
PwC Georgia Tax & Law Brief

9 January 2017

Amendments to the Tax Code of Georgia

Co-funding from the Entrepreneurship Development Agency

- According to the amendments, co-funding received by micro and small businesses from the Entrepreneurship Development Agency before 1 January 2017 within the governmental program “Produce in Georgia”, will not be included into the gross income. The amendments will apply to the legal relations from 1 January 2015.

Source: The Legislative Herald of Georgia, 29 December 2016

Regulation # 615 of the Government of Georgia

List of preferential tax treatment countries

- The Government of Georgia issued the regulation providing for the list of preferential tax treatment countries for the purposes of profit tax and taxation of non-resident’s income at the source.

Source: The Legislative Herald of Georgia, 30 December 2016

Amendments to the Civil Code of Georgia and to the Organic Law on National Bank of Georgia

The Parliament of Georgia passed the draft amendments providing for maximum limits on effective interest rates, maximum limits on penalties and on other financial sanctions on loans, in particular:

Interest Rates

- The annual effective interest rate on the non-mortgage loan shall not exceed 100% of the loan principal. The same rule applies, when the period of the loan is renewed, i.e. when the principal of the loan is paid and within 5 business days from such payment new loan is issued. This regulation covers mortgage loans up to 1 000 GEL as well.
- Under the Civil Code of Georgia, the monthly interest rate on the mortgage loans of 1 000 GEL and above is subject to the limit published on the official website of the National Bank of Georgia (NBG). This rule does not apply to the Financial Sector Representatives (FSR) of Georgia (e.g. commercial banks, micro finance organizations etc.). However, according

***Commissions,
penalties & other
financial sanctions***

to the amendments, the NBG will be entitled to subject FSR to this rule.

- The total amount of commission, any financial expenses and penalties or any other financial sanctions accrued per day on the loan shall not exceed annual 150% of the residual principal amount of the loan. Under the amendments, the NBG may stipulate the rule different from the above for FSR (except for interest rate).
- Under the amendments, the lender shall not impose commissions and/or penalties for prepayment of loans exceeding 2% of the residual principal amount of the loan. This rule applies to the prepayments through refinancing and prepayments made from the borrower's own funds and/or by a third party. The NBG is entitled to set different rules for FSR in terms of commissions for prepayments.
- If an entrepreneur or the group of entrepreneurs attracts funds in any form from more than 20 individuals, the amount attracted from each individual shall not be less than 100 000 GEL. This restriction does not apply to FSR.

***Restrictions on
attracting funds***

The amendments provide for restrictions in terms of foreign currency as well, in particular:

***Restrictions
regarding foreign
currency***

- Loans up to 100 000 GEL can be issued only in GEL if the borrower is an individual. The loan cannot be deemed to be issued in GEL if it is indexed or attached to a foreign currency.
- Under the draft law, from 1 July 2017, the price of the offer and/or advertising of sale of property and / or supply of service in Georgia made by the entrepreneur shall be quoted in GEL.
- The NBG is entitled to stipulate rules different from the above.

The rules regarding loans in foreign currency, interest rates, penalties and other financial sanctions mentioned above apply to the commercial bank credits as well. Under the draft law, the amendments will enter into force from 15 January 2017.

The rules of calculation and definitions of the annual effective interest rate on the loan, the residual principal amount of the loan, financial expenses etc., are determined by the Order # 151/04 of NBG issued on 23 December 2016. The Order applies to FSR and provides for specific rules regarding formation of contracts with the consumers of financial sector.

Source: The Parliament of Georgia, 29 December 2016

Decision of the Constitutional Court of Georgia

***State fees
for legal persons***

- The disputed constitutional issue was Civil Procedure provisions regulating the amount of state fees for legal entities. The disputed provisions set higher state fees for legal

persons than for individuals in case of the applications for provisional measures, for using, recognizing or executing provisional measures related to arbitration proceedings and for reopening proceedings on the grounds of newly discovered circumstances. The Constitutional Court of Georgia deemed provisions unconstitutional since they provided for unjustified differentiated treatment for legal persons.

Source: The Constitutional Court of Georgia, case №2/6/623, 29 December 2016

Let's talk

For a deeper discussion of how this issue might affect your business, please contact PwC Georgia

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