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## Tax Code System in Georgia

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Taxation - fundamental to state formation and the provision of state services - has long been an issue that has plagued Georgia. Before the Rose Revolution, there was widespread tax avoidance and evasion, reflecting state weakness and corruption, and impacting severely on service delivery. With political will, and specifically with the introduction of a new tax code in 2005, there has, however, been a major change in the Georgian fiscal landscape. Taxes have been slashed, procedures streamlined, corruption eliminated and compliance greatly improved. Reflecting this has been a massive increase in the government's tax-take.

Ultimately, taxation is a mirror of any given country, and as such, the major advances and continued weaknesses in the Georgian tax system reflect both the concrete progress the country has made over the next years, and the continue need for more reform.

The 2005 tax code transformed the Georgian fiscal landscape. Only six taxes emerged from the legislative deluge (down from 21 in 2004), rates are so low that Georgia is now ranked 4th in the world in terms of how much it taxes its citizens.

Following some amendments, the tax code now sets the following taxes:

- Income tax
- Corporate tax
- VAT
- Excise tax
- Customs duties tax
- Property tax

***Important Note:*** Since 1995, all legal and physical entities are obliged to estimate all prices for products and services, prepare declarations and calculations within the territory of Georgia only in national currency, which is Lari. Therefore, Georgian currency is the only permitted instrument for settlements within the territory of Georgia.

Restructuring, retraining and innovations such as e-filing have meant a more streamlined and effective Tax Administration is also one of the innovations introduced that have made life easier for businesses. One foreign businessman operating in Georgia said: "There is never even the tiniest hint of corruption."

PriceWaterHouseCoopers' global tax ranking places Georgia 64th out of 183 countries in terms of ease of paying taxes.

### **Income Tax**

Georgia operates a flat 20% tax rate for individuals. Georgia increased the personal income tax from 12% to 25% in 2008, in conjunction with the elimination of social tax.

An Income tax payer shall be:

- a) a resident natural person
- b) a non-resident natural person earning income from a Georgian source.

### **Corporate tax (Profit tax)**

Georgia adopted a low 15% corporate tax rate in 2008, except Profit gained from oil and gas operations as a result of fulfillment of the 'existing agreements' provided for by the Law of Georgia on Oil and Gas shall be taxed at the rate of 10%, provided these agreements were signed before 1 January 1998.

Profit tax payers shall be:

- a) a resident enterprise
- b) a non-resident enterprise that conducts business in Georgia through a permanent establishment and/or earns income from a Georgian-based source.

Within income tax calculation for conducted with international companies, taxpayers can benefit with ***Double Tax Avoidance*** (DTA), which means to avoid double taxation of the operation conducted between two different countries' resident companies.

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. Beginning from 2008 Georgia has initiated and concluded DTA agreements with its major trade partners. Georgian draft agreement is based on 2008 OECD Model Tax Convention on Income and on Capital, according to which taxing rights are distributed between treaty partners.

### **Value Added Tax**

In Georgia, the standard VAT rate is 18%. There are no reduced rates, but a zero VAT rate applies to exports, services of tour operators, electrical power, international shipping activities or transfers of gold to the National Bank of Georgia.

There is a mandatory registration requirement only if the annual business revenue is equal or above 100,000 GEL, also a person carrying out import or temporary admission of goods into Georgia and a person who produces excisable goods in Georgia.

### **Excise tax**

Georgia applies excise tax to the traditional excisable products: alcohol, tobacco products, cars and various petroleum products.

From September 2010, the government has also applied a 10% excise tax to mobile telecommunications services.

### **Customs duties tax (Import tax)**

Import duties are payable by persons whose goods cross the customs border of Georgia. Import duties consist of taxes (import tax, VAT and excise tax) and customs fees. Georgia has only three tax rates: 0%, 5% and 12%. Most goods are subject to the 0% rate.

### **Property tax**

Property tax is the only tax in Georgia levied by the local government. Local authorities set the tax rates within limits established by the tax code.

*Note:* Individual submits property tax declaration, if the income of such person's family within the previous year of current calendar year exceeds 40 000 GEL.

According to the general statistic data, VAT has the highest indicator for the contribution of money in Georgian budget (45.5%), the second place takes income tax (26.8%), the third profit/corporate tax (11.4%) and etc. Therefore, VAT, income and profit taxes represent the most important burden for the entrepreneurs in Georgian market.

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