

# Tax and Legal Alert

## Overview of changes in Georgian legislation January, 2019

### Legal news:

On December 24, 2018, the National Bank of Georgia issued an order №281/04 on „Approving the Rule on Issuing Loans to Natural Persons”, which is effective from 01 January 2019. The order requirements apply to individuals (including individual entrepreneurs), all types of loans/credits provided by borrowers, also to receiving suretyship and/or mortgage/pledge.

The order does not apply to:

- Loans secured with movable property;
- The natural person if after issuing the loan, amount of total obligations toward the lender exceed 2 000 000 GEL or its equivalent in foreign currency;
- Restructured loans if the loan is restructured in the same or another loan issuer organization, provided that total amount of obligations is not increased;
- The cases, when occupied immovable property is to be returned to former owner or his/her family member, when the loan is issued;
- If natural persons supply legal entities with suretyship/pledge/mortgage provided that these natural persons are

shareholders/member of the board or member of household;

- The loans secured with financial instruments or/and monetary funds;
- Purchasing new apartment on the part of mortgage loan, which will be repaid via realization of existing apartment;
- The person providing mortgage of immovable property, if the loan is issued in accordance with the present order and the mortgaged property is not his/her living place.

The order also determined maximum terms for loans. Namely, the maximum amount for mortgaged loans should not exceed 15 years; maximum term for consumer loan secured by the immovable property - for 10 years; for transport loans - 6 years and for



other consumer loans (except for revolving products), the maximum term is 4 years.

The loan issuer entity shall issue the loan and/or receive suretyship/pledge/mortgage only after analyzing creditworthiness of the borrower. Analysis procedures are defined by order in details.

It should be taken into consideration, that if the natural person is a co-borrower and a member of household, then total income shall be considered while calculating coefficients for loan services set by the order. Moreover, the difference between the monthly net income of the borrower and the monthly obligations should exceed the subsistence minimum of the household established by the National Statistics Office of Georgia.

For proving income of the natural person bank extracts/certificate from the Revenue Service shall be used. If there is no such document, the loan issuer entities may assess stability of income and conduct financial analysis based on their internal policy/procedures.

In case the loan issuer entity violates the provisions of the Order, the National Bank of Georgia is authorized to use sanctions imposed by the legislation.

**On January 10, 2019, the law adopted by the Parliament of Georgia dated December 22, 2018 on the amendment to the Civil Code of Georgia was published on the Legislative Herald of Georgia. According to the law, the rule of tying or indexing fee to foreign currency have changed and the amount limits are increased from GEL 100,000.00 to GEL 200,000.00.**

Section 2 of Article 5051 of the Civil Code was established as follows:

*"2. If the total obligations of the buyer or lessee respectively do not exceed 200,000 (two hundred thousand) GEL as a result of the Instalment Sale/ A Finance Lease Agreement, the item price should not be tied or indexed to any foreign currency."*

Paragraph 6 of Article 625 was formulated as follows:

*"7. Unless otherwise specified by the Georgian legislation, the loan amount of which does not exceed 200 000 (two hundred thousand) GEL shall be issued only in GEL, except the cases when total obligations of the borrower toward the lender exceeds 200000 GEL. For the purposes of this Section, the loan issued in GEL is not considered to be any loan linked or indexed to the foreign currency."*

Section 868 of Article 8 was formulated as follows:

*"8. Unless otherwise specified by the Georgian legislation, the bank credit, amount of which does not exceed 200 000 (two hundred thousand) GEL shall be issued only in GEL, except the cases when total obligations of the borrower toward the bank exceeds 200000 GEL. For the purposes of this Section, the loan issued in GEL is not considered to be any loan linked or indexed to the foreign currency."*

## Tax news

According to the amendment made to Article 97 of the Tax Code of Georgia, starting January 1, 2019, organizations shifted to the new model of Corporate Income Tax (so called “Estonian” model).

**Matters covered in this publication are intended for general overview and discussion. They are not intended, and shall not be used, as substitute to seeking professional advice for specific issues.**

### Contacts

In case you need additional information, our tax specialists will be happy to comment and clarify all possible matters on the amendments, as well as assist with their practical implementation in accounting system and tax assessment practices.

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