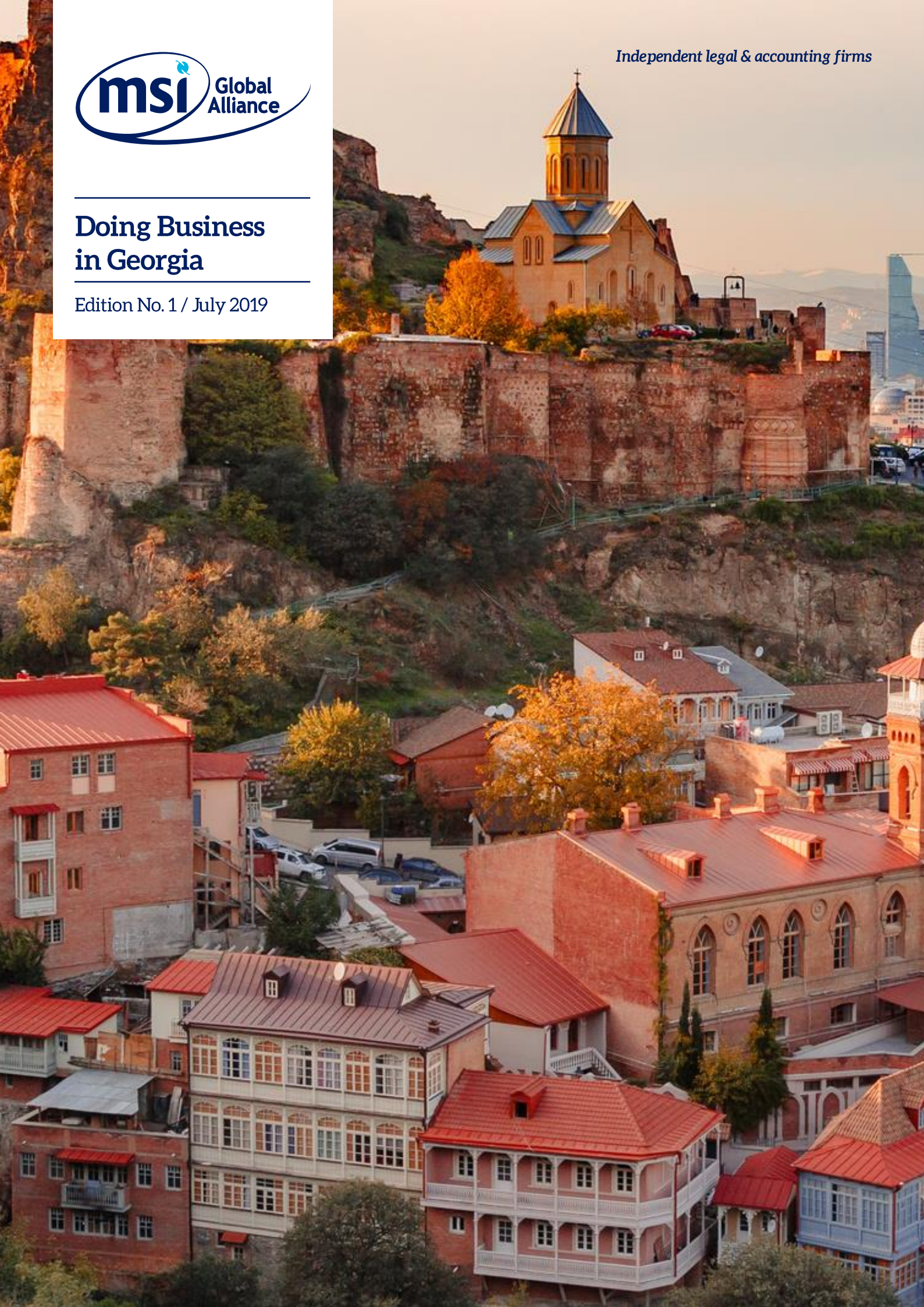




Independent legal & accounting firms

Doing Business in Georgia

Edition No. 1 / July 2019



Doing business in Georgia



MSI's guide on Doing Business in Georgia provides current information about the financial, regulatory and legal considerations that could affect business dealings within Georgia. For further assistance please contact our MSI member firm in Georgia.

Country overview

Population

Georgia has a total population of 3.7 million inhabitants (2018 estimate).

Government

Georgia is a representative democratic semi-presidential republic, with President Salome Zurbishvili as the head of state, and Prime Minister Mamuka Bakhtadze as the head of government. The executive branch of power is made up of the President and the Cabinet of Georgia. The Cabinet is composed of ministers, headed by the Prime Minister, and appointed by the President.

Languages

The national language is Georgian. It has its own alphabet, which is thought to have evolved around the 5th century, and there are many dialects. The Georgian writing system is one of 14 unique scripts in the world.

Currency

The national currency is the GEL.

Economic summary

GDP: \$16.716 Billion

Income per capita: \$11.600

Inflation: 3.7%

Main sectors of the economy

Located between Europe and Asia on the historical "Silk Road", the economy of Georgia is highly integrated with international markets.

Georgia's main economic activities include cultivation of agricultural products such as grapes, citrus fruits, and hazelnuts; mining of manganese, copper and gold; the production of

alcoholic and non-alcoholic beverages, metals, machinery, and chemicals in small-scale industries. The country imports nearly all of its needed supplies of natural gas and oil products. It has sizeable hydropower capacity that now provides most of its electricity needs.

EU country/ Non-EU and its impact on businesses and investors

The EU and Georgia signed an Association Agreement on 27 June 2014, and it has entered into force since 1 July 2016. The agreement introduced a preferential trade regime – the Deep and Comprehensive Free Trade Area (DCFTA).

The DCFTA creates a closer economic integration of Georgia with the EU based on reforms in trade-related areas. It is based on the principles of the World Trade Organisation. It removes all import duties on goods and provides for broad mutual access to trade in services. It allows EU and Georgian companies to set up a subsidiary or a branch office on a non-discriminatory basis. This allows the foreign company to benefit from the same treatment as domestic companies in the partner's market.

The DCFTA allows Georgian trade-related laws to generally match selected pieces of the EU legal framework. Georgia's adoption of EU approaches to policy-making will improve governance, strengthen the rule of law and provide more economic opportunities. It will also attract foreign investment to Georgia.

Free movement of goods and services contributes to the growth of Georgia's export potential. Georgia will become an attractive country for investors, which will lead to an increase of investment

flows in the country and create new jobs

Setting up a business

Georgia is a part of the European Union's Free Trade Area. It features in the top 10 in the Ease of Doing Business Index by the World Bank Group, and is one of the least corrupt countries in the Black Sea region.

According to Doing Business 2018, Georgia is ranked 7th in terms of business management and 4th in terms of simplicity of starting business. Corporate law provides a flexible and liberal framework for the business entities of subsidiaries or branches. There are no special restrictions for a foreign entrepreneur to do business in Georgia.

Many foreign companies make use of a subsidiary rather than a branch. The main legal reason to set up a subsidiary, instead of a branch, is limitation of liability. As a shareholder of a subsidiary, the foreign company's liability is basically limited to the extent of its capital contribution; whereas, if the foreign company makes use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

Legal types of business entities

Business entities shall be: an individual entrepreneur, a general partnership (GP), a limited partnership (LP), a limited liability company (LLC), a joint-stock company (JSC, corporation), and a cooperative.

An individual entrepreneur, as the subject of the rights and obligations provided for in this Law, shall originate

only upon registration in the Entrepreneurial Registry. If any act is performed before registration on behalf of a business entity, those having performed such act and the founders of the enterprise shall bear personal liability as joint debtors, directly and proximately, with all their assets for all obligations arising from such act. This liability shall survive registration of the business entity.

General partnership companies, limited partnership companies, limited liability companies, joint-stock companies and cooperatives shall constitute the enterprises (companies) having the status of Legal Persons. An individual entrepreneur (enterprise) as defined in this Law shall not be a legal person. An individual entrepreneur shall fulfil his/her rights and obligations in business relations as a natural person.

Process of how to set up a business

Registration as an entrepreneur is a necessary procedure for starting a business (entrepreneurship). Registration of business in Georgia is related to simple procedures and only one day is required. In order to register a business, it is important to determine the form of enterprise, which is different and they vary from each other in its contents, liabilities and responsibilities.

Financial year of taxes and financial accounts

The financial year is equal to the calendar year. However, legal entities may choose for a different financial year if they wish. All legal entities pay the tax on profit and distributed tax exists in Georgia, which means that the entrepreneur shall pay the tax on profit at the time of distribution of dividends. In case the company does not distribute profit, the company does not pay the profit tax.

Accounting and auditing

A statutory audit is required when 2 out of the following 3 criteria are met:

- Annual turnover > 20 GEL million;
- Total assets > 10 GEL million;
- Number of employees > 50

IFRS has been translated and fully adopted and made mandatory as the only reporting standards in Georgia for a majority of enterprises (excluding sole entrepreneurs, small businesses and non-commercial legal entities).

Taxation

Georgia is a country with low tax rates and a transparent tax system. Tax and customs legislation is unified under one tax code and the collection of taxes and supervision of the tax environment is provided by Georgia's Revenue Service. All tax administration procedures and customs clearances are online/web-based. There are only six flat taxes in Georgia: Profit Tax, Value Added Tax, Excise Tax, Income Tax, Import Tax (Import duty) and Property Tax.

VAT

The standard VAT rate is 18% and applies to the sale of all goods and services supplied in Georgia.

Income tax

Personal income tax in Georgia is collected at a flat rate of 20% on local-source income. Foreign-source personal income is tax-exempt. Personal income tax for interest, dividend and royalty is 5%. There are few allowances deductible.

Profit Tax

Profit taxes are levied at a flat rate of 15%, which was enacted in 2008. From 2017 onwards, non-distributed profits are exempt from taxation.

Property Tax

Property taxes are payable by legal entities and natural persons.

Enterprise property tax

Taxable property: Resident enterprises /organisations pay a tax on assets recorded as the principal means on its balance, uninstalled equipment, uncompleted construction, as well as leased property.

Non-resident enterprises on the property being in the territory of Georgia specified in first part of this paragraph (including lease, rent, usufruct or other

similar agreement issued to the property in the territory of Georgia).

Land

Taxable property: Local tax is introduced by a local self-governing representation body within the rates determined by the government of Georgia, which is binding in the territory of relevant self-governing units.

Registration procedures

Natural persons and companies are registered with the tax authorities and are given a fiscal registration number. Communication with the tax authorities by way of tax returns and tax assessments is largely done in an electronic way.

Double Taxation Avoidance Treaty

The main purposes of the Agreement on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on income and on capital are to promote economic cooperation between countries and encourage foreign investments.

As of 2008, Georgia has initiated and concluded DTA agreements with its major trade partners. The Georgian draft agreement is based on the 2008 OECD Model Tax Convention on Income and on Capital, according to which taxing rights are distributed between treaty partners. For the avoidance of double taxation, residents of one Contracting State deriving income from the other Contracting State will be credited against tax in the source state.

The DTA agreement also regulates issues regarding the prevention of fiscal evasion by means of implementing internationally recognised standards of exchange of information for tax purposes. Currently Georgia has 55 active agreements.

HR/ Labour Law

Employment law

The Labour Code of Georgia regulates labour and its concomitant relations in the territory of Georgia, unless they are

otherwise governed by other special law or international agreements of Georgia.

The legal ability for a natural person to work in Georgia is at the age of 16.

Social security

The social security system in Georgia is composed of the following schemes: The social assistance schemes; the old age scheme; social services; the social safety net and the social compensation schemes.

In Georgia one of the main components of the social security system is social assistance.

State Pension

State pension is the sum of monthly monetary benefits and health insurance for a person. A person will be able to receive a pension after submitting the application to any territorial body of the LEPL Social Service Agency, regardless of the place of registration of the applicant. The ID card of the applicant shall be attached to the application.

State pensions can apply to citizens of Georgia; persons having status but not citizenship; citizens of foreign countries permanently residing in the territory of Georgia during the last 10 years at the time of filing an application for pension. Men are entitled to pensions at the age of 65, while women are entitled when they are 60 years old.

Payroll

The Pension reform in Georgia came into effect on 1 January 2019. The accumulated pension reform is separated from the state pension system. Parliament passed the accumulative pension law on 21st July 2018. Following the enactment of the system, savings of citizens will be enrolled in the special pension fund. The money will accrue at a certain interest rate and citizens will receive this amount after they reach the pension age.

The pension scheme automatically applies to all citizens who receive employment pay. This system is partially obligatory: Persons who are 40 years' or more will be able to choose whether to

enrol in the system, however for those under the age of 40 the system is mandatory.

Their participation will be reflected in the following formula:

- The employee contributes 2% of the monthly salary.
- The employer transfers 2% of the employee's salary to the Fund.
- The state cuts 2% of the employee's gross salary and adds it in the pension fund.

The formula is 2% + 2% + 2%, meaning that the monthly saving is 6% from the employee's salary. In addition, involvement in self-employed system is fully voluntary, but in case of involvement individuals are obliged to pay 4% from their annual taxable income into the fund..

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Georgia should seek professional advice from our member firms before making any business or investment decision.

Contact our member firm in Georgia to discuss your requirements:

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