



Georgian Legal News

Refer to the Law

Amendments to the Law of Georgia on Accounting, Reporting and Audit

On May 29, 2024, the Parliament of Georgia adopted amendments to the Law of Georgia On Accounting, Reporting and Audit in accordance with Law No. 4206.

These amendments, particularly addition of Article 141, which came into effect on January 1, 2025, introduce notable restrictions on the provision of non-audit services by audit firms to their existing clients in specific cases. [➔](#)

Key Highlights of the Amendment

Article 141 prohibits audit firms that audit the financial statements of public interest entities (PIEs) or any member of the network to which the audit firm belongs from providing certain non-audit services to the same PIE, its parent undertaking, or any undertaking under its control. This restriction applies to entities operating within Georgia or any Member State of the European Union.

Restricted Non-Audit Services

The restricted non-audit services, as defined by law, include:

1. Tax Services:

- Preparation of tax reporting forms and related annexes required by the tax legislation.
- Withholding and income taxes from salary/wages.
- Import duties.
- Identification of state subsidies and tax benefits, except where mandated by Georgian legislation.
- Support related to tax control or analytical procedures conducted by tax authorities, except where required by Georgian legislation.
- Calculation of direct, indirect, and deferred taxes.
- Provision of tax consultancy.

02. Management Participation:

- Services involving participation in the management or decision-making process of the audited entity.

03. Accounting and Payroll Services:

- Preparation of accounting records, financial statements and payroll-related services.

04. Internal Control and IT Systems:

- Development and implementation of internal control or risk management procedures related to financial information.
- Development and implementation of financial information technology systems.

05. Valuation and Legal Services:

- Valuation services, including actuarial and litigation support.
- Legal services such as acting as a principal advisor, negotiating on behalf of the audited entity, or representing the entity in legal disputes.

06. Internal Audit Functions:

- Services related to the internal audit function of the audited entity.

07. Financial Advisory Services:

- Services related to financing, capital structure, allocation, and investment strategy, except for assurance services related to financial statements.
- Trading and Underwriting Services:
- Offering, trading, or underwriting shares in the audited entity.

08. Human Resources Services:

- Searching for candidates who influence accounting records or financial statement preparation.
- Establishing organizational structures and controlling entity expenses.

Exceptions to the restrictions

Audit firms may provide limited tax and valuation services if they ensure independence, document immaterial impacts on financial statements, and report these to the audit committee as required by the Law of Georgia "On Entrepreneurs."

Penalties for Breaches

Penalties for violations include warnings, fines up to 5,000 GEL, registration cancellation, or temporary bans (up to three years) from auditing, signing reports, or holding roles in audit firms.

Implications for Audit Firms and Clients

These amendments aim to enhance the independence of audit firms while safeguarding the objectivity of financial statement audits. Audit firms and PIEs should carefully review their existing engagements to ensure compliance with the new restrictions. PIEs are encouraged to seek alternative providers for restricted non-audit services to avoid conflicts of interest.

The country-by-country reporting

On January 1, 2025, Order No. 188 of the Minister of Finance of Georgia, initially published on June 6, 2024, came into effect. This order approved the “Reporting Rules for Multinational Enterprise Groups” and was put into effect on the basis of Article 70¹ of the Tax Code of Georgia, which determines the reporting of multinational enterprise groups.

The order determines the conditions related to the obligation to declare the country-by-country report of a multinational enterprise group to the tax authority, as well as the procedure for preparing the report of a multinational enterprise group, the conditions for the obligation to notify information to the tax authority and the time of declaration. Detailed explanations on this matters can be found in Article 70¹ of the Tax Code and Order No. 188 of the Minister of Finance.

Amendments to the Resolution of the Government of Georgia on Special Taxation Regimes

Resolution N436 of the Government of Georgia, dated December 23, 2024, introduces amendments to Resolution N415 (December 29, 2010) “On Special Taxation Regimes.” These changes are set to take effect on February 1, 2025.

The amendment specifically impacts the taxation of income derived from the provision of construction services, including:

- Residential and non-residential building construction services,
- Civil construction services, and
- Specialized construction services.

Under the new regulation, income received by individuals for such services will no longer qualify for taxation under the special taxation regime for small businesses if the service recipient is an enterprise, organization, or entrepreneur individual as defined by the Tax Code of Georgia.

Key Implications of the Amendment:

1. Current Taxation: Income under the special taxation regime for small businesses is taxed at 1% or 3%.
2. Revised Taxation: From February 1, 2025, income earned in the above-mentioned cases will be subject to the general taxation rule, which imposes a tax rate of 20%.

This adjustment marks a significant shift in the tax framework, particularly for individuals engaged in construction-related activities.



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