, if these land plots are not used for economic activity; (01.05.98 # 1369 "Parlamentis Utskebani" # 19-20)
- d) land areas of organizations for the protection of native and historical monuments occupied by structures recognized by the state as monuments of history, culture and architecture, unless they are used for entrepreneurial activity, other than selling entrance tickets; (30.10.98.# 1666 "Legal Gazette" #4)
- e) natural parks, botanical and dendritic gardens, natural parks, public gardens, cemeteries, zoological gardens and parks, oceanographic stations, (18.09.97 # 870 "Parlamentis Utskebani" # 37-38), alleys, preserves, arboretums, forestry organizations as well as open departmental gardens and forests, other than plots used for entrepreneurial activity;
- f) city reservoirs and their water areas, lands used for transport and underground communications, other than used for production of agricultural goods and economic activity; (01.05.98 # 1369 "Parlamentis Utskebani" # 19-20)
- g) hydrometeorological centers and land plots used for the functioning of stations and equipment for monitoring pollution;
- h) lands occupied by reservoirs designated for operations of the electrical stations and irrigation/drainage systems for providing the population with potable water, as well as the related sanitary, security, and technical zones;
- i) state-owned and unused pastures and haymaking meadows, and lands and reserve lands or designated for re-cultivation;
- j) plots of agricultural land in which half or more of the topsoil is damaged because of natural phenomena;
- k) physical or legal persons who have received new lands in their ownership for re-cultivation purposes for the first five years following its allocation;
- l) on the territory of former settlements, as well as families of individuals settled in accordance with state settlement measures - for five years from the time of settlement;
- m) invalids of the Second World War and persons equated with them on land plots allocated through privatization; (30.10.98. # 1666 "Legal Gazette" #4)

- n) communities, villages of Kurti, Eredvi (Avnevi and Nuli-temporarily) until the conflict is settled and the economic situation is regulated.
  - o) plots of land used for airports, airfields, air navigation security zones as well as for underground communications and plots allotted for the future development of ports if they are not used for economic activity.(01.05.98 # 1369 "Parlamentis Utskebani" # 19-20)
  - p) hunting farms. (30.10.98. # 1666 "Legal Gazette" #4)
  - q) land plots used for generation of energy renewable sources (sun, wind, geothermal, biological energy, and hydroenergy) consumer appliances and energy saving equipment (energy saving bulb). (09.06.99. # 2080 "Legal Gazette" # 24(310) (is to be effective from January 1, 2000).
  - r) Inhabitants of villages and settlements situated on southern slope of Caucasus chain and Racha-Guria mountains specified by the law of Georgia on "Social and cultural development of mountainous regions" on the land plots in the given territory, (23.07.99 #2343 "Legal Gazette # 38(45)) and the land tax is reduced by 50% (09.06.99 #2080 "Legal Gazette # 24 (31)) for the inhabitants of mountainous regions in southern Georgia on the land plot in the given regions.)(effective from January 1, 2000).
  - s) Land plots used for carrying out of oil and gas transactions (activities) determined by Law of Georgia "On Oil and Gas" (if not used for other purposes). (09.09.99 # 2386 "Legal Gazette" # 43 (50))
2. The established tax exemptions do not apply to the cases when the exempted physical or legal person leases the plot of land (or its portions), or the buildings and structures (or part of them) located on land which he owns or uses to another physical or legal person.

## **PART VII. TAX ON OWNERSHIP OF MOTOR VEHICLE**

### **Chapter 25. Tax on Ownership of Motor Vehicles**

#### **Article 159. Taxpayers**

The taxpayer is a person who is the owner of a motor vehicle.

#### **Article 160. Object of taxation**

The object of taxation is any vehicle included in chapter 87 (under codes 8702 - 8704) of the code system for foreign economic activity.



### Article 161. Tax Rates

The tax rates differentiated according to the type, tonnage and capacity of vehicle are following:

Type of Vehicle (27.09.2000 #513 "Legal Gazette)	Tax rate, (GEL)
Passenger cars	5
Trucks up to 3 ton of load-carrying capacity (inclusive)	10
Trucks with 3-10 ton of load-carrying capacity (inclusive)	50
Trucks with 10-20 ton of load-carrying capacity (inclusive)	80
Trucks over 20 tons of load-carrying capacity	100
Busses (up to 12 seats)	50
Busses (13-30 seats)	70
Busses (over 30 seats)	100

### Article 162. Procedure for Payment of Tax

1. The tax is payable to the state road fund at the time of registration, re-registration (if the previous owner of the motor vehicle has not paid the tax in the given year) or the annual technical inspection of the motor vehicle.
2. The registration, re-registration or technical inspection shall not be undertaken without presenting documents proving the payment of the tax.
3. The tax is collected by a service established by the road management agency, jointly with the Ministry of Internal Affairs.

### Article 163. Tax Concessions

The following are not taxed:

- a) motor vehicles which are technically inoperative and are not subject to technical inspection in the given year;
- b) manually driven vehicles and motor-carriages (one vehicle or motor-carriage for each owner);
- c) motor vehicles owned by invalids of the Second World War, persons disabled as a result of military operations carried out on the territory of other states and for the integrity, freedom and sovereignty of the territory of Georgia, and persons equalized with them (not more than one unit per person).

## **PART VIII. TAX ON TRANSFER OF PROPERTY**

### **Chapter 26. Tax on Transfer of Immovable Property**

#### **Article 164. Taxpayers**

The taxpayer is the transferee of the property.

#### **Article 165. Object of Taxation**

1. The object of taxation is any immovable property located in Georgia, on which the transfer of title is carried out or which is transferred under a lease or tenancy agreement according to the Civil Code of Georgia. (30.10.98 # 1666 "Legal Gazette" #4).
  - a. agreement
  - b. lease agreement
  - c. document verifying the transfer of title to the tenant
2. Hypothecation of immovable property located in Georgia and encumbering by other facilities to secure obligations stipulated by legislation of Georgia is not recognized as an object of taxation. (13.07.2000 # 470 "Legal Gazette" # 30)

#### **Article 166. Tax Exemptions**

The following are exempt from taxation:

- a) a lease or tenancy agreement for a term of less than 1 year; (30.10.98 # 1666 "Legal Gazette" #4)
- b) a transfer to a spouse, parent, son, or daughter;
- c) a transfer on the basis of divorce;
- d) a gratuitous transfer to the state or to a budgetary, charitable, or religious organization;
- e) a transfer in the case of reorganization.
- f) Transfer in consistence with Georgia Law "On Oil and Gas" for implementation of oil and gas transactions according to agreement on share distribution. (09.09.99. # 2386 "Parlamentis Utskebani # 43(50))

#### **Article 167. Determination of Taxable Amount**

1. The taxable amount is the amount of compensation transferred, directly or indirectly (but not less than the market prices) including received indebtedness.
2. In the case of a lease or tenancy, the taxable amount is determined by discounting the amounts payable under the lease or tenancy agreement. (30.10.98 # 1666 "Legal Gazette" #4)

### **Article 168. Tax Rate**

The tax rate is 2 per cent of the taxable amount. For the purpose of this Part , receiving a car vehicle at one's disposal on the basis of an agreement is deemed as transfer of the property. (29.12.2000 # 715 "Legal Gazette" # 51)

### **Article 169. Procedure for Payment of Tax**

1. The tax is payable prior to the registration of the written document by the registering agency. The registering agency registers the written document only upon presentation of a document proving the payment of tax. For approving the transfer of property, among other documents to be submitted, a document from tax agencies indicating tax payment should be presented. (01.05.98. # 1369 "Parlamentis Utskebani")
2. If the written document is not registered, the tax is payable to the tax agency at the moment of the transfer, which is subject to declaration by the taxpayer to the tax agency.

## **Chapter 27. Inheritance and Gift Tax**

### **Article 170. Taxpayers**

1. The taxpayer is recognized as a person who has received in ownership from a physical person any kind of property by inheritance or as a gift.
2. For the purposes of this Chapter a physical person who makes a transfer is called the "transferor".
3. For purposes of this Part, if a physical person uses property of a legal person for a gratuitous transfer, the transaction will be treated as if made directly by that physical person.

### **Article 171. Object of Taxation**

The object of taxation is the property received from the transferor by inheritance (by law or by will) or as a gift, if:

- a) the physical person receiving the property is a resident at the moment of receiving the property or is a resident (18.09.97. # 870 "Parlamentis Utskebani" # 37-38) legal person more than 50 percent of the shares in which are owned directly or indirectly by nonresident;
- b) the transferor is a resident at the time of gift or death;
- c) the property is immovable property that is located in Georgia.

### **Article 172. Tax Exemptions**

1. The following are exempt from taxation:
  - a) the receipt of property by inheritance from a deceased person or as a gift by the first and second order heirs;
  - b) property worth of 50 000-Lari when received by inheritance ;
  - c) property worth of 1000-Lari when being gifted.
2. The exemptions indicated in subsection “c” of part 1 of this Article are allowed only once for the same transferor and the same transferee in the same calendar year.

### **Article 173. Determination of Tax Base**

The tax base is recognized as the average market value of the property at the moment of receipt, minus the following deductions:

- a) in the case of inheritance - the necessary expenses for administering inheritance and the debts of the deceased;
- b) the amount of compensation paid by the transferee, including assumed indebtedness.

### **Article 174. Tax Rates**

The tax rate is 30 percent for persons other than heirs of the first and second order.

### **Article 175. Procedure for Payment of Tax**

1. The tax is paid independently by the taxpayer without written notice by the tax agency.
2. The taxpayer receiving property by inheritance pays tax no later than six months from the receipt of the document confirming the title (18.09.97. # 870 “Parlamentis Utskebani” # 37-38) to the inheritance, while in the case of property received as a gift not later than one month after the gift agreement is concluded.
3. The taxpayer is required to submit a return to the tax agency within the terms established in part 2 of this Article.

### **Article 176. Credit for Tax on Prior Transfers**

If a transfer of property is taxed and the transferee dies within two years of the transfer, the tax paid on the first transfer is allowed as a credit in computing the tax resulting from the transferee’s death. If the transferee dies within three years from the receiving the property, the percentage allowed as a credit is 80 percent, if the transferee dies within four years - 60 percent, and if the transferee dies within five years - 40 percent.

### **Article 177. Credit for Tax paid in a Foreign Country**

In the case of payment of tax on property gifted or inherited in a foreign country, a credit is made in respect to the sum paid in that country. Credited will be the amount paid as tax for the assets left by inheritance or by gift within the tax rate existing in Georgia. (30.10.98. # 1666

“Legal Gazette” #4)

## Chapter 28. Tax on Transfer of Motor Vehicles

### Article 178. Taxpayers

The transferee of property is the payer of the tax for transfer of a motor vehicle.

### Article 179. Object of Taxation

The object of taxation is a motor vehicle which is indicated under code 8702 - 8705 and 8711 of the code system (13.07.2000 # 470) “Legal Gazette” #30) for foreign economic activity. For purposes of this Part, transfer of the motor vehicle at one’s disposal on the basis of the agreement is deemed as a taxable operation. (29.12.2000 # 715 “Legal Gazette” # 51)

### Article 180. Tax Exemptions

The following are exempt from taxation:

- a) registration or re-registration of an automobile by its importer into Georgia, if the VAT was paid at importation;
- b) registration or re-registration of an automobile by the buyer, if the seller paid VAT upon delivery of the automobile to the buyer;
- c) transfer of an automobile to a spouse, parent, son/daughter;
- d) transfer of an automobile on the basis of divorce;
- e) gratuitous transfer of an automobile to the state, budget-financed, charitable, or religious organization;

### Article 181. Tax Rates

Tax rates are differentiated based on capacity of engine of the vehicle and the year of its production:

N	Type of Motor Vehicle	Age of Motor Vehicle	Capacity of engine Tax amount per 1 cm. (In GEL)
1.	Passenger automobiles	up to 2 years	0.10
		2-5 years	0.08
		5-10 years	0.07
		10-15 years	0.05
		More than 15 years	0.04

2.	Trucks and Buses	Up to 5 years	0.08
		5-10 years	0.07
		10-15 years	0.04
		More than 15 years	0.02
3.	Motorcycles	Up to 5 years	0.07
		5-10 years	0.05
		More than 10 years	0.02

2. When the date of production is unclear, motor vehicles will be taxed by the tax rate stipulated for motor vehicles of 5-10 years of age. (29.12.2000 #715 "Legal Gazette" #51)

**Article 182. Tax Rate** (13.07.2000 # 470 "Legal Gazette" #30)

(Deleted)

### **Article 183. Procedure for Payment of Tax**

The tax is payable prior to the registration or re-registration of the automobile transfer with the registration agency. The registration agency registers or re-registers transfer of the automobile only after the tax has been paid.

In case of receipt a motor vehicle at one's disposal on the basis of the agreement, the tax should be paid prior to notarization. Notary shall not take any notary action until the document verifying payment of the tax is provided (29.12.2000)

## **PART IX. SOCIAL TAX**

### **Chapter 29. Social Tax**

#### **Article 184. Social Tax**

Social tax is an obligatory targeted payment for the formation of the social protection state consolidated fund and financial support for implementation of state employment programs (Presidential Decree #1088-I, September 28, 2001) which are paid by taxpayers on the amounts of wages or other payments equalized with them according to the rates established in this Part, as well as incomes received by the physical persons- entrepreneurs from the economic activity. (08.06.99. #2056 "Legal Gazette" #20(27)).

## **Article 185. Taxpayers**

Social taxpayers are:

- a) physical persons – entrepreneurs (13.07.2000 #470 “Legal Gazette” #30) and legal persons - employers, who make payments of wages to physical persons working as employees in Georgia;
- b) physical persons - entrepreneurs and legal persons, who in the course of economic activity make payments to physical persons who render services in Georgia, on the basis of contracts or without a contract;
- c) physical persons receiving remuneration according to sections “a” or “b” of this Article;
- d) physical persons - entrepreneurs and persons equalized with them according to this Code and persons carrying out entrepreneurial (13.07.2000 #470 “Legal Gazette” #30) activity in Georgia; (01.05.98. #1369 “Parlamentis Utskebani” #19-20).
- e) physical persons independently performing non-entrepreneurial activities in Georgia in consistence with Article 1.2 of Law of Georgia “On entrepreneurs”. (13.07.2000 #470 “Legal Gazette” #30).
- f) For the purposes of this chapter, branches and other separate structural units specified in Article 12.1 (c) are independent persons. (16.03.2001 #807 “Legal Gazette” #8)

## **Article 186. Objects of Taxation**

1. The object of taxation in the cases described in section “a” of Article 185 of this Code is wage, determined according to Article 38 of this Code. The object of taxation in the case stipulated by section “b” of Article 185 of this Code is determined in the same manner as in the case for physical persons working as employees. The tax exemptions described in Article 38 of this Code are applied for the calculation of the social tax as well.
2. In the cases provided for in section “c” of Article 185 of this Code the object of taxation is the same as provided for the payment of wages or other remuneration pursuant to part 1 of this Article.
3. For taxpayers described in section “d” of Article 185 of this Code (13.07.2000 #470 “Legal Gazette” #30) the object of taxation is taxable income from economic (08.06.99. #2056 “Legal Gazette” #20(27)) activity, determined according to the income tax provisions under this Code.
4. For taxpayers envisaged in section “e” of Article 185 of this Code the object of taxation is taxable income received in terms of activities stipulated in article 1.2 of Law of Georgia “On Entrepreneurs”. (13.07.2000 #470 “Legal Gazette” #30).

## **Article 187. Tax Exemptions**

The following are not taxed:

- a) amount paid to persons confined to correctional institutions by court decision;

- b) payments for temporary inability to work paid out of the resources of the fund for state social insurance.
- c) amounts paid out of the resources of organizations which was received as grants;
- d) income of the persons working at diplomatic and consular establishments as employees who are not citizens of Georgia;
- e) income earned by the non-resident person of Georgia residing on the territory of Georgia for less than 90 days during the tax year if this income is paid out by an employer who is a non-resident of Georgia or on his behalf, and not by the permanent establishment of a non-resident, as well as the income of foreign citizens hired for oil and gas works according to the law of Georgia "On Oil and Gas". (16.04.99. #1894 "Legal Gazette" #13(20)).

### **Article 188. Tax Rates**

1. The rates of social taxes are:
  - a) for persons described Article 185. *a.*, *b.*, *d.* and *e* (25.06.99. #2180 "Legal Gazette" #26(33)) - the tax rate payable to the Social Welfare Consolidated State Fund is 27 per cent of the taxable amount, and 1 per cent to The Unified State Fund of Employment. For the persons envisaged in sections "a", "b", "d" and "e" of Article 185 the amount to be paid to the special account of the treasury of the central budget aimed to finance state programs of social protection of unemployed and employment support (Presidential Decree #1088-I, September 28, 2001) is not less then GEL 16 per person per month; (13.07.2000. #470 "Legal Gazette" #30)
  - b) for physical persons discribed in Article 185.*c* - the tax payable to the state social welfare consolidated fund is 1 percent of the taxable amount.
2. For public organizations of disabled persons as well as (01.05.98. #1369 "Parlamentis Utskebani" 319-20) remuneration of disabled persons and pensioners working at organizations for disabled persons and their enterprises for disabled persons, where more then 70 percent of disabled persons and pensioners are engaged, the rate of tax indicated in subsection "a" of part 1 of this Article is reduced to 10 percent.

### **Article 189. Procedure for Determination and Payment of Tax**

1. In the cases described in sections "a" and "b" of Article 185, the tax is withheld on the payment of wages or other remuneration to the employee while in the case the wages are paid through banks, the employer shall present payment instructions for the tax to be paid. Without presentation by the taxpayer of the aforementioned payment instructions the remuneration sum is not released. The taxpayer employers shall present to the tax agencies the report in the form established by the Tax Inspection of Georgia.
2. The tax which is paid by the employee (contractual worker) is withheld by the employer on the payment of wages, and is paid according to the procedure described in part 1 of this Article.
3. The physical persons described in section "d" and "e" of Article 185 of this Code (25.06.99. #2180 "Legal Gazette" #26(33)) pay the tax at the same time as the income tax. Also, current payments of social tax are defined according to Article 89 of this Code in



respect of the previous reporting year return. Submission of a return shall be made together with the income tax return (30.10.98. #1666 “Legal Gazette” #4).

4. The calculation of the social tax starting from the beginning of the year on a cumulative basis will be submitted to tax agencies by the persons described in sections “a” and “b” of Article 185 of this Code (30.10.98. #1666 “Legal Gazette” #4) by the 15<sup>th</sup> day of the following reporting month. (01.05. 98 #1379 “Parlamentis Utskebani” #19-20).

## **PART X. TAX ON THE USE OF NATURAL RESOURCES**

### **Chapter 30. General Provisions**

#### **Article 190. Purpose for Introduction of Tax**

The purpose is:

- a) to ensure the rational usage of natural resources based on principles of potential capacity and sustainable development of the environment in order to establish principle of payable use of natural resources;
- b) to support financial security of replacement and protection of natural resources by transferring tax receipts to the state budget of Georgia.

#### **Article 191. Concept of Tax**

The tax is a direct tax payable for the use of the state-owned natural resources (with the exception of land resources).

### **Chapter 31. Taxpayers of the Tax on Use of Natural Resources and Object of Taxation**

#### **Article 192. Taxpayers**

Taxpayers are:

- a. physical and legal persons engaged in any activity subject to a licensing for use of the natural resources under the legislation of Georgia, except for the natural resources indicated in article 193.b.
- b. physical and legal persons extracting the natural resources from the environment in respect of use of the natural resources indicated in article 193.b.
- c. for the purposes of this part, branches and separate branch units stated in article 12.1.c are independent persons. (16.03.2001 # Legal Gazette”)

#### **Article 193. Object of Taxation**

The object of taxation of the tax on the use of natural resources is the volume (quantity) of the natural resources extracted from the environment located on the territory of Georgia (including territorial waters, airspace, the continental shelf, and the special economic zone),

in particular:

- a) the volume (quantity) of the mineral resources extracted from the environment;
- b) the volume (quantity) of timber wood resources of the forest fund obtained from the environment;
- c) the volume (quantity) of flora resources obtained from the environment, its activity products, parts and derivatives, including (30.10.98.# 1666 “Legal Gazette” #4) fir-tree cones;
- d) the volume (quantity) of water resources obtained from the environment;
- e) the volume (quantity) of fauna resources obtained from the environment, except birds of passage, whose obtaining from the environment is subject to the fixed tax, the amount of which is determined by the law. (30.10.98.# 1666 “Legal Gazette” #4)

## **Chapter 32. Rate of the Tax on Use of Natural Resources and the Procedure for Payment**

### **Article 194. Amount of Tax**

1. The amount of tax for the use of the mineral resources:
  - a) the marginal tax amount for use of the mineral resources shall be determined according to the main types of the mineral resources (See the table below):

Type of mineral resources	Marginal Tax Amounts expressed as percentage against Price of the Extracted Mineral Resources
Oil, Gas	5-10
Coal	2-5
Peat and Sapropelite	2-5
Ferrous Metals:	
Iron	1-3
Manganese	2-7
Non-ferrous Metals (Copper, Lead, Zinc, Antimony, Cadmium, Aluminum, Strontium, etc.)	3-5
Precious Metals (Gold, Platinum Metals, Silver)	4-6
Rare metals, elements and soil	2-5
Mining-Chemical Raw Materials (Andesite, Barite, Calcite, Bertonite clays, Diatomite, Iodine, Bromine,	1-5

etc.)	
Non-metallic Raw Materials (including those necessary for metallurgy) (Dolomite, Fire-clays, Fluxing Limestone, Silica Sands for sand mould, Mineral Dyes, Talc, Zeolite, Kaoline, Pegmatite, Lithographic Limestone, etc.)	1-8
Gem Stones	4-6
Construction Materials (Cement Raw Materials, Gypsum, Plaster, Perlite, Facing Stone, Gravel, Sand, Brick Clays, Sawn Stone, etc.)	2-5
Mineral Waters (except for the mineral waters enlisted in items “c” and “f” of this part (29.12.2000))	1-10
Sludge	5-15
Carbon Dioxide-Gas	2-10
Underground Thermal Waters	1-15
Underground Fresh Waters	2-8
Waste of Extraction and Processing of Solid Mineral Resources	0.5-3
Tailings of Mining Production	1-5

- b) the concrete amount of the tax on use of the mineral resources within the marginal amount indicated in part 1.a of this article according to the main types of the mineral resources, their quality and location, shall be determined by the Intradepartmental Council of Experts for Licensing Use of Mineral Resources and shall be entered into the relevant license, with the exception of oil and gas. In respect of use of gas and oil, the concrete tax amount on the use of mineral resources within the marginal amount in part 1.a of this Article shall be determined by the Oil and Gas Regulating State Agency and be entered into the license issued by this agency in consistence with the law of Georgia “On Oil and Gas”. The concrete tax rate shall be defined as a percentage against the price of the extracted mineral resources (without VAT). (16.04.99. #1894 “Legal Gazette” #13(20)).
- c) Tax rate on use of natural resources in respect of the “Borjomi” mineral water shall be determined as GEL10 per 1m<sup>3</sup> of water.
- d) Tax rate on use of natural resources in respect of the “Nabeghlavi” mineral water shall be determined as GEL 6 per 1m<sup>3</sup> of water.
- e) Tax rate on use of natural resources in respect of the “Sairme” mineral water shall be determined as GEL 6 per 1m<sup>3</sup> of water.
- f) Tax rate on use of natural resources in respect of the “Utseri” mineral water shall be determined as GEL 4 per 1m<sup>3</sup> of water.

- g) Total tax amount in respect of use of natural resources shall be charged on the quantity of the water supplied to an entrepreneur in consistent to the relevant license. License on the mineral water “Borjomi” is issued for no less than 1% of the total debit of the mine.

1<sup>1</sup>. (29.12.2000 # 715 “Legal Gazette” #51) Price of the extracted mineral resources (except for gem stones, rare and precious metals subject to state-regulated prices) shall determined as a free (market) wholesale price established on the basis of combining free interests of the parties concerned of demand-supply of a free competition, tax system in force and purchase and sale actions according to legislation of Georgia.

1<sup>2</sup>. In case extractors of the mineral resources sell or use the mineral resources for their own purposes, the price on the whole extracted or used mineral resources except for the mineral waters listed in article 194.1 *c-f*., shall be determined according to the price of the production sold to other consumers.

1<sup>3</sup>. The price of the mineral and fresh underground waters, except for the bottled mineral waters listed in article 194.1. *c-f*., shall be determined without the price of a container and subsidiary materials. (29.12.2000 #715 “Legal Gazette” #51)

1<sup>4</sup>. For purposes of points 1<sup>1</sup> and 1<sup>2</sup> of this article, extracted and ready for sale minerals are considered commodity production of non-metallic construction materials minerals, notwithstanding they are utilized by a miner or transferred to other person for further utilization. (21.12.2001 # 1212-Is, “Legislative Bulletin”).

2. The tax rate for the use of timber resources of lumber wood of the forest fund (18.09.97 # 870 “Parlamentis Utskebani” # 37-38):
- a) the tax rate for the use of timber resources of lumber wood of the forest fund is determined in accordance with the category of the types of timber found on the lands of the forest fund of Georgia established by laws by their commercial quality pursuant to the table below (30.10.98 #1666 “Legal Gazette” #4):

Type of timber	Ca	Tax rate per one solid cubic meter of timber as percentage of the market price			
		Hewn timber (diameter at narrow top)			wood
groups (including names of kinds) (18.09.97 #870 “Parlamentis Utskebani” #37-38)	Ry	thick 25 cm and more	medium 13-24 cm	Narrow 4-13 cm	(unsawn)
Group I Yew, box-tree, juniper, zelcova, walnut-tree	1	34	30	27	5
	2	30	27	24	4
	3	26	24	21	3
	4	22	21	18	2
Group II	1	30	26	23	5
	2	26	23	20	4

Oak, chestnut, ash, elm, mulberry, maple, lime-tree, wild pear, sagsadgi	3	21	20	17	3
	4	18	17	14	2
Group III Beech, hombeam, oriental acacia, hack-berry, plane-tree	1	26	22	19	5
	2	22	19	16	4
	3	18	16	13	3
	4	14	13	10	2
Group IV Pine, fir, silver fir, cedar, cypress, thuja	1	22	18	15	5
	2	18	15	12	4
	3	14	12	9	3
	4	10	9	6	2
Group V Other kinds of woods timber	1	18	14	11	5
	2	14	11	8	4
	3	10	8	5	3
	4	6	5	3	2

- b) the market price for each group of timber variety is determined in accordance with part 10 of article 27 of this Code;
- c) the tax on the use of varieties included in the Red Book of Georgia is payable only in exceptional cases: during cutting of trees being dead because of pathological diseases, unrooted trees as a result of snow-drifts and storms, trees cut in connection with the building of high-ways, electric lines, pipelines, hydrotechnical structures. Also, the tax on the use of the above varieties applies to calculate the damage resulting from the illegal cutting of trees.
3. The amount of tax for the use of obtained flora resources, its activity products, parts and derivatives, including fir-tree conifer resources:
- a) the amount of tax for the use of obtained flora resources, its activity products, parts and derivatives, including the fir-tree conifer resources on the territory of Georgia is determined as 10 percent in regard to their market price;
- b) the market price of obtained flora resources, its activity products, parts and derivatives, as well as of fir-tree conifer resources is determined in accordance with Article 27 (10) of this Code. (30.10.98. #1666 “Legal Gazette” #4)
4. The tax rate for use of water resources:
- a) the rate for the use of water resources is differentiated according to water object groups under the table below:

Groups of water objects (including names of water object kinds)	Tax rate per one cubic meter as percentage of market price
Group I (Mtkvari with tributaries, communicated lakes and other surface reservoirs)	10
Group II (Black Sea water)	5
Group III (other surface water objects)	3

b) the tax rate for enterprises of the thermal station (01.05.98 #1369 “Parlamentis Utskebani #19-20) and irrigation system is 1 percent of basic amount and for enterprises of power stations (18.09.97. #870 “Parlamentis Utskebani” #37-38) - 0.01 percent of basic amount and 0.01tetri per 1 cubic meter of water - for using community and village water pipelines of underground or over ground water;

c) The market price for each group of water objects is determined in accordance with part 10 of Article 27 of this Code.

5. The tax rate for the use of the animal resources:

a) the tax rate for the use of the animal world resources (objects) is determined according to species spread in Georgia under the table below:

Groups of animal world Objects (including the name of species of the animal world)	Tax rate (per individual unit of mammals’ and birds, fish and sea animals per ton) as a percentage of the market price of the resource
Group I (bear)	35
Group II (wild-boar)	20
Group III (fallow-deer, deer)	45
Group IV (wolf)	25
Group V (jackal, fox, badger, chamois, raccoon dog, raccoon, wild cat, coypu rat)	15
Group VI (hare)	10
Group VII (Caucasian goat chamois)	55
Group VIII (other mammals)	5
Group IX (pheasant)	35
Group X (partridge, wild goose, wild duck)	25
Group XI (snipe, double snipe, woodcock, quail)	20

Group XII (other birds)	10
Group XIII (khamisa/anchovy family)	2.5
Group XIV (sprat, whiting, herring, mackerel, scomber, sardine)	2.0
Group XV (gray mullet, barbel, gudgeon, murtsa, shemaia /local varieties/, sheat-fish)	3.0
Group XVI (white amur, tolstolobik /carp family/)	2.2
Group XVII (carp, chub, bream, Caspian roach, pike)	1.8
Group XVIII (white fish, pelyad /white fish family/)	1.5
Group XIX (Katran)	4.0
Group XX (river trout, lake trout, salmon family)	3.5
Group XXI (sturgeon family)	5.5
Group XXII (shell-fish, molluse)	2.5
Group XXIII (other fishes and sea animals)	1.0
Group XXIV (other wild animals under the threat of extinction)	30.0

- b) the market value for each group of the animal world species is determined according to Article 27 (10) of this Code;
- c) the tax on the use of the species included in the Red Book of Georgia applies to calculate the damage incurred from illegally obtaining the resources;
- d) For extracting the migrating birds the single presumptive tax is 5 Lari per season. (25.06.99 #2180 "Legal Gazette" #26 (33))

#### **Article 195. Procedure for Payment and Transfer of Tax to the Budget**

1. Tax for the use of natural resources is to be paid before the 15th of the month following the reporting month. Tax for the use of timber resources of lumber wood of the forest fund, obtained flora resources, its activity products, (16.03.2001 #807 "Legal Gazette" #8) parts and derivatives, including the fir-tree conifer resources should be paid at the time of their transportation from the forest (13.07.2000 #470 "Legal Gazette" #30). The tax for the use of water resources in agriculture is to be paid before December 1 of the relevant year. At the same time taxpayers according to their location submit calculation of the tax, using the established form, to the tax agencies.
2. Tax for the hunting on birds in passage is to be paid before receiving one-time namely license, for which taxpayers shall submit the reference issued by the tax inspection to the Licensing Agency. ( 30.10.98 # 1666 "Legal Gazette" #4)

3. An entrepreneur is to pay tax on use of natural resources for mineral waters at the end of each 3 months after receiving the license for using the natural resources according to the tax rate determined by the license for that period. (29.12.2000)

## **Chapter 33. Tax Concessions and Exemption**

### **Article 196. Tax Concessions and Exemptions**

1. Exempt from taxation is the volume (quantity) of mineral resources gained in the course of the construction of an underground, water supply, sewerage systems, and underground structures. (30.10.98. # 1666 "Legal Gazette" #4)
2. The tax rate shall be reduced by 70 percent:
  - a) for users of natural resources whose activities are connected with scientific and cultural-educational activities;
  - b) for users of natural resources that have carried out the restoration or replacement of natural resources from their own funds, within the limits of the volume (quantity) of restored (replaced) resources.

## **PART XI. TAX ON POLLUTION OF THE ENVIRONMENT WITH HARMFUL SUBSTANCES**

### **Chapter 34. Tax on Pollution of the Environment with Harmful Substances**

#### **Article 197. Taxpayers**

1. The taxpayers are all physical and legal persons that carry out in Georgia entrepreneurial activity or any other activity of the first, second, third and fourth category in accordance with the scope, importance and degree of the environmental impact under the Law of Georgia "On the Environmental Permit", dated October 15, 1996, and
  - a) pollute the environment from stationary sources of pollution by their activity;
  - b) carry out import and production of gasoline, diesel fuel, kerosene, mazut, natural and liquid gas (except natural gas used as a raw material for production of goods). (25.06.99. # 2180) "Legal Gazette" #26 (33))
2. For the purposes of this chapter, branches and separate structural units specified in Article 12.1 (c) are independent persons. (16.03.2001 #807 "Legal Gazette #8)

#### **Article 198. Object of Taxation**

The object of taxation is:

1. The amount of harmful substances within the established limits:
  - a) emitted into the atmosphere from stationary sources of pollution; or
  - b) released into water objects (including from municipal sewer and storm drain systems).



2. The amount of gasoline, diesel fuel, kerosene, mazut, natural and liquid gas imported, produced or supplied by taxpayers on the territory of Georgia, (30.10.98. #1666 "Legal Gazette' #4) (except for natural gas used as a raw material for production of goods). (25.06.99. #2180 "Legal Gazette" #26 (33))
3. The export of goods described in part 2 of this article is exempted from tax. ( 30.10.98. #1666 "Legal Gazette' #4)

### **Article 199. Determination of Limits**

A limit for dispersal (releasing in water) of harmful substances into the environment is considered to be an amount of emitted (released) harmful substances that is established for taxpayers for every calendar quarter. (18.09.97. #870 "Parlamentis Utskebani" #37-38) Taxpayers work out draft limits in accordance with procedures established by legislation, and submit them to local agencies of the Ministry of Environmental Protection and Natural resources. The Ministry of Environmental Protection and Natural resources and relevant ministries of the Abkhazian and Ajarian Autonomous Republics approve limits for large-scale stationary objects of pollution. The list of large-scale stationary objects of pollution is developed and approved by the Ministry of Environmental Protection and Natural resources. Limits approved for a reporting period are not subject to change. Taxpayers, in agreement with local environmental protection agencies, shall divide the annual limit for emitting (releasing in water) harmful substances into quarterly allotments, in four equal parts or based on their production plans. Taxpayers are obliged to submit the approved annual limits (according to quarters) to tax agencies before the beginning of the reporting year.

### **Article 200. Tax Rates**

1. Tax is paid on each ton of basic pollutants emitted into the atmosphere (released into water objects) at the following rates:
  - a) tax rates for the emission of pollutants from stationary sources into the atmosphere (within the limit):

Type of pollutant	Tax norm for the emission of 1 ton of the pollutant into the atmosphere (in Lari)
Nitrogen peroxide, ammonia	112.5
Acrolein, ozone, chlorine	150.0
Sulfur dioxide, magnesium oxide, potassium oxide, dust, soot, zinc oxide	90.0
Acetaldehyde, hydrocyanic acid	450.0
Acetone	13.0
Benzopyrene	4500000.0
Hydrocarbons (total )	3.0
Benzol, ethyl acetate, sulphuric acid, butyl alcohol, ethyl acetate	45.0

Carbon dioxide	0.01
Vanadium pentoxide, cupric oxide, styrolene	2250.0
Hydrogen chloride (hydrochloric acid), xylene	22.50
Nitric acid	30.0
Acetic acid, percloretylene, cyclohexanon	75.0
Manganese dioxide	4500.0
Arsenic, phenol, formaldehyde	1500.0
Soluble nickelous salts	22500.0
Mercury, lead	15000.0
Hydrogen sulfide	563.0
Turpentine	4.5
Methyl alcohol	9.0
Ethyl alcohol	0.9
Toluene	7.5
Carbon monoxide	1.5
Hydrogen fluoride	900.0
Chromic oxide	3000.0
Cyclohexanon	112.50

b) tax rates for the discharge of basic pollutants into water objects (within the limit):

Type of pollutant	Tax norm for the emission of 1 ton of the pollutant (Lari)
a) inorganic substances	
Suspended substances	7.8
Sulfates	0.5
Chlorides	0.2
Phosphates	156.0
Boron, titanium	390.0
Cyanides, phosphorus	39000.0
Fluorides	790.0
Metallic ions	
Tungsten, copper, chromium, lead, cadmium,	39000.0

vanadium, selenium	
Nickel, manganese, cobalt, zinc, tellurium	3900.0
Arsenic, stibium	790.0
Iron, aluminum	78.0
Mercury, beryllium, gallium, molybdenum	390000.0
Barium	19.5
b) organic substances	
Biochemical need for oxygen	13.0
Ethylene	100.0
Total nitrogen, ammonium nitrogen, synthetic surfactants, methanol	390.0
Petroleum products, ketones, formaldehydes, acetone, butyl alcohol	780.0
Phenols, highly-toxic metallorganics (18. 09. 97. 870 "Parlamentis Utskebani 37-38)	39000.0

2. Taxes on all other substances emitted from stationary sources of pollution into the atmosphere (released into water objects) are paid at the following rates:
  - a) for substances emitted into the atmosphere - 4.5 Lari; multiplied by the relative hazard coefficient of the substance;
  - b) for pollutants released into water objects - 39 Lari, multiplied by the relative hazard coefficient of the substance.
3. The relative hazard coefficient is inversely proportional to the average maximum permissible daily concentration (one divided by maximum permissible concentration). The relative hazard coefficient for pollutants emitted into the atmosphere and released into water objects is developed and approved by the Ministry of Environment Protection and Natural resources of Georgia.
4. On each tone of polluted substances let into the air or dumped into water over set limits the fine in the amount of five times of the tax rate for pollution within the limit.
5. The tax rates for gasoline, diesel fuel, kerosine, mazut, natural and liquid gas imported and produced and supplied in Georgia (except natural gas used as a raw material for production of goods) are the following (25.06.99. # 2180 "Legal Gazette" #26 (33)):

No.	Type of Fuel	Measurement	Tax rates in Lari
1.	leaded gasoline	1 kg	0.12
2.	non leaded gasoline	1 kg	0.04
3	diesel fuel	1 kg	0.035
4.	kerosene	1 kg	0.02
5.	mazut containing from 0.5 to 2 percent of sulphur	1 kg	0.01
6.	mazut containing more then 2 percent of sulphur	1 kg	0.02
7.	liquid gas	1 kg	0.01
8.	natural gas	1 cubic meter	0.005

#### Article 201. Tax Conversion Coefficients

The amount of tax is calculated for a specific region (water objects) taking into consideration the current ecological situation. The rate of the tax is multiplied by relevant coefficients corresponding to the ecological situation:

- a) tax conversion coefficients for the emission into the atmosphere of pollutants from stationary sources are established as follows:

Name of the region	Conversion coefficients
a) extremely polluted or designated for resort purposes: Zestafoni, Borjomi, Gagra, Kobuleti, Gudauta, Gulripshi, Ochamchira, Dzhava, Abastumani	1.5
b) highly polluted Tbilisi, Kutaisi, Sukhumi, Batumi, Rustavi, Kaspi, Tkvarcheli, Marneuli, Gardabani	1.3
c) polluted Zugdidi, Samtredia, Senaki, Poti, Tkibuli, Akhaltsikhe, Gori, Khashuri, Tskhinvali, Chiatura, Bolnisi, Telavi	1.2
d) all other cities and regions	1.0

- b) conversion coefficients for the discharge of pollutants from stationary sources into water objects:

Name of the region	Conversion coefficients
a) extremely polluted : Shoreline Black Sea, Rioni River basin, Kura (Mtkvari) River and its tributaries from the city of Gori to the border of the State, and the Zhoekvara, Besleti, Gubistskali, Bartskhana, and Korolis Tskali Rivers	1.5
b) highly polluted; Kura (Mtkvari) River and its tributaries from the border of Turkey to the city of Gori, and the Enguri and Ghalidzga Rivers	1.3
c) polluted: Supsa River basin, and the Shavtskala, Mokvi, Khobi, Natanebi, Kintrishi, Alazani, and Tergi Rivers	1.2
d) other water objects	1.0

#### **Article 202. Submission of Return and Procedure for Payment of Tax**

1. Taxpayers that pollute environment from stationary sources are required to submit a tax return certified by the Ministry of Environment and Natural Resource Protection to the tax agency and pay tax by the 15<sup>th</sup> day of the month following the reporting quarter.
2. Taxpayers carrying out import of gasoline, diesel, kerosene, mazut and liquid gas will pay tax before the customs clearance of goods, for which the taxpayer will submit the tax return to the tax agency. Customs agencies will clear the goods only on the basis of reference certified the payment of tax, issued by the tax agencies.
3. Taxpayers producing and supplying petrol, diesel, kerosene, mazut, natural and liquid gas are to pay a tax on a monthly basis, no later than 15<sup>th</sup> of the following month and submit the tax return to the tax agencies within the same period. (16.03.2001 #807 "Legal Gazette" #8)

**PART XII. TAX ON ENTERING MOTOR VEHICLES ONTO THE TERRITORY OF GEORGIA AND BEING OVERLOADED** (01.05.98. #1369 "Parlamentis Utskebani #19-20)

**Chapter 35. Tax on Entering Motor Vehicles onto the Territory of Georgia and being Overloaded** (01.05.98. #1369 "Parlamentis Utskebani #19-20)

**Article 203. Taxpayers**

1. An ~~possessor owner~~ or driver of motor vehicles, registered abroad, entered onto the territory of Georgia is regarded to pay taxes on entering the territory and being overloaded.
2. ~~If aAn owner-possessor~~ or driver of a truck registered in Georgia is ~~in-transit, he is~~ considered as a payer of the tax on overloaded vehicle; ~~An possessor or driver of a truck registered in Georgia is considered as a payer of the tax as well as payer of the tax~~ for entering the territory of Georgia ~~if he or she transits the territory of Georgia.~~ . (01.05.98. #1369 "Parlamentis Utskebani #19-20)

**Article 204. Object of Taxation**

The object of taxation for entering the territory of Georgia as well as overloaded vehicles is any motor vehicle registered in a foreign country and entered onto the territory of Georgia or a truck registered in Georgia if it passes Georgia in transit or/and carries out overloaded shipments. (01.05.98 #1369 "Parlamentis Utskebani #19-20)

**Article 205. Tax Rates**

1. The tax rates for entering vehicles onto the territory of Georgia (01.05.98 #1369 "Parlamentis Utskebani #19-20) are differentiated according to the type of vehicle and load-carrying capacity and are:

<b>Types of Vehicles</b> (01.05.98 #1369 "Parlamentis Utskebani #19-20)	<b>Tax rates in Lari</b>
Cars	60
Buses (up to 13 seats)	115
Buses (13-30 seats)	230
Buses (over 30 seats)	380
Trucks and other vehicles up to 3 tons of capacity	230
Trucks - 3-10 tons of capacity	380
Trucks - 10-20 tons of capacity	480

Trucks - 20-40 tons of capacity	650
Trucks - over 40 tons of capacity	880

2. Owners-Possessors of trucks whose loads exceed the load-carrying capacity of the vehicle shall pay the tax for each ton of excess load at the following rate:
  - a) trucks (up to 20 tons of load-carrying capacity)
    - 10 percent of the tax determined by the part 1 of this Article;
  - b) trucks (over 20 tons of load-carrying capacity)
    - 5 percent of the tax determined by the part 1 of this Article.
  
3. The owners-possessors of the vehicles defined in Article 204 of the Code will pay additional tax on each pole in the case of over loading: up to 0.5 tons – GEL 50, 0.5-1.0 tons - GEL 80, 1.0-1.5 tons - GEL 100, 1.5-2.0 tons - GEL 125, 2.0-2.5 tons - GEL170, 2.5-3 tons - GEL 250. (01.05.98 #1369 “Parlamentis Utskebani #19-20)
  
4. Any motor vehicles the actual axial loading of which on any axle exceeds 13 tons, and their overall parameters are in excess of the standards maximally permissible on the motor roads of Georgia will be allowed to pass through only subject to an appropriate adjustment of those parameters.

#### **Article 206. Tax Payment Procedures**

1. The tax on entering motor vehicles onto the territory of Georgia is payable to the state road fund upon crossing the border of Georgia and the tax on overloading is paid to the same fund at places selected by the Road Department (if necessary at the agreement with Customs Department of the Tax Revenue Ministry). (01.05.98 #1369 “Parlamentis Utskebani #19-20)
2. It is forbidden to drive a motor vehicle on the territory of Georgia without documents proving the payment of tax.
3. The Customs Department of the Tax Revenue Ministry collects tax on entering motor vehicles onto the territory of Georgia, but the State Road Department inspects weight and dimensional parameters of motor vehicles and collects tax on overloading. (01.05.98 #1369 “Parlamentis Utskebani #19-20)

#### **Article 207. Tax Concessions**

1. The tax rates for entering of cars and passenger tour busses registered in the neighboring regions of the Republic of Azerbaijan - Kazakh, Taz, (18.09.97. #870 “Parlamentis

Utskebani #37-38) Ganja - and of the Republic of Armenia - Amasi, Ashoek, Tashir, Alaverdi, Noemberian into the Georgian regions of Ninotsminda, Dmanisi, Marneuli, Gardabani, Dedoplistskaro, Signaghi and Lagodekhi are as follows:

for cars – GEL 20; for buses up to 12 seats (inclusive) – GEL 25 ; for use over 13 to 30 seats (inclusive)- GEL 40; for buses over 30 seats – GEL 60 . (25.06.99 # 2180 “Legal Gazette” #26 (33))

2. Owners of cars and tour buses, which are registered in the Azerbaijan regions of Zakatala, Kakhi and Belarni, are not taxed upon entry onto the territory of Georgia.

## **PART XIII. LOCAL TAXES**

### **Article 208. General Provisions**

1. Local self-government bodies are entitled, within their terms of reference, to establish local taxes on the respective territory within the maximum limit stipulated by Article 6 of this Code.
2. The payment of local taxes is effected in the national currency, both by money transfer and by cash.
3. The term for the payment of local taxes to the budget by a respective territorial unit is fixed by the local self-government bodies.
4. Control over the payment of local taxes is set up by the state tax agencies.

### **Article 209. Tax on Economic (08.06.99. #2056 “Legal Gazette” #20(27)) Activity**

1. The tax on economic activity is paid by all physical and legal persons engaged in any economic activity on the territory of a corresponding city (region). (08.06.99. #2056 “Legal Gazette #20(27))
2. The maximum limit for the tax on economic activity (08.06.99. #2056 “Legal Gazette #20(27)) is determined as no more than 1.0 percent of income (without material expenditures) (18.09.97 #870 “Parlamentis Utskebani #37-38) without VAT received from the supply of products (works, services) including not more than 2 percent of the income (18.09.97 #870 “Parlamentis Utskebani #37-38) without VAT received from the services rendered for loading and unloading ships in Georgian ports and the places equalized with them.

### **Article 210. Tax on Gambling Business**

1. The tax on gambling is paid by the persons who are engaged in entrepreneurial activity by conducting lottery, casino, and other gambling business.
2. Other gambling business shall be considered as an entrepreneurial activity using money or commodity winning automates (other facilities and devices), as well as betting (dexterity) games.



3. The taxpayer is a person who has permission to be engaged in such activity according to the legislation of Georgia.
4. Incomes earned by activity stipulated in this Article are not subject to VAT.
5. The object of taxation for the tax on gambling business are:
  - a) incomes equal to gains from sale of lottery tickets;
  - b) tables and automates located at special gambling places used for gambling purposes;
  - c) income earned from the bets by organisers of games, totalizators and bettings, other than incomes of a winner;
  - d) income earned from other gambling business.
6. Tax rates are differentiated on the base of types of gambling business and determined as follows:
  - a) For chance-games at the following amount:
    - aa) For each gambling automate no more than GEL 200 /month.
  - ab) For each gambling table no more than GEL10,000/month. (13.07.2000 #470 "Legal Gazette #30)
  - b) For other types of gambling at the following amount:
    - ba) For betting – no more than 40 %
    - bb) For organizing totalizators – no more than 10%
    - bc) For organizing chance-games – no more than 35%
    - bd) For organizing lotteries – no more than 20 %.
7. Time of taxation for chance-games, lotteries and dexterity games is a calendar month in which incomes were received.
8. Time of taxation for betting and totalizators is a period of time during which betting or totalizators take place, that begins according to the established rules from the first day of making bet and ends on the last day when won amount is paid out. The period for conducting of betting and totalizators begins and ends at the same reporting year.
9. Organizers of dexterity games, totalizators, bettings and lotteries are responsible to submit a return to the local tax agencies in the form established by the Tax Revenue Ministry of Georgia, and pay tax no later than the 15<sup>th</sup> of the month following the reporting period.
10. Tax return in respect of the gambling tax shall be submitted even if there is no taxable income.
11. The payment of tax on gambling by organizers of gambling tables and automates for games of chance is made through purchasing assessment marks.
12. For the purpose of this Code assessment marks mean marks to be attached to the gambling tables and automates, certifying payment of the tax on these games and right of

organizers to set up gambling tables and automates at the place where gambling takes place.

13. Tax payment marks are required to include:
  - a) Unique code;
  - b) Taxation period;
  - c) Tax payment marks logo approved by the Tax Revenue Ministry of Georgia.
14. Tax payment mark is purchased by the organizer of games of chance from the local tax agencies before beginning of the reporting period.
15. Assessment mark is registered at the name of the chance games' organizer at the local tax inspections.
16. Organizer of games of chance is to affix assessment marks on the visible places of the gambling tables and automates on the first day when gambling begins and remove it at the end of each reporting period.
17. The Tax Revenue Ministry of Georgia defines procedures for purchase, registration, affixing and change (in case of damage) of assessment marks. ( 24.03.2000 #238 "Legal Gazette" #13)

#### **Article 211. Resort Tax**

Physical persons shall pay the resort tax for the receipt of test (treatment) and resort-related services at the resort locations. The maximum limit of the tax is GEL10 per person during a month.

#### **Article 212. Hotel Tax**

1. The hotel tax is paid by the legal and physical persons - entrepreneurs who provide to physical persons for remuneration in temporary use the dwelling area in hotels, holiday hotels, motels, camping sites, and other related objects on the territory of a respective city (region).
2. The maximum limit of the hotel tax is determined as not more than 2 percent of the cost of the use of the temporary dwelling area.

#### **Article 213. Advertisement Tax**

1. The advertisement tax shall be paid by resident and non-resident physical and legal persons who advertise their goods (work, service) and/or purchase advertisement services for the purposes of their economic activity. (13.07.2000 # 470 "Legal Gazette #30) The advertisement services rendered for the purposes of economic activity (30.10.98 # 1666 "Legal Gazette #4) include dissemination of information through mass media, catalogues, price-lists, directories, posters, bills, publicity boards and other means.

2. The dissemination of social advertisements and advertisements of charitable events shall not be treated as the advertisement services rendered for the purposes of entrepreneurial activity.
3. The advertisement tax rate shall be determined as not more than 10 percent of the VAT exclusive value of the activity and services carried out for the preparation and dissemination of advertisements and/or of value of the advertisement means. (30.10.98 #1666 "Legal Gazette" #4)

**Article 214. Motor Vehicles Parking Tax** (Deleted 30.10.98 #1666 "Legal Gazette" #4)

**Article 215. Tax on Use of Local Symbols**

1. The tax on the use of local symbols shall be paid by legal and physical persons - entrepreneurs who use of the symbols approved by the local self-government bodies - a coat of arms, depiction of historical or architectural monuments, views of a city or its particular places, and related symbols.
2. The name of a city (region) or other population center may not be used as a local symbol.
3. The maximum limit of the tax on use of local symbols is determined as not more than 2 percent of the proceeds from the supply of products using local symbols.

## **PART XIV. PROCEDURE FOR ADMINISTRATION OF TAXES**

### **Chapter 36. General Provisions**

**Article 216. Procedure for Application of Administrative Provisions**

The administrative provisions stipulated in this Part shall apply to all taxes, unless otherwise provided by this Code.

**Article 217. Forms of Tax Control and Audit in respect of Complete and Timely Payment of Taxes**

1. The tax agencies shall alone carry out tax control of computation and timeliness of payment of taxes by physical and legal persons as well as other aspects of tax administration and collection, except where this Code transfers this responsibility to another body. Other controlling and law enforcement agencies are prohibited to carry out tax audit of physical and legal persons. If necessary, the tax audit is carried out by the tax agency upon request of other controlling and law enforcement agencies. The taxpayer has the right not to submit the documents related to determination of a taxable object, computation and payment of taxes to other controlling and law enforcement agencies. (08.06.2001 #927)
2. Tax control is carried out by the tax agencies by means of recording taxpayers and objects of taxation, validating accounting and reporting data, questioning taxpayers and other persons, monitoring and examining taxable objects and premises used for earning income

(profit) and other forms which are stipulated by this Code. In the cases where the payment of taxes is determined according to customs procedures, control is carried out by the customs bodies in compliance with the customs legislation.

3. Tax audit carried out by a tax agency may be a desk audit and a field audit. A desk audit can be either routine (targeted) or control. (08.06.2001 #927)

3<sup>1</sup>. A desk audit is carried out by the tax agency by examining balance sheets, tax returns, explanations, the relevant references, conclusions and other information submitted by a taxpayer to a tax agency.

3<sup>2</sup>. A routine (targeted) tax audit is carried out once a year on the basis of the decision of a tax agency by sending a written notice to the taxpayer 10 days prior to the commencement of the audit visit. The subject and the basis of the audit as well as the anticipated date of the audit visit should be stated in the above notice.

3<sup>3</sup>. In case of non-compliance with the tax liabilities a control field audit without a written notice is carried out on the basis of the decision of the head of a tax agency or when:

- a) the last audit visit has identified significant violations of tax liabilities by the taxpayer or there exist facts indicating such violations;
- b) there exists information arising suspicion to the origin of the taxpayer's assets;
- c) there exists information regarding increase of property or other taxable object that is not substantiated by the relevant documents;
- d) tax returns and other documents submitted to the tax agency do not confirm the validity of the taxable objects and computed taxes;
- e) the tax return or documents necessary to compute and/or pay the taxes due are not presented.

3<sup>4</sup>. The accuracy of the recording of a taxpayer's commercial transaction, if necessary, is confirmed by the crosscheck of the enterprise with which the taxpayer has economic links. During the crosscheck the taxpayer's primary documents and accounting data is to be compared to the relevant data of the enterprise from or to which funds and material valuables are received or issued. (08.06.2001 #927)

4. The results of a tax audit are drawn up in the form of an act, which is signed by the responsible official (auditor) of the tax agency and the taxpayer. In case the taxpayer refuses to sign an act, a note is made in the act.

#### **Article 218. Determination of the Object of Taxation in Individual Cases**

1. Physical and legal persons selling goods (works, services) mostly in cash, are entitled to use a simplified tax scheme established by the Ministry of Finance and the Tax Revenue Ministry of Georgia for tax base determination and accounting. This scheme shall not apply to taxpayers required to use an accrual basis method of accounting for the purposes of profit and income taxes as well as to VAT taxpayers.

2. In case of the accounting violations or the destruction or loss of documents (18.09.97. #870 "Parlamentis Utskebani" #37-38) or where determination of the object of taxation is impossible, the tax bodies shall determine the object of taxation and the tax on the basis of direct and indirect methods (assets, turnover, production costs, method of comparison, etc.).
3. In case where a physical person in his/her return has declared an amount of income much lower than expenses incurred for his personal consumption, including acquisition of property, the tax body shall determine the income on the basis of expenses incurred by the physical person, taking into account income of previous periods.
4. Income shall also be subject to taxation in the cases where the legality of the income is disputable.
5. If income is subject to seizure and transfer to the budget pursuant to decisions of a court in instances stipulated by Georgian legislation, the income shall be seized with reduction by the sum to be paid on it.
6. With respect to all taxes, barter transactions shall be considered as a sale of goods (works, services) at market prices, with compulsory issuance of tax invoices for the given transaction on the same basis as sales for cash. If the value of a barter transaction indicated in the tax invoice is a reduced value, the tax body shall adjust the taxable objects taking into account market prices, recalculating the taxes and imposing sanctions established for violation of the tax legislation of Georgia.
7. In order to determine their real incomes, the tax agencies are observing and examining the activities of the taxpayers through invigilation, test purchases or other methods stipulated by the Tax Code.

#### **Article 219. Taxpayer's Identification Number**

1. A tax agency shall assign an identification number to each taxpayer to be used for all taxes including customs tax.
2. Physical and legal persons are required indicate their taxpayer identification number on a tax return and on other documents stipulated by this Code.
3. Legal persons, as well as physical persons provided for in Article 26 of this code and in Article 1.2 of Law of Georgia "On Entrepreneurs" are obliged to apply to the tax body for obtaining an identification number within 10 days from registration or initiating entrepreneurial activity.(13.07.2000. #470 "Legal Gazette" #30)

#### **Article 220. Determination of Time Periods**

Any time period prescribed by this Code shall commence on the day after the actual occurrence of the corresponding act; the time period shall terminate at the end of the last day of the period specified in this Code. If this last day is a non-working day, the time period shall continue till the end of the next working day.

#### **Article 221. Rights of the Taxpayer**

The taxpayer shall be entitled:

- a) to provide the tax bodies with documents in evidence of his rights to tax concessions;
- b) to examine records of audits that are carried out;
- c) to present explanations to the tax agencies regarding the acts of audits that are carried out, as well as his calculation and payment of taxes;
- d) by procedure stipulated by laws, to appeal decisions of tax agencies;
- e) to familiarize himself with the tax legislation in force through tax agencies or by other means.
- f) not to present any documents connected with determination of a taxable object, calculation and payment of taxes to the law enforcement or other controlling agencies other than cases when such power has been vested on above agencies according to the Tax Code. (13.07.2000. #470) "Legal Gazette" #30)

### **Article 222. Conversion of Foreign Currency**

Any transaction with foreign currency subject to taxation is converted into Lari:

- a) if available, at the official exchange rate of the National Bank of Georgia on the day of the transaction;
- b) for currencies where an official exchange rate is not available, at a rate determined on the basis of published exchanged rates, including those published in other countries, with currencies for which an official rate is available.

### **Article 223. Measures Against Tax Evasion**

1. Any amount that is used in the interest of a concrete person is treated as given to that person.
2. In the event that a taxpayer keeps inaccurate accounts and records, or does not keep accounts and records in the required form and manner, tax agencies are entitled to make an assessment of tax payable based upon held inquired materials taking into consideration relevant facts and circumstances.
3. In any transaction between related persons, the tax agency may allocate income or expenses between these persons as in the case of a transaction between independent persons.
4. Where material values and goods not taken into stock and/or lacking strict registration bill of lading (or customs declaration in case of import) are revealed in accounts or records the taxpayers shall pay the value of unregistered assets and/or goods without strict registration bill of lading (or customs declaration in case of import) at market prices (without VAT, while for excise taxpayers – without excise) not later than on the third day after effecting economic transaction. The shortage of goods and other assets at the moment of revealing shall be considered to be the supply carried out on the cash basis and at market prices and

shall be taxable according to the procedure stipulated by this code. (13.07.2000 # 470 “Legal Gazette” #30)

5. Transportation of assets and goods purchased or supplied for economic activity or goods without strict registration bill of lading (or customs declaration in case of import), a taxpayer shall be charged a penalty in the amount of the market price (without VAT and for excise payers – without excise) of assets and goods without strict registration bill of lading (or customs declaration in case of import). Until payment of the penalty the agencies of the Ministry of Tax Revenue of Georgia are authorized to seize the assets or goods transported in the above-described manner. (13.07.2000 # 470 “Legal Gazette” #30)
6. A taxpayer shall be subject to payment of taxes due and the similar amount of fines in case of carrying out activity without being registered by the tax agencies. (01.05.98. # 1369 “Parlamentis Utskebani” #19-20)

## **Chapter 37. Communications with Taxpayers**

### **Article 224. Implementation of Relation Establishing Liability in Written Form**

No statement provided by a tax agency to a taxpayer is not mandatory either to a tax agency or a taxpayer, unless it is submitted to the taxpayer in written form.

### **Article 225. Written Communications with Taxpayers**

Any notice or other documents to be sent by a tax agency to a taxpayer is required be in written form, signed by a head or an authorized official, noting his full name and certified by stamp. The original of the document shall be delivered to a taxpayer. The document shall be deemed as being submitted if it is delivered to a taxpayer by the registered mail or in person.

### **Article 226. Sufficiency of Notices and Other Documents**

No assessment or other document issued under the tax legislation shall be considered invalid or affected by reason of defects if:

- a) the document in substance and consequences is in conformity with this Code, and
- b) the person whose tax is assessed or who is affected by the document is designated in it according to common understanding.

## **Chapter 38. Instructions and Rulings**

### **Article 227. Instructions**

1. The Tax Revenue Ministry of Georgia shall work out and at the agreement with the Ministry of Finance approve instructions for the purpose of implementation of this Code

(13.10.98. #1625 "Legal Gazette" #2). Any provision of the instruction that contradicts this Code has no legal effect.

2. In the cases listed below the instructions must be agreed with the appropriate ministries and agencies:
  - a) tax on the use of natural resources- with the Ministry of Environmental Protection and Natural resources of Georgia;
  - b) tax on the pollution of the environment with harmful substances- with the Ministry of Environmental Protection and Natural resources;
  - c) tax on ownership of Motor Vehicles- with the road management agency;
  - d) tax on land - with the State Department of Land Management of Georgia;
  - e) social tax- with the Ministry of Labor, Health and Social Security of Georgia; (16.03. 2001 #807 "Legal Gazette" #8)
  - f) tax on entering of motor vehicles on the territory of Georgia - with the road management agency.

#### **Article 228. Rulings for the Application of Tax Legislation**

The Head of the Tax Department of the Tax Revenue Ministry of Georgia issues directions connected to the application of tax legislation by tax agencies. The tax agencies must follow such directions in administering the tax legislation until they are revoked.

### **Chapter 39. Submission and Collection of Information**

#### **Article 229. Preparation of Documentation**

1. A person is obliged to prepare documentation of transactions which:
  - a) may give rise to a tax liability by a person;
  - b) may give rise to a liability by a person to withhold tax;
  - c) may give rise to a liability by a person to submit an information report.
2. Taxpayers must maintain such documents in accordance with the normative acts of the Tax Revenue Ministry of Georgia.
3. If a taxpayer has certain documentation prepared in a foreign language and their content is not understandable to a tax agency, a tax agency may require that they be translated into the Georgian language.

#### **Article 230. Submitting of Tax Returns**



1. Taxpayers are required to submit tax returns under the provisions of this Code with the tax agencies by the terms established by this Code and in the form and at the place established by the Tax Revenue Ministry of Georgia.
2. The tax return is to be signed by a taxpayer or, if a taxpayer is absent or incompetent, by the taxpayer's legal representative.
3. An independent auditor who renders services to a taxpayer with respect to the preparation of a tax return must sign a tax return, stamp it, and note his/her taxpayer identification number. If more than one person prepares a tax return, only the principal one is required to sign it.
4. An independent auditor responsibility for the accuracy of the information submitted by him in the return is determined under legislation in force.

### **Article 231. Provision of Information on Payments**

A person effecting remuneration for work fulfilled or service rendered is to provide information on the sum paid to the tax agencies and the recipient of the payment in accordance with the procedures determined by the relevant instruction within one month. (01.05.98. #1369 "Parlamentis Utskebani #19-20)

### **Article 232. Extension of Term for Submitting Tax Return**

If a taxpayer addresses a tax agency to extend the period specified for submission of income, property or profit tax return before expiration of the due date and pays the taxes due upon the above request (18.09.97. #870 "Parlamentis Utskebani" #37-38), the period shall be automatically extended for three months. The extension granted under this Article shall not affect the term for payment of the tax.

### **Article 233. Bank Accounts**

Bank and other institutions carrying out certain bank operations are obliged:

- a) to open settlement accounts for physical and legal persons upon presentation of documents verifying the issuance of the TIN by a tax agency, to notify a tax agency to have opened the above bank accounts and not to effect transactions in respect of the accounts without indicating of the TIN in the bank documents;
- b) to execute on the first- priority basis payment orders of taxpayers or collection orders of tax agencies in respect of the payment of taxes from their settlement or other accounts;
- c) to transfer (transfer to a bank or other financial institution acting as a cashier for the budget system) taxes to the appropriate budget income not later than on the second day of the completion of the transaction with regard to the withdrawal of funds from the settlement or other account of the taxpayer.

## **Article 234. Provision of Information to Tax Agencies**

1. In respect of the legality of carrying out tax control, a tax agency has the right by giving notice in written form, to require any person, whether a taxpayer or not, to submit the information indicated in the notice.
2. An authorized official of a tax agency has the right:
  - a) to make a copy of any document;
  - b) to seize a record or other document needed to legally determine a tax liability;
  - c) to install meters or record their readings;
  - d) to seal documents or other items;
  - e) if in cases stipulated by subsections “a-d” of this part the authorized official of a tax agency uses equipment or materials of another person to extract the necessary information or make a copy , a tax agency shall reimburse the consumer for use of the equipment or materials in accordance with the relevant market price. If the authorized official seizes a document or other item pursuant to the authority provided under this part, a tax agency is entitled to make a copy of the document or other item and is to return the original to the person in the shortest time possible, unless otherwise is provided by the court decision.
3. If a person asserts inviolability of documents or other records which the tax agency intends to seize or to examine them pursuant to this Article consistent to the law, the materials over which inviolability is being claimed shall be deposited into envelopes which shall then be sealed by their possessor and retained by a tax agency until a tax agency appeals to a court to determine the inviolability status of the items in question.
4. In this Article, “legality” means collection of information:
  - a) for the purposes of determining liability of a taxpayer;
  - b) for the purposes of collecting a tax due from a specific person.
5. In this Article “ the authorized official” means an employee of a tax agency designated by the head of a tax agency to exercise the authority specified in this Article.

## **Chapter 40. Assessments of Tax Amounts**

### **Article 235. Assessment of Tax Amounts**

1. Assessment in this Code means recording of the tax to be paid by a taxpayer for the certain tax period by a tax agency. Assessment includes an amended assessment and conditional assessment.
2. A tax agency is authorized to assess the tax due to each taxpayer in consistence with this Code on the basis of one or more of the following sources of information:

- a) the information contained in a taxpayer's tax returns;
  - b) information concerning payment of a sum described in Article 231 of this Code;
  - c) audit materials and other reliable information known to a tax agency.
3. If a taxpayer does not submit the information needed to assess the tax, a tax agency is entitled to make a tax assessment on the basis of any information available to it.
  4. In cases where the tax legislation does not require payment of the tax together with submission of a return, and in cases when a tax agency considers a previous assessment to be incorrect, a tax agency shall make an assessment and send the assessment notice to a taxpayer according to Article 236 of this Code. A tax agency may make an assessment or may amend a previous assessment, until the period of prescription, indicated in Article 237 of this Code has expired.
  5. In case of payment of taxes is connected with filling out of tax returns, filling out of a tax return specifying obligation for tax payment shall be deemed to be:
    - a) assessment of such tax;
    - b) notice regarding payment of a tax and demand to pay such tax upon submission of a tax return.
  6. In case of taxes collected by withholding, if a taxpayer does not present a tax return and a tax agency does not calculate the amount of the taxpayer's tax liability on the basis of other information, the tax agency is deemed to have made an assessment of the amount of the taxpayer's tax obligation for the reporting year as the tax sum, which has been withheld from payments made to a taxpayer during the year and to have notified the taxpayer of that assessment.

#### **Article 236. Notice of Assessment**

A taxpayer shall be given a notice regarding the assessed amount. The notice is to contain the following data:

- a) full name (or title) of a taxpayer;
- b) taxpayer identification number (TIN);
- c) date of the notice;
- d) object of taxation;
- e) tax amount and penalties assessed;
- f) demand for payment of the tax and term for payment;
- g) place and procedure of payment of the tax;
- h) grounds for the assessment;
- i) appeal procedure.

#### **Article 237. Limitations of Prescription**

1. A tax agency body may make or amend a tax assessment within 6 years after the end of the tax period.
2. A taxpayer shall be entitled to request a tax refund or credit within six years after the end of the tax period. (16.03.2001 #807 "Legal Gazette" #8)

## **Chapter 41. Payment, Collection and Refund of Tax**

### **Article 238. Term of Payment of Tax**

Taxes are paid within the terms specified by this Code and other normative acts. If the paying term is not specified by this Code, the tax shall be due and be paid within the period established for submission of a tax return, while payment of additionally assessed and payable amounts – within 10 days following assessment. (18.09.97 #870 "Parlamentis Utskebani #37-38)

### **Article 239. Place of Payment of Tax**

1. Tax is subject to payment:
  - a) at the place of assessment specified in a notice; or
  - b) if no notice of assessment is required, at the place specified in the tax legislation; or
  - c) if no place is specified in the tax legislation, according to the place of residence of a taxpayer-physical person or place of the tax registration of a taxpayer- legal person.
2. In accordance with the legislation of Georgia, a taxpayer pays taxes due to the local budgets (except for profit tax) in budgets of the territorial units where branches and other separate structural units without independent balances and settlement accounts are located. Tax calculation and payment procedures are defined by Tax Revenue Ministry of Georgia in agreement with the Ministry of Finance. (16.03.2001 #807 "Legal Gazette #8)

### **Article 240. Refund of Excess Amount of Tax Paid**

1. If the tax amount paid exceeds the amount of tax assessed, a tax agency shall:
  - a) offset the excess amount against the other taxes due;
  - b) with the agreement of a taxpayer, apply the balance against the future tax payments due;
  - c) refund the excess amount to a taxpayer within 20 days following receipt of a written application from a taxpayer, unless otherwise provided by this Code.
2. If the excess amount paid by a taxpayer is offset against other taxes due, a notice of assessment is to contain information regarding utilization of that amount.

### **Article 241. Extension of Payment Term of Taxes and Application of Penalties**

Upon receipt of the well-grounded written application of a taxpayer the head of a tax agency is entitled to extend the term for payment of a tax, but for not longer than 3 months. An extension shall not exempt a taxpayer from paying fines for late transfer of a tax to the budget.

### **Article 242. Procedure of Payment of Arrears**

Payments of arrears to the state budget shall be made in the following order:

- a) a tax amount;
- b) assessed penalty in the form of a financial sanction;
- c) assessed fine.

### **Article 243. Objection or Appeal**

1. In case a taxpayer files an appeal to a superior tax agency or appeal to court in respect of the assessed amount, the assessed tax amount remains due and payable, regardless the appeal consistent to the requirement of part 2 of this Article.
2. The head of the superior tax agency has the right to suspend payment of the assessed tax during the period of litigation.
3. If a taxpayer wins the appeal, he/she is entitled to receive:
  - a) a refund of the incorrectly paid tax;
  - b) interest on the tax amount on the basis of the court's decision pursuant to Article 252 of this Code.

## **Chapter 42. Enforced Payment of Tax**

### **Article 244. Tax Lien**

1. If a taxpayer fails to pay a tax by the due date, the amount of liability, fines and penalties create a basis to levy a lien and mortgage in favor of the State against all e property of a taxpayer.
2. The tax lien described in part 1 of this Article arises at the moment of registration of notice of lien sent to a taxpayer (debtor) and right of mortgage- upon registration of application concerning mortgage in the public register until the relevant liability is met or prescription period in respect of the above expires.
3. A tax agency may file a civil action in court to enforce the lien and mortgage levied by this Article. A tax agency requires ~~seizure-arrest~~ of the property of a taxpayer when the civil action is filed.

4. Upon recovery of the arrears, the lien and mortgage shall be released by a tax agency and the relevant notice shall be sent to the public register.

**Article 245. Distress Proceedings---DELETED. 5, December 2000**

**Article 246. Enforcement of Levy on Property in Possession of a Third Person---DELETED 5 December 2000**

**Article 247. Sale of Seized Property---DELETED 5, December 2000**

**Article 248. Recovery of Amounts Due to the Taxpayer---DELETED 5, December 2000**

**Article 249. Transferee's Liability for Unpaid Tax ---DELETED 5 ,December 2000**

**Article 250. Writing off Arrears Regarding Taxes**

1. Arrears regarding taxes, penalties and fines are written off if:
  - a) arrears are considered as bad debts;
  - b) tax liabilities are extinguished on the grounds established by Article 33 of this Code or other acts of tax legislation.
2. In cases specified by this article arrears shall be written off according to the order of the Minister of Tax Revenues based on conclusion drawn by the Commission on Restructuring of Arrears of the Ministry of Finance of Georgia.
3. If the person whose bad debts are written off continues economic activity and/or it is established that he/she obtains property, tax liabilities written off earlier will be restored, the penalty is charged and a fine imposed. (13.07.2000 #470 "Legal Gazette" #30)

## **Chapter 43. Responsibility**

**Article 251. Responsibility for Failure to Withhold Tax at the Source of Payment**

Taxes not withheld at the source of payment shall be collected from the physical or legal person from whom the person received the income without withholding the tax.

**Article 252. Fine on Overdue Tax Payments**

1. If any tax amount is not paid by the due date, a taxpayer is obliged to pay interest on such amount for the period from the due date (13.07.2000 #470 "Legal Gazette" #30) to the date that the tax is paid at the rate of 0.15 percent per each overdue day. At the same time, when the taxpayer spends money from the accounts not registered in the tax service, he/she will be subject to a fine in the amount of 30 percent of tax arrears or money spent for other purposes, and in the case of repeating the violation within an year after applying

the above mentioned sanction 50 percent of the above sums. (25.06.99 #2180 "Legal Gazette" #26 (33))

2. In case of overpayment of tax in violation of the tax legislation, interest shall be paid to a taxpayer from the date of the application for a refund of the overpayment to the date on which the refund is made. Where an overpayment is credited, the refund is considered to be made on the due date of the tax against which the credit is taken. For this purpose, a refund is considered to be made and the taxpayer receives the payment within seven days thereafter. The rate of interest is equal to the rate charged by the National Bank of Georgia for borrowing from the government for each quarter.

#### **Article 253. Penalties for Late Submission of Returns**

1. Taxpayers who fail to timely submit a tax return and accounting forms stipulated by the legislation, are liable for a penalty equal to 5 percent of the amount of tax required to be declared on the return for each delayed complete (incomplete) taxable month's return, but not in excess of 25 percent of the mentioned amount.
2. The penalty under part 1 of this Article shall not be more than GEL 200 or up to 1000 (18.09.97. #870 "Parlamentis Utskebani #37-38) for overdue payment of the tax for each complete (or incomplete) month during which the failure continues.
3. For the purpose of this Chapter, unpaid tax is the difference between the amount payable and the amount of tax paid by the due date.

#### **Article 254. Penalties for Underdeclaration of Tax Liability**

1. Underdeclaration of tax liability in tax returns and the relevant calculations shall be liable to a financial sanction in the amount of 25 % of the underdeclared amount. (01.05.98. #1369 "Parlamentis Utskebani # 19-20)
2. If the underdeclaration referred to in part 1 of this Article is of a big amount, a taxpayer shall be liable for a penalty in the amount of 50 % and if it is of an extremely big amount – 100 %
3. Underdeclaration of a tax liability in the amount of GEL 5,000-10,000 is deemed to be of a big amount, underdeclaration in the amount exceeding GEL 10,000 is deemed to be of an extremely big amount providing the above-mentioned amounts exceed the declared tax liability by 25%. (16.03.2001 # 807 "Legal Gazette" # 8)
4. The penalty under this Article does not apply to underdeclaration of tax liability occurred as a result of incorrect written rulings issued by the relevant agencies.

#### **Article 255. Liability of Banks and Other Institutions Conducting Certain Types of Banking Transaction**

The following sanctions shall be collected from banks and other institutions conducting certain types of banking transactions that fail to meet the requirements of Article 233 of this Code:

- a) in the form of financial sanctions 10 percent of the amount of debit transactions effected on settlement and other accounts of physical and legal persons failing to meet the requirements of Article 233.a and b. of this Code;
- b) fine for failing to observe the order priority for debiting from settlement or other account of physical persons the amounts of taxes to the budget and for delaying the transferring to the budget of amount debited from the accounts of their taxpayer customers, and for returning to the taxpayer not executed payment orders in the amounts set forth in Article 252 of this Code. In this case taxpayers shall not pay fine.

## **Chapter 44. Settlement of Disputes**

### **Article 256. Review of Tax Service Decisions**

1. A taxpayer that disputes a tax assessment or other decisions of a tax agency may appeal to the tax body, which issued the decision with a petition for its reconsideration. The petition must indicate the reasons and documents on which the taxpayer bases the request. The petition and appropriate documents (18.09.97. #870 "Parlamentis Utskebani #37-38) must be submitted by a taxpayer within 60 days of the date the taxpayer received notice of the assessment or other decision.
2. A tax agency reviews the petition of the taxpayer, issues its reasonable decision and shall so notify the taxpayer within 20 days.
3. A further appeal with regard to the decision taken by the tax agency may be made to the higher body, which shall notify the taxpayer of its decision within 20 days. The decision of the higher tax agency may be appealed to the Tax Revenue Ministry of Georgia, which shall notify the taxpayer of its decision within 20 days.
4. Each subsequent appeal must be filed after the expiration of the 20-day period for rendering the decision or within 10 days after the taxpayer receives notice of the previous decision.
5. A taxpayer is entitled to appeal the decision of the Tax Revenue Ministry of Georgia to the court under the procedure established by legislation.
6. In case of payment of the assessed tax, a taxpayer may directly apply to the Tax Revenue Ministry or the court.

### **Article 257. Burden of Proof**

The burden of proof in respect of the assessment is vested in a taxpayer.

## **PART XV. STATUS, STRUCTURE AND AUTHORITY OF THE TAX AGENCIES OF GEORGIA** (24.03.2000. #238 "Legal Gazette" #13)

### **Chapter 45. General Provisions**



## **Article 258. Basis Functions of the Tax Agencies of Georgia**

The basic functions of the Tax Agencies of Georgia and its agencies are ( 24.03.2000. #238 "Legal Gazette" #13)

- a) to ensure the enforcement and execution of tax legislation within its competence;
- b) to participate in the preparation of draft laws and treaties on tax-related matters with other states;
- c) to explain taxpayer's rights and liabilities;
- d) to provide timely information to taxpayers with respect to amendments made to the tax legislation.

## **Article 259. Legal Basis for Activities of Tax Agencies of Georgia**

The legal bases for the activity of the tax agencies of Georgia are the Constitution of Georgia, this Code, and other normative acts of Georgia.

## **Article 260. Tax Agencies**

1. The tax agencies of Georgia are: Tax Department of the Tax Revenue Ministry of Georgia, Tax Inspectorates of Abkhazian and Ajarian Autonomous Republics, Large Taxpayer Inspectorate, District, Zonal and Regional Tax Inspectorates and Excise Goods Monitoring Bureau.( 16.03.2001 # 807 "Legal Gazette" # 8)
2. Extraordinary Legion is a tax and customs (16.03.2001 # 807 "Legal Gazette # 8) agency with the status of a special law enforcement body ensuring the activities directed against the offences in the tax sphere, the safety of tax agencies' activities, and the protection of its officers against illegal actions when discharging their official duties.
3. The tax agencies of Georgia are within the system of the Tax Revenue Ministry.
4. The procedure of establishment, structure and powers of tax agencies is specified according to the present Code, Law of Georgia "On Structure and Activities of Executive Power" and other normative acts.
5. Only the tax agencies are authorized to ensure the state control over the full and timely payment of taxes, except for those cases where the present Code specifies the collection of tax by other agencies. (28.06.2000 # 432 "Legal Gazette" #)

## **Article 261. Relations between Tax Agencies and other State Governmental Agencies**

1. The tax agencies execute their duties independently, and shall interact with other government bodies, where necessary.
2. The appropriate executive bodies and local self-government bodies shall be obliged to assist and provide information to tax bodies for the enforcement of tax legislation and the establishment of control over the payment of taxes. With the same purpose, the customs agencies are required to submit to the Tax Department of the Tax Revenue Ministry (30.10.98 # 1666 "Legal Gazette" # 4) information at their disposal on a regular basis, for

which a joint computer network has been created. ( 30.10.98 # 1666 “Legal Gazette” # 4) It is prohibited to interfere with the activities of the tax agencies, except for the cases established by the legislation.

### **Article 262. Prohibition of Delegation of Assigned Responsibility and Powers**

Any tax official of the Tax Department of the Tax Revenue Ministry is prohibited to transfer any responsibility assigned or power granted to him/her by the Chairman of the Tax Department of the Tax Revenue Ministry in accordance with the procedures established by the legislation to another employee.

### **Article 263. Annual Reports**

1. The Tax Revenue Ministry of Georgia issues within three months following the end of each financial year, a published report on the performance of the tax system of Georgia.
2. The report is to include the following information:
  - a) amounts of taxes collected by the Tax Department of the Tax Revenue Ministry of Georgia, according to the tax legislation breakdown by types of taxes and regions;
  - b) similarly categorized arrears;
  - c) expenditure incurred by the Tax Department of the Tax Revenue Ministry in the tax collection process;
  - d) statistics related to the components of tax revenue;
  - e) description of the positive and negative aspects of the operations of the tax system;
  - f) a list of names of the physical and legal persons against whom tax has been assessed and who have not paid the full amount of the taxes assessed, if the outstanding amount exceeds GEL 10,000.

## **Chapter 46. Rights and Obligations of Tax Agencies**

### **Article 264. Obligations of Tax Agencies**

The tax agencies, within their terms of reference, are obliged to:

- a) protect the rights of taxpayers and the interests of the state and ensure that taxes are correctly calculated and paid in full and on time;
- b) ensure the timely registration of taxpayers, record ( 18.09.97. # 870 “Parlamentis Utskebani # 37-38) the taxes assessed and transferred to the budget and special funds, make the relevant calculations in respect of the above;
- c) record, appraise, and sell confiscated and ownerless property which has come into the state possession;

- d) control transactions made in foreign currency in cooperation with the other appropriate agencies;
- e) refund taxpayers amounts paid in excess of the tax assessed, in accordance with Article 240 of this Code;
- f) preserve the confidentiality of information concerning taxpayers, in accordance with the provisions of Article 268 of this Code;
- g) develop tax return forms and other documents related to the calculation and payment of taxes;
- h) collect, analyze and assess facts on violation of the tax legislation and submit the appropriate proposals aimed at elimination of causes and circumstances encouraging tax violations;
- i) with the assistance of the operative service department units of tax agencies, conduct operational and investigation activities under the criminal procedures legislation;
- j) identify and curb violations regarding nonpayment of taxes, concealment or reduction of profits (income) and concealment of taxable objects as well as tax evasion and other offences causing damage to the State as a result of non-payment and/or partial payment of taxes.
- k) provide security of the Tax Department of the Tax Revenue Ministry activities and protection of its employees from criminal and other unlawful actions in the process of execution of their official duties.
- l) identify tax evaders, both physical and legal persons.

#### **Article 265. Rights of Tax Agencies**

With regard to the provisions of this Code, tax agencies, within their terms of reference, according to the procedure established by the legislation have the right:

- a) to inspect legal persons (including legal persons operating under special conditions), all financial documents, accounting books, reports, estimates, cash, securities, and other assets on hand, settlements, returns, and other documents related to the calculation and payment of taxes, connected with their economic activity: to receive from officials and other employees of organizations and from citizens information and oral and written explanations on questions arising with respect to such inspection;
- b) in accordance with the laws in force, to examine all production, storage, commercial, and other premises of enterprises and entrepreneurs – physical persons ( 18.09.97. # 870 “Parlamentis Utskebani # 37-38) through invigilation or other methods and determine the amount of taxable objects;
- c) provide to managers and other officials of enterprises and organizations obligatory directions to remedy identified violations of tax legislation and control their execution;

- d) to apply the tax sanctions provided for in this Code and fines envisaged by legislation in force to enterprises, organizations, officials and individuals for violation of tax legislation;
- e) to withdraw from enterprises, officials, and individuals taxes, penalties and fines, based on enforcement methods and collection orders (30.10.98. # 1666 "Legal Gazette # 4), in the form of financial sanctions, as well as administrative fines that are not paid in time;
- f) in the cases provided for in law, to prepare records on violations of tax laws by enterprises, officials or individuals and issue orders on financial sanctions and administrative punishment;
- g) for the purpose of comprehensive determination of taxable objects, to make test purchases of goods (production), from commercial and other enterprises and from individual entrepreneurs;
- h) for official purposes, under the procedure provided by legislation to receive from banks and other credit organizations information, references, and documents on entrepreneurial activities and transactions on the financial condition of accounts of organizations and citizens.

#### **Article 266. Responsibility of Tax Agency Officials**

1. Non-execution or improper execution of official duties is the basis of responsibility of tax agency officials in accordance with the legislation of Georgia.
2. The damage of a taxpayer caused through the illegal action of an employee of the tax agency shall be compensated from the state budget.

#### **Article 267. Conflicts of Interest**

Employees of a tax agency shall be prohibited to exercise their official duties in respect of a taxpayer:

- a) who is his/her relative;
- b) if an employee or his/her relative has a joint direct or indirect financial interest with the above taxpayer.

#### **Article 268. Confidentiality of Information**

1. The tax agencies and each of their employee are obliged to keep secrecy regarding all information on a taxpayer received by him in the process of executing his official duties, and may disclose such information only to the following persons: ( 30.10.98 # 1666 "Legal Gazette" # 4)
  - a) employees of tax agencies for the purpose of carrying out their official duties;
  - b) law enforcement agencies, based on the judge's order, on the persons who are prosecuted for tax violations; ( 30.10.98. # 1666 "Legal Gazette" # 4)

- c) courts- to define taxpayer's tax obligations and responsibilities in connection with cases in the process of court hearing;
  - d) to tax agencies of foreign countries- in accordance with an international treaty;
  - e) state funds- for purposes of administering the functions defined by the legislation concerning state funds;
  - f) customs agencies- for purposes of administering the customs legislation, and also to agencies that have the right to administer taxes according to this code- for purposes of administering these taxes.
  - g) Court executives – in the process of execution of court decision. (05.12.2000 # 638)
  - h) Committee of Tax and Revenues and Committee of Finances and Budget of Parliament of Georgia – about tax liabilities and related issues of taxpayers only, for purposes of development and implementation of tax policy. (21.12.2001 # 1212-Is, “Legislative Bulletin”).
2. Employees of the agencies who receive information in the course of carrying out official duties shall maintain secrecy of this information and use it only for achieving the object for which disclosure is permitted.
  3. A person who receives information under this Article has no right to disclose secrecy of this information and must return documents reflecting the information to the tax Agency. Except cases when information is received under parts 1 or 4 of this Article. ( 18.09.97. # 870 “Parlamentis Utskebani # 37-38)
  4. Information concerning a taxpayer may be disclosed to another person provided the taxpayer confirms his consent in person or in writing.
  5. This Article does not apply in respect to the information intended for publication provided for in subsection “f” of part 2 of Article 263 of this Code.

## **Chapter 47. Legal And Social Protections For Employees of the Tax Agency**

### **Article 269. Legal and Social Protections for Employees of the Tax Agency**

1. Employees of the tax Agency shall be protected under guarantees applicable to police officers pursuant to the law of the Republic of Georgia “On Police”.
2. A single uniform and class ranks are established for employees of tax bodies under legislation.
3. Pensions of employees of the Operational Service Department of the Tax Department (01.05.98 # 1369 “Parlamentis Utskebani” # 19-20) of the Tax Revenue Ministry of Georgia and members of their families are paid in accordance with norms and procedures established by the law of Georgia “On Provision of Pensions to Enlisted Servicemen and officers of Internal Affairs Agencies and Members of Their Families”.

**Article 270. Accumulating and Distributing Amounts of the Tax Revenue Ministry Special Account for the Tax System Perfection Purposes**

(22.06.2001 # 1005)

1. For providing material support to state agencies as stipulated by Presidential Decree, (22.06.2001 # 1005) according to the controlled revenue, 3 percent of the money transferred to the budget and special funds, as well as additional amounts transferred to the budget and special funds shall be made pro rata to the amount transferred to the budget and special funds by the bank institutions.
2. The rules for spending the funds stipulated by part 1 of this article are stated by the President of Georgia. (22.06.2001 # 1005)

**Article 270<sup>1</sup>. ( 28.06.2000 # 432 “Legal Gazette”) Procedure for Performing Service at the Tax Agencies**

1. As a rule, persons to be appointed as authorized officials at the tax agencies shall have higher economic or legal education, ( 28.06.2000 # 432 “Legal Gazette) as well as vocational education with at least 5 years of relevant professional experience.
2. Persons on the positions at the tax agencies are to be appointed on the basis of testing and competition according to legislation. (30.10.98. # 1666 “Legal Gazette” # 4)
3. Rules for recruiting employees of Tax Revenue Ministry Extraordinary Legion and their social security guarantees are regulated pursuant to the law of Georgia “On Police”. (16.03.2001 # 807 “Legal Gazette” # 8)

**Chapter 48. Concluding and Transitional Provisions**

**Article 271. Putting Into Effect of the Tax Code**

1. The Tax Code of Georgia shall come into effect on the 15<sup>th</sup> day upon its publication, except for articles and parts stipulated by part 2 of this Article.
2. In this Code:
  - a) Article 64 - “Taxation of Nonresidents at the Sources of Payment”, Part III- “Value Added Tax” (except for Article 92-94. These articles shall come into effect on the 15<sup>th</sup> day after publication of this Code), Part IV- “Excise”- shall come into effect from September 1, 1997;
  - b) Part II - “Income and Profit Tax” (except Article 61 (which is applied to relations that arose before January 1, 1998) and Article 64), (13.07.2000 # 470 “Legal Gazette” # 30), Part V – “Property Tax”, Part VI - “Tax on Use of Land”, Part VII - “Tax on Ownership of Motor Vehicles”, Part VIII - “Tax on Transfer of Property”, Part IX - “Social Tax”, Part X - “Tax on use of Natural resources”, Part XI - “Tax on Polluting the Environment With Harmful Substances”, Part XII - “Tax on Entering of Motor Vehicles Onto the Territory of Georgia and being overloaded”- shall come into effect from January 1, 1998;

- c) Article 245 - “Lien” and Article 247 - “Sale of Lien”- shall come into effect from January 1, 1999; (30.10.98 # 1666 “Legal Gazette” # 4)
- d) Article 130 (23.07.99 # 2343 “Legal Gazette # 38 (45)) in connection with the taxation of car imports- shall come into effect on January 1, 2002. ( 29.12.2000)

### **Article 272. Normative Acts Invalidated upon Enactment of the Tax Code**

- I. Upon enactment of the appropriate articles and parts indicated in Article 271 of this Code, the following laws shall be deemed null and void:
  - 1. “On Principles of the Tax System”, Laws of the Republic of Georgia dated 21 December 1993 (Georgian Parliamentary Gazette (GPG), Nos. 12-13, 1993, Art. 231) - on the 15th day after publication of this Code.
  - 2. “On State Tax Service of the Republic of Georgia”, Law of the Republic of Georgia dated 23 December 1993 (GPG, Nos. 12-13, 1993, Art. 234) - on the 15th day after publication of this Code. The normative documents given in this Article are applicable to tax obligations that arose during their validity. ( 01.05.98 # 1369 “Parlamentis Utskebani” # 19-20)
  - 3. “On Tax on Property of Enterprises”, Laws of the Republic of Georgia dated 24 December 1993 (GPG, Nos. 12-13, 1993, Art. 244) – from 1 January 1998.
  - 4. “On Tax on property of Physical Persons”, Law of the Republic of Georgia dated 24 December 1993 (GPG, Nos. 12-13, 1993, Art. 246) - from 1 January 1998.
  - 5. “On Value Added Tax”, Law of the Republic of Georgia dated 24 December 1993 (GPG, Nos. 12-13, 1993, Art. 240) - from 1 September 1997.
  - 6. “On Excise Tax”, Law of the Republic of Georgia dated 24 December 1993 (GPG, Nos. 12-13, 1993, Art. 242)- from 1 September 1997.
  - 7. “On Profit (Income) Tax of Enterprises”, Law of the Republic of Georgia dated 21 December 1993 (GPG, Nos. 12-13, 1993, Art. 233) – from 1 January 1998.
  - 8. “On Income tax of Physical Persons”, Law of the Republic of Georgia dated 24 December 1993 (GPG, Nos. 12-13, 1993, Art. 248) – from 1 January 1998.
  - 9. “On Making Amendments and Addenda to the Law of the Republic of Georgia “On Principles of the Tax system”, Law of the Republic of Georgia dated 11 November 1994 (GPG, Nos. 21-22, 1994, Art. 475) – on the 15th day of publication of this Code.
  - 10. “On Making Amendments and Addenda to the Law of the Republic of Georgia “On Principles of the Tax System”, the Law of Georgia dated 21 February 1997 (GPG, Legislative Addition, nos. 9-10 (41-42/II), 15 March 1997) – on the 15th day after publication of this Code.
  - 11. “On Making Amendments and Addenda to Legal Acts Governing the Tax System of Georgia” Law of Georgia dated 27 December 1996 (GPG, Legislative Additions, Nos. 1-2 (33-34/7), 22 January 1997 );
- a) Articles 1 and 2 - on the 15th day after publication of this Code;

- b) Articles 3, 5 and 6- from 1 September 1997;
  - c) Articles 4, 7, 8, 9 and 10 – from 1 January 1998.
12. “On Making Amendments and Addenda to the Law of the Republic of Georgia “On Principal of the Tax System”, Law of Georgia dated 1 May 1997 (GPG, Legislative Addition, Nos. 21-22, 31 May 1997) - on the 15th day after publication of this Code.
  13. “On Making Amendment to the Law of Republic of Georgia “On Value Added Tax”, Law of the Republic of Georgia dated 11 November 1994 (GPG, Nos. 21-22, 1994, Art. 471) – from 1 September 1997.
  14. “On Certain Amendments to the Tax Legislation”, Law of the Republic of Georgia dated 15 June 1995 (GPG, Nos. 27-30, 1994-1995, Art. 638):
    - a) Parts 1 and 2 – on the 15th day after publication of this Code;
    - b) Parts 3 and 4- from 1 September 1997.
  15. “On 1996 State Budget of Georgia”, Law of Georgia dated 9 February 1996 (GPG, No. 9, 1996):
    - a) Articles 11, 12, and 18 - from 1 September 1997;
    - b) Articles 13, 14, and 26- from 1 January 1998.
  16. “On Making Amendments and Addenda to the Law of Georgia “On 1996 State Budget of Georgia”, Law of Georgia dated 7 March 1996 (GPG, Addition No. 004, April, 1996) from 1 September 1997.
  17. “On Making Amendment to the Law of the Republic of Georgia “On Value Added Tax”, Law of Georgia dated 5 February 1997 (GPG, Legislative Addition, Nos. 7-8 (39-40/10), 27 February 1997)- from 1 September 1997.
  18. “On Taxation of Property and monetary Resources received on grant Basis”, Law of Georgia dated 27 June 1996 (GPG, Nos. 19-20, June, 1996):
    - a) items 2 and 3 – from 1 September 1997;
    - b) items 4 and 5 – from 1 January 1998.
  19. “On making Amendments and Addenda to the Laws of the Republic of Georgia “On Value Added Tax”, Law of Georgia dated 21 February 1997 (GPG, Legislative Addition, Nos. 9-10, (41-42/11), 15 March 1997)- from 1 September 1997.
  20. “On Making Amendments and Addenda to the Law of the Republic of Georgia “On the State tax service of the Republic of Georgia”, Law of the Republic of Georgia dated 11 November 1994 (GPG, nos. 21-22, 1994, Art. 467)- on the 15th day after publication of this Code.
  21. “On Making Addenda in the Law of the Republic of Georgia “On Income tax of physical Persons”, Law of Georgia dated 14 may 1997 (Newspaper “Sakartvelos Respublika”, No. 124, 31 May 1997) - from 1 January 1998.
  22. “On Social Security of Disabled Persons”, Law of the Republic of Georgia dated 14 June 1995, Art. 32 (GPG, Nos. 27-30, 1994-1995, Art. 633)- from 1 September 1997.



23. “On Making Amendments to the Law of the Republic of Georgia “On Excise Tax”, Law of Georgia dated 21 February 1997 (GPG, Nos. 9-10 (42/11), 15 March 1997)- from 1 September 1997.
24. “On Making Amendment to the Law of the Republic of Georgia “On Excise Tax”, Law of the Republic of Georgia dated 11 November 1994 (GPG, Nos. 21-22, 1994, Art. 479) - from 1 September 1997.
25. Article 6 and 7 of the Law of Georgia “on the Road Fund of Georgia” (Parlamentis Utskebani 1995, # 31-33 article 683) from January 1, 1998.

### **Article 273. Transitional Provisions**

1. The value balance of fixed assets stipulated by Article 54 of the Tax Code as of 1 January 1998 shall be defined by the end of 1997 as the residual value of these assets. During calculation of current taxes stated in Article 144 of the Code for the year 1998, the fixed assets and capital investments evaluation results of 1997 shall be taken into consideration. The rule for consideration of valuation results is determined by a relevant instruction. ( 01.05.98 # 1369 “Parlamentis Utskebani # 19-20)
2. Excise for import of the cars before 1 January 2003, (29.12.2000) to be 0.1 Lari per each cubic meter of the volume of the engine. (25.06.99 # 2180 “Legal Gazette # 26 # 33))
3. Up to October 1, 2003 the import of electric power is exempt from VAT, the transfer, distribution, production and supply of electric power is taxed at a zero rate, except for the supply of electric power to the consumers (among them, to other consumers for the purpose of its further supply). ( 28.12.99 # 102 “Legal Gazette” # 52 (59)). From November 1 2001 to October 1, 2003 for electricity distributing enterprises, the volume of supplied goods (works, services) is determined in accordance with actually reimbursed value. In accordance with the supplied goods (works, service) by these enterprises, VAT credit is carried out in case of actual reimbursement of its value. After 1 October 2003 the rule mentioned above must be applied towards the debit debts incurred before January 1, 2000 and towards electricity supplied by electricity companies from November 1, 2000 up to October 1, 2003. The tax obligations of the power sector companies (for which the licenses for electric power activities were issued by Energy Regulating National Commission) can be fulfilled by the third party (by not actual taxpayers, among them the debtors of the taxpayer) on the basis of agreement with tax agencies. ( 24 12. 99 # 97 “Legal Gazette” # 51 (58)) For electricity companies, which supply with electricity the end consumers, loss provided by article 223.4 of this code is not regarded as supply of goods (works, services). (12.10.01 # 1096-IS, “Legislative Bulletin”). Supply of water to electricity distribution companies from Engury water pool for electricity production must be taxed by VAT in accordance with this article from 22 July 1999, and at zero rate from 1 January 2000 to 1 October 2003. (21.12.01 #1218, “Legislative Bulletin”).
- 3<sup>1</sup>. (13.12. 2000 # 684 “Legal Gazette” # 52(59)) Until 1 January 2003, for enterprises that supply potable and meliorative water, fulfill works and render services for installation of sewer system and sewerage filter, VAT due on output is determined from 60% of volume supplied goods. If during this period the actual reimbursement exceeds the above figure, then the amount of VAT due should be determined in accordance with the actual reimbursed sum.

VAT credit due to these enterprises is determined from 60% of volume goods supplied by these enterprises, but if during this period the actual reimbursement exceeds the above figure, then the amount of VAT due should be determined in accordance with the actual reimbursed sum.

4. The executive power shall bring the tax-related subordinated normative acts in compliance with the Tax Code.
5. (deleted)
6. To pass the right to introduce local taxes stated in this Code in the territorial units, where the representative and self-governing bodies were not elected, prior to their election to the bodies specified by section 5 of the Resolution of the Parliament of Georgia of 29 May, 1996, on the Law of Georgia “On Budget System and Budgetary Power”.
7. To use the regime established prior to the enactment of this Code in the case of import and export of goods (works, services) within CIS up to 1 January 1998.
8. To enact on 1 January, 1998 wheat import taxation regime stated in Article 102. Prior to 1 January 1998 to be used present wheat supply and import regime before the enactment of this code.
9. The requirements of section 2 of the Article 7 of the Law of 21 December 1993 “On Enterprise Profit (Income) Tax” are effective for enterprises registered prior to 15 January 1997.
10. Up to April 2002, for “Sakartvelos Rkinigza”, LTD (Georgian Railway), the centralized rule of VAT payment to the budget should be retained. According to VAT rules, the VAT return should be submitted and tax due paid to the budget not later than the 20<sup>th</sup> of the month following the reporting period; as for the profit tax, it should be transferred to the central budget and in compliance with the existing rules should be distributed among the budgets. ( 24. 12. 99 # 97 “Legal Gazette” # 51 (58))
11. Up to April 1, 2002 for railway transport, the deductions of repair expenses of fixed assets are carried out in the amount of not more than 7% of the total balance value of fixed assets. ( 24. 12. 99. # 97 “Legal Gazette # 51 (58))
12. (deleted)
13. From January 1, 2001 until January 1, 2003:
  - a) Import of tobacco products instead of customs duty, VAT and excise be subject to the fixed tax in the following amount:
    - a.a) Smoking tobacco (pipe) - 20 Gel per kg.
    - a.b) Cigar - 60 Tetri per item.

- a.c) Cigarillo and cigarette with filter - 40 Tetri per box (20 items).
  - a.d) All other sorts of cigarettes without filter - 20 Tetri per box (20 items).
  - b) Supply of the tobacco of the local production (other than the raw material of tobacco) in lieu of VAT and excise be subject to a fixed tax in the following amount:
    - b.a) Smoking tobacco (pipe) - 20 Gel per kg.
    - b.b) Cigar - 60 Tetri per item.
    - b.c) Cigarillo and cigarette with filter - 20 Tetri per box (20 items).
    - b.d) All other sorts of cigarettes without filter - 7 Tetri per box (20 items).
  - c) The fixed taxes are fully paid while purchasing the excise stamps for the tobacco products referred in items “a” and “b” of this article.
  - d) Supply of cigarette is VAT exempt.
  - e) The excise stamps issued before the enactment of this law is not subject to recalculation and return. ( 29.12.2000 # 715 “Legal Gazette” # 51) (29.12.2000)
14. Section 1.6 of the Law of Georgia “On Amendments and Addenda to the Statutory Acts Regulating the Tax System of Georgia”, dated 27 December 1996 (The Parliamentary Gazette, Statutory Supplement, Nos. 1-2, (33-34/7), 22 January 1997) shall be valid till the appropriate amendments are made to the Criminal Code.
15. Import of goods and performed works financed through concessional lending by international organizations or foreign states specified in international treaties ratified by the Parliament for energy sector rehabilitation, are exempt from the VAT. ( 01. 05. 98 # 1369 “Parlamentis Utskebani” # 19-20)
16. The initial supply of agricultural production before industrial processing will be VAT exempted up to January 1, 1999. ( 30. 10. 98 # 1666 “Legal Gazette” # 4)
17. For particular types of individual enterprises (entrepreneurs) whose annual gross income does not exceed 24000 Lari, presumptive tax, instead of income tax, will be introduced and be effective up to 1 January, 2003. ( 29.12. 2000) It will be calculated per month based on activities and number of population in places where the activities are carried out. The rate of presumptive tax is as follows:

Activity ( 26. 06. 98 # 1522 "Parlamentis Utskebani # 27-28)	Number of population		
	up to 30000	30000-1000000	Above 1000000
1	2	3	4
a) retail trade in booths in streets (except farmers markets and markets), way sides, retail trading from counters and agricultural products trading on markets, except people that produce these products	10	18	35
b) retail and wholesale trade at farmers market and markets (booths, containers, shops, warehouses, etc.) except trade from counters	20	30	35
c) goods production, rendering of services, work fulfillment, except as stated in sections "d" and "e" of the table	10	25	50
d) transport service up to 17 seats accommodation, shipment	20	50	100
e) production of jewelry, repair of jewelry and watches, transportation services above 17 places of accommodation	30	75	150

18. For public places of food service the presumptive tax will be 10 Lari per month per place;
19. The tax rates of part 17 (in the second column of the table) and part 18 in the rural areas to be reduced up to 50 percent.
20. The presumptive tax is paid in the beginning of the month not later than the 10<sup>th</sup> day;
21. The presumptive tax paid during the year will be considered as payment of income tax stated and calculated by legislation. Presumptive tax paid by a sole proprietor (individual enterprise) during a year is not subject to reduction in consistence with the results of annual tax return submitted by the end of the year.( 16. 03. 2001 # 807 "Legal Gazette" # 8)
22. The individual entrepreneurs - payers of presumptive tax are effecting accounting, reporting, in accordance to the present legislation in a simplified manner, and writing out VAT invoices
23. In case the above mentioned payers avoid payment of the presumptive tax, sanctions specified by the Code will be applied;
24. The individual entrepreneurs conducting unregistered activities and avoiding payment of presumptive taxes will be fined in the amount of 12 times the presumptive tax;

25. The calculation of the presumptive tax and its payment rule is determined by relevant instructions in consistence with Article 227.

26. Till January 1, 1999, a combined fixed tax will be introduced on imported alcoholic beverages in lieu of customs duty, excise and VAT.

**Taxes on Imported Alcoholic Beverages**  
(per litre)

Commodity	Commodity Nomenclature Code	Volume	Customs Duty (12%)	Excise		VAT 20%	Combined Fixed Tax on Imports
				percent	amount		
Champagne	220410110	1 liter	0,53 Lari	100	4,93 Lari	1,97 Lari	7,43 Lari
Sparkling wine and wine materials							
grape	2204	1 liter	0,32 Lari	20	0,59 Lari	0,71 Lari	1,62 Lari
fruit	2204	1 liter	0,53 Lari	50	2,47 Lari	1,48 Lari	4,48 Lari
Grape wine (up to 13%) and wine materials	2204						
Unbolted		1 liter	0,09 Lari	15	0,12 Lari	0,19 Lari	0,40 Lari
Bottled		1 liter	0,17 Lari	15	0,24 Lari	0,37 Lari	0,78 Lari
Fruit wine	2205 220600	1 liter	0,44 Lari	50	2,05 Lari	1,23 Lari	3,72 Lari
Fortified wine (above 13%)							
Unbolted	2204	1 liter	0,13 Lari	50	0,61 Lari	0,37 Lari	1,11 Lari
Bottled	2204	1 liter	0,27 Lari	50	1,23 Lari	0,73 Lari	2,23 Lari
Fruit and other materials		1 liter	0,53 Lari	50	2,47 Lari	1,48 Lari	4,48 Lari
Cognac and cognac materials	220820	1 liter	0,89 Lari	100	8,22 Lari	3,29 Lari	12,40 Lari

Whisky, Gin, Rum	220830 220840 220850	1 liter	0,53 Lari	100	4,93 Lari	1,97 Lari	7,43 Lari
Brandy and brandy materials	220820870	1 liter	0,71 Lari	50	3,28 Lari	1,97 Lari	5,96 Lari
Vodka and other spirits	220860	1 liter	0,27 Lari	50	1,24 Lari	0,75 Lari	2,26 Lari
Liqueur	220870	1 liter	0,35 Lari	100	3,28 Lari	1,31 Lari	4,94 Lari
Beer	220300	1 liter	0,11 Lari	15	0,16 Lari	0,24 Lari	0,51 Lari
Ethyl spirit	2207	1 liter	0,09 Lari	100	0,83 Lari	0,3 Lari	1,22 Lari

27. While taxing imported alcoholic beverages as given in part 25, customs duty, excise and VAT are separated out of the combined fixed tax and stated so in relevant tax and customs documents (returns, tax invoices). In case of credit and refund of the aforementioned tax the relevant rule of the Code is applied.
28. Until July 1, 2002 ( 24. 03. 2000 # 238 "Legal Gazette" # 13) the plots of land occupied by railway transport carriages, engine roundhouse and rails as well as lands occupied by stagnant railway stations that are not used for economic activities are land tax exempt. ( 01.05. 98 # 1369 "Parlamentis Utskebani" # 19-20)
29. Supply and/or import of natural gas as well as import of mazut and electricity are VAT exempted up to January 1, 1999. ( 30.10.98 # 1666 "Legal Gazette" # 4)
30. Profit received from oil and gas transactions as a result of carrying out "existing contracts" stipulated by Law of Georgia "On Oil and Gas" is taxed at 10% rate if these contracts were concluded before enactment of Tax Code of Georgia. Profit received oil and gas transactions as a result of carrying out "existing contracts" stipulated by Law of Georgia "On Oil and Gas" and concluded after enactment of Tax Code of Georgia is taxed at a rate existing by the moment these contracts were entered into. ( 09.09.99 # 2386 "Legal Gazette" # 43(50))
31. According to Law "On Oil and Gas", costs for geological survey, spade works for natural resource acquisition and drilling carried out under agreement on share distribution will be deducted in compliance with agreement standards.
32. Income received as a result of oil and gas transactions (activities) under Law of Georgia "On Oil and Gas" is exempt from tax for economic activity specified in article 209 of the Tax Code.

33. In consistence with part 3 of article 30 of the Tax Code, for the purposes of timely payment of taxes and submission of tax returns and other necessary documents according to the law “On Gas and Oil”, under decision of the Tax Revenue Ministry and application of share distribution agreement parties, tax liabilities might be borne by a party getting state share of gained oil and gas.
34. Requirement under part 2 of article 17 does not apply to the works and services provided by non-resident subcontractors carrying out gas and oil transactions according to law of Georgia “On Oil and Gas”.
35. Up to July 1, 2002, the imported and supplied gas necessary for production of electric power (thermal power stations) is exempt from tax on pollution of environment with harmful substances. ( 24.12.99 # 97)
36. Up to July 1, 2002, the imported and supplied gas necessary for production of electric power (thermal power stations) is exempt from VAT. ( 24.12.99 # 97)
37. Part 4 of Article 43, sections “j” and “k” of Article 47, section “b” of Article 137<sup>1</sup>, section “j” of Article 143 and subsections “q” and “r” of part 1 of Article 158 shall come into effect from January 1, 2003. ( 24.12.99 # 97)
38. Until January 1, 2003 light, medium and heavy oil distillates (Commodity Nomenclature codes 271000110- 271000690) shall be taxed as follows in lieu of the excise rates specified in Part 22 of Article 130 of the Tax Code :
  - f) Light and medium oil distillates (Commodity Nomenclature codes 271000110-271000590) – GEL 200 per ton;
  - g) Heavy oil distillates (Commodity Nomenclature codes 271000610-271000690) – GEL 100 per ton;
39. For enterprises rendering services to refugees and internally displaced people in their settlements, in the framework of budgetary financing, until January 1, 2003, the amount of supply of goods (works, services) will be determined in accordance to the actually reimbursed value. ( 13.07.2000 # 470 “Legal Gazette” # 30)
40. Last sentence of the part 1 of Article 188 will not be applied to budgetary organizations, as well as to medical institutions participating in state or/and municipal programs from September 1, 2000 till January 1, 2001. ( 13.10.2000 # 557)
41. The import and supply of feed (goods specified in codes 121300, 1214 (except 121410, 121490) ) for the domestic animals is exempt from VAT until June 1, 2001. ( 10.11.2000)
42. The amounts receivable from the sources actually transferred to the budget anticipated by article 270 of the Tax Code of Georgia be determined by the following procedure:
  - a) 1 % of the amounts actually transferred to the state budget in 2001 that are controlled by the tax agencies for material ( 22.06.2001 # 1005) incentives fund of the state organs stipulated by Presidential Decree, be transferred on the account of the Tax Revenue Ministry of Georgia in the State Treasury of Georgia;

- b) The gross income in excess of tax revenues received by allocation of the Ministry of Finance from the state budget, but no more than 5million GEL, that are controlled by the tax agencies for the material ( 22.06.2001 # 1005) incentives fund of the state organs stipulated by Presidential Decree be transferred to the account of the Tax Revenue Ministry of Georgia in the State Treasury of Georgia. The rule of transferring the above revenue to the incentive fund is determined by the Ministry of Finance and the Ministry of Tax revenues. ( 13.12.2000)
43. Tax Revenue Ministry of Georgia shall work out tax calculation and payment procedures stipulated by the Article 239.2 of this Code by June 1, 2001.
44. Article 239.2 of this Code shall come into force from July 1, 2001.
45. Import of pyrolysis liquid product (Commodity Nomenclature Codes 391190000; 3911909000 to Georgia is taxed at a rate of GEL 50 per ton. Right to import pyrolysis liquid product is granted to the enterprises having the relevant environment protection license for processing the above substances. (27.04.2001 # 859)
46. Before January 1, 2007, physical and legal persons working in agricultural manufacture whose primary supply of agricultural products during the calendar year before its processing (until changing the commodity nomenclature code) does not exceed 100 thousand Lari, are taxed by the land tax instead of all taxes stipulated by the Georgian legislation in this sphere. ( 20.07.2001 # 1025)
47. Charge of fines must be suspended (on volume of funds not received from budget) for medical organizations, which have not received resources from state budget or through funding of state (municipal) health care programs and have been charged by sanctions and fines according to article 252, until state pays off its debt to them. (21.12.2001 # 1212-Is, “Legislative Bulletin”).
48. For health care budget organizations and for health care organizations functioning under state (municipal) health care programs, volume of services within the budget funding must be determined according to value actually reimbursed from the budget. (21.12.2001 # 1212-Is, “Legislative Bulletin”).
49. Charge of fines and penalties on budget liabilities arisen because of uncompensating of value of works, services and goods supplied under Law of Georgia on “Public Procurement” considering amounts specially provided by Law on State Budget, must be suspended until actual funding. Also, courts are allowed to suspend relevant bankruptcy cases proceeding and execution of court decisions. (21.12.2001 # 1212-Is, “Legislative Bulletin”).
50. From 1 January 2002 to 1 January 2004, physical and legal persons, who organize markets in Georgia, are taxed by United, Fixed, Combined Tax for Market Organization in lieu of VAT, Profit (Income, in case of physical person) Tax, Tax for Economic



Activity, and Tax on Use of motor roads of public usage for this part of their activity. (21.12.2001 # 1212-Is, “Legislative Bulletin”).

51. Trading places existing on territory of a market are object of Tax on Market Organization. For purposes of this article, market is agriculture (except live birds and animals), food and industrial products trading complex, which is constituted by land lot isolated for this purpose and stationary and non-stationary trading places located on it, with centralized business service and administration, basic type of activity of which is lease of trading places. (21.12.2001 # 1212-Is, “Legislative Bulletin”).
52. For purposes of this article, when calculating Tax on Market Organization, any leased (or intended to be leased) trading place or/and object, which is used for supply of goods, located on the territory of market, is considered trading place. Space up to 6m<sup>2</sup>, from 6m<sup>2</sup> to 10m<sup>2</sup>, 10m<sup>2</sup> to 15m<sup>2</sup>, 15m<sup>2</sup> to 20m<sup>2</sup>, 20m<sup>2</sup> and more, on which counter is installed or other type of trading object (shop, warehouse, stall, booth) is located, is considered one stationary market place (including, cases of trading from automobiles). In case of counter, space up to 3m<sup>2</sup>, where trading side is 2m, or in case of jewelry – space up to 2m<sup>2</sup>, where trading side is 1m, is considered provisional trading space. Trading place, which is not considered as stationary trading place or counter by this section, will be regarded as non-stationary. 30m<sup>2</sup> space is considered non-stationary provisional trading place. (21.12.2001 # 1212-Is, “Legislative Bulletin”).
53. Tax on Market Organization is determined as due monthly per trading place in the following amounts:

Name	Number of Inhabitants			
	Up to 30000	From 30000 to 100000	From 100000 to 1000000	1000000 and more
1	2	3	4	5

a) Per one stationary trading place of market:				
from 15m <sup>2</sup> to 20m <sup>2</sup> including	15	30	50	80
from 10m <sup>2</sup> to 15m <sup>2</sup>	10	25	45	70
from 6m <sup>2</sup> to 10m <sup>2</sup>	10	25	40	60
up to 6m <sup>2</sup>	5	20	35	45
b) counter	5	15	25	35
c) non-stationary trading place	5	10	20	30

(21.12.2001 # 1212-Is, “Legislative Bulletin”).

53<sup>1</sup>. Markets (except located in Tbilisi), number of market places of which constitutes more than 300 in total, notwithstanding of number of inhabitants, is taxed at rates provided in 4<sup>th</sup> column of the table in section 53. In case, when a market is organized by several persons or markets neighbor each other, number of trading places is determined jointly then for purposes of this article. (21.12.2001 # 1212-Is, “Legislative Bulletin”).

54. Tax on Market Organization for stationary place with space more then 20m<sup>2</sup> must be determined proportionally to basic tax for 20m<sup>2</sup> space trading place given in the table in section 53 of this article. (21.12.2001 # 1212-Is, “Legislative Bulletin”).

55. When trading only with agriculture products, construction materials, sanitary-technical and used items, trading place is taxed on Market Organization by 0.6 correcting coefficient to taxes defined in the table in section 53 of this article. (21.12.2001 # 1212-Is, “Legislative Bulletin”).

56. Automobiles’ market and market, which is located in inhabited place, where population is up to 30 000, and which functions not full month (on definite week days only), pay Tax on Market Organization according to number of function days considering taxes defined in section 53 of this article. (21.12.2001 # 1212-Is, “Legislative Bulletin”).

58. For purposes of Tax on Market Organization calculation, nonoperating trading place located on operating market or nonoperating market, upon request of its administration, is subject to conversion to conservation regime. In this case, it will not be included in the fixed tax calculation. Market, shop, warehouse, container, stall and booth, converted to regime of conservation, will be locked by lock of relevant tax agency. In case of conservation of

separate trading place, the conserved trading place is subject to dismantling (except trading place constructed firmly, dismantling of which requires serious resources). Conversion to conservation regime or dismantling is carried out by decision of market administration, on which it is obliged to inform relevant tax agency prior, at filing of return. (21.12.2001 # 1212-Is, "Legislative Bulletin").

58. Tax on Market Organization is paid by organizers of a market monthly, before 25<sup>th</sup> day of relevant accounting month, for which taxpayers file return to tax agency. (21.12.2001 # 1212-Is, "Legislative Bulletin").

59. Georgia Ministry of Finance, together with Tax Revenue Ministry, Ministry of Economy, Industry and Trade, Ministry of Justice and other interested agencies, must prepare and submit to Parliament in one month draft amendments on sharing of revenue generated by taxes defined in section 50-58 of this article between budgets of various lays, to relevant legislative acts. (21.12.2001 # 1212-Is, "Legislative Bulletin").

60. Until 1 January 2014, melioration infrastructure, transferred to melioration associations provided by Law of Georgia on "Land Melioration", and located on their service territory, must be Property Tax exempt. (21.12.2001 #1207-Is, "Legislative Bulletin").

#### **Article 274. Tax Agencies during the Transitional Period**

1. Until enactment of the district, zonal and regional inspections stipulated by Article 260 of the present code, the duties of the tax agencies shall be performed by state tax inspection of the corresponding cities and regions.
2. Before September 1, 2000 Tax Revenue Ministry of Georgia with the bodies concerned shall draft legislative proposals to establish and specify the rule of activities of the local tax agencies. ( 28.06.2000 # 432 "Legal Gazette")

President of Georgia  
Eduard Shevardnadze

Tbilisi,  
June 13, 1997

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