

Tax and Legal Newsletter

Upcoming Changes in Tax legislation

The following considerable amendments are discussed to the Georgian Tax Code:

- According to the amendment of the article 131, interest paid to the enterprises shall not be taxed at source;
- Amendment of sub article 4 of article 168 exempts from VAT with the right of deduction: container/carriage services of a nonresident delivered on the territory of Georgia by means of container/carriage owned by a nonresident except of leasing of container/carriage; and for container/carriage services of a resident delivered outside the territory of Georgia; Container/carriage services of a resident delivered by means of container/carriage owned by a resident except of leasing of container/carriage;
- Limit of tax arrears shall be increased from GEL 5,000 to GEL 50,000, which can be postponed for 1 year without submitting any guaranty;
- According to the upcoming amendment of sub article 4 of article 275, understating taxes in a Tax Return in excess of GEL 100,000 (instead of GEL 50,000) shall be deemed tax evasion in large amounts and entail responsibility in accordance with the criminal legislation of Georgia. The amendment is caused by increase of the amount for tax evasion from GEL 50,000 to GEL 100,000 in the Criminal Code of Georgian;
- Sub article 31 and 32 will be added to article 286 which is caused by amendments in Criminal Code of Georgia. According to the amendments transportation of goods for entrepreneurial activities

without a consignment note, failure to issue a consignment note upon the buyer's request or refusal to accept a consignment note when purchasing goods if the cost of the food exceeds GEL 10,000, shall not entail responsibility in accordance with the criminal legislation of Georgia. Pursuant to this project such activities are subject to penalty in the amount of GEL 10,000;

- Sub article 103 will be added to the article 309. Enterprise distributing profit gained during the reporting period of 2008-2016 years in favor of the founder enterprise shall be taxed during the distribution. In such case the enterprise shall deduct profit tax paid in 2008-2016 years, and the profit shall not be taxed during the next distributions. Furthermore, distribution of dividends received before January 1st, 2017 shall not be deemed as distribution of profit and shall not be subject to taxation.

Other Legal Updates

Law of Georgia on Entrepreneurs

In April, 2017, Parliament of Georgia approved the following amendments to the law of Georgia on Entrepreneurs:

Sub articles 1, 2 and 5 of Article 13¹ shall be formulated as follows: 1. An audit committee shall be set up at the Supervisory Board of a PPI. The audit committee is a subcommittee of Supervisory Board and is composed only with the members of the Supervisory Board. At least one member of audit committee shall be an independent person. At a PPI where there is no Supervisory Board, an independent audit committee shall be set up, members of which shall be independent persons elected by a general meeting for a definite term.

2. For purposes of paragraph 1 of this article, a person shall be independent if he/she has no legal and/or economic relations with an enterprise, including if he/she holds no shares/equity in the enterprise and receives no remuneration or other economic benefits from this enterprise except for the fixed salary received for being a member of Supervisory Board or audit committee.

5. The chairperson of the audit committee shall be elected by the Supervisory Board from the members of the audit committee, and at a PPI where there is no supervisory board, the chairperson of the audit committee shall be elected by a general meeting. The chairperson of audit committee shall be an independent person defined to sub article 2 of this article.

Article 46¹ is added to the law. The new article determines procedures of selling shares by a shareholder in the limited liability company.

Article 53 is also amended. The amendments basically concern the privileged right of the shareholder to purchase shares in the joint stock company.

Important Court Cases

Tbilisi Court of Appeals made an interesting decision regarding validity of lease agreement and compensation for the expenses incurred from this agreement on case # 2b/5318-15.

The plaintiff requested to impose lease fee on the defendant. The defendant's appeal was based on two factors:

1) the contract was not valid, as it was concluded for a period of 2 years and have not been registered in the National Agency of Public Registry;

2) subject of the contract had a material defect, which caused maintenance costs.

Both instances of the court explained that the absence of the registration in the National Agency of Public Registry does not lead to the invalidity of the lease agreement. The defendant failed to prove that the maintenance costs were carried out in accordance to the owner's interest and will.



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