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TAX CODE OF GEORGIA

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Chapter 1. The Tax System of Georgia

Article I. Relations Regulated by the Tax Code

1. This Code regulates the basic 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 of Georgia, legal provisions for taxpayers and state tax agencies, procedures and conditions for appealing illegal actions of tax agencies and their officials, and responsibility for the violation of tax legislation.
2. The concepts and norms established by this Code are applied only in the case of regulating matters related to taxation, if the contrary is not considered by the legislation.
3. The payment of customs duty is regulated by the customs legislation.

Article 2. The tax system of Georgia

The tax system of Georgia consists of a set of taxes (of their establishment, amendment and elimination), as provided for by this Code, and principles, forms and methods for their payment, and responsibilities before the tax organs, as well as responsibilities for the violation of tax control and tax legislation.

Article 3. Legal basis for Establishment and Payment of Taxes.

1. A legal or physical person is obliged to pay all State and local taxes established by this Code. on the basis of which this person is considered to be a taxpayer.
2. No one may be required to pay taxes that are not established by this Code.
3. A tax assessed in accordance with this Code is a debt to the state and shall be subject to payment to the budget.
4. The supreme representative bodies of the Abkhazian and Adjara Autonomous Republics, as well as local management bodies, may introduce only those local taxes which are established by this Code.

Article 4. Tax Legislation.

1. The tax legislation of Georgia consists of this Code and subordinated normative acts adopted in accordance with it.

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2. The provisions of subordinated normative acts adopted in accordance with this Code may not contradict the provisions of this Code. In the case of such contradiction, the provisions of this Code are applied,

3, In the case of a conflict between provisions of this Code and normative acts in another area of legislation, the provisions of this Code are applied for purposes of taxation.

4. The published acts of tax legislation that are in effect on the day on which the tax obligation arises are applied for purposes of taxation.

5, The establishment or elimination of taxes or the modification of procedures for payment of existing taxes is effected by introducing the relevant changes in this Code. The modification of local taxes is performed by introducing the relevant changes into the appropriate normative acts.

6. Acts of tax legislation do not have retroactive effect, unless they otherwise stipulate.

7. It is prohibited to include issues connected with taxation in non-tax legislation, except for:

a. provisions concerning administrative violations, included in the code on administrative violations;

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 establishing fees.

8. If an international agreement ratified by Georgia sets other rules than those provided for by the tax legislation of Georgia, with the exception of point 9 of this Article, the rules of the ratified international agreement are applied.

9. The privileges contemplated by international agreements on the avoidance of double taxation do not apply to a resident of a state party to the agreement, which is used by another person who is not a resident of such state for the purpose of obtaining the privileges.

Article 5. Concept of a Tax.

A tax is a payment to the budgets or to special state funds (hereinafter referred to as "state funds") effected by a taxpayer having an obligatory, non quid-pro-quo, and gratuitous nature.

Article 6. Types of Taxes.

1. All State and local taxes are in effect in Georgia.
2. All State taxes are the following:
 - a. income tax;
 - b. profit tax;
 - c. the value-added tax;
 - d. excise tax;
 - e. property tax;
 - f. tax on land;
 - 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;
 1. tax on bringing cars onto the territory of Georgia.
3. The local taxes are the following:
 - a. tax on business activity;
 - b. tax on gambling business;
 - c. health-resort tax;
 - d. hotel tax;
 - e. advertisement tax;
 - f. tax on car-parking;
 - g. tax for use of local symbols.
4. The rule for distribution of taxes between the budgets is determined in accordance with the laws of Georgia on "The Budget system and Responsibilities" and on "Long-Term Economic Standards Of Taxes From the State Taxes into the Respective Budgets OfApkhasian And Adjara Autonomous Republics And the Budgets of Other Territorial Units".
5. Taxes are calculated in monetary form and paid in lari.
6. An exemption from any state tax or a reduction in a tax rate stipulated by this Code may be instituted by making changes and additions to this Code. Exemption from a local tax may be instituted by introducing changes to this Code or to the normative act adopting the tax.
7. It is forbidden to establish tax exemptions on the basis of other legal acts.
8. It is forbidden to establish individual tax exemptions.

CHAPTER 2. DEFINITIONS OF CONCEPTS AND TERMS USED IN THIS CODE.

Article 7. Economic Activity.

1. Economic activity is recognized as any activity aimed at receiving profits, income, or compensation, regardless of the results of such activity, unless otherwise stipulated by this article.

2. The following activities are not regarded as economic activities:

- a. the activities of agencies that are a part of the system of state power and local authorities, directly connected with the execution of the public functions entrusted to them not including the rendering of services that are paid for on the basis of a contract, or other entrepreneurial activity;
- b. charitable activities;
- c. religious activities.

3. Economic activities can be entrepreneurial or non-entrepreneurial.

Article 8. Entrepreneurial and Non-entrepreneurial Economic Activity.

1. Entrepreneurial activity is that specified in article I.I of the law on entrepreneurs, including economic activity performed in the form of trade contracts or other commercial transactions by the entrepreneur.

2. Physical persons who independently perform entrepreneurial activity that is not considered entrepreneurial activity under article 1.2 of the law on entrepreneurs shall be viewed as having the same status as entrepreneurs.

3. Unless otherwise stipulated by this article, nonentrepreneurial economic activity includes activity in the form of the transfer of property (including monetary funds) for compensation by one person to another for temporary possession, use, or disposal, without the transfer of title to this property or a part thereof, and without the right of subsequent divestiture thereof, if such a transfer is not attributable to financial activities and does not impose on the person receiving this property additional obligations not connected with the targeted use of the transferred property or with the payment of consideration for the above possession, use, or disposal of the property.

4. Non-entrepreneurial economic activities include:

- a. performance by a physical person of employment, in accordance with Article 9 of this Code;
- b. deposits of monetary funds with banks or any other credit institutions;

d. transfer of property for management in a trust.

e. Acquisition (realization) of a share or **treasury bills [security?]** in the charter capital of an enterprise; acquisition (realization) of bonds or any other debt obligations; acquisition (realization) of a share in an investment fund, or realization of copyright or any similar rights belonging to the seller shall be equivalent to non-entrepreneurial economic activities unless otherwise prescribed by point 5 of this Article..

5. Economic activity related to the acquisition (realization) **of treasury bills (securities?)** or any other property is considered entrepreneurial activity if at least one of the following circumstances exists:

a. this activity is performed on a systematic basis and is an ordinary activity for the person that effects the above operations;

b. goods (works, services) produced (executed, rendered) by the seller are realized;

c. such operations are effected within the framework of trade, trade-cum- intermediary (including dealers' activities), or intermediary activities.

Article 9. Employment

1. For purposes of this Code, "employment" means:

a. the performance by a physical person of obligations within the limits 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. execution of a position as a director of an enterprise or organization by a physical person.

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 this Code, charitable activity consists of the direct provision of material, 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, or scientific, educational or other activity performed in the public interest, if this article does not state otherwise.

2. Charitable activity includes the following assistance (support), unless otherwise stipulated by point 3 of this Article:

- a. to low-income physical persons or physical persons in need of social adaptation or social protection;
- b. to children who have no parent(s) as well as preschool, childrens institutions and other organizations caring for such children;
- c. to disabled or elderly persons, or to institutions that take care of disabled or elderly persons;
- 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 stipends;
- f. to institutions of science, culture, or arts;
- 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 improving conditions or medical services for the inmates.

3. The provision of assistance (support) to persons is not recognized as charitable activity if any one of the following circumstances exists:

- 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 interdependent persons, according to 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.

1. Religious activity consists of 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 out pilgrims, religious delegations, 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 activities of religious organizations (associations), shall be regarded as equivalent to religious activity.

Article 12. Enterprises

1. For purposes of this Code, unless otherwise stated by this article, enterprises are the following that perform economic activity or that are established to perform such activity:

- a. legal persons established pursuant to the legislation of Georgia;
- b. corporations, companies, firms, and other similar entities established pursuant to the legislation of a foreign state;
- c. branches and other separate units which are structural units of the entities indicated in subpoint a 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 enterorise having the olace of its activity in Georgia or having

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2. A foreign enterprise is an enterprise which is not a Georgian enterprise pursuant to this article.

Article 14. Place Of Activity Of An Enterprise.

The place of activity of an enterprise is the place of the State registration of the enterprise' in the case such does not exist - the place which is indicated in the documents (charter, contract provisions) on the basis of which the enterprise is established.

Article 15. Place Of Activity Of An Individual Enterprise.

The place of activity of an individual enterprise is the place of the intensive economic activity of a physical person.

Article 16. The Place Of Management Of An Enterprise.

The place of management of an enterprise is the place of real management, namely the place where its management carries out its management functions.

Article 17. Permanent Establishment

1. A permanent establishment of a foreign person or a foreign enterprise in Georgia, unless otherwise stated by point 3 of this Article, consists of an establishment of the taxpayer through which it effects entrepreneurial activity, in full or in part, including activity effected through an authorized person.

2. The following are treated as a permanent establishment:

a. construction sites, assembly or batching facilities, and the exercise of supervisory activities connected with such facilities;

b. installations or sites used for surveying for natural resources, drilling equipment, or ships used for surveying for natural resources, as well as the exercise of supervisory activities connected with such facilities;

c. a fixed base where a nonresident physical person carries out entrepreneurial activity.

3. A place is not considered a permanent establishment of a foreign enterprise in Georgia if it is used (regardless of who uses it) in Georgia only to do the following:

a. store goods or products belonging to the foreign enterprise;

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- b. keep a stock of goods or products belonging to the foreign enterprise for the purposes of processing by another person;
- c. purchase goods or products for the collection of information for the foreign enterprise;
- d. perform any other activities that are preparatory or auxiliary in nature in the interests of the foreign enterprise;
- e. execute any combination of the activities indicated in subpoints a-d.

Article 18. Individual Enterprise

1. An individual enterprise consists of an enterprise that is not a legal person and whose sole participant and manager is a single physical person (the owner of the enterprise).
2. The following are considered to be 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 mutual consent;
 - b. a farm established in the order prescribed by law, which does not involve the establishment of a legal person and whose sole owner is a physical person or his family members.

Article 19. Organizations

1. The following entities are considered organizations, unless otherwise stated in this article:
 - a. public or religious organizations (associations), funds, institutions, associations (unions), or other organizations that are noncommercial legal persons under the laws of Georgia, or that have been set up and are acting pursuant to the laws of a foreign state;
 - b. interstate or intergovernmental organizations.
2. The place of the activity of an organization and the place of management of an organization are defined in accordance with procedures established for enterprises.
3. An organization shall be classified as a Georgian or foreign organization in accordance with procedures established for enterprises.
4. If an organization carries on entrepreneurial activity, the portion of its assets and activities that is directly connected with entrepreneurial activity is also considered activities and assets of the enterprise.

A budgetary organization is considered to be an organization established on the basis of the State authorities and local management bodies, which executes its responsibilities according to the standards, norms and regulations by means of the resources allocated from the budget.

Article 21. Charitable organization

1. A charitable organization consists of an organization which is established for the purposes of carrying out charitable activity and which is registered as such according to procedure established by legislation and which carries out charitable activity and satisfies all 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; or

b. the revenues or assets of the organization benefit or may benefit any person, except as a result of the conduct of its charitable activity or as payment for property or services.

Article 22. Religious organization

A religious organization consists of an organization which is established for the purposes of carrying out religious activity and which is registered according to procedure established by legislation.

Article 23. Tax agents

1. A tax agent consists of a person who, under this Code or any other act of tax legislation, is made responsible 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. Tax agents are obliged:

a. correctly and in a timely manner, to calculate, withhold from a taxpayer, and pay to budgets (state funds) the appropriate taxes:

b. to keep records of income paid to the taxpayers and of taxes withheld and credited to budgets (state funds), including separate records for each taxpayer; -

c. to supply tax agencies with the documents required for controlling the accuracy of calculation, withholding, and payment of taxes; and

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 procedure established by this Code or other legislative acts of Georgia.

Article 24. Related persons

1. Related persons consist of persons that have special relations between them which may have a direct influence on 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 a third person;

f. persons are in familial relation.

Article 25. Resident physical persons

1. Physical persons are considered 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 purposes of point I, a time during which a physical person was in Georgia is not considered a time of actual location on the territory of Georgia if the stay was:

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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);

c. exclusively for moving from one foreign country to another foreign country through the territory of Georgia.

3. A day of location in Georgia consists of 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 who is not a resident of Georgia in accordance with this article shall be deemed a nonresident of Georgia.

5. The status of resident or nonresident is established for each tax period.

Article 26. Physical person - Entrepreneur

1. A physical person is considered an entrepreneur if he constitutes an individual enterprise according to article 2 of the law on entrepreneurs and if he engages in entrepreneurial activity independently and at his own risk without establishing a legal person.

2. The performance by a physical person of entrepreneurial activity in violation of established procedure for registration and receipt of a license, certificate, or any other document cannot serve as the basis for non-recognition of the physical person as an entrepreneur for the purposes of taxation.

3. For the purposes of this Code, a physical person shall become equal to an entrepreneur if he independently conducts such entrepreneurial activity, which according to point 2 of Article I of the Law of Georgia on Entrepreneurs does not belong to entrepreneurial activity.

Article 27. Market price

1. The market price of goods (works, services) is the free market price which is established on the market resulting from the interaction of supply and demand on identical (in the case of absence - on similar) goods (works, services) on the corresponding markets, on the basis of agreements concluded between the parties to the sales agreements that are not related persons under Article 24.

2. In determining the market price of the goods (works, services), the market price is determined on the basis of information about relevant transactions on identical (similar) goods (works, services) concluded at the time of realization of the good (work, service).

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) consists of the sphere of circulation of these goods (works, services), determined by the capacity of the seller (buyer) to supply (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 regard to 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 regard to identical (similar) goods (works, services) as of the day closest to the time of the realization of the aforementioned good (work service) but no more than 30 days remote (preceding or following) from the time of the realization of the good (work, service). Under this regime, 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 realization of the aforementioned security and preceding the time of realization of the security, and for which quotations as described above were announced.

6. If the provisions of points 1-5 cannot be applied, the market price of goods (works, services) is determined according to regulations prescribed by the Ministry of Economy in coordination with the Ministry of Finance. Under this regime, account shall be taken of costs for the production and (or) realization (acquisition price or depreciated value) of the goods (works, services) that are customary in such instances, and costs for shipment, 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, incorporating factors of supply and demand on the market of goods (works, services). The aforementioned discounts are taken into account, in particular, in case of quality deterioration or loss of other consumer qualities of the goods, or expiration (approaching expiration date) of the service life period or realization period of the goods.

7. Operations with regard to the exchange (barter operations) of goods (works, services) consists of aggregated transactions in accordance with which each of the exchanging parties realizes its goods (works, services) and acquires other goods (works, services). Under this regime, market prices of the goods (works, services) realized (acquired) in the course of these operations shall be determined pursuant to the provisions of this article.

8. A taxpayer is entitled to prove to a tax agency and the tax agency, having convincing grounds, is entitled to agree with the submitted proof that procedures for defining and recognizing the market price of goods (works, services) other than those indicated in this article should be applied in respect of a specific transaction.

9. Official sources of information about market prices for goods (works, services) and exchange quotations, data bases of the state and local authorities, information provided to tax agencies by taxpayers, and other pertinent information shall be used when determining and recognizing the market price of a good (work, service).

10. The market price of natural resources, according to the types and groups of natural

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councils once a year and is approved by the agency which grants licenses for use of natural resources.

11. The market price can be both wholesale and retail.

Article 28. Tax obligation

1. A tax obligation consists of a taxpayer's duty to pay a certain tax under circumstances established by this Code or another act of tax legislation.

2. The foundations for the advent, amendment, and termination of a tax obligation, as well as procedures and conditions for meeting a tax obligation, may be regulated exclusively by this Code and/or other act 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 the tax legislation arise.

Article 29. Definitions of Terms Used in the Code

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

- 1) "person" – legal or physical person according to the civil code of Georgia;
- 2) "taxpayer identification number" – a number assigned by the state tax organs to a legal or physical person;
- 3) tax administration – a set of forms and methods related to registration and information of taxpayers, as well as to calculation, payment, declaration and control of taxes, which is conducted by tax agencies in the process of execution of the tax legislation;
- 4) "relatives":
 - a) a spouse;
 - b) ancestors or descendants;
 - c) sisters (brothers);
 - d) nephews and nieces;
 - e) spouses of a sister (brother);
 - f) sisters (brothers) of parents;
 - g) persons who, as a result of a 33333333333333333333

h) When defining relations for the purposes of this article, step sisters (brothers) have the same status as natural sisters (brothers), and adopted children have the same status as natural children. Guardian relations with a common residence (where persons are related to one another in the same manner as parent and child) have the same status as blood relations. The termination of the residence in common 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 established procedures;

6) "location of residence of a physical person" – place where a physical person resides'

7) "resident" – a resident physical person, a Georgian enterprise, or a Georgian organization; or an individual enterprise the place of management or activity of which is located in Georgia;

8) nonresident – 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 the service, which, for the purposes of value added tax payment, does not include transfer of ownership of money or land, or rendering of services by an employer to the employee, **[check translation]**

Services include:

a) transport or forwarding services, including transportation of gas, oil, petroleum products, and electric and thermal energy;

b) the leasing of movable and immovable property;

c) communications services, consumer, housing, and communal services;

d) physical fitness and sports services;

e) advertising services;

f) technology upgrading services, and data processing and data support services;

g) services for the preparation of goods for sale;

h) services for the storage of goods or other property or protection; and

i) other services;

11) works include construction, installation, and repair works, scientific research works and experimental design works;

12) fulfillment of works any rendering of works for compensation;

13) good any tangible or intangible property, including electric or thermal energy, gas, and water; for purposes of the VAT, goods do not include money and land;

14) export of goods, re-export of goods, import of goods, re-import of goods, the customs territory of Georgia, transit of goods, temporary import of goods according to the Customs legislation of Georgia.

(15) supply of goods a transfer of the ownership of goods, including a sale, an exchange, a gratuitous transfer, the payment of wages in kind, and other payments 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 monetary operations, including management of credits and credit guarantees by the grantor;

b) transactions connected with the management of deposits and accounts of clients, payments, transfers, debt obligations, and payments instruments;

c) transactions connected with the circulation of currency, money, and banknotes which are legal tender (except for those used for numismatic purposes);

d) transactions connected with the circulation of shares, bonds, certificates, bills, checks and other securities (except for services for their safekeeping);

e) transactions relating to financial derivatives, forward contracts, options, and similar arrangements;

f) services related to the management of investment funds;

g) insurance and reinsurance transactions.

17) "dividends" the portion of net profit which is distributed by a legal person among its participants [partners?], as well as income received from the distribution of property upon liquidation of a legal person;

18) "income from a Georgian source" 📌

a) income from employment executed in Georgia;

b) income from the supply of goods produced in Georgia, as well as the performance of works and rendering of services in Georgia;

c) income from entrepreneurial activity 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 a permanent establishment, and income arising from entrepreneurial activity in Georgia of the same or similar nature as activity performed via such a permanent establishment;

d) income from the writing off of bad debts, from the sale of fixed assets included in income according to point 7 of article 54. or from compensated expenses according to article 79 which relate to entrepreneurial activity carried on in Georgia;

e) income in the form of dividends received from a resident legal person and from the realization of an equity share in such legal person;

f) income in the form of interest received from residents;

g) a pension, if it is 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 relates to such permanent establishment or property;

i) income in the form of royalties received from property located or used in Georgia, or income from the realization or transfer of property described in subpoint (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, including income from the realization of an interest in such property that is used in entrepreneurial activity;

l) income from the realization of stocks or equity participation in an enterprise, the value of whose assets primarily, directly or indirectly, consists of the value of immovable property located in Georgia;

m) other income from the realization of property by a resident, which is not connected with entrepreneurial activity;

n) income received from management, financial, and insurance services, including
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located on the territory of Georgia, or is received on the basis of a contract with such an enterprise or permanent establishment;

o) income 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 not covered by the preceding paragraphs and arising on the basis of activity in Georgia.

r) In determining the source of income under points a - q of this Article, 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 amortization 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) "royalties" –

a) payment for the right to use mineral resources in the process of the extraction of minerals and processing of technogenic formations;

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 right to use movies, videos, recordings, or other recording media;

– the provision of technical assistance in connection with the above, or the forbearance of use of any of the above;

22) "family" – spouses, parents and children maintaining a common household;

23) "net profit" – profit minus profit tax;

24) partner (participant) – as defined in the law on entrepreneurial activity.

25) Indirect tax – a tax (VAT, excise, etc) which is established as an addition to the price of the supplied goods (works, services) and which is paid by a consumer while purchasing goods at the tax inclusive price.

A supplier of goods (works, services) shall be responsible for making payment of indirect tax to the budget and he, for the purposes of Parts III and IV of this Code, is recognized as a taxpayer.

CHAPTER 3. GENERAL RULES FOR SATISFACTION OF TAX OBLIGATIONS.

Article 30. Satisfaction Of Tax Obligations.

1. Satisfaction of tax obligations consists of the payment by the established deadline of amounts of the tax owed.
2. Satisfaction of tax obligations is one of the basic responsibilities of a taxpayer and shall be performed regardless of other obligations of a non-tax nature the taxpayer has.
3. Satisfaction of tax obligations shall be effected directly by a taxpayer unless otherwise established by this Code or other acts of tax legislation. In cases established by this Code or other acts of tax legislation, a legally obliged person is responsible for satisfaction of tax obligations.
4. Unilateral refusal to satisfy tax obligations, or unilateral amendment of procedures for their satisfaction by a taxpayer or other legally obliged person, is not allowed if it is not stated in the tax legislation.
5. A taxpayer or other legally obliged person has unlimited liability for satisfaction of tax obligations unless otherwise established by this Code.

Article 31. Satisfaction Of Tax Obligations In The Event Of The Liquidation Of An Enterprise (Organization).

1. Tax obligations of an enterprise (organization) being liquidated are satisfied by the liquidation commission of the enterprise (organization) from its monetary funds, including proceeds from the realization 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 must also be satisfied by the liquidation commission, unless otherwise prescribed by this article. 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 satisfied 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 after the realization of its property to meet the
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participants (founders) of the enterprise (organization) if, pursuant to the law, charter, or any other constituent documents, they are jointly liable for the obligations of the enterprise (organization). Similarly, the owner of the property of a personal 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 above period for meeting the tax obligations, but for no more than two months. Such an extension does not suspend the accrual of interest pursuant to Article 252.

Article 32. Satisfaction Of Tax Obligations In The Event 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. Under this regime, 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 provisions of this part apply to the successor (successors) of those reorganized enterprises (organizations) 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 (organizations).

3. Reorganization of an enterprise (organization) does not change the deadline for satisfaction of its tax obligations by the successor (successors) of the enterprise (organization).

4. In the event 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 event that 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 (organization) established as a result of the separation 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 stake of the successor in the reorganized enterprise (organization) or rule out the possibility of satisfaction of the tax obligations in fall 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 event that one or several enterprises (organizations) are spun off from an enterprise (organization), the enterprises (organizations) that are spun off do not become successors in respect of the reorganized enterprise (organization) with regard to satisfaction of tax obligations, providing this reorganization is not targeted at the non-satisfaction of tax obligations by the reorganized enterprise (organization).

Article 33. Satisfaction of Tax Obligations of Physical Persons Who Are Deceased, Incompetent, or Missing.

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 missing or as incompetent are satisfied by the person who administers the property of this missing or incompetent 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 by the relevant tax agency in accordance with procedures stipulated in Article 383.

5. In the event of a decision to rescind recognition of a physical person as missing or incompetent (in the latter case, the physical person is recognized as competent) in accordance with established procedure, the validity of previously written off tax obligations shall be

restored, as shall accrual of fines and penalties from the day the physical person was recognized as missing or incompetent.

Article 34. Procedures 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 accounting period, based on the tax base, tax rate and tax concessions.
2. In instances 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 organ or to a tax agent.
3. Tax shall be calculated in accordance with the procedures 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 taxpayer or other legally obliged person.

PART II. INCOME TAX AND PROFIT TAX.

CHAPTER 4. INCOME TAX.

Article 35. Taxpayers.

Payers of income tax consist of resident and nonresident physical persons.

Article 36. Object of Taxation

1. The object of taxation for the personal income tax of residents is taxable income, determined as the difference between gross income for the calendar year and the deductions stipulated by this Code for this period.
2. A nonresident taxpayer engaging in activity in Georgia via a permanent establishment is a payer of income tax with regard to taxable income attributable to the permanent establishment, determined as the difference between gross income for the calendar year from Georgian sources attributable to the permanent establishment (article 44(25)(c), first paragraph) and the amount of deductions stipulated by this Code with respect to such income for this period.
3. Gross income of a nonresident not described in point 2 of this Article is subject to taxation at the source of payment, if so specified in Article 64 of this Code, without deductions
4. A non-resident physical person receiving employment income or income from the realization of property is a payer of income tax with regard to gross income of this type for

the calendar year from a source in Georgia, reduced by the deductions stipulated by this Code 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 nonresident taxpayer consists of income received from Georgian sources.
3. All types of income from economic activity belong to gross income, including:
 - a) income received in the form of wages;
 - b) income from nonemployment economic activity.

Article 38. Income Received in the Form of Wages.

1. Any payments or gains received from employment of a physical person belong to income received in the form of wages, including income from former employment received as a pension or otherwise or from prospective employment.
2. For the purposes of point I, the value of gains equals the sum indicated below minus any payment of the employee for the received gains :
 - a) in the case of 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 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 or gratuitous transfer of goods, works, or services by an employer to his employee—the market price of these goods, works, and services;
 - d) in the case of assistance in the education of an employee or his dependents (excluding training programs directly connected with performance of the employee's duties)—the cost to the employer of the education assistance;
 - e) in the event of the reimbursement of expenses to an employee—the amount of reimbursement"

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f) in the case of forgiveness of an employee's debt or obligation to his employer the amount of the debt or obligation;

g) in case of life and health insurance premiums and other similar amounts paid by an employer the cost to the employer of the premiums or amounts;

h) in any other case, the market price of the gains, in accordance with Article 27 if instructions do not stipulate another method of valuation.

3. Gross income does not include the reimbursement of actual business trip or representation expenses or other expenses to the extent that they are moderate and necessary for the activity of the employer, according to the rates established by the Ministry of Finance.

4. The values and costs mentioned in point 2 include excise, value added tax, and any other tax subject to payment by the employer in connection with the transaction to be appraised.

Article 39. Income from Nonemployment Economic Activity.

I. The following belong to income from nonemployment economic activity:

a) income from entrepreneurial activity, including:

- income received from supply of goods (works, services);
- gain on the realization of assets used for purposes of entrepreneurial activity;
- income received for consenting to limit entrepreneurial activity or close an enterprise;
- amounts received on the sale of fixed assets and included in income in accordance with point 7 of Article 54;
- compensated deductions in accordance with Article 79.

b) income from nonentrepreneurial economic activity, including:

- interest income;
- dividends;
- income from the leasing or hiring of property;
- royalty;
- income from writing off of debts;

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- gain from the sale of assets, with the exception of the gain considered in sub- point "a" of this Article.

- any other income reflecting an increase in the net worth of the taxpayer, other than wages.

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, the nontaxable minimum, for each month in the course of a tax year. If the physical person is an employee for any portion of a month, the deduction for this month 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:

- (1) up to 200 lari 12 percent of the amount of taxable income
- (2) 201 to 350 lari 24 lari+15 percent of the amount in excess of 200 lari.
- (3) 351 to 600 lari 46.5 lari+17 percent'ofthe amount in excess of 3 50 lari.
- (4) from 601 lari 89 lari + 20 percent of the amount in excess of 600 lari.

2. In accordance with point I of this Article, income tax, calculated on the basis of annual declaration, is reduced by the amount of taxes .paid by a physical person on dividends and interest up to 300 lari per year, in the event the document certifying its payment exists.

Article 43. Tax Exemptions.

1. The following types of income of physical persons are not subject to income tax:

- a. employment income of a foreign diplomatic or consular employee;

b. employment income of a person who is not a resident or a citizen of Georgia and who is present on the territory of Georgia for less than 90 days in the taxable year, if this income is

paid by an employer or in the name of an employer who is not a resident of Georgia and is not paid by a permanent establishment of a nonresident;

c. the value of property received in the form of a gift or inheritance;

d. grants, state pensions, state stipends, and state benefits, including payments and benefits for pregnancy and birth, in connection with the loss of fitness for work as a result of injury and other health problems, and in correspondence with the loss of a breadwinner.

e. alimony;

f. one-time payments and material assistance provided from the budget, as well as assistance from the budget during natural disasters;

g. income from the sale by physical persons of self-produced farm production, produced in an individual enterprise of such person, before its commercial processing;

h. gains on the supply of tangible property by a physical person, except for property that has been used by the taxpayer in entrepreneurial activity; ,

i. monetary reimbursement of the cost of special uniforms for employees of budgetary 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 first world war and the war for the territorial integrity of Georgia;

c. persons who have been awarded the honorary title of "Kartviis Deda" ("Mother of Georgia");

d. single mothers;

e. persons who have adopted a child - within a year from the date of the adoption;

3. The taxable income of invalids in groups I and II, other than those mentioned in point 2, is not taxable up to 1,500 lari in the course of the calendar year.

CHAPTERS. PROFIT TAX

Article 44. Taxpayers.

1. Payers of the tax on profits consist of Georgian enterprises and foreign enterprises.
2. Subdivisions of enterprises described in point 1(c) of Article 12 are not considered independent taxpayers.
3. Any foreign entity which is not a physical person shall be treated as an enterprise for purposes of this Part, unless it proves that it should be treated as a joint ownership arrangement under Article 75 of this Code.

Article 45. Object of Taxation.

1. The object of taxation is the profit of a Georgian enterprise. Profit is defined as the difference between gross income of the taxpayer (which is determined in accordance with Article 37 of this Code) and the deductions stipulated by chapter 6. Herein, gross income includes all receipts which affect the profit of a taxpayer, including the property and monetary resources received on gratuitous basis, other than exempt income.
2. A foreign enterprise engaging in activity in Georgia via a permanent establishment is a taxpayer with regard to, its profit that is, its gross income from Georgian sources attributable to 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 attributable to a permanent establishment is subject to taxation at the source of payment, if so specified in article 64 of this Code, without deductions, if the source of income is located in Georgia.
4. A foreign enterprise receiving income, considered under point 5 of this Article, from the realization of property not attributable to a permanent establishment in Georgia is a payer of profit tax with regard to gross income of this type for the calendar year from a source in Georgia, reduced by the deductions stipulated by this Code which are attributable to such income for this period.
5. Income received from realization of the property considered under point 4 of this Article is the following:
 - a. profit received from realization of ordinary shares by a resident legal person;
 - b. profit received from realization of the assets and property considered under point 21 of Article 29 of this Code.
 - c. profit received from realization of the property considered under sub-points "h" and "i" of point 17 of Article 29 of this Code.

Article 46. Tax Rates.

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

Article 47. Tax Exemptions.

The following are exempted from profit tax:

a) the profit from the sale by the Patriarchate of Georgia of crosses, candles, icons, books, and calendars, used exclusively for religious purposes;

b) the profit of budgetary and charitable organizations, other than profit from economic activity;

c) grants, membership dues, and contributions received by an organization;

d) profit obtained from the supply of self-produced farm production before its commercial processing by an enterprise for which this is the principal activity;

e) profits received from the production of prosthetic devices;

f) profit received from the production of technical equipment necessary for invalids and their rehabilitation;

g) profit of invalids' associations and enterprises, provided that invalids working in this enterprise constitute no less than 70 per cent of total number of employees (no less than 50 per cent of total number of employees -in associations and enterprises for blind and deaf people);

h) the profit of international organizations, except for incomes from economic activity;

i) profit of the National Bank of Georgia.

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 outlays on the acquisition of fixed assets and their installation and other expenses of a capital nature in accordance with Article 81, and expenses that are nondeductible according to Article 49 and other provisions of this chapter.

Article 49. Nondeductible Expenses

1. Deductions are not taken for expenses not connected with economic activity.
2. No deductions are allowed with regard to representation or entertainment expenses in excess of the limits established by the Ministry of Finance.
3. Point 2 does not apply to a taxpayer whose entrepreneurial activity is in the nature of entertainment, if the expenses are incurred within the bounds of such activity.
4. A physical person may not deduct his expenses of personal consumption, as well as expenses connected with the earning of employment income.

Article 50. Limitation on Interest Deduction

1. Subject to point 2, interest on credit that is paid (in the case of use of the accrual method, 'payable) is deductible within the Unfits 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 more than 20 percent of the equity interests in which are owned, directly or indirectly, by legal persons who are exempt from profit tax, the maximum amount of interest according to point I that may be deducted is limited to any interest income of the taxpayer, plus 50 percent of the taxpayer's gross income reduced by the deductions allowed under this chapter (other than the deduction for interest).

Article 51. Doubtful Debt Deduction

1. Taxpayers are 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 deduction of the doubtful debts is allowed at the time the debt is written off in the taxpayer's books as worthless.
3. Banks are entitled to deduct payments to a reserve fund to cover doubtful and bad debts under 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 in accordance with norms established by legislation of Georgia.
2. Deductions for allocations to reserve funds shall be taken only as stipulated by point 2 of Article 51 and point I 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 gross income, with the exception of expenditures on the acquisition of fixed assets, their installation, and other outlays of a capital nature.

Article 54. Amortization Charges and Deductions for Fixed Assets

1. Amortization charges for fixed assets used in economic activity are deductible in accordance with the-conditions of this article.
2. Assets subject to amortization do not include land, fine art, and other assets not subject to wear and tear.

3. Fixed assets subject to amortization are divided into groups with the following .amortization levels:

Group: number

Type of property

amortization level as a percentage

Passenger automobiles; automobile and tractor equipment for use on roads; special instruments, sundries and accessories; computers, peripherals, and equipment for data processing

20

Automotive transport rolling stock; trucks, busses, 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

Railway, sea, and river transport vehicles,

Power machines and equipment: thermal-engineering equipment, turbine equipment, electric motors, and diesel generators,

Electricity transmission and communication facilities; pipelines.

4. Buildings, structures, and installations 7

5. Amortizable assets not included in other groups 10

4. Amortization charges under each group are calculated by applying the amortization levels indicated in point 3 to the balance of the group at the end of the taxable year.

5. Amortization for buildings and structures (hereinafter buildings) is charged for each building separately.

6. The balance 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 also amounts deducted under points 8 and 9 and plus the cost of fixed assets according to article 81 added to the group in the course of the year and minus the amount received on the sale of fixed assets of the group at their sales prices during the course of the taxable year.

7. If the amount received upon the realization of fixed assets from a group in the course of a tax year exceeds the balance of the group at the end of the year, the excess is included in income and the balance 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 is deductible.

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 deductible.

Article 55. Repair Expenses Deduction

1. The amount of repair expenses deductible in accordance with point I for each year is limited to 5 percent of the balance of the group at the end of the year.

2. An amount exceeding the restriction established in point I shall go to increase the value of the balance of the group.

Article 56. Deduction of Expenses on Insurance Payments

Insurance payments that are paid by insured parties under insurance agreements shall be deducted, with the exception of insurance payments 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 amortization charges at the amortization 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 the processing or exploitation of natural resources.

Article 58. Expenditures on Intangible Assets

- .1. Intangible assets include outlays 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 amortization charges at the rate of amortization of group 5 fixed assets and shall form a separate group.
3. The value of intangible assets subject to amortization does not include expenditures on their acquisition or production if they were already deducted when calculating taxable income of the taxpayer.

Article 59. Limitation on Deduction of Taxes and Fines

No deduction is allowed for:

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

Article 60. Losses Upon The Realization Of Property.

Losses arising upon the realization by a physical person of intangible assets are compensated from gains received upon the realization of such assets. If the losses cannot be compensated in the same year, they are carried forward for a period of up to five years and compensated from income from gains upon realization of intangible assets.

Article 61. Carrying Losses Forward

1. In the case of a legal person, the excess of allowed deductions over gross income is carried forward for a period of up to five years to be covered from the profit of future periods.

2. In the case of a physical person, the excess of allowed deductions attributable to gross income from nonemployment economic activity over such gross income may not be deducted against wages but may be carried forward for a period of up to five years to be covered from gross income from nonemployment economic activity 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 and are not subject to further taxation in the hands of physical persons.

2. Dividends received by physical persons, which have been 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 for tax previously withheld.

Article 63 .With holdingirg 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 amount due, if the income is from a Georgian source and is not subject to further taxation.

2. Interest paid to resident banks for credits (loans) is not subject to taxation at the source of payment.

3. Interest received by a physical person which has been 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 of payment in Georgia is entitled to a credit for tax previously withheld, in the case of the existence of documents certifying the 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;

2. In the case of a physical person, the excess of allowed deductions attributable to gross income from nonemployment economic activity over such gross income may not be deducted against wages but may be carried forward for a period of up to five years to be covered from gross income from nonemployment economic activity of future periods.

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2. Interest paid to resident banks for credits (loans) is not subject to taxation at the source of payment.

3. Interest received by a physical person which has been 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 of payment in Georgia is entitled to a credit for tax previously withheld, in the case of the existence of documents certifying the 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 or transport services in international communications or shipments between Georgia and other states 4 percent;

e) the following payments by a Georgian enterprise or individual enterprise: royalties management fees, income from the rendering of works or services (with the exception of income received in the form of wages), other than insurance, including payments for services described in points b, i, j, n, of Article 29(18) 10 percent.

f) income in the form of wages paid by a Georgian enterprise or individual enterprise at the rates specified in Article 42.

2. For purposes of this article, payments made by or on behalf of a permanent establishment in Georgia of a nonresident 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 point I must not exceed the amount of tax charged in Georgia on that income or profit at the rates in effect in Georgia.

Article 66. Income Received, in Countries with Concessional Taxation

1. If a resident directly or indirectly holds more than 10 percent of the basic fund of a foreign enterprise or has more than 10 percent of the votes of the shares of this enterprise, which in its turn receives income from a state with concessional taxation, then such income or the portion of income pertaining to the resident is included in his 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 accordance with this Code, or if laws on the confidentiality of financial information or on company information exist which allow 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, assigning them to the relevant reporting period in which they have been received or made, depending on the accounting method used in accordance with this Chapter, in a manner that clearly reflects taxable income (profit). The method of accounting used by a taxpayer includes all aspects of the time and manner in which receipts and costs are taken into account, such as the use of the cash or the accrual method the method of inventory accounting, and the method of accounting for costs of production and other capital costs.
- 2: The taxpayer is obliged to ensure that all operations connected with its activities are recorded, and in such a manner that their beginning, course, and end can be discerned.
3. Subject to the provisions of this article, taxable income must be calculated under the same method that the taxpayer uses in keeping his books, making such adjustments as are required to conform to the rules of this Code.
- 4: Subject to the provisions of this Article, the taxpayer may maintain records for tax purposes using the cash basis method or the accrual basis method, on condition that the taxpayer uses one and the same method during the tax year.
5. The taxpayer is obligated to use the accrual basis method of accounting after 90 days from the moment of supply of goods, fulfilment of works or provision of services, and if the payment takes place before expiration of 90 days from supply of goods (works.services), then the cash basis method of accounting of revenues and expenditures shall be applied.
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 the accounting method of the taxpayer has changed, adjustments to elements affecting the tax 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. Principles For Recording Income And Expenditures Using The Cash Basis Method.

A taxpayer maintaining records using the cash basis method should record income upon receipt or when it is made available, and the taxpayer should record deductions when they are carried out.

Article 70. Moment Of Receipt Of Income In Certain Cases When Using The Cash Basis Method.

1. If a taxpayer receives monetary resources, the moment of receipt of the income is

considered to be 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 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 annulment or repayment of a financial obligation of a taxpayer, in particular, in the case of mutual offsetting, the moment of receipt of the income consists of the moment when the obligation is annulled or repaid.

3. If a taxpayer receives promissory note (or any other debt obligations) from his debtor for the purposes of repayment of his financial obligations, the moment of receipt of the income is considered the nearest moment from receipt of the promissory note (debt obligation) when it is possible to present the promissory note (debt obligation) for repayment.

Article 71. Moment Of Carrying Out Of Expenditures In Certain Cases 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, unless otherwise stipulated in this Article, when the taxpayer actually makes the expenditures.

2. If a taxpayer pays out 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 monetary resources.

3. In the case of the annulment or repayment of a financial obligation to a taxpayer, in particular, in the case of mutual offsetting, the moment of performance of expenditures is considered to be the moment when the financial obligation is annulled or repaid.

4. If the taxpayer receives incomes and incurs expenditures in an in-kind form, then the moment of the receipt of such incomes and the carrying out of such expenses is determined in the same manner as the moment of the receipt of income and carrying out of expenses in a monetary form.

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 or rent that has accrued during the year.

Article 72. Principles For 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 time 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 unconditional payment to the taxpayer or the taxpayer has fulfilled all its obligations under the transaction (agreement).
2. If the taxpayer fulfils work or provides services, said right is considered to be acquired at the time of completion of the fulfilment of the work by him (the provision of the services) stipulated under 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 time 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. The moment of carrying out of expenditures connected with a transaction (agreement) when ataxpayer uses the accrual basis method in tax accounting is considered to be the moment, unless otherwise stipulated in this Article, 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; and
 - c) all of the parties to the transaction or agreement have actually fulfilled all their obligations under the transaction or agreement or the relevant amount (other income) is subject to unconditional payment.
2. In relation to this, a financial obligation means an obligation assumed according to a contract (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 of expenditures is considered to be the moment of expiration of the term of the debt obligation or rental agreement. If the term of a debt obligation or rental agreement extends over several reporting periods, the expenditure is distributed among these reporting periods in accordance with its accrual.

Article 75. Joint Ownership

In the case of a joint ownership arrangement, a partnership, or another arrangement that involves ownership by more than one person but that does not involve the establishment of a legal person, the income and deductions of the arrangement are attributed to and taxed to the owners according to their ownership interests.

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 percentage of completion of a contract is determined by comparing the expenditures borne prior to the end of the tax year against the total estimated 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 6 months of the date on which work under the contract commenced.

Article 77. Procedures 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. Commodity and material stocks include, in particular, raw materials and supplies acquired for subsequent realization or for production of goods, fulfilment of work, or provision of services.
2. When determining taxable income, the value of commodity and material stocks at the beginning of the period is added to income, and the value of commodity and material stocks at the end of the period is subtracted from 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 based on outlays or the price of their acquisition, respectively. In particular, 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, obsolete, or out of fashion or a product that for similar reasons cannot be realized at a price in excess of the outlays for its production (its acquisition price) on the basis of the price at which they can be sold.
5. If goods are owned by the taxpayer and the taxpayer does not keep individual records for them, then during the realization of such goods, the taxpayer has the right to use of the three methods for the accounting of commodity and material stocks, according to which those

goods are considered as sold first during the accounting period:

- a) the FIFO method -- in accordance with which the goods considered to be sold during the accounting period are those allocated to inventory at the beginning of the accounting period and then goods produced (acquired) in the course of the accounting period in the process of their production (acquisition);
- b) the LIFO method in accordance with which the goods determined for realization during the accounting 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 amortization in accordance with point 2, then for purposes of taxation the lessee is considered the owner of the property.

2. The rental of fixed assets subject to amortization 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 possesses the right to purchase the fixed assets at the end of the rental at a fixed or determinable price;
- c) the estimated remaining 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 present discounted value of payments over the entire rental period exceeds 90 percent of the value of the rented assets.

3. For purposes of point 2, 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 Decrease In 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 decreased, the decrease is included in income

Article 80. Income and Losses upon the Supply of Assets

Income from the supply of assets consists of the positive difference between proceeds from the supply and the cost of the assets as determined in accordance with Article 81 Upon the transfer of assets free of charge or at a reduced price, the income of the transferring person is

determined as the positive difference between the market price of the property so transferred and its cost as determined in accordance with Article 81.

2. Losses from the supply of assets consist of the negative difference between proceeds from the supply and the cost of the assets.

3. Points 1 and 2 do not apply to assets subject to amortization 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, with the exception of outlays for which the taxpayer is entitled to a deduction.

2. If only part of an asset is supplied, the cost of the asset at the time of supply is distributed between the remainder and the supplied part.

Article 82. Nonrecognition of Gain or Loss

1. No gain 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 as part of a divorce settlement; or

(c) an involuntary destruction or disposition of an asset, where the proceeds are reinvested in an asset of the same character or nature before the end of the second year following the year in which the destruction or disposition takes place.

2. The cost of a replacement asset described in subpoint 1 (c) is determined with reference to the cost of the replaced asset at the time of destruction or disposition.

3. The cost of an asset acquired in a transaction in which a gain is not taken into account for tax purposes under subpoints 1 (a) or (b) is the cost to the transferor at the date of the transaction.

4. This article does not apply to an asset which is depreciated using the pooling method under chapter 6, except that subpoints (a) and (b) of point 1 apply where all assets in the pool are transferred at the same time.

Article 83. Liquidations

1. The complete liquidation of a legal person is treated as a disposal by the participants of their participations of such legal person.

2. If a legal person is liquidated, an asset of the legal person is transferred to a participant which is a legal person, the value of the asset is commensurate to the participant's interest in the legal person, and the participant 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 disposal of the asset by the liquidated legal person;
- (b) the cost to the participant 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; and
- (d) no gain or loss is taken into account on the cancellation of the participant's interest in the liquidated legal person.

3. This Article does not apply to an asset which is depreciated using the pooling method under chapter 6, unless all assets in the pool are transferred at the same time.

4. If this Article applies to an asset referred to in point 3, the transferee takes as the cost of the asset the balance of the pool at the time of transfer, and where more than one such asset is transferred the balance of the pool is apportioned among the assets in proportion to their market values at the time of transfer.

5. Point 2 applies only if the complete liquidation is approved by the State Tax Service as not having tax avoidance as a principal purpose.

Article 84. Procedure For Determining The Cost Of The Assets Transferred In Exchange Of A Participation In The A Legal Person.

1. A transfer is not treated as a disposal of the assets transferred where:

- (a) a physical person or group of physical persons transfers assets (with or without any liability) to a legal person in exchange for a participation in the legal person; and
- (b) the physical person or group of physical persons has a 50 percent or greater participation in the legal person immediately after the exchange.

2. The transferee's cost of an asset to which point I applies is the same as the transferor's cost at the time of transfer.

3. The cost of a participation received in an exchange described in point I is equal to the cost of the assets transferred, less any liability transferred.

4. This Article does not apply to an asset which is depreciated using the pooling method under chapter 6, unless all assets in the pool are transferred at the same time.

5. If this Article applies to an asset referred to in point 4-

(a) the transferee takes as the cost of the asset the balance of the pool at the time of transfer, and where more than one such asset is transferred the balance of the pool is apportioned among the assets in proportion to their market prices at the time of transfer; and

(b) the transferor takes as the cost of a participation received in exchange the balance of the pool at the time Of transfer.

6. This article does not apply to a transferor if the liabilities transferred by him exceed the cost of the assets transferred by him.

Article 85. Reorganisation of Legal Persons

1. The cost of property and participations held by a legal person or legal persons which are parties to a reorganization is the same as the cost of such property and interests immediately before the reorganization.

2. Transfers of property and participations among the legal persons which are parties to a reorganization are not treated as a disposal of the property.

3. Any exchange of participations in a resident legal person which is a party to a reorganization for participations in another resident legal person which is also a party is not a disposal of the participations.

4. The cost of the participations given in exchange under point 3 shall equal the cost of the original participations.

5. The distribution of participations in a legal person which is a party to a reorganization with respect to participations in another legal person which is also a party is not a dividend.

6. The cost of the original participations referred to in point 5 shall be apportioned to the distributed participations in a manner equal to the ratio of the value of the distributed membership interests immediately after distribution to the value of the original participations immediately after distribution.

7. Providing that the merger, acquisition, takeover, or division is approved by the State Tax Service as not having tax avoidance as a principal objective, reorganization means -

(a) a merger of two or more resident legal persons;

(b) the acquisition or takeover of 50 percent or more of the voting participations and 50 percent or more of the total participations by value of a resident legal person solely in exchange for participations of a party to 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 participations with no preferential rights as to dividends of a party to the acquisition; and
- (d) a division of a resident legal person into two or more resident legal persons;

8. A party to a reorganization includes any resident legal person which is directly involved in the reorganization, and any resident legal person which owns or is owned by a resident legal person which is directly involved.

9. For purposes of point 8, ownership of a legal person means ownership of 50 percent or more of the voting participations and 50 percent or more of the value of all outstanding participations in the legal person.

10. This Article does not apply to an asset which is depreciated using the pooling method under chapter 6, unless all assets in the pool are transferred at the same time.

II. If this Article applies to an asset referred to in point 10,

- (a) the transferee takes as the cost of the asset the balance of the pool at the time of transfer, and where more than one such asset is transferred the balance of the pool is apportioned among the assets in proportion to their market prices at the time of transfer; and
- (b) the transferor includes in the cost of any participation received the balance of the pool at the time of transfer.

Article 86. Carryforward Of Losses And Restriction Of Deductions In The Case Of Changes In Participation Of A Legal Person.

Where there has been a change of 50 percent or more in the underlying ownership of a legal person, as compared with the ownership one year earlier, the carryforward of a loss, deduction, or credit from a previous taxable 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 does not engage in a new entrepreneurial activity except with the approval of the Tax Service.

CHAPTER 10. ADMINISTRATIVE PROVISIONS.

Article 87. Filing of Returns.

I. A return for income tax and for profit tax is filed with the state tax agencies prior to April 1 of the year following the accounting 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 located outside Georgia;

c) resident legal persons;

d) nonresident legal or physical persons having income from a Georgian source that is not taxed at the source of payment.

2. Upon the cessation by a taxpayer of entrepreneurial activity in Georgia, a return concerning gross income and deductions must be filed by him within 30 days at the organs of the tax service.

3. Upon liquidation of a legal person, the liquidation committee 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 is obliged to file a declaration with tax agencies of the tax service.

4. A physical person who is not required to file a return may file a return in order to claim a recalculation of tax and its refund.

5. A nonresident taxpayer without a permanent establishment in Georgia who receives income that is taxed at the source of payment under subpoints c, d, or e of article 100(1) may file a return of such income for the purpose of claiming a refund of tax withheld. Such a return must be filed by the due date according to point I (taking into account any extension under article 355). Such a taxpayer is taxed on the same basis as if the above-described income had been attributable to a permanent establishment of the taxpayer in Georgia, and expenses of the taxpayer that are attributable to such income shall be deductible as if they had been incurred by such a permanent establishment, except that the tax shall be no more than the amount required to be withheld at the source under article 100.

Article 88. Procedures for Withholding Tax at the Source of Payment

I. The following persons (tax agents) are obliged to withhold income 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 legal or physical 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 legal and physical persons;

e) a legal or physical person that pays interest to legal and physical persons;

f) a legal or physical person that makes payments stipulated in article 100.

2. The legal or physical person paying income bears responsibility for withholding and transferring taxes to the budget. If amounts of tax are not withheld, a legal or physical person paying income is obliged to pay to the budget the tax not withheld and the associated fines and penalties.

3. Legal and physical persons withholding tax at the source in accordance with point I are obliged:

a) to transfer the tax to the budget upon making the payment;

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 file with tax agencies, and also to send to legal and physical persons receiving income in accordance with point I, upon their request, a statement reflecting the registration number of that person, his name or last name and initials, the total amount of income, home address, and the total amount of tax withheld during the accounting year.

4. A person who is not the principal employer of a taxpayer is required to withhold tax at the top marginal rate according to article 65.

Article 89. Current Tax Payments

1. Legal and physical persons engaged in entrepreneurial activity are obliged to make current payments to the budget no later than the 15th of the month following each quarter of the taxable year in the amount of 25 percent of the tax for the preceding taxable year.

2. Current payments of tax are credited to tax charged against the taxpayer for the tax year.

PART III. VALUE ADDED TAX.

CHAPTER II. GENERAL PROVISIONS.

Article 90. Concept of Value Added Tax.

The value added tax (hereinafter referred to as VAT), as an indirect tax, is a form of collection to the budget 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, as an

indirect tax, is payable at all stages of the production and supply of goods, fulfilment of works, and rendering of services. The amount of VAT payable with respect to taxable turnover is determined as the difference between the sum of charged tax on this turnover and the sum of tax that is creditable according to issued tax invoices in accordance with this Part.

Article 91. Taxpayers

1. A VAT taxpayer is a person who is registered or is required to be registered as a VAT taxpayer.
2. A person who is registered is a taxpayer from the time the registration takes effect. A person who is not registered, but who is required to apply to be registered, is a taxpayer from the beginning of the accounting 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 who carries out works or performs services without registration for VAT 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 of a legal person described in Article 12 are independent persons for purposes of this Part. However, each branch, division, and other structural subdivision of a legal person is required to register if the total turnover of the legal person exceeds the amount specified in Article 92(1).

Article 92. Obligatory Registration.

1. A person who carries on economic activity and whose taxable transactions in the preceding 12-month period exceeded 3,000 lari. is required to file an application with the tax authorities to be registered for VAT no later than 10 days from that moment.
2. In cases where the forecast for taxable transactions for the current accounting period exceeds 3,000 lari, the mandatory registration of the taxpayer for VAT is effected simultaneously with the registration of the person as a taxpayer for other taxes by tax agencies.
3. The supply of goods, fulfilment of works, and rendering of services carried out by a nonresident, are taken into account in determining the total value of taxable transactions for purposes of this article only if carried out through a permanent establishment in Georgia.

Article 93. Voluntary Registration

A person who is not required to be registered may voluntarily apply to the tax agencies to be registered for VAT.

Article 94. Registration

1. A person applying to register for VAT is required to do so in such form as is established by the State Tax Service.

2. Upon registering a person for VAT, the State Tax Inspectorate is required to register the person in the VAT register, to issue a certificate of registration not later than on the second day, that states: the full name and other relevant details of the taxpayer, the date from which the registration takes effect, and the taxpayer identification number of the taxpayer. If the state tax service did not register the person or did not give him a motivated written rejection, the tax service official is responsible under the legislation.

3. Registration takes effect:

a. in the case of obligatory registration, on the first day of the accounting period following the month in which the duty to apply for registration arose,

b. in the case of a voluntary registration, on the first day of the accounting period following the month in which the person applied for registration.

4. The State Tax Inspectorate is required to establish and maintain a VAT 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 State Tax Inspectorate registers the taxpayer on its own initiative and sends the taxpayer the appropriate document.

6. A person registered for VAT is required to use his taxpayer identification number on all invoices, and on all returns and official communications with tax agencies.

Article 95. Cancellation of Registration

1. A taxpayer is required to apply to have his registration for VAT canceled if he has ceased to make taxable transactions.

2. A taxpayer may apply to have his registration for VAT canceled 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 3,000 lari.

3. A cancellation of registration takes effect at the time the taxpayer ceased to make taxable transactions or, if the taxpayer has not ceased to do so, at the time the person applies to the tax service for cancellation of registration.

4. If a person's registration for VAT is canceled, the State Tax Inspectorate is required to remove the person's title, name and other details from the VAT taxpayer register.

CHAPTER 12. OBJECT OF TAXATION.

Article 96. Object of Taxation.

1. The objects of taxation for the value added tax are taxable transactions and taxable imports.
2. Taxable transactions are the supply of goods (works, services), including gratuitously, if they are considered to be carried out on the territory of Georgia under Article 106 or 107, other than the supply of goods (works, services) which are exempt under this part. Taxable transactions do not include the rendering of services or the fulfilment of works outside Georgia according to Article 107.
3. Taxable import is the import of goods, with the exception of imports exempt from tax under this Part.
4. If a VAT taxpayer purchased goods (works, services) accompanied by a VAT payment, and received (or has the right to receive) appropriate credit, the use of such goods (works, services) or the results of the goods (works, services) for non-economic activity is considered as a taxable transaction.
5. The supply of goods, fulfilment of works, or rendering of services by a taxpayer to his employees, including gratuitously, is a taxable transaction.
6. If a taxpayer's registration is canceled, 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. Notwithstanding the other provisions of this article, 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 by reason of the operation of Article 181, is not considered a taxable transaction. If a credit was partially disallowed on the acquisition of the good, 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 packaging is not included in the taxable amount. If the packaging is not returned within 90 days, it is considered realized and is taxed according to the established procedure.
9. The transfer of goods, rendering of services, or fulfilment 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 the supplied person petition the State Tax Inspectorate within 10 days of the supply with a request that this article be applied.

CHAPTER 13. DETERMINATION OF TAXABLE TURNOVER AND OF TAXABLE IMPORT.

Article 98. Value of Taxable Transaction.

1. The value 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 including VAT.
2. If the taxpayer receives or is entitled to receive goods, works, or services in exchange for a taxable transaction, the value of the taxable transaction includes the market prices of these goods, works, or services (including any duties, taxes, or other fees payable), but without including 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 cancellation of registration), the value of the taxable transaction is the market price of the goods, works, or services supplied, fulfilled, or rendered (including any taxes, duties, or other fees payable), but without including VAT.
4. In the case of the use of goods (works or of services) for noneconomic activity according to Article 152(4), as well as in the cases of a supply to one's own employees according to article 152 (5), the amount of the taxable transaction is the market price of the goods, works, or services (including any taxes and fees payable), but without including VAT.

Article 99. Adjustment of Taxable Turnover

I. This article applies where, in relation to a taxable transaction made by a taxpayer,

- a) the transaction is canceled;
- b) the nature of the transaction is changed;
- c) the previously agreed consideration for the transaction is altered, whether due to a reduction of prices or for any other reason; or

d) the goods (works or services) are returned in full or in part to the taxpayer.

2. If a taxpayer has, as a result of the occurrence of one or more of the events described in point I, then an adjustment is made as specified in point 5 of Article 181 or point 2 of Article 180.

a) provided a VAT invoice, and the amount of VAT shown on the invoice is incorrect or

b) shown an incorrect amount of VAT on a VAT return,

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.

2. In the case of services considered part of an import under Article 173(2), their value, without VAT, is added to the value as defined under point I.

CHAPTER 14. TAX PREFERENCES.

Article 101. Exemptions From Payment Of Tax.

1. The following supplies of goods, fulfilment of works, and rendering of services, as well as the following types of imports, are exempt from payment of VAT (except for the export of goods):

a) rendering of financial services;

b) the supply or import of national or foreign currency (except for that used for numismatic purposes), and of securities;

c) the import of gold to be transferred to the National Bank: of Georgia;

d) the supply or import of postage stamps (except for collectors' items);

e) the supply or import of valuables that are confiscated or have no owner, treasure and purchased valuables, as well as valuables that are inherited by the State, the sales proceeds from which will go to the Budget;

f) the supply of state property under the privatisation program;

g) supply and leasing of residential property by a physical person to a physical person who is not an entrepreneur, as well as rent for an apartment;

h) medical services, measures considered under the State health program; urban and infra-rayon public transport services with fixed routes, the fares for which are state-controlled (other than taxis);

i) the rendering of services connected with care of ill, disabled, and elderly people;

j) the supply or import of medicines, including vaccines, specified in chapter 30 of the Classification of Goods of Foreign Economic Activity;

k) the supply or import of goods described in codes 8419 20 000, 8423 10, 9001 30 000, 9001 40, 9001 50, 9018-9022. 9025 11 910. and 9402 of the Classification of Goods of Foreign Economic Activity, including invalid's wheelchairs and iodized salt in codes 8713, 871420000;

l) the supply and import of diabetic food labelled as diabetic;

m) the supply or/and import of baby food and baby hygienic products;

n) the rendering of educational services provided to children and teens by hobby groups or study circles, as well as child care services for children at pre-school institutions and orphanages;

o) the supply or/and import of children's literature and manuals that are approved by the Ministry of Education of Georgia in agreement with the respective Parliamentary committee;

p) the rendering of educational services provided by educational institutions;

q) the supply of theatre, circus and museum tickets;

r) the import of scientific, artistic, and literary books and journals, the authors of which are citizens of Georgia, as well as the import of Georgian classical literature published abroad;

s) the rendering of services connected with printing, supply and realization of newspapers and magazines registered and published on the territory of Georgia;

t) the supply of notebooks;

u) the supply by the Patriarchate of Georgia of crosses, candles, icons, books, calendars and other religious items used only for religious purposes; and the construction, reconstruction, and painting of chapels and churches upon the order of the Patriarchate of Georgia; as well as reconstruction, restoration and conservation works and archaeological excavations considered under the State Program on protection and revival of historical and cultural monuments which are included in the list of the World treasury;

v) ritual services related to burial, including transportation service;

w) the import of goods that are transferred to State bodies and public organizations of Georgia for liquidation of natural disasters, accidents, and catastrophes, as well as the import of goods envisaged in agreements on grants; the fulfilment of works under a contract financed for the above-mentioned purposes by an international organization, one of the parties to which is a respective body of executive authorities of Georgia. For the purposes of this point, the procedure of goods import, as well as fulfilment of works on contractual basis is determined by decree of the President of Georgia;

x) urban and intra-rayon [and inter-rayon?] public transport services with fixed routes the fares for which are state-controlled (other than taxis);

y) the primary supply of agricultural products before their industrial processing;

z) the import of pedigree animals and products, seeds, fertilizers which are used in agricultural sector and other materials for protection of plants, according to fixed annual quota approved by the Ministry of Finance of Georgia and the Ministry of Agriculture and Food;

za) the import of fixed assets, including energy and energy saving equipments, technological lines, energy measuring and controlling appliances and their spare parts, described in chapters 84, 85 and 90 of the classification of goods of Foreign Economic Activity;

zb) the import of goods intended for the official use of foreign diplomatic and similar 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 the property belonging to diplomatic representative offices of Georgia abroad;

zc) import of raw materials and semi-finished products intended for the production of goods to be exported, in the amount of the actually exported finished goods. Upon importation of those goods on the territory of Georgia they are taxed, if there is kept a bank: guarantee, and upon export of the finished goods from the territory of Georgia the payer is reimbursed the amount of money paid upon import or goods left for guarantee according to the value of the goods actually exported;

zd) the transit, re-import and temporary import of goods onto the territory of Georgia;

ze) the import of goods determined for reexport of goods, on the territory of Georgia, the goods determined for reexporting are taxed or the customs department of Georgia keeps the bank guarantee with the same value as the import, and upon exportation of those goods from the territory of Georgia such a bank guarantee is abolished, the payer is reimbursed the amount of money paid as customs duty upon import or the goods left as a guarantee according to the value of the goods actually exported;

zf) the import of goods by physical persons to Georgia in an amount that is below the exempt limit for customs duty;

zg) the supply of non-excisable goods of individual production produced by invalids associations and enterprises, in the case if invalids constitute 70 per cent of total employees of those enterprises (or no less than 50 per cent - in associations and enterprises for blind and deaf people).

2. Exemption from VAT is uniform on the entire territory of Georgia, and applies only to the supply of goods, fulfilment of works, and rendering of services within the borders of Georgia.

3. For purposes of applying the exemptions from VAT that are specified in subpoints (zb) through (zf) of point I, these exemptions 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, as well as the import of wheat, is taxed at a zero rate

Article 103. Taxation of International and Transit Transportation

1. The rendering of transportation and other services or the fulfillment of works directly connected with international transport of goods or passengers, as well as the supply of fuel, lubricants, and other consumable technical supplies taken on board for consumption during international flights, is taxed at a zero rate.

2. The transportation and servicing of shipments indicated in Article 162(1), point z (transit goods) are taxed at a zero rate.

Article 104. 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.

I. Except as provided in point two, a taxable transaction occurs -

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a. 90 days after the time the goods are supplied, or the works are fulfilled, or the services are rendered, or

b. in the case of a supply of goods that involves shipment of the goods, 90 days after the shipment starts, or

c. at the moment of payment, if it takes place before the expiration of 90 days from the supply of the goods (works, services).

2. For purposes of point I (c), 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.

4. In the case of the use of goods (works or services) for non-economic activity in accordance with article 152(4), the time of the taxable transaction is the time that the use of the goods (works or services) begins. In the cases specified in article 152(5), the time the taxable transaction occurs is the time of supply of the goods, fulfilment of the works, or rendering of the services to the workers.

5. In the case of the cancellation of a registration as VAT payer according to Article 96(6), the time of supply for the goods remaining on hand is immediately before the cancellation takes effect.

Article 106. Place Of Supply Of Goods.

1. If a supply involves the goods being transported, the supply takes place at the location of the goods when transportation starts. In other cases, a 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. The place of fulfilment of works or rendering of services for purposes of this Part 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, physical fitness, or sports, or in another similar activity;

d. subject to the provisions of this subpoint, the place where transportation actually takes place, if the works (services) are connected with that transportation. For purposes of Article 164, a transaction connected with the performance of works or rendering of services by a taxpayer outside the borders of the territory of Georgia, is 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 subpoint 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 clause;

f. the location of the economic activity of the person who fulfills the works or renders the services.

2. In applying point I, the place for the fulfilment of works or rendering of services that are described in more than one of the subpoints in point I shall be determined according to the first of those subpoints.

Article 108. Reverse Charge

1. If a nonresident person who is not registered for VAT in Georgia renders services or fulfils works on the territory of Georgia for a tax agent described in point 2, for purposes of this Part 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 point I applies, the tax agent withholds the tax from the amount payable to the nonresident. The amount of tax is determined by applying the tax rate under Article 179(1) to the amount payable to the nonresident after withholding of tax.

4. If the tax agent is registered for VAT, the withheld tax is payable at the time for filing of the VAT return for the month in which the transaction took place. The payment document for payment of the withheld tax is considered to be a tax invoice, and gives the tax agent the right to a VAT credit according to Article 181.

5. If the tax agent is not registered for VAT, he is required to pay the withheld tax in the manner prescribed by the State Tax Service within 7 days of the date of payment to the nonresident.

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

I. 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 which involves independent elements, one or more of which if separately supplied, rendered, or fulfilled would be taxable, is treated as separate transactions.

Article 111. Transactions 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. Point I does not apply to services rendered by an agent to the principal.

3, Point I 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.

CHAPTER 17. PROCEDURE FOR THE CALCULATION AND PAYMENT OF TAX.

Article 112. Rates Of Value Added Tax:

1. The rate of value added tax 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 an accounting period.

Article 113. Value Added Tax on Taxable Turnover Payable to the Budget

1. The sum of value added tax payable to the budget 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.
2. In cases described in Article 99, 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 point I of Article 99 occurred and is added to the amount of tax payable for the accounting period under point I.

Article 114. Value Added Tax Creditable in the Determination of Payments to the Budget

1. Subject to the provisions of this Article, the sum of value added tax that is creditable is the sum of tax payable or paid in respect of issued tax invoices, on taxable imports or 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.
2. In the case where the tax payable (paid) by the taxpayer in respect of issued tax invoices for imports of goods and taxable transactions is partly for the purpose of the taxpayer's economic activity and partly for other purposes, VAT shall be creditable proportionally.
3. No credit is allowed for VAT
 - a. on passenger automobiles, except those for sale or hire by a person whose principal business is automobile sales or rental, or
 - b. on expenses for entertainment or representation, for charity, or for social purposes.
4. In the case where the taxpayer has taxable transactions and transactions exempt from value added tax in accordance with Article 162, the amount of value added tax 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. Point 2 is applied before applying this point.
5. Where the VAT indicated in the invoice or declaration for a transaction exceeds VAT payable on this transaction, the taxpayer is allowed a credit for the amount of the excess in the accounting period in which the event referred to in point I of Article 158 occurred.

Article 115. Tax invoices

I. Subject to point 4, a person registered for value added tax that carries out a taxable transaction is required to write out a tax invoice 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 a document of strict accounting executed in the form stipulated by the State Tax Service and containing the following information:

- a. family name, initials or name of the taxpayer and the purchaser (client), and the 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. name 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 the excise on excisable goods;
- g. sum of the tax due on the given taxable transaction;
- h. the issue date of the tax invoice;
- i. serial number of the invoice.

3. The taxpayer is required to issue and give the tax invoice to the purchaser of goods (works, services) upon the supply or not later than 5 days after the supply.

4. In the case of the supply of goods, fulfillment of works, or rendering of services at retail to purchasers who are not VAT taxpayers, a receipt or simplified form of invoice prescribed by the State Tax Service may be used instead of a tax invoice.

CHAPTER 18. ADMINISTRATIVE AND CONCLUDING PROVISIONS

Article 116. Filing of Returns and Payment of Value Added Tax

1. Every VAT payer is required:

- a. to file a value added tax return with the Tax Inspectorate according to the place of registration for each accounting period no later than 20th of the month following the accounting period

- b. to pay the tax to the budget for every accounting period by the deadline for filing the return.

2. In cases where a voluntary registration takes place with retroactive effect under Article 148(3)(b), 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 according to 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. Points I and 2 do not apply to a person who is a taxpayer only by importing goods according to Article 145(3).

4. VAT on taxable imports is levied and collected by customs agencies in accordance with this Code and the customs legislation.

Article 117. Value Added Tax Accounting Period

The accounting period for value added tax is the calendar month.

Article 118. Relations to the Budget in Cases Where the Amount of Tax 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 taxable turnover for the accounting period is taxed at a zero rate, the sum of tax applied as a credit in excess of the sum of charged tax for the accounting period is returned within 15 days of the time of receipt by the State Tax Inspectorate of an application from the taxpayer.

2. In the case of other taxpayers, the sum of tax applied as a credit in excess of the sum of charged tax for the accounting period is to be carried forward to the next accounting period and credited against payments for this period, with any excess being refunded from the budget within 15 days of the filing of the declaration for this period.

3. In any case where an amount refunded to a taxpayer is established by the State Tax Inspectorate to have been made erroneously, the State Tax Service may demand the return of such sum according to the procedure for collection of tax.

Article 119. Refund of Vat In Cases Of Grants.

1. A person who purchases goods, works, or services which are financed by a grant and/or fulfils work or provides services on the same basis, is entitled to a refund of the VAT paid with respect to these goods, works, or services upon presentation of the tax invoices to the State Tax Inspectorate.

2. A refund of VAT is carried out only in cases where the request for the refund is filed with the State Tax Inspectorate before the end of the month following the month in which the taxable transaction or taxable import took place. The provisions of points I and 3 of Article 118 apply to this Article.

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 value added tax and presentation of a return to tax agencies by the prescribed deadline rests on the taxpayers and their responsible persons in accordance with the tax legislation of Georgia, and in the case where the collection of value added tax is in the competence of customs agencies of Georgia in accordance with the customs legislation of Georgia.

2. The tax is administered by the State Tax Service and by the 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 the Requirements of this Part

1. In the event of non-performance of the requirements of this Part, a person is subject to financial sanctions as stipulated by Articles 252-254 of this Code..
2. Besides the sanctions considered under point I of this Article, the tax agencies charge a person the following financial sanctions:
 - a) upon functioning without registration as VAT payer - 100 per cent of the VAT amount payable to the budget within the entire period of functioning without registration;
 - b) in the case of non-recording the taxable turnover and VAT in the VAT invoice, or incorrect recording, or in the case of non-issuance of the invoice - 100 per cent of the due VAT amount for the fulfilled transaction or according to the invoice.

PART IV. EXCISE

CHAPTER 19. EXCISE.

Article 122. The Concept of Excise.

1. Excise is an indirect tax included in the sales price of goods.
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 legal and physical 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 taxation is the import of excisable goods, the supply of excisable goods produced in Georgia, including transfer of excisable goods produced by raw materials belonging to a client.

Article 125. Amount of Taxable Transaction

1. Subject to point 2, 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 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 as the wholesale market price (excluding the excise and VAT).

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 value-added tax and the excise.

3. The price of the container, other than returnable containers, is included in determining the amount of the taxable transaction.

Article 126. Time of Taxable Transaction

1. In the case of goods produced in Georgia, the time of taxable transaction is considered to be:

a) 90 days from the moment of supply (transfer) of goods;

b) the moment of payment, if this transaction takes place before the expiration of 90 days from the supply (transfer) of goods.

2. According to subpoint "b" of point I of this Article, in the case of one or more payments for taxable transactions, each payment is considered as a payment of the amount within the limits of the amount paid for any separate transaction.

3. In the case of imports, the taxable transaction takes place at the time of import, according to the customs legislation.

Article 127. Taxation of Exports

Exports of excisable goods are taxed at a zero rate.

Article 128. Exemptions

The following are exempt from excise:

a. alcoholic beverages produced by a physical person and used for his personal consumption;

b. the import of one litre of alcoholic beverages and one carton (200 pieces) of cigarettes by a physical person for personal consumption and, in the case of a person entering Georgia by automobile, the contents of the gas tank;

c. transit or temporary import of excisable goods onto the territory of Georgia;

d. re-export of excisable goods; excise is paid on excisable goods intended for re-export on the territory of Georgia, where a bank guarantee, or the imported goods, having respective value as guarantee, are kept; upon export of the indicated goods from the territory of Georgia, the bank guarantee is eliminated, the payer is reimbursed the amount of excise or goods left for guarantee according to the value of the goods actually exported.

e. cars and tires, imported as part of humanitarian assistance during natural disasters.

2. The excise exemptions specified in subpoints (c) through (d) of point I are applied only in the cases where the conditions for exemption from customs duty are met. Thus, if for purposes of customs duty an import falls under a drawback regime, or if the conditions for payment of customs duty in case of violation of the exemption requirements are met, the same regime applies to the excise.

Article 129. Excise Credit for Inputs

1. A person who purchases an excisable good (raw materials) and uses the good for the production of other excisable goods that are subject to tax is allowed a tax credit in the amount of the excise paid on the purchase of the raw materials, or a refund of the excise.

2. A credit or refund is allowed for excise paid for excisable goods used:

- a. as samples for analysis or for inspection required 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 inspectorate.

Article 130. Excise Tax Rates

The following excisable products are subject to tax at the following rates:

No	name of commodity	code of classification	excise rate
1	wines made of grapes and wine materials, champagne and sparkling wines	2204	15
2	strong wines and wine materials	2204	50
3	sparkling wines made of grapes	2204	20
4	champagne wines	2204	100
5	vermouth, fruit wines(including fruit sparkling wines, wine materials and other drinks)	2205 2206	50

6	alcoholic beverages:		
	- brandy, materials for brandy, other spirits obtained from wines and vodka	2208	: 50
	-all others (cognac, whisky, gin, rum, balsam and other alcoholic beverages)	2208	100
7	ethyl spirits (alcohol)	2207	100
2208			
8	beer	2203	15
9	tobacco products (other than tobacco raw materials)		
	-extra quality, I-stand 2-nd class;	2402	100
	-3-rd, 4-th, 5-th and 6-th classes	2403	5
10	jewellery	7113; 7114;	35
7116			
11	passenger automobiles	8703	15
12	car tires	401110000;	15
4012			
13	automobile gasoline (other than ethylated gasoline)	271000330 271000350	15
14	ethylated gasoline	271000330	50
271000350			
15	sturgeon and salmon caviar, valuable fish and sea products	16	20

Article 131. Payment of Excise

1. Upon the supply of excisable goods, excise, calculated according to taxable transactions occurring in the course of the accounting month, is subject to payment in the reporting period, no later than within 10 days from the moment of fulfillment of taxable transactions according to Article 126 of this Code.

2. If the taxpayer is in arrears on payment of excise tax for any period, then starting with the time the arrear arises and until it is settled, the excise tax becomes due at the time the taxable transaction occurs and the taxpayer is not allowed to supply goods before payment of the excise tax relating to those goods.

3. In the case of imports of goods, the excise is collected by the customs agencies according to the same procedure as for customs duties.

Article 132. Filing of returns

1. In the cases mentioned in Article 131(1), a taxpayer must file a return according to procedures established by the State Tax Service by the 10th of the month following the accounting month indicating payment of the tax and taxable transactions during the accounting period.

2. A payer of excise must include an application for a credit mentioned in Article 129 in the excise return; a person who is not a payer of excise tax shall do the same in a special 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, excise (collateral) is payable on the import of the goods and then is refunded by the customs agencies to whom the tax was paid upon import of the goods, according to the actual quantity reexported. Refunding is carried out by customs agencies within 15 days.

2. Point I does not apply to goods located in a bonded warehouse according to subpoint "c" of point I of Article 128.

Article 134. Excise Stamps

Normative acts may require excise stamps to be affixed to domestically produced and imported products that are subject to excise at fixed per-unit rates. In this case, the tax is paid upon purchase of the stamps. No further tax is due on goods bearing stamps. It is forbidden to import or sell such excisable goods without stamps. Tax agencies are entitled to confiscate such excisable goods which are received for sale without excise stamps.

Article 135. Tax Invoices

1. Subject to point 3, a taxpayer who realizes 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, a simplified form of invoice prescribed by the State Tax Service 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 private ownership.

Article 137. Object Of Taxation.

1. Object of taxation consists of immovable property other than land (hereinafter buildings and structures) located in urban areas in Georgia.

2. The tax is not levied on invalids from childhood, and I and II group invalids.

Article 138. Rates of the tax

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

Article 139. Procedures For Calculation And Payment Of The Tax.

1. The tax on buildings and structures is calculated by the tax authorities as of January I of each year on the basis of data on their inventory value submitted to the local authorities. If such an appraisal has not been made, the latest appraisal is used, taking into account indexation. In this process, 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 the per-square-meter valuation of a neighboring property.

2. The tax on buildings and structures held by several owners is paid based on the data of local authorities according to the stake of each of the owners in the buildings and structures.

3. Tax agencies present tax notifications to payers concerning the payment of tax no later than March I of the accounting year.

4. Tax is paid in proportional amounts by June 15 and by October 15.

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 subsidiary enterprises described in subpoint a that have an independent balance sheet and settlement account;

c) foreign enterprises engaged in entrepreneurial activity in Georgia via permanent establishments.

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.

2. In the case of taxpayers listed in Article 263(c), the object of taxation includes only assets connected with the permanent establishment.

Article 142. Determining The Value Of Taxable Property.

The taxable value of the property consists of the residual value of the assets described in Article 264 calculated according to the average value of those assets at the beginning and the end of the year.

Article 143. Tax Concessions.

The following types of property are exempt from taxation:

- a) property used for environmental protection and fire protection;
- b) land;
- c) highways;
- d) measuring and testing equipment of the territorial agencies of the Department of Standardization, Metrology, and Certification of Georgia;
- e) property that has been mothballed in accordance with procedures in force'
- f) Property of organizations, with the exception of property used in entrepreneurial activity.
- g) the property of invalids' associations and enterprises, in the case the invalids constitute 70 per cent of the total amount of employees of the enterprises (or no less than 50 per cent - in associations and enterprises for deaf and blind people).

Article 144. Tax Rates And Procedures For Payment Of Tax To The Budget.

1. The value of the property of enterprises, as evaluated in accordance with Article 142, is subject to a one-percent tax. In cases where the enterprise exists for only a part of the year, it pays the tax proportionally to this period.

2. In the course of the reporting year, taxpayers make current tax payments which are calculated by the end of the last calendar year, according to the average annual value of assets registered on the balances of enterprises, and are transferred to the budget quarterly in equal amounts by the 15th of the second month of the quarter.

3. Current tax payments to the budget are credited against tax accrued during the tax year.

Article 145. Reporting of Property Tax

1. Taxpayers prior to February I of the reporting year present to the tax authorities the calculation of current payments.

2. The calculation of the property tax from the previous year is presented to the tax authorities prior to April I of the reporting year.

PART VI. LAND TAX.

CHAPTER 22. GENERAL PROVISIONS.

Article 146. Taxpayers

Taxpayers of land tax are legal and physical persons who, according to this Law, are owners or users of the land which is not under the State ownership.

Article 147. Object of Taxation

1. The object of taxation is:
 - a. agricultural land; and
 - b. nonagricultural land.

2. The taxable plot of land includes plots of lands under buildings and structures and plots necessary for their functioning, as well as sanitary and technical zone of those objects if they are not under the use of other legal or physical persons.

Article 148. Principles Of Land Taxation.

1. The basis for taxation is a document verifying the right of ownership or use of the land plot.
2. Plots of land under State ownership occupied by buildings and structures that are under the use or ownership of several legal and physical persons are taxed separately for each person proportionally to the volume of the land occupied by the structures.
3. The amount of the land tax does not depend on the results of the economic activity of the taxpayer and is determined according to the annual tax on each unit of the land.
4. Land tax is differentiated according to the quality and location of the land.
5. Land tax transferred to another State for use, is paid according to the procedure and conditions established by this Code, in case the contrary is not provided by the agreement concluded between Georgia and this State.

CHAPTER 23. TAX ON AGRICULTURAL LAND.**Article 149. Object of Taxation of Agricultural Land**

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 woodlands used for agricultural purposes or allowed for use according to the existing procedure;
- c) garden, truck-garden, and cottage plots;
- d) industrial, transport, communications, and other non-agricultural plots of land located outside population centres and which, in accordance with current procedures, are used or will be used for agricultural purposes;
- e) plots of land located within the bounds of population centers of a village or city 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 intra-plantation (intra-farm) roads and routes for driving livestock and irrigation/drainage networks.

g) other land used for agricultural purposes.

Article 150. Tax Rates on Agricultural Land.

I. Base rates for the land tax on agricultural lands are defined according to the administrative units and are established by the calculation in lari per hectare:

a. for arable and agricultural land used for perennial crops outside the bounds of administrative units:

No	name of administrative unit	base rate h/lari			
		land good	land bad	average regional (city)	
1		2	3	4	
1	Tbilisi, Marneuli		44	24	34
2	Bolnisi, Gardabani		40	21	31
3	Rustavi		39	21	30
4	Batumi, Gagra, Gali, Gudauta, Gulripshi, Ochamchira, Sukumi, Kobuleti, Khelvachauri				3921 30
5	Gurjaani, Telavi, Lagodekhi, Signagi, Kvareli, Dedoplistskaro		34	18	26
6	Akhalkalaki, Gori, Ninozminda, Mtskheta			33	17 25
7	Akhaltzikhe, Akhmeta, Dmanisi, Eredvi, Tetrtskaro, Kaspi, Sagarejo, Sarntredia, Kareli, Khashuri				30 16 23
8	Kurta, Tsalka		29	15	22
9	Abasha, Zugdidi		27	15	21
10	Martvili, Senaki, Khobi, Poti			26	14 20
11	Akhalkalaki, Vani, Zestafoni, Lanchkuti, Ozurgeti			25	13 19
12	Bagdadi, Terjola, Kutaisi, Tskaltubo, Chkhorotsku.			23	12 18
13	Khoni		22	12	17
14	Sachkhere, Tsageri, Tskinali			18	10 14
15	Ambrolauri, Dusheti, Tianeti			17	9 13
16	Adigeni, Borjomi		14	8	II
17	Aspindza, Tkibuli, Keda, Kharagauli, Chiatura				13 7 10
18	Lentekhi, Oni, Chokatauri, Mestia, Kazbegi, Djava		10	6	8

b. for natural meadows and pastures:

name of administrative unit	base rate	base rate	base rate	base rate
hkt/lari	hkt/lari	hkt/lari	hkt/lari	hkt/lari
cultivated	cultivated			

meadows	pastures	meadows	pastures
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I $I \frac{3}{5}$ ^ 5

1. Abasha, Akhalkalaki, Akhaltsike, Gori, Batumi, Bolnisi, Gagra, Gali, Gardabani, Gudauta, Gulripshi, Gurjaani, Dedoplistskaro, Dmanisi, Zugdidi, Tbilisi, Tetrtskaro, Telavi, Lagodekhi, Lanchkuti, Marneuli, Mtsketa, Ninotsminda, Ozurgeti, Ochamchira, Rustavi, Sarntredia, Senaki, Signagi, Sukhumi. Kutaisi, Kobuleti, Kvareli, Tsalka, Tskaltubo, Khelvachauri.Khobi.Poti 4263

2. Adigeni, Aspindza, Akhalkgori, Bagdadi, Borjomi, Vani, Zestafoni, Terjola, Tianeti, Kaspi, Martvili, Sagarejo, Sachkere, Tkibuli, Kareli, Keda, Shuakevi, Chokatauri, Chkorotsku, Tsalenjikha, Kharagauli, Khashuri.Khom,Khulo 3 1.5 5 2

3. Ambrolauri, Akhmeta, Dusheti, Lentekhi, Mestia, Oni, Kazbegi, Tsageri, Tskinvali, Chiatura, Djava 2 1 3 1,5

c. for any plot of land located within the bounds of urban administrative units - the tax rate indicated in sub-points "a" and "b" of point I of this Article may be increased by 20 per cent.

2. The base rate for land tax on the land determined by subpoints "a" and "b" might be increased or decreased by 20per cent depending on the quality and location of the land, without consideration of the whole amount of tax on the administrative units.

3. Tax rates for specific plots of land are established by boards of the rural-administrative regions jointly with the local service for land resources and the land cadastre.

Article 151. Calculation Of The Tax On Agricultural Land.

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

Article 152. Mechanisms For Payment Of Taxes On Agricultural Land.

1. For purposes of registering taxpayers and establishing amounts of tax, the local authorities by March I of the reporting period, shall submit to the state tax inspectorates lists of taxpayers, indicating the tax rate and the area of land they own.
2. State tax inspectorates shall send tax statements concerning assessed taxes to taxpayers by June I of the reporting year.
3. The deadline for payment of the tax is November I of the reporting year. For lands that are under state ownership and are leased, the deadline for payment is determined according to the lease agreement, but no later than November I of the accounting year.

CHAPTER 24. TAX ON NONAGRICULTURAL LAND.

Article 153. Object of Taxation.

The object of taxation is a plot of land, which, according to Article 149 of this Code does not belong to agricultural lands.

Article 154 Tax Rates On Nonagricultural Land.

1. Rates on nonagricultural land are determined on one square meter and is differentiated according to the location and zones. The annual base rate is determined as 0.24 lari.
2. Single tax on land for any category of use, while allocating a new plot of land within the bounds of urban administrative units, shall be no more than 50 times the amount of the base tax rate for land use.
3. Single tax on land for temporary use of land within the urban administrative bounds, as well as on transfer of the right on land lease (other than transfer by right of succession) shall be no more than 10 times the amount of the base tax rate.

Article 155. Calculation Of The Tax On Nonagricultural Land.

1. Land tax is calculated on the basis of multiplication of the annual base rate on territorial coefficient and the area of the land.
2. The territorial coefficient of the land is determined according to the location and zones of the plots.
3. The determination of the borders of the zones and of the territorial coefficient of the land tax is conducted on the basis of valuation of the territorial, experimental, social and economic evaluation according to the plans of development of settled areas or other according to the other basic documents on urbanization approved by the bodies of local government.

Article 156. Procedure For Payment Of Tax On Nonagricultural Land.

1. Registration of taxpayers and accrual of the tax is conducted annually, as of March 1.
2. For the purposes of registration of taxpayers and determination of the tax amount, the local bodies of the State Department of Land Management, as of March I of the accounting year, shall present to tax agencies lists of taxpayers, indicating the area of land and the tax rate.

3. Physical persons shall be handed a tax notification no later than June 1 of each year.
4. Physical and legal persons shall be handed calculation of the tax on newly allocated plot of land within two months period from the moment of land transfer.

Article 157. Accrual Of Tax On Nonagricultural Land.

1. Tax on land is accrued on physical and legal persons from the month which follows the month when the right on land use has been originated.
2. Tax on nonagricultural land is paid in equal shares on quarterly basis, prior to the 15-th of the month which follows the reporting quarter.

Article 158. Exemptions From Land Tax.

The following are exempt from tax:

- a. parts of plots of state-owned land occupied by budget organizations, other than those used for entrepreneurial activity
- b. sporting and health-improvement complexes; training and scientific-research institutes dedicated to agriculture and forestry, experimental and state experimental breeding stations, and experimental farm plots financed from the budget;
- c. plots which, in accordance with current procedure, are allocated for religious institutions and for the purpose of the functioning of societies, associations, enterprises, and organizations for blind, deaf, or retarded persons, or physically under-developed children, and veterans of war, as well as centres for social adaptation and work-related rehabilitation of teens;
- d. lands occupied by organizations protecting nature and historical monuments where these historical and architectural buildings are situated if they are not used for entrepreneurial activity;
- e. public-use lands, squares, streets, crossings, arboretums, zoos, public forests, preserves. botanical gardens, boulevards, public gardens, cemeteries, botanical and dendrological gardens, municipal parks, other than plots of lands on those territories used for active economic activity;
- f. municipal reservoirs and their areas of water, lands which are used for transport and underground communications, other than used for active economic activity;
- g. hydrometeorological centres 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, other than used for active economic activity; the sanitary, security, and technical zones of the objects.
- i. lands located along the state border, unused pastures and haymaking meadows, and lands and reserve lands that are new or designated for recultivation;
- J. plots of land in which half or more of the topsoil is damaged because of natural phenomena (turned into a swamp, salination, erosion);
- k. physical or legal persons that have received for purposes of ownership new lands and lands for recultivation, for the first five years;

1. 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 World War II and persons having the equal status;

n. the settlements of Kurta, Eredvi, Tigvi; the villages of Avnevi and Nuli - temporarily, before the conflict and economic situation are regulated;

2. Established tax exemptions do not apply to those cases, when a tax exempted legal or physical person leases plot of land or its portion being in his use or ownership, or a building or structure (or their portion) to another physical or legal person.

PART XV. TAX ON OWNERSHIP OF MOTOR VEHICLES.

CHAPTER 25. TAX ON OWNERSHIP OF MOTOR VEHICLES.

Article 159. Taxpayers

The tax is payable by any 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 nomenclature of goods of foreign economic activity.

Article 161. Tax Rates

The tax rates are differentiated according to the type of vehicle and are:

Types of motor vehicles	Tax amount in lari
Light automobiles	0,25
Buses (up to 12 seats)	1,0
Busses (from 13 to 30 seats)	1,3
Busses (over 30 seats)	2,0
Trucks and other vehicles up to I tons of loading capacity (through crediting)	0,4
Trucks from I to 3 tons of loading capacity (through crediting)	0,6
Trucks from 3 to 10 tons of loading capacity (through crediting)	1.3
Trucks from 10 to 20 tons of loading capacity (through crediting)	2,0

Trucks (from 20 to 40 tons of loading capacity (through crediting)	2,5
Trucks over 40 tons of loading capacity	4,0

Article 162. Procedure for Payment and Collection of Tax

1. The tax is payable to the organs of the road fund at the time for registration, reregistration (in the case the former owner of the vehicle has not paid the tax for the previous year), or the annual technical inspection of the motor vehicle.
2. The registration, reregistration or technical inspection shall not be undertaken without proof of payment of the tax.
3. The tax is collected by a service established by the organ of the Road Fund in coordination with the Ministry of Internal Affairs.

Article 163. Exemptions From Payment Of Tax

I. The following are exempt from tax:

- a. motor vehicles which are technically inoperative and are not subject to technical inspection in the current year;
- b. hand-driving motor vehicles and motor carriages (one unit per individual);
- c. motor vehicles owned by persons who became invalids during the World War II or battles and struggles on the territory of other countries, or during fighting for freedom, independence and territorial integrity of Georgia (one unit per individual).

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.

I. The object of taxation is any document that transfers title to immovable property located in Georgia or that leases such property, including in particular:

- a. a deed;
- b. a lease agreement;

- c. a document certifying transfer of the right on the ownership of property.
- 2. The object of taxation does not include a mortgage or other document that creates an encumbrance on immovable property, or a security agreement.

Article 166. Exemptions.

The following movable property is exempt from taxation:

- a. a lease for a term of less than three years;
- b. a transfer to a spouse, parent, son, or daughter;
- c. a gratuitous transfer to the government or to a budgetary, charitable, or religious organization;
a transfer on the basis of divorce;
- e. a transfer in the case of reorganization.

Article 167. Determination of Tax Base.

- 1. The tax base is the amount of compensation transferred directly or indirectly (but no less than market price) including the assumption of indebtedness.
- 2. In the case of a lease, the tax base is determined by discounting the amounts payable under the lease 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 to the recording officer at the time that the written instrument is recorded by the notary or other recording body. The recording officer pays the tax over to the budget.
- 2. If the written instrument is not recorded, the tax is payable to the State Tax Service at the time that the transfer takes effect.

CHAPTER 31. INHERITANCE AND GIFT TAX.

Article 170. Taxpayers.

- 1. The taxpayer is any person who receives from a physical person any kind of property through the process of inheritance or gift.
- 2. For the purposes of this chapter, such other person is called the "transferor".
- 3. For the purposes of this Part, if a physical person uses a legal person to transfer property gratuitously, the transaction will be treated as if made directly by that physical person.

Article 171. Object Of Taxation.

The object of taxation is the receipt by a person in the process of inheritance (by law or by will) or by gift from a physical person of any kind of property, if:

- a) the person receiving the property is a resident at the time of receiving the property or is a non-resident legal person more than 50 percent of the interests in which are owned directly or indirectly by residents;
- b) the transferor is a resident at the time of gift or death; or
- c) the property is immovable property located in Georgia.

Article 172. Exemptions.

I, The following are exempt from taxation:

- a. the receipt of property through inheritance from a deceased spouse or the receipt of property through a gift by one spouse from the other spouse;
- b. the property worth of 50 000 lari received through inheritance;
- c. the property worth of 1000 lari received through a gift.

2. Tax exemptions, considered under subpoint "c" of point I of this Article, by one and the same transferor for one and the same transferee in the course of the calendar year, is admitted only once.

Article 173. Determination Of Tax Base.

I. The tax base is the fair market value of the property at the time of receipt, minus the following deductions:

- a) in the case of inheritance - the necessary expenses for administering the estate and the debts of the deceased;
- b) the amount of compensation paid by the recipient (including indebtedness which he assumed);

Article 174. Tax Rates.

The tax rate is 30 per cent for those persons who are not the first and second order heirs.

Article 175. Procedure For Payment Of Tax.

I. The tax is paid independently by the taxpayers to the State Tax Service.

2, The payment of tax by a taxpayer receiving property by inheritance is made no later than six months from the date the document certifying the receipt of inheritance is issued; in the case of property received by gift, the tax is paid no later than one month from the date the agreement on gift becomes effective.

3. The taxpayer is required to file a return by the deadline established in point 2.

Article 176. Credit For Tax On Prior Transfers.

If a transfer of property is subject to tax and the transferee dies within two years of the transfer the tax 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, the percentage allowed as a credit is 80 per cent, if the transferee dies within four years, 60 per cent, and if the transferee dies within 5 years, 40 per cent.

Article 177. Credit For Tax Paid In Foreign Country.

Upon payment of tax for property received through inheritance or gift in a foreign country crediting is conducted in respect of the amount paid in that country. The amount credited is the amount which has been paid as tax accrued on the assets transferred through inheritance or gift.

CHAPTER 28. TAX ON TRANSFER OF AUTOMOBILES.

Article 178. Taxpayers.

The payer of the duty on the transfer of automobiles is the transferee of the property.

Article 179. Object Of Taxation.

The object of taxation is any light automobile or other means of transportation described in code 8703 - 8704 of the nomenclature for International Economic Activity (hereinafter "automobile") the ownership of which is registered or reregistered in Georgia.

Article 180. Exemptions.

The following are exempt from taxation:

- a. the registration of re-registration of an automobile by the importer, where VAT has been paid on the import;
- b. the registration or reregistration of an automobile by a purchaser, where the seller has paid VAT on the supply of the automobile to the purchaser.
- c. a transfer to a spouse, parent, or child;
- d. a transfer upon a divorce decision;
- e. a gratuitous transfer to the government or to a budgetary, charitable, or religious organization;
- f. a transfer in a reorganization.

Article 181. Determination of Taxable Amount.

The taxable amount is the amount of direct or indirect compensation for the transfer, including the assumption of indebtedness, but no less than the market price.

Article 182. TaxRate.

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

Article 183. Procedure For Payment Of Tax.

The tax is payable before the notary or other recording body registers or reregisters ownership of the automobile. The recording body registers or reregisters the ownership of the automobile only after the payment of the tax.

PART IX. SOCIAL TAX.

CHAPTER 29. SOCIAL TAX.

Article 184. Concept of Social Tax.

Social tax is an obligatory social contribution to the fund of The Unified State Fund Of Employment And Social Insurance which is paid by payers of insurance contributions for purposes of social insurance according to the rates applied to the amounts of wages or other tax base according to this Part.

Article 185. Taxpayers.

Payers of the social tax are:

- a) physical persons - entrepreneurs and legal persons, who make payments of wages to physical persons working as employees in Georgia;
- b) physical persons - entrepreneurs and legal persons, who make payments to physical persons who render services in Georgia, on the basis of contracts of a civil law nature or without a contract;
- c) physical persons receiving payments described in subpoints "a" or "b";
- d) physical persons carrying out entrepreneurial activity on the territory of Georgia;

Article 186. Objects Of Taxation.

1. The object of taxation in the cases described in subpoint "a" of article 185 is wages, determined according to Article 38. The object of taxation in the case of subpoint "b" of Article 185 of this Code is determined according to the same procedure as the payment to the physical persons as if they were employees. The exemptions described in article 59 are applied for the social tax.
2. For taxpayers described in subpoint "c" of article 185, the object of taxation is the same as under point I for the wages or other payments made to them.
3. For taxpayers described in subpoint "d" of article 185, the object of taxation is taxable income from entrepreneurial activity, determined according to the rules for the income tax.

Article 187. Exemptions.

The following are not taxed:

- a) amounts paid to persons confined to correctional institutions by court order;
- b) payments for temporary inability to work, paid out of the resources of the fund for state social insurance.
- c) payments paid by organizations out of amounts received from grants.
- d) official employment income of a diplomatic or consular employee who is not a citizen of Georgia;
- e) employment income of a person who is not a resident or a citizen of Georgia and who is present on the territory of Georgia for less than 90 days in the taxable year, if this income is paid by an employer or in the name of an employer who is not a resident of Georgia and is not paid by a permanent establishment of a nonresident.

Article 18 8. Rates Of Tax.

1. The rates of the social tax are:

- a. for legal persons described in subpoints "a" and "b" of Article 185 of this Code - 27 per cent of the taxable amount, and I per cent to The Unified State Fund Of Employment;
- b. for physical persons described in subpoint "c" of Article 185 of this Code - I per cent of the taxable amount paid to The Unified State Fund Of Employment.

2. In the case of payments to invalids and pensioners working in an organization of invalids and pensioners or their enterprises, where more than 70% of the employed are invalids and pensioners, the rate in subpoint "a" of point I of this Article is reduced to 10 per cent.

Article 189. Procedure For Determination And Payment Of Tax.

- 1. In the cases described in subpoints "a" and "b" of Article 185 the tax is paid at the same time as the wages or other payments are made to the employees (contractual employees). Where wages are paid through a bank, the employer shall present payment instructions for the tax to be paid over to the bank at the same time as obtaining on demand the resources for payment of labour. Without presentation by the taxpayer of the aforementioned payment instructions the resources for payment of labour are not released. Employer taxpayers shall present to tax agencies a report in the form established by the State Tax Inspection of Georgia.
- 2. The tax for which the taxpayer is the employee (contractual employee) is withheld on the payment of wages, and is paid according to the procedure described in point 1.
- 3. Physical persons described in subpoint "d" of Article 185 pay the tax at the same time as the income tax. They file a return at the same time as the income tax return. Each physical person who has taxable income from entrepreneurial activity is required to file a return.

PART X. TAX ON 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 payable use of natural resources according to the "user pays" principle to encourage the rational use of natural resources;
- b. to contribute to their replacement via the attraction of resources to the state budget of Georgia.

Article 191. Concept of the Tax.

The tax on the use of natural resources is a direct payment for the use of natural resources under the State ownership (other than land).

CHAPTER 31. TAXPAYERS AND OBJECT OF TAXATION FOR THE TAX ON USE OF NATURAL RESOURCES.

Article 192. Taxpayers.

Taxpayers are all legal and physical persons whose activity according to the legislation of Georgia is subject of the licensing for the use of natural resources.

Article 193. Object of Taxation.

The object of taxation is the volume (quantity) of extracted natural resources located in Georgia (including territorial waters, air space, continental shelf and specific economic zone), in particular:

- a. the volume (quantity) of extracted mineral resources;
- b. the volume (quantity) of extracted timber;
- c. the volume (quantity) of extracted wild plants resources;
- d. the volume (quantity) of extracted water resources;
- e. the volume (quantity) of extracted wild animal resources.

CHAPTER 32. AMOUNT OF TAX AND RULES OF PAYMENT FOR THE USE OF MINERAL RESOURCES.

Article 194, Amount Of Tax.

I. The amount of the tax for the use of mineral resources:

- a. the limited amount of the tax on use of mineral resources is determined on the basis of the table given below:

No types of mineral resources	limited amount of the tax in a	percentage, respective to the price of extracted mineral resources
I petroleum, natural gas	5-10	
2 coal	2-5	
3 peat	2-5	
4 ferrous metal	1-3	
iron	2-7	
manganese		
5 non-ferrous metal (copper, mercury, zinc, anthimone, cadmium, aluminium, stroncium, etc.	3-5	
6 precious metals (gold, platinum, silver)	4-6	
7 rare metals, elements and lands	2-5	
8 mine and chemical raw materials (andesite, barit, calcite, bentonite clay, diatomite, iodine, bromine, etc.	1-5	
9 non-mine raw materials, including the raw materials needed for metallurgy (dolomite, fire-proof clay, limestone, quartz sands for guage and land production, mineral paints, talk, zeolite, kaolin, tracit, pegmatit, lithographic stone, etc.	1-8	
10 precious stones	4-6	
II building materials (raw materials needed for cement, gypsum, cement mixed with concrete, perlite, lining stones, gravel, sand, clay for bricks, sawing stones, etc.	2-5	
12 mineral waters	1-10	
13 mud	5-15	
14 carbon dioxide-gas	2-10	
15 underground thermal waters	1-15	
16 underground fresh waters	2-8	
17 remains from extraction and processing of solid mineral resources	0,5-3	
18 tails of fertilizing mining enterprises	1-5	

b. the specific amount of the tax for the use of mineral resources, within the framework of the limited amount indicated in subpoint "a" of this point, considering their quality and conditions of their dissemination, is determined by the interdepartmental licensing council of experts and is

recorded in the license for the use of mineral resources. The amount of the tax is determined according to a percentage of the extracted mineral resources (excluding VAT);

c. Procedure for determination of the price for the use of mineral resources shall be worked out and approved by the Ministry of Economy of Georgia in coordination with the Ministry of environmental Protection and Natural Resources.

2. The rate for the use of wood resources of timber is the following:

a. the rate for the use of wood resources of timber is determined according to varieties of timber spread all over the lands of the forest fund of Georgia, categories of forest established by the legislation and the commodity quality of wood resources in accordance with the table given below:

groups of wood resources of timber (including their names)	sort (category)	amount of the tax per solid cubic metre in a percentage respective to market price			
		Wood without bark thick, 4-12 cm	Wood with bark average	thin	^^
1	23456				
I group:		34302610			
box-tree,	2	30	26	22	8
juniper, nut tree	3	26	22	18	8
4	2218146				
5	1814124				
II group:					
oak tree.	1	30	26	21	8
2	2621186				
chestnut tree,	3	21	18	16	5
ash-tree	4	1816144			
elm. maple	5	1614133			
III group:					
beechn,	1	20	16	12	4
2	1612103				
hornbeam,	3	12	10	8	3
akaki, plane tree	4	10	8	6	2
5	58642				
IV group:					
pine tree, fir tree, silver-fir,	1	131082			
2	10	8	6	2	
cedar, cypress,	3	38652			
4	46531				
cryptomerium,	5	55321			
tuia					
V group:					
other types of wood resources	1	10763			
2	7	6	5	2	
3	36542				
4	45432				
5					

b. the market price for each type of timber variety is determined according to point 10 of Article 27 of this Code.

c. The tax for the use of varieties, included in the "Red Book" of Georgia, shall be paid only in specific cases: upon realization of trees dried as a result of pathological diseases and upon cutting of trees for the construction of highways, electric transmission lines, pipelines and hydrotechnical structures. The tax for the use of those varieties shall be applied while calculating losses originating from illegal cutting.

3. The amount of the tax for the use of silver-fir conifer resources:

a. the amount of the tax for the use of silver-fir conifer resources on the land of forest fund of Georgia is 10 per cent relative to the market price of silver-fir;

b. the market price of silver-fir resources is determined according to point 10 of Article 27 of this Code.

4. The rate for the use of the water resources is the following:

a. the rate for the use of the water resources is different according to groups of objects of water, in accordance with the table given below:

<u>GROUPS OF WATER OBJECTS</u>	<u>LARI / PER CUBIC METER</u>
1st group - (Mtkvari. lakes and other surface waters relating thereto)	10
2nd group - (Black Sea water)	5
3rd group - (other surface waters)	3

b. the amount of the tax for enterprises of energy and irrigation systems is I per cent of the principal amount; for hydropower enterprises - 0.1 per cent of the principal amount;

c. the market price, for each group of water objects, is determined according to point 10 of Article 27 of this Code.

5. The rate for the use of wild animal resources (objects) is determined according to varieties of wild animal objects spread all over Georgia, in accordance with the table given below:

groups of objects of the world of wild animals (including their names)	amount of the tax in a percentage, respective to market prices of resources
I group (bear)	35
II group (wild pig)	20
III group (roe-buck, deer)	45
IV group (wolf)	25

V group (jackal, fox, badger, marten, raccoon type dog, raccoon, wild cat, nutria (coupu)	15
VI group (rabbit)	10
VII group (aurochs, chamois)	55
VIII group (other mammals)	5
IX group (pheasant)	35
X group (partridge, wild goose, wild duck)	25
XI group (snipe, dupeli, wild hen, quail, turtle-dove, wild pigeon)	20
XII group (other birds)	10
XIII group (Kapshia (?))	2,5
XIV group (karsala, merlang, herring, pelamis, samarida, mackerel, scomber, pilchard, sardine, horse-mackerel, farga)	2,0
XV group (grey mullet, barbel, zimor, sheat-fish)	3,0
XVI group (while amur, tobi)	2,2
XVII group (cobri, pike)	1,8
XVIII group (sigi, peliadi)	1,5
XIX group (catran)	4,0
XX group (river trout, lake trout, salmon groups)	3,5
XXI group (sturgeon groups)	5,5
XXII group (rapan, midia)	2,5
XXIII group (other fish and water animals)	1,0
XXIV group (other animals being on the verge of extinction)	30,0

b. the market price for the use of each group of varieties of wild animal objects is determined according to point 10 of Article 27 of this Code;

c. The tax for the use of varieties, included in the "Red Book" of Georgia, shall be applied while calculating losses originating from illegal extraction of the resources.

Article 195. Procedures For Payment Of Tax.

The tax on the use of natural resources other than minerals is paid no later than the 15th of the following accounting month. The tax for the use of water resources if agricultural sector is paid no later than December I of the respective year. On this same deadline, payers submit a calculation of the tax, using the established form, to the State Tax Inspectorates for their territory.

CHAPTER 24. TAX PREFERENCES AND EXEMPTIONS.

Article 196. Exemptions.

1. From payment of the tax are exempted the extracted natural resources connected with extraction (natural extraction) of wood resources of timber and silver-fir conifers needed in the course of protection and restoration works; as well as the amount (quantity) of mineral resources extracted in the process of construction of underground stations, sewerage systems, water supply and underground constructions of infrastructural and household importance.

2. The tax shall be reduced by 70 percent:

a) for users of natural resources whose activities are connected with the restoration and replacement of natural resources and with scientific, cultural, and instructional activities connected with the extraction (use) of natural resources;

b) for users of natural resources that have carried out the restoration or reproduction of natural resources from their own funds, within the limits of the volume (quantity) of restored (reproduced) 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 legal and physical persons that conduct entrepreneurial or other activity in Georgia having the first, second, third and fourth categories established according to the size, importance and quality of impact on the environment, in accordance with the law of October 15, 1996 of Georgia on "Right for Environmental Protection" and :

a, who pollute the environment by their activity from stationary sources;

b. carry out retail sale of gasoline and diesel fuel on stationary sources of contamination. Upon the wholesale purchase of the indicated petroleum products by physical and legal persons for personal consumption, a taxpayer shall be a seller of the above products.

Article 198. Object of the Tax.

The object of taxation shall be:

1. the amount of harmful substances within the fixed limits:

- a. dispersed into the atmosphere from stationary sources of contamination; or
- b. released into bodies of water (including from municipal sewer and storm drain systems).

Article 199. Determination of Limits.

A limit for dispersal (releasing) of harmful substances into the environment is considered to be an amount of dispersed (released) harmful substances that is established for taxpayers for every calendar quarter. Taxpayers develop draft limits in accordance with existing procedures, and submit them to local agencies of the Ministry of Environmental Protection. The limits for large-scale objects, the list of which is maintained by the Ministry of Environmental Protection, are approved by the central bodies of the ministry. 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 dispersing (releasing) harmful substances into quarterly allotments, in four equal parts or based on their production plans. Taxpayers submit the limits approved for the year (divided into quarters) to local state tax agencies before the beginning of the year.

Article 200. Tax Rates.

1. Tax is paid on each ton of basic pollutants emitted into the atmosphere (discharged into objects of water) at the following rates:

a) tax rates for the emission of pollutants from stationary sources into the atmosphere (within the bounds of the limit):

Type of pollutant pollutant into the atmosphere (in lari)	Tax norm for the emission of 1 ton of the
Nitrogen peroxide	112.50
Acrolein, ozone, chlorine	150.00
Sulfur dioxide, magnesium oxide, potassium oxide, dust, soot, zinc oxide	90.00
Acetaldehyde, hydrocyanic acid	450.00
Acetone	13.00
Benzopyrene	4500000.00
Hydrocarbons	3,00
Benzene, butyl acetate, sulphuric acid	45.00
Butyl alcohol, ethyl acetate, carbon dioxide	0.01
Vanadium pentoxide, cupric oxide, styrene	2250.00
Hydrogen chloride (hydrochloric acid), xylene	22.50
Nitric acid	30.00 _____

Acetic acid, perzloretylene,cyclohexanon	75.00
Manganese dioxide	4500.00
Arsenic, phenol, formaldehyde	1500.00
Solubel nickelous salts	22500.00
Mercury, lead	15000.00
Hydrogen sulfide	563.00
Turpentine	4.50
Methyl alcohol	9.00
Ethyl alcohol	0.90
Toluene	7.50
Carbon monoxide	1.50
Hydrogen fluoride	900.00
Chormic oxide	3000.00
Cyclohexanon	112.50

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

Type of pollutant	Tax norm or the emission of I tonne of the pollutant (in lari)
-------------------	----------------------------------------------------------------

a) inorganic substance:

Suspended substances	5.8
Sulfates	0.5
Chlorides	0.5
Phosphates	156.0
Boron, phosphorus	390.0
Cyanides	39000.0
Fluorides	790.0

Metallic ions

Tungsten, copper, chromium, lead, cadmium 39000.0

Vanadium, selenium, nickel, manganese, 3900.00
cobalt, zinc, tellurium

Arsenic, stibium 790.0

98

Iron, aluminum	30.0
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 petroleum products, ketones	390.0
Formaldehydes	780.0
Butyl alcohol	4.5
Phenols, highly-toxic metalloorganics	39,000.0

2. Taxes on all other substances dispersed (released into objects of water) from stationary sources of contamination:

a. for substances emitted into the atmosphere: 4.5 lari multiplied by the hazard coefficient of the substance;

b. for pollutants discharged into objects of water: 39 lari multiplied by the hazard coefficient of the substance.

3. The hazard coefficient is inversely proportional to the average maximum permissible daily concentration (limited permissible concentration relative to one). The hazard coefficient is worked out and approved by the Ministry of Environmental Protection and Natural Resources of Georgia.

4. The tax rate for retail sale of gasoline and diesel fuel on stationary sources of contamination is determined in the following amount:

Type Of Fuel	Tax Rate In Lari Per I Lit.
gasoline	0,02
diesel fuel	<u>0,01</u>

Article 201. Tax Conversion Coefficients.

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

a. tax conversion coefficients for the emission into the atmosphere of pollutants from stationary sources:

Name of a region	Conversion coefficient
a) especially contaminated, or of health resort important: Zestafoni, Bordjomi, Gagra, Kobuleti, Gudauta, Gulripshi, Ochamchira, Djava, Abastumani	1,5
b) high contamination:	1,3
Tbilisi, Kutaisi, Sukhumi, Batumi, Rustavi, Kaspi, Tkvarcheli, Marneuli, Gardabani	
c) contaminated:	1,2
Zugdidi, Sarntredia, Senaki, Poti, Tkibuli, Akhaltsikhe, Gori, Khashuri, Tskhinvali, Chiatura, Bolnisi, Telavi	
d) all other regions, cities and rayons	1,0

b. conversion coefficients for the discharge of pollutants from stationary sources into bodies of water:

Name of water objects	Conversion coefficient
a) especially contaminated: The Black Sea coast, basin of river Rioni, river Mtkvari and its tributary from the city of Gori up to the border of the country, rivers: Zhoekvara, Besleti, Gubistskali, Bartskana, Korolistkali	1,5
b) high contamination: river Mtkvari and its tributary from the border of Turkey up to the city of Gori, rivers: Inguri, Galidzga	1,3
c) contaminated: basin of the river Supsa, rivers: Shavtskala, Mokvi, Khobi, Natanebi, Kintrishi, Alazani, Tergi _____	1,2
d) other water objects	1,0

The taxpayer must file a return of tax with the State Tax Service certified by the local bodies of the Ministry of Environmental Protection and Natural Resources and pay the tax by the 15th day of the month following the accounting quarter.

PART XII. TAX ON BRINGING MOTOR VEHICLES ONTO THE TERRITORY OF GEORGIA.

CHAPTER 35. TAX ON BRINGING MOTOR VEHICLES ONTO THE TERRITORY OF GEORGIA.

Article 203. Taxpayers.

The tax is payable by any person who is the owner or driver of a motor vehicle which is brought onto the territory of Georgia (including transit).

Article 204. Object of Taxation.

1. The object of taxation is:

- a. any motor vehicle registered in a foreign country and brought onto the territory of Georgia;
- b) a Georgian vehicle loaded at a customs territory within Georgia with a transit shipment.

2. For purposes of this Part, motor vehicle means any vehicle included in chapter 87 (under codes 8702-8704) of the commodity classification of Foreign Economic Activity.

Article 205. Tax Rates.

1. The tax rates are differentiated according to the type of vehicle and are:

Light automobiles	26 lari
Buses (up to 12 seats)	50 lari
Buses (13 to 30 seats)	100 lari
Buses (over 30 seats)	170 lari
Trucks and other vehicles up to 3 tons (through crediting)	100 lari
Trucks (from 3 tons - to 10 tons) (through crediting)	170 lari
Trucks (from 10 tons - to 20 tons) (through crediting)	210 lari
Trucks (from 20 tons - to 40 tons) (through crediting)	350 lari
Trucks (from 40 tons - to 60 tons)	450 lari

2. The owners of trucks, the cargo of which exceed the loading capacity of the vehicle, shall pay the following amount of the tax per I excess ton:

a. Trucks (with loading capacity of up to 20 tons, through crediting) - 10 per cent of the tax determined under point one this Article.

b. Trucks (with loading capacity of over 20 tons, through crediting) - 5 per cent of the tax determined under point one this Article.

3. The owners of motor vehicles indicated in Article 204 of this Code, upon bringing their cars to Georgia, shall pay additional tax per above-norm loading, in the following amount: up to 0,5 ton (through crediting) - 25 lari; from 0,5 to 1,0 tons (through crediting) - 40 lari; from 1,0 to 1,5 tons (through crediting) - 50 lari; from 1,5 to 2,0 tons (through crediting) - 65 lari; from 2 0 to 2,5 tons (through crediting) - 90 lari; from 2,5 to 3 tons (through crediting) - 130 lari.

4. The motor vehicles, the actual loading of axis of which exceeds 13 tons, and overall dimension parameters exceed the indicator permissible for automobile roads of Georgia, shall be allowed for bringing only after proper adjustment of the parameters.

Article 206. Payment of Tax.

1. The tax is payable to the organs of the road fUnd upon crossing the border of Georgia, or leaving a customs territory.

2. It is forbidden to drive a motor vehicle on the territory of Georgia without documents evidencing the payment of tax.

3. The tax collection, inspection of weight and dimensional parameters of motor vehicles and the route of their bringing onto the territory of Georgia, is determined by the service under the Management Body Of Road Sector in agreement with the Customs Department of Georgia, in fixed places.

Article 207. Tax Exemptions.

1. For the towns ofKazakhi, Tauzi And Gandji of the Republic ofAzerbaijan and the settlements ofAmasi, Ashovka, Tashiri, Alaverdi and Noemeberiani of the Republic of Armenia, both Republics bordering to Georgia, the amount of the tax rate, for bringing light automobiles and passenger buses from the abovenamed countries onto the territory ofNinotsminda, Dmanisi, Marneuli. Gardabani, Dedoplistskaro, Signagi and Lagodekhi regions of Georgia, is the following:

- Light automobiles
- Buses up to 12 seats (through crediting) -
- Buses 13 to 30 seats (through crediting) -
- Buses (over 30 seats)
- 10 lari
- 12 lari
- 20 lari
- 32 lari

2. The owners of light automobiles and buses, registered in the regions of Zakatala, Kakhi and Belakani of the Republic ofAzerbaijan, shall be exempt from taxation upon entering the territory of Georgia.

PART XIII. LOCAL TAXES.

Article 208. General Provisions.

1. Local self-management bodies, within their competence, are authorized to introduce, on the respective territory, local taxes which are determined under Article 6 of this Code, within the limited amount set by the Code.

2. Local taxes shall be paid in the National currency, both through cash and non-cash payment system.

3. Timing for the payment of local taxes to the budgets of the respective territorial units is determined by local self-management bodies.

4. The State tax organs are authorized to take control over the payment of local taxes.

Article 209. Tax on Entrepreneurial Activity.

1. Tax on entrepreneurial activity shall be paid by a physical and legal person who carries out entrepreneurial activity on the territory of the respective town (region).

2. The limited amount of the tax rate on entrepreneurial activity is determined as no more than 1 per cent of the revenues received from the supply of VAT exclusive goods (works, services) including no more than 5 per cent of revenues received from the provision of services related to loading or unloading of cargo in/from ships at ports and harbours of Georgia, or places equal to them, excluding VAT.

Article 210. Tax On Gambling Business.

Tax on gambling business shall be paid by those persons who carry out entrepreneurial activity through lottery tickets, casinos and other types of gambling business. The limited amount of the tax rate shall be determined as no more than 15 per cent of the revenues received from this type of business.

Article 2 II. Resort Tax.

The resort tax shall be paid by physical persons for having rest (spa treatment) and resort service at places of health resort. The limited amount of the tax shall be determined as 10 lari per person for one month.

Article 212. Hotel Tax.

1. The hotel tax shall be paid by those legal and entrepreneur physical persons, who, on the territory of respective town (region) transfer to physical persons, on the basis of proper compensation, temporary dwelling places in hotels, boarding (guest) houses, motels, camping-site and other similar entities.

2. The limited amount of the hotel tax rate shall be determined as no more than 2 per cent for the use of temporary dwelling place.

Article 213. Advertisement Tax.

1. Advertisement tax shall be paid by physical and legal persons who obtain advertisement services for entrepreneurial purposes. The following is considered under obtaining of advertisement services: spreading of advertisement through mass media, catalogues, price-lists, reference books, posters, placards, advertisement panels and other means of information spreading.

2. Social advertisement and advertising of charitable measures shall not be considered as advertisement services provided for entrepreneurial purposes.

3. The advertisement tax rate shall be determined as no more than 10 per cent of the value of the activity and services provided for preparation and spreading of advertisements.

Article 214. Tax On Car Parking.

1. The tax on car parking shall be paid by physical and legal persons who park their motor vehicles in the streets and public places of a respective town (other residential areas), or who carry out entrepreneurial activity through the places specially allocated for parking purposes.
2. The limited amount of the tax on car parking shall be no more than 30 tetri; for the enterprises, the major activity of which is provision of services in connection with car parking, the limited amount of the tax shall be no more than 20 per cent of the service cost. excluding VAT.

Article 215. Tax on Use of Local National Symbolics.

1. The tax on the use of local National symbolics shall be paid by legal and entrepreneur physical persons who use the symbolics approved by the local self-management bodies - State emblems, arms, pictures of historical and architectural monuments, views of the city or its separate parts, and other similar symbols.
2. The use of the name of a city (region) or other residential area as a local symbol is forbidden.
3. The limited amount of the tax on use of local symbolics shall be no more than 2 per cent of the proceeds received from the supply of goods with local symbolics.

PART XIV. GENERAL ADMINISTRATIVE PROVISIONS.

CHAPTER 36. GENERAL PROVISIONS.

Article 216. Procedure for Application of Administrative Provisions.

The administrative provisions stipulated in this Part shall apply to all taxes, except as otherwise provided in other Parts of this Code.

Article 217. Tax Control of Full and Timely Receipt of Payments to the Budget.

1. The organs of the State Tax Service shall alone be responsible for tax control of legal and physical persons for verifying the accuracy of calculation and timeliness of payment of taxes and for all other aspects of tax administration and collection, except where this Code grants this responsibility to another body.
2. Tax control is exercised by the State Tax Service means of recording taxpayers and objects of taxation, verifying accounting and reporting data, questioning taxpayers and other persons, examining premises used for earning income and other forms which are consistent with this Code. In cases where the payment of taxes connected to export-import operations is determined according to customs procedures, control is carried out by the customs bodies in accordance with the customs legislation.
3. Tax control carried out by tax bodies may be an office audit or a field audit. An office audit is carried out by the tax inspectorate on the basis of balances, declarations, explanations, and other documents submitted by the taxpayer and documents and information in the possession of the tax inspectorate. A field audit is carried out on the basis of a decision of the State Tax Inspectorate by means of a written notice to the taxpayer, which describes the object of audit and basis and approximate time for holding the audit, and may be carried out without prior notice in

cases when there is evidence of tax evasion, on the decision of the head of the State Tax Inspectorate.

4. The results of a tax audit are drawn up in the form of an act, which is signed by the responsible official of the tax bodies carrying out the tax audit and the taxpayer. In case the taxpayer refuses to sign an act a note is made to this effect.

Article 218. Determination of the Taxable Object in Various Cases

1. Legal persons and physical persons making sales of goods (works, services) and operating mostly with cash shall pay tax on the basis of a simplified system for determination of the tax base and accounting for tax purposes according to instructions issued by the Ministry of Finance. These procedures shall not apply to taxpayers who are required to use accrual accounting for profit or income tax or who are registered for VAT.

2. In the event of accounting violations or the destruction or loss of documents, or where determination of the taxable object is impossible, Tax Service organs shall determine the taxable object and the tax on the basis of direct and indirect methods (assets, turnover, production costs, method of comparison, etc.).

3. In a case where an individual has declared an amount of income insufficient to support expenses incurred for personal consumption, including acquisition of property, the Tax Service shall determine the income on the basis of expenses incurred by the individual, taking into account income of previous periods.

4. Income shall also be subject to taxation in cases where other persons and organs dispute the legality of the income.

5. If income is subject to seizure and transfer to the budget pursuant to decisions of a court or arbitration court in instances stipulated by legislation of Georgia, the amount subject to seizure shall be reduced by the amount of the tax to be paid on it.

6. With respect to all taxes, barter transactions shall be considered as a sale of goods (work, 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 Service shall adjust the taxable objects taking into account market prices, reassess the taxes and impose sanctions established for violation of the tax legislation of Georgia.

Article 219. Taxpayer Identification Number.

1. The State Tax Service shall assign an identification number to taxpayers and tax agents to be used for all taxes and customs duties.

2. Legal persons and individuals must include their taxpayer identification number on tax returns and on other documents determined by this code.

3. Physical persons - entrepreneurs described in Article 26 and legal persons must apply to the State Tax Service for an identification number within ten days of registration or of the beginning of 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 legal 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-business day, the time period shall terminate at the end of the next business day.

Article 221. Rights of the Taxpayer.

The taxpayer shall be entitled:

- a. to provide documents in evidence of his right to tax concessions;
- b. to examine records of audits that are performed;
- c. to present explanations to the tax authorities with respect to his computation and payment of taxes or to the records of audits that are performed;
- d. in the manner stipulated by law, to appeal decisions of tax organs.
- e. to familiarize himself with the tax legislation either through the tax organs, or through other sources.

Article 222. Conversion of Foreign Currency.

Any transaction with foreign currency pertaining to taxation is converted into lari

- a. if available, at the official exchange rate of the National Bank of Georgia on the day the transaction takes place, and
- b. where an official exchange rate is not available, at a rate based on published exchange rates, including those published in other countries, with currencies for which an official rate is available.

Article 223. Measures Against Tax Avoidance.

1. Any amount that is applied in the interests of a specific person is treated as paid to the 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 have the power to make an assessment of tax payable based upon an estimate according to the relevant facts and circumstances.
3. In any transaction between related persons, the State Tax Sendee may allocate income or deductions between these persons as is necessary to reflect the taxable income that would have resulted from a transaction between independent persons.

CHAPTER 35. CONTACTS WITH THE TAXPAYER.

Article 224. Procedure for Establishing Obligations.

No statement provided by the State Tax Service to a taxpayer is binding with respect to the State Tax Service or the taxpayer unless it is in writing and is served upon the taxpayer.

Article 225. Written Communications With Taxpayers.

Any notice or other document sent by the State Tax Service to a taxpayer must be in writing, signed by a director or an authorized official, noting his last name and initials, officially stamped, and sent to or 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. it is, in substance and effect, in conformity with this law; 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 Minister of Finance of Georgia shall issue in the form of a decree instructions to carry out this Code. Any provisions of the instructions that are inconsistent with this Code have no legal effect.

2. In the following cases, the instructions are issued with the concurrence of the following agencies:

a. tax on use of natural resources - the Ministry of Environmental Protection and Natural Resources.

b. tax on pollution of environment with harmful substances - Ministry of Environmental Protection and Natural Resources.

c. tax for owners of motor vehicles - the Management Body of Road Sector.

d. land tax- the State Department of Land Management of Georgia.

e. social tax - the Ministry of Social Protection, Labour and Employment.

f. tax on bringing motor vehicles onto the territory of Georgia - the Management Body of Road Sector.

Article 228. Rulings For The Application Of Tax Legislation.

The Director of the State Tax Service shall issue Public Rulings setting out how the State Tax Service intends to execute the tax legislation. The State Tax Service must follow such a ruling in administering the tax legislation until it is revoked by the head of State Tax Service.

CHAPTER 39. PRESENTATION AND COLLECTION OF INFORMATION.

Article 229. Preparation And Retention Of Records.

1. A person has the obligation to prepare documentary records of transactions which
 - a. may give rise to a tax liability by the person;
 - b. may give rise to an obligation by the person to withhold tax; or
 - c. may give rise to an obligation by the person to file an information report.
2. Taxpayers must keep such records in accordance with normative acts of the Ministry of Finance
3. If a taxpayer has certain accounting records in a foreign language and they are not understandable to the tax authorities, the State Tax Service may require that they be translated into Georgian.

Article 230. Filing of Tax Returns.

1. Those taxpayers who are required to file tax returns under the provisions of this Code shall file tax returns with State Tax Service organs by the deadlines established by this Code and in the form and at the place established by the State Tax Service.
2. The tax return must be signed by the taxpayer or, if the taxpayer is absent or incapacitated, by the taxpayer's legal representative.
3. An independent auditor who renders services with respect to the preparation of a taxpayer's tax return must sign the return, stamp it, and note his own taxpayer's registration number. If there is more than one return preparer, only the principal preparer must sign the return.
4. The responsibility of an independent auditor for the accuracy with respect to a taxpayer's tax return signed by him, shall be determined according to the current legislation.

Article 231. Provision of Information on Payments

A person effecting payment for work performed or services rendered or making another type of payment must, if so required by the instructions, provide information to the State Tax Service and to the recipient on the amount paid.

Article 232. Extension of Deadline for Filing Tax Returns

If the taxpayer applies before the filing due date for an extension of time to file a return for income tax or profit tax and pays with the application the amount of tax estimated to be due, the deadline for filing the return is automatically extended for three months. An extension of the deadline under this Article does not affect the deadline for payment of the tax.

Article 233. Bank Accounts.

Banks and other institutions conducting various banking operations must:

- I. open settlement and other accounts for a physical or legal person only upon presentation of documents showing the issuance of a taxpayer identification number presented by State Tax

Service organs, notify the State Tax Service that the taxpayer has opened these accounts and may not effect transactions on accounts without noting the taxpayer's identification number in the banking documents;

2. execute, on a first-priority basis, payment orders of taxpayers for the payment of taxes from their settlement or other accounts;

3. credit (transfer to a bank or other financial institution acting as a cashier for the budget system) taxes to the appropriate budget on the day of the completion of operations with regard to the withdrawal of funds from the settlement or other account of the taxpayer;

Article 234. Provision of Information to the State Tax Service.

1. For the purpose of carrying out tax control and in respect of an authorized purpose, the State Tax Service has the right, by giving reasonable notice in writing, to require any person, whether a taxpayer or not to present the information indicated in the notification.

2. An authorized official of tax organs is entitled to:

a. to make a copy of any record;

b. to seize a record or other item that appears to be relevant to an authorised purpose;

c. to install or monitor meters;

d. to seal records or other items;

e. if an authorized official of tax agencies uses equipment or materials of another person for the purpose of making an extract or copy of a record under points "a" - "d", the State Tax Service must reimburse the person for the use of the equipment or materials, with compensation based on the market value of the use or materials. If a designated officer seizes a record or other item pursuant to the authority provided under this point, the State Tax Service may make a copy of the record or other item and must return the original to the person in the shortest time practicable, unless otherwise permitted by court order.

3. If a person asserts privilege under law over documents or other evidence which the State Tax Services wishes to seize or examine pursuant to this Article, the materials over which privilege is claimed shall be deposited into envelopes which shall then be sealed by the owner and retained unopened by the State Tax Service pending an application by the State Tax Service to a court of competent authority to determine whether the items in question are privileged.

4. In this Article, "authorized purpose" means the collection of information:

a. for the purpose of determining the liability of a taxpayer for a tax, or

b. for purpose of collecting tax from a specific person.

5. In this Article, "authorized official" means an employee of the State Tax Service designated by the Director of the State Tax Service as an officer entitled to exercise the rights specified in this Article.

CHAPTER 40. ASSESSMENTS.

Article 235. Assessments.

1. Assessment in the present Code means the entering into the records of the State Tax Service of the amount of a taxpayer's liability for tax for a specific taxation period. Assessment includes an amended assessment and a deemed assessment.
2. The State Tax Service is authorized to make an assessment of every taxpayer's tax liability under this Code on the basis of one or more sources of information given below:
 - a. the information contained in a taxpayer's tax declarations;
 - b. information concerning payments described in Article 231; and
 - c. audit materials and any other information known to the State Tax Inspectorate.
3. If the taxpayer does not furnish the information needed to assess the tax, the State Tax Service has the right to assess the tax on the basis of any available information.
4. In cases where tax legislation does not require payment of the tax with a declaration, and in cases where the State Tax Service considers an assessment previously made to be incorrect, the State Tax Service shall make an assessment and, as soon as practical thereafter, send an assessment notice to the taxpayer according to Article 236. The State Tax Service may make an assessment, or may amend an assessment previously made, until the period of limitations in Article 237 has expired.
5. In the case of taxes involving the filing of returns, the filing of a return showing liability for tax shall be deemed to be
 - a. an assessment of such tax; and
 - b. notice and demand that such tax be paid with the return.
6. In the case of taxes collected by withholding, where a taxpayer does not file a tax declaration and the State Tax Service does not otherwise make an assessment of the taxpayer's tax liability on the basis of other information, the State Tax Service is deemed to have made an assessment of the taxpayer's tax liability for the year as the amount of tax. if any, that has been withheld from payments made to the taxpayer during the year and to have served notice of that assessment on the taxpayer.

Article 236. Notification on the amount of Assessment.

A taxpayer shall receive a notification about an assessment of tax liability, which shall contain the following information:

- a) the family name, first name and patronymic (or the name) of the taxpayer;
- b) the taxpayer's identification number;
- c) the date of the notification;

- d) the object of taxation;
- e) the amount of tax and penalties assessed;
- f) a demand for payment of the tax and deadline for payment;
- g) the place and manner of payment of the tax;
- h) a statement of the grounds upon which the assessment has been made; and
- i) appeal procedures.

Article 237. Statute of limitations.

1. The State Tax Service may make or amend a tax assessment on a legal person or individual within six years after the end of the taxable 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. Payment Of Tax.

Tax shall be due and payable at the time specified in the present Code and other normative acts.

Article 239. Place of Payment of Tax.

Tax is payable either:

- a. at the place specified in a notification about assessment; or
- b. if no notification of assessment is required, at the place specified in the relevant tax legislation; or
- c. if no place is specified in the relevant tax legislation, according to the place of residence of a taxpayer physical person or place of business of a taxpayer legal person.

Article 240. Refund of Excess Tax Paid.

1. If the amount of tax paid exceeds the amount of tax assessed, the State Tax Service shall:
 - a. apply the excess against the taxpayer's liability for other taxes;
 - b. with the agreement of the taxpayer, apply the balance against the taxpayer's liabilities with respect to future payments;
 - c. except as otherwise provided in this Code, refund the balance to the taxpayer within 20 days on written application by the taxpayer.

III

2. If the excess *tax* paid by the taxpayer is applied against the taxpayer's liability for other taxes the assessment notification must contain information on the use of that amount.

Article 241, Extension of Deadline for Payment and Penalties.

Upon receiving proper written application by the taxpayer, the director of the State Tax Service organ may extend the deadline for payment of tax, but for no longer than three months. An extension shall not exempt a taxpayer from paying interest for late transfer of the tax to the budget.

Article 242. Order of Payment of Tax Debts.

1. Payments of tax debts to the State Budget shall be made in the following order:

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

Article 243. Effect of Objection or Appeal.

1. Where an objection to or notification of appeal against an assessment has been filed, the amount of tax payable under the assessment remains due and payable, and may be recovered, notwithstanding that objection or appeal, taking into consideration the requirement of point 2 of this Article, the arguable amount of penalties and fees shall be recovered on the basis of a court decision.

2. The director of the superior tax inspectorate has the right to suspend the payment of the assessed tax during the period of consideration of an appeal.

3. Where tax has been paid under an assessment to which the taxpayer has objected or against which the taxpayer has appealed and, as a result of the taxpayer's success with the objection or appeal, the tax due is remitted in whole or in part, the taxpayer is entitled to receive:

- a. a refund of the incorrectly paid amount; and
- b. interest on this amount, according to Article 252.

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 owing and interest (together with any costs of collection that may accrue) creates a lien in favor of the State on all property belonging to the taxpayer, and has priority as against all other rights, except as otherwise provided in this Article and in the legislation on bankruptcy.

2. The lien described in point I arises at 24:00 on the due date and continues until the liability is satisfied or becomes unenforceable by reason of lapse of time.

3. The lien imposed by this Article is not valid against the interest of a bona fide purchaser from the taxpayer or the holder of a security interest granted by the taxpayer, whose interest arises before notice of the lien has been filed.

4. The State Tax Service may file a civil action in the Court to enforce the lien imposed by this Article.

5. Any affected person may apply to the State Tax Service for a release of the lien on the person's property and the Tax Service shall issue a statement releasing the lien if the Director determines to do so.

6. Property under lien 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 removed.

Article 245. Distress Proceedings.

I. The State Tax Service may recover unpaid tax by distress proceedings against the property of the taxpayer by obtaining an order from the court, specifying the taxpayer against whose property the proceedings are authorized, the location of the property, and the assessment to which the proceedings relate; and may require a police officer to be present while the distress is being executed.

2. The State Tax Service may levy on property only after notifying the debtor in writing at least 30 days in advance.

3. If the State Tax Service has reasonable grounds for believing that the collection of tax is in jeopardy, it may demand immediate payment of the tax and, on failure of the taxpayer to pay the tax, may proceed to levy on the taxpayer's property immediately.

4. The seizure and storage of the property distressed according to point I of this Article, is conducted in accordance with the procedure established by the legislation.

Article 246. Enforcement of Levy.

1. A person in possession of, or holding security over, property on which a levy has been made must, on demand of a designated officer, surrender the property, or discharge the security, to the State Tax Service.

2. A person who fails to comply with such demand is liable to the State in the amount of the value of the property or security held, but not in excess of the amount for the collection of which the levy is made.

3. In addition to the liability under point (2), if the failure is without reasonable cause, such person shall be liable for an additional charge equal to 50 percent of the amount recoverable under point (2).

4. A person complying with the requirements of point (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 security discharged, to the State Tax Service, and is hereby indemnified for any loss or damage incurred as a consequence of compliance.

Article 247. Sale of Seized Property.

1. Property seized from a taxpayer shall be sold at a specialized open auction, conducted in accordance with procedures and conditions defined by the Minister of Finance.
2. The sales proceeds shall be applied first against the expenses of the sale, then against the tax, penalties, and interest. Any balance shall be returned to the taxpayer within three banking days. To realization is subject only the part of the property which shall reimburse the expenses related to realization, taxes, penalties and fees.
3. Foreign currency seized from the taxpayer is transferred to the National Bank of Georgia for conversion into lari.

Article 248. Recovery of Amounts Due to the Taxpayer.

Pursuant to procedure for collection, and after notice pursuant to point 2 of Article 245 of this Code, the State Tax Service is authorized: a. to issue a notice to third parties (including a bank or other financial institution) ordering direct payment to the State Tax Service of any amount owed by a debtor to the taxpayer; b. to use a cash order (instruction), debit from the bank accounts of debtors amounts owed to the taxpayer. In the case of an order issued to a bank, a court order enforcing the order is required before the bank may carry out the order.

Article 249. Transferee Liability For Unpaid Tax.

Where a taxpayer's liability has not been satisfied after levy on property, a person who has received assets of the taxpayer in a transaction that is not at arm's length in the three-year period preceding the date of the levy is secondarily liable for the tax in the amount of the value of the assets received, less any amount paid by this person for such assets.

Article 250. Writing Off Bad Tax Debts.

Bad debts owed for taxes, penalties and fines are written off by the relevant tax agencies if the following circumstances occur:

- a. expiration of the deadline for issuance of a demand for payment of tax or expiration of the statute of limitations for the tax violation;
- b. cessation of the tax obligation on grounds established by this Code or other tax laws.

Article 251. Liability For Failure To Withhold Income Tax At The Source.

Legal or physical persons who pay income and fail to withhold income (profit) tax at the source are liable for the tax not withheld at the source.

CHAPTER 43. LIABILITY.

Article 252. Interest on Overdue Tax Payments.

- I. If any amount of tax is not paid by the due date, the taxpayer is obligated to pay interest on such amount for the period from the due date to the date the tax is paid. The rate of interest under this point is 0.1 percent per day simple interest.

2. In the case of an overpayment of tax, 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. For purposes of the preceding sentence, 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 point a refund is considered to be made when authorized, as long as the taxpayer receives the payment within seven days thereafter. The rate of interest under this point is equal to the rate charged by the National Bank of Georgia for borrowing from the government for each quarter.

Article 253. Fines for Late Filing of Returns.

I. A taxpayer who fails to file a timely tax return is liable for a penalty equal to 5 percent of the amount of tax required to be shown on the return for each month (or portion of a month) during which the failure continues, up to 25 percent of such amount.

2. The penalty under point I is limited to the greater of 200 lari or 20 percent of the underpayment for each month (or portion of a month) during which the failure continues.

3. For purposes of this Chapter, an underpayment of tax is the difference between the tax required to be shown on the return and the amount of tax paid by the due date.

Article 254. Fines for Understatement of Taxes.

1. If the amount of tax required to be shown on a declaration exceeds the amount of tax shown on the declaration, the taxpayer is liable for a penalty in the amount of 10 percent of the excess.

2. If the excess referred to in point I is substantial, within the meaning of point 3, the taxpayer is liable in addition for a penalty in the amount of 50 percent of the excess.

3. An understatement of tax is substantial if it exceeds 2,000 lari or 25 percent of the tax required to be shown on the declaration.

4. The penalty under this article does not apply to the portion of the understatement due to a position taken on the return that was based on substantial legal authority.

Article 255. Liability of Banks and Other Institutions Conducting Certain Types of Banking Operations

1. The following sanctions shall be collected from banks and other organizations conducting specific banking operations which fail (or have failed) to meet the requirements of Article 233:

a. 10 percent of the amount of expenditure transactions effected on settlement and other accounts of legal persons and individuals failing to meet the requirements of subpoint "a" and "b" of Article 233.

b. fees for the delayed payment to the budget of the amount written off from the accounts of taxpayer clients and from the settlement or other accounts of legal persons, as well as for returning the unfulfilled tax orders to taxpayers - at the amount considered under Article 252 of this Code. In this case the fine shall not be accrued to taxpayers.

CHAPTER 44. SETTLEMENT OF DISPUTES.

Article 256. Review of Tax Service Decisions.

1. A taxpayer who disputes a tax assessment or other decision of a tax organ may appeal to the subdivision of the tax organ which issued the decision, with a petition for its reconsideration in an administrative procedure. The petition must indicate the reasons and documents on which the taxpayer bases the request. The petition must be filed within 60 days of the date the taxpayer received notice of the assessment or other decision.
2. The tax organ shall consider the petition of the taxpayer for review, shall issue its decision therein, and shall so notify the taxpayer within 20 days.
3. A further appeal with regard to the decision taken by the tax organ may be made to the higher organ, which shall notify the taxpayer of its decision within 20 days. The decision of the higher tax organ may be appealed to the central organs of the State Tax Service of Georgia, which shall notify the taxpayer of its decision within 20 days.
4. Each subsequent appeal may be filed after expiration of the 30-day period for rendering the decision, but must be made before the expiration of 10 days after the taxpayer receives notice of the previous decision.
5. A taxpayer who has appealed to the central organ of the State Tax Service of Georgia shall have the right to appeal to a court against the Tax Service decision, in accordance with the procedures and conditions specified in legislation in effect.
6. If the taxpayer pays the tax assessed, he may immediately appeal to the higher organ or to the central organ of the State Tax Service or to 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 SERVICE.

CHAPTER 45. GENERAL PROVISIONS.

Article 258. Basic Functions of the State Tax Service.

The basic functions of the State Tax Service organs are:

- a. Ensure the execution and enforcement of tax legislation;
- b. Participate in the preparation of draft laws and treaties on tax-related matters with other states;
- c. Explain taxpayers' rights and liabilities to the taxpayers;

d. Provide timely information to the taxpayers with respect to changes in tax legislation and tax regulations.

Article 259. Legal basis for operation of the State Tax Service.

The legal bases for the operation of the State Tax Service are the Constitution of Georgia, this Code, and other normative acts of Georgia.

Article 260. Status and structure of the State Tax Service

1. The State Tax Service is the sole state and centralized agency for monitoring compliance with tax legislation, and is part of the Ministry of Finance system. Tax organs alone shall be 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 Service shall consist of the central staff, tax inspectorates for Apkhasian and Adjara Autonomous Republics, regions (rayons) and cities and an operations department.
3. The police department (operative department) of the State Tax Inspection of Georgia is a special organ of executive authorities, with the right to conduct investigation and operative measures. It guarantees for the fight against legal violations in tax sphere, the security of the activity of tax organs and the protection of its employees in the process of execution of their duties and obligations.
4. The State Tax Service shall be headed by a director appointed by the President of Georgia. The director of the State Tax Service at the same time is the first deputy Minister of Finance of Georgia. The deputy director of the State Tax Service of Georgia shall be appointed to the post and dismissed from it by the Director of the State Tax Service.
5. The directors of the state tax inspectorates for the autonomous republics, cities, and rayons shall be appointed to their posts and dismissed from them by the director of the State Tax Service of Georgia in accordance with the current legislation.
6. The state tax inspectorates for the Apkhasian and Adjara Autonomous Republics, cities, and rayons shall be subordinate to the central staff of the State Tax Service of Georgia.
7. The police department includes the respective services of Apkhasian and Adjara Autonomous Republics, cities and regions, which directly subordinate to the central office of the operative department.
8. The structural units considered under point 2 of this Article have their accounts in banking institutions and a seal of the established sample.
9. Tax Service organs shall be maintained at the expense of the central budget.

Article 261. Relations between Tax Service organs and Government Bodies.

1. Tax Service organs shall exercise their duties independently from central and local executive government bodies and law enforcement, financial and other state bodies, and shall interact with these bodies.
2. The State executive bodies of the government and the local management organs shall be obligated to assist and provide information to the state tax organs upon their request for the

enforcement of tax legislation and the establishment of control over the payment of taxes. The customs bodies are required to regularly furnish to the State Tax Service the information at their disposal that is necessary for the administration of the tax laws. These bodies are prohibited from interfering in the functions of the tax bodies, other than the cases established by the legislation

Article 262. Delegation Power.

The Director of the tax service may delegate to any officer of the State Tax Service any power or duty conferred or imposed on the Director by tax legislation, other than this power of delegation.

Article 263. Annual Reports.

1. The Director shall, within 3 months of the end of each financial year, publish a report on the operation of the tax system of Georgia.
2. The report shall include the following information:
 - a. Amounts of tax collected by the State Tax Service, categorized by reference to the tax laws under which they have been collected and the regional offices;
 - b. Amounts of tax owing, similarly categorized;
 - c. Expenditure incurred by the State Tax Service in collecting taxes;
 - d. Statistics relating to the components of tax revenue; and
 - e. A discussion of the strengths and weaknesses of the operation of the tax system;
 - f. A list of the names of the legal and physical persons against whom tax has been assessed and for which more than 10,000 lari remains unpaid, together with the amount remaining unpaid.

CHAPTER 46. POWERS AND RESPONSIBILITIES OF TAX SERVICE ORGANS.

Article 264, Responsibilities Of Tax Service Organs.

The Tax Service organs shall be obliged to:

- a. Observe and 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 and recording of taxable objects and maintenance of records of taxes assessed and paid to the budget, compile reports on paid taxes.
- c. Record, appraise, and sell confiscated and ownerless property which has come into state possession, and compile reports on the receipt of taxes.
- d. Carry out currency control in cooperation with other responsible bodies.
- e. Refund to taxpayers amounts paid in excess of the tax assessed, in accordance with the provisions of Article 240.

f. Preserve the confidentiality of information concerning taxpayers, in accordance with the provisions of Article 268.

g. Develop return forms and other documents relating to the calculation and payment of taxes.

h. Collect, analyze, and assess information on violations of tax legislation and submit appropriate proposals for eliminating causes and circumstances contributing to tax violations and crimes.

i. Tax police subdivisions of Tax Service organs, in accordance with and in the manner stipulated by law, shall conduct operational and search activities, inquiries, and preliminary investigations for purposes of identifying and examining crimes connected with the nonpayment of taxes.

j. With the assistance of the operative service of tax organs, identify and put an end to crimes and other violations with respect to nonpayment of taxes, concealment or understatement of profits (income), and concealment of taxable objects by legal persons and individuals, and other evasion of the payment of taxes, and other crimes and violations causing damage to the State as a result of nonreceipt or arrears with respect to taxes.

k. Within their jurisdiction, forces of the operative service shall provide for the security of Tax Service activities and protection of its employees from criminal and other unlawful actions against them in the execution of official duties.

l. With the assistance of the operational service, seek out individuals and legal persons evading tax payments.

Article 265. Rights of Tax Service Organs.

Subject to the provisions of this Code, Tax Service organs shall have the power:

a. In relation to legal persons and individuals, to examine 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, and to receive from officials and other employees of enterprises and from individuals information and oral and written explanations on questions arising with respect to such examinations.

b. In accordance with the laws in force, to examine all production, storage, commercial, and other premises of enterprises and individuals which are used to obtain income or connected with the maintenance of objects of taxation, through chronometric methods or other methods.

c. To issue mandatory instructions to managers and other officials of enterprises and to individuals to remedy identified violations of tax legislation, and to verify compliance with those instructions.

d. To apply the tax sanctions provided for in this Code and fines envisaged by legislation in effect to enterprises, officials, and individuals for violations of tax laws.

e. To collect from enterprises, their officials, and individuals taxes, fines, and penalties, as well as administrative fines that are not paid in a timely manner.

f. In cases of violations of tax laws by officials of enterprises or individuals, to prepare a record and issue binding orders.

g. To make test purchases of goods (commodities), work, and services from enterprises and from individual entrepreneurs.

h. To receive from banks and other enterprises information, references, and documents on business activities and operations and on the financial condition of accounts of enterprises and individuals being examined, solely for official purposes. In the case of information to be obtained from banks, a court order is required.

Article 266. Responsibility of Tax Service Organs.

1. For failure to execute or improper execution of official duties, an official of a tax organ shall incur disciplinary, financial, and other liability envisaged by legislation of Georgia.

2. A taxpayer who has suffered a loss as a result of the illegal action of employees of the Tax Service shall be compensated according to a court order, following procedure specified in legislation.

Article 267. Conflict of interest

Employees of the Tax Service shall be prohibited from conducting official duties with respect to a taxpayer:

a. who is related to the employee; or

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.

I. The Tax Service and all persons who are or have been its agents or employees shall maintain secrecy regarding all information on a given taxpayer received by them in an official capacity, and may disclose such information only to the following persons:

a. employees of the Tax Service - in the course of carrying out their official duties;

b. law enforcement agencies - for the purpose of the prosecution of a person who has committed tax violations;

c. courts - in proceedings to establish a taxpayer's tax liability or responsibility for tax violations;

d. tax authorities of a foreign country - in accordance with an international treaty;

e. the State Funds - to the extent necessary in administering the functions determined by the law on the State Funds;

f. the customs authorities - for purposes of administering the customs legislation, and also to authorities that have the right to administer taxes according to this Code, for purposes of administering these taxes.

2. Employees of these organs who receive information under point I of this Article shall maintain secrecy regarding that information under the provisions of this Article, except to the minimum extent necessary to achieve the object for which disclosure is permitted.
3. Except in the case of information received pursuant to this Article a person who receives information the disclosure of which is regulated by this Article may not disclose the information and must return documents reflecting the information to the Tax Service.
4. Information concerning a taxpayer may be disclosed to another person with the taxpayer's written consent.
5. This Article does not prevent publication of information required to be published under Article 263(2x0).

CHAPTER 47. LEGAL AND SOCIAL PROTECTION FOR EMPLOYEES OF THE TAX SERVICE.

Article 269. Legal And Social Protection For Employees Of The Tax Service.

1. The employees of the tax organs shall enjoy the same guarantees of social protection as to given to the employees of police stations, which is determined under the Law of the Republic of Georgia on the Police.
2. A single uniform and ranks of categories shall be introduced for employees of tax inspectorates.
3. Pensions are provided to the staff of police department of the tax agencies and members of their families, 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. Incentive Payments.

1. The fund for the material incentives and material technical security of the state tax organs is created according to the incomes of the tax organs and the amounts transferred to the budget and other special funds in the following proportions:
 - a. during the transfer of 70-80 percent of the targeted tax to the budget: 3//o of the amount up to 70%
 - b. from 80-90 percent, 5//o of the amount in excess of 80 percent
 - c. from 90-100 percent, 10% of the amount in excess of 90 percent
 - d. for more than 100 percent, 15% of the amount in excess of 100 percent.
2. The procedure for the use of the fund of material incentives and material technical security is determined by the State Tax Service of Georgia.

CHAPTER 48. CONCLUSIVE AND TRANSITIONAL PROVISIONS.

Article 271. Enforcement of the Tax Code.

1. "Tax Code of Georgia" shall become effective on the 15th day from the date of its publication,[ed. note: publication was July 9, 1997] with the exception of Articles and Parts considered under point 2 of this Article.
2. The following Articles of the Code :
 - a. Article 64. - "Withholding Of Tax On Income Of Nonresidents At The Source Of Payment", Part III. - "The Value Added Tax" (either than Articles 92 - 94, these Articles shall become effective on the 15-th day from the date of publication of this Code), Part IV- "Excise" - shall become effective from September 1, 1997;
 - b. Part II - "Income and Profit Tax" (other than Article 64), Part V - "Property Tax", Part VI -"Land Tax", Part VII - "Taxon Ownership of Motor Vehicles", Part VIII - "Tax on Transfer of Property", Part IX - "Social Tax", Part X - "Tax on Use of Natural Resources", Part XI - "Tax On Pollution Of Environment With Harmful Substances", Part XII - "Tax On Bringing Motor Vehicles Onto The Territory Of Georgia" - shall become effective from January 1, 1998.
 - c. Article 245. - "Distress Proceedings" and Article 247 - "Realization of Seized Property" - shall become effective upon introduction of necessary changes and amendments into the legislation.
 - d. Articles 112 and 130 in connection with the taxation of import of light cars - shall become effective from January 1, 2000.

Article 272. Normative Acts, Which Become Invalid In Connection With The Enforcement Of The Tax Code.

Upon the enforcement of respective Articles and Parts indicated in Article 271 of this Code, the following laws shall be considered invalid:

1. The law of the Republic of Georgia, of December 21, 1993 on "The Fundamentals Of Tax System", (see the bulletin of the Parliament of Georgia No. 12 - 13, 1993, Article 231) - on the 15-th day from the date of publication of this Code.
2. The law of the Republic of Georgia, of December 23, 1993, on "The State Tax Service Of The Republic Of Georgia", (see the bulletin of the Parliament of Georgia, No. 12 - 13, 1993, Article 234) - on the 15-th day from the date of publication of this Code.
- 3, The law of the Republic of Georgia, of December 24 on " Property Tax Of Enterprises", (see the bulletin of the Parliament of Georgia, No. 12 - 13, 1993, Article 244), - from January 1, 1998.
4. The law of the Republic of Georgia, of December 24 on "Property Tax Of Physical Persons", (see the bulletin of the Parliament of Georgia No.12 - 13, 1993, Article 246) - from January I, 1998.
5. The law of the Republic of Georgia, of December 24 on "The Value Added Tax", (see the bulletin of the Parliament of Georgia No. 12 - 13, 1993, Article 240) - from September 1, 1997.
6. The law of the Republic of Georgia, of December 24 on "The Excise Tax", (see the bulletin of the Parliament of Georgia No. 12 - 13, 1993, Article 242) - from September 1, 1997.

7. The law of the Republic of Georgia, of December 21 on "The Profit Income)Tax of Enterprises", (see the bulletin of the Parliament of Georgia No. 12 - 13, 1993, Article 233) - from January 1,1998.

8. The law of the Republic of Georgia, of December 21, 1993, on "Income Tax of Physical Persons", (see the bulletin of the Parliament of Georgia No, 12 - 13, 1993, Article 248) - from January 1,1998.

9. On introduction of changes and amendments into the law of the Republic of Georgia, of November 11, 1994 on "The Fundamentals of the Tax System", (see the bulletin of the Parliament of Georgia No.21 - 22. 1994, Article 475) - on the 15-th day from the date of publication of this Code.

10.On introduction of changes and amendments into the law of the Republic of Georgia, of February 21, 1997 on "The Fundamentals of the Tax System", (see the bulletin of the Parliament of Georgia No.9- 10 (41 - 42/11), March 15, 1997) - on the 15-th day from the date of publication of this Code.

11.The law of the Republic of Georgia, of December 27, 1996, "On Introduction Of Changes And Amendments Into The Regulatory Legislative Acts Of The Tax System Of Georgia", (see the bulletin of the Parliament of Georgia No. 1- 2 (33 - 34/7), January 22, 1997) :

a. points I and 2-on the 15-th day from the date of publication of this Code.

b. points 3, 5 and 6 - from September 1, 1997.

c. points 4, 7, 8, 9 and 10- from January 1, 1998.

12. On introduction of changes and amendments into the law of the Republic of Georgia, of May 1, 1997 on "The Fundamentals of the Tax System", (see the bulletin of the Parliament of Georgia No.21- 22, May 31, 1997) - on the 15th day from the date of publication of this Code.

13, On introduction of changes and amendments into the law of the Republic of Georgia, of November 11, 1994, on "The Value Added Tax", (see the bulletin of the Parliament of Georgia No.21- 22, 1994. Article 471) - from September 1, 1997.

14. The law of Georgia of June 15, 1995, on "Introduction Of Some Changes And Amendments Into The tax Legislation", (see the bulletin of the Parliament of Georgia No.27- 30, 1994-1995, Article 638):

a. points I and 2-on the 15th day from the date of publication of this Code.

b. points 3 and 4 - from September 1, 1997.

15. The law of Georgia of February 9, 1996, on "the 1996 State Budget of Georgia", (see the bulletin of the Parliament of Georgia No.9, May, 1996):

a. Articles II, 12 and 18- from September 1, 1997.

b. Articles 13, 14, 15 and 16- from January 1, 1998.

16. On introduction of changes and amendments into the law of Georgia, of March 7, 1996, on "The 1996 State Budget of Georgia", (see the bulletin of the Parliament of Georgia No.004, 1996, April, 1996) - from September 1, 1997.

17. On introduction of changes and amendments into the law of the Republic of Georgia, of February 5, 1997, on "The Value Added Tax", (see the bulletin of the Parliament of Georgia No 7-8, (39 - 40/10), February, 1997) - from September 1, 1997.

18. The law of Georgia of June 27, 1996. on "Taxation Of Goods And Monetary Resources Received Through Grants", (see the bulletin of the Parliament of Georgia No. 19 - 20 June 1996):

a. points 2 and 3 - from September 1, 1997.

b. points 4 and 5 - from January 1, 1998.

19. On introduction of changes and amendments into the law of the Republic of Georgia, of February 21, 1997, on "The Value Added Tax", (see the bulletin of the Parliament of Georgia No 9 - 10,(41 - 42/11, March 15, 1997) - from September 1, 1997.

20. On introduction of changes and amendments into the law of the Republic of Georgia, of November 11, 1994, on "The State Tax Service of the Republic of Georgia", (see the bulletin of the Parliament of Georgia No.21- 22, 1994, Article 467) - on the 15-th day from the date of publication of this Code.

21. On introduction of changes and amendments into the law of the Republic of Georgia, of May 14, 1997, on "The Income Tax of Physical Persons", (see the newspaper .-Sakartvelos Respublica", No. 124, May 31, 1997) - from January 1, 1998.

22. Article 32 of the law of the Republic of Georgia of June 14, 1995 on "Social Protection of Invalids" - (see the bulletin of the Parliament of Georgia No. 27 - 30,(1994-1995, Article 633) - from September 1, 1997.

23.The law of Georgia of February 21, 1997, On Introduction Of Changes And Amendments Into The Law Of The Republic Of Georgia On Excise Tax - (see the bulletin of the Parliament of Georgia No. 9 - 10, (41 - 42/11), March 15, 1997) - from September 1, 1997.

24.The law of Georgia Of November 11, 1994, On Introduction Of Changes And Amendments Into The Law Of The Republic Of Georgia On Excise Tax - (see the bulletin of the Parliament of Georgia No. 21 - 22,1994, Article 479) - from September 1, 1997.

25. The law of the Republic of Georgia on the Road Fund of the Republic of Georgia - from January 1, 2000, with the exception of Articles 6 and 7 of this Law,- shall be considered invalid from January 1, 1998.