



Amendments Made in Tax & Customs Code

Ministry of finance of Georgia

December 2008

Reform of the Georgian tax and customs system

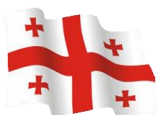
- Over the recent years, radical changes have been made to tax and customs legislation in Georgia
- A new Tax Code came into force on 1 January 2005 and a new Customs Code on 1 January 2007 with the following objectives
 - **Facilitating economic growth** - with a minimum number of taxes and low tax rates
 - **Establishing a stable and attractive investment environment** - by setting up a solid legal framework and introducing liberal economic principles
 - **Supporting legal business** - by using strengthened and flexible administration mechanisms to identify and deter dishonest taxpayers
 - **Ensuring an increased culture of taxpaying** - through simplified administrative mechanisms and improved taxpayer support



Tax reduction timeline

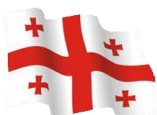
	'04A	'05A	'06A	'07A	'08F	'09F	'10F	'11F	'12F	'13F
Number of Taxes	21	7	7	7	6	6	6	6	6	6
VAT	20%	20%	18%	18%	18%	18%	18%	18%	18%	18%
Income Tax	12-20%	12% flat	12% flat	12% flat	Social Tax + Income Tax 32%	Social Tax + Income Tax 25%	20%	18%	15%	15%
Social Tax	33%	20%	20%	20%	-	-	-	-	-	-
Corporate Profit Tax	20%	20%	20%	20%	15%	15%	15%	15%	15%	15%
Dividend income tax	10%	10%	10%	10%	10%	5%	5%	3%	0%	0%

- Out of 21 taxes under the former tax code, only 6 exist today
- Tax rates reduction timetable has been further accelerated in key tax rates in 2008
- This will provide a significant stimulus for the economy in 2009 and beyond
- Georgia, over the last five years, has evolved one of the most attractive low-tax jurisdictions in Europe



One of the best taxation regime

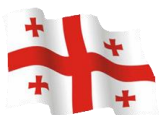
- The taxation framework in Georgia is as follows
 - Flat personal income tax of 20% (from 1 January 2009) decreasing to 15% by 2012
 - Corporate income tax of 15%
 - VAT of 18%
 - Property tax of 1% on the self-assessed value of property
 - Interest income and dividend tax rates decreasing from 5% (from 1 January 2009) to 0% by 2012
 - 0% dividend income tax on dividends from publicly-traded equities from 1 January 2009
 - 0% tax on interest income from bank deposits and publicly-traded debt securities (from 1 January 2009)
 - No capital gains tax
 - No social insurance or similar taxes
 - No inheritance tax
 - No wealth tax
 - No stamp duty or other transaction-based taxes or levies



Special taxation systems

- Special taxation systems have been adopted for the different regimes aimed at establishing new international financial institutions in the country, encourage economic growth, support sustainable development and the trade-transit function of Georgia

Type of tax	An international financial company	Free industrial zone	Free warehouse company
Corporate Income Tax	(from financial services) 0%	(for International Company) 0%	(from re-exporting of foreign goods) 0%
Withholding Taxation Rates:			
▪ Dividends	0%	5%	5%
▪ Interest	5%	5%	5%
Value Added Tax	0%	0%	(supply of goods to VAT taxpayer) 0%
Customs Tax	0%, 5% or 12%	0%	0%
Property Tax	up to 1%	0%	up to 1%
Personal Income Tax	20%	20%	20%
Net Operating Losses (years):			
▪ Carry back	0	0	0
▪ Carry forward	0	0	0



Complete and refine the double-taxation treaty framework

- Presently, Georgia has double-taxation treaties in force with 24 countries
 - Great Britain
 - Estonia
 - Holland
 - Lithuania
 - Latvia
 - Italy
 - Belgium
 - Austria
 - Poland
 - Czech Republic
 - Germany
 - Romania
 - Bulgaria
 - Finland
 - Ukraine
 - Turkey
 - Kazakhstan
 - Greece
 - China
 - Armenia
 - Azerbaijan
 - Uzbekistan
 - Turkmenistan
 - Iran

- Double-taxation treaties have been ratified by Georgian side but not in force due to necessary procedures are not concluded by the another party, with the following five countries
 - Luxembourg
 - Denmark
 - France
 - Latvia
 - Russia



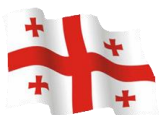
Complete and refine the double-taxation treaty framework, cont'd

- List of those countries double-taxation treaty to be either reviewed with or put in force
 - United Arab Emirates
 - Cyprus
 - Netherlands
 - Switzerland
 - Kuwait
 - Norway
 - Kazakhstan
 - Azerbaijan
 - Japan
 - India
 - Canada
 - Saudi Arabia
 - Korea
 - Singapore
 - Hong-Kong
 - Sweden
 - Malta
 - Hungary
 - Slovakia
 - Slovenia



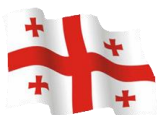
Income tax

- According to the new amendments:
 - Income tax will reduce to 20% from 1st January 2009, to 18% from 1st January 2011 and to 15% by 2012
 - From 1st January 2009, dividend income tax will reduce to 5%, from 1st January 2011 to 3% and to 0% by 2012
 - From 1st January 2009, income generated by individuals from the sale of four homes (with own lands) within a four years, will be exempt from personal income tax as well as from value added tax (VAT)



Property tax

- From 1st January 2009, resident individuals whose annual household income ranges from GEL 40,000 up to GEL 100,000, will pay property tax in the range of 0.05% - 0.2% on the market value of the property assessed as of the end of previous year (excluding land)
- If annual household income exceeds GEL 100,000, property tax will be in the 0.8%-1% range of the market value of the property (excluding land) assessed as of the end of previous year
- Residents whose annual household income doesn't exceed GEL 40,000 will be exempt from property tax (excluding agricultural land)
- From 1st January 2009, legal entities will pay property tax of 1% on the balance-sheet value of the their fixed assets stated as of the end of previous year
- From 1st January 2009, there will no longer be any property tax on vehicles



Value Added Tax (VAT)

- VAT reimbursement procedures will be significantly straightforward
 - From 1st January 2009, VAT reimbursement period will be shortened from six month to three month
- From 1st January 2009, mandatory VAT invoice issuance from Internal Revenue Service (IRS) within 2 days period, will be abolished
- Mandatory VAT invoice submitting period to IRS will be expanded from 45 days to 90 days
- There will no longer be required an export declaration in order to benefit from 0% of VAT in export trading



Improvements in tax administration & reducing fines

- To further improve tax administration, new amendments allows controlling (to some extend) as well as examining the private sector in line with tax paying intention
 - Testing intervention in business (purchase goods or services) to better find out how tax paying purpose measures are met by the business sector
- According to new amendments, when penalty is imposed on violation of the tax law which has been modified/ (moderated) since then, applied sanction will be according to new - modified law conditions
- While, once penalty is imposed on violation of the tax law which has been modified/ (toughened) since then, applied sanction will be according to previous law conditions
- From 1st January 2009, either non-goods or fiction operation resulting in fraud application, will be set to levy a fine of 200%, decreasing from 300%
- Most of the minor penalties are set to decrease in line with new amendments



Tax residence

- From 1st January 2009, residence can be granted to high net-worth individuals according to the prudence of either minister of finance or minister of justice



Financial Services

- From 1st January 2009, there will be clear definition of financial instruments, financial operations and financial services
- Financial services will include, inter alia, services related to financial instruments and financial operations



Other changes

- Below listed articles are modified in order to eradicate ambiguity:
 - 100 article
 - 12 article
 - 127 article
 - 129 article
 - 146 article
 - 187 article
 - 195 article
 - 196 article
 - 241 article
- According to new amendments, minister of finance of Georgia can put into effect following tax benefits, in case of war or other extraordinary circumstances
 - Postponing the deadlines of submitting the declaration statements
 - Postponing the dates of paying taxes
 - Cancelling the timing of paying ongoing taxes
- At the same time, new amendments permits full write-off of the damaged property/inventory (because of the war) only based on decision made by the ministry of finance council
- There will be more extensive definition of the bad debt



Altering the customs procedures

- From 1st January 2009, earlier declaration of the importable goods will be permitted, that would save number of procedures at the customs checkpoint which make customs inspection extremely effective
- Submission, modification of the already registered customs declaration will be allowed (and re-registration in the database)
- There will be introduced a post customs clearance auditing
- There will be implemented a one single document system, which would allow importer to receive import-related information on any product:
 - Benefits
 - Customs fee
 - License
 - Permission
 - Taxes
 - etc



Altering the customs procedures, cont'd

- “Blue corridor”
 - From 1st January 2009, customs department will be able to monitor goods after passing customs inspection
 - Area of customs activity will be expanded which would enhance the customs inspections efficiency
 - There will be significant reduction in number of before-passing procedures either for importable or exportable goods



Altering the customs procedures, cont'd

- Reductions of the fines from 1st January 2009
 - Penalty on declaration submission delay will no longer be a one-off GEL 500, but GEL 100 per delayed day
 - GEL 300 fixed customs penalty will be abolished, which in most cases was imposed on a small violations of the customs regulations
 - There will be a significant lessening in those dreadful penalties that customs department has been imposing when it was impossible to distinguish between fraud and mistaken declaration



Altering the customs procedures, cont'd

- From 1st January 2009, there will be introduced a custom brokers institute, which will be accountable to submit bank guarantee of GEL50,000 to customs department in order to diminish the risks



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