

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 the formation and functioning of the tax system of Georgia, relations connected with the collection and payment of taxes that make up the tax system, legal status of taxpayers and tax agencies, responsibility for the violation of tax legislation, procedures and conditions for appealing illegal actions of tax agencies and officials thereof.
2. The definitions and rules established by this Code are employed only in regulating matters connected with taxation, unless otherwise stated by legislation.
3. The payment of customs duties and levy is regulated by customs legislation.

Article 2. Tax System

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

Article 3. Legal Basis for Establishment and Collection of Taxes

1. A physical or legal person is obliged to pay the nation-wide and local taxes established by this Code, according to which the person is considered as a taxpayer.
2. No one may be obliged to pay a tax that is not stipulated by this Code.
3. A tax charged under this Code is a debt before the state and is subject to mandatory payment to the budget.
4. Supreme representative bodies of the Abkhazian and Adjarian Autonomous Republics, as well as local self-government bodies may impose local taxes only as stipulated by this Code.

Article 4. Tax Legislation

1. The tax legislation of Georgia consists of this Code and subordinated normative acts adopted in compliance with it.
2. The subordinated normative acts shall not contradict this Code. In the case of such contradiction, the provisions of this Code shall apply.
3. In the case of taxation if there is a conflict between provisions of this Code and normative acts in another area of legislation, the provisions of this Code shall apply.
4. For the purpose of taxation the published acts of tax legislation that are in effect on the day on which the tax obligation arises are applied.
5. The establishment or elimination of taxes, the modification of the payment procedure is effected by introducing relevant changes in this Code, while the modification of the

procedure for the payment of local taxes - by introducing changes into corresponding normative acts. The Procedure for restructuring past due debts connected with taxes established by the Code is defined by relevant law.

6. Acts of tax legislation have no retroactive effect, unless the respective act provides otherwise.
7. It is prohibited to regulate under non-tax legislation such issues which are connected with taxation, except for:
 - a) provisions concerning administrative offenses, included in the Administrative Offenses Code;
 - b) provisions on tax crimes, included in the Criminal Code;
 - c) provisions on the priority of tax obligations, included in the bankruptcy law;
 - d) customs legislation;
 - e) legislation on imposing levies.
8. If an international treaty signed and ratified by Georgia established rules other than those provided for in the tax legislation of Georgia, except for part 9 of this Article, the rules of the international treaty shall apply.
9. The privileges contemplated by international treaties on the avoidance of double taxation do not apply to a resident of a state party to the treaty, which is used by another person who is not a resident of a state party to the treaty for the purpose of obtaining the privileges.

Article 5. Concept of a Tax

A tax is a payment to the budget and to a specialized state fund (hereinafter - state fund), having a mandatory, non-quid-pro-quo and gratuitous nature, effected by a taxpayer as provided by the Code.

Article 6. Kinds of Taxes

1. Nation-wide and local taxes are in effect in Georgia.
2. The following belong to the nation-wide 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 polluting the environment with harmful substances;
 - l) tax on entering motor vehicles onto the territory of Georgia and being overloaded.
3. The following belong to the local taxes:
- a) tax on economic activity;
 - b) tax on gambling business;
 - c) resort tax;
 - d) hotel tax;
 - e) advertisement tax;
 - f) tax on use of local symbols.
4. The procedure for allocating taxes among budgets is defined in accordance with the laws of Georgia «On the Budget System and Budgetary Powers» and «On Long-term Economic Norms of Tax Revenues Allocations to Budgets of the Abkhazian and Ajarian Autonomous Republic and other Territorial Units of Georgia».
5. Taxes are calculated in monetary form and paid in Lari.
6. An exemption from the nation-wide taxes or a reduction in a tax rate stipulated by this Code may be imposed only by making amendments and additions to this Code. An exemption from the local taxes may be imposed by amending this Code, while the assignment of other privileges by amending the relevant normative acts.
7. The establishment of tax concessions by other legal acts is prohibited.
8. The establishment of tax privileges is prohibited for any physical and legal person.

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

Article 7. Economic Activity

- 1. Economic activity is recognized as any legitimate activity aimed at receiving profits, income, or compensation, regardless of the results of such activity, unless otherwise stipulated by this Article.
- 2. The following are not regarded as economic activities:
 - a) activities of state agencies and local self-government bodies directly connected with the execution of the function entrusted to them according to legislation, not including the rendering of services that are paid for on a contractual basis, or other entrepreneurial activity;
 - 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 stipulated by section 1 of the article one of law of Georgia “On Entrepreneurs”, namely such an economic activity which is carried out in the form of commercial transactions or other economic operations.
2. Non-entrepreneurial activity is recognized as an activity in the form of the transfer of property (including monetary funds), for payment by one person to another for temporary possession, use, or disposal, without the transfer of title to this property or a part thereof, if such a transfer is not attributable to financial activities and does not impose on the transferee additional obligations not connected with the targeted use of the transferred property or with the obligation connected with payment of compensation for the possession, use, or transaction of the property, unless this Article provides otherwise.
3. Non-entrepreneurial activity includes:
 - a) performance by a physical person of work on hire in accordance with Article 9 of this Code;
 - b) depositing monetary funds with banks or any other credit institutions;
 - c) leasing property, except for the cases stipulated by part 5 of this Article;
 - d) property management by proxy;
 - e) unless otherwise prescribed by part 5 of this Article, acquisition (sale) of shares or securities of the authorized capital of an enterprise; acquisition (sale) of bonds or any other promissory notes; acquisition (sale) of share in a investment fund; and sale of intellectual or similar rights owned by the seller - shall be equivalent to non-entrepreneurial activity;
 - f) activities of a person who independently is engaged in activity stipulated by section 2 of Article one of the law of Georgia «On Entrepreneurs».
5. Economic activity connected to the acquisition or sale of securities or any other property is recognized as entrepreneurial activity if at least one of the following circumstances exists:
 - a) this activity is performed on a systematic basis and is a professional activity for the person that carries out the above transactions;
 - b) goods (works, services) produced (executed, rendered) by the seller are sold;
 - c) such transactions are carried out within the framework of trade, trade-intermediary (including dealers' activities), or intermediary activities.

Article 9. Employment

1. For the purpose of this Code, “employment” means:
 - a) the performance by a physical person of obligations within the framework of relations regulated by legislation on labor or on state service;
 - b) the performance by a physical person of obligations directly connected with service in the ranks of the armed forces, in Law enforcement, or in equivalent agencies;
 - c) work in positions of managing director of enterprises, organizations.
2. A physical person engaged in employment is called an “employee” in this Code. A person who pays for the services rendered by such physical person as an employee is called an “employer”, and such payment is called “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, that render such assistance directly, also educational and scientific activity performed by the organization - in the public interest, unless this Article provides otherwise.
2. Unless otherwise stipulated by part 3 of this Article, charitable activity includes the following assistance (support):
 - a) to low income physical persons in need of social adaptation or social protection;
 - b) to children who have no parent(s) as well as to preschool or other children institutions and other organizations taking care of such children;
 - c) to disabled or elderly people, or to organizations that take care of disabled or elderly people;
 - d) to physical persons who need medical care (support or special care) in the form of payment for medical or related services (including for transportation to the place where these services are provided) or to organizations that have the status of medical institutions;
 - e) to educational institutions including the establishment of student stipends;
 - f) to institutions of science and culture;
 - g) to gifted physical persons for developing their talents;
 - h) for the protection of the population or nature from pollution or other harmful influence;
 - i) to religious organizations;
 - j) to penitentiary institutions when these activities are directed at imposing living conditions or medical services for the inmates.
3. The provision of assistance (support) to a person is not recognized as charitable activity if:

- a) the person who receives 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) towards the person who provides such assistance;
- b) the person who receives such assistance (support) and the person who provides such assistance (support) are treated as related persons in accordance with Article 24 of this Code;
- c) such assistance (support) is of a political nature, including the transfer of funds to any political party, public organization (movement), election union, or any individual physical person for participation in an election campaign.

Article 11. Religious Activity

- 1. For the purposes of this Code, religious activity means the activity of duly registered religious organizations and associations aimed at faith and expansion of religious belief, including that achieved through.
 - a) organizing and holding religious rites, ceremonies, prayer gatherings, or any other church-related actions;
 - b) allowing 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 religious delegations, pilgrims, and representatives of various beliefs, holding national or international religious meetings, congresses and seminars, and providing hotels (or other accommodations), transport, meals, and cultural services to participants in the above events;
 - d) maintaining monasteries, local 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. Activity of enterprises of religious organizations (associations) to produce (manufacture) religious (religious service) literature or religious items or to provide works or services for religious organizations (associations), as well as activity of these organizations (associations) or their enterprises to realize (disseminate), religious (religious service) literature or religious items or to use the proceeds from the above activities to finance the religious charter activities of religious organizations (associations), shall be regarded as equivalent to religious activity.

Article 12. Enterprises

- 1. For the purposes of this Code, enterprises are recognized as entities that perform economic activity or that are established to perform such activity, namely:
 - a) legal persons established according to the legislation of Georgia;
 - b) corporations, companies, firms, and other entities established pursuant to the legislation of foreign states;

- c) branches and other separate units which are structural units of the entities indicated in subsection «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 an individual enterprise.

Article 13. Georgian Enterprise and Foreign Enterprise

1. A Georgian enterprise is an enterprise having the place of its activity in Georgia or having the place of its management in Georgia.
2. A foreign enterprise is an enterprise which 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 the enterprise, or the place indicated in founding documents of the enterprise (charter, agreement, and statute), 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 is recognized as the establishment of the taxpayer through which it carries out, in full or in part, an economic activity including activity effected through an authorized person except for the cases provided for by part 3 of this Article.
2. The following are equivalent to a permanent establishment:
 - a) construction sites, assembly or building facilities, and the exercise of controlling activities connected with such facilities;
 - b) installations or sites, drilling equipment or ships used for surveying for natural resources, as well as the exercise of controlling activities connected with such facilities;
 - 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 is used (regardless of who uses it) only to do the following:
 - 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 activities that are preparatory or auxiliary in nature coming from the interests of the foreign enterprise;
- e) execute any combination of the activities indicated in subsections “a- d”.

Article 18. Individual Enterprise

1. An individual enterprise is recognized as an enterprise whose sole participant and manager is a single physical person (the owner of the enterprise).
2. The following are equivalent to an individual enterprise:
 - a) an enterprise in which the sole participants are 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 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 recognized 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 have been established and are acting according to the legislation of a foreign state;
 - b) interstate and intergovernmental organizations.
2. The place of activity and 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 which is directly connected to its economic activity is recognized to be the activities and property of an enterprise.

Article 20. Budgetary Organization

A budgetary organization is considered as an organization established on the basis of state (municipal) property, including state authority and self-government bodies, which perform the 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, which has been established for charitable activity purposes, registered in the order established by legislation, and satisfies the requirements established by this Article.
2. An organization is not considered a charitable organization (regardless of its legal and organizational status or name) if such organization:
 - a) pursues political goals or executes political activities including direct or indirect participation in the election campaign of any political party, public organization (movement) or separate physical person;
 - b) the revenues or assets benefit any person, including in the form of his property and services fee, except as a result of the conduct of its charitable activity.

Article 22. Religious Organization

For the purposes of this Code, a religious organization is recognized as an organization which is established for the purpose of carrying out religious activity and which is registered as such according 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 tax legislation is obliged for the calculation, withholding from a taxpayer, and transfer of a tax to the respective budget (state fund).
2. In respect of their rights and obligations, tax agents have the same status as taxpayers if this Code does not state otherwise.
3. A tax agent is obliged:
 - a) to correctly and timely calculate, withhold from a taxpayer, and pay to budgets (state fund) the appropriate taxes;
 - b) to keep a record of income paid to every taxpayer and of taxes withheld and transferred to budgets (state funds);
 - c) to forward to tax agencies the documents required for controlling the accuracy of calculation, withholding, and payment of taxes;
 - d) to perform other duties established by tax legislation.
4. For the non-performance or improper performance of the duties imposed on him by tax legislation, the 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 existing special relations among them may directly affect the conditions or economic results of transactions between them.
2. Such special relations include, in particular, relations where:

- a) persons are founders (participants) of the same enterprise, if their share is not less than 20 percent;
- b) one person has a direct or indirect interest in another person, which is an enterprise, where such an interest is not less than 20 percent;
- c) one person is subordinate to the other person in terms of his business, 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 a third person;
- e) persons jointly (directly or indirectly) control third persons;
- f) persons are relatives.

Article 25. Resident Physical Persons

1. Physical persons are recognized as residents if they were actually located on the territory of Georgia for more than 182 days in any 12-month period ending in a tax year, or were in the Georgian state service abroad during the tax year.
2. For purpose of part 1 of this Article, a time during which a physical person was in Georgia is not considered a time of actual location 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 State Service of a foreign country, or a family member of such a person, except citizens of Georgia;
 - c) exclusively for moving from one foreign country to another through the territory of Georgia.
3. A day of location in Georgia is considered any day during which a physical person was actually located on the territory of Georgia, regardless of the duration of this stay.
4. A physical person is regarded as a non-resident of Georgia who is not a resident of Georgia in accordance with this Article.
5. The status of 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 is an individual entrepreneur in accordance with Article 2 of the Law of Georgia «On Entrepreneurs», and if he engages in entrepreneurial activity independently and at his own risk with establishing a legal person.
2. The performance by a physical person of entrepreneurial activity in violation of established procedure for registration and receipt of a license, certificate, or any other similar document 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) is considered the free market price resulting from the interaction of supply and demand on a market of identical (or, in their absence, similar) goods (works, services) on the basis of transactions concluded on the appropriate market of goods (works, services) between persons that are not related under Article 24 of this Code.
2. The market price of a good (work, services) is determined on the basis of information about relevant transactions on identical, (similar) goods (works, services) conducted at the time of sale of the good (work, services).
3. In 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) is considered the sphere of circulation of these goods (works, services) determined by the capacity of the seller (buyer) to realize (acquire), realistically and with no substantial additional costs, a good (work, service) on the territory that is closest to the seller (buyer) within Georgia or outside it.
5. If no transactions with 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 relevant transactions with identical (similar) goods (works, services) as of the day closest to the time of the sale of the aforementioned good (work, service) but no more than 30 days remote (preceding or following) from the time of the sale of the good (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) is 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 costs for the production and (or) sale (acquisition price or depreciated value) of the goods (works, services) that are customary in such instances, and costs for transportation, storage, insurance and other similar costs that are customary in such instances, as well as additional charges or discounts that are customary for transactions between non-interdependent persons, considering factors of supply and demand on the market of goods (works, services). The aforementioned discounts are taken into account, in particular, in the case of quality deterioration or loss of other consumer qualities of the goods, or expiration (approaching expiration date) of the service life period or sale period of the goods.
7. Exchange transaction (barter transactions) of goods (works, services) are considered as transactions in accordance with which each of the exchanging parties realized its goods (works, services) and acquired other goods (works, services). At the same time market prices of the goods (works, services) realized (acquired) in the course of these transactions shall be determined pursuant to this Article.
8. A taxpayer is entitled to prove to a tax agency, and the tax agency, having enough to agree with the submitted proof, that procedures for defining and recognizing the market price of goods (works, services) other than these indicated in this Article should be applied in respect of a specific transaction.

9. For the determination and recognition of market prices for goods (works, services) there shall be used official sources of information about market prices of goods (works, services) and exchange quotations, data base of respective state executive agencies, the information provided to tax agencies by taxpayers, also other respective information.
10. For the purpose of calculating tax on natural resources, market price in accordance with types and groups of natural resources indicated in Part 10 of this Code is determined by Ministry of Economy by recommendation of Interdepartmental License-Expert Council for Use of Natural Resources.
11. The market price can be wholesale and retail.

Article 28. Tax Obligations

1. A tax obligation is considered a taxpayer's duty to pay a tax established under legislation.
2. The procedures and conditions for providing, changing, canceling and also performance of a tax obligation may be regulated exclusively by this Code and/or other acts of tax legislation.
3. A taxpayer is responsible for tax obligations from the moment the circumstances providing for payment of the tax as established by 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. "Persons" - legal or physical persons;
2. "Taxpayer identification number" - a number assigned by the tax agency to physical or legal persons;
3. "Administration of taxes" - aggregate of forms and methods connected with the calculation, payment, declaration, and control of taxes, as well as, keeping record and informing of taxpayers performed by tax agencies in executing tax legislation;
4. "Relatives":
 - a) spouses;
 - b) ancestors or descendants;
 - c) sisters (brothers);
 - d) nephews and nieces;
 - e) spouse of a sister (brother);
 - f) sister (brother) of parents;
 - g) persons who, as a result of a long guardianship, are connected as parents and children;
 - h) when defining relations, step sisters (brothers) have the same status as natural sisters (brothers), and adopted children have the same status as natural children; guardian relations with family residence (where persons are related to one another as parents and children) have the same status as blood relations; the termination of the residence in

family between the above persons is not taken into account if the parent-child relations are maintained.

5. "Location of taxable property" - the place where the property is actually located or registered according to procedure established by legislation.
6. "Location of residence of a physical person" - the place where a physical person actually resides.
7. "Resident" - a resident physical person, a Georgian enterprise, as well as an individual enterprise whose place of management or place of activity is in Georgia.
8. "Non-resident" - a person who is not a resident.
9. "Taxable turnover" - total of taxable transactions.
10. "Rendering of services" - any economic activity for compensation which is not the supply of goods or fulfillment of works, as well as such service which for the purposes of value added taxation does not mean the transfer of ownership of money or land or the rendering of services to an employer as an employee.

Services include:

- a) transport services, including transportation of gas, oil, petroleum products, and electric and thermal energy;
 - b) services for the leasing of movable and immovable property;
 - c) communications services, consumer, housing, and communal services;
 - d) natural culture and sports services;
 - e) advertising services;
 - f) innovation services, data processing and information providing 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 surveying, construction, installation, and repair works, scientific-research works, and experimental design works.
 12. "Fulfillment of works" – fulfillment of works for compensation.
 13. "Good" - any tangible or intangible property, including electric or thermal energy, gas, and water, with the exception of money and land for purposes of value added taxation.
 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 customs legislation of Georgia.
 15. "Supply of goods" - a transfer of the ownership of goods, including a sale, an exchange, a gratuitous transfer, the payment of wages in kind, and other payment in kind, as well as the transfer of pledged goods to the ownership of the pledgee.
 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 connected with the services of deposits and accounts of clients, settlements, money payments, debt obligations, and payments instruments;
 - c) transactions connected with the circulation of legal payment means - currency, money, and banknotes (except for those used for numismatic purposes);
 - d) operations connected with the circulation of stocks, bonds, certificates, bills, checks, and other securities (except for services for their safekeeping);
 - e) services related to financial derivative instruments, forward agreements, options, and similar operations;
 - f) services related to the management of investment funds;
 - g) insurance and re-insurance transactions.
17. "Dividend" - the portion of net profit which is distributed by a legal person among the partners, or the income from the distribution of property upon liquidation of a legal person, except for the authorized capital property.
18. "Income from a Georgian source":
- a) income received from hired employment in Georgia;
 - b) income from the sale of goods, performance of works, and 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, and income received from entrepreneurial activity in Georgia, which have the same or similar nature as activity performed by the permanent establishment;
 - d) income from the cancellation of the liabilities as a result of writing off bad debts and income from selling fixed assets according to part 7 of Article 54 of this Code, or income from compensation according to Article 79 which are related to entrepreneurial activity carried out in Georgia;
 - e) income in the form of dividends received from a resident legal person and from the sale of participation's in such legal person;
 - f) income in the form of interest received from residents;
 - g) a pension paid by a resident;
 - h) income 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 in the form of royalties paid in connection with rights or property located or used in Georgia. Income from sale or transfer of property, defined in part 21 of this Article which is located or used in Georgia;

- j) income from leasing movable property used in Georgia;
 - k) income received from immovable property located in Georgia and used in entrepreneurial activity, including income from the sale of a partner's share in such property;
 - l) income from the 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;
 - m) other income from the sale of property by a resident, which is not connected with entrepreneurial activity;
 - n) income received 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;
 - o) income in the form of insurance payments paid under agreements for the insurance or reinsurance of risk in Georgia;
 - p) income from telecommunications or transportation services in international communications or shipments between Georgia and other states;
 - q) other income received on the basis of activity in Georgia;
 - r) in determining the source of income under items "a"-“q” of this part, the place of payment of the income is not taken into account.
19. "Fixed assets» - tangible assets with a service life of more than one year that are subject to depreciation in accordance with Article 54 of this Code.
20. "Interest" - any charge relating to a debt obligation, including payments for credits (loans) that are extended and for deposits (accounts).
21. "Royalty":
- a) payment for the right to use mineral resources in the process of the extraction of economic minerals and processing of technogenic extraction;
 - b) income received in the form of payments:
 - for the use of or right to use copyrights, software, patents, blueprints or models, trademarks or other ancillary types of rights;
 - for the use of or right to use industrial, trade, or scientific- research equipment;
 - for the use of know-how;
 - for the use of or the right to use movies, videos, recordings or other recording media;
 - for rendering technical assistance in connection with 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” - tax (VAT, excises, etc.) which is imposed as an addition 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 pay the indirect tax to the budget is borne by the supplier of a good (work, services) who for purposes of Parts III and IV of this Code is determined as a taxpayer.

26. International transportation – shipment 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.

Chapter 3. General Rules for Satisfaction of Tax Obligation

Article 30. Fulfillment of Tax Obligations

1. Fulfillment of tax obligations is considered the payment of the tax sum in the established term.
2. Satisfaction of tax obligation is one of the basic responsibilities of a taxpayer; it shall be performed regardless of other obligations of a non-tax nature the taxpayer has.
3. Fulfillment of tax obligation shall be performed directly by a taxpayer, unless otherwise provided by tax legislation. In the cases established by tax legislation a liability for fulfillment of tax obligations may be borne by another responsible person.
4. Unilateral refusal to satisfy tax obligations, 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 for fulfillment of tax obligations with all his property, unless otherwise established by this Code.

Article 31. Fulfillment of Tax Obligation in the Case of the Liquidation of an Enterprise (Organization)

1. Tax obligations of an enterprise (organization) being liquidated are fulfilled 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 obligations of its branches and other separate units recognized as enterprises under Article 12 of this Code must also be satisfied by the liquidation commission. Tax obligations of a branch or another separate unit of an enterprise (organization) being liquidated are satisfied directly by the enterprise (organization) of which the separate unit was a part; if this enterprise (organization) is also being liquidated, the tax obligations are fulfilled by the liquidation commission of the enterprise (organization).
2. If an enterprise (organization) being liquidated does not have enough monetary resources to satisfy its tax obligations in full, including remaining after the sale of its property the indebtedness for the tax obligations, the remaining indebtedness for tax obligations must be repaid by the partners of the enterprise (organization), if pursuant to the law, charter, or any other constituent document, they are jointly liable for the obligations of the enterprise (organization). Similarly, the owner of the property of a individual enterprise being liquidated is responsible for payment of the remaining indebtedness.
3. The tax obligation of an enterprise (organization) being liquidated is satisfied within one month of the beginning of liquidation. A tax agency is entitled, provided there are justifiable circumstances, to extend the period for meeting the tax obligations, but for no more than two months. Such extension does not suspend the assessment of fines pursuant to Article 252.

Article 32. Satisfaction of Tax Obligations in the Case of the Reorganization of an Enterprise (Organization)

1. Tax obligations of a reorganized enterprise (organization) are satisfied by its successor (successors) as defined pursuant to this Article.
2. Satisfaction of tax obligations of a reorganized enterprise (organization) shall be imposed on its successor (successors) regardless of whether the facts or circumstances of the non- satisfaction or improper satisfaction of the tax obligations by the reorganized enterprise were or were not known to the successor (successors) before the completion of reorganization. The responsibility to pay all penalties due in connection with the tax obligations of the reorganized enterprise (organization) is imposed on the successor (successors). The responsibility to pay the amount of fines levied for the violation of tax legislation before reorganization of the enterprise (organization) shall be imposed on the successor (successors) of the reorganized enterprise (organization). The provisions of this part apply to the successor (successors) of those reorganized enterprises (organization) that themselves have been recognized as successors of other enterprises (organizations) and that did not satisfy or improperly satisfied their liabilities resulting from such succession with regard to the payment of taxes (fees), as well as penalties and fines due under tax obligations of the aforementioned other reorganized enterprises (organization).

3. Reorganization of an enterprise (organization) does not change the terms for satisfaction of its tax obligations 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 the satisfaction of tax obligations 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) separates into several enterprises (organizations) the enterprises (organizations) established as a result of the division of the enterprise (organization) shall be recognized as the successors with regard to satisfaction of tax obligations of the separated enterprise (organization).
7. If there are several successors, the participation stake of each successor with regard to satisfaction of tax obligations of the reorganized enterprise (organization) shall be defined in accordance with the separation balance sheet or other document of transfer. If the separation balance sheet or the transfer document do not help in determining the share of the successor in the reorganized enterprise (organization) or rule out the possibility of satisfaction of the tax obligations in full by any of the successors, the newly established enterprises (organizations) shall bear joint liability for the satisfaction of the tax obligations of the reorganized enterprise (organization) or its respective part.
8. In the event that the organizational and legal form of an enterprise (organization) is changed, the enterprise (organization) established as a result of such reorganization is recognized as the successor with regard to the satisfaction of tax obligations of the reorganized enterprise (organization).
9. In the case when one or several enterprises (organizations) are separated from an enterprise (organization), the separated enterprises (organizations) do not become successors in respect of the reorganized enterprise (organization) with regard to satisfaction of tax obligations, if the purpose of such reorganization is not to avoid fulfillment of tax obligations by the reorganized enterprise (organization).

Article 33. Satisfaction of Tax Obligations of Physical Persons who are Deceased, Missing, or Incompetent

1. Tax obligations of a deceased physical person are satisfied by his heir (heirs) within the limits of the value of the inherited property and in proportion to his share in the inheritance, as of the time of receipt of the inheritance.
2. In the absence of an heir (heirs), tax obligations of a deceased physical person cease to exist.
3. Tax obligations of a physical person recognized by a court as incompetent or missing are satisfied by the person who administers the property of this incompetent or missing person, at the expense of this property.

4. If the property of a physical person recognized in accordance with established procedure as missing or incompetent is insufficient to satisfy tax obligations and accrued penalties and fines of the physical person, penalties and fines will be written off.
5. The validity of previously written off tax obligations, assessed fines and penalties will be restored from the day of termination of decision to recognize the physical person as incompetent or missing.

Article 34. Procedure for Satisfaction of Tax Obligations

1. The taxpayer independently, unless otherwise stipulated by tax legislation, calculates the sum of tax subject to payment for the tax reporting period, based on the tax base, tax rate, and tax concessions.
2. In the cases established by this Code or other act of tax legislation, the responsibility to calculate the sum of tax subject to payment 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 tax legislation.
4. The sum of tax subject to payment 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**

Payers of income tax 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 taxable income, determined as the difference between gross income for the calendar year and the deductions stipulated by the Tax Code for this period.
2. A non-resident taxpayer engaging in activity in Georgia through a permanent establishment is a payer of income tax with regard to taxable income connected with the permanent establishment determined as the difference between gross income for the calendar year from Georgian sources connected with the 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 not described 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 a payer of income tax with

regard to gross income for the calendar year from a source in Georgia, 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 Georgia 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 economic activity belong to gross income, including:
 - a) income received in the form of wages;
 - b) income from economic activity not connected with employment.

Article 38. Income Received in the Form of Wages

1. Any payments or gains received from employment including income as 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 the case of receiving an automobile of any type - 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 the case of receiving loans at an interest rate that is lower than the market interest rate for loans of that type - an amount equal to the interest to be paid at the market rate;
 - c) in the case of the sale of goods (works, services) or gratuitous transfer thereof by an employer to his employee - the fair market value of these goods (works, services);
 - d) in the case of assistance in the education of an employee or this dependents (excluding training programs directly connected with performance of the employee's duties) - the cost of education assistance paid by employer;
 - e) in the case of the reimbursement of expenses by the employer to an employee the amount of reimbursement;
 - f) in the case of forgiveness of a debt or obligation to his employer - the sum of the debt or obligation;
 - g) in the 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 values and costs defined by part 2 of this Article include excise, value-added tax, and any other tax subject to payment by the 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 entrepreneurial activity, namely:

- income received from the supply of a good (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 on the sale of fixed assets and 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:

- interest income;
- dividends;
- income from the lease or rental 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 gain (incomes), with the exception of salaries, that increase incomes of a taxpayer. 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 the part 2, Article 38 of this Code.

Article 40. Adjustment of Gross Income

Dividends and interest received by physical persons previously taxed at the source of payment in Georgia in accordance with Article 62 or 63 are excludable from gross income.

Article 41. Right to Monthly Deductions

A physical person is entitled to a deduction in the amount of 9 Lari of the non-taxable minimum for each month in which income was received in the course of a tax year. Such deduction is allowed only against wages at the principal place of employment.

Article 42. Income Tax Rates

1. The taxable income of a physical person is taxed at the following rates:

| | Amount of taxable income during a year | Tax rate |
|---|--|---|
| 1 | up to 200 Lari | 12% of the amount of taxable income |
| 2 | 201 to 350 Lari | 24 Lari + 15% of the amount in excess of 200 Lari |
| 3 | 351 to 600 Lari | 46.5 Lari + 17% of the amount in excess of 350 Lari |
| 4 | from 601 Lari | 89 Lari + 20% of the amount in excess of 600 Lari |

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

Article 43. Tax Concessions

1. The following types of income of physical persons are not subject to income tax:
 - a) employment income of a non-resident employee of diplomatic or equalized organizations located on the territory of Georgia;
 - b) value of the property received from a physical person in the form of a gift or inheritance;
 - c) grants, state pensions, state stipends, 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) one-time payments 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 assets, with the exception of surplus received from the sale of assets used for entrepreneurial activity;
 - h) monetary compensation of the cost of clothes of special form for employees of budget-funded organizations.
2. The taxable income of the following physical persons is not subject to taxation, up to 3,000 Lari in the course of the 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 “the Mother of Georgia”;
 - d) single mothers;
 - e) persons who adopted a child, within one year from adoption.
3. The taxable income of invalids in group I and II (other than those mentioned in part 2 of this Article) is not taxable up to 1,500 Lari in the course of the calendar year.

Chapter 5. Tax on Profits

Article 44. Taxpayers

- 1. Payers of the tax on profits are Georgian enterprises and foreign enterprises.
- 2. Branches described in subsection «c» of part one of Article 12 of this Code are not independent payers of tax on profit.
- 3. If a foreign person is not a physical person and it does not prove its joint ownership according of Article 75 of this Code for purposes of this part it is considered as enterprise.

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 for exempt income.
- 2. A foreign enterprise engaging in activity in Georgia through a permanent establishment is a taxpayer with respect to its gross income from Georgian sources connected with the 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 connected with a permanent establishment is subject to taxation at the source of payment which is defined in accordance with Article 64 of this Code without carrying out 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 which is not connected with its permanent establishment in Georgia is a payer of profit tax with regard to gross income of the calendar year, received from Georgian sources, reduced by the deductions stipulated by the Tax Code which are attributable to such income for this period.
5. Incomes 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 subsection «k» or «l» of part 18 of Article 29 of this Code.

Article 46. Tax Rates

1. Profit of a Georgian enterprise is subject to taxation at the rate of 20 percent.
2. Profit of a foreign enterprise from activity not connected with its permanent establishment is taxed at the rates defined in Article 64 of this Code.

Article 47. Exemptions

The following are exempted from profit taxes:

- a) the profit from the sale by the Patriarchy of Georgia of crosses, candles, icons, books, and calendars, used exclusively for religious purposes;
- b) the profit of budget-funded and charitable organizations, except for profit from economic activity;
- c) the grants, membership fees and donations received by an organization;
- d) the profit from profile activities of prosthetic and orthopedic enterprises;
- e) the profit from the production of technical means necessary for disabled people and their rehabilitation;
- f) the 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 and the deaf-and-dumb 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.
- g) the profit of international organizations, except for profit from economic activity;
- h) the profit of the National Bank of Georgia.

- i) The 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 sailing under the Georgian flag.

Chapter 6. Deductions and Losses

Article 48. Outlays Connected with the Receipt of Income

From gross income shall be deducted all expenses connected with 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.

Article 49. Nondeductible Expenses

1. Deductions are not taken for expenses which are not connected with economic activity.
2. No deductions are allowed with regard to entertainment expenses. Representation expenses will be deducted according to the norms stated by the Ministry of Finance.
3. Part 2 of this Article does not apply to a taxpayer whose active economic activity is in the nature of entertainment, if the expenses are incurred within the bounds of such activity.
4. Deductions are not allowed for the expenses of a physical person for 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 is deductible within the limits of interest determined at the level of 150 percent of the interbank credit auction of the National Bank of Georgia.
2. In the case of an enterprise in which more than 20 percent of the authorized capital is owned, directly or indirectly, by legal persons who are 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 connected with goods, work, and services that have been realized where income from them was previously included in gross income received from entrepreneurial activity.
2. The doubtful debt deduction is allowed only if 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

Deductions are taken for expenditures on scientific-research, project-design, and experimental-design work connected with the receipt of income, with the exception of expenditures for the acquisition of fixed assets, their installation, and other outlays of a capital nature.

Article 54. Depreciation Charges and Deductions for Fixed Assets

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

| Group number | Type of 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. The sums of depreciation charge under each group are calculated by applying the depreciation levels indicated in part 3 of this Article to the balance of the group at the end of the tax year.
5. Depreciation for buildings and structures (hereinafter - buildings) is charged for each building separately.
6. The balance value of a group at the end of the year is the amount determined as follows: the balance of the group at the end of the preceding year, reduced by the amount of depreciation accrued for the preceding year, and sums deducted under parts 8 and 9 of this Article, plus the cost of fixed assets according to Article 81 added to the group and less the sums received on the sale of fixed assets of the group at their sales prices during the tax year.
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 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 100 Lari, 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.
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.

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.

Article 56. Deduction of Expenses on Insurance Payments

Insurance premiums that are paid by insured parties under insurance agreements 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 Losses Forward

1. Deductions stipulated by the Code in respect of a physical person in excess of the gross income not connected with employment are not deductible 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 are 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 are 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 withhold, 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 is taxed at the source of payment at the rate of 10 percent of the payable sum, if the income from a Georgian source.
2. Interest on credits (loans) paid to resident banks is not subject to taxation at the source of payment.
3. Interest received by a physical person, taxed at the source of payment, is not 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 a Georgian source that is not attributable to a permanent establishment of the nonresident 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 - 4 percent;
 - 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 purpose of this Article, payments made by or on behalf of a permanent establishment are considered to be 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 Received in Countries With Concessional Taxation

- 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 receives income from a country with concessional taxes, then the resident's income or its share is included in its taxable income.
- 2. A foreign state is considered to be a state with concessional taxation if, in that country, the tax rate is 1/3 lower than that determined in the Code, or if laws on confidentiality of financial information exist which guarantee secrecy to be maintained concerning the actual owner of property or income.

Chapter 9. Rules for Tax Accounting

Article 67. The Tax Year

The tax year is the calendar year.

Article 68. Principles for Recording Income and Expenditures

- 1. The 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). The taxpayer should maintain records for tax purposes using the cash basis method or the accrual basis method.
- 2. The taxpayer is obliged to record all transactions connected with its activities and ensure the control of their beginning, course, and end. At the same time, contents of economic transaction, its subject, amount and titles of parties participating in this transaction are to be described completely and clearly in the primary reporting documentation. The signatures of the parties should confirm validity of the economic transaction.
- 3. Taxable income must be defined by the same method which is used by the taxpayer for book-keeping. At the same time, the adjustment of income must be made only in

compliance with the requirements of this Code. 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 taxable object the taxpayer should provide tax recording of the deductions.

4. Taking into account the provisions of this Article, the taxpayer should maintain records for 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 the 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.
6. In the 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.

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

1. In the case of paying cash the moment of receipt of the income is 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 the case of the fulfillment of a financial obligation of a taxpayer, in particular, in the case of mutual offsetting, the moment of receipt of the income considered the moment when the obligation is annulled or fulfilled.
3. If a taxpayer receives a bill of exchange (or other debt obligation) from a debtor to secure a financial obligation of the latter, the moment of receipt of income is considered to be that moment when the bill of exchange (or debt obligation) may be presented for repayment that is closest to the time of receipt of the bill of exchange (or debt obligation).

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. If a taxpayer pays out cash monetary resources, the moment of carrying out of expenditures is considered to be the moment of payment of cash monetary resources; if

non-cash payment is made, it is the moment the bank receives the order of the taxpayer to transfer the relevant monetary resources.

3. In the 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.

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 is considered to have been acquired if the relevant amount is subject to payment to the taxpayer or the taxpayer has fulfilled all its obligations under the transaction (agreement).
2. If the taxpayer fulfills work (renders services), the right stipulated in part 1 of this Article is considered to be acquired at the moment of completion of the fulfillment of the work (service) by him stipulated according the transaction (agreement).
3. If a taxpayer receives or has the right to receive income in the form of interest or income from the rental of property, the right to receipt of the income is 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.

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 of the parties to the 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 period 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 the 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 from gross income, and the value of commodity and material stocks at the end of the period is added to income.
3. When recording commodity and material stocks, the 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. 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, the 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 the 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 valuing at average cost.

Article 78. Leasing (Financial Rental)

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 is considered as the owner of the property.
2. The rental of fixed assets subject to depreciation for purposes of taxation is considered to be leasing (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 rental.
 - d) the current discounted value of payments over the entire rental period exceeds 90 percent of the value of the rented assets.
3. In connection with 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 the Supply of Assets

1. Profit from the supply of assets consists of the positive difference between income from the supply and the cost of the assets as determined in accordance with Article 81 of this Code. Upon the transfer of assets on a gratuitous basis or at a reduced price, the profit of the transferring person is determined as the positive difference between the market value of the property so transferred and its cost as determined in accordance with Article 81 of this Code.
2. Losses from the supply of assets consist of the negative difference between income from the supply and the cost of the assets.
3. Parts 1 and 2 do not apply to the assets subject to depreciation under the group method.

Article 81. The Cost of Assets

1. The cost of assets includes outlays for their acquisition, production, construction, assembly, and installation, as well as other outlays that increase their value.
2. In case of supplying only a part of an asset, the cost of the asset at the moment of 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 taxable income on:
 - a) a transfer of assets between spouses;
 - b) a transfer of assets between former spouses on the time of a divorce;
 - c) an involuntary destruction or confiscation of an asset, whose 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 cost of a replacement asset described in subsection "c" of part 1 of this Article is determined with reference to the cost of the replaced asset at the moment of destruction or confiscation.
3. In cases under subsection "a" and "b" of part 1 of this Article the value of transferred assets is the value of the assets for the transferor at the time of the transaction.
4. This Article does not apply to an asset which is subject to depreciation using the group method under Chapter 6, except that subsections "a" and "b" of part 1 apply where all assets in the group are transferred simultaneously.

Article 83. Liquidation

1. For purposes of this Code, the complete liquidation of a legal person is considered as a sale by the partners of their share.
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 the member's share in the legal person, and the partner held a 50 percent or more interest in the legal person immediately prior to the liquidation, then:

- a) the transfer is not treated as a sale of the asset by the liquidated legal person;
 - b) the cost to the partner of the asset transferred is the same as the cost of such asset to the liquidated legal person prior to the transfer;
 - c) the distribution of the asset is not a dividend;
 - d) profit and loss is taken into account on the cancellation of the partner's share in the liquidated legal person.
3. This Article does not apply to an asset which is subject to depreciation using the group method under Chapter 6 of this Code, unless all assets in the group are transferred simultaneously.
 4. In the case of an asset referred to in part 3 of this Article the transferee takes as the cost of the asset the balance of the group at the time of transfer, and where more than one such asset is transferred the balance of the group is divided among the assets in proportion to their market values at the time of transfer.
 5. Part 2 of this Article applies only if the complete liquidation is approved by the tax agency as not having tax avoidance as a principal objective.

Article 84. Procedure for Assessing the Cost of Assets Transferred in Exchange for a Partner's Share

1. The sale of transferred assets is not treated as a disposal of assets, where:
 - a) a person or group of persons transfers one or more assets (with or without any liability) to a legal person in exchange for a partner's share in the legal person;
 - b) a person or group of persons directly possesses 50 or more percent of share in the legal person immediately after such exchange.
2. The transferee's cost of an asset to which part 1 of this Article applies is the same as the transferor's cost at the moment of transfer.
3. The cost of a partner's share received in an exchange described in part 1 of this Article is equal to the cost of the asset or assets transferred less any liability transferred.
4. This Article does not apply to an asset which is subject to depreciation using the group method under Chapter 6, unless all assets in the group are transferred simultaneously.
5. If this Article applies to an asset referred to in part 4:
 - a) the transferee takes as the cost of the asset the balance of the group at the moment of transfer. If 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 in exchange takes as the cost of a partner's share received the balance value of the group at the moment of transfer.
6. This Article does not apply to a transferor of an asset if the indebtedness transferred by any transferor exceeds the cost of the assets transferred by the transferor.

Article 85. Reorganization of Legal Persons

1. The cost of property and shares owned by a legal person or legal persons which are parties to an approved reorganization transactions is the same as the cost of such property and share before the reorganization.
2. Transfer of property and share among the legal persons which are parties to an approved reorganization transaction are not treated as a disposal of the property.
3. Any exchange of shares in a resident legal person which is a party to an approved reorganization transaction for shares in another resident legal person which is also a party is not treated a sale of the shares.
4. The cost of the shares exchange under part 3 of this Article shall equal the cost of the original share.
5. The distribution of shares in a legal person which is a party to an approved reorganization transaction and share produces similar rights to in another legal person which is also a party to such transaction is not a dividend.
6. The cost 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 value of division shares after distribution.
7. Provided that the merger, acquisition, takeover, or division is approved by the tax agency as not having tax avoidance as a principal objective, 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 cost of shares by value of a resident legal person solely in exchange for shares with similar rights of a parties 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 possess 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 an asset which is 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 in the cost of shares received the balance value of the group at the moment of transfer.

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 to conduct the same entrepreneurial activity and starts in a new entrepreneurial activity with the consent of tax agencies.

Chapter 10. Tax Administration Provisions

Article 87. Filing of Returns

1. A 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) nonresident 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 25.000 Lari.
2. Upon the cessation by a taxpayer of entrepreneurial activity in Georgia, a return concerning gross income and deductions must be presented by him within 30 days at the tax agency.
3. Upon liquidation of a legal person, the liquidation commission or the taxpayer immediately notifies the 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). Such

taxpayer is taxed in the same manner 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:
 - 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 legal person that pays interest to physical and legal persons;
 - f) a physical or 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 associated fines and penalties may be paid by the income recipient on behalf of the income payer.
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 of the end of the tax year, to present to the tax agencies, and also to send to physical and legal persons receiving income in accordance with part 1 of this Article, upon their request 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.
 - d) 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.

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. For this reason, they are to submit a return to the tax agency no later than the 20th of the second month of a quarter.
3. If 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 head of tax agency 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.
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) is an indirect tax of a portion of the value added in the process of the production and circulation of goods, works, and services on the territory of Georgia, and of a 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 with respect to 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 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 beginning of the reporting period following the period in which the duty to apply for registration arose.

3. A person carrying out a taxable import of goods to Georgia is considered a VAT taxpayer with respect to such import.
4. A nonresident person not registered for VAT who carries out works or performs services that are subject to taxation under Article 108 is 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 payers if gross taxable turnover of enterprises and branches 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 carried out taxable transactions in a total amount exceeding 3000 Lari in this period, is required to file an application with the tax authorities to be registered for VAT not later than 10 days after the end of this period. For a producer of agricultural products the total sum of taxable transactions for obligatory VAT registration is 20 000 Lari, while supplying these products. A person is considered to be a producer of agricultural products if not less than 50% of his turnover comes from supplying such products.
2. The supply of goods, fulfillment of works, and rendering of services carried out by nonresident are taken into account only if carried out through a permanent establishment in Georgia in determining the total value of taxable transactions for purposes of mandatory registration of the nonresident as a VAT payer.

Article 93. Voluntary Registration

As person who is not required to be registered for VAT may voluntary apply to tax agencies to be registered as a VAT payer.

Article 94. Registration

1. A person applying to the tax agency to register for VAT is required to do so in such form as is established by the State Tax Department of Georgia.
2. The tax agency must register a person for VAT and issue to him a certificate of registration not later than on the second day after the 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 the tax agency failed to register a person within the stated period or did not issue to him a written justified refusal, the official of the tax agency shall bear responsibility under the procedure established by the Law.
3. Registration takes effect:
 - a) in the case of mandatory registration of a person - at the beginning of the reporting period following the period in which the duty to apply for registration arose;

- b) in the case of voluntary registration of a person - at the beginning of the reporting period following the period in which the person applied for registration or, at the taxpayer's option, at an earlier date.
4. The tax agency is required to maintain a register containing details of all persons registered for VAT.
5. If a person is required to register for VAT and has not applied to be registered, the tax agency shall register the taxpayer on its own initiative and transfers the relevant certificate to him.
6. A person registered as VAT payer is required to use his taxpayer identification number on all invoices, and on all returns and official communications with tax agencies.

Article 95. Termination of Registration

1. A taxpayer is required to apply to the tax agency to have his registration for VAT terminated if he has ceased to make taxable transactions.
2. A taxpayer may apply to have his registration for VAT terminated at any time after a period of two years from the date of his most recent registration for VAT if the taxpayer's total taxable transactions during the preceding twelve months do not exceed the 3000 Lari limit.
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 a person's registration for VAT is revoked, the 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 objects of taxation for VAT are taxable transactions and taxable imports.
2. Taxable transactions are the supply by a person of goods (fulfillment of works and rendering of services), including on a gratuitous basis, if they are considered to be carried out on the territory of Georgia under Article 106 or 107 of this Code, other than the supply of goods (fulfillment of works or rendering services) which are exempt under this Part. Taxable transactions do not include the rendering of services or the fulfillment of works outside Georgia according to Article 107 of this Code.
3. Taxable import is the import of goods, with the exception of imports of goods exempted from tax under this Part.
4. If goods (works, services) are supplied (fulfilled, rendered) to a taxpayer and the received credit (or had the right to receive credit), then the use of those goods or the results of those works or services for purposes other than the person's economic activity is a taxable transaction.

5. The supply of goods, fulfillment of works, or rendering of services by a taxpayer to his employees, with or without payment, is a taxable transaction.
6. At the date of termination of a taxpayer's registration, his goods on hand at the time the cancellation takes effect are considered to be supplied in a taxable transaction taking place at that time.
7. The supply of a good by a person who acquired such good in a transaction subject to VAT, but who was not entitled to a credit for the VAT on the acquisition of the good according to Article 114 of this Code is not considered a taxable transaction. If a credit was partially disallowed, then the amount of the taxable transaction is reduced proportionally according to the portion of the credit that was disallowed.
8. The value of returnable containers is not included in the taxable amount, except for retail sales, where the taxable sum is reduced by the sum, paid by seller to customers.
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 separate taxpayers is considered to be a taxable transaction.

Article 97. Supply of Enterprise

1. The supply of an enterprise or an independently functioning part of an enterprise by a taxpayer to another taxpayer is not considered a taxable transaction.
2. The supplied person accepts the rights and obligations of the supplier indicated in this Part relating to the enterprise or part of an enterprise which was supplied.
3. This Article applies only if the supplier and supplied person file a petition with the tax agency 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 is determined according to the amount of compensation the taxpayer receives or is entitled to receive, whether from the customer or any other person (including any duty, taxes, or other fee payable), but without VAT .
2. If the taxpayer receives or is entitled to receive goods, works, or services in exchange for a taxable transaction, the amount of the taxable transaction includes the market prices of these goods, works, or services (including any duties, taxes, or other fees payable) but without VAT.
3. In a case where the taxpayer receives or is entitled to receive nothing of value in exchange for a taxable transaction (including that of goods remaining on hand in the case of a termination of registration), the amount of the taxable transaction is defined by the market price of the goods, works or services supplied, fulfilled, or rendered (including any taxes, duties, or other fees payable), but without VAT.
4. If goods (fulfillment of works or rendering of services) are used for non-economic activity according to part 4 of Article 96 of this Code, as well as in the cases of the supply of goods, fulfillment of works, or rendering of services to one's own employees

according to part 5 of Article 96 of this Code, the amount of the taxable transaction is defined by the market price of the goods (works, services) (including any taxes, duties, or other fees payable), but without VAT.

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 the 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 the taxpayer:
 - a) provided a VAT invoice, and the sum of VAT shown on the invoice is incorrect; or
 - b) has shown an incorrect sum of VAT on a VAT return.
3. Adjustment of the taxable turnover is made in case if seller on supplied goods (fulfilled works, rendered services) has written out and submitted to a buyer in consistence with applicable rules adjustment tax invoice, according to which the taxable turnover of the buyer increases, and that of the seller decreases.
4. The adjustment invoice will be written out according to the form stated by Article 115 of this Code in three copies, one copy is to be submitted to the buyer, the second - to the Tax Inspection with the VAT return, the third is kept by the seller.

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, plus the sum of duties and taxes payable upon the import of the goods into Georgia, except for VAT payable in Georgia.
2. In the case of services considered part of an import under part 2 of Article, 10 of this Code, their value is added to the amount of the 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 and/or import of postage stamps (except for collector's items) and excise stamps by the Ministry of Finance of Georgia;
- 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 state property under privatization procedure;
- g) rent payment for an apartment, the supply of immovable property, except newly constructed residential buildings (a residential building is considered to be newly constructed during the two year period from the date of construction);
- h) rendering of medical services provided under the measures of state health care programs;
- i) rendering of care services to sick, disabled, and elderly people;
- j) the supply and/or import of medicines specified in Chapter 30 of the foreign economic activity commodity classification including the supply or import of vaccines;
- k) the 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 glukometers (test systems of which are registered by the Ministry of Health of Georgia);
- l) the supply and/or import of diabetic foodstuffs marketed as such upon wholesale or retail supply;
- m) the supply or import of baby food and infant hygiene products;
- n) rendering of educational services provided to children and teens by hobby groups or study circles, as well as child care services for children at preschool institutions and children's homes;
- o) the supply, publishing and/or import of scientific literature, school books and children's literature that are approved by the Ministry of Education of Georgia in agreement with the Committee of Finance and Budget as well as the Committee of Education, Science and Culture of the Parliament;
- p) services provided by educational institutions, the import of computers, equipment and chemical reactives for scientific and educational purposes.
- q) the supply and printing of theatre, circus, classic music concert and 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) publication supply and sale services of fiction literature, newspapers, and magazines published and registered in the territory of Georgia;

- t) supply of note-books;
- u) supply by the Georgian Patriarchate of crosses, candles, icons, books, and calendars used exclusively for religious purposes; the 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;
- v) burial and cemetery services (including transport services);
- w) import of goods that are given to state and public bodies of Georgia for liquidation of natural disasters, accidents, and catastrophes, or for the purposes of humanitarian assistance and charitable purposes, the 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 the 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 fixed rates and tariffs which are state-controlled;
- 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 Georgia;
- 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), 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;
- bb) import of goods intended for the official use of foreign diplomatic and equalized representative offices, and also 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 relevant international agreements to which Georgia is a party, as well as the import of goods of Georgian diplomatic representatives outside Georgia. The supply of goods, works or services, intended for official use of foreign diplomatic and equalized representative offices, 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;

- 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 said raw materials, semi-finished goods, and packaging material the payment of VAT or the retention of a bank guarantee is effected, while in the case of export of finished products the 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 or fulfillment of works, shipment operations, agency in ports directly connected with international transportation of passengers and goods (excluding air transportation of passengers and goods);
 - ee) import of goods intended for re-export; in importing goods intended for re-export the payment of VAT is required, 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 said 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 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”;
 - hh) Fulfilled work 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 sailing under the Georgian flag.
2. Exemption from VAT is uniform on the entire territory of Georgia, and applies to the supply of goods, fulfillment of works, and rendering of services within the borders of 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 drawback 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 the Export of Goods

The export of goods is taxed at a zero rate.

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.

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

The 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 the time the goods are delivered, or the works are fulfilled, or the services are rendered;
 - b) in the case of a delivery of goods that involved shipment of the goods - 90 days after the time the goods are shipped;
 - c) at the moment of cash payment if the payment takes place within 90 days from the delivery or shipment of the 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 the case of the cancellation of a 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 the delivery of goods involves the transportation of goods, the 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 these are exported from Georgia, the 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) the place where immovable property is located, if the works (services) are directly connected with that property;

- b) the place where the works (services) are actually carried out, if they are connected with 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 connected with that transportation. For purposes of Article 103 of this Code transactions connected with the performance of works or rendering of services by a taxpayer outside the borders of the territory of Georgia are considered as carried out on the territory of Georgia;
 - e) the location of the 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:
 - the 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;
 - staff provision services;
 - the leasing of movable property (except for vehicles of transportation enterprises);
 - an agent that engages a person (enterprise or physical person) on behalf of the main participant in a contract to perform the services that are described in this subsection ;
 - f) the place where the economic activity of the person engaging in fulfillment of works or rendering of services is effected.
2. The place for the 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 described in part 2 of this Article, the fulfillment of works or rendering of services is taxed according to this Article.
2. For purposes of this Article, a tax agent is any person registered for VAT or any resident legal person.
3. In a case where part 1 of this Article applies, the tax agent withholds the tax from the sum payable to the nonresident. The sum of tax is determined by applying the tax rate under Article 112(1) to the amount payable to the nonresident after withholding of tax.
4. If the tax agent is registered for VAT, the withheld VAT is payable at the time for filing of the VAT return for the month in which the transaction took place.
5. If the tax agent is not registered for VAT, he is required to pay the withheld VAT in the manner described by the State Tax Department of Georgia within 7 days of the date of payment to the nonresident.

6. The procedure of the reversed charge stated by this article is applied also to the transactions carried out by the agent of the principal. In case if the principal is not registered as VAT payer, then supply of goods, fulfillment of work or rendering of services are considered to be conducted by the agent.

Article 109. Time of Import

An import of goods takes place when the goods become liable to customs duty under customs legislation. If the goods are exempt from 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 part of the latter.
2. A fulfillment of works or rendering of services incidental to an import of goods is 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 as 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 the supply of goods in Georgia by a resident agent of a nonresident person who is not registered for VAT in Georgia. In this case for purposes of VAT the supply is considered as carried out by the agent (proxy).

Chapter 17. Procedure for the Calculation and Payment of Tax**Article 112. Rates of VAT**

1. The rate of VAT is 20 percent of the amount of the taxable turnover or taxable import.
2. The 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 sum of VAT payable to the budget in respect of 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 the case of adjustment of taxable transactions according to Article 99 of this Code, where VAT payable exceeds VAT actually indicated by the taxpayer, the amount of the excess is treated as 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 tax payable for the accounting period under part 1 of this Article.

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

1. Subject to the provisions of this Article, the sum of VAT that is creditable is the sum of tax payable or paid in respect of issued tax invoices or paid in accordance with customs declaration for taxable imports and taxable transactions where the goods, works, or services are used or are to be used for the purpose of the taxpayer's economic activity, even if they do not enter into production costs. An amount of VAT is creditable if it is VAT payable or paid to the budget of Georgia.
2. In the case where the VAT paid by the taxpayer in respect of issued tax invoices for imports of goods and/or the VAT payable or paid by the taxpayer in respect taxable transactions is partly for the purpose of the payer's economic activity and partly for other purposes, VAT shall be creditable proportionally, depending on their percentage.
3. No credit is allowed for VAT:
 - a) on cars, except for sale or rent - for persons whose principal activity is the purchase and sale or rent of cars;
 - b) on expenses for entertainment or representation, for charity, or for social purposes.
4. In the case where the taxpayer for VAT has taxable transactions and transactions exempt from VAT in accordance with Article 101 of this Code, the amount of VAT allowed as a VAT credit is determined on the basis of the ratio of the taxable turnover to the total amount of turnover. If the taxpayer has only exempt turnover, no credit is allowed. This part applies after the requirement of part 2 of this Article is met.
5. Where the VAT indicated in the invoice or return exceeds VAT payable, the taxpayer is allowed a credit for the amount of the excess 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 person registered for VAT that carries out a taxable transaction is required to write out and issue a tax invoice in accordance with the instructions of the State Tax Department of Georgia to the person who receives the goods, works or services. A person who is not registered for VAT does not have the right to issue a tax invoice.
2. A tax invoice is an invoice executed in the strict reporting form stipulated by the State Tax Department, which confirms the fact of the VAT payment and contains the following information:
 - 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) sum of 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).
4. In the case of the supply of goods at retail, fulfillment of works, or rendering of services at retail to buyers (clients) who are not VAT taxpayers, a cash receipt or a simplified form of invoice prescribed by the State Tax Department may be used instead of a tax invoice.

Chapter 18. Administrative and Concluding Provisions

Article 116. Filing of Returns and Payment of VAT

1. Every 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. In the cases where a voluntary registration under Article 94(3)(b) of this Code takes place with retroactive effect the taxpayer is required to pay VAT for taxable transactions taking place since the coming into effect of the registration and is entitled to a tax credit under the procedure for taxpayers. In addition, the corresponding transactions are to be reflected on the first return filed by the taxpayer and are considered as taking place during the month to which the return relates. In this event the taxpayer is entitled to issue tax invoices for the transactions shown on the return.
3. Parts 1 and 2 of this Article do not apply to a person who is a taxpayer only during the import of goods.
4. VAT on taxable imports is levied and collected by customs agencies in accordance with the customs legislation and this Code.

Article 117. VAT Reporting Period

The accounting period for VAT is the calendar year.

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. In the case of a taxpayer at least 25 percent of whose VAT taxable turnover for the reporting period is taxed at a zero rate, the sum of VAT applied as a credit in excess of the sum of charged tax for the reporting period is returned within 45 days of the time of receipt by the tax agency of an application from the taxpayer.
2. In the case of other VAT taxpayers, the sum of tax applied as a credit in excess of the sum of VAT for the reporting period is to be carried forward to the next reporting period and credited against payments for future periods, or they are repaid it from the budget within 15 days of the time of receipt of an application from the taxpayer.
3. In any case where a sum refunded by mistake to a VAT taxpayer by the tax agency, the tax agency may demand the return of such sum according to the rule for collection of VAT.

Article 119. Refund of VAT on Goods Purchased through Grants

1. The recipient of the grant who purchases goods, and/or works or services provided for in the grant agreement is entitled to refund the VAT paid with respect to these goods, works, or services after submitting the tax invoice to the tax agency.
2. A VAT refund is made only if the 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 by the Tax Organs

1. The responsibility for the correct calculation and timely payment to the budget of VAT and presentation of a return to tax agencies by the prescribed deadline rests on the taxpayers and their responsible persons in accordance with this Code, and in the case where the collection of VAT is in the competence of customs agencies of Georgia - in accordance with the customs legislation of Georgia.
2. The tax is administered by the tax and customs organs within their respective competencies, in accordance with this Code and with the customs legislation of Georgia.

Article 121. Financial Sanctions Applied in the Event of Non-performance of requirements provided for in this part

1. In the event of non-performance of legal requirements of this Part, a person is subject to financial sanctions as stipulated in Articles 252 through 254 of this Code.
2. In addition, tax agencies collect the following from a person by way of sanctions:
 - a) in the event of transaction without VAT registration, for the entire period of transaction without registration - 100 percent of the amount of VAT payable to the budget,
 - b) in the event of the incorrect issuance of a tax invoice or failure to issue a VAT invoice – 50 percent of the amount of VAT for the invoice or fulfilled transaction. In case of the incorrect statement of a taxable turnover and VAT amount in the tax invoice and if the budget revenues are not reduced, taxpayer will be imposed to pay 20% of the amount of VAT due as a sanction.

PART IV. EXCISE**Chapter 19. Excise****Article 122. Concept of Excise**

1. Excise is an indirect tax to be paid in delivering excisable goods together with their prices.
2. The production on the territory of Georgia or the import of excisable goods is subject to excise taxes, except for those exempt from tax.

Article 123. Taxpayers

1. Except as otherwise provided in this Part, excise taxpayers are all physical and legal persons producing excisable goods on the territory of Georgia, or importing excisable goods.
2. With respect to goods produced on the territory of Georgia from customer-supplied raw materials, the excise taxpayer is the producer.

Article 124. Object of Taxation

The object of excise taxation includes the import of excisable goods, the supply of goods produced in Georgia from customer-supplied raw materials and/or the removal goods from storage of an enterprise, including the transfer of excisable goods produced from raw materials of a client.

Article 125. Taxable Transaction

1. In the case of goods produced on the territory of Georgia, the amount of the taxable transaction is determined on the basis of the compensation received or receivable by the taxpayer from the customer or any other person, excluding the amount of the excise tax and VAT, but no less than the wholesale market price excluding the excise and VAT. In the case of goods that the taxpayer sells at the retail level, the amount of the taxable transaction is determined on the basis of market prices for the goods at the wholesale level not including the amount of the excise tax and VAT. The taxable transaction for spirits is the volume of imported and/or delivered (transferred) alcoholic beverages.
2. In the case of imports, the amount of the taxable transaction shall be the customs value of the goods, determined in accordance with the customs legislation of Georgia (but not less than the wholesale market price, excluding the excise and VAT), plus the amount of duties and taxes payable on the import of the goods into Georgia (except for the excise tax and VAT).
3. The price of returnable multiple use containers is not included in determining the amount of the taxable transaction, except for the price of containers used for the supply of goods at retail.

Article 126. Time of Taxable Transaction

1. During producing the excisable goods in Georgia, the moment of carrying out taxable transaction is considered as:

- a. 90 days from delivery (transfer) of goods;
 - b. the moment of payment, if it took place not later than 90 days from the delivery (transfer) of goods.
2. According to subsection “b” of part 1 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. In the case of imports, the moment of carrying out the taxable transaction is considered as the time of import according to the customs legislation.
 4. The moment of carrying out the taxable transaction for excise goods subject to excise stamping is considered as moment of delivery of goods.

Article 127. Taxation of Exports

Exports of excisable goods are taxed at a zero rate.

Article 128. Exemptions

1. The following are exempt from excise:
 - a) alcoholic beverages produced for personal consumption by a physical person;
 - b) the import of two liters of alcoholic beverages and two hundred cigarettes by a physical person for personal consumption and, in the case of a person entering Georgia by automobile, the contents of the petrol tank;
 - c) the transit and temporary import of excisable goods into the customs territory of Georgia;
 - d) the re-export of excisable goods; in the case of goods that are intended for re-export from the territory of Georgia, these goods are subject to excise duty payment, the retention of a bank guarantee or goods of the corresponding value in the form of guarantee, and in the case of export of said goods from Georgia, the bank guarantee is canceled, the paid excise is refunded or the goods retained as a guarantee are returned to the excise taxpayer to the extent of the actually exported goods;
 - e) the import of automobiles and tires for the purpose of humanitarian aid during a natural disaster.
 - f) aviation fuel to be supplied on board for international flights upon submitting bank guarantee to the customs agencies during the import.
2. For purposes of applying the exemptions that are specified in subsection “c” - “d” of part 1 of this Article, these exemptions are applied only in the cases when 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 a drawback regime or, if the customs duty is subject to payment upon violation of the conditions for exemption, then the same regime is applied to the excise.

Article 129. Excise Credit for Inputs

1. A person who purchases an excisable raw material and uses the good for the production of other excisable goods for future supply is allowed 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 excisable goods.

2. A credit is allowed for excise tax paid for 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. A credit or refund of excise under this Article is allowed only upon presentation of an invoice indicating payment of excise by the producer of the raw materials, or in the case of the import of raw materials - upon presentation of the corresponding documentation.
4. The amount is refunded to the taxpayer within 15 days after the filing of the documents with the tax agency.

Article 130. Excise Tax Rates

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

| N | Commodity | Commodity Nomenclature Code | Quantity | Rate |
|----------|---|------------------------------------|-----------------|----------------------|
| 1 | Champagne | 220410110 | a litre | 4.00 |
| 2 | Sparkling wines and wine materials | 2204 | a litre | |
| | grape | “ ----- “ | | 0.50 |
| | fruit | “ ----- “ | | 2.00 |
| 3 | Grape wine and wine materials (up to 13%) Unbottled Bottled | 2204 | a litre | 0.10 0.20 |
| 4 | Fruit wine | 2205 2206 | a litre | 1.70 |
| 5 | Fortified wine and wine materials (above 13%) Bottled Unbottled Wine made from fruit and other materials | 2204 | a litre | 0.50 1.00 2.00 |
| 6 | Cognac and cognac materials | 220820 | a litre | 6.70 |
| 7 | Whisky, Gin, Rum | 220830 220840 220850 | a litre | 4.00 |

| | | | | |
|----|---|--|--|--------------------------------|
| 8 | Brandy and brandy materials | 220820870 | a litre | 2.70 |
| 9 | Vodka | 220860 | a litre | 1.00 |
| 10 | Liqueur | 220870 | a litre | 2.70 |
| 11 | Other alcoholic drinks | | 1 litre | 1.00 |
| 12 | Beer | 220309 | a litre | 0.12 |
| 13 | Ethyl spirits | 2207 | a litre | 0.70 |
| 14 | Tobacco products (except tobacco raw materials) - Cigar, cigars with ends cut and cigarillo (slim cigars) that include tobacco. - Cigarette, Class A and B - All other cigarettes and unfiltered tobacco. - Other products including tobacco and its substitutes - “Homogenized” of “restored” tobacco; - Tobacco extracts and species. | 2402 10 000 2402 20 2402 20 2403 | 1000 sticks 1000 sticks 1000 sticks 1 kg. | 150.0 7.50 2.50 20.00 |
| 15 | Jewellery | 7113,7114,7116 | | 35% |
| 16 | Passenger automobiles | 8703 | | 15% |
| 17 | Passenger automobile tires | 40110000 4012 | | 15% |
| 18 | Salmon and sturgeon caviar and delicacy products of valuable kinds of fish and sea products | 1604 30 1605 | | 20% |
| 19 | 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 carbohydrate (commodity code 2803) | 2707 (other than 2707 40 000 2707 99 910) | | 60% |
| 20 | Condensed natural gas, other than pipeline | 2709 00 100 | | 60% |
| 21 | Oil products produced from crude oil and bituminous minerals (other than Black Oil (mazut) 2710 00 710 – 2710 00 780) | 2710 00 | | 60% |

| | | | | |
|----|----------------------------------|--|--|-----|
| 22 | Oil gas and gas-like hydrocarbon | 2711 12; 2711 13 2711 14 000; 2711 19 000. | | 60% |
|----|----------------------------------|--|--|-----|

Article 131. Payment of Excise

1. Excise tax is to be paid up to the 10th of the next month after carrying out the taxable transaction.
2. If the taxpayer is not paid for goods at the moment of the taxable transaction, the tax is required to be paid after 35 days, or, if payment is made not later then 25 days after the taxable transaction, it is required to be paid in 10 days after the payment is made.
3. In case of arrears in excise tax payment for any period of time, the taxpayer is not allowed to supply goods starting from the period the arrears arise until excise tax on the goods is paid. In this event, excise should be paid during the taxable transaction.
4. In the case of imports, the excise is collected by the customs agencies according to the procedure for customs duties.
5. Importers and producers of excisable products subject to excise stamping on the territory of Georgia are to pay total amount of excise upon purchasing excise stamps.

Article 132. Filing of Returns

1. In the cases mentioned in Article 131(1) of this Code, a taxpayer must file a return according to procedures established by the State Tax Department of Georgia by the 10th of the month following the reporting month, indicating the taxable transactions carried out.
2. An excise taxpayer must include an application for a credit mentioned in Article 129 of this Code in the excise return. A person who is not an excise taxpayer, but is entitled to a credit under 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. Refund of Tax on Re-exports

1. In the case of goods that are imported for the purpose of subsequent re-export, the paid excise duty (pledge) is refunded from Customs agencies within 15 days according to the actual quantity re-exported.
2. Part 1 of this Article does not apply to goods the import of which is exempt under Article 128 (1)(c) of this Code.

Article 134. Excise Stamps

1. Mandatory affixing of excise stamps is required for imported and locally produced alcoholic beverages, 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. These goods are subject to fixed tax rate.

2. It is prohibited to produce, import onto the territory of Georgia in liberal circulation regime and supply of excisable goods subject to excise stamping without excise stamps.
3. Agencies controlling excise payments are responsible for declaring excisable goods imported or designated to sell without the excise stamps as the state property according to the rules stipulated by the legislation of Georgia.

Article 135. Tax Invoice

1. Subject to Part 2 of this Article, an excise taxpayer who sells an excisable good is required to write out and issue a tax invoice in accordance with Article 115 of this Code to the person who receives the good.
2. In the case of the supply of goods at retail sale, a simplified form of invoice prescribed by the State Tax Department of Georgia may be used instead of a tax invoice.

PART V. TAX ON PROPERTY**Chapter 20. Tax on Property of Physical Persons****Article 136. Taxpayers**

Payers of the tax consist of physical persons with taxable objects under their ownership.

Article 137. Objects of Taxation

1. 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) located on non-urban territory used for economic activity, except land.
2. Exempt from taxation is the property of persons disabled from childhood, as well as the property of the disabled persons of groups I and II.

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 is calculated by the tax authorities as of January 1 of each year on the basis of data on their inventory value, submitted to local authorities. The inventory value of property for which there is no prior appraisal is determined at the average of a per-square-meter valuation of the property as compared with a similar property.
2. The tax on building and structures held by several owners is paid based on the data of local authorities according to each co-owner's share.
3. Tax agencies present tax notifications to payers concerning the payment of tax not later

than March 1 of the reporting year.

4. Tax is paid in according to the property location in two equal parts - prior to June 15 and prior to October 15 of the tax year.

Chapter 21. Tax on the Property of Enterprises

Article 140. Taxpayers

Payers of the tax on the property of enterprises consist of:

- a) Georgian enterprises;
- b) branch offices and other similar subsidiary enterprises 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 through permanent establishments.
- d) Organizations, whose property or part of property is used for economic activity.

Article 141. Object of Taxation

1. Objects of taxation consist of fixed assets, installed equipment, uncompleted 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.
2. In the case of the taxpayers listed in Article 140(1)(c) of this Code, the object of taxation includes only assets connected with the permanent establishment.

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 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;
- 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 entrepreneurial activity;
- g) property of disabled persons public associations and enterprises – according to section

“f” of Article 47.

- h) Vessels, registered in the Public Register of Georgia and sailing under the flag of Georgia.
- i) Property needed for oil and gas industry according to the law of Georgia “On Oil and Gas”

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 an incomplete calendar year, it pays the tax in proportion to that period.
2. In the course of the reporting year, taxpayers 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 on April 1 of the reporting year.

PART VI. TAX ON THE USE OF LAND**Chapter 22. General Provisions****Article 146. Taxpayers**

Payers of the tax on land are physical and legal persons who are owners or users of land plots provided for by 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 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) garden, truck-garden, and cottage plots;
- d) industrial, transport, communications, 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 yet been changed and whose use for agricultural purposes is permitted in accordance with current procedures;
- f) lands occupied by irrigation/drainage networks;
- g) other lands, used for agricultural purposes.

Article 150. Tax Rates on Agricultural Land

1. Base rates for the tax on land use are differentiated by rural-administrative regions and are established in Lari per hectare:
 - a) for land outside the administrative unit occupied by sown and perennial crops:

| | |
|---------------------|--------------------|
| Administrative Unit | Base Rate, ha/Lari |
| | 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, Akhaltsikhe 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 | Adasha, Zugdidi | 34 | 18 | 25 |
| 12 | Akhalkalaki | 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, Karagauli, Chokhatauri, Oni, Mestia, Kazbegi, Djava | 13 | 8 | 9 |

b) For use for natural haymaking meadows and pastures:

| N | Administrative Unit | Base Rate L/Hectare | | | |
|---|---|---------------------|----------|------------|----------|
| | | Meadows | Pastures | Cultivated | |
| | | | | Mea-dows | Pastures |
| 1 | Abasha, Akhalkalaki, Akhalsike Gori, Batumi, Bolnisi, Gagra, Gali Gardabani, Gudauta, Gilripshi, Gurjaani, Dedoplistskaro, Dmanisi Zugdidi, Tbilisi, Tetriskaro, Telavi Lagodekhi, Lanchkuti, Marneuli, | 6 | 3 | 8 | 4 |

| | | | | | |
|---|--|-----|-----|---|---|
| | Mtskheta, Ninotsminda, Ozurgeti Ochamchire, Rustavi, Samtredia Senaki, Signsgi, Sokhumi, Kutaisi, Kobuleti, Kvareli, Tsalka, Tskaltubo, Kevachauri, Khobi, Poti | | | | |
| 2 | Adgeni, Aspinja, Akhaalgori, Bagdadi, Borjomi, Vani, Zestaponi, Terjola, Tianeti, Kaspi, Martveli, Sagarego, Sachkere, Tkibuli, Kareli, Keda, Shuakevi, Chokhatauri, Chkorotskhu, Tsalenjikha, Kharagauli, Khashuri, Khoni, Khulo | 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.
- 2. Specific tax rates for specific plots of land with regard for 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 per administrative unit.
- 3. The procedure for determining the rate of the tax on land use is established by the representative authorities of local self-government bodies at the submission of appropriate agencies of the State Department of Land Management.

Article 151. Calculation of the Tax on Use of Agricultural Land

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

Article 152. Procedure for Payment of the Tax on use of Agricultural Land

1. For purposes of registration of taxpayers and establishing the amount of tax, the local authorities of the State Department of Landmanagement, by March 1 of the reporting year, shall submit to the tax service lists of taxpayers, indicating the tax rate and the area of land they own.
2. Tax agencies shall send tax statements concerning assessed taxes to taxpayers by June 1 of the reporting year.
3. The deadline for payment of the tax on use of agricultural land is November 1 of the reporting year. In addition, the deadline for payment of the tax on use of state-owned agricultural land taken on lease is established under the lease agreement, but not later than November 1 of the reporting year.

Chapter 24. Tax on the Use of Non-Agricultural Land**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 agricultural purposes.

Article 154. Tax Rates on Non-Agricultural Land

1. Base rates of the tax for use of non-agricultural land are determined per one square meter of land in the amount of 0.24 Lari per annum.
2. A one-time land tax for all categories of land use in allocating a new land plot within the administrative-territorial boundaries of a town is determined at the tax rate 20 times the base rate.
3. A one-time land tax for the temporary use of a total land within the administrative-territorial bounds of a town, as well as during the transfer of the lease right to a plot of land (except for inheritance) is determined at the tax rate 10 times the base rate.

Article 155. Calculation of the Tax on Use of Non-Agricultural Land

1. The tax on use of non-agricultural land is calculated by multiplication of the annual base land rate by the territorial coefficient and the land area.
2. Zoning of the land tax territorial coefficient is made in accordance with location of the land.
3. Determination of area boundaries and the differentiation of the land tax territorial coefficient is made on the basis of expert social and economical 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 at the submission of appropriate agencies of the State Department of Land Management.

Article 156. Procedure for Payment of Tax on Use of Non-Agricultural Land

1. The registration of taxpayers and establishment of amounts of tax is effected every year as of March 1.
2. For purposes of registering taxpayers and establishing amounts of tax the local authorities of the State Department of Land Management by March 1 of the reporting year shall submit to the tax agencies lists of taxpayers, indicating the tax rate and the area of land they own.
3. The deadline for sending tax statements to persons is June 1 of each year.
4. The calculation of the tax for use of a newly allocated plot of land is submitted to physical and legal persons within two months of the allocation of land.

Article 157. Imposition of the Tax for Use of Non-Agricultural Land

1. The land tax is imposed for physical and legal person from the month following the month when the right to use land arises.
2. Tax on non-agricultural land is paid in equal parts prior to August 15 and prior November 15 of the reporting year.

Chapter 24¹**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;
 - b) parcels of land 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 purpose 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 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;
 - 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;
 - e) public-use lands (botanical and dendrological gardens, natural parks, public gardens, cemeteries, zoos, squares, alleys, preserves, arboretums as well as open departmental gardens and forests, other than plots used for entrepreneurial activity;
 - f) city reservoirs and their aquatoria, lands used for transport and underground

- communications, other than for cultivating agricultural production and for economic activity;
- g) hydrometeorological centers and plots of land used for the functioning of stations and equipment for monitoring pollution;
 - h) lands occupied by reservoirs designated for the functioning of electrical stations and irrigation/drainage systems for providing the population with drinking 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 that are new or designated for recultivation;
 - 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 for purposes of ownership new lands and lands for recultivation, for the first five years;
 - 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;
 - 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, aeronavigation 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.
 - p) hunting farms.
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 the 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 are differentiated according to the type of vehicle and rating of an engine, and per horse-power are:

| Type of vehicle | Tax rate, in Lari |
|---|-------------------|
| Passenger cars | 0.25 |
| Busses (up to 12 seats) | 1.0 |
| Busses (13-30 seats) | 1.3 |
| Busses (over 30 seats) | 2.0 |
| Trucks up to 1 ton of load-carrying capacity (inclusive) | 0.4 |
| Trucks with 1-3 ton of load-carrying capacity (inclusive) | 0.6 |
| Trucks with 3-10 ton of load-carrying capacity (inclusive) | 1.3 |
| Trucks with 10-20 ton of load-carrying capacity (inclusive) | 2.0 |
| Trucks with 20-40 ton of load-carrying capacity (inclusive) | 2.6 |
| Trucks over 40 tons of load-carrying capacity | 4.0 |

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 Exemptions

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 payer of the tax on the transfer of immovable property 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 is carried out the transfer of title or which is transferred under a lease or tenancy agreement according to the Civil Code of Georgia.
2. A mortgage or other document that creates an encumbrance on immovable property or an agreement on collateral is not recognized as an object of taxation.

Article 166. Tax Exemptions

The following are exempt from taxation:

- a) a lease or tenancy agreement for a term of less than 1 year;
- 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.

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 price) including assumed 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.

Article 168. Tax Rate

The tax rate is 2 per cent of the taxable amount.

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. Among other documents to be submitted for approving the transfer of property, a document from tax agencies indicating tax payment should be presented.
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 nonresident legal person more than 50 percent of the shares in which are owned directly or indirectly by residents;
- 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 50 000-Lari when received by inheritance ;
 - c) property worth 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 six months from the receipt of the document confirming the title 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.

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 - 8704 of the code system for foreign economic activity (hereinafter - automobile) and the ownership of which has been registered or re-registered in Georgia.

Article 180. Tax Exemptions

The following are exempt from taxation:

- a) registration of re-registration of an automobile by its importer into Georgia, if the VAT was paid at importation;
- b) registration of 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) 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;
- f) a transfer in the case of reorganization.

Article 181. Determination of Taxable Amount

The taxable sum is the amount of compensation transferred directly or indirectly, including assumed indebtedness, but not less than the market price.

Article 182. Tax Rate

The tax rate is 2 percent of the taxable amount.

Article 183. Procedure for Payment of Tax

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

PART IX. SOCIAL TAX**Chapter 29. Social Tax****Article 184. Social Tax**

Social tax is obligatory payments for the formation of the state consolidated funds of social welfare and employment 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.

Article 185. Taxpayers

Payers of the social tax are:

- a) physical persons – entrepreneurs 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” of “b” of this Article;
- d) physical persons - entrepreneurs and according to this Code equalized with them persons which carry out activity in Georgia;
- e) physical persons who perform non-entrepreneurial activity in Georgia in consistence with subsection “f”, part 3 of Article 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 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” and “f” of Article 185 of this Code the object of taxation is taxable income from economic activity, determined according to the rules for the income tax under this Code.

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 received 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”.

Article 188. Rates of Tax

1. The rates of the social taxes are:
 - a) for persons described in sections “a”, “b” or “d” of Article 185 - the tax rate payable to the social welfare consolidated state fund is 27 percent for insurers and 1 percent payable to employment for the insured;
 - b) for physical persons described in section “c” of Article 185 - 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 remuneration of disabled persons and pensioners working at organizations for disabled persons and their enterprises for disabled persons, where more than 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 State Tax Department 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” of Article 185 of this Code 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.
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 by the 15th day of the following reporting month.

PART X. TAX ON THE USE OF NATURAL RESOURCES

Chapter 30. General Provisions

Article 190. Purpose for Introducing the Tax

The purpose for introducing the tax is:

- a) to establish principles of payable use of natural resources to ensure the rational usage of natural resources based on principles of potential capacity and sustainable development of the environment;
- b) to support financing of replacement and protection of natural resources through the collection of tax to the state budget of Georgia.

Article 191. Concept of the Tax

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

Chapter 31. Payers of the Tax on Use of Natural resources and Object of Taxation

Article 192. Taxpayers

Payers of the tax are physical and legal persons engaged in any activity subject to a license for the use of natural resources.

Article 193. Object of Taxation

The object of taxation of the tax on the use of natural resources is the volume (quantity) of extracted natural resources 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 fir-tree cones;
- d) the volume (quantity) of water resources obtained from the environment;
- e) the volume (quantity) of animal resources obtained from the environment, except birds in passage, whose obtaining from the environment is subject to the fixed tax, the amount of which is determined by the law.

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 subsurface:
 - a) marginal tax rates for the use of mineral resources are determined according to the basic types in the table below:

| Type of mineral resources | Limits of marginal tax rates as percentages against the price of the mineral resources extracted |
|---|--|
| Oil, gas | 5-10 |
| Coal | 2-5 |
| Peat and sapropel | 2-5 |
| Ferrous metals: | |
| iron | 1-3 |
| manganese | 2-7 |
| non-ferrous metals (copper, lead, zinc, antimony, cadmium, strontium, etc.) | 3-5 |
| Precious metals (gold, platinum metals, silver) | 4-6 |
| Rare metals elements and earths | 2-5 |
| Mining-chemical raw materials (andesite, barite, calcite, bertonite clays, diatomite, iodine, bromine, etc. | 1-5 |
| Non-metallic raw materials for metallurgy including necessary raw materials (dolomite, fireclays, fluxing limestone, silica sands for sand moulding, mineral dyes, talc, zeolite, kaoline, pegmatite, lithographic limestone, etc.) | 1-8 |
| Precious stones | 4-6 |

| | |
|--|-------|
| Building materials (cement raw materials, gypsum, plaster, perlite, facing stone, gravel, sand, brick clays, sawn stone, etc.) | 2-5 |
| Mineral waters | 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 rate of the tax on the use of mineral resources within the tax limits indicated in subsection “a” of part 1 of this Article according to basic types of mineral resources, their quality and occurrence, is determined by the Intradepartmental Council of Experts for Licensing Use of Subsurface and is entered into the subsurface use license, with the exception of oil and gas. In this case, concrete rate of tax on the use of mineral resources within the tax limits indicated in subsection “a” of part 1 of this Article is determined by the Oil and Gas Regulating State Agency and is specified in the license issued by this agency in consistence with the Law of Georgia “on Oil and Gas”. The concrete tax rate is defined as a percentage of the price of explored mineral resources (without VAT).
 - c) the procedure for determination of the price of mineral resources is worked out and approved by the Ministry of Economy of Georgia in agreement with the Ministry for Protection of the Environment and Natural resources of Georgia.
2. The tax rate for the use of timber resources of lumber wood:
- 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:

| Type of timber | Ca | Tax rate per one solid cubic meter of timber as percentage of the market price | | | |
|---|----|--|-----------------|----------------|-------------------|
| groups (including names of kinds) | ry | Hewn timber (diameter at narrow top) | | | Firewood (unsawn) |
| | | thick 25 cm and more | medium 13-25 cm | Narrow 4-13 cm | |
| 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 Oak, chestnut, ash, elm, mulberry, maple, lime-tree, wild pear, saghsadgi | 1 | 30 | 26 | 23 | 5 |
| | 2 | 26 | 23 | 20 | 4 |
| | 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.
 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 and irrigation system is 1 percent of basic amount and in the case of hydro station producing enterprises - 0.01 percent of the basic amount;
 - 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 (khamsa/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.

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

1. Tax for the use of natural resources is paid before the 15th of the month following the reporting month. The tax for the use of water resources in agriculture is paid before December 1 of the relevant year. On the same term, 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.

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, canalization systems, underground structures.
2. The tax rate shall be reduced by 70 percent:
 - a) for users of natural resources whose activities are connected with scientific and cultural-institutional 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**

The taxpayers are all physical and legal persons that conduct 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, mazut, diesel fuel, kerosine, natural and liquid gas;
- c) Carrying out import of plastic bottles and/or of goods in plastic bottles as well as plastic bottle production on the territory of Georgia.

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, kerosine, mazut, natural and liquid gas, imported, produced or supplied by taxpayers on the territory of Georgia.
3. The import of plastic bottles or goods with plastic bottles, as well as amount of plastic bottles locally produced and supplied by taxpayers on the territory of Georgia.
4. The export of goods described in parts 2,3 and 4 of this article is exempted from tax.

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. 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. Limits for large-scale stationary objects of pollution are approved by the Ministry of Environmental Protection and Natural resources and relevant ministries of the Abkhazian and Ajarian Autonomous Republics. 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, perchloretylene, 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, vanadium, selenium | 39000.0 |
| 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 | 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 Environmental Protection and Natural resources of Georgia.
4. Tax rates on imported, as well as on produced and supplied gasoline, diesel fuel, kerosine, mazut, natural and liquid gas in Georgia are determined in the following amounts:

| Type of Fuel | Measure Unit | Tax Rate in Lari |
|--------------|---------------|------------------|
| gasoline | a litre | 0,03 |
| diesel fuel | a litre | 0,03 |
| kerosine | a litre | 0,02 |
| mazut | a kilogram | 0,01 |
| liquid gas | a kilogram | 0,01 |
| natural gas | a cubic meter | 0,005 |

5. Tax rates for import, production and supply of plastic bottles specified in code 3923 in the economic activity commodity classification, as well as beverages in plastic bottles are determined 0,03 Lari per bottle.

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 15th day of the month following the reporting quarter.
2. Taxpayers carrying out import of gasoline, diesel, kerosene, mazut, natural 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 carrying out production and supply of gasoline, diesel, kerosene, mazut, natural and liquid gas as well as importers and producers of such goods - physical and legal persons determined in section “c” of Article 197 are to pay tax on a monthly basis by the 15th day of the month following the reporting month and submit the tax return to the tax agencies within the same term.

PART XII. TAX ON ENTERING MOTOR VEHICLES ONTO THE TERRITORY OF GEORGIA AND BEING OVERLOADED

Chapter 35. Tax on Entering Motor Vehicles onto the Territory of Georgia and being Overloaded

Article 203. Taxpayers

1. An 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 an owner or driver of a truck registered in Georgia is in transit, he is considered as a payer of the tax on overloaded vehicle, as well as payer of the tax for entering the territory of Georgia.

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.

Article 205. Tax Rates

1. The tax rates for entering vehicles onto the territory of Georgia are differentiated according to the type of vehicle and load-carrying capacity and are:

| | |
|--|----------|
| Cars | 30 lari |
| Buses (up to 13 seats) | 60 lari |
| Buses (13 to 30 seats) | 120 lari |
| Buses (over 30 seats) | 200 lari |
| Trucks and other vehicles up to 3 tons of load-carrying capacity(inclusive) | 120 lari |
| Trucks with 3 tons – 10 tons of load-carrying capacity(inclusive) | 120 lari |
| Trucks with 10 tons – 20 tons of load-carrying capacity(inclusive) | 250 lari |
| Trucks with 20 tons – 40 tons of load-carrying capacity(inclusive) | 340 lari |
| Trucks with of load-carrying capacity over 40 tons | 460 lari |

2. Owners 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. Possessors of the motor vehicles indicated in Article 204 of this Code shall additionally pay a tax on each axle in the case of overloading: up to 0.5 tons (inclusive) - 25 Lari; over 0.5 to 1.0 tons - 40 Lari; over 1.0 to 1.5 tons - 50 Lari; over 1.5 to 2.0 tons - 65 Lari; over 2.0 to 2.5 tons - 90 Lari; over 2. to 3 tons - 130 Lari.
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. Procedure for Payment of Tax

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).
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 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.

Article 207. Tax Concessions

1. The tax rates for entering of cars and passenger tour busses registered in the neighbouring regions of the Republic of Azerbaijan - Kazakh, Tauz, 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 - 10 Lari; for buses up to 12 seats (inclusive) - 12 Lari; for uses over 13 to 30 seats (inclusive)- 20 Lari; for buses over 30 seats - 32 Lari.
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 the limits of their competence to establish on the respective territory local taxes 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 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).

2. The maximum limit for the tax on economic activity is determined as 1.0 percent of income (without material expenditures) without VAT received from the supply of products (works, services) including not more than 2 percent of the income 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 is 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 received 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) incomes received from the bets by organisers of games, totalizators and bettings, other than incomes of a winner;
 - d) incomes received 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 200 Lari/month.
 - ab) For each gambling table no more than 2000 Lari/month.
 - 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 State Tax Department of Georgia, and pay tax no later than the 15th of the month following the

reporting period.

10. Return for tax on gambling should be submitted even if there are no taxable incomes.
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. Assessment marks must include:
 - a) Unique code;
 - b) Taxation period;
 - c) Assessment marks logo approved by State Tax Department of Georgia.
14. Assessment 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 State Tax Department of Georgia defines procedures for purchase, registration, affixing and change (in case of damage) of assessment marks.

Article 211. Resort Tax

The resort tax is paid by physical persons for the receipt of test (treatment) and resort-related services at the resort locations. The maximum limit of the tax is 10 Lari 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 is paid by physical and legal persons who advertise good, work and services and/or for the purpose of entrepreneurial activity acquire advertisement

services. Under the advertisement services rendered for the purpose of economic activity is recognized the spread of advertisements through mass media, catalogues, price-lists, directories, posters, bills, publicity boards and other information dissemination means.

2. The dissemination of social advertisements and advertisements of charitable events is not considered to be advertisement services rendered for the purpose of economic activity.
3. The advertisement tax rate is determined as not more than 10 percent of the cost without VAT of the activity and services carried out for the preparation and dissemination of advertisements and/or advertisement assets.

Article 214. Motor Vehicles Parking Tax

(deleted)

Article 215. Tax on Use of Local Symbols

1. The tax on the use of local symbols is paid by legal and physical persons - entrepreneurs who make 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 State Tax Department of Full and Timely Payment of Taxes

1. The tax agencies shall alone conduct tax control of calculation 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.
2. Tax control is conducted by the tax agencies by means of recording taxpayers and objects of taxation, verifying 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. State Tax Department carried out by tax agencies may be an office audit or a field audit. An office audit is carried out by the tax agency on the basis of balances, returns, explanations, and other documents submitted by the taxpayer and other documents and information in the possession of the tax agency. A field audit is carried out on the basis of a decision of the tax body by means of a written notice to the taxpayer. In the notice should be stated the object and bases of the audit as well as the expected time period for it. Audit may be carried out without prior notice in the cases when there is evidence of tax evasion on the decision of the head of the tax agency.
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 making sale of goods (works, services) mostly with cash, when paying tax shall use a simplified system established by the Ministry of Finance and the State Tax Department of Georgia for tax base determination and accounting. This system shall not apply to taxpayers who, proceeding from the purposes of the payment of profit tax and income tax, are required to use accrual basis method of accounting, as well as to persons registered as VAT payers.
2. In the event of accounting violations or the destruction or loss of documents 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 a case where a physical person in his 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.

Article 219. Taxpayer Identification Number

1. The tax agency shall assign an identification number to every taxpayer to be used for all taxes and including customs tax.

2. Physical and legal persons must indicate their taxpayer identification number on a tax return and on other documents stipulated by this Code.
3. Legal persons and physical persons provided for in Article 26 of this code are obliged to apply to the tax body for obtaining an identification number within 10 days from registration or initiating entrepreneurial activity.

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.

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 determined 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 confirmation documents are revealed in accounts or records the taxpayers shall pay the value of unregistered assets and goods at market prices not later than next day after effecting economic transaction, while the storage of goods and other assets shall be considered to be the supply thereof and shall be taxable according to the procedure in force.
5. A tax payer is subject to due taxes and similar amount of fines, in case of carrying out activity without being registered by the tax and/or registering bodies.

Chapter 37. Communications with Taxpayers

Article 224. Implementation of Obligations Establishing Relation in Written Form

No statement provided by the tax agency to a taxpayer is binding with respect to the tax agency or the taxpayer, unless it is delivered to the taxpayer in writing.

Article 225. Written Communications with Taxpayers

Any notice or other documents to be sent by the tax agency to a taxpayer must be in writing, signed by a head or an authorized official, noting his full name, certified by stamp. The original of the document shall be delivered to the taxpayer. The document shall be deemed properly served if it is delivered to the address of the taxpayer by registered mail or is personally served upon the taxpayer.

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 State Tax Department of Georgia shall work out and at the agreement with the Ministry of Finance prove instructions for the purpose of implementation of this Code. Any provisions of the instructions that contradict this Code have 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 Social Security, Labor and Employment;
- 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 State Tax Department of Georgia may issue 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 obligation by a person;
 - b) may give rise to an obligation by the person to withhold tax;
 - c) may give rise to an obligation by the person to submit an information report.
2. Taxpayers must maintain such documents in accordance with normative acts of the State Tax Department of Georgia.
3. If a taxpayer has certain documentation prepared in a foreign language and their content is not understandable to the tax agency, the 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 State Tax Department of Georgia.
2. The tax return must be signed by the taxpayer or, if the 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 the return, stamp it, and note his taxpayer identification number. If there is more than one preparer, only the principal preparer must sign the return.
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 of work or rendered service must provide information on

the sum paid to the tax agencies and the recipient of the payment in accordance with the relevant instruction within one month.

Article 232. Extension of Term for Submitting Tax Return

If the taxpayer of income, property or profit tax applies to the tax body for the extension of term for submitting a tax return before the term, paying concurrently the tax due at the time, the term for submitting a tax return will be automatically extended for three months. The granting of an extension under this Article shall not affect the term for payment of the tax.

Article 233. Bank Accounts

Bank and other institutions conducting certain banking operations are obliged:

- a) to open settlement accounts for physical and legal persons upon presentation of documents proving the issuance of a taxpayer identification number by the tax agency, notify the tax agency has opened these accounts, and may not effect transactions on accounts without noting the taxpayer identification number in the banking documents;
- b) to execute on the first- priority basis payment orders of taxpayers or collection orders of tax agencies for the payment of taxes from their settlement or other accounts;
- c) to credit (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. For the legal purposes of carrying out tax control the tax agency has the right by giving notice in writing, to require any person, whether a taxpayer or not, to submit the information indicated in the notice.
2. An authorized official of the tax agency has the right:
 - a) to make a copy of any document;
 - b) to seize a record or other item that is relevant to the legal purpose;
 - c) to install or monitor meters;
 - d) to seal documents or other items;
 - e) if in the cases stipulated by subsections “a-d” of this part an authorized official of the tax agency uses equipment or materials of another person for the purpose of making an extract or copy of a document, the tax agency shall reimburse the consumer for the use of the equipment or materials, with compensation based on the market price of the use or materials. If the authorized official seizes a document or other item pursuant to the authority provided under this part, the tax agency may make a copy of the document or other item and shall return the original to the person in the shortest time possible, unless otherwise is provided by court decision.
3. If a person asserts inviolability under law of documents or other evidence which the tax agency wishes to seize or examine pursuant to this Article, the materials over which inviolability is claimed shall be deposited into envelopes which shall then be sealed by their possessor and retained by the tax agency until the tax agency applies to a court to determine whether the items in question are inviolable or not.
4. In this Article, “legal purpose” means the collection of information:
 - a) for the purpose of determining the obligation of the taxpayer;
 - b) for the purpose of collecting tax from a specific person.
5. In this Article, “ authorized official” means an employee of the tax agency designated by the head of the 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 the entering into the records of the state agency of the amount of a taxpayer’s tax obligation for a specific taxation period. Assessment includes an amended assessment and deemed assessment.
2. The tax agency is authorized to make an assessment of tax obligation of every taxpayer under 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 the tax agency.
3. If the taxpayer does not submit the information needed to assess the tax, the tax agency is entitled to make tax assessment on the basis of any information available to it.
4. In the cases where tax legislation does not require payment of the tax together with submission of a return, and in the cases when the tax agency considers a previous assessment to be incorrect, the tax agency shall make an assessment and send an assessment notice to the tax payer according to Article 236 of this Code. The 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 the case payment of taxes is connected with submitting of returns, the submitting of the return showing obligation for tax payment shall be deemed to be:
 - a) an assessment of such tax;
 - b) notification for tax payment and demand that such tax be paid with the submission of return.
6. In the case of taxes collected by withholding, if a taxpayer does not present a tax return and the tax agency does not calculate the amount of the taxpayer's tax obligation 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 the taxpayer during the year and to have notified the taxpayer of that assessment.

Article 236. Notice of Assessment

A taxpayer shall be given notice of an assessment of the amount of tax to contain the following data:

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

Article 237. Limitations of Prescription

1. The 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.

Chapter 41. Payment, Collection and Refund of Tax

Article 238. Term of Payment of Tax

Taxes are payable by the terms specified in this Code and other normative acts. If the taxable period is not specified by this Code, the tax shall be due and payable within the period established for presenting a return, while the payment of additional charged and payable amounts – within 10 days from charging.

Article 239. Place of Payment of Tax

Tax is subject to payment:

- a) at the place of assessment specified in a notice; or
- b) if no notification 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 tax registration of a taxpayer- legal person.

Article 240. Refund of Excess Amount of Tax Paid

1. If the tax amount paid exceeds the amount of tax assessed, the tax agency shall:
 - a) credit the excess amount paid to the account of the taxpayer's other taxes are to be paid;
 - b) with the agreement of the taxpayer, apply the balance against the taxpayer's liabilities with respect to future payments;
 - c) refund the excess amount to the taxpayer within 20 days on written application by the taxpayer, unless otherwise provided by this Code.
2. If the excess amount paid by the taxpayer is credited as amount of obligation for other taxes, the notification of the assessment must contain information on the use of that amount.

Article 241. Extension of Term for Payment and Penalties

Upon receiving proper written application with arguments by the taxpayer the head of the tax agency may extend the term for payment of tax, but for not longer than 3 months. An extension shall not exempt a taxpayer from paying fines for late transfer of the tax to the budget.

Article 242. Procedure of Payment of Tax Debts

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

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

Article 243. Objection or Appeal

1. In the case of an objection to a superior tax agency or appeal to a court against an assessment of the tax amount, the assessed tax amount remains due and payable, regardless pending or appeal with regard for the provision of part 2 of this Article.
2. The head of the superior tax agency has the right to suspend the payment of the assessed tax during the period of litigation.
3. In the case of the taxpayer's success with the objection or appeal, the taxpayer is entitled to receive:
 - a) a refund of the incorrectly collected 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 debts and sanctions (together with any costs of collection that may accrue) creates a lien in favor of the State on all the property belonging to the taxpayer, and this right has priority over all other rights; unless otherwise provided by legislation.
2. The lien described in part 1 of this Article arises at 24.00 on the due date and continues until the obligation of payment is unenforceable by reason of prescription.
3. The lien imposed by this Article is not applied to an interest of a lien holder which arises before notice of the tax amount of the lien as collateral for payment of tax has been registered.
4. The tax agency may file a civil action in the court to enforce the lien imposed by this Article.
5. A taxpayer may apply to the tax agency for a release of the lien. In case the application is satisfied the tax agency shall issue an appropriate statement.
6. Property under lien as collateral for payment of tax shall remain in the possession and use of the taxpayer, who shall be responsible for its safekeeping.
7. In the event of the repayment of the debt, the lien shall be canceled.

Article 245. Distress Proceedings

1. The tax agency is entitled to collect unpaid tax sum by distress proceedings on the basis of a court decision under the procedure established by law. The tax agency may require a police officer to be present while the distress is being executed.
2. The tax agency may levy on property upon notifying the debtor in writing at least 30 days in advance.

3. If the tax agency has reasonable grounds for believing that the collection of tax is in jeopardy, it may demand immediate payment of the tax and, in case of failure of the taxpayer to pay the tax, may proceed to levy on the taxpayer's property, notwithstanding the provisions of part 2 of this Article.
4. The seizure and safekeeping of property subject to distress is effected under procedure established by legislation.

Article 246. Enforcement of Levy on Property in Possession of a Third Person

1. If the taxpayer's property is in possession of a third person, or a third person has a right on the property of the taxpayer on which a levy has been made, this person must, on demand of an authorized official of the tax agency, transfer the property or the right to discharge the security to the tax agency.
2. A person who fails to comply with such demand is materially liable to the state in the amount of the value of the property or right on property, but not in excess of the amount for the collection of which the levy is made.
3. In addition to the liability under part 2, in case of the failure to execute such demand, such person shall be liable in addition for a penalty as a financial sanction equal to 50 percent of the amount recoverable under the same part.
4. A person complying with the requirements of part 1 is, from the time of compliance, discharged from any obligation to the taxpayer or any other person to the extent of the value of property surrendered, or the right discharged, to the tax agency, and is hereby indemnified for any damage or loss incurred as a consequence of compliance with such demand.

Article 247. Sale of Seized Property

1. Property seized from a taxpayer shall be sold at a specialized open auction conducted in accordance with the procedure and conditions defined by the Ministry of Finance of Georgia.
2. By the sale proceeds shall be covered first the expenses of the sale, then the tax amount, penalty and fine. Any amount left shall be refunded to the taxpayer within three banking days. Only the portion of property covering the expenses of the sale, the tax amount, penalties and fine shall be submit to being sold.
3. Foreign currency seized from the taxpayer shall be converted by the National Bank of Georgia.

Article 248. Recovery of Amounts Due to the Taxpayer

Pursuant to the procedure for collection and after notice pursuant to Article 245 of this Code, the tax agency may:

- a) issue a notice to third parties (including a bank or other financial institution) ordering direct payment to the tax agency of any amount owned to the taxpayer by a debtor, or
- b) using a cash collection order (instruction), debit from the bank accounts of debtors amounts owed to the taxpayer on the basis of the court decision. In case there is a

foreign currency account, such financial institution shall transfer the foreign currency to the National Bank of Georgia for conversion.

Article 249. Transferee's Liability for Unpaid Tax

Where a taxpayer's liability has not been satisfied after recovery, a person who has received assets of the taxpayer shall, within three years from demand of recovery, be secondarily liable for this tax to the extent of the received property and the tax unpaid by the transferor.

Article 250. Writing off Bad Debts Regarding Taxes

Bad debts regarding taxes, penalties and fines are written off if:

- a) the term for issuance of a demand for payment of tax expires or the taxpayer is subject to legal action for the tax infringement;
- b) the tax obligations are extinguished on grounds established by this code or other acts of tax legislation.

Chapter 43. Liability**Article 251. Liability 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, the taxpayer is obliged to pay interest on such amount for the period from the due date to the date that the tax is paid at the rate of 0.2 percent per each overdue day.
2. In the case of overpayment of tax in violation of the tax legislation, interest shall be paid to the 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 purposes of this part, a refund is considered to be made if 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 submit a timely tax return and accounting forms stipulated by legislation, are liable for a penalty equal to 5 percent of the amount of tax required to be shown 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 is limited to the greater of 200 Lari up to 1000 Lari 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 Reduction of Taxes

1. For reducing the amount of tax in returns and reports, the taxpayer is to be fined in the amount of 25% of the reduction.
2. If the reduction referred to in part 1 of this Article is substantial, the taxpayer is liable for a penalty in the amount of 50 percent of the reduction.
3. A reduction of tax is substantial if it exceeds 2,000 Lari or 25 percent of the tax required to be shown on the return.
4. The penalty under this Article does not apply to a reduction of the tax amount as a result of incorrect written directions issued by respective bodies.

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 which 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 sections “a” and “b” of Article 233 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 who disputes a tax assessment or other decisions of a tax agency may appeal to the tax body which issued the decision with a petition and appropriate documents for its reconsideration. The petition must indicate the reasons and documents on which the taxpayer bases the request. The petition must be submitted within 60 days of the date the taxpayer received notice of the assessment or other decision.
2. The tax agency reviews the petition of the taxpayer, issues its reasonable decision and shall so notify the taxpayer within 30 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 State Tax Department 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 State Tax Department of Georgia to the court under the procedure established by legislation.
6. In the case of payment of the assessed tax the taxpayer may directly apply to the State Tax Department or the court.

Article 257. Burden of Proof

The burden of proving that an assessment is incorrect is on the taxpayer.

PART XV. STATUS AND STRUCTURE OF THE STATE TAX DEPARTMENT OF GEORGIA**Chapter 45. General Provisions****Article 258. Basis Functions of the State Tax Department of Georgia**

The basis functions of the State Tax Department of Georgia and its agencies are:

- 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 changes in tax legislation.

Article 259. Legal Basis for Transactions of the State Tax Department of Georgia

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

Article 260. Status and Structure of the State Tax Department of Georgia

1. The State Tax Department of Georgia is governmental agency, which is set up and functioning in consistence with Law of Georgia "On Structure and Activity of Executive Power". Only tax agencies are authorized to ensure state supervision over the full and timely payment of taxes, except for those cases where this Code contemplates the collection of tax by other agencies.
2. The State Tax Department of Georgia shall consist of the central staff, State Tax Departments of the Abkhazian and Ajarian autonomous republics, large taxpayers regions and cities, and an Operational Service Department.
3. The Operational Service Department of the State Tax Department of Georgia is a special legal agency of executive power entitled to conduct tax investigation. It ensures the struggle against crimes in the tax sphere, the safety of tax bodies' activities, and the protection of its officers during discharge of their official duties against illegal actions.

4. The State Tax Department shall be headed by a head appointed to and discharged from office by the President of Georgia, the deputy heads shall be appointed to and discharged from office by the Head of the State Tax Department of Georgia under legislation in force.
5. The head of State Tax Departments for the autonomous republics, large taxpayers regions and cities are appointed to and discharged from office by the Head of the State Tax Department of Georgia.
6. The state inspections of the Abkhazian and Ajarian autonomous republics, large taxpayers regions and cities are subordinated to the State Tax Department of Georgia.
7. The Operational Service Department unites the relevant services of the Abkhazian and Ajarian autonomous republics, cities and regions, which are directly subordinate to the central staff of the Operational Service Department. Officers of structural divisions of the Operational Department shall be appointed to and released from office by the Head of the State Tax Department of Georgia.
8. The structural divisions provided for in part 2 of this Article shall have accounts at banking institutions and a standard seal.
9. The Tax agencies shall be financed from the central budget of Georgia.

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. 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 State Tax Department on the daily basis information at their disposal, for which purposes a common computer network is created. Interference in the functions of the tax bodies is prohibited, except for the cases established by legislation.

Article 262. Prohibitions on Transfer of Assigned Power

Any officer of the State Tax Department is prohibited from transfer of any power or duty assigned to him by the Head of the State Tax Department to another officer.

Article 263. Annual Reports

1. The Head of the State Tax Department of Georgia issues within three months after the end of each financial year, a published report on the operation of the tax system of Georgia.
2. The report includes the following information:
 - a) amounts of taxes collected by the Georgian State Tax Department, according to the tax legislation collected according to types of taxes and regions;
 - b) amounts of tax owing, similarly categorized;
 - c) expenditure incurred by the State Tax Department in collecting taxes;

- d) statistics relating to the components of tax payment;
- e) a description of the positive and negative sides of the operation of the tax system;
- f) a list of the names of the physical and legal persons against whom tax has been assessed and who have not paid the full amount of taxes assessed, if the amount unpaid exceeds 10,000 Lari.

Chapter 46. Rights and Obligations of Tax Agencies

Article 264. Obligations of Tax Agencies

The tax agencies within their competence 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, register taxes assessed and paid in budget and special funds, making a report of paid taxes;
- c) record, appraise, and sell confiscated and ownerless property which has come into state possession;
- d) carry out currency control in cooperation with other appropriate agencies;
- e) refund to 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 return forms and other documents relating to the calculation and payment of taxes;
- h) collect, analyze and assess facts on violation of tax legislation and submit appropriate proposals for eliminating causes and circumstances contributing to tax violations and crimes;
- i) with the assistance of the operative service department units of tax agencies, conduct operational and investigation activities, inquiries under the legislation for criminal procedure;
- j) identify and put to an end crimes with respect to nonpayment of taxes concealment or reduction of profits (income), and concealment of taxable objects, and other evasion of the payment of taxes, and other crimes and violations causing damage to the State as a result of non-payment and/or partial payment of taxes.
- k) provide for the security of the State Tax Department activities and protection of its employees from criminal and other unlawful actions in the process of execution of their official duties.
- l) identify physical and legal persons evading tax payments.

Article 265. Rights of Tax Agencies

With regard to the provisions of this Code, tax agencies within their competence according to the procedure established by 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 relating 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 through chronometrical 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, 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. Nonexecution 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 the tax agency shall be prohibited from conducting official duties with respect to a taxpayer:

- a) with whom the employee is in related;
- b) in relation to whom the taxpayer or a relative of the taxpayer has a direct or indirect financial interest.

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:
 - 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;
 - 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) the 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.
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.
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 State Tax Department 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. Material Incentives and Material and Technical Supply Fund of Tax Agencies

1. The Material Incentives and Material and Technical Supply Fund is created by tax agencies according to the controllable revenue of the agencies in the following proportions: in case of meeting the budget and special funds’ plan by 90-100 percent, 2 percent of actual revenue; in case of collecting revenues by more than 100 percent, 30 percent of the surplus revenues, and 15 percent of the additional revenues transferred in favor of the budget and special funds. The latter amount is transferred to the tax agencies’ special account at the Treasury.
2. The procedure for the use of the material incentives and material and technical supply fund is established by the State Tax Department of Georgia.

Article 270¹. Procedure for Performing Service at the Tax Agencies

1. Persons to be appointed as authorized officials at the tax agencies are to have higher economic or legal education, as well as secondary-special 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.

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 15th 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 15th

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 64), Part V – “Tax on Property”, 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 Contributions”, 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;
- d) Articles 112 and 130 in connection with the taxation of car imports- shall come into effect from January 1, 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.
 - 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. "On the Road Fund of the Republic of Georgia", Law of the Republic of Georgia dated 2 September 1995 (GPG, 1995, Nos. 31-33, Art. 683)- from 1 January 2001, except for Articles 6 and 7 of this Law to be deemed as 7 of this law to be deemed as null and void from 1 January 1998.

II. The normative documents given in this Article are applicable to tax obligations that arose during their validity.

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.
2. Up to 31 December 2000, the tax rate of the importers of cars shall be as follows:
 - a) excise - in the amount of 0.1 Lari for each cubic centimeter of the engine capacity of any imported car;
 - b) value added tax- 5%.
3. For power sector enterprises generating and supplying electricity as well as enterprises providing with drinkable water and water for melioration purposes, also effecting sewerage operation and cleaning, as well as for budgetary healthcare organizations up to 1 January, 2000, the amount of supply of goods (works, services) shall be determined according to the actually reimbursed value. VAT credits on goods (works, services) supplied by these enterprises shall come into effect in case of actual reimbursement of their value.
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. The railway department will retain the centralized rule on effecting payment to the budget through VAT and profit taxes until January 1, 2000. The settlement on payment of VAT and submission of returns shall be affected by the 20th of the month after the reporting period, as for the profit tax, it will be transferred to the central budget, and be distributed among local budgets according to the approved rule.
11. Up to 1 January 2000 for structures of the underground the rate of depreciation shall be determined by referring to the depreciation rates defined in Article 54 through fitting reducing ratio of 0,25 percent in 1998 year and 0,5 percent in 1999 year. The deductions of expenses on the repair of fixed assets for underground and railway transport are permitted up to 7 percent of the total balance value of fixed assets.
12. (deleted)
13. Up to 1 July, 1999:
 - a) the imports of tobacco products (other than tobacco raw materials) shall, in lieu of VAT and excise, be taxed at the following rate:

| | |
|---|--------------------|
| 1. Smoking tobacco (pipe tobacco) | 20 Lari per 1 kg |
| 2. Cigar | 25 tetri per piece |
| 3. Cigarettes and cigarillos of highest, first, second, A and B class | 25 tetri per box |
| 4. Cigarettes of other classes | 19 tetri per box |
 - b) the supply of imported cigarettes is exempt from VAT;
 - c) the tax for imported cigarettes shall be paid upon purchasing excise stamps accordingly 19 and 25 tetri.
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.
- 16. The initial supply of agricultural production before industrial processing will be VAT exempted up to January 1, 1999.
- 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 31 December, 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 | 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 10th day;
- 21. The presumptive tax paid during the year will be considered as payment of income tax stated and calculated by legislation.

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

| | | | | Lari | Lari | |
|-----------------------------|----------------------------|-----------|-----|-----------|-----------|------------|
| Fruit and other materials | | 0,53 Lari | 50 | 2,47 Lari | 1,48 Lari | 4,48 Lari |
| Cognac and cognac materials | 220820 | 0,89 Lari | 100 | 8,22 Lari | 3,29 Lari | 12,40 Lari |
| Whisky, Gin, Rum | 220830 220840 220850 | 0,53 Lari | 100 | 4,93 Lari | 1,97 Lari | 7,43 Lari |
| Brandy and brandy materials | 220820870 | 0,71 Lari | 50 | 3,28 Lari | 1,97 Lari | 5,96 Lari |
| Vodka and other spirits | 220860 | 0,27 Lari | 50 | 1,24 Lari | 0,75 Lari | 2,26 Lari |
| Liqueur | 220870 | 0,35 Lari | 100 | 3,28 Lari | 1,31 Lari | 4,94 Lari |
| Beer | 220300 | 0,11 Lari | 15 | 0,16 Lari | 0,24 Lari | 0,51 Lari |
| Ethyl spirit | 2207 | 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 January 1 2000 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.
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. Profit received from oil and gas transactions as specified in the law of Georgia "On Oil and Gas", entrepreneurial activity and land plot allotted for these purposes are taxed according to the legislation put into force on signing the contract on oil and gas with the government.

President of Georgia

Eduard Shevardnadze

Tbilisi,
June 13, 1997

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