

TAX CODE OF GEORGIA

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BOOK 1. GENERAL PROVISIONS

PART I. GENERAL PROVISIONS

CHAPTER 1. TAX SYSTEM OF GEORGIA

Article 1. Relations Regulated by the Tax Code of Georgia

1. This Code, as provided by the Constitution of Georgia, shall regulate the general principles of the formation and functioning of the tax system of Georgia, legal relations related to meeting tax liabilities, legal status (condition) of taxpayers and tax agencies, responsibility for the violation of tax legislation, procedures and conditions for appealing illegal actions (inaction) of tax agencies and officials thereof.
2. The payment of customs taxes and duties is regulated by customs legislation.

Article 2. Georgian Tax Legislation

1. The tax legislation of Georgia consists of Constitution of Georgia, international agreements ratified and signed by parliament and this Code and subordinated normative acts adopted in compliance with it.
2. For the purpose of taxation the officially published acts of tax legislation that are in effect on the day when the tax liability arises are applied.
3. In case of a conflict between the provisions of the Code and normative acts of other spheres of the legislation in cases concerning tax matters, provisions of this Code shall prevail.
4. In cases provided by this Code, the government of Georgia or the Ministry of Finance of Georgia (hereinafter referred to as MOF) shall be authorized to issue subordinated normative acts in connection with taxation. The subordinated normative acts shall not contradict the provisions of this Code. In case of such contradiction, the provisions of this Code shall apply.
5. Definitions of the Civil or other legal areas used in this Tax Code shall be applied with the meaning specified in the relevant legal area, unless otherwise provided by this Code.
6. It is prohibited to regulate issues connected with taxation under the non-tax legislation, except for:

- a) provisions concerning administrative offenses included in the Administrative Offenses Code;
 - b) provisions concerning tax crimes included in the Criminal Code;
 - c) provisions concerning priority of tax liabilities included in the law of Georgia “On Bankruptcy”;
 - d) customs legislation;
 - e) legislation regarding imposition of levies.
 - f) provisions of the Law of Georgia “On Tax Liabilities and State Loans Restructuring”.
7. If an international treaty signed and ratified by Georgia establishes norms other than those provided in the tax legislation of Georgia, the norms of the international treaty shall apply.
 8. Normative acts of the tax legislation shall become effective on the basis of the rules set under the Law of Georgia on “Normative Acts”, unless otherwise provided by this Code.

Article 3. Instructions, Orders and Guidelines

1. For the purpose of executing this Code, the MOF shall approve instructions. No provision of the instruction, which is not consistent with the provisions of the tax legislation acts, shall have legal force.
2. A chairman of the Tax Department of the Ministry of Finance shall issue orders, internal guidelines and methodological instructions in connection with the application of the tax legislation by tax agencies. In the process of executing the tax legislation, the tax agencies shall be guided by such orders, internal guidelines and methodological instructions

Article 4. Setting Deadlines

1. A deadline established under the tax legislation shall be a calendar date or the period of time, which is calculated according to years, months or days. A deadline may also be set by indicating to the circumstances, which will definitely take place.
2. Any deadline established under this Code shall commence on the following day of the actual event.
3. Deadlines for implementing actions shall be defined by a specific calendar dates or by indicating the event, which will definitely take place, or by a period of time. In the latter case, the action may be carried out during the continuation of the whole period.
4. A deadline, which is calculated according to years, shall finish in the respective month and date of the last year of the deadline.

5. A deadline, which is calculated according to months, shall finish at the last month of the deadline, upon the end of a respective month and date.
6. Activity for implementation of which a deadline is set may be carried out until the end of the last work day of the deadline, except for the cases, when this code permits implementation of this activity through bank transfers or insured post courier. In such cases activity is considered implemented within deadlines, if it was performed by 12 pm of the deadline.
7. If the last day of a deadline coincides with a non-business day then the deadline shall continue until the end of the next business day.

Article 5. Limitations of prescription

Statute of limitation for presenting “a tax notice” (on tax and/or sanction payment accrual) and “a taxpayer notice” (on tax refund or credit) is 6 year, unless otherwise stipulated by this Code. This period is calculated from the end of the tax year when the respective liability arose.

Article 6. Concept of a Tax

As provided by this Code, a tax is a mandatory, unconditional cash payment to the state, autonomous republics of Abkhazia and Osetia and local budgets of Georgia, which shall be paid by a taxpayer, having a mandatory, non-quid-pro-qwo and gratuitous nature of payment.

Article 7. Tax System of Georgia

The tax system of Georgia comprises:

- a. legal conditions of the parties of relations defined by the Georgian Tax legislation, their rights, obligations and responsibilities;
- b. taxes, rules of their establishment, amendment or elimination ;
- c. rules, forms and methods of tax payment, tax control, providing satisfaction of tax liabilities
- d. Rules for appeal and resolution of disputes arisen from relations defined by Georgian tax legislation;

Article 8. Principles of the Tax System of Georgia

1. Any person shall be obligated to pay nation-wide and local taxes established under this Code, according to which this person is a taxpayer.
2. It is prohibited to charge anyone with the obligation to pay a tax, which is not envisaged by this Code or which is established by violating the provisions of this Code; as well as compulsion of payment of taxes before deadlines established by the Code

3. Taxes assessed according to this Code represent a debt to the state and shall be subject to obligatory payment to the budget.
4. Municipalities are authorized to introduce local taxes envisaged by this Code only.

Article 9. Types of Taxes

1. Nation-wide and local taxes are in effect in Georgia.
2. The nation-wide taxes are taxes regulated by this Code, payment of which shall be mandatory on the entire territory of Georgia.
3. Local taxes are taxes regulated by this Code and established under the normative acts of local self-governing bodies (municipalities), the payment of which shall be mandatory on the corresponding territory of relevant subject.
4. The following belong to the nation-wide taxes:
 - a) income tax;
 - b) profit tax;
 - c) value-added tax
 - d) excise;
 - e) social tax
5. The following belong to the local taxes:
 - a. property tax;
 - b. tax on gambling business.

Article 10. Legal Basis for Establishment and Payment of taxes

1. Establishment, amendment or elimination of the nation-wide taxes shall be carried out by introducing respective changes and additions to this Code.
2. The local self-governing bodies, within their competence, shall be authorized to introduce the local taxes as provided only by this Code within the utmost amount set under the Tax Code of Georgia.
3. Establishment or elimination of the local taxes shall be carried out by introducing respective changes and additions to this Code, while the amendment of payment conditions or elimination of local taxes – by introducing changes and additions to the respective normative acts of relevant self-governing bodies.
4. The local self-governing bodies shall provide the Tax Department of Georgia and the respective tax agencies with the information about the introduction or elimination of

local taxes, amendment of payment conditions and send the copies of normative acts thereof immediately after publication.

CHAPTER 2.TERMS AND CONCEPTS USED IN THE TAX CODE

Article 11. Tax terms and concepts application areas

Terms and concepts defined under this Code, which have the different meaning from terms and concepts in other spheres of legislation, shall be used only in regulating tax relations unless otherwise provided by the Georgian legislation.

Article 12 Definition of Terms Used in the Tax Legislation

1. **Person** – a physical person or legal person as defined under the Civil Code of Georgia, enterprise (organization) as defined under the Tax Code of Georgia.
2. **Taxpayer identification number** - a number assigned by the tax agency a taxpayer in accordance with Article 101 of this Code.
3. **Accounting documentation** - primary documents (including primary tax documents), accounting registers and other documents, which are the base for defining tax objects and objects related to taxation and tax liability.
4. **Administration of taxes** - aggregate of forms and methods connected with the calculation, payment, declaration, and control of taxes, as well as, keeping record and informing of taxpayers and providing for satisfaction of tax liabilities, performed by tax agencies in the process of executing tax legislation.
5. **Location of taxable property** - the place where the property is actually located; in case of movable property, place of registration in accordance with the procedure established by legislation. In case of movable property, if there is no place of registration, location of taxable property shall be defined in accordance with its actual location.
6. **Resident** - a resident physical person, a Georgian enterprise or a Georgian organization.
7. **Non-resident** - a person who is not a resident.
8. **Family** – Spouses, parents, children (step-children) and sisters and brothers, grandmother and grandfather residing jointly and maintaining a common household.
9. **Partner**– partner, shareholder, comandite, complementary, member of cooperative, according the Law of Georgia “On Entrepreneurs”.

10. **Capital (Emission) Surplus** – difference between total proceeds from selling shares issued by an enterprise and the total nominal value of these shares. Also, at a time of establishing entrepreneurial entity, surplus of non-cash (in-kind) contribution over established amount in accordance with Article 3.3 of the Law of Georgia “On Entrepreneurs”.
11. **Dividend** -- portion of the net profit that is distributed by a legal person among the partners considering tax year (years) results; also income from the distribution of property upon liquidation or repurchase of assets of a legal person, (in accordance with Article 53¹ of the Law of Georgia “On Entrepreneurs”) except for property of authorized capital and Capital Surplus, as well as property which the partner has previously contributed.
12. **Interest** – Income received from any debt liability (except for liabilities arising from supplying goods and/or rendering service) including payments related to credits (loans), deposits, accounts, bonds (securities) as well as income received in a form of discounts and interest received from the public pension funds.
13. **Royalty:**
- a) payment for the right to extract mineral resources as well as use them when processing man-caused formations;
 - b) income received for the use of or right to use copyrights, software, patents, blueprints or models, trademarks or other ancillary types of rights;
 - c) income received for the use of or right to use industrial, trade, or scientific-research equipment;
 - d) income received for the use of know-how;
 - e) income received for use of or the right to use movies, videos, recordings or other recording media;
 - f) income received for rendering technical assistance in connection with the rights stipulated by this part, or for the repudiation of use of any of the above.
14. **Indirect tax** - tax (VAT, excise, etc.) which is imposed as an addition to the price of the supplied goods (services) and is payable by the customer when purchasing the good at the price increased with this tax. The liability to pay the indirect tax to the budget is borne by the supplier of a good (services) who, for purposes of this Code, is defined as a taxpayer.
15. **International transportation** – shipment of cargo/transportation of passengers by any transport facility for which a unified transportation document is issued on the customs territory of countries of dispatch, destination and transit, crossing one or several frontiers, from any dispatch customs territory to the destination customs territory via one or several intermediate customs territory.
16. **Identical goods** – goods, which bear common basic features like physical characteristics, quality, market reputation, country of origin and a producer.

17. **Similar (homogeneous) goods** – goods, which are not identical but bear similar features and consist of similar components, which enables them to carry out one and the same functions and be commercially interchangeable.
18. **Export of goods, import of goods, re-export of goods, re-import of goods, transit of goods, temporary import of goods, customs territory of Georgia** – is defined by the Customs Legislation of Georgia, unless otherwise provided by this Code.
19. **Commodity nomenclature of foreign economic activities** – the code system of commodity classification, which is adopted in accordance with the International Convention on Harmonization of Commodity Description and Coding System.
20. **Outstanding Liability** – past due tax arrears generated from taxes and/or penalties and fines provided under the tax legislation of Georgia, if by application of interim measures of protection against taxpayer's/tax agent's property is determined that the taxpayer/tax agent does not possess property and/or assets, or the property and/or assets too scarce cover judicial/arbitration expenses.
21. **Bad debt** – expired and unpaid before the end of the current tax year tax notice or its part, acknowledged by the taxpayer as a result of goods and/or services sale.
22. **Acknowledged excess amount paid** - excess amount paid according to each tax, which:
 - a. had been detected by the tax agency;
 - b. had been approved by the tax agency based on the taxpayer demand;
 - c. had been derived from the decision of the dispute resolution council at the Ministry of Finance;
 - d. had been derived from the lawful decision of arbitrage/justice ;
23. **Acknowledged tax liabilities** - tax and/or sanction derived from:
 - a. tax return filed by taxpayer/tax agent or other liable person;
 - b. tax notice, which had been approved by the taxpayer/tax agent or other liable person or whose appeal deadline has already passed;
 - c. lawful decision of arbitrage/justice;
24. **Tax arrears**-the difference between taxpayer's/tax agent's or other liable person's total tax liability and excess amounts paid by him;
25. **Acknowledged tax arrears** - the difference between taxpayer's/tax agent's or other liable person's acknowledged total tax liability and excess amounts paid by him;
26. **Loss** -- loss disclosed as a result of comparison made between the accounting records of an enterprise and the relevant inventory list of material valuables and goods. In respect of the goods that can not be physically warehoused and thus, inventoried (such as electric power, natural gas and etc.), shortage shall be regarded as a difference between the valuables purchased (consistent to the supporting purchasing document) and those sold, i.e. valuables actually taken out of the enterprise, in case if a debtor (person who reimburses) or/and a person who has misappropriated is not identified. In case if the loss threshold is determined by the relevant authorized agencies, any amount exceeding it shall be deemed as a shortage.

27. **Intangible Asset** –Persons’ expenses on the right or intangible object, which is used for rendering service, supplying goods, production, lease and/or administrative purposes. Copyright, patents, trade marks, goodwill, software, organizational expenses, licenses, rights to lease, franchise, mining licenses, and special export/import rights belong to such assets.
28. **Tangible assets** – any asset not defined as intangible.
29. **Net assets** – difference between assets and liabilities of the person.
30. **Economic service life of assets** – shall be defined according to the International Accounting Standards.
31. **Property** – all items and intangible goods purchase of which is unlimited and which the person can possess, use and dispose of.
32. **Agricultural Land is:**
- a) arable and agricultural lands used for perennial crops; cultivated and natural meadows and pastures;
 - b) parcels of forests and wetlands used or to be used under established procedure for agricultural purposes;
 - c) farm-stead, garden, truck-garden, and cottage plots;
 - d) land plots belonging to industrial, transport, communications, energy or defense sectors or preserves and other non-agricultural plots of land located outside populated areas and used for agricultural purposes;
 - e) plots of land located within the bounds of cities, towns, villages, resorts and other types of populated areas , whereas targeted designation of these land plots has not been changed and their usage for agricultural purposes is permitted in accordance with current procedures;
 - f) lands occupied by melioration networks;
 - g) other lands, considered as agricultural land under the law “On Agricultural Land Ownership”.
33. **Non agricultural land** is any land not to be used for the agricultural purposes.
34. **Calendar Year** – period of time of the same year starting January 1 and including December 31. For the newly established taxpayers – 1st year registration is calculated from the 1st day of registration up until and including December 31.
35. **Year (except for a calendar year)** – any period of time, which consists of 12 months continuously.
36. **Fixed assets** – tangible assets to be used for more than one reporting period, which are in the possession of the person and are used in production, or for delivering goods or services, lease or administrative purposes.
37. **Non-depreciable fixed assets** – fixed assets that do not lose their value throughout exploitation.
38. **Representation expenses** - expenses incurred by a person in course of economic activities including:

- a) expenses related to events organization on behalf of person (presentations, receptions), soft drinks, mineral water, tee, coffee, breakfast, dinner, supper, banquet specified by protocol;
- b) expenses related to excursions and sightseeing;
- c) expenses related to purchase of souvenirs
- d) expenses related to events organized on behalf of a person and to services rendered to visiting guests;
 - d.a. consular services (issuance/extending of visas);
 - d.b. services related to meeting/seeing off at an airport (VIP service);
 - d.c. transportation services;
 - d.d. hotel services (reservations of rooms, accommodation fee);
 - d.e. expenses related to organization of receptions specified by protocol (soft drinks, mineral water, tee, coffee, breakfast, dinner, supper, banquet);

39. Compensation – property transferred to the person in order to reimburse own expenses, losses and deficit (lack); including allowance, remuneration, and reward for rendering of services.

40. Expenditures on repairs of property, plant and equipment – expenditures that improves standard (normative, original) performance of the existing asset (including modification (rehabilitation) of an item of plant to extend its useful life and increase in its capacity); upgrading machine parts to improve the condition of the asset beyond its originally assessed standard of performance and adoption of new production processes), excluding current exploitation expenditures on repairs or maintenance of property, plant and equipment that is made to restore or maintain the performance of fixed assets.

41. Counter or non-stationary trade place – place rented out on the market or bazaar territory where the person supplies goods and the space and fee (rent) of which is defined by the manager of the market/bazaar.

42. Inventory holdings – raw materials, materials, semi-finished goods, spare parts, containers and finished commodity (goods) used by the person in the course of general economic activities, in accordance with International Accounting Standards.

43. International Accounting Standards (hereinafter, IAS) – Standards verified by the Council of International Standards and introduced by the decree of the Commission on International Accounting Standards at the Parliament of Georgia.

Article 13. Economic Activity

1. *Economic activity* is recognized as any activity undertaken with the intent to gain profit, income or compensation, regardless of the results of such activity, unless otherwise stipulated by this Article.
2. The following activities are not regarded as economic activities:
 - a) activities of governmental agencies and local self-government bodies that are directly related to execution of the function entrusted to them by the legislation, except for

- rendering of services paid for on a contractual basis and other entrepreneurial activities;
- b) charitable activities;
 - c) religious activities.
3. Economic activity can be *entrepreneurial* and *non-entrepreneurial*.
 4. *Entrepreneurial economic activity* is recognized as an activity defined by Article 1.1 of Law of Georgia “On Entrepreneurs”, also, economic activity carried out in the form of commercial or other economic transactions, including economic activity related to purchase and sale of securities or other property if one of the following conditions is in place:
 - a) such activity is performed on a continuous basis and represents a professional activity of the person carrying out the transactions;
 - b) the seller sells produced goods or rendered services;
 - c) such transactions are carried out within the trade, intermediary (including dealers’ activities) or brokerage framework.
 5. *Non-entrepreneurial economic activity* is recognized as a transfer of property (including cash assets) for payment by one person to another for temporary possession, use or management, without transfer of title to this property or a part thereof as well as right to dispose of it, if such a transfer is not a financial activity and does not impose additional obligations not related to the target use of the transferred property or obligations related to the payment of compensation for possession, use or management of the above property on the property recipient, unless otherwise provided by this Article
 6. Non-entrepreneurial activity includes:
 - a) employment;
 - b) placing money in banks or other credit institutions;
 - c) leasing of property, except for cases stipulated by part 4 of this Article
 - d) property management by proxy;
 - e) activities of a physical person independently engaged in activities defined by Article 1.2 of the law of Georgia «On Entrepreneurs».
 7. Unless otherwise prescribed by part 4 of this Article, purchase (sale) of securities or share of the authorized capital of an enterprise, acquisition (sale) of bonds or any other promissory notes; purchase (sale) of share in a investment fund as well as sale of copyright or similar right owned by the seller are deemed to be equivalent to non-entrepreneurial activity;

Article 14. Charitable Activity

1. For the purpose of this Code Charitable activities include:
 - a) voluntary, gratuitous assistance provided to people in need of such assistance, directly or through the third persons, among them:
 - a.a.) physical persons in need of social protection or adaptation, medical care, persons with low income, among them: disabled persons, elderly,

orphans, persons without a bread-winner, refugees and IDPs, diseased, families with many children and their members, suffered from war, armed conflicts, accidents, natural disasters, catastrophes, epidemics and epizootics;

- a.b.) organizations, providing nursing or other similar services to children, elderly and disabled persons. Among them are: children's homes, boarding schools, hostels, pre-school and other children's institutions, retirement homes, free canteens, medical institutions and rehabilitation centers.
- a.c.) charitable organizations under this Code.
- a.d.) religious organizations;
- a.e.) gifted and talented physical persons for further development of their talent;
- a.f.) penitentiary institutions for improvement of caring or medical services to prisoners;
- a.g.) persons, carrying out activities described in Part 1.b of this Article.
- b. activities, carried out by the organizations, bringing benefit to public and carried out in following areas: human rights protection, education, environment protection, development of democracy and the civil society, culture, science, social protection, physical education and non-professional sport, art, medical care.

2. Activities listed in the paragraph 1 of this Article shall not be considered charitable if:
- a) they are carried out by the government agencies or self-governing bodies,
 - b) these activities are carried out (IN SUPPORT OF) enterprises, political parties or persons, participating in elections.
 - c) activities are carried out by physical persons for relatives or by a legal person for the managerial staff of the entity or their relatives.
 - d) the Law of Georgia "On Advertisement" defines it as a sponsorship.

Article 15. Religious Activity

1. For purposes of the tax legislation, religious activity means the activity of duly registered religious organizations and associations aimed at faith and expansion of religious belief, including that achieved through:
- a) organizing and holding religious rites, ceremonies, prayer gatherings, or any other church-related actions;
 - b) allowing believers the opportunity to have or use houses of prayer or ritual - oriented buildings for joint or physical person fulfillment of their religious requirements;
 - c) receiving and sending religious delegations, pilgrims, and representatives of various beliefs, holding national or international religious meetings, congresses and seminars, and providing hotels (or other accommodations), transport, meals, and cultural services to participants in the above events;
 - d) maintaining monasteries, local churches and seminaries, training students or novices of such seminaries, and running charitable institutions (hospitals,

hospices, and nursing homes for the elderly or disabled), and any other similar charter activity defined by canonical rules.

2. Activity of enterprises of religious organizations (associations) to produce (manufacture) religious (religious service) literature or religious items or to provide works or services for religious organizations (associations), as well as activity of these organizations (associations) or their enterprises to realize (disseminate), religious (religious service) literature or religious items or to use the proceeds from the above activities to finance the religious charter activities of religious organizations (associations), shall be regarded as equivalent to religious activity.

Article 16. Employment

1. For the purpose of the tax legislation, “employment” means:
 - a) the performance by a physical person of obligations within the framework of relations regulated by Labor Code or the Law of Georgia on Public Service.
 - b) the performance by a physical person of obligations directly connected with service in the ranks of the armed forces, in Law enforcement, or in equivalent agencies;
 - c) work in position of or performance by a physical person of duties of a manager (director) of an enterprise or organization.
2. A physical person engaged in employment is called an “employee” in the tax legislation. A person who pays for the services rendered by such physical person as an employee is called an “employer”, and such payment is called “wages”.

Article 17. Goods

1. Good shall be a tangible or intangible property, including electric or thermal energy, gas and water.
2. For purposes of value added taxation, money and land shall not be considered goods.

Article 18. Service

1. Unless otherwise provided by the tax legislation, the following activities shall be considered as services:
 - a) Construction-assembly;
 - b) Repairing;
 - c) Restoration;
 - d) Testing-constructing;
 - e) Geological-research;
 - f) transport services, including transportation of gas, oil, petroleum products, and electric and thermal energy;
 - g) leasing (financial lease) or renting of property;
 - h) intermediary;

- i) selection of personnel;
 - j) transfer of the right to use patents, certificates, licenses, trademarks, services marks, intellectual property and other personal non-property rights;
 - k) satisfaction of an obligation not to accept or permit any actions (situation);
 - l) communications services, housing, and communal (utilities) services;
 - m) advertising services;
 - n) innovation services;
 - o) financial services;
 - p) insurance;
 - q) consulting, legal, accounting, audit, marketing;
 - r) data processing and information providing services;
 - s) services for the preparation of goods for sale, including distribution of lots, formation for shipment, sorting, packing, re-packing, bottling;
 - t) services for the storage of goods or other property;
 - u) Security guard;
 - v) production of goods or other property from the raw materials (materials) of a client by his/her order.
 - w) transport cargo servicing, including forwarding, loading, unloading and shipment services
 - x) ship services, including services in ports, services for port fleet;
 - y) services provided to air liners including in the airport of Georgia, air-navigation services provided in the air or space;
 - z) other services.
2. For purposes of this Article, production of goods from raw materials (materials) of a client shall be deemed any production of goods, including: production, reprocessing, processing or other transformation of the above-mentioned raw materials (materials), in the process of which the owner of both the raw materials (materials) and the final product is a person, who supplied the raw materials (materials) and paid in cash or in kind for the services provided for the goods made of these raw materials (materials) (irrespective of the fact whether or not the producer used his/her own raw materials, materials, or other components in the process of production the cost of which is included in the value of servicing such production).

Article 19. Financial Services

The following shall be deemed financial services:

- a) Granting or transferring of loans, credits, credit guarantees and any other collateral for monetary transactions, inter alia management of credits and credit guarantees issued;
- b) Transactions related to servicing of deposits and accounts of clients, settlements, money transfers, loan obligations and payment instruments;
- c) Transactions related to the circulation of legal tender - currency, money and bank notes (except for those used for numismatic purposes), other than cash collection services;
- d) Transactions and relevant services related to circulation of share of authorized capital, stocks, bonds, certificates, bills, checks, and other securities (other than physical safekeeping and registering of securities);
- e) Transactions and services related to financial derivatives and synthesis instruments, forwarding agreements, options, and similar instruments;

- f) Services related to management of investment funds;
- g) Insurance and re-insurance services.

Article 20. Supply of Goods and Rendering Services

1. Supply of goods shall be deemed transfer of the ownership right on goods by one person to another (including sale of goods, exchange, salary or other in-kind payments) paid or in-kind, unless otherwise provided by this Article. In case of transferring of goods to other persons by legal persons of the public law, implementing projects under international treaties ratified by the Parliament (including preparatory phases), with whom the Ministry of Finance signed agreements on the right to implementation of projects, such supply will not be considered as supply of goods.
2. Any actions carried out for the compensation purpose or in-kind for another person based on the will of the same person, not including supply of goods shall be considered supply of services. Services that for the purpose of the value added tax envisage transfer of the land or money ownership right or services rendered by the employee to the employer (work beneficiary) are not considered the supply of services.
3. Supply of goods (services) shall be equal to use of goods (services) for personal consumption by a taxpayer provided that the value of the goods (services) does not belong to production, circulation or administrative costs.

Article 21. Leasing (financial leasing)

1. If a person leases (under financial lease guidelines) fixed assets subject to depreciation, then for the purposes of this Code, a lessor shall be treated as an owner of the property, and payments related to this lease consists of discounted repayment of the principle debt and in line with IAS and interest.
2. Property rent shall be considered as a lease (financial lease) if it meets one of the following conditions:
 - a) the right to the property leased is transferred to a lessee at the end of a lease term or a lessee has the right to purchase the property at a fixed price or price determined in accordance with the lease agreement; or
 - b) a lease term exceeds 75 % of the period of economic service of the fixed assets; or
 - c) the expected residual value of the rented property at the end of a lease is less than 20 % of its starting market value; or
 - d) the current discounted value of payments over the entire rental period is or exceeds 90% of the rented property value.
3. Part 2.d of this Article shall not be apply to lease, starting day of which corresponds with the last 25% of property use term.

4. For the purposes of this article, basic interest rate used for determining discounted value of current lease payments shall be equal to interest rate defined in part 1 of article 179 of this Code.
5. For the purposes of this article, the lease (financial lease) term shall include any period during which a right to renew the lease (financial lease) may be exercised in accordance with the lease agreement.
6. Value of material valuable transferred in accordance with the lease agreement shall be reflected in the balance sheet of the lessee during the validity period of the agreement, which will allow the lessee to make relevant deductions (depreciation and repair) related to the subject of financial lease.

Article 22. Principles of Determining Price on Goods (Services) for Taxation Purposes

1. For taxation purposes, the actual and documented transaction price of goods (services) shall be applied unless this Code requires usage of a market price or other value.
2. The market price of goods (services) shall be deemed the price resulting from the interaction of supply and demand on a market of identical (or, in their absence, similar) goods (services) on the basis of transactions concluded on the relevant market of goods (services) between persons who are not related persons as defined under Article 23 of this Code. Transactions between related persons shall be taken into account only if their interdependence shall not affect the results of such transactions.
3. The market price of goods (services) shall be determined on the basis of information about relevant transactions on identical (similar) goods (services) conducted at the moment (in their absence the nearest date, but no more than 30 days remote (preceding or following) from the time of the sale of the good (service)) of sale of the goods (services), including the information about prices fixed on international and other commodity markets.
4. The market of goods (services) shall be deemed as a sphere of circulation of these goods (services) determined by the ability of the seller (buyer) to sell (acquire), realistically and with no substantial additional costs, goods (services) on the territory that is closest to the seller (buyer) within Georgia or outside it.
5. If no transactions with identical (similar) goods (services) have been concluded on the relevant market of goods (services), or if there is no supply of such goods (services) on the market, the market price shall be determined by prices established in relevant transactions with identical (similar) goods (services) as of the day closest to the time of the sale of the aforementioned good (work, service) but no more than 30 days remote (preceding or following) from the time of the sale of the good (service).
6. If the provisions of parts 1-5 of this article cannot be applied, the market price of goods (services) shall be determined according to the procedure allowing using methods of expenses, of future sale price or receivable benefit.

7. Official sources of information regarding market prices of goods (works, services) database of the relevant agencies of the executive power, information submitted by taxpayers to the tax administration and other reliable information shall be used for determination and recognition of the market price of goods (works, services).
8. The market price can be wholesale or retail.
9. Exchange transactions (barter transactions) of goods (services) shall be deemed as transactions during which each of the exchanging parties sells its goods (services) and purchases other goods (services).
10. The tax administration (chief or deputy) shall be authorized to make a motivated written decision on use of the market price for taxation purposes if
 - a) the parties to the transaction were related persons, except for cases when their relationship does not affect results of such transactions.
 - b) the tax administration proves that price declared by the related parties differs from the actual price.

Article 23. Related Persons

1. Persons are recognized as related if special relations that exist among them may affect the conditions or economic results of their activities or activities of persons represented by them.
2. Such special relations include, in particular, relations where:
 - a) persons are founders (participants) of the same enterprise, if their total share amounts to no less than 20%;
 - b) one person has a direct or indirect interest in another person-enterprise, where such an interest is not less than 20 %;
 - c) an enterprise is under control of another person;
 - d) one physical person is subordinate to the other physical person in terms of his business, position or one person is under control (directly or indirectly) of the other person;
 - e) persons are subsidiary enterprises or are under direct or indirect control of a third person;
 - f) persons jointly (directly or indirectly) control third persons;
 - g) persons are relatives.
3. For purposes of the tax legislation, relatives shall be considered:
 - a) spouses;
 - b) ancestors or descendants;
 - c) sisters (brothers);
 - d) nephews and nieces;
 - e) spouse of a sister (brother);
 - f) sister (brother) of parents;
 - g) persons who, as a result of a long guardianship, are connected as parents and children;

4. When defining relations, step sisters (brothers) have the same status as natural sisters (brothers), and adopted children have the same status as natural children; guardian relations with family residence (where persons are related to one another as parents and children) have the same status as blood relations; the termination of the residence in family between the above persons is not taken into account if the parent-child relations are maintained for the purposes of the part 3.g of this Article.

Article 24. Income Earned from a Georgian Source

1. The following shall be treated as income earned from Georgian sources:
 - a) earned income from employment, according to Article 16 of this Code ;
 - b) income earned from supply of goods produced or purchased in Georgia and/or services rendered in Georgia ;
 - c) income earned by a person from economic activities that is attributable to a permanent establishment located on the territory of Georgia, inter alia proceeds gained by the non-resident from sale of the identical or similar goods in Georgia; income earned from services rendered in Georgia that are identical or similar to services rendered by a permanent establishment;
 - d) income earned as a result of writing off of bad debts related to economic activities carried out in Georgia and annulment of liabilities and sale of fixed assets according to part 7 of the article 183 or as a result of compensation according to the article 209;
 - e) income earned in the form of dividends from resident legal person and sale of the partner's share in such legal person;
 - f) income earned in the form of interest from the resident person;
 - g) a pension paid by a resident
 - h) income earned in the form of interest from a person operating through a permanent establishment in Georgia or having a property located on the territory of Georgia if outstanding liabilities of such person are related to such permanent establishment or property;
 - i) income earned in the form of royalties related to rights or property used in Georgia; income, as defined in the part 13 of the article 12 earned through sale or transfer of the property used or existing in Georgia;
 - j) income earned from lease of movable property used in Georgia and/or transfer of property use rights according to relevant agreements;
 - k) income earned from immovable property located in Georgia and used in economic activity, including income received from the sale of the partner's share;
 - l) income earned from a supply of stocks or share of a partner, if more than 50 % of their value is directly or indirectly generated from value of immovable property located in Georgia;
 - m) other income earned from the sale of property by a resident not related to entrepreneurial activity;
 - n) income earned from management, financial and/or insurance (including reinsurance) services if it is paid by a Georgian enterprise or a permanent establishment located on the territory of Georgia,

- o) income earned in the form of insurance fees paid under agreements for the insurance or reinsurance of risk raised in Georgia;
 - p) income earned from telecommunications or transportation services in course of international communications or transportation between Georgia and other countries;
 - q) other income earned from activities carried out in Georgia;
2. The place of receipt of income shall not be taken into account when determining the source of income under items “a”-“q” of this part.

PART II. ENTERPRISES, ORGANIZATIONS, PHYSICAL PERSONS, TAXPAYERS AND TAX AGENTS

CHAPTER 3. ENTERPRISES, ORGANIZATIONS, PHYSICAL PERSONS

Article 25. Enterprises

1. For the purposes of this Code, enterprises are recognized as entities that perform economic activity or that are established to perform such activity, namely:
 - a) legal persons established according to the legislation of Georgia;
 - b) corporations, companies, firms, and other entities established pursuant to the legislation of foreign states, irrespective of their status of a legal person; as well as a permanent establishment of a foreign enterprise;
 - c) associations, partnerships and other similar units which are not considered under sub-paragraphs “a” and “b” of this part.
2. The term “enterprise” does not include an individual enterprise.

Article 26. Georgian Enterprise and Foreign Enterprise

1. A Georgian enterprise is an enterprise having the place of its activity in Georgia and/or having the place of its management in Georgia.
2. A foreign enterprise is an enterprise, which is not a Georgian enterprise pursuant to this Article.

Article 27. The Place of Activity of an Enterprise

1. The place of activity of an enterprise is the place of state registration of the enterprise, or, should such be lacking, the legal address indicated in founding documents of the enterprise (charter, agreement, and statute),

2. If an enterprise carries out its activity without the state registration and the place of its activity is not indicated in its founding documents, the place of the company's activity shall be considered the place of its chief activity. In addition, the place of the company's major activity shall be determined by a tax agency based on the information provided by the enterprise, and in the case of failing to provide such information or submitting doubtful data – on the basis of the existing information.
3. When lacking the reliable information and having no possibility to determine the place of chief activity of the enterprise, the place of the enterprise's activity shall be considered the place of management of the enterprise.
4. The place of activity of the enterprise considered under Article 25(1“c”) shall be regarded the place of activity (place of residence) of the person who is a party to the contract and who is responsible for managing the affairs under the joint activity contract (agreement). If one of the parties to the contract is a Georgian enterprise or a resident physical person, the Georgian party shall record the results of joint activity for purposes of taxation, irrespective of who is responsible for management. If one or several participants of the joint activity are not responsible for managing the work, and the parties to the contract jointly cope with their tasks, the place of activity of the enterprise shall be considered the place of activity of the Georgian enterprise, which is a party to the joint activity. If participants of a joint activity are only physical persons, and they jointly manage the work, the tax agency shall be authorized to determine the place of activity of this partnership on the basis of the information presented by the partnership participants, and in the case of failing to provide the information or submitting doubtful data – on the basis of the existing information.

Article 28. The Place of Management of an Enterprise

1. The place of management of an enterprise is the place of actual management of the enterprise, which means the place where the management (other similar managerial agency) of the enterprise fulfills its managerial function in accordance with the company's charter (other founding documents), irrespective of the place of activity of the company's supreme controlling agency and the income generated from the activity thereof, unless otherwise provided by this Article.
2. The place of management of the enterprises considered under Article 25.1.c shall be regarded the place of activity of the respective entities.
3. If the company's management is carried out by a manager (other enterprise or physical person), who is acting on the basis of an agreement or the decision on his/her appointment, the place of management of the company shall be considered the place of activity of the managing enterprise, respectively, or the residence of the physical person. The similar method shall be used for determining the place of management of the enterprise, if it is actually managed by another company (physical person) without a respective agreement or decision.

4. If a company has no managing agency or the latter has no place of permanent activity, and if the manager does not carry out direct management of the company, the place of management of the enterprise shall be considered the place of management of the company's executive agency (administration, directorate, management, office of central accounting department or other similar agencies).

Article 29. Permanent Establishment

1. A permanent establishment of a foreign enterprise or a non-resident physical person in Georgia shall be recognized as the defined location, through which this person carries out, in full or in part, an entrepreneurial activity on the territory of Georgia, including activity effected through an authorized person except for the cases provided for by part 6 of this Article.
2. The following are equivalent to a permanent establishment:
 - a) construction sites, assembly or building facilities, and the exercise of controlling activities connected with such facilities;
 - b) installations or sites, drilling equipment or ships used for surveying of natural resources, as well as the exercise of controlling activities connected with such facilities;
 - c) a permanent base where a non-resident physical person carries out entrepreneurial activity.
 - d) Place of management of a foreign enterprise, branch, representative office, department, bureau, office, agency, workshop, mine, pit, other place for extraction of natural resources, any other separate unit or place of such enterprise's activities.
3. Provisions of the part 1 and 2 of this Article do not apply to services provided by non-resident subcontractors during gas and oil transactions in accordance with Law of Georgia "On Oil and Gas".
4. Regardless of provisions set forth in parts 1 and 2 of this Article, management of the affairs of this enterprise by another person (another company, by separate subdivision of this or another company or a physical person, (which does not represent person set forth in part 5 of this Article) on behalf of the company and/or pursuant to its interests for more than 3 months, represents a permanent establishment of a foreign enterprise, other than cases considered under part 5 and 6 of this article.
5. If a foreign enterprise or non-resident physical person carries out entrepreneurial activity in Georgia through an intermediary, agent or broker having professional status defined by the legislation who is not authorized to conduct negotiations or sign agreements (contracts) on behalf of this foreign enterprise or non-resident physical person, then activities of such intermediary, agent or broker shall not create a permanent establishment of this foreign enterprise or non-resident physical person in Georgia.
6. Mere ownership of securities and shares in the (authorized) charter capital of Georgian enterprises or property on the territory of Georgia by a foreign enterprise or non-resident physical person should characteristics of permanent establishment in accordance with

parts 1 and 2 of this Article be lacking cannot be regarded as basis of creation of permanent establishment.

7. Mere fact of execution of agreement by foreign enterprise or non-resident physical person, which envisages joint activity of parties to the contract performed, fully or partly, on the territory of Georgia, can not be regarded as basis of creation of permanent establishment.
8. Mere fact of assignment by a foreign enterprise of its staff for employment in other enterprise or organization on the territory of Georgia, should characteristics of permanent establishment in accordance with parts 1 and 2 of this Article be lacking can not be regarded as basis of creation of permanent establishment. This may only hold true if such employees will act in name or on behalf of the enterprise or organization and secure rights of the organization where they are assigned.
9. Mere fact that foreign enterprise or non-resident physical person is in control of Georgian enterprise or organization can not be regarded as basis of creation of permanent establishment.
10. An establishment of a foreign enterprise or non-resident physical person in Georgia shall not be considered a permanent establishment in Georgia if is used (regardless of who uses it) only to do the following:
 - a) store or demonstrate goods or products belonging to the foreign enterprise or non-resident physical person;
 - b) keep a stock of goods or products belonging to the foreign enterprise or non-resident physical person only for the purpose of their processing by another person;
 - c) purchase goods or products or collect information for the foreign enterprise or non-resident physical person;
 - d) perform any other activities that are preparatory or auxiliary in nature coming from the interests of the foreign enterprise or non-resident physical person;
 - e) grant loans on behalf of the foreign company or non-resident physical person; prepare and/or merely sign contracts on supplying goods and products or rendering technical assistance;
 - f) execute any combination of the activities indicated in subsections “a- e”.
11. A permanent establishment of a foreign enterprise or non-resident physical person in Georgia shall be considered as such from the moment of its registration (founding) as such establishment in accordance with par 12 of this Article, providing it with relevant authority or commencing of representational activities.
12. The responsibility to register a permanent establishment of a foreign enterprise or non-resident physical person lies with tax body, which is responsible for creating relevant registry. Procedure for running the registration and a registry shall be developed by the Minister of Finance. The state duty or other levies shall not be paid for registering a permanent establishment of a foreign enterprise or non-resident physical person.

Article 30. Organizations

1. The following entities are recognized as Organizations:
 - a) public or religious organizations (unions), funds, unions (associations), establishments that are non-entrepreneurial legal persons under the legislation of Georgia, or that have been established and are acting according to the legislation of a foreign state, as well as budgetary organizations and/or legal persons (corporations/institutions) of the public law;
 - b) International (interstate and intergovernmental) organization – an organization regulated by international law, councils, embassy, representatives or foreign non-entrepreneurial organization.
2. The place of activity and management of an organization is defined in accordance with the procedure established for enterprises.
3. An organization shall be classified as a Georgian or foreign organization in accordance with the procedure established by this Code.
4. If an organization carries out an economic activity, the part of its property and activities which is directly connected to its economic activity is recognized to be the activities and property of an enterprise and for the part, where it is impossible to distinguish this difference, the income ratio shall be applied for calculating an activity or property related to the economic activity.

Article 31. Budgetary Organization

1. A budgetary organization shall be considered a spending entity or the unit under its subordination, which drafts its own budget, executes it and reports in accordance with established norms, standards and rules.
2. A spending entity, according to the organizational classification of the budget expenditures, shall be the first category institution, for which the budget allocates funds or sets revenue targets, and which is responsible for managing its revenues and expenditures.

Article 32. Charitable Organization

1. For the purpose of this Code a charitable organization is considered an organization, which, in accordance with this Article, is granted a status of the charitable organization.
2. The status of the charitable organization is granted to the organization, which is established to carry out charitable activities and is registered according to the established by the Law guidelines, has at least one year of experience in carrying out charitable activities and meets requirements described in this Article.

3. Auxiliary economic activity, serving major goals of the organization, does not change its charitable nature.
4. The relevant tax agency shall grant the status of the charitable organization according to its location. The Ministry of Finance, based on the recommendation of the relevant tax agency abolishes the status of the charitable organization.
5. The status of the charitable organization shall be granted based on the written application of the organization. The application shall contain following information:
 - a) name;
 - b) organizational and legal status;
 - c) major goals;
 - d) basic directions of activities for the past one year;
 - e) main office and branches addresses;
6. The following shall be attached to the application:
 - a) a copy of the charter of the organization;
 - b) a copy of the registration certificate;
 - c) the pervious year report on activities, describing undertakings of the organizations (projects, services);
 - d) financial documents for the previous year approved by the independent auditor (balance sheet, profit/loss statement).
7. The tax agency takes the motivated decision within one month following the receipt of the application. If the decision is not taken within the established deadlines, the status is considered granted automatically. The granted status is termless. The status comes into effect upon its granting.
8. The organization that has granted the status, shall receive the status certificate, which includes:
 - a) full name of the organization, indicating the organizational and legal status of the organizations;
 - b) status;
 - c) address of the managing body
 - d) date of granting the status;
 - e) identification number of the status;
9. Along with receipt of the status, in accordance with this Code some additional obligations and responsibilities shall be imposed on such organizations. In particular, charitable organizations, before April 1 of each year, shall submit to the corresponding tax agency the following:
 - a) program report for the activities of the organizations in previous year, indicating description of implemented activities, including economic;
 - b) financial statement on expenditures and income received, indicating income sources and purposefulness of expenditures;
 - c) financial documents for the previous year approved by the independent auditor (balance sheet, profit/loss statement).

10. Program report for the implemented activities and financial documents (balance sheet, profit/loss statement) shall be made public and available for those interested.
11. It shall not be allowable to distribute tangible and monetary assets, as well as profit between the members of the organization, founders, managers' board and the supervisory council. In case of liquidations, the property of the charitable organizations shall be transferred to the organizations with similar goals and activities based on the decision made by the authorized agency or person(s). In case of inexistence of such organizations, the property shall be transferred to any charitable organization. The property of the liquidated legal person of the public law, established with state property, shall be transferred into the state ownership.
12. The charitable status shall be annulled:
 - a) upon organization's will;
 - b) upon withdrawal of the status.
13. The status shall be withdrawn, in case of:
 - a) violation of requirements of this Law;
 - b) termination of the civil registration.
14. In case of the status withdrawal, the organization shall repay benefit received due to concessions, established under this law.
15. Organization with removed status is authorized to apply for reinstatement of the status, at least one year after the status withdrawal reason is eliminated.
16. The Ministry of Finance of Georgia shall have a single registry of all charitable organizations. The registry shall contain the following information:
 - a) name of the organization;
 - b) addresses of main offices, branches and representations;
 - c) major goals;
 - d) date of granting the status;
 - e) names and addresses of the main managerial board.
17. In case of a change of the registered information, the organization within one month after the change took place, shall inform in writing the corresponding tax agency of the change.
18. The registry of charitable organizations shall be accessible for all interested persons.

Article 33. Religious Organizations

For the purposes of the tax legislation, a religious organization is recognized as an organization which is established for the purpose of carrying out religious activity and which is registered as such according to the procedure established by legislation.

Article 34. Physical person – Resident and Nonresident

1. The following may be regarded as physical persons:
 - a) citizens of Georgia;
 - b) citizens of foreign countries;
 - c) persons without citizenship;

2. During the entire current tax year, a physical person shall be recognized as a tax resident of Georgia if it was actually located on the territory of Georgia for more than 182 days in any continuous 12-month period ending in this tax year, or was in the Georgian state service abroad during the tax year.

3. A time shall be considered as the time of actual location on the territory of Georgia during which a physical person has been located on the territory of Georgia, as well as the time-period which he spent outside the Georgian territory for medical treatment, vacation, business trip or study.

4. For purpose of part 1 of this Article, a time during which a physical person was in Georgia is not considered a time of actual location on the territory of Georgia if he stayed:
 - a) as a person having diplomatic or consulate status or as a family member of such person;
 - b) as a staff member of an international organization under Georgian international agreements, or as a person who is in the State Service of a foreign country, or/and a family member of such a person, except citizens of Georgia;
 - c) exclusively for moving from one foreign country to another through the territory of Georgia
 - d) only for medical treatment or resting purposes.

5. A day of location in Georgia is considered any day during which a physical person was actually located on the territory of Georgia, regardless of the duration of this stay.

6. A physical person is regarded as a non-resident of Georgia who is not a resident of Georgia in accordance with this Article.

7. The status of resident or non-resident is established for each tax period. In addition, days, according to which the person was considered a resident during the previous tax period, shall not be considered while establishing residency for the following tax period.

Article 35. Residence of a Physical Person and Place of Its Actual Location

1. A physical person's residence shall be considered the place which has been chosen by him/her for accommodation or place of its actual location, unless otherwise provided by this Article.

2. A place of residence of an under age person shall be considered the residence of parents having such authorities, and of a ward – the place of residence of a guardian or trustee.

3. A place of actual location of a physical person shall be considered the place of his/her temporary residence, unless otherwise provided by this Article.
4. A place of actual location of a military men (servicemen), as well as of a physical person permanently moving from one place to another due to the nature and conditions of his/her work shall be considered the place where this physical person actually resides or is registered pursuant to the set rules (including the dislocation places of military units or respective enterprise).
5. If a physical person has several residences (an apartment or other residential areas), a tax agency in agreement with this physical person shall determine his/her residence or the place of actual location.

Article 36. Individual Entrepreneur (Individual Enterprise)

1. Entrepreneur is considered a physical person:
 - a) Individual entrepreneur – physical person, if in accordance with Article 2 of the Law of Georgia «On Entrepreneurs», he/she is individual entrepreneur;
 - b) a physical person, carrying out activities described in the part 2 of the article 1 of the Law of Georgia “On Entrepreneurs”.
2. The performance by a physical person of entrepreneurial activity in violation of established procedure for registration and receipt of a license, certificate, or any other similar document is not considered as the basis for non-recognition of the physical person as an entrepreneurial for the purpose of taxation.

Article 37. A Work Place of an Individual Entrepreneur

A work place of individual entrepreneur shall be considered the place of its economic activities.

CHAPTER 4. TAXPAYERS AND TAX AGENTS

Article 38. Taxpayer, Tax agent

1. Taxpayers shall be considered persons, which are obligated to satisfy tax liabilities pursuant to the Tax Code of Georgia.
2. Tax agents shall be considered persons, which are obliged to satisfy taxpayers’ tax liability in established cases and in line with set rules pursuant to the tax Code of Georgia.
3. For the purposes of rights and duties, tax agents have the same status as a taxpayer within the scope defined by this Code.

Article 39. Rights of Taxpayers

1. A taxpayer shall be authorized:

- a) through tax agencies obtain information on tax legislation, taxpayers' duties, rights of tax agency and its officials, also on the operation of tax legislation.
- b) personally, through his/her legitimate or authorized representative present his/her interests to the tax agencies; in tax communications change its representative at any time;
- c) enjoy tax concessions according to the procedures and rules set under the tax legislation,
- d) timely receive refund or credit on the excess amount paid or collected to the account of tax liabilities, penalties and fines;
- e) obtain information on itself existing in the tax agency, under set rules;
- f) attend field tax inspection;
- g) receive documented copies or originals of tax audit report, also the "tax notice";
- h) require observance of the legislation while taking actions in connection of taxpayers from the officials of tax agencies;
- i) present explanations to the tax agencies and tax authorities with regard to report on conducted tax audits, as well as calculation of taxes and payments;
- j) when dealing with the circumstances set under this Code, according to the set rule, require application of the respective measures for violating tax legislation committed by him/her, as well as release from responsibilities or mitigation thereof;
- k) pursuant to the rule set under the law, appeal a tax agency's notification about a requirement to pay taxes, as well as other decisions and actions (inaction) of tax agencies (their officials);
- l) not to obey acts and requirements inconsistent with this Code and other laws of Georgia, required by tax agencies and its officials.
- m) require tax agency and its officials to keep tax confidentiality;
- n) pursuant to the rule set under the law, claim damages caused by illegal decisions or actions (inaction) of tax agencies and their officials;
- o) not to present to law enforcement bodies and other controlling structures, other than tax agencies, the documents, which are related to determining taxable entities, calculation of taxes and payment, with the exception of the cases where such authority under the Code has been transferred to those entities.

2. Rights of the taxpayers are not limited to the rights envisaged by part 1 of this article.

Article 40: Assurance of defense of taxpayers' rights and lawful interests

1. Defence of taxpayers' rights and lawful interests is guaranteed for under administrative, justice and arbitrage rules.
2. The rules of taxpayers rights' and lawful interests' defense is defined in line with this Code and other normative acts.
3. Non-performing of liabilities connected with defense of taxpayers rights' and lawful interests' or improper performing will result in responsibility pursuant to this Code.

Article 41. Liabilities of a Taxpayer

1. A taxpayer shall:
 - a) fulfill tax liabilities according to the rules and conditions set under the tax legislation;
 - b) register itself as a taxpayer with the tax agencies according to the rule set under this Code;
 - c) for purposes of calculating and paying taxes, conduct recording of revenues, expenditures and taxable objects;
 - d) pursuant to the set rule, acceding to the place of tax registration, present to tax agencies tax returns and financial statement on the taxes, due to which he/she is considered as a taxpayer;
 - e) while conducting tax audit or in other cases considered under this Code, present to tax agencies and their officials all the documents (information) needed for calculating and payment of taxes;
 - f) fulfill legal requirements of tax agencies on elimination of violations of tax legislation, and do not resist the legal actions of officials of those agencies while conducting their official responsibilities;
 - g) declare about enjoying tax concessions and present to the tax agency or tax agent according to the respective place of registration the documents confirming the right on tax concessions;
 - h) provide maintenance of the documents on the basis of which the registration of taxable objects and filing of tax returns is carried out, as well as maintenance of the documents confirming receipt of revenues (profit), incurred expenses and paid (withheld) taxes during 6 years from the end of the tax year;
 - i) fulfill other duties considered under the tax legislation of Georgia.
2. Taxpayers shall notify the tax agencies according to the place of the respective tax registration about:
 - a) opening settlement or other accounts in banks and other organizations, which carry out banking transactions within 5 days from the date such accounts are open. In addition, Georgian enterprises (organizations) and individual entrepreneurs shall present information about the opened accounts both in Georgia and outside the country, and foreign enterprises – only about the accounts opened in Georgia and the accounts through which they carry out their economic activity in Georgia;
 - b) establishing, reorganizing or liquidating a separate subdivision of an enterprise – within 10 days from the date such decision is made in accordance with rules established by the Ministry of Finance;

- c) declaring the company bankrupt, its liquidation or reorganization - within 10 days from the date such decision is made, in accordance with rules established by the Ministry of Finance;
 - d) changing the places of work, management or economic activity - within 10 days from the date such decision is made accordance with rules established by the Ministry of Finance;
3. Taxpayers shall present the information considered under this Article to tax agencies only in accordance with rules established by the Ministry of Finance.
 4. For the non-performance or improper performance of the duties imposed on a taxpayer under the tax legislation, he/she shall bear responsibility according to the procedure established by this Code or other legislative acts of Georgia.

Article 42. Tax Agent

1. A tax agent shall:
 - a) correctly and timely calculate, withhold from a taxpayer, and transfer to budgets the appropriate taxes;
 - b) keep a record of income assessed and paid to every taxpayer, and of taxes assessed, withheld and transferred to budgets;
 - c) forward to tax agencies the documents required for controlling the accuracy of calculation, withholding, and payment of taxes;
 - d) perform other duties established by the tax legislation.
2. For the non-performance or improper performance of the duties imposed on a tax agent under the tax legislation, he/she shall bear responsibility according to the procedure established by this Code or other legislative acts of Georgia.

Article 43. Representatives of Taxpayers/Tax Agents or other responsible persons

1. A taxpayer/tax agent or other responsible person may participate in tax relationships through a legitimate or authorized representative. Personal participation of above-mentioned person in tax relationships shall not deprive him/her of the right to have a representative, while participation of the representative shall not deprive the taxpayer of the right to personally participate in the above-noted relations.
2. Legitimate representatives of an enterprise (organization) shall be recognized its agencies and/or other persons authorized under the legislative acts of Georgia and founding documents. Legitimate representative of physical person-taxpayer shall be recognized the person that in accordance with this Code and other legislative acts of Georgia carries out relevant authority.
3. Action (inaction) of a legitimate representative of a taxpayer/tax agent or other responsible person which is related to the participation of this taxpayer in tax relationships shall be regarded as the action of the taxpayer/tax agent or other responsible person.

4. An authorized representative of a taxpayer/tax agent or other responsible person shall be regarded a person, who is authorized to present the taxpayers interests with tax agencies and/or other participants of tax relationships, as well as the judiciary.
5. A legitimate representative of a taxpayer – enterprise (organization) shall act on the basis of warranty issued by the taxpayer, who defines the framework of his/her authority. An authorized representative of a taxpayer/tax agent or other responsible person – physical person shall carry out his/her authorities on the basis of notarized warranty or other documents, which are equivalent to the proxy pursuant to the Civil Code of Georgia.

Article 44: Written communication with the tax agency

1. Any notice or other document to be sent by the taxpayer/tax agent or other responsible person to the tax agency must be in written form, signed by lawful or authorized representative, (indicating full name and position) and certified by a stamp (if available). The original of the document shall be delivered to the tax agency.
2. “Taxpayer’s notice”, tax return, appeal or other documentation should be considered as delivered at the tax agency, if it was sent via ensured mail or was directly delivered at the tax agency.
3. In case documentation is sent via ensured mail, the date tax agency receives documentation is considered as delivery date. If the date of filing documents is defined, than the date of sending ensured mail should be considered as filing date.

Part III. Informing taxpayers and system of tax agency in Georgia

CHAPTER 5. INFORMING TAXPAYERS

Article 45. Implementation of Obligations Establishing Relation in Written Form

1. No statement provided by the tax agency to a taxpayer shall be legally binding with respect to the tax agency or the taxpayer, unless it is delivered to the taxpayer/tax agent or other responsible person in writing and in line with the article 46 of this Code.
2. Obligation establishing liability should have administrative act form and should include:
 - a) name of issuer of administrative act
 - b) heading of administrative act
 - c) authorized person’s name, surname and signature
 - d) date and place of issuance
 - e) registration number provided by the issuer of administrative act

- f) requisites of taxpayer or person, who is liable to register as taxpayer (full name) and taxpayer identification code (if such exists)
- g) contents of the notice
- h) comments, where and when notice should be appealed;

Article 46. Written Communications with Taxpayers/Tax Agents

Any notice or other documents to be sent by the tax agency to a taxpayer/tax agent or other responsible person must be in writing, signed by a head or an authorized official, noting his full name, certified by a stamp. The original of the document shall be delivered to the taxpayer. The document shall be deemed properly served if it is sent by registered mail or is personally served upon the taxpayer/tax agent or other responsible person or his/her authorized and/or legal representative.

Article 47. Instructions on the Application of Tax Legislation

The head of a tax agency (or his/her deputy) shall send a taxpayer/tax agent or other responsible person a written explanation, concerning the position of the tax agency to the transaction of the taxpayer and application of the Tax Code thereof. Mentioned explanation represents a recommendation and has no mandatory legal power.

CHAPTER 6. TAX AGENCIES OF GEORGIA AND THEIR MAIN FUNCTIONS

Article 48. Legal Basis for Activities of Georgian Tax Agencies.

The legal basis for the activity of the tax agencies of Georgia is the Constitution of Georgia, international treaties and agreements of Georgia, this Code, and other legislative and normative acts of Georgia.

Article 49. Georgian Tax Agencies.

1. The uniform centralized system shall consist of the Tax Department of the MOF (including tax inspectorates).
2. Tax agencies are a part of the Ministry of Finance of Georgia.

3. The rule of setting up of tax bodies, their structure and rights and responsibilities are set out by this Code, as well as by the Law of Georgia “On Structure and Rule of Activity of Executive Authorities” and by other statutory acts.
4. Minister of the MOF, in separate cases, shall be authorized to create a tax inspectorate according to specific features, operation of which will cover the entire territory of Georgia.
5. In Georgia, only tax agencies shall carry out tax control. Only the above-noted agencies shall be authorized, within their competence, to provide state control over full and timely payment of taxes, with the exception of the cases where such authority is transferred to other agencies.

Article 50. The Main Functions of Georgian Tax Agencies

The main functions of the tax agencies of Georgia shall be:

- a) to ensure the enforcement and execution of tax legislation within its competence;
- b) to participate in the preparation of draft laws and interstate treaties on tax-related matters with other states;
- c) to explain to taxpayers their rights and liabilities;
- d) to provide timely information to taxpayers with respect to changes in tax legislation;
- e) administration of taxes within its competence.

CHAPTER 7. RIGHTS AND RESPONSIBILITIES OF TAX AGENCIES

Article 51. Rights of Tax Agencies.

1. Due to the provisions of this Code, tax agencies within their competence and according to the procedure established by legislation shall have the right:

- a) to inspect a taxpayer’s all financial documents, accounting books, report, expenses, cash, securities, and other assets on hand, calculations, tax returns, and other documents related to the calculation and payment of taxes, connected with their economic activity;
- b) to receive from a taxpayer and other persons the documents connected with calculation and payment of taxes, as well as oral and written explanations on questions arising with respect to such inspection;
- c) to investigate without a judge’s permission all production, storage, commercial, and other premises of enterprises, organizations and entrepreneurs – physical persons, establish tax posts, register inventory of enterprises through stock-taking, carry out observation through invigilation or other methods and determine the amount of taxable objects, conduct desk, planned and field tax audits, provide control over the rules of use of cash machines from the side of taxpayers and in cases of violations take all measures set under the legislation against the respective persons. The

procedures and conditions of stock-taking shall be defined according to the rule set by the MOF.

- d) to summon a taxpayer/tax agent and their representatives at tax office, also other persons that have documents and/or other information regarding the taxpayers;
- e) independently define the amount of a taxpayer's tax liability on the basis of the information (including the information on the taxpayer's expenditures) existing in the tax agency, or through a comparative method (similar to other such taxpayers) if the taxpayer does not present all documents needed for performance of a tax control, or carries out financial accounting in violation to established rules, as well as in other cases considered under this Code.
- f) to apply sanctions against the taxpayers and other liable persons, who violated the tax legislation.
- g) to withdraw from taxpayers, based on enforcement methods, taxes, penalties and fines imposed in the form of sanctions that have not been paid in time.
- h) to develop reports on administrative violations against lawbreakers in connection with the facts of violating the tax legislation, and issue resolutions about imposition of administrative fines.
- i) to make test purchases of goods (services) from taxpayers for the purpose of comprehensive determination of taxable objects.
- j) to invite specialists or experts for purposes of tax administration;
- k) for official purposes, to obtain free of charge data, references, documents and other necessary information from state organs and local self-governing bodies. In case of necessity rules of flow of information between governmental bodies is defined by the regulation of Government;
- l) to require and obtain copies of accounting documentation (in special cases copies approved by taxpayer)
- m) to install meters or take indices, as well as seal documents or other materials.

2. The tax agencies shall also have other rights defined under this Code and other normative acts of the tax legislation.

Article 52. Obligations of Tax Agencies.

1. The tax agencies, within their competence, shall be obligated to:
 - a) comply with the tax legislation, operate in full compliance with this Code and other normative acts of the tax legislation and participate in implementation of the state tax policy;
 - b) protect the rights of taxpayers and the interests of the state;
 - c) take control over correctness of tax calculation, and completeness and timely payment thereof; to carry out tax inspections according to the procedure set under this Code and familiarize the taxpayers with their rights and obligations when conducting the inspection;
 - d) ensure timely registration of taxpayers;
 - e) register taxes assessed and paid in budget and develop a report on paid taxes;
 - f) refund to taxpayers amounts paid in excess of the tax assessed, in accordance with this Code;

- g) protect the confidentiality of information concerning taxpayers, in accordance with this Code;
 - h) develop forms of tax returns and other documents relating to the calculation and payment of taxes and inform taxpayers;
 - i) review, analyze and assess facts on violation of tax legislation and submit appropriate proposals for eliminating causes and circumstances contributing to tax violations and crimes;
 - j) detect and eliminate tax violations and crime as well as detect physical persons, who evade tax payment, and start legal proceedings against such violations and take all legal measures according to the procedures set under this Code;
 - k) keep state registry and registration of models of controlling cash machines applicable to cash settlements with the population; carry out control over observance of the rules of using the controlling cash machines and full recording of returns by taxpayers;
 - l) accept applications, notifications and other information on facts of violation of tax legislation and carry out their examination according to the rule set under the law;
 - m) review taxpayers' letters, appeals and questions according to the set rule, and, where necessary, provide them with free information about effective taxes, and procedures for their calculation and payment, as well as the rights and obligations of taxpayers;
 - n) give explanations in connection with the application of the tax legislation, issue methodological instructions and instructive directives, guidelines and brochures, publish recommendations and explanations in mass media;
 - o) due to tax violations and crime, start administrative proceedings according to the procedures set under the Code of Administrative Violations
 - p) according to the procedures set under this Code and other normative acts of the legislation, within set period of time, deliver (forward) to taxpayers, tax agents or their representatives tax audit reports, as well as other decisions and notifications of tax agencies;
 - q) present to taxpayers and tax agents the notification requiring payment of taxes, and in the case of their non-fulfillment or improper fulfillment, take measures to ensure their implementation according to the procedure set under this Code.
 - r) immediately confirm receipt of letters or other documents stipulated in this Code sent by taxpayer.
2. The tax agency is liable to provide taxpayer with printout on changes in tax liability and performance for indicated period on the basis of taxpayers notice, not later than 10 days after the receipt of such notice.
3. The tax agencies shall also be liable for other obligations considered under this Code and other normative acts of the tax legislation.

Article 53. Delegation of Authority.

Any employee of the Tax Department shall be prohibited from transferring to other employees of any power or duty assigned to him/her by the Head of the Tax Department.

Article 54. Annual Reports.

1. The Tax Department shall issue a report on the operation of the tax agencies of Georgia within three months after the end of each tax year.
2. The report shall contain the following information:
 - a) amounts of taxes collected by the Georgian tax agencies according to the tax legislation, by types of taxes and regions;
 - b) amounts of tax arrears, with similar breakdown;
 - c) expenses incurred by the Tax Department of the Ministry of Finance of Georgia during collecting taxes;
 - d) statistical data by the components of tax payments;
 - e) a description of the positive and negative sides of the operation of the tax system;
 - f) a list of the physical and legal persons against whom tax has been assessed and who have not paid the full amount of taxes assessed, if the amount unpaid exceeds GEL 100,000.

Article 55. Responsibilities of Tax Agencies and the Officials Thereof.

1. Actual damage caused by illegal action of the tax agencies or the officials thereof shall be fully compensated from the state budget, according to the procedures set under the legislation.
2. Non-fulfillment or improper execution of official duties by an official of the tax agency shall be the basis of responsibility in accordance with the legislation of Georgia.

Article 56. Conflicts of Interest.

1. Employees of the tax agency shall be prohibited from conducting official duties with respect to a taxpayer:
 - a) with whom the employee is closely related;
 - b) in relation to whom the taxpayer or a relative of the taxpayer has a direct or indirect financial interest.
2. The tax agency employee shall not be authorized:
 - a) to combine paid jobs, except scientific, teaching or creative work;
 - b) to hold a position in another public agency, to fulfill a paid job or hold a position in the agency or institution of the foreign country.

PART IV. TAX LIABILITY

CHAPTER 12. TAX LIABILITY AND THE RULE OF ITS IMPLEMENTATION

Article 57. Tax Liability.

1. A tax liability shall be considered a taxpayer's/tax agent's, other responsible person's duty to pay a tax established and/or introduced under legislation.
2. The basis for creating, changing and canceling the tax liability, as well as the procedures and conditions of its performance shall be regulated exclusively by this Code and/or other normative acts of the tax legislation.
3. A taxpayer/tax agent and other responsible person shall be responsible for tax liabilities from the moment the circumstances providing for payment of the tax as established by the tax legislation arise.

Article 58. Taxable Income or operation that is contrary to law

1. Income is taxable even if its legality is doubtful.
2. Income received or operation implemented in contrary to tax law is taxed according to tax legislation of Georgia.
3. In cases defined by the legislation of Georgia, income that is subject to collection to budget according to court decision is tax exempt.

Article 59. Meeting of Tax Liabilities.

1. Meeting tax liabilities is the payment of the tax sum in the established term.
2. In case of the tax and/or sanction payment through the banking system the tax and/or sanction payment transfer to the relevant budget account shall be considered a payment to the budget.
3. Performance of a tax liability is one of the basic responsibilities of a taxpayer/tax agent or other responsible person; it shall be performed regardless of other liabilities of a non-tax nature the taxpayer/tax agent has.
4. Tax liability shall be performed directly by a taxpayer, unless otherwise provided by the tax legislation. In the cases established by the tax legislation a liability for meeting the tax liabilities may be borne by tax agent or another responsible person.
5. Unilateral refusal to meet the tax liability or unilateral amendment of procedures for meeting them by a taxpayer or other authorized persons shall not be allowed, unless otherwise provided by the tax legislation.

6. A taxpayer/tax agent or other responsible person shall be responsible for meeting tax liabilities with all his property, unless otherwise provided by this Code.
7. If the taxpayer physical person pays the tax to the cash-desk of the tax agency, then the tax agency shall transfer the paid amount to the relevant budget account within 1 work day. In case of non-execution of the duty by the tax agency, fines will not be accrued on taxpayer.
8. Considering provisions part 4 of this article, to ensure the timely payment of taxes, during submission of tax returns or other relevant documents, in accordance with the Law "On Oil and Gas", through the mediation of parties to the Agreement on distribution of shares of products and based on the decision of the Ministry of Finance, meeting of tax liabilities can be assigned to those taking a won state share of received gas and oil.
9. The operation implemented in foreign currency, which is subject to taxation, shall be recalculated to GEL:
 - c) According to the official exchange rate of National Bank of Georgia, if such exists, that is set for the operation date,
 - d) According to exchange rate that is set for GEL in foreign currency, including exchange rates defined in other countries which have official exchange rates to GEL, in case when the official exchange rate of National Bank of Georgia does not exist.
10. In case of importing goods into the territory of Georgia Excise tax and VAT amounts shall be recalculated to National Georgian currency according to the official exchange rate of National Bank of Georgia that is set on the date of the registration of customs declaration.

Article 60. Meeting Tax Liabilities upon Liquidation of an Enterprise/Organization

1. Tax liabilities and penalties and fines of an enterprise (organization) being liquidated are fulfilled by the liquidation commission of the enterprise (organization) from its monetary funds, as well as the cash resources generated from the sale of the property of the enterprise (organization), unless otherwise provided by this Article. Upon liquidation of a branch or other separate subdivisions, their tax liabilities shall be directly fulfilled by the enterprise (organization) of which the separate unit was a part, and upon the liquidation of this enterprise (organization) – by the liquidation commission of this enterprise (organization).
2. Tax liability (fine and penalties) of an enterprise considered under Article 25.1.c of this Code shall be fulfilled by participants of this enterprise, in solidarity.
3. The tax liabilities (fines and penalties) of an enterprise (organization) being liquidated shall be satisfied within one month of the beginning of liquidation. A Head (Deputy) of the tax agency is entitled, provided there are justifiable circumstances, to extend the period for meeting the tax liabilities (fines and penalties), but for no more than two months. Such extension does not suspend the assessment of fines.

4. Upon the liquidation of an enterprise (organization), the amount paid in excess, shall be subject to credit by the tax agency, proportional to the total amount of tax arrears or refunded to the liquidation commission (participants) of the enterprises (organization) according to the rule set under this Code.

Article 61. Meeting of Tax Liabilities upon Reorganization of an Enterprise (Organization).

1. Tax liabilities of a reorganized enterprise (organization) are fulfilled by its legal successor(s) as defined pursuant to this Article.
2. Meeting of tax liabilities of a reorganized enterprise (organization) shall be imposed on its legal successor(s) regardless of whether the facts and/or circumstances of the non-fulfillment or improper meeting the tax liabilities by the reorganized enterprise were or were not known to the legal successor(s) before the completion of reorganization. The responsibility to pay all penalties due in connection with the tax liabilities of the reorganized enterprise (organization) before the completion of reorganization shall be imposed on the successor(s). The provisions of this part apply to the legal successor(s) of those reorganized enterprises (organization) that themselves have been recognized as a legal successor(s) of other enterprise (organization) and that did not fulfill or improperly satisfied their liabilities resulting from such succession with regard to the payment of taxes, fines and penalties.
3. Reorganization of an enterprise (organization) does not change the terms for fulfillment of its tax liabilities by the legal successor(s) of the enterprise (organization).
4. In the case of a merger of several enterprises (organizations), the enterprise (organization) established as a result of the merger shall be recognized as their legal successor with regard to the satisfaction of tax liabilities of each of the enterprises (organizations).
5. In the case when an enterprise (organization) joins another enterprise (organization) the enterprise (organization), which the first enterprise (organization) joined shall be recognized as the legal successor with regard to satisfaction of tax liabilities of the joining enterprise (organization).
6. In the case where an enterprise (organization) separates into several enterprises (organizations) the enterprises (organizations) established as a result of the division of the enterprise (organization) shall be recognized as the legal successors with regard to fulfillment of tax liabilities of the separated enterprise (organization).
7. If there are several legal successors, the participation stake of each legal successor with regard to satisfaction of tax liabilities of the reorganized enterprise (organization) shall be defined in accordance with the separation balance sheet or other document of transfer. The newly established enterprises (organizations) shall bear joint and several liabilities for meeting the tax liabilities of the reorganized enterprise (organization) or its respective part.

8. In the event that the organizational and legal form of an enterprise (organization) is changed, the enterprise (organization) established as a result of such reorganization is recognized as the legal successor with regard to the satisfaction of tax liabilities of the reorganized enterprise (organization).
9. In the case when one or several enterprises (organizations) are separated from an enterprise (organization), the separated enterprises (organizations) do not become legal successors in respect of the reorganized enterprise (organization) with regard to satisfaction of tax liabilities, if the purpose of such reorganization is not to avoid satisfaction of tax liabilities by the reorganized enterprise (organization). If the Tax Agency has a reasonable doubt that the enterprise (organization) was separated for the tax avoidance reason, then the tax agency shall be authorized to assess, taxes due as well as fines and penalties on this and separated enterprise (organization).
10. Before the reorganization of an enterprise (organization), the amount paid in excess, shall be subject to credit on the account of the enterprise (organization) reorganized by the legal successor(s) of this enterprise (organization), proportional to the total, or refunded to the legal successor(s) of the enterprises (organization) according to the rule set under this Code. In addition, the amount paid in excess before the reorganization shall be returned to the legal successors of the reorganized enterprise (organization) according to their corresponding shares.

Article 62. Meeting of Tax Liabilities of Deceased, Missing, or Incapable Physical Persons.

1. An heir (heirs) shall meet tax liabilities of a deceased physical person within the limits of the value of the inherited property and in proportion to his/her (their) share in the inheritance, as of the time of receipt of the inheritance.
2. A tax agency shall be obligated to forward to an heir(s) of a deceased physical person a notification about tax liabilities of the deceased physical person and his/her (their) obligation to satisfy, as defined under the set rule, the tax liabilities for the deceased physical person in the case of receiving the inheritance.
3. In the case of absence of an heir (heirs) or refusal to accept the inheritance by a heir(s), as well as in the case the amount of the tax liabilities of the deceased physical person exceed the value of the inherited property, the remaining amount of the tax arrears shall be considered a bad debt and written off according to the rule set under this Code.
4. Tax liabilities of a physical person recognized by a court as missing shall be fulfilled by a person, who is authorized by the Agency of Trusteeship and Care to manage the property of the missing physical person within three months from the moment of recognizing the person as missing. A person, who is authorized by the Agency of Trusteeship and Care to administer the property of the missing physical person, shall be obligated to pay the missing taxpayer's unpaid taxes, as well as the amount of fines and penalties belonging to the missing person as of the date of recognizing him/her as missing, at the expense of the property (cash resources) off this missing physical person.

The tax agency shall be obligated to forward to the person authorized by the Agency of Trusteeship and Care to administer the missing physical person's property a notification about tax liabilities of the missing physical person and his/her (their) obligation to satisfy the tax liabilities of the missing physical person.

5. The tax liabilities of a person recognized by a court as incapable shall be fulfilled by a trustee, at the expense of the property (cash resources) of this incapable person. The trustee of the person recognized by a court as incapable shall be authorized to pay the total amount of the taxes unpaid by the taxpayer, as well as the amount of fine accumulated as of the date of recognizing the person as incapable.
6. Tax liabilities, accrued fines and penalties of missing or incapable physical person, as defined under the set rule, shall be considered loss and written off when the property of this physical person is not sufficient to satisfy his/her tax liabilities and payment of fines and penalties.
7. From the very day of making decision on eliminating the recognition of a person as missing or incapable, previously written off tax liabilities shall be re-effected and accrual of fines (including previously accrued fines) and penalties re-started.

Article 63. Procedure for Meeting of Tax Liabilities.

1. The taxpayer independently, unless otherwise stipulated by tax legislation, calculates the sum of tax subject to payment for the tax reporting period, based on the tax base, tax rate, and tax concessions.
2. In the cases established by this Code or other act of tax legislation, the responsibility to calculate the sum of tax subject to payment may be delegated to a tax agency or to a tax agent or to other responsible person.
3. Tax shall be calculated in accordance with the procedure established for the relevant tax by this Code or other act of tax legislation.
4. A taxpayer/tax agent (other responsible person) shall be obligated to pay (transfer) the amount of tax within the set period of time.
5. In cases considered under this Code, it shall be permitted to change the procedure and/or time of fulfilling the tax liability.

Article 64. Tax Period.

1. Tax period shall be the period of time by which the tax liability of a taxpayer/tax agent, other responsible person is determined with regard to this or that tax.
2. Tax period may be divided into several reporting periods based on the results of which an obligation to cover current tax payments may be imposed upon a taxpayer/tax agent, other responsible person.

3. If an enterprise (organization) is founded after the beginning of a calendar year, but prior to December 1 of this year, its first tax period shall be defined as the period of time from the day of its foundation up until the end of the year. In addition, the day of the foundation of the enterprise (organization) (other than branches and other separate subdivisions, or enterprises considered under Article 25.1.c of this Code) shall be considered the date of registering this enterprise (organization) according to the set rules, and as the date of founding a branch and other separate subdivisions of the enterprise (organization), or enterprises considered under Article 25.1.c of this Code – the day of registration, or the day of concluding a joint business agreement, respectively.
4. If an enterprise is founded within the period of time between December 1 and December 31, its first tax period shall be defined as the period of time from the day of its foundation to the end of the next year, unless otherwise provided by this Article.
5. If liquidation (reorganization) of an enterprise (organization) has been carried out until the end of the calendar year, its last tax period shall be defined as the period of time from the beginning of that year until the end of its liquidation (reorganization). If an enterprise (organization) has been founded after November 30 of the previous year proceeding the year of the liquidation (reorganization), its first and the last tax period shall be defined as the period of time from the day of foundation until the end of the liquidation (reorganization). The procedures considered under this part shall not apply to the enterprises (organizations), from or to which one or several enterprises (organizations) have been separated or joined.
6. If during the tax period a Georgian enterprise (organization) obtains the status of a foreign enterprise, or vice versa, a foreign enterprise – the status of a Georgian enterprise, in such cases the tax period shall be divided into two parts of which in the first one the enterprise (organization) is a taxpayer in accordance with the initial status, and in the second – in accordance with the obtained status. However, the day of changing the status shall not be counted either in the first or second tax periods.
7. The procedures considered under parts 3-5 of this Article shall not apply to the taxes, the tax period of which has been set in the form of a calendar month or quarter.
8. If a taxable property has been obtained, sold (disposed or destroyed), or obtained and sold (disposed or destroyed) after the beginning of a calendar year, the tax period of the above-noted calendar year with regard to the tax on this property shall be the period of time when the taxpayer actually had the property in his/her ownership.

Article 65. Tax Exemptions and Tax Concessions.

1. State and local taxes exemptions established under this law can be granted only based on relevant amendments or additions to this Code, and tax concessions on local taxes can be granted only based on the amendments to the relevant normative acts.
2. It shall be prohibited to establish such legal basis for the application of tax concessions or exemptions, except for cases provided under the part 1 of this article.
3. A tax exemption shall be considered as an advantage assigned to taxpayers of certain category as compared with other taxpayers, including the possibility not to pay taxes.

4. A tax concession shall be considered as an advantage assigned to taxpayers of certain category as compared with other taxpayers, including the possibility to pay taxes in a less amount.
5. It is prohibited to establish individual tax exemptions or concessions.
6. A taxpayer shall be authorized to enjoy tax concessions from the moment of originating the respective legal bases during the whole period of its effectiveness.

Article 66. Deadlines for Tax Payments.

1. Tax payment deadlines, including current payment of taxes, shall be determined in connection with each tax. In addition, the current payment of taxes shall mean intermediary contributions the payment of which is carried out before the end of the tax period.
2. Tax payment deadlines may be defined by a calendar date, space of time, as well as indicating to the circumstance, which should take place or action, which should be carried out.
3. If the tax payment deadlines are not established under this Code, then the payment shall be in accordance with deadlines for filing a tax return, and in other cases (including additionally assessed and paid amounts) - within 15 calendar days following the assessment

Article 67. Rule of Tax Payment.

1. Taxes shall be paid:
 - a) during the tax period, by paying the current payments within the set period of time, by making final recalculation of the tax amount at the end of the tax period, and payment of the calculated tax amount;
 - b) by lump-sum payment of the total amount of the tax amount;
 - c) according to other rules set under this Code and/or other normative acts of the tax legislation;
2. The rule of tax payment shall be defined with regard to each tax. The rule and condition of payment of the nation-wide taxes shall be defined under this Code, the rule and condition of payment of local taxes - under the normative acts of the local self-governing agencies, in accordance with this Code.
3. Taxes shall be paid in GEL, by means of cash or non-cash settlement mechanisms, through banking institutions, unless otherwise provided by the tax or customs legislation. In the case of absence of banking institutions, a physical person-taxpayer may pay taxes in the cash desk of the tax agency, by mandatory issuance a tax receipt of a strict recording.

4. Payment of a tax by a taxpayer's/tax agent's, other responsible person's representative, in accordance with the assigned authorities, shall be carried out only at the expense of this taxpayer/tax agent, other responsible person (including from the taxpayer's bank accounts). The above-noted rule shall not apply to parents, foster parents, trustees and other legitimate representatives of a physical person.
5. A day for payment of taxes shall be the day of transfer of the tax amount to the budget account, unless otherwise provided by this Code.

Article 68. Assessment of Tax.

1. According to this Code, a tax assessment shall be treated as entering into the records of a tax agency of the amount of a taxpayer's/tax agent's, other responsible person's tax liability for a specific tax period. Assessment includes the adjusted assessment and the expected assessment. However, in the case of an amended assessment, the expected assessment shall be eliminated.
2. The tax agency is authorized to make an assessment of tax liability of every taxpayer/tax agent, other responsible person under this Code and other normative acts of the tax legislation, on the basis of one or more of the following sources of information:
 - a) information contained in a taxpayer's/tax agent's tax returns;
 - b) information concerning payment of a sum described in Article 218.4 of this Code;
 - c) audit materials and other relevant information known to the tax agency.
3. If a taxpayer/tax agent, other responsible person does not submit the information needed to assess the tax, the tax agency shall be entitled to make a tax assessment on the basis of any information available to it.
4. In cases where the tax legislation does not require payment of the tax along with submission of a return, and in cases when the tax agency considers a previous assessment to be incorrect, the tax agency shall make an assessment and send an assessment notice to the taxpayer/tax agent, other responsible person.
5. When payment of taxes is connected with submitting of returns, submission of a tax return showing a tax liability shall be deemed to be:
 - a) an assessment of such tax;
 - b) tax notice and tax liability that shall be paid within deadlines established under the legislation.

Article 69. Place of Tax Payment

A tax shall be paid:

- a) at the place of assessment specified in a tax notice;
- b) if no tax notice is required, at the place specified in the tax legislation;
- c) if no place is specified in the tax legislation, according to the place of residence of a taxpayer - physical person or place of tax registration of an enterprise (organization), entrepreneur - physical person.
- d) according to tax registration place, if these transfers are made by the tax agent.

Article 70. Obligations of Banks with regard to Meeting Tax Liabilities.

1. Banks and other institutions conducting certain banking operations shall execute on the first- priority basis payment orders of taxpayers (other responsible persons), also decisions (collection orders) of tax agencies for the payment of taxes from the bank accounts of taxpayers;
2. Payment orders or collection orders are executed by banks not later than the following transaction day upon receipt of the mentioned order or decision, unless otherwise stipulated by this Code. Service fees on collection orders are collected at the expenses of taxpayer/tax agent, other responsible person at the same fees as orders of taxpayers.
3. In case of presence of funds on the taxpayer's (other responsible person's) accounts, the bank has no right to deter transfer of tax by taxpayer's payment order or collection order of tax agency to the corresponding budget. In case taxpayer (other responsible person) has no funds on his accounts or the funds are not enough to execute taxpayer's payment order or/and collection, their execution is conducted parallel to transfer of the funds on the mentioned accounts, no later than the following transaction day of each such transfer.
4. In case of failure to carry out on time the write-off of amounts from the accounts of taxpayer, tax agent or other responsible person and transfer of these amounts by taxpayer's payment order or collection order of tax agency to the budget, the bank is assessed penalty as prescribed by this Code. In this case no sanctions will be assessed on taxpayer/tax agent or other responsible person.
5. Violation of the rules of this article of transfer of tax amounts to the budget by taxpayer/tax agent's or other responsible person's servicing banks or by institutions executing certain types of bank transactions is the basis for suing banks and institutions executing certain types of bank transactions and/or their key officers for tax violation as prescribed by this Code and other legal acts.

Article 71. Refund of the Tax Amount Paid in Excess.

1. If the tax amount paid exceeds the amount of tax assessed, upon the request of the taxpayer/tax agent, other responsible person the tax agency shall:

- a) apply the balance against the taxpayer's/tax agent's, other responsible person's future tax liabilities only in chime with taxpayer/tax agent, other responsible person;
 - b) credit the excess amount paid to the unified account of state treasury budget returns to the account of the taxpayer's/tax agent's, other responsible person's other taxes that are to be paid, within mobilized funds of different tax types during the calendar year;
 - c) refund the balance amount to the taxpayer not later than 6 months after taxpayer's request from the sub-account of excess amount of tax revenues of the unified account of state treasury budget returns, within the balance available on the sub-account.
2. If the excess amount paid by the taxpayer/tax agent, other responsible person is credited as amount of obligation for other taxes, the tax notice shall contain information on the tax account(s) where the excess amounts were transferred.
 3. The excess amount paid by taxpayer/tax agent, other responsible person in budget shall not be subject to crediting for payment of tax arrears of other taxpayer (tax agent).

Article 72. Accumulation of Excess Amount of Tax Revenues on Sub-Account and Refund of Excess Amount of Tax Paid.

1. To ensure refund of excess amount of taxes paid, part of amounts actually transferred to unified account of state treasury budget returns administered by tax agencies at the rate defined by part 2 of this article shall be accrued on the sub-account for the refund of excess amount of tax revenues. The amounts on this sub account are transferred by the state treasury in proportion with actually transferred amounts on unified account.
2. The percentage of the amount to be transferred on the sub-account of refund of excess amount of tax revenues from unified account of state treasury budget returns is defined by the decree of Finance Minister and must equal to the value that will ensure refund of excess amount paid.
3. Rules and terms of refund of excess amount paid from the sub-account of excess amount of tax revenues of the unified account of state treasury budget returns are determined by the Government of Georgia

Article 73. Record of Amounts Paid in Budget

1. Record of tax revenues paid by taxpayer/tax agent, other responsible person in the budget is conducted by tax agencies by reflecting assessed amounts of tax liabilities and paid amounts on a personal registration card of the taxpayer.
2. The rules for keeping of personal registration cards are determined by the Ministry of Finance.

Article 74. Procedure of Payment of Tax Debts by Taxes

Payments of tax debts shall be made in the following order:

- a) tax amount;
- b) assessed amount of penalties in the form of financial sanctions;
- c) assessed amount of fine.

CHAPTER IX. CHANGE OF TAX LIABILITY MEETING TERM

Article 75. General Provisions for Changing Term for Meeting of Tax Liability.

1. The change of term established to meet a tax liability shall be considered as an extension of established term for payment of tax or its part for the certain period.
2. The term established to meet a tax liability can be changed in regard with the total amount of tax to be paid or its part by assessing fines on outstanding amount, unless determined otherwise by this Code.
3. Upon receipt of a substantiated written application from a taxpayer, the term for payment of tax may be extended for 3 or 6 months.
4. While making decision on extension of the term established to meet a tax liability, an agreement is concluded on repayment of tax liability and schedule shall be outlined.
5. During the extension period tax lien right on the taxpayer's property is valid in terms of the given Code and no other enforcement measures for tax payment stipulated in the given Code shall be applied.
6. In case of violation of the provisions stipulated in the given article in regard with repayment of outstanding tax liabilities and/or in case of non-fulfillment of current tax liabilities during the repayment of outstanding tax liabilities, the tax agency shall be responsible to implement immediate enforcement measures against the taxpayer stipulated in the given Code.

Article 76. Conditions Excluding Change of Term for Meeting Tax Liability

1. The term established to meet a tax liability shall not be changed :
 - a) if a criminal prosecution is going on for the breach of tax legislation either against taxpayer or tax agent;
 - b) if court examination of tax violation or administrative law violation is underway for the breach of tax liabilities either against taxpayer or tax agent;
 - c) if there is sufficient basis either against taxpayer or tax agent that in case of non-fulfillment of tax liabilities either taxpayer or tax agent shall take

advantage of such a change and hide one's funds and/or other property or if a person intends to move from Georgia to other state for residence.

2. In case of presence of conditions stipulated in part 1 of the given article, any decision in regard with the change of fulfillment of tax liability terms shall be considered invalid, in regard with any agreement concluded to implement the mentioned decision – null and void deal.
3. The decision-maker authorized person shall be responsible within 3 days upon the recognition of the mentioned decision, stated in part 2 of this article, as invalid (upon the disclosure of those conditions in terms of which the agreement is considered as an invalid deal) to send a written notice to taxpayer or tax agent and the tax agency at its registration place.

Article 77. Persons Making Decisions for Changing Term for Fulfillment of Tax Liability.

1. Upon receipt of a substantiated written notice requesting term extension for repayment of outstanding tax arrears by taxpayer, the extension for repayment of outstanding tax arrears shall be granted and the schedule shall be set by:
 - a) head of tax inspectorate – in case the arrears amount to 50 000 GEL and the extension term does not exceed 3 months;
 - b) chairperson of Tax Department - in case the arrears amount from 50 000 GEL to 250 000 GEL and the extension term does not exceed 6 months;
2. Extension of the tax payment shall not release the taxpayer from paying fines on the overdue tax payment to the budget.

Article 78. Cessation of Extension.

1. Extension shall be discontinued upon the expiry of the adequate decision (agreement) or it could be discontinued before the expiry of the term in cases stipulated in this Code.
2. Extension shall be discontinued ahead of a schedule if the taxpayer or the tax agent pays tax amounts and assessed penalties in full before the expiry of fixed term.
3. Extension shall be subject to discontinuation ahead of time by the authorized person of this decision, if taxpayer or tax agent violates extension conditions (schedule).
4. The decision on discontinuation of extension ahead of schedule by an authorized decision-maker shall be conveyed in a written form to taxpayer or tax agent within 5 days as determined by this Code. A copy of the decision shall be sent either to taxpayer or tax agent by tax registration place within the same term.

Article 79. Restructuring of Tax Arrears.

Restructuring of tax arrears shall be carried out based on the Government decision "On Restructuring Tax Arrears and State Debts" in accordance with the established by the law guidelines.

CHAPTER X. "TAX NOTICE ", "TAXPAYER'S NOTICE" AND MEETING THEM

Article 80. "Tax Notice"

1. The "tax notice" (payment request) shall be sent to taxpayer/tax agent, other responsible person upon arising of tax arrears due to non-fulfillment (improper fulfillment) of tax liabilities imposed by tax law on the taxpayer. The fulfillment of the "tax notice" is mandatory in cases defined by this Code and in accordance with the law guidelines.
2. The tax agency is responsible to send the notice on demand of tax payment to taxpayer/tax agent, or other responsible person in case the reason of the sending the notice on demand is proved.
3. Tax agency is responsible to send the "Tax Notice" to taxpayer/tax agent, other responsible person in the cases defined by 4.b.b. paragraph of this article within 5 days period.
4. The basis for the "Tax Notice" are:
 - a) The responsibility of tax assessment, calculation of which shall be made by the tax agency;
 - b) The violation of following obligations by taxpayer/ tax agent or other responsible person:
 - b.a) not filing a return, delayed filing of a return or filing return with inaccurate data;
 - b.b) non-payment of declared tax amount, payment of declared tax amount with delays or/and incomplete payment of declared tax amount.
 - c) Tax violation which was disclosed during tax audit.
5. "Tax Notice" should contain the following data:
 - a) the full name and address of the tax agency;
 - b) the date of sending (delivery) of the tax notice;
 - c) the properties of taxpayer/ tax agent or other responsible person (name and second name, address);
 - d) the taxpayer/ tax agent or other responsible person identification number (if such exists);
 - e) the basis for sending the notice referring to the provisions of the tax legislation act infringed either by taxpayer/ tax agent or other responsible person;

- f) the summary of “Tax Notice” (object of taxation, amount of the outstanding tax, fine or penalty, term and rules for payment of a demand of the tax);
- g) The rights and responsibilities of taxpayer/ tax agent or other responsible person (including appeal procedure for the “notice on demand of tax payment”);
- h) measures to ensure payment of a tax notice of the tax applied against taxpayer/ tax agent or other responsible person in case of non-fulfillment of this demand.

6. “Tax Notice” can be appealed in accordance with the rules defined by this Code.

Article 81. “Taxpayer’s Notice”

1. “Taxpayer’s Notice” is the request presented to the tax agency by a taxpayer/tax agent or other responsible person, implementation of which is mandatory in cases and rules defined by this Code.

2. Taxpayer/tax agent or other responsible person is authorized to present “taxpayer’s notice” to tax agency, in case there the basis for such action has been determined.

3. The reason of presenting the “taxpayer’s notice” is the existence of excess amount of paid taxes and/or fines.

4. The “taxpayer’s notice” shall include:

- a) The name and address of the tax agency;
- b) The date of sending (delivering) “taxpayer’s notice”;
- c) The properties of taxpayer/tax agent or other responsible person (full name, name, identification number (in case such exists), address);
- d) The basis of presenting “taxpayer’s notice”;
- e) The summary of “taxpayer’s notice” (the object of taxation, the amount of accrued tax arrears and fines, the date of meeting the request, rules of payment);
- f) The tax dispute resolution form (in the system of the Ministry of Finance of Georgia or arbitration (indicating the arbitration) or court);

5. The documents, which are the basis of presenting the “taxpayer’s notice”, should be attached to “taxpayer’s notice”.

6. The notice shall be delivered to the tax agency or sent by the registered letter.

Article 82. Execution of the “Tax Notice” and “Taxpayer’s Notice”.

1. The “tax notice” shall be executed by a taxpayer/tax agent or other responsible person within 15 calendar days upon its receipt (unless otherwise provided by this Code), in case “taxpayer’s notice” is presented in accordance to paragraph “c” of part 4 of article 80 of this Code and, therefore, the tax agency has accrued the tax amount, fines and /or penalties.

2. Within dates mentioned in part 1 of this article, if taxpayer/tax agents or other responsible

persons:

- a) fail to pay assessed tax and file an appeal envisaged by article 147.2 or counterclaim in court/arbitrage, measures foreseen by article 150 of this Code may be utilized;
- b) fail to pay assessed tax and do not present appeal or counterclaim in court/arbitrage as envisaged by subpart (a) of this part, which is considered as admitting of tax liability, measures foreseen in chapter 11 of this Code may be utilized;
3. The “tax notice” shall be executed by a taxpayer/tax agent or other responsible person within 5 calendar days upon its receipt, if the basis of the notice is infringement of tax liability stipulated in article 80.4.b.b. In case the liability is not met, measures of protection of tax liabilities may be applied.
4. The Ministry of Finance of Georgia is responsible for meeting “Taxpayer’s Notice” within 6 months after its receipt.

Article 83. Cessation of “Tax Notice” and “Taxpayer’s Notice”.

1. The “tax notice” and “taxpayer’s notice” shall be discontinued either upon its fulfillment or cancellation.
2. The “tax notice” shall be considered fulfilled by taxpayer/tax agent or other responsible person from the moment the full amount of the arrears and penalties stated in the notice is paid.
3. The “taxpayer’s notice” shall be considered met from the moment the amount is paid in full.
4. The “tax notice” and “taxpayer’s notice” shall be considered cancelled if the tax claimant has rejected it, or if the demand has been recognized as illegal or unjustified in accordance with the court/arbitrage appeal.

CHAPTER XI. MEASURES TO ENSURE MEETING TAX LIABILITIES

Article 84. Measures to Ensure Meeting Tax Liabilities.

1. Meeting tax liabilities shall be ensured by the following measures:
 - a) tax lien (or hypothecation);
 - b) enforcement of levy on property in possession of a third person;
 - c) seizure of property;
 - d) sale of seized property;
 - e) write-off of tax, penalty and fine amounts from bank accounts;
 - f) withdrawal of cash from taxpayer’s cash-desk;
 - g) other measures mentioned in this chapter;
2. Tax agency chooses the sequence of measures to ensure meeting tax liabilities.

3. Measures envisaged by this article shall not be applied to securities of the securities issuer transferred in the possession of the Brokerage Company acting on behalf of the securities issuer, in accordance with the Law of Georgia “On Securities”, as well as to cash received for the purchase of securities.

Article 85. Tax Lien (Hypothecation).

1. Tax lien (hypothecation) is the right of the state to meet tax liabilities from property of the delinquent taxpayer/tax agent, other responsible person.
2. Tax lien (hypothecation) shall arise together with tax arrears or/and with recognized tax liabilities. This right can arise in the amount of such and shall apply to the entire property of the taxpayer/tax agent or other responsible person including the property acquired after generation of tax arrears.
3. The notice about occurrence of right to tax lien (hypothecation) shall be sent to taxpayer, also to the registration agency for registration purposes within 15 days from the event. The latter is responsible to register this right within 24 hours upon receiving the notification.
4. Statute of limitations for the tax lien (hypothecation) right shall be 6 years from the date of the occurrence of the tax liability. In case of the bankruptcy case or restructuring the tax lien (hypothecation) shall be: 6 years plus entire term of the bankruptcy case or restructuring regime and plus 2 years.
5. Tax lien right shall not apply against the owner of the right whose right to lien (hypothecation) arose before the registration of the tax lien (hypothecation). If the tax agency sells the property subject to tax lien, then all rights originated following registration of the right to lien shall be annulled, but the other rights to lien (hypothecation) registered prior to registration of the tax lien (hypothecation) remain in force.
6. After the end of the completion of the bankruptcy case or restructuring regime priority of the tax lien (hypothecation) shall be defined by the rule which applied before the start of the bankruptcy case or the restructuring regime.
7. If the property under the tax lien (hypothecation) is sold or transferred to another owner without termination of the tax lien (hypothecation), then the right to tax lien (hypothecation) shall still apply to the new owner. Any other right to lien (hypothecation) of the new owner shall have less force than the tax lien (hypothecation) existing before.
8. Tax lien (hypothecation) right shall be cancelled if:
 - a) taxpayer completely repays arrears - immediately after the payment of arrears;
 - b) statute of limitations term of the right to tax lien (hypothecation) has expired - upon the expiry of this term.
9. In order to support transfer of the property subject to the right to lien (hypothecation), the state shall be authorized to remove the tax lien (hypothecation), if the tax agency receives the relevant amount in lieu of the property or if it considers that such action represents a

strategic interest of the country. In such a case of removal of lien (hypothecation), the tax bodies will issue a notification on removal of tax lien (hypothecation) from the property.

Article 86. Redirection of the Tax Payment on Property in Possession of a Third Person.

1. If the taxpayer's property or any form of his right on the property is in temporary possession of a third person, which is recognized by the court ruling or a third person, then with a consent of a taxpayer the tax agency shall be authorized to require the third person to fulfill tax liabilities of the taxpayer (not exceeding amount of the recognized liability in accordance with this Code) to the tax agency as the taxpayer would do. Upon fulfillment of the liability in full or in part, the tax liability of the taxpayer shall be reduced accordingly.
2. In accordance with provisions of part 1 of this article, the Head/Deputy of the tax agency shall be authorized to make a decision on redirection of the tax payment on property in possession of a third person and send him a notice:
 - a) that envisages payment directly to tax agency within 15 days or transfer of the taxpayer's/tax agent's or responsible person's property in possession of the third person;
 - b) to write off from the taxpayer's debtor's bank account by the collection order. In case of having foreign currency accounts in the financial institution, the institution will carry out conversion of such currency into the national currency.
3. Notice on demand of tax payment should be affixed to the consent of taxpayer/tax agent or other responsible person mentioned in the 1st paragraph of this article and the notice should include:
 - a) The name and address of tax agency;
 - b) The date of sending the notice on demand of tax payment;
 - c) The personality of third person (first name and second name/name, address);
 - d) The personality of taxpayer/tax agent or other responsible person (first name and second name/name, address);
 - e) The reason of representing the notice on demand of tax payment indicating the report of legislation according to which the notice was represented;
 - f) The summary of the notice on demand of tax payment (including the third person's liabilities to taxpayer/tax agent or other responsible person, the amount of money demanded by third person from them and indicating the property that is owned by taxpayer/tax agent or other responsible person, date of fulfillment of notice, rules of payment)
 - g) Explanation of wrights and liabilities of third person while receiving the notice on demand of tax payment (including the rule of appealing the notice);
 - h) Measures to ensure fulfillment of tax notice, which will be used in case the third person does not fulfill the tax notice.
4. The tax notice can be appealed in accordance with this Code.
5. In case taxpayer/tax agent, defined in the 1st paragraph of this article, announces to tax agency that his/her property and/or wrights on property are in ownership of third person and does not present documents that would prove abovementioned ownership, tax agency will apply to third person for the reason of proving this information. In this case the third person is responsible to deny above mentioned information or inform the tax agency on properties or wrights on properties that he/she owns in 10 days after receiving tax notice.

If the third person does not present information, fails to present information in time or presents wrong information, he/she shall be imposed a penalty defined by this Code.

6. A person meeting requirements of this article, from the time of fulfillment, shall be released from any obligation to the taxpayer to the extent of the value of transferred property or the right and is hereby released from the responsibility for any damage or loss incurred as a consequence of compliance with such demand.

Article 87. Seizure on Property.

1. In case of the recognized tax arrears, the tax agency shall be authorized without a court decision to seize any property of the taxpayer/tax agent or other responsible person, subject to tax lien (hypothecation) right, including movable, immovable and intangible property.
2. Seizure of property represents stock-taking of any property of the taxpayer (only with in the bounds of the 1st paragraph of this article), announcement of prohibition of disposal of property (conclusion of an agreement on sale, pawning, mortgage, usufruct, servitude or burden, giving on rent and leasing in any form by the taxpayer), excluding the usage for economic reasons (excluding goods for realization) and transfer of goods for realization for safekeeping. In case of seizure the taxpayer/tax agent or other responsible shall not be authorized to use, transfer, sell, rent, lease or dispose the property in any other manner without a written consent of the tax agency and in this case all the revenues should be used to cover tax liabilities.
3. Seizure is administrative report arranged by the order of the Head/Deputy head of the tax agency and comes into effect as soon as debtor gets acquainted with the rules under the law.
4. The tax agency shall inform the taxpayer of the seizure intent 30 days prior to seizure, unless there is a risk of tax payment.
5. Notice on property seizure shall contain the following data:
 - a) The personality of debtor (the full name/the name, address), taxpayers identification number;
 - b) the date of the notice;
 - c) types and amounts of unpaid taxes and period;
 - d) Total tax arrears (with assessed penalties and fines) by the end of 30 day period.
6. Representative of tax agency shall make inventory of all seized items and enter into property inventory report.
7. Property seizure (inventory) report shall include the following information:
 - a) date and place of issuance of the report;
 - b) name of the tax agency making decision on seizure, full name of the representative of the tax agency and the persons attending preparation of the report;

- c) debtor's requisites (full name/the name, address), taxpayers identification number;
 - d) name of each item included in the report, distinguishing features (weight, size, depreciation, etc);
 - e) separate valuation of each item and full property value;
 - f) if an item and/or parking is sealed – which items and/or parking was sealed and number of seals or their description;
 - g) name of the person to whom the property was conveyed for safekeeping, his address unless items for safekeeping were not given to the debtor;
 - h) debtor and property safe keeper shall be explained their duties in regard with property safekeeping and the responsibility for embezzlement, disposal or hiding the property under safekeeping;
 - i) note, that the debtor and other persons were explained the appeal proceedings of the actions of the tax agency;
 - j) comments of representative of tax agency, debtor;
8. Securities and/or valuables shall be withheld by representative of the tax agency for safekeeping under established rules, if there is a risk to damage of seized items. If seized items remain with the debtor then seizure shall be carried out by sealing.
 9. The report of seizure (stock-taking) shall be signed by the representative of tax agency, property keeper, debtor and other people attending the seizure. In case the above mentioned people refuse to sign the report, the appropriate note is made on the report.
 10. If in case of seizure third persons state their right on the property, it still enters the inventory list and a note is made.
 11. The seized items shall be evaluated by a representative of the tax agency at the market price.
 12. For evaluation of the seized items it shall be allowed to invite an expert or an auditor if is impossible evaluate certain items.
 13. The market price of each seized item shall be given in the report of the property seizure.
 14. If a tax agency has enough proof that tax payment is in jeopardy, it can demand an immediate payment of the tax and, in case of failure of the taxpayer to pay the tax, may proceed to levy on the taxpayer's property under the right to tax lien (hypothecation), without consideration of provisions of the part 4 of this article. The decision shall be submitted to the court within 72 hours. The court shall make a decision within following 72 hours. If the court fails to make a relevant decision within established deadlines, then the seizure shall be considered removed.
 15. If a tax liability is not recognized and a tax agency has enough proof that the tax payment is in jeopardy it can demand an immediate payment of the tax and, in case of failure of the taxpayer to pay the tax, may proceed to levy on the taxpayer's property under the right to tax lien (hypothecation), without consideration of provisions of the part 4 of this article. The decision shall be submitted to the court within 72 hours. The court shall make

a decision within following 72 hours. If the court fails to make a relevant decision within established deadlines, then the seizure shall be considered removed.

16. A tax agency may decide that tax payment in jeopardy if:

- a) a taxpayer/tax agent or other responsible person hides property that could be used for fulfilling tax liability;
- b) a taxpayer/tax agent or other responsible person is getting ready to leave the country without fulfilling his tax liabilities and does not carry out any negotiations in regard with repayment of debt;
- c) a taxpayer/tax agent or other responsible person seeks for announcement as a bankrupt;
- d) There is a risk that the property of a taxpayer/tax agent or other responsible person will be disposed under a real or fake agreement, which makes it difficult or impossible to assess tax liability;
- e) a taxpayer/tax agent or other responsible person has outstanding arrears, owns more than 10 000 GEL and does not carry out activities to cover arrears.

17. Rules for seizing the property, removal of seized property and its safekeeping shall be established by the Georgian government.

18. Seizure made by tax agency is considered removed immediately upon repayment of arrears if taxpayer fully repaid these arrears.

Article 88. Sale of the Seized Property.

1. Property seized from a taxpayer shall be sold at a specialized open auction by tax agency based on the court decision.
2. The date and place of the auction shall be defined by the relevant tax agency and an announcement about the event shall be made 30 days in advance. The announcement shall include:
 - a) date and place of auction;
 - b) the requisites of the property owner (full name/name and address);
 - c) name of the property to be sold (short description of the property);
 - d) initial price for the property, which shall be the market price of the seized items included in the seizure report;
 - e) notice about the fact that if third persons have rights on this property are responsible to submit proof to that before the beginning of the auction;
 - f) auction conditions.
3. Upon publishing the information every interested physical and legal person in agreement with the tax agency shall be entitled to become familiar with the property put to the auction for sale in advance.
4. The date and place of the auction is announced by the tax agency by an application and through mass media.

5. Person who wants to participate in auction is responsible to transfer 2% of the initial price of the property, which he/she wants to purchase, to the deposit account of treasure and in case of winning it will be credited in the account of paid amount.

6. The auction shall be conducted by the representative of the tax agency. He/she announces the beginning of the auction and offers initial price.

7. The auction continues until no more bids are made. The representative of the appropriate tax agency shall announce the author of the last bid and the auction shall be announced closed.

8. Persons who could not win in auction can receive paid amount in 5 calendar days after closing of auction.

9. Any buyer that buys property at the auction must immediately pay not less than half of his/her bid or 5 000 GEL, whichever is less, if he was the successful bidder at the auction. Remaining amount must be paid within next 14 calendar days. Before full payment a purchaser has no right to property.

10. National currency paid at the auction is directly transferred to state budget or cash settlement takes place. Buyer is given receipt for the money paid, in which name and address of the buyer, title of the property, former owner's name, Taxpayer's title and Tax Identification Number is reflected.

11. Upon full payment of the price a buyer is issued a sale and property ownership (disposing) certificate. Sale certificate grants the buyer property ownership right to which non-tax lien maybe attached, that had been existed before the sale of property and was superior that the tax lien, which became the cause for property seizure. Buyer must immediately move the property from the storage area or facility where the tax agency was safekeeping it. Buyer's ownership right comes into force from the moment of full payment of property price to the state.

12. If the buyer fails to make full payment in the period due, he/she loses all rights to this property and amount already paid by him/her. In such case this money is used to satisfy the debt due to which property sale took place.

13. If the buyer fails to make full payment in the period due, state (tax agency) is authorized:

- a) conduct repeated open auction after publication of relevant 30 day notice;
- b) release the property back to the ownership and possession of the taxpayer.

14. Seized perishable goods may be sold immediately. Perishable are only the goods if less than 10 days remain before the expiration of their storage date. In case of a sale of perishable goods, other creditors of the taxpayer have sixty days from the date of the sale to submit an administrative claim to the head of the tax agency claiming that they had a lien registered against the goods prior to the registration of the tax lien, based on which the seizure and sale were conducted. The head of the tax agency has 30 days to decide on the claim. If the head of the tax agency decides in favor of the claimant, the tax agency must pay to the claimant the gross amount of proceeds received at the sale, or amount of the claim whichever is less.

15. The income generated from the sale is applied to cover:
 - a) the costs connected with collection, safekeeping and sale,
 - b) tax debt;
 - c) fines and penalties;
16. Remaining funds are given back to the taxpayer within five banking days.
17. Registering agencies if the buyer submits a certificate are entitled in terms of rules stated by the law register a new owner of the property who replaces the old owner and becomes the member of the legal relations in regard with the object at the moment of the property transfer.
18. The sale of seized property is halted if before the auction is conducted the taxpayer pays the debt to the budget and covers already incurred auction costs, or in the case of a written agreement between the taxpayer and the tax agency for delayed payment.
19. The rules of sale of seized property are defined by the Georgian Government.

Article 89. Writing-off Tax, Penalty and Fine Amounts from Bank Accounts.

1. If a taxpayer/tax agent or other responsible person fails to fulfill the tax payment within 10 days after the expiration of the established by the Code term, the tax agency shall be authorized to ensure fulfillment of the tax liability recognized on the basis of collection order to write-off the tax, penalty and fine amount from the bank accounts for their further transfer to relevant budgets.
2. Decision on writing-off the tax, penalty and fine amounts from the bank accounts shall be made based on the Head/Deputy head of tax agency order and in accordance with the rules established under the Tax Code shall be transferred (delivered) to the banking institution where the taxpayer/tax agent or other responsible person has bank accounts, or to the taxpayer/tax agent or other responsible person.
3. Collection order (order) of tax agency on transfer of tax, penalty and fine amounts to respective budgets is subject to mandatory execution by the banking institutions in the terms prescribed.
4. The collection order (order) of the tax agency, should indicate Bank accounts of the taxpayer/tax agent or other responsible person, from which the tax, penalty or fine are to be transferred, as well as the amount payable.

Article 90. Withdrawal of Cash from Taxpayer's/Tax Agent's Or Other Responsible Person's Cash-Desk.

1. If measures undertaken by the tax agency in accordance with the article 89 are not sufficient to cover the tax liability, then the tax agency shall be authorized to withdraw (remove) cash (including foreign currency) from the safe of the cash-desk or other facility without a court order in amount of the recognized liability. The rule of

withdrawal of cash is defined by the Ministry of Finance of Georgia.

2. Cash withdrawn from cash-desk of the taxpayer shall be deposited in the bank institution on the same day to be transferred to the respective budget account. If it is impossible to deposit the withdrawn cash the same day, it must be deposited to the bank institution on the nearest working day.

Article 91. Alter Ego Ownership.

1. If court decision certifies that for the purposes of tax evasion, a legal person and a taxpayer/tax agent or other responsible agent are practically indistinguishable from each other, as the legal person is used for tax avoidance purposes, such persons are alter egos to each other.
2. When the taxpayer/tax agent or other responsible person and another legal person are alter egos to each other, the tax agency is authorized, consistent with the provisions of this code, to apply all tax collection procedures against that other legal person.

Article 92. Writing off Tax Arrears

1. Overdue debts for taxes, penalties and sanctions are written off if:
 - a) overdue debt is recognized as a bad debt;
 - b) tax liability is halted in consistence with article 62 of this Code or any other reports of tax legislation of Georgia.
2. In the cases stipulated by this article arrears are written off consistent with the conclusion drafted by the Credit and Tax Debts Restructuring Rationality Study Commission of the Ministry of Finance based on the Finance Minister's order.
3. If a person, whose bad tax arrears were written off, continues economic activities, and/or is discovered to own any property, old tax arrears will be reassessed, and penalties and fines will continue to assess.

PART V. TAX ACCOUNTING

CHAPTER XII. RECORDING OF TAXABLE OBJECTS AND TAX ACCOUNTING

Article 93. Recording of Taxable Objects.

1. Any taxpayer/tax agent or other responsible person shall keep records on transactions, which:
 - a) may create the tax liability of the given person;
 - b) may create an obligation for this person to withhold taxes;
 - c) may create an obligation for the person to submit information for taxation purposes;

2. Any primary accounting document is considered to be a document, reflecting:
 - a) name of the document;
 - b) date of document development;
 - c) number of document, whose reiteration is prohibited;
 - d) properties of the parties to the economic transaction (in case of the physical person—name and last name, taxpayer identification person (if available), domicile address, number of identification document, name of the body issuing identification document and date of issuance; in case of other persons—full name, address and taxpayer identification number)
 - e) description of the economic transaction;
 - f) Name of delivered products/services (complete list), amount and **size unit** (if it is possible to define the amount and size of product/service);
 - g) The value of delivered products/services (according to complete list);
 - h) The amount of Excise tax and VAT (only for Excise products);
 - i) The amount of VAT (only for VAT taxable products/services that are not taxed by Excise tax);
 - j) names of the officials in charge of performance of the economic transaction or their authorized representatives, their signatures.
3. Any primary document shall be developed at least in two identical copies, of which one remains with the person designing and issuing document, and the other copy shall be given to the person (and kept by him/her) for whom the document is prepared.
4. If the accounting documents of the taxpayer/ tax agent or other responsible person are designed in the foreign language and are not understandable for tax authorities, then the latter may require translation of the document into the official language of the state.
5. In case of the preparation of the electronic version of the document, during monitoring or audit the taxpayer/tax agents or other responsible persons shall submit to tax authorities the hard copy of the document upon request.
6. Taxpayers/ tax agents or other responsible persons shall keep accounting documents and records for at least 6 years, following the end of the calendar year concerned.

Article 94. Accounting for Certain Types of Activities.

1. Taxpayers, carrying out certain types of activities, for whom the tax code establishes different taxation requirements, shall keep separate records for the taxable object and taxation related objects, which are related to taxation of such activities, according to the decision of Ministry of Finance of Georgia.
2. Incomes and expenditures related to activities of certain type shall be certified by the accounting documents.

Article 95. Tax Return.

1. Tax return is a written application of a taxpayer/tax agent or other responsible person on data about received income and incurred expenditure, income sources, taxable objects, tax concessions, calculated tax amount and/or other data in connection with tax calculation and payment.

2. Taxpayers/tax agent or other responsible person shall be required to submit tax returns in cases determined by this Code and within established deadlines.
3. Under the provisions of this Code taxpayers/tax agents or other responsible persons are required to file tax returns with the tax agencies by the place of tax registration. In cases outlined by the Ministry of Finance the tax return could be submitted on a diskette or other carrier enabling its computer processing.
4. Taxpayers/tax agents or other responsible persons have a right to file tax returns to the tax agency personally or send by registered mail. Tax agency has no right to reject receipt of the tax return and shall stamp one the copy of the return and put the date of acceptance. If a tax return is sent by registered mail, its submission day is the day it was sent.
5. Formats of nation-wide and local tax returns, as well as rule for their filing shall be determined by the Minister of Finance of Georgia.
6. The tax return must be signed by the taxpayer/tax agent or other responsible person or by the taxpayer's legal and/or authorized representative.

Article 96. Extension of Term for Submitting Tax Return.

If the taxpayer/tax agent or other responsible person of social, income, property or profit tax applies to the tax agency for the extension of term for submitting a tax return before the term expiration, and pays concurrently the tax due at the time, the term for submitting a tax return will be automatically extended for three months. The granting of an extension under this Article shall not affect the term for payment of the tax and shall not suspend assessment of fines on unpaid taxes.

Article 97. Amendments and Additions to Tax Returns.

1. If a taxpayer/tax agent or other responsible person finds errors leading to reduction of tax liability in the submitted by him tax returns, he/she is responsible to introduce corresponding changes and additions to the tax return.
2. If the application stipulated in the first part of this article about amendments and changes in the tax return is submitted to the tax agency prior to expiry of submission term, the tax return is considered submitted by the date of submission of the application.

PART VI. TAX AUDIT

CHAPTER XIII. GENERAL PROVISIONS

Article 98. General Provisions of the Tax Audit

1. General provisions of tax audit stipulated under this chapter shall apply to all types of taxes, taxpayers/tax agents or other responsible persons unless otherwise determined by the tax legislation.

2. Tax audit is implemented by the tax agencies only and in cases envisaged by the customs legislation—by customs agencies.
3. Other controlling and law enforcement agencies are prohibited to carry out tax audit of taxpayers/tax agents or other responsible persons. In case of necessity the audit of taxpayer/tax agent or other responsible person is conducted by tax agencies consistent with the judge's order on the basis of solicitation of other operating-investigating agencies. The agency, carrying out investigative activity, should raise the solicitation on tax audit in court, which should represent relevant information on facts of breaking the Georgian Law by the taxpayer/tax agent or other responsible person. The Judge shall review the issue individually in a closed court hearing without participation of parties.
4. Tax audit shall cover current audit procedures (taxpayers accounting, verifying accounting and reporting data, general analytical procedures), monitoring taxpayer's economic activity (invigilation, stock-taking, control purchase, inspection) and tax audit (desk or field audit). In the cases where taxes in regard with export-import transactions are determined according to customs procedures, audit is carried out by the customs agencies in compliance with the customs legislation.
5. The procedures of tax audit should not disturb or restrain the normal rhythm of taxpayer's activity.

Article 99. Implementing Tax Control

1. Tax agency is authorized to implement tax audit on the taxpayer's/tax agent's or other responsible person's activity only in accordance with this Code.
2. Tax agency is authorized to implement forms and methods of tax audit on taxpayer's/tax agent's or other responsible person's activity only on the basis of order of the judge, except:
 - a) Current audit procedures;
 - b) Observation procedures of taxpayer's activities (besides, without the order of the judge, stock-taking of persons, owning non-excise goods, can be carried out not more than 3 times during a calendar year);
 - c) Desk tax audit;
 - d) Field planned audit;
 - e) Field control (monitoring/follow up) tax audit related to reorganization or liquidation of enterprise/organization;
 - f) Cases defined by article 114 of this Code;
3. The judge can issue an order on tax audit of taxpayer/tax agent or other responsible person only after the tax agency represents subsequent information with substantial and verified doubt on the facts of violation of tax legislation by mentioned persons.
4. If judge does not issue an order on tax audit of taxpayer/tax agent or other responsible person, the tax audit of taxpayer/tax agent or other responsible person shall not be conducted.
5. The consideration and decision rules by judge of issues mentioned in this article are defined by the Administrative Procedures Code.

6. Tax agency is entitled to conduct tax audit of taxpayer or person, who is responsible to register as a taxpayer, on issues that are mentioned in the order of judge.
7. It is prohibited to conduct tax audit on already audited issues without the order of judge.

CHAPTER XIV. PROCEDURES OF CURRENT TAX AUDIT

Article 100. Registration of Taxpayers

1. Enterprises/organizations or entrepreneur physical persons shall apply to the tax agencies in accordance with the place of their activities for tax registration within 10 days of registration or initiating economic activities.
2. Physical persons defined in Article 1.2 of Law of Georgia “On Entrepreneurs” shall apply to the tax agency in accordance with the place of their activities for tax registration within 10 days from initiating economic activities.
3. Physical persons other than stipulated in parts 1 and 2 of this article shall apply to the tax agencies in accordance with the place of their domicile for obtaining an identification number 10 days prior to arising current tax liability or tax returns submission date.
4. If taxpayer has problems in regard with identifying the place for tax registration, tax agency shall make a decision on the basis of the data submitted by the taxpayer.

Article 101. Rules for Registration, Taxpayer Identification Number

1. Together with submitting an application for tax registration, an enterprise/organization, except for a permanent establishment of a foreign enterprise, shall present one copy of the state registration certificate, other documents necessary for authorized and state registration endorsed in a prescribed way.
2. At the time of applying for tax registration a physical person - entrepreneur shall submit the application for registration together with the documents determined by the Law of Georgia “On Entrepreneurs” for state registration purposes.
3. Tax agency assigns each taxpayer/tax agent a taxpayer’s identification number, which is used for payment of all taxes including customs duty.
4. Taxpayer’s identification number is permanent and it is prohibited to change or repeat it.
5. Tax agency is obliged to assign an identification number to a taxpayer within 5 days after submission of the application and issue a taxpayer’s certificate within the rules stated by the Ministry of Finance of Georgia.
6. Taxpayers are obliged to identify their taxpayer’s identification number in the tax return, all correspondence with tax and customs organs and other documents stipulated by the legislation.

7. Rules and terms for taxpayer's registration, assigning and using taxpayer's identification number, are established by the Minister of Finance of Georgia.
8. On the basis of registration data Tax Department of Georgia maintains Single State Registry of Taxpayers.
9. Identified information about the taxpayer from the registration moment is considered as tax secret unless envisaged otherwise by this Code.
10. The format for registration documents is designed by the Minister of Finance of Georgia.

Article 102. Requiring Information from Taxpayer

1. Authorized person from the tax agency, on the basis of written order of the Head/Deputy head of tax agency, is authorized to require accounting documentation or/and information related to taxation from the taxpayer/ tax agent or his/her representative.
2. Request for accounting documentation or/and information related to taxation is presented by reasonable written request of the authorized person from the tax agency, which should particularly reflect the list and the dates of presentation of accounting documentation or/and information related to taxation (Copies are verified by taxpayer).

Article 103. Presenting Information by Banks While Opening Bank Accounts

Banks and other institutions carrying out certain banking operations shall:

- a) open settlement accounts for physical persons – entrepreneurs or/and enterprises (organizations) only upon presentation of documents proving the issuance of a taxpayer identification number by the tax agency, except the situation stipulated by paragraph “b” of this article.
- b) within 3 days from opening accounts to foreign enterprise notify the Tax Department of Ministry of Finance of Georgia about opening of these accounts and not effect transactions on accounts until the tax agency receives this information; to notify tax department about opening accounts for foreign enterprises within three days from opening the accounts consistent with the rules stated by the Ministry of Finance; It is also responsible to present information on identification number of foreign enterprise or/and factual address of permanent establishment, on the basis of information received from foreign enterprise, to the Tax Department of Ministry of Finance of Georgia.
- c) within 3 days from opening accounts notify the tax agency about opening of these accounts and not effect transactions on accounts until the tax agency receives this information;
- d) not effect transactions on accounts without indicating taxpayer's identification number.

Article 104. Determination of the Object of Taxation, Object Related to Taxation and Tax Liabilities in Individual Cases

1. If any money is used for the interest of a specific person, this amount is considered to be received by this person;
2. If a taxpayer maintains incorrect recording and accounting, or does not carry it out in accordance with the stated rules and forms, or if the documents are lost or destroyed and determination of a taxation object, object related to taxation and tax liabilities are impossible, tax agencies for the purposes of determination of the tax due, are authorized to assess tax liability on the basis of obtained materials considering relevant facts and circumstances based on direct and indirect methods (volume of assets, operational income and expenses, also on the basis of analyzing other similar information).
3. In the cases of any deals between inter-related persons tax agency distributes income and expenses among them in the same manner as in the case of a deal between non-related persons;
4. For payment of taxes, physical and legal persons carrying out sale of goods (services) mostly by cash, use a simplified system established by the Ministry of Finance of Georgia for tax base determination and accounting. This system shall not apply to taxpayers who, proceeding from the purposes of the payment of profit tax and income tax, are required to use accrual basis method of accounting, or use accrual method on voluntary basis, as well as to persons registered as VAT taxpayers.
5. In case of reflecting reduced value during a barter transaction, the tax agency adjusts taxable objects considering market prices, and recalculates taxes together with sanctions established for violation of the tax legislation of Georgia.
6. To determine tax liabilities tax agency is authorized to:
 - a) disregard the transactions not having substantial economic importance or
 - b) re-qualify the transaction in accordance with real situation if its form does not comply with the content.

Article 105. General Analytical Procedures

1. General analytical procedures implies generalization of information received from taxpayer, collecting statistical and other information, competitive and quantitative analyzes of abovementioned information and on the basis of these analyzes planning and optimization of tax audit and administration, including:
 - a) Collecting information on revenues and other objects of taxation;
 - b) Learning reasons of creation of tax arrears according to tax liabilities;
 - c) The analyze of execution of tax liabilities by taxpayers, who are tax exempt;
 - d) Utilization of accounting forms defined by tax legislation;
2. The results of general analytical procedures conducted by the tax agency are reproduced in document formed on current tax audit.

CHAPTER XV. PROCEDURES OF TAX AUDIT ON OBSERVATION OF TAXPAYER'S ACTIVITIES

Article 106. General Provisions on Taxpayer's Activities Related to Procedures of Tax Audit

1. The procedures of observation of taxpayer's activities are held by authorized person(s) from tax agency on the basis of motivated orders of Head/Deputy head of the tax agency, without warning taxpayer in advance. The order should include periods of above mentioned procedures (starting and ending dates of procedures) and the list of those authorized persons from tax agency, who conduct procedures.
2. The authorized person from the tax agency should present his/her own identity card, order of Head/Deputy of the tax agency on providing observational tax audit procedures on taxpayer's activity, the program of conducting procedures and card providing explanation of taxpayer's rights.
3. The procedures of observational tax audit of taxpayer are allowed during the working hours of taxpayer or/and during the factual working period.
4. Taxpayer or his/her representative, in necessary cases invited specialist, should attend the procedures of observational tax audit of taxpayer.
5. The report shall be designed based on the results of the procedures of observational tax audit of taxpayer, which should be signed by the authorized persons from tax agency conducting the procedures of observational tax audit and taxpayer or his/her representative, also by invited specialist (if he/she participated in tax audit). In case when the taxpayer or his/her representative does not sign the report, relevant inscription should be made into the report.

Article 107. Procedures for Invigilation

1. To determine taxpayer's income, volume of delivered goods (services) by a taxpayer and real number of hired physical persons during certain period of time tax agency has right to carry out observation and its study in any object/premise of economic activities of a taxpayer by means of invigilation.
2. Invigilation shall be conducted by not less than two responsible officers of the tax agency.
3. Invigilation shall be conducted by nonstop recording of the volume of produced and/or supplied goods (services) by a taxpayer during a workday. If necessary, responsible person of the tax agency installs meters and other measuring instruments and records their indications at the end of each day of chronometrical observation.
4. Invigilation shall be applied, as a rule, not less than for 7 days during a calendar month. In addition tax agency may make decision to continue it the following month and to establish temporary tax post to watch premises of taxpayer's economic activity.

5. Responsible officers of the tax agency are powerless to require accounting documents or other information related to taxation of taxpayer's.

Article 108. Procedures for Conducting Controlling Purchases of Goods/Services

1. To determine reality of taxpayer's income tax agency has right to carry out controlling purchase of goods/services from a taxpayer and/or determine price of goods (services) by means of purchasing offer (without its sale or consumption).
2. Controlling purchase of goods/services is aimed at identifying real income received by a taxpayer as a result of delivery of goods, and/or rendering services.

Article 109. Inspection

1. Authorized officer of the tax agency has right to conduct inspection of territories and buildings of taxpayer for the tax audit purposes, except physical person's apartments, those inspections require the court order.
2. The procedures of inspection by the authorized officer of the tax agency account for the visual inspection of external and internal expanses. During the above mentioned inspection it is prohibited to inspect taxpayer's documentation and inventories and also to request verbal or written explanations from taxpayer.
3. The procedure of inspection excludes visual inspection and audit of safe, cabinet, regiment and other similar storehouse.

Article 110. Stock-Taking

The head of tax agency has permission to issue an order of inventory stock-taking of person, who owns excise goods, without the court decision execution (the order of inventory stock-taking of person, who owns non-excise goods can be issued not more than three times during the calendar year). According to above mentioned order the head (director) of a taxpayer should found the stock-taking commission for the reason of conducting stock-taking in reasonable dates. The stock-taking commission should include those persons who know well property to be inventoried, prices and primary accounting. Above mentioned commission is responsible to account timely and intact the inventories on the place of storage and production and should compare the book-keeping results to the accounting results and put down all abovementioned information into the report of inventory description.

CHAPTER XVI. TAX AUDIT

Article 111. Forms of Tax Audit.

Tax audit conducted by a tax agency can be desk and field audit.

Article 112. Desk Tax Audit.

1. Desk audit concludes, without visiting taxpayer's place of activity, the consistence of meeting tax liabilities by the taxpayer with the requirements established by this Code,

based on analyzes of financial reports, tax returns, certificates, explanations, conclusions, calculations and other data in possession of the tax agency, also explanations and accounting documents.

2. Desk audit shall be carried out by an authorized person of the tax agency in accordance with his authorization on the basis of the written order of the Head/Deputy head of the tax agency.
3. Tax agency conducting the desk audit is authorized to demand from the taxpayer explanations and accounting documents in accordance with article 102 of this Code.
4. If desk audit reveals errors in the filed document in submitted documents, the taxpayer shall be notified about it in writing and asked to make relevant corrections in the mentioned documents.
5. If the errors revealed as a result of the audit cause changes (reduction or increase) of payable amounts the responsible person of the tax agency conducting the desk audit draws tax audit report and signs it. The report is approved by the head/deputy head of the tax agency.
6. The tax notice with regard to the tax amount revealed as a result of the desk audit shall be sent to the taxpayer consistent with the rules stated by this code.

Article 113. Field Tax Audit.

1. Field tax audit foresees full or sample audit of documents related to calculation of taxes on the taxpayer's place of activity. Field tax audit may include the procedures of observational control of taxpayer's activities as well.
2. The list of operations of field tax audit that are foreseen by the tax audit program should be attached to the order of assignment of field tax audit.
3. The field tax audit may be carried out only during the working hours or/and the factual working time of taxpayer.
4. A field audit may be planned or unscheduled.
5. Planned field audit is carried out by the decision of the head/deputy head of the tax agency no more than once a year by notifying the taxpayer in writing ten days in advance. The notification should identify the object and basis of an audit, also tentative duration of the audit.
6. Unscheduled field audit shall be carried out without a written notice. For the reason of unscheduled field audit the decision on application the court or urgent controlling field audit is made by the head/deputy head of the tax agency, if:
 - a) the latest tax audit revealed the facts of serious violations of tax liabilities by the taxpayer or there are other facts referring to such violations;
 - b) there is reliable information that brings origin of taxpayer's financial and material funds under suspicion;

- c) there is reliable information about growth of property or other taxable objects without documented proof;
 - d) tax returns submitted to the tax agencies and other documents do not prove the reality of taxable objects and assessed payments;
 - e) tax returns or other documents necessary for tax assessment and/or tax payment are not submitted;
 - f) the enterprise (organizations) has changing its legal form
7. Field audit may last no longer than 2 months. If necessary tax agency is entitled to extend this period for not more than one month.
 8. After making decision on assignment of the field tax audit, the head/deputy head of tax agency is responsible to found the group tax audit.
 9. The tax audit group is responsible to present identification cards of its members, the order of the head of tax agency on founding tax audit group, tax audit program and card defining the rights of taxpayer. Besides abovementioned documents following documents should also be presented to the taxpayer: the order of the judge on assignment of unscheduled field tax audit – during the controlling field tax audit (except for cases defined by paragraphs “e” and “f” of second part of article 99 of this Code) and the order of head/deputy head of tax agency on the assignment of following field tax audit – during the field tax audit and controlling field tax audit defined by paragraphs “e” and “f” of second part of article 99 of this Code.
 10. Taxpayer is responsible to set up such service conditions for tax audit group during the field tax audit that normally exists at the taxpayer.
 11. If the authorized person of the tax agency decides that there is a possibility that the documents proving violation of tax law may be destroyed, hidden, corrected or replaced, he/she is entitled to withdraw the accounting documents or/and copies of information related to taxation that is verified by taxpayers. Authorized person from tax agency is entitled to remove the originals of above mentioned documents and other materials in case the taxpayer fails to fulfill above-mentioned liabilities. According to above mentioned, authorized person from tax agency should prepare the report on the removal of the originals of documents and other materials, deliver the first copy of the report to the taxpayer, copy above mention documents and within 5 days return the originals of documents to the taxpayer.

Article 114. Urgent Controlling Field Tax Audit

1. Tax agency is entitled to conduct urgent field tax audit on the basis of the order of head of tax agency without warning taxpayer in advance only in urgent necessary cases defined by part 6 of article 113 of this Code.
2. Urgent necessary situation of tax agency occurs when the tax agency believes that a taxpayer plans to incline from fulfillment of tax liabilities by leaving the territory of Georgia, handing its own property to another person, destroying of documents verifying tax infringement, correcting or replacing or performing other actions.
3. Tax agency is responsible to apply to the court within 48 hours after starting the urgent controlling field tax audit in order get permission on conducting controlling field tax audit.

4. Members of tax audit group are not entitled to begin the procedures of urgent controlling field tax audit before they can receive the permission from the court. Representatives of tax agency are entitled to lien those documents and inventories of the taxpayer, which are necessary for conducting the controlling field tax audit.

Article 115. Admission of Officer of the Tax agency on the Territory or Premises for Conduct of a Field Audit

1. In cases defined by part 9 of article 113 of this Code a taxpayer is responsible to admit the tax audit group to his premises and territories, except to physical person's apartments, where they can be admitted by the permission of the court. Non-admission of an authorized officer of the tax agency on the territory or building for the purposes of tax audit is a tax law violation and results in occurrence of responsibility according to the procedures under this code.
2. If the taxpayer does not admit the authorized officer of the tax agency to the building and/or territory to conduct tax audit, the authorized officer of the tax agency draws a report signed by the auditor and taxpayer.

Article 116. Expertise.

1. If necessary an expertise could be scheduled during the tax audit.
2. An expertise is scheduled in the case when the issues raised during the tax audit require special knowledge in science, arts, techniques or other spheres.
3. The issues and conclusions brought up to the expert shall not exceed limits of his/her special knowledge.
4. Expertise is scheduled on the basis of the order of a senior officer of the tax agency.
5. A person may be invited as an expert on a contract basis.
6. Expert has right to get familiar with the audit materials connected with the expertise subject, express request for submitting additional materials. Expert may reject giving a conclusion if the materials presented to him/her are not enough for making conclusion or if the questioned issues are beyond his special knowledge.
7. While assigning expertise and carrying it out the taxpayer has right:
 - a) to submit additional issues to get expert's conclusion on them;
 - b) to attend the expertise and provide the expert with explanations;
 - e) to become familiar with the expert's conclusion.
8. The authorized representative of a tax agency, which issued an order on expertise is responsible to familiarize the taxpayer with the order and explain him/her his/her rights stipulated by this code, on which minutes is drawn.
9. The expert on his/her behalf produces a written report. Expert's report describes conducted research, findings on the basis of the research and the substantiated answers to the questions. If during the expertise the expert identifies circumstances, that are important for

the case, he/she has right to include the conclusions made in regard with these conditions in the final conclusion made by him.

10. Expert's report or statement about inability to draft a conclusion shall be submitted to the taxpayer. The taxpayer is authorized to provide explanations in regard with the report, also to ask the expert additional questions or request either additional or recurring expertise on his/her own expense.
11. Additional expertise shall be carried out either by the same expert or another one in case of insufficient validity or completion of the report.
12. Recurring expertise shall be carried out if the expert's report is not substantiated or its preciseness is under question. Recurring expertise shall be assigned to a different expert.
13. Additional or repeated expertise shall be assigned with observance of the requirements stipulated by this article.
14. Non-fulfillment or inadequate fulfillment by an expert of duties stipulated by this article by an expert result in responsibility in terms of the rules stated by the law of Georgia.

Article 117. Invitation of Specialists for Assistance in Tax Audit

1. If necessary, for the fulfillment of specific procedures of tax control, a specialist not having interest in the outcome, with adequate knowledge and skills may be invited on the contractual basis.
2. Non-fulfillment or inadequate fulfillment by a specialist of this duty stipulated by this article results in responsibility in terms of the law of Georgia.

Article 118. Compensation of Specialist and Expert.

1. Specialists and experts have a right to request reimbursement of expenses incurred in regard with the invitation to fulfill the duties upon fulfillment of assigned duties.
2. Specialists and experts are responsible to reject invitation, in case he/she has conflict caused by personal or other kind of motivations and/or is interested with the results of tax control procedures.
3. Specialists and experts have a right to get remuneration for fulfillment of their duties except these duties are implemented in terms of their job assignment.
4. The amount of compensation and remuneration and its payment procedures are defined by the Georgian Government and shall be funded from the budget of Georgia.

Article 119. General Requirements for Drawing a Report on Conducted Tax Audit.

1. In cases stipulated by this Code a report is drawn during a tax audit. The report is prepared in the state language.

2. The report shall include:
 - a) its name;
 - b) the place and date where particular actions were carried out;
 - c) the beginning and the end date of the actions;
 - d) the position and full name of the person who carried out the controlling actions;
 - e) full name of persons who participated in the actions, if necessary – their addresses;
 - f) contents and sequence of the actions;
 - g) substantial facts and circumstances revealed as a result of actions.

3. The report shall be presented to all those persons who participated in the actions. These persons have right to express their comments that shall be reflected in the report.

4. The report shall be signed by the person who designed the report, persons that fulfilled the procedures of tax control (excluding tax audit) and taxpayer or his/her representative, also invited specialist (in case he/she participated in the procedures of tax control). In case when taxpayer or his/her representative rejects signing the report, subsequent remark should be made in the report.

Article 120. Tax Audit Report

1. Based on the results of the tax audit a report is drawn, reflecting following information:
 - a) the place and date where a particular report was written (the name of settlement);
 - b) the position and full name of the person who carried out the audit;
 - c) the formal reasons of conducting audit (the order of head/deputy head of the tax agency or the court decision (date and number);
 - d) the period and program of tax audit;
 - e) the personality of tax audit subject (name), identification number, dates and numbers of tax registration, other requisites (if necessary);
 - f) the fact of delivery of card that includes the explanation of rights and liabilities of the subject of tax audit (in case of field audit);
 - g) the positions and full names of persons, representing the subject of the tax audit, who took part in tax audit (director (manager), accountant, auditor, lawyer and others) (in case of field audit);
 - h) the actual reasons and of the tax audit and their verification;
 - i) the results of tax audit according to every article of tax audit program – the exact dates of originating demands and liabilities in relation to taxpayers (if such information is available), the amount of tax, calculation of fines and penalties, total amount of money receivable or payable in relation to taxpayer. The requisites of documents (if necessary originals) which prove the foundation of the liabilities and requirements; the summary of appendixes of the report;
 - j) issues that taxpayer denies (in case of field audit);
 - k) the total amount of receivable or payable cash – the principal amount, fines and penalties;

2. following persons shall sign the report:
 - a) from tax agency – the members of tax audit group;

b) from taxpayer: director (manager), accountant, also auditor and lawyer in case they took participation in tax audit process. In case when representatives of taxpayer reject signing the report, subsequent remark should be made in the report (in case of field audit).

3. In case the specifics of tax audit require conducting tax audit in several stages, intermediary reports should be made after every stage, each satisfying the requirements of part one and part two of this article.

Article 121. Making Decision Based on the Results of Tax Audit Materials Review.

1. The head/deputy head of the tax agency based on the tax audit materials shall make a decision:
 - a) about tax and sanctions assessment;
 - b) about implementation of additional measures.
2. Based on the decision, the taxpayer/tax agent shall be sent “notification on demand of tax payment” on elimination of revealed violations of tax arrears, tax sanctions, fines and.
3. The copy of the decision of a tax agency and “notification on demand of tax payment” shall be submitted to the taxpayer/tax agent.
4. If a taxpayer- a physical person or a taxpayer – the senior manager of an enterprise (organization) is subject to administrative responsibility for tax law violation, the authorized officer of the tax agency conducting the audit shall draw a report about violation of administrative law. Review of administrative law violation cases and application of administrative punishment shall be enforced consistent with the Administrative Violations Code of Georgia.
5. If signs of crime are revealed during the tax audit, subsequent materials should be delivered to the subsequent law enforcing agency according to hierarchy. If the fact of tax law crime is revealed and the principal amount of extra tax liabilities and sanctions is covered in the period of 15 days after receiving a “notification on demand of tax payment” on the results of tax audit, criminal prosecution will not be initiated and materials will not be sent for investigation.

Article 122. Tax Confidentiality

1. Tax confidentiality is information about a taxpayer received by tax agency except:
 - a) the name and address of a VAT taxpayer;
 - b) information regarding taxpayer’s identification number;
 - c) information in regard with the authorized capital of the enterprise;
2. The tax agencies, their officials, invited specialists or/and experts are obliged to keep confidentiality regarding all information about a taxpayer gained by them in the process of executing their job duties, and may disclose identified information about certain taxpayers only to the following persons:
 - a) employees of Ministry of Finance of Georgia and members of the tax dispute council at the Ministry of Finance of Georgia - for the purpose of carrying out their job duties;
 - b) law enforcing agencies, based on the judge’s order, about the persons who are prosecuted for tax violations;

- c) courts/arbitrations - in connection with law suit/arbitration cases - to define taxpayer's tax liabilities and responsibilities;
 - d) to tax agencies of foreign countries- in accordance with International Treaties;
 - e) court bailiffs – in the process of the court/arbitration decision execution;
3. Employees of the tax agencies are obliged to maintain confidentiality of this information gained by them while implementing their job assignments and use it only for purposes of achieving the goal for which disclosure is permitted.
 4. A person who receives information defined by this Article has no right to disclose confidentiality of this information and must return documents reflecting this information to the tax agency, except the cases when information is gained consistent part 2 of this Article.
 5. Tax confidentiality shall be considered disclosed if an authorized officer of the tax agency, invited specialist or/and expert uses information gained while implementing his/her job assignments for personal purposes or transfers it to other persons.
 6. This article does not apply to the annual reports subject to publication consistent with Article 54.2 of this Code.
 7. The information containing tax confidentiality maintained in the tax agencies shall be kept in special maintenance and processing regime. The access to the certificates containing tax confidentiality shall be given only to officers determined by the Ministry of Finance of Georgia.
 8. Losing or announcing information containing tax confidentiality results in responsibility in terms of the rules stated by the law of Georgia.
 9. With the written agreement of the taxpayer, information about him/her can be issued to another person.
 11. The notifications on taxpayer from the moment of his/her registration in are considered to be tax secrecy, unless otherwise provided by this Code.

PART VII. TAX LEGISLATION INFRINGEMENT AND LIABILITY

CHAPTER 17. GENERAL PROVISIONS OF TAX LEGISLATION INFRINGEMENT

Article 123. Concept of Tax Legislation Infringement.

Unlawful action (or negligence) of a taxpayer, tax agent and other person for which certain liability is stipulated by the code is considered as infringement of tax legislation.

Article 124. Subjects of Tax Legislation Infringement.

1. Enterprises/organizations and physical persons are liable for unlawful action under Chapter 18 of this code.
2. Sanctions shall not be assessed (except payables in connection with which a person has tax agent functions):
 - c) goods (services) suppliers - if the budget liability arose due to the fact that the supplier is not paid by the agency procuring goods (services) in accordance with the Budget Law of Georgia of the corresponding year and based on transfers to the local budgets for goods (services) delivered in accordance with the Law of Georgia "On State Procurement", proportionate to the actual funding of the cost and ratio of total delivered goods (services).
 - d) legal persons of the public law, implementing projects under international treaties ratified by the Parliament (including preparatory phases), with whom the Ministry of Finance signed agreements on the right to implementation of projects - on tax liabilities arisen within such projects. The Minister of Finance develops a list of such projects implementing persons of the public law.
3. In case the taxpayer/tax agent or other liable person has provided adjusted tax return or calculation to the tax agency before receiving the notification on field tax audit, then no penalty will be assessed for adjusted information which was inaccurately reflected.

Article 125. General Principles of Liability for Tax Legislation Infringement.

1. No one shall be subject to tax legislation infringement liability except for the provisions and procedures stipulated by this code.
2. No one shall be subject to recurring amenability for one and the same infringement of the tax legislation.
3. Physical person may be subject to amenability for the legislation infringement under this code if this infringement by its nature in terms of the current law does not lead to criminal responsibility.
4. Application of tax sanctions against the enterprise (organization) for tax legislation infringement does not release the managers of the organization, in case of presence of

adequate basis, from administrative, criminal or other amenability envisaged by the law of Georgia.

5. Application of tax sanctions against the taxpayer or tax agent for the infringement of the tax legislation does not release them from the amenability to pay taxes and fines.
6. Heirs (assignees) are liable for the tax sanctions of a taxpayer only if they are recipients of the inheritance.

Article 126. Tax Sanction.

1. Tax sanction is a measure of amenability for the infringement of the tax legislation.
2. Tax sanctions are applied in the form of fines and monetary penalties in the cases stipulated by Chapter 18 of this code.
3. In case of a number of tax legislation infringements tax sanctions apply separately for each infringement, moreover strict sanction does not devour less strict one.
4. Fines shall not be assessed to tax sanction.

Article 127. Pleading a Case about Tax Legislation Infringement.

To plead a case about tax legislation infringement and its review, also execution of decision on tax sanctions shall be conducted by tax agencies in terms of the procedures stipulated by this code.

Article 128. Appealing the Decision Made by the Tax Agency regarding the Tax Legislation Infringement Case.

The decision or any other order made by the tax agency about the tax legislation infringement case may be appealed by a person against whom the decision was made or his lawful or authorized representative in terms of the procedures stated by Part 8 of this code.

CHAPTER 18. TYPES OF TAX LEGISLATION INFRINGEMENT AND AMENABILITY

Article 129. Fine.

1. If tax amount is not paid by the term defined by tax legislation taxpayer/tax agent or other responsible person shall pay a corresponding fine;

2. The fine shall be paid as an addition to the tax amount to be paid despite other measures applied to ensure tax liabilities and/or measures for responsibility due to violation of tax legislation.
3. Fine shall be accrued from the day following the expiry date of tax payment, on each overdue day, despite the fact the “tax notice on demand of tax payment” was submitted or not, unless otherwise stated by the law. If the taxpayer pays part of the principle amount of tax after the date when liability to accrue the fine arose, from the day after the payment, the accrual of fine will be performed only on the outstanding portion of the tax liability.
4. After disclosure of a bankruptcy case, rehabilitation or approval of bankruptcy deal from the moment the decision becomes effective until corresponding regime ends the enterprise under bankruptcy or rehabilitation regime shall not be assessed fine on the unpaid amount in established terms.
5. Fine on each overdue day is determined proceeding from the unpaid tax amount and comprises 0.07%. In case of late payment, payment day will be considered as overdue day.

Article 130. Violation of the Taxpayer Registration Procedures.

1. Violation of taxpayer registration procedures, particularly carrying out economic activities without registration at a tax agency, -results in fining of the income generated as a result of such activity by 10 percent but not less than 100 GEL.
2. Avoidance of registration as a taxpayer within a tax agency, particularly, conducting economic activities for 90 days more period after the expiration of the date for submitting a registration application to the tax agency, - results in fining of the income generated as a result of such activity by 20 percent but not less than 1000 GEL.
3. Avoidance of registration as a taxpayer within a tax agency, particularly, conducting economic activities for 180 days or longer period after the expiration of the date for submitting a registration application to the tax agency, - results in fining of the income generated as a result of such activity by 50 percent but not less than 5000 GEL.

Article 131. Delayed Filing of Tax Return.

1. Violation of terms for filing the tax returns to the tax agency as defined by the tax law by the taxpayer/tax agent or other responsible person results in fining by 5 percent of the payable amount on the basis of this tax return, on each delayed complete (incomplete) month, but not less than 200 GEL for each complete (incomplete) month.
2. Avoidance of filing a tax return by a taxpayer/tax agent or other responsible person to the tax agency, for the purposes of tax evasion, particularly, non-submission of the tax return for

more than one year after the expiry of tax return submission terms, and if as a the result of such action, unpaid amount exceeds 25% of the tax due and is not less than 100 000 GEL, such case is considered as tax evasion and results in liability in terms of criminal law of Georgia. At the same time, initiation of criminal proceedings will not take place and materials will not be sent in for investigation in case if within 15 days after receipt of “tax payment notice” principal tax amount and sanctions are paid.

Article 132. Tax Underreporting.

1. Underreporting of the tax due in returns and/or calculations, except for the cases stipulated by parts 2 and 3 of this article, results in penalty of 25% of the underreported amount.
2. Reducing the amount of tax in returns and calculations, between GEL 5000 to 10000 GEL, if these amounts are more than 25% of the tax declared in the return,- results in penalty of 50% of the underreported amount.
3. Reducing the amount of tax in returns and calculations by more than GEL 10000 , if these amounts are more than 25% of the tax declared in the return,- results in penalty of 75% of the underreported amount.
4. In the case stipulated by part 3 of this article, if hidden tax amount exceeds 25% of the tax and GEL 100 000, it is considered as tax violation and results in liability in terms of criminal law of Georgia. At the same time, initiation of criminal proceedings will not take place and materials will not be sent in for investigation in case within 15 days after receipt of “tax payment notice” principal tax amount and sanctions are paid.

Article 133. Violation of Rules of Income and Expenditure Accounting, as well as Accounting for other Taxable Objects

1. Violation of income and expenditure accounting procedures, as well as registration procedures of other taxable objects committed in one reporting period by the taxpayer/tax agent, - results in penalizing by 1000 GEL.
2. The action stipulated in part 1 of this article, committed for longer than one reporting period, - results in penalizing by triple amount stipulated in the first part of this article.
3. The action stipulated in part 1 of this article, if it caused reduction of the tax base, - results in fining by 10% of unpaid tax amount but not less than three times the amount of the fine stipulated in the first part of this article.
4. Revealing goods (material values) in the sale process without documents proving their purchase by the tax agency,- results in penalizing by 100 % of the value of these goods (material values).

5. Absence of primary documents, bills of lading (VAT tax invoice), book-keeping registrar or its maintenance by violation of established rules, existence of relevant tax object without gambling business tax stamp and/or sealing; also untimely or incorrect reflection of book-keeping accounting reports and reporting of taxpayers' economic transactions, monetary funds, material assets, intangible assets and financial investments systematically (twice or more times during the calendar year) is considered as a violation of income and expenditure accounting procedures, as well as registration procedures of other taxable objects.

Article 134. Failure to Withhold Taxes at the Source of Payment

1. Failure of a tax agent to withhold tax from a source of payment and/or full payment (transfer) of withheld taxes to the budget, - results in penalizing by 10 % of amount to be withheld (transferred).
2. Failure of the person responsible to disburse salaries (the one who is highest in position, excluding physical person-entrepreneur) to withhold and/or transfer to the budget of payroll taxes (income, social), - results in penalizing by 50 times minimum wage.

Article 135. Resistance to Officer of Tax agency

Taxpayer's/tax agent's resistance to the authorized officer of the tax agency upon conducting a tax audit, who, consistent with this code, has to enter and examine territories and buildings connected with the economic activities of the taxpayer/tax agent, - results in penalizing by GEL 100.

Article 136. Violation of Procedures for Ownership, Utilization and/or Disposal of Seized Property.

Violation of seized property ownership, utilization and/or disposal rules as stipulated by this code, - results in penalizing by GEL 3 000.

Article 137. Failure to Submit Accounting Information and/or Information Connected to Taxation to Tax Agency.

Failure to submit accounting documents and/or other information regarding the taxation stipulated by the tax legislation to the tax agency and/or denial to submit accounting documents and other information regarding the taxation by a taxpayer/tax agent or other responsible person, upon the requirement of a tax agency, also avoiding submission of these documents/information, - results in penalizing by GEL 200.

Article 138. Incorrect Offset or Refund of Tax.

Submission of documents with incorrect data to the tax agency by a taxpayer/tax agent or other responsible person that becomes basis for offsetting future tax liabilities or refunding,- results in penalizing by 300 % of the amount credited or refunded.

Article 139. Violation of Control Cash Register Application Procedures while Cash Settlement with Population.

1. Operations without a control cash register or avoiding using it while making settlement with the population, if liability to use it is established by Georgian legislation- results in penalizing by GEL 500.
2. Operations without a control cash register or avoiding using it while making settlement with the population in oil products trade,- results in penalizing by GEL 600.
3. Failure to issue a receipt to the customer or indicating less than actually paid amount in it,- results in penalizing by GEL 200.
4. Failure to issue a receipt to the customer in oil products trade or indicating less than actually paid amount in it,- results in penalizing by GEL 300.
5. Operation of gas stations without measuring and dozing mechanisms and without seals of the State Standardization Service and the tax agency,- results in penalizing by GEL 700.

Article 140. Violation of Requirements Stated for VAT.

For the violation of the VAT requirements stipulated by this code a taxpayer shall be subject to following penalties:

- a) In case of functioning without being registered as a VAT taxpayer – 100 % of the VAT amount payable to the budget during the whole period of operating without registration;
- b) In case of incorrect filling of VAT invoice that caused reduction of VAT amount or increase of refundable amount – 100 % of the VAT amount by VAT invoice;
- c) In case of not submitting tax invoice at the demand of a purchaser – 100 % of the VAT amount in respect with the transaction.
- d) In the case the VAT invoice is incompletely filled out, except for cases when the information to be filled in relevant field exists, or it does not cause reduction of VAT amount or increase of refundable amount – GEL 200.

Article 141. Violation of Tax agency's Collection Order and Terms of Payment of Taxpayer's/Tax Agents' or other responsible person's Payment Order

Failure to comply with the collection order of the tax agency about transferring money to the budget payment order of the taxpayer/tax agent or other responsible person in the terms stated by the tax legislation by banks or other organizations executing certain types of banking transactions, also returning a tax order to the taxpayer /tax agent or other responsible person without its satisfaction,- results in penalizing by 2% of the amount indicated in the payment (collection) order for each overdue day.

Article 142. Violation of Bank Account Opening Rules by Banks and Failure to Comply with Decision of Tax Agency on Ceasing Transactions on the Taxpayer's Accounts

1. Opening of taxpayer's/tax agent's settlement or other type accounts by banks or other organizations executing certain types of banking transactions without the documents certifying assignment of the taxpayer's identification number by the tax agency (except for non-resident entities and physical persons not carrying out economic activities), also opening of a bank account for the taxpayer/tax agent, against whom the tax agency has issued collection order,-results in penalizing by 10% of the expenditure transaction amount reflected on the taxpayer's accounts, but not less than GEL 500.
2. Failure to submit information to the tax agency by banks or other organizations executing certain types of banking transactions about opening or closing taxpayers/tax agents settlement accounts and/or other accounts in the terms prescribed by the tax law, - result in penalizing by GEL 300 per account.
3. Failure to comply with the collection order of the tax agency about ceasing bank transactions on taxpayer's or tax agent's accounts,- results in penalizing by 20% of the of amount transferred to other persons due to the taxpayer's/tax agent's order, but not more than amount of the tax debt.
4. Disposal (utilization) of amounts located on taxpayers/tax agent's or other responsible person's collateral deposit account without written permission from the tax bodies, - results in penalizing by 100% of the disposed amount.

Article 143. Transportation (shipping) and Non-Accountancy of Material Values without Documents

1. Transportation (shipping) of material values or goods purchased or supplied for economic activity without bill of lading (except for initial supply of agricultural products before its reproduction (change of code)), and at the time of import – without customs declaration (except for initial supply of agricultural products before its processing (change of code)), a taxpayer is subject to a penalty in the amount of value of material values and goods without bill of lading, or in case of import—without customs declaration at market prices (excluding VAT, while for excise taxpayers – excluding excise). In addition, authorities of the Ministry

of Finance of Georgia are authorized to seize material assets or goods transported (shipped) in this way until the payment of the penalty.

2. If not later than on the third day after completion of economic transaction, goods not taken into goods registration and circulation journal and lacking bill of lading, or in case of import—lacking customs declaration are revealed, the taxpayers shall pay the value of unregistered goods without bill of lading, or in case of import—without customs declaration at market prices excluding VAT, while for excise taxpayers – excluding excise and VAT. This penalty will be used in cases when goods are registered in journal with violation of established rules, that caused delay and/or reduction of tax liabilities. The shortage of goods shall be considered to be the supply carried out on the cash basis at market prices at the moment of revealing, and shall be taxable according to the procedure stipulated by this code.

Article 144. Other Penalties.

Failure to comply with the liabilities stipulated by this code, for which no penalties are stipulated by this Code- results in fining by GEL 100.

PART VIII. TAX DISPUTE RESOLUTION

CHAPTER 19. GENERAL RULES OF TAX DISPUTE RESOLUTION

PART VIII. TAX DISPUTE

CHAPTER 21. GENERAL PROVISIONS OF TAX DISPUTE

Article 145. The Basis of Beginning of a Tax Dispute

1. The material basis of beginning the tax dispute is the violation of amenability defined by this Code by a tax agency or a taxpayer/tax agent or other responsible person.
2. The formal cause of beginning of the tax dispute is:
 - a) a refusal on the fulfillment of the “taxpayer’s notice”, defined by article 81 of this Code or presenting subsequent written appeal or not presenting within deadlines defined by this Code by the tax agency.
 - b) Presenting the “tax notice”, defined by article 80 of this Code, to taxpayer/tax agent or other responsible person by the tax agency.

3. In situation defined by part 2 of this article taxpayer/tax agent or other responsible person has right to appeal the dispute according to the rules set by this chapter and choose the form of tax dispute resolution.

Article 146. Tax Dispute Resolution Forms.

1. Tax dispute resolution forms are:
 - a) a dispute resolution by the discussing in the system of the Ministry of Finance of Georgia;
 - b) a dispute resolution by the arbitrage;
 - c) a dispute resolution by the court.

2. Dispute resolution procedure in the system of the Ministry of Finance consists of three stages:
 - a) dispute resolution in tax agency defined by part 2 of article 145 of this Code;
 - b) dispute resolution in the Tax Department of the Ministry of Finance;
 - c) dispute review in the Council of dispute review (hereinafter The Council) at the Ministry of Finance.

3. If taxpayer/tax agent or other responsible person chooses to dispute resolution in the system of Ministry of Finance, he/she shall be authorized to appeal on the questionable issue at any stage of dispute resolution in the court or arbitrage in the period of time that is defined for appellation in the system of Ministry of Finance.
4. Taxpayer/tax agent or other responsible person is responsible to inform the tax agency on the chosen tax dispute resolution form:
 - a. indicating on the “taxpayer’s notice” according to article 81 of this Code;
 - b. indicating in the presented appeal according to article 149 in response to “ on demand of tax payment”;
 - c. with the written notification, in case he/she is going to dispute in the response to “ tax notice” in the court or arbitrage (in case of a dispute resolution by the arbitrage the name and address should be indicated).
5. Taxpayer/tax agent or other responsible person is not entitled to change the tax dispute resolution form in his/her notice, appeal or written notice.

Article 147. Rules of Commencement of the Tax Dispute

1. If tax agency denies fulfilling “taxpayer’s notice”, within 15 days from receiving “taxpayer’s notice” it is responsible to deliver written appeal to the person who sent abovementioned notice according to article 46 of this Code. Not delivering the written appeal means denial of fulfilling “taxpayer’s notice”.
2. If taxpayer/tax agent or other responsible person denies fulfilling “notice on demand of tax payment”, within 15 days from receiving it, he/she is responsible to deliver to the tax agency in accordance with article 44 of this Code a written appeal in case he/she chooses system of Ministry of Finance as a dispute resolution form; or written notice, in case he/she chooses court or arbitrage as a dispute resolution form.
3. All confirmations that are basis of the appeal should be attached to it.
4. All the pages of the appeal should be numbered and at the end of the appeal the total number of complete pages should be written before signature.

5. Claimant is responsible sign every page of the appeal.
6. The beginning date of tax dispute is considered to be:
 - a) the date of delivering the appeal, mentioned in part one of this article, from tax agency to taxpayer/tax agent or other responsible person and in case of not delivering the appeal – the last day of its delivery deadline.
 - b) The date of delivering the appeal or notice, mentioned in part two of this article, from taxpayer/tax agent or other responsible person to tax agency.
7. Non-fulfillment of liabilities defined by part two of this article is considered to be acknowledgement by the taxpayer/tax agent or other responsible person of the “notice on demand of tax payment” and it shall be further sent for execution.

Article 148. Discontinuing Liability of Disputable Amount Payment

The liability of payment of disputable amount and fines, also liability of payment of relevant penalties is considered to be discontinued from the beginning till the end of the tax dispute, although the process of accruing fines on them is continued.

Article 149. The Appeal And Notice of Taxpayer/Tax Agent or Other Responsible Person

1. The appeal of taxpayer/tax agent or other responsible person should include:
 - a) The name and address of tax agency;
 - b) The personality of taxpayer/tax agent or other responsible person (full name; name), identification number of taxpayer (if such exists), address and means communication (telephone, fax, e-mail);
 - c) The date of receiving and the subject of “notice on demand of tax payment”;
 - d) Factual and legal reasons of denying the fulfillment of “notice on demand of tax payment”;
 - e) The list of proofs attached to appeal;
 - f) Tax dispute resolution form in case of continuing dispute (by the Tax Department of Ministry of Finance of Georgia, arbitration or court);
2. If an arbitration is selected as a tax dispute resolution form, the name and address of arbitration should be mentioned in appeal.
3. Presenting appeal not containing following information is equivalent to not presenting the appeal:
 - a) The dispute resolution form;
 - b) The name and address of arbitration, in case the arbitration is selected as a dispute resolution form;
4. Written notice defined by part 2 of article 147 of this Code should contain following information:
 - a) The name and address of tax agency;
 - b) The identity of taxpayer/tax agent or other responsible person (full name, name), identification number of taxpayer (if such exists), address and means of communication (telephone, fax, e-mail);
 - c) The date of receiving “notice on demand of tax payment” and its subject;
 - d) Which of the following, court or arbitration, is selected for dispute resolution (the name and exact address of the arbitration should be indicated, in case of applying to arbitration);

Article 150. Satisfying “Notice on Demand of Tax Payment”

1. Taxpayer/tax agent or other responsible person, in case of appealing against “notice on demand of tax payment”, within 15 calendar days from its receipt, for the satisfying “notice on demand of tax payment” is responsible to present a bank guarantee or/and the notice on placing money on deposit account of bank (taxpayer/tax agent or other responsible person is not entitled to dispose of the money placed in the deposit account in bank without written permission that tax agency delivers to the bank) or/and the policy of financial risks insurance or/and its own property under the right of tax lien/hypothecation. The total value of represented guarantees should not be less than the amount of disputable tax liabilities of taxpayer. The authorized person from tax agency is entitled to assess the value of the property under the right of tax lien/ hypothecation, after that he/she sends the agreement of tax lien/ hypothecation to the public register for the purpose of registration. Public register is responsible to register within 2 days after receiving notification.

2. If taxpayer/tax agent or other responsible person does not deliver guarantees indicated in part two of this article in dates set by the same part, tax agency is entitled to use following enforcement methods (within the limits of a disputable tax liabilities and in case the partially secured guarantees are represented – in the amount that covers the volume of a disputable tax liabilities):

- a) Seizure of his/her bank accounts;
- b) Seizure of any kind of property (including movable, immovable and non-material property);

3. If a tax dispute is solved in favor of a taxpayer/tax agent or other responsible person, the secured guarantees represented by him will be annulled, also the seizure set by the tax agency shall be considered removed and ownership right to tax lien/hypothecation--annulled.

4. If a tax dispute is not solved in favor of a taxpayer/tax agent or other responsible person, disputed tax arrears and subsequent sanctions will be assessed from the date of arising disputed tax liabilities.

Article 151. The Appeal of the Tax Agency

1. The appeal of the tax agency should include:

- a) The identity of taxpayer/tax agent or other responsible person (full name, name), the identification number of taxpayer (if such exists) , the address;
- b) The name and exact address of the tax agency, means of communication (telephone, fax, e-mail);
- c) The date of receiving the “taxpayer’s notice” and the subject of notice;
- d) The date of sending (delivery) appeal;
- e) The factual and legal reasons of denying the satisfaction of “taxpayer’s notice”;
- f) The list of evidence attached to the appeal;

2. The appeal of tax agency is signed by the head/deputy head of the tax agency.

Article 152. The Authority of Taxpayer/Tax Agent or Other Responsible Person After Receiving Appeal of Tax Agency or Not Receiving in The Established Terms.

1. Within 5 days after receiving appeal from tax agency, also not receiving in the established terms according to part 1 of article 147 of this Code, in the period of 5 days from expiry of the term, taxpayer/tax agent or other responsible person is entitled to continue the dispute according to the form mentioned in the “notice on demand of tax payment”.
2. In case of continuing the dispute taxpayer/tax agent or other responsible person is responsible to send a notice to the tax agency in the terms that are set for continuing dispute.
3. Not continuing dispute in terms defined by this article is considered to be the denial of dispute.

CHAPTER XX. Dispute Resolution In The System of Ministry of Finance of Georgia

Article 153. Objective of Dispute Resolution in The System of Ministry of Finance of Georgia and Dispute Agencies

1. The objective of dispute resolution in the system of Ministry of Finance of Georgia is to ensure dispute resolution quickly on the basis of possession of equal rights and in justice.
2. Dispute resolution in the system of Ministry of Finance of Georgia is carried out based on the rules stipulated in this Code.
3. Dispute resolution in the system of Ministry of Finance of Georgia is carried out in the tax agencies defined in the article 145.2 of this Code, Tax Department of Ministry of Finance of Georgia and the Council, the establishing and function rules of which is determined by the Government of Georgia.

Article 154. Liabilities of Tax Agencies While Receiving the Appeal

1. The head/deputy head of tax agency is responsible to review the appeal of taxpayer/tax agent or other responsible person not later than 10 days after receiving appeal and issue motivated order on satisfying appeal and cancellation of dispute, satisfying appeal partially or denying to satisfy the appeal and send it to taxpayer not later than 3 days after issuing the order.
2. Dispute review process is carried out with presence of appeal party or its lawful authorized representative (representatives). In case if appealing party or its representative (representatives) is not present during dispute, process is held without them.
3. If the tax agency partially satisfies appeal of taxpayer or denies to satisfy, it is responsible to send “notice on demand of tax payment” and appropriate documentation to Tax Department of Ministry of Finance of Georgia not later than 3 days after ordinance issue. In this case tax agency is also responsible to send corrected “notice on demand of tax payment” (if it was corrected) and additional conclusive documentation (if such exists) to taxpayer/tax agent or other responsible person.
4. If tax agency does not issue order within dates mentioned in part one of this article, or does not send it to taxpayer/tax agent or other responsible person, it will be considered as denying to satisfy “taxpayer’s notice”.

Article 155. Appeal against Tax Agency's Resolution

1. Taxpayer/tax agent or other responsible person has right to file an appeal against the order of the head/deputy head of tax agency defined in the article 154.3 of this Code (not later than 5 days after receipt of order and accompanied proof), denial to satisfy appeal by not issuing order within dates pursuant to the article 154.1 of this Code (not later than 5 days after deadline of this date), in cases mentioned in the article 147.1 of this Code, appeal of tax agency (not later than 5 days after its receipt) and within dates defined in the same article not receiving the appeal of tax agency and its denial (not later than 5 days after deadline of this date):

- a) In The Tax Department of Ministry of Finance of Georgia, in case it was mentioned in his/her appeal or "taxpayer's notice" (in this case he/she should attach copies of all the materials mentioned in articles 154 and 147 of this Code that were represented to tax agency and additional proofs, if such exists, to the appeal);
- b) In arbitrage or court, in case it was mentioned in his/her appeal;

2. The appeal to the Tax Department of The Ministry of Finance of Georgia should reflect the form of dispute resolution that appellant selects for the continuing of dispute. In case the arbitrage is selected as a dispute resolution form, the name and exact address should be mentioned in file.

3. If taxpayer/tax agent or other responsible person does not appeal in term established by part 1 of this article:

- a) The order or appeal of head/deputy head of tax agency, "notice on demand of tax payment" shall be considered as acknowledged and shall be delivered for execution and "taxpayer's notice" shall be annulled;
- b) The denial of tax agency (in case he/she could not timely receive the decision of tax agency), "notice on demand of tax payment" shall be considered as acknowledged and shall be delivered for execution and "taxpayer's notice" shall be annulled;

Article 156. Tax Dispute Resolution in the Tax Department of Ministry of Finance of Georgia.

1. Tax Department of Ministry of Finance of Georgia, within 15 days from receiving the appeal that is mentioned in part one of article 155, is responsible to consider it and make a decision on satisfying the appeal, which means cessation of dispute, partly satisfying or denying to satisfy it and send it to the appellant and tax agency, whose decision was appealed, not later than 3 days after making a decision.

2. The dispute in the Tax Department of Ministry of Finance of Georgia is resolved with the participation of appellant or/and his/her legal or authorized representative(s). In case the appellant or/and his/her legal or authorized representative are not present, the dispute shall be resolved without his/her participation.

3. On the basis of dispute resolution the Tax Department of Ministry of Finance of Georgia is authorized to:

- a) Annul the decision of tax agency;
- b) Annul the decision of tax agency and make a new decision;
- c) Make unfavorable decision on the appeal;

4. The decision of the Tax Department of Ministry of Finance of Georgia should include:
 - a) The date and place of making decision, the personality of decision makers, the name of appellant and tax agency, whose decision was appealed, and the subject of dispute;
 - b) Circumstances set by the Tax Department of Ministry of Finance of Georgia, proofs, according to which other proofs were denied, standard acts and norms, by which it guided;
 - c) The conclusion of the Tax Department of Ministry of Finance of Georgia on satisfying, partly satisfying or denying to satisfy the appeal;
 - d) The date and rules of appealing the decision of the Tax Department of Ministry of Finance of Georgia.

5. The decision should be signed by the authorized official person from the Tax Department of Ministry of Finance of Georgia.

6. In case of partly satisfying or denying to satisfy the appeal, the Tax Department of Ministry of Finance of Georgia is responsible deliver all materials of the case with its decisions to the Council and also adjusted “notice on demand of tax payment” (in case it was adjusted) and additional proofs (in case such exists) with its decisions to the taxpayer/tax agent or other responsible person not later than 3 days after making the decision.

7. If the Tax Department of Ministry of Finance of Georgia does not make decision in dates set by part 1 of this article or does not deliver it to the taxpayer/tax agent or other responsible person, this shall be considered as denial to satisfy the appeal.

Article 157. Appeal against the Decision of the Tax Department of the Ministry of Finance of Georgia

1. Taxpayer/tax agent or other responsible person is entitled to appeal against the decision of the Tax Department of the Ministry of Finance of Georgia (within 5 days from receiving decision and attached documents) in situations defined by the paragraphs “b” and “c” of part 3 of article 156 of this Code and the denial of tax agency, in case it does not make decision in dates set by part 1 of article 156 of this Code (within 5 days after deadline):
 - a) To the Council, in case such was mentioned in appeal (in this case he/she should attach copies of all materials and additional proofs, in case such exists, represented to the Tax Department of the Ministry of Finance of Georgia to the represented appeal);
 - b) To arbitrage or court, in case such was mentioned in appeal (in this case tax agency mentioned in articles 147 and 151 of this Code represents the respondent);
2. The appeal represented to the Council should include the tax dispute form that complainer selects in case of continuing dispute. If arbitrage is selected as tax dispute form, the appeal should include the name and exact address of arbitrage.
3. If taxpayer/tax agent or other responsible person does not appeal :
 - a) The decision of the Tax Department of the Ministry of Finance of Georgia, it shall be considered as acknowledged and shall be delivered for execution.

- b) The denial of the Tax Department of the Ministry of Finance of Georgia (in case he/she does not receive the decision of department timely), the appeal shall be annulled and appealed decision shall be delivered for execution;

Article 158. Sitting of the Council

1. The Council resolves the dispute during a sitting within 15 days after its receipt.
2. The sitting is headed by the Minister of Finance of Georgia or member of the Council appointed by him.
3. The order of sitting is defined by the Council.
4. The decision is made by the majority voices of the Council members. It is prohibited for the Council members to refrain from voting.
5. The decision of the Council is formed in written form.
6. The dispute is resolved with the participation of appellant or/and his/her legal or authorized representative(s). In case of not appearing of appellant or/and his/her legal or authorized representative, the dispute shall be resolved without his/her participation.

Article 159. The Decision of The Council.

1. On the grounds of dispute resolution the Council is authorized to:
 - a) Annul the decision of the tax agency or/and the Tax Department of the Ministry of Finance of Georgia;
 - b) Annul the decision of the tax agency or/and the Tax Department of the Ministry of Finance of Georgia and make new decision;
 - c) Make unfavorable decision on the appeal;
2. The decision of the Council should include:
 - e) The date and place of making decision, the personality of decision makers, the name of complainer and tax agency, whose decision was appealed, and the subject of dispute;
 - f) Circumstances set by the Council, proofs, according to which other proofs were denied, standard acts and norms, by which it was guided;
 - g) The conclusion of the Council on satisfying, partly satisfying or denying to satisfy the appeal;
 - a) The date and rules of appealing the decision of the Council.
3. The member of the Council (both in favor of and against the decision) is authorized to attach his/her minority report to the decision.
4. The Council is responsible to send or deliver personally to the sides or their representatives the copy of confirmed decision within 5 days.
5. If the Council does not make decision or deliver it to the taxpayer/tax agent or other responsible person in period set by part 1 of article 158 of this Code, this shall be considered as a denial to satisfy the appeal.

Article 160. Effective Date and Rules of Appealing of Decision Made by the The Council

1. The decision of the Council is effective starting:
 - a) The tenth day from receiving a decision, made by the Council, by an appellant, in case he/she has not appealed against it during this period;

- b) The tenth day from the date defined by part 1 of article 158 of this Code, in case appellant has not received the decision of the Council and has not appealed against the denial of the Council during this period;
- 1. Taxpayer/tax agent or other authorized person is authorized to appeal against the decision of the Council in arbitration or court (as it is mentioned in his/her own appeal). In this case tax agencies, mentioned in article 147 and 151 of this Code, represent the respondents.
- 2. In case of continuing the dispute, parties act according to terms set by XIX chapter of this Code.

Article 161. Tax Dispute Resolution by the Court

Appeals filed by the taxpayer/tax agent or other responsible person with the court shall be reviewed and the decision shall be made based on the Administrative Procedures Code of Georgia.

CHAPTER 21. ARBITRAGE

Dispute Resolution by Arbitrage.

Article 162. Authority to Review Tax Dispute.

- 1. The resident legal person of Georgia, meeting requirements of the law “On Private Arbitrage” shall be authorized to review the tax dispute.
- 2. Relatives of the party to arbitral proceedings and/or his/her representative, or persons related to the party (in accordance with the article 23 of the Code) shall not be appointed as an arbitrator (member of arbitration), as well as the person defined under the law “On Private Arbitrage”. In case of the tax agency, the party shall be considered any head/deputy or the employee(s) of the tax agency, based on whose decision the questionable tax liability arose; the inter-related person shall be deemed the employee of the Ministry of Finance or its subordinate structure; in case of the legal person, the party shall be deemed the head of such legal person (member of the managerial board), and the inter-related person – an employee of the legal person.

Article 163. Rules and dates of Dispute Resolution by Arbitrage.

- 1. The Law of Georgia shall be applied for the dispute resolution procedures by the arbitration.
- 2. The arbitration reviews the dispute in accordance with the Law of Georgia “On Private Arbitrage” taking in account provision of this Code.
- 3. The decision shall be made within one month after starting arbitration dispute. In special cases this period should be prolonged by one month upon parties agreement.
- 4. The dispute shall not be settled by reconciliation.

Article 164. Reimbursement of Cost of the Arbitral Proceeding .

1. Payment of expenses of arbitral proceeding shall be imposed on the party, against which was taken the decision by the arbitrage.
2. In case of the partial satisfaction of the appeal, cost of arbitral proceeding shall be divided between successful and unsuccessful parties proportionate to the claimed notice.

BOOK II. SPECIAL PROVISIONS

PART IX. INCOME AND PROFIT TAX

CHAPTER 22. INCOME TAX

Article 165. Taxpayer.

Taxpayers of income tax are:

- a) resident physical persons;
- b) non-resident physical persons receiving income from sources, existing in Georgia.

Article 166. Taxable Object

1. The taxable object of a resident physical person shall be his/her taxable income calculated as a difference between a gross income for a calendar year and the amount of deductions granted by the Tax Code for this period.
2. A non-resident taxpayer carrying out activities in Georgia through a permanent establishment shall be deemed as an income taxpayer in respect of a taxable income defined as a difference between the gross income for a calendar year from Georgian sources related to its permanent establishment and the amount of deductions granted by the Tax Code for this period.
3. Gross income of a non-resident person not related to his/her permanent establishment shall be taxed pursuant to Article 197 of this Code at the source of payment, without any deductions, except for cases described in the part 4 of this article.
4. A non-resident physical person earning income from the sale of the property shall be deemed as an income taxpayer in respect of a gross income earned from a Georgian

source during a calendar year reduced by deductible expenses related to receipt of such revenue;

5. The following shall be treated as income gained from sale of property determined under item 4 of this Article:
 - a) surplus gained from sale of common stocks or shares of partner (shareholder, complementary, special partner or other similar type of a person) of a resident legal person;
 - b) surplus gained from sale of property described in the article 12.13;
 - c) surplus gained from sale of property used for economic activities, as defined under items “j” or “k” of first part of Article 24 this Code;
 - d) income gained from sale of other property

Article 167. Tax Rate.

Taxable income of the physical person shall be taxed at the rate of 12%.

Article 168. Tax Concessions.

1. Following types of physical persons’ income shall not be subject to income taxation:
 - a) income from employment of a non-resident employee of diplomatic or equalized organizations located on the territory of Georgia;
 - b) Grant, state pension; cumulative and repayable pension from non-state pension scheme, equal to payments made; state scholarship and assistance assigned by the state; autonomous republic or local budgets (including monetary and other type of rewards, received by sportsmen and their trainers for being prizewinner in Olympic games, World and European Championships).
 - c) monetary and other type of rewards, received by sportsmen and their trainers for being prizewinner in Olympic games, World and European Championships.
 - d) alimony;
 - e) property received by a physical person on the basis of divorce;
 - f) surplus received by a physical person from the sale of tangible assets belonging to him/her for more than 2 year period; with the exception of surplus received from the sale of assets used for entrepreneurial activity by this person;
 - g) I and II level legatee’s property received gratuitously or by inheritance in the course of a tax year;
 - h) gratuitously received property from a physical person up to 1,000 Georgian Lari in the course of a tax year.
 - i) II and IV level legatee’s property up to 150,000 Georgian Lari received gratuitously or by inheritance in the course of a tax year;
 - j) amount to be paid to physical person (donor) for food in compensation for his blood;
 - k) income of physical persons- entrepreneurs, who do not use hired labor and independently carry out one of the below listed activities in accordance with NACE – Classifier of the Economic Activities of the European Union:

##	Type of Activity	Maximum space
1	2	3
Section A		

The new Tax Code for Georgia (January 2005) has been translated by the USAID Georgia Fiscal Reform Project. The English translation is for reference only as the only official version of the Tax Code is the original Georgian language version. Efforts have been taken to provide that the translation be as accurate as possible, however, should any problems be identified, please feel free to contact this Project.

1.	Services defined in group 01.41.1 gardening agriculture products with tractor or combine	
Section D		
2.	17.51.1 - production of carpets, straw rugs	20 sq. m
3.	17.72.1 - pullovers and other similar products manufacturing	15 sq. m
4.	18.22.1 -manufacturing of outerwear, except model demonstration and shows	10 sq. m
5.	18.23.1 - manufacturing of underwear	10 sq. m
6.	18.24.1 - hats and caps	10 sq. m
7.	18.24.9 -manufacturing of other wearing apparel and accessories n.e.c	10 sq. m
8.	20.51.1 - household wooden things, coats and hats hangers manufacturing; - statues and wooden decorative things production	20 sq. m
9.	26.21.1 - ceramic statues and other decorative ceramic things production	20 sq. m
10.	28.75.2 - metal small devices and production of kitchen items	20 sq. m
11.	36.30 - accordions and similar instruments production; - whistles, horns, and other horn instruments	15 sq. m
12.	36.62 - brooms and brushes, production	10 sq. m
Section G		
13.	50.20 technical service and repair of vehicles:	40 sq. m
14.	52.7 - repair of household commodities and things of direct use, - repair of household commodities and things of direct use, if carried out independently from production, wholesale and retail trade; if repair is carried out together with other types of activities, then it is considered to represent relevant group of production, wholesale or retail trade.	20 sq. m
15.	52.71 -shoes and other leather things production	20 sq. m
16.	52.72 - repair of household electric goods	20 sq. m
17.	52.73 - wrist and other watches and jewelry repair	2 sq. m
18.	52.74.1 - repair of clothes;	10 sq. m
19.	52.74.9 -repair of household equipment and personal things	20 sq. m
Section H		
20.	55.23.0 short-term renting of living space - in rural houses and apartments	60 sq. m
Section K		
21.	74.85.0 Secretarial and translation services	5 sq. m

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22.	93.01.1 - Washing and dry-cleaning of textile and fur products	20 sq. m
23.	93.02.0 - hair washing, trimming, cutting, dyeing, coloring, curling, lining and similar works for males and females; shaving and beard trimming	20 sq. m
24.	95.0 -Activities of households as employers of domestic staff	

1) Up to January 1, 2007 revenue received by physical person employed in agricultural sector by initial supply of agricultural products before its processing (change of code), if such revenue does not exceed 100,000 GEL during calendar year;

2. A taxable income of the following physical persons shall not be subject to taxation, up to GEL 3,000 in the course of a calendar year:

- a) invalids from childhood, as well as invalids in blindness groups I and II;
- b) citizens of Georgia, participants in the Second World War and military operations for the integrity of Georgia;
- c) persons awarded the honorary title of “ Mother of Georgia”;
- d) single mothers;
- e) persons who adopted a child, within one year from adoption;
- f) person, who has obtained a guardianship for upbringing. a child

3. Following income shall not be subject to income taxation

- a) a taxable income of invalids in groups I and II (other than those mentioned in part 2 of this Article) is not taxable up to GEL 1,500 in the course of a calendar year.
- b) the inhabitant of high mountainous regions with many children (three and more) is exempt from income tax, if his annual income is less than GEL 3,000 and for those with one or two children the income tax is reduced by 50 percent;

4. If the income taxpayer is entitled to more than one tax concession by virtue of Parts 2 and 3 of this article, s/he shall enjoy the highest among them.

CHAPTER 23. PROFIT TAX

Article 169. Taxpayer.

1. Taxpayers of profit tax are:

- a. Georgian enterprises;
- b. foreign enterprise, carrying out its activities through the permanent establishment in Georgia and/or generating income from sources in Georgia.

2. Partnerships and other similar entities shall pay the profit tax pursuant to Article 206 of this Code.

3. If a foreign person is not a physical person and does not prove its joint ownership pursuant to Article 206 of this Code, for the purposes of this Part, it shall be treated as a Georgian enterprise.

Article 170. Taxable Object.

1. The taxable profit of a Georgian enterprise shall be deemed a taxable object. The taxable profit shall be defined as a difference between the gross income of a taxpayer and the relevant deductions granted under this Code.
2. A foreign enterprise (except for enterprise carrying out international air transportation of passengers and/or cargo) carrying out economic activities in Georgia through its permanent establishment shall be considered as a taxpayer in respect to its gross income earned from a Georgian source, which shall be reduced by the deductions attributable to such income pursuant to this Code.
3. The taxable profit of a foreign enterprise performing international air transportation of passengers and cargo, that carries out economic activities through the permanent establishment in Georgia, shall be defined in accordance with income earned by such permanent establishments from Georgian sources during the calendar year, which shall be divided by the total gross income received by it during the year from Georgian and other sources and multiplied by its taxable profit.
4. Gross income of a foreign enterprise not related to its permanent establishment shall be subject to taxation pursuant to Article 197 of this Code without deductions, except for cases described in paragraphs 5 and 6 of this Article.
5. A foreign enterprise earning income from the sale of property pursuant to part 6 of this Article, which is not related to its permanent establishment in Georgia shall be deemed as a profit taxpayer in respect of a gross income gained from a Georgian source during a calendar year, and shall be subject to taxation, defined as difference between gross income gained from a Georgian source during a calendar year and deductions attributable to such income pursuant to this Code.
6. The following shall be treated as income gained from sale of property envisaged under part 5 of this Article:
 - a) profit earned from sale of common stocks or shares of a partner (shareholder, complementary, special partner or other similar type of a person) of a resident legal person;
 - b) profit earned from sale of property in accordance with the article 12.13;
 - c) profit earned from sale of property defined under items “j” and “k” of the first part of Article 24 of this Code;
 - d) profit earned from sale of other property.

Article 171. Tax Rates.

1. Profit of an enterprise shall be taxable at the rate of 20 %, except cases described in the part 2 of this Article.
2. Profit received as a result of gas and oil transactions based on the “existing contract” defined under the law of Georgia “On Oil and Gas” shall be subject to taxation at the rate of 10%, if the contract is signed before January 1, 1998.

Article 172. Tax Concessions

The following is exempted from a profit tax:

- a) profit of budgetary, international and charitable organizations, except for the profit from economic activity;
- b) grants, membership fees and donations received by an organization;
- c) profit of the National Bank of Georgia;
- d) profit from the sale by the Patriarchy of Georgia of crosses, candles, icons, books, and calendars, used exclusively for religious purposes;
- e) portion of profit of medical establishments (despite its organizational and legal form) received from medical activities which has been reinvested (rehabilitation of the establishment, provision for technical base) and used for the purposes of employee’s material incentives.
- f) Up to January 1, 2007 revenue received by physical person employed in agricultural sector by initial supply of agricultural products before its reproduction (change of code), if such revenue does not exceed 100,000 GEL during calendar year;
- g) Up to January 1, 2007 profit gained from agricultural activities reinvested in the scope of such activities;
- h) Up to January 1, 2007 profit gained from the supply of newspapers/journals and/or carrying out advertising services through newspapers/journals;

CHAPTER 24. GROSS INCOME**Article 173. Gross Income.**

1. Gross income of a resident taxpayer consists of income generated by him/her in and outside Georgia.
2. Gross income of a non-resident taxpayer consists of income generated from Georgian sources.
3. All types of income generated in any form and/or from any activity shall be deemed as gross income, including:

- a) income earned in the form of wages;
- b) income earned from economic activity not related to employment.
- c) income earned from activities other than related to employment and economic activities.

Article 174. Income Earned in the Form of Wages.

1. Any compensation or benefits received from employment including income in the form of a pension and other income gained at the previous place of employment or income from a future place of employment of a physical person shall be deemed as income gained in the form of wages.
2. For the purposes of part 1 of this Article, the value of benefits shall equal the sum received by the employee for benefits specified in this part less any amount paid including:
 - a) receipt of an automobile of any type for the private use - 0.1 % of the book value of this automobile at the beginning of the tax year for each day during which the automobile is at the disposal of the employee for private use;
 - b) receipt of loans at the interest rate lower than the market rate - amount payable at the market rate;
 - c) market price (of goods or services) sold or transferred free of charge by employer to his employee;
 - d) transfer of the accommodation (living space) by the employer to an employee – market value of the annual rent;
 - e) assistance rendered by the employer for education of an employee or his/her dependents (excluding training programs directly related to performance of the employee's duties) – value of assistance rendered by employer;
 - f) reimbursement of expenses by the employer to an employee - the amount of reimbursement;
 - g) remittance of a debt or obligation of an employee by the employer - the sum of the debt or obligation;
 - h) life and health insurance premiums or other similar sums paid by the employer to an employee - premiums and other sums paid by the employer;
 - i) in other cases-the market price of benefit pursuant to Article 22 of this Code.
3. Income received in the form of wages does not envisage:
 - a) reimbursement of per diems within the norms specified by the Ministry of Finance of Georgia;
 - b) reimbursement of representation expenses.
4. The value and price defined under part 2 of this Article include excise, VAT, and any other taxes subject to payment by an employee.

Article 175. Income Gained from Economic Activity not Related to Employment.

1. Income gained from economic activity shall be deemed as income received from entrepreneurial and non-entrepreneurial activities not related to employment.

2. The following shall be deemed as income earned from entrepreneurial economic activity:
 - a) income gained from a supply of goods (service);
 - b) surplus income from the sale of assets used for entrepreneurial activity;
 - c) income from restriction introduced in respect of the entrepreneurial activity or closedown of an enterprise;
 - d) sums received from the sale of fixed assets to be included in income pursuant to the article 183.7 of this Code;
 - e) deductions compensated pursuant to article 209;
 - f) income from other entrepreneurial activities.

3. Income earned from non-entrepreneurial economic activities:
 - a) income gained in the form of interest;
 - b) dividends;
 - c) royalty;
 - d) income earned from writing off debts;
 - e) surplus gained from sale of assets except income specified in part 2 of this Article;
 - f) income earned from financial leasing, usufruct, lease, rent or any similar activity;
 - g) income earned from other economic activities, except for the income described in the part 2 of this article and article 174 of this Code.

Article 176. Other Income Not Related to Employment and Economic Activities.

1. Any other income and benefit shall be deemed as other income and/or benefit not related to employment and economic activity except:
 - a) income specified in articles 174 and 175 of this Code
 - b) contributions of the partners of the enterprise, that increase enterprise's net assets.
2. In case of a person receiving property or benefit from another person, the value of property and benefit to be included in gross income shall be defined in compliance with part 2 of Article 174 of this Code.

CHAPTER 25. DEDUCTIONS AND LOSS

Article 177. Expenses Related to Income receipt

All the expenses related to the receipt of gross income shall be deducted from the gross income, with the exception of:

- a) expenses related to the purchase of fixed assets, their installation and other capital expenditures pursuant to Article 211, when cases defined in the article 183 point 13 do not occur;
- b) non-deductible expenses specified in article 178 of this Code and in other provisions of this Chapter.

Article 178. Non-deductible Expenses.

The following shall not be deducted from gross income:

- a) expenses not related to economic activity, except for cases described in the article 186 of this Code;
- b) entertainment expenses. The requirements set forth by this provision shall not cover those taxpayers carrying out entertainment entrepreneurial activity providing expenses incurred for such activity;
- c) expenses incurred by a physical person for his/her own purposes of use and expenses related to earning income from lotteries, casinos, gambling and other games or other expenses related to receipt of wages;
- d) expenses related to receipt of income exempted from profit or income tax.

Article 179. Limitation Imposed on Interest Deduction.

1. Pursuant to part 2 of this Article, interest paid and/or payable (using accrual bases method) on credit (loan) shall be deducted in the amount not exceeding 24 % of annual rate for the corresponding period of time and corresponding ratio.
2. If more than 20 % of the authorized capital of the enterprise is directly or indirectly owned by legal persons exempt from the profit tax, non-residents (except for the case when this share belongs to the permanent establishment), the amount of interest deductible pursuant to part 1 of this Article shall not exceed 50% of total of gross income received by means of interest reduced by allowed deductions (except interest deductions).

Article 180. Deduction of Bad Debts.

1. A taxpayer shall be entitled to deduct bad debts related to the goods and services sold, if income gained from them was earlier included in a gross income from economic activity.
2. Deduction of bad debts shall be allowed only if the debt has been written off and recorded as such in the taxpayer's accounting records.

Article 181. Deductions of Transfers to Reserve Fund.

1. A legal person engaged in the insurance activity shall be entitled to deduct amount transferred to the insurance reserve funds within norms established by the Georgian legislation.
2. Banks shall be entitled to deduct potential losses related to credits granted pursuant to rules established by the National Bank of Georgia in respect of creation of reserves for doubtful debts.

Article 182. Deductions of Expenses Related to Research and Development, Design, and Experimental Design Service.

Expenses related to the gross income gained from research and development, design and experimental design services shall be deducted, except for expenses incurred in respect to purchase, installation of the fixed assets and other capital expenditures.

Article 183. Depreciation Charges and Deductions Granted for Fixed Assets.

1. Depreciation charges for fixed assets used in economic activity shall be deducted pursuant to terms specified under this article.
2. Depreciation charges shall not be attributed to land, works of art, museum items, historical objects (except for buildings), cattle and animals and other assets not subject to depreciation. In addition, depreciation charge shall not be attributed to and expenses for fixed assets where the value exceeds 1000 GEL, shall be fully deducted from the gross income in the accounting year when purchase or production of such assets were made.
3. Assets subject to depreciation shall be broken down into groups pursuant to the following depreciation norms:

Group number	Fixed Assets	Depreciation norm,%
1	Passenger car, automobile equipment for use on roads; office furniture, automotive transport rolling stock;; trucks, buses, special automobiles and trailers; machinery and equipment for all sectors of industry and the foundry industry; forging and pressing equipment; construction equipment; agricultural vehicles and equipment	20
2	Special instruments, inventory and equipment; computers, peripheral devices and data processing equipment; electronic devices	20
3	Railway, naval and river transport vehicles; power vehicles and equipment; thermal technical equipment turbine equipment; electric engines and diesel generators;	8

	electricity transmission and communication facilities; pipelines	
4	Buildings, construction structures	5
5	Assets subject to depreciation not included in other groups	15

4. The amount of depreciation charge under each group shall be calculated by applying the depreciation norms indicated in part 3 of this article to the book value of the group at the end of the tax year.
5. Depreciation for buildings and construction structures (hereinafter - buildings) shall be charged for each building separately. Consequently each of the buildings is considered to represent separate group.
6. The book value of a group by the end of the tax year shall be the amount determined as follows: the book value of a group in previous year shall be reduced by the depreciation amount applied for the preceding tax year and by deductions made pursuant to parts 8 and 9 of this Article plus the value of the fixed assets added to the group according to Article 211 (except for fixed assets indicated in the part 2 of this article), and repair expenses of the fixed asset above the established limit incurred in the preceding tax year pursuant to part 2 of Article 184 and is reduced by the sums received through the sale of the fixed assets during the course of the year.
7. If the amount received upon the sale of the fixed assets of a group in the course of a tax year exceeds the book value of the group at the end of year, the surplus amount shall be included in the gross income and the book value of a group shall equal to zero.
8. If the book value of the group at the end of the year is less than GEL 1000, the amount of the book value shall be subject to deduction.
9. If the fixed assets of a group are sold or liquidated, the book value of a group at the end of the tax year shall be deducted from the gross income.
- 10 Taxpayers shall be entitled to use the accelerated depreciation norm in respect to II and III groups, but not higher than double amount of the norms stated in part 3 of this Article.
11. Fixed assets obtained through leasing (subject of leasing) that are subject to depreciation shall be grouped separately in compliance with norms stated in part 3 of this article.
12. For the recipient of leasing objects book value of the leasing object is principle amount separated from total liability amount by means of discounting in accordance with IAS. In case of pre-term termination of contract leasing object is returned to the lessor with existing book value. Interest expense of the lessee is deductible from its gross income in

proportion with payments as defined by the contract. Upon deduction of interest expenses provisions of article 179 should be taken into account.

13. In connection with purchased, leased or produced fixed assets the taxpayer is entitled to fully deduct cost of purchase (production) of such assets, in case of a leasing—discounted value of lease payments, in the year when fixed assets exploitation started. Such fixed assets are not included in book value stipulated by this Article. Upon supply of such assets (in case of leasing, upon their return if their final purchase was foreseen) amounts received or to be received, and in case inexistence of such, market prices excluding VAT is to be included into gross income of the taxpayer. In case the taxpayer employs this right, it is liable to use this method in the future for all purchased, produced or leased fixed assets.
14. Part 13 of this Article applies only to fixed assets purchased, produced or leased only after the date this part was effected. Prior to enforcement of this part, parts 1-12 shall be applied to purchased, produced or leased fixed assets. In case provisions of part 13 shall be used, the taxpayer shall not be entitled to change selected deduction method within 5 years.

Article 184. Deduction of Fixed Assets Repair Expenditures

1. Deduction of expenditures incurred on repair of fixed assets from each group of the article 183.3 of this Code, used for entrepreneurial activities shall be allowed on the annual basis – in amount of 5 % of the book value of the asset in the end of the year,.
2. Amount, exceeding established by this Article threshold increases balance by the group value.

Article 185. Restriction Imposed on Deduction of Representation Expenses.

For persons, engaged in economic activities, representation expenses deductions shall not exceed 1% of the gross income earned during the tax year.

Article 186. Deductions on Donations to Charity Organizations.

Amount of donation issued by an enterprise to a charity organization shall be deducted from the gross income, but not exceeding 8% of deductions from the gross income established by this Code (without deductions provided by this article).

Article 187. Deduction of Expenses Related to Insurance Fees.

Insurance premium related to economic activities paid by the insured parties and/or insurers based on the relevant insurance contracts (except insurance premiums under the cumulative and repayable contracts) shall be subject to deduction.

Article 188. Expenses Related to Preparatory Works Needed for Geological Surveys and Extraction of Natural Resources.

1. Expenditures incurred for preparation services of natural resources mining and geological research shall be deducted from the total gross income in the form the depreciation charge in accordance with the article 183.3 group 1 of the fixed assets depreciations standards and shall be accounted in a separate group.
2. Requirement of this article shall apply to expenditures of intangible assets, incurred by the taxpayer for obtaining of the right to geological research, processing or exploitation of natural resources, except intangible assets for which it is impossible to define the useful life and deduct proportionally to the accounting period.
3. Pursuant to the law of Georgia “On Oil and Gas”, expenses incurred due to geological research, preparation services for mining of natural resources and drilling in accordance with agreement on distribution of the production, shall be deducted in consistency with provisions of the agreement.

Article 189. Expenses Related to Intangible Assets.

1. Expenses related to intangible assets shall be deducted in the form of the depreciation charges in the proportion of its limited useful life. In case it is impossible to define useful life of intangible asset-- pursuant to the provisions of article 183.3, norms for the group 5. The intangible assets shall be recorded as a separate group.
2. Expenses related to purchase or production of intangible assets shall not be included into the value of intangible assets subject to depreciation providing they were deducted during calculation of the taxable income (profit) of a taxpayer.

Article 190. Limitation on Deduction of Taxes and Fines.

No deduction shall be allowed for:

- a) profit tax or income tax paid on the territory of Georgia and other country;
- b) penalties and/or fines paid or payable to the budget.

Article 191. Loss upon Sale of Property.

Losses arising upon the sale of property by a physical person - entrepreneur are compensated from proceeds received upon the sale of such property. If the losses cannot be compensated in the year in which they took place, they shall be carried forward for a period of up to five years and compensated from income from sale proceeds of this property.

Article 192. Carrying Forward of Loss.

1. Deductions stipulated by the Code in respect of a physical person - entrepreneur in excess of the gross income received from the economic activity shall not be deducted at the expense of wages. They are carried forward for a period of up to five years to be covered from gross income gained from the economic activity during future periods, not related to employment.
2. Deductions in respect of a legal person stipulated by this Code in excess of gross income shall be carried forward for a period of up to five years to be covered at the expense of the gross income of future periods.

CHAPTER 26. INTERNATIONAL TAXATION**Article 193. Offsetting Taxes Paid Abroad.**

1. Income tax or profit taxes paid on income not earned from the Georgian source outside Georgia shall be credited during paying taxes in Georgia.
2. Amount of credited taxes, described in the part 1 of the Article, shall not exceed amounts of taxes assessed in Georgia for that income or profit in accordance with guidelines and rates in force.

Article 194. Income Generated in the Countries with Tax Holidays.

1. If the resident directly or indirectly owns more than 10 percent of the authorized capital of the foreign capital, or owns more than 10 percent of vote share of legal person who in its turn receives income in the tax haven countries, this income or part of income belonging to the resident shall be included into its taxable income.
2. Foreign country is considered as tax haven if the tax rate in this country is 1/3 lower than the tax rate stipulated by this code, or if the country has confidentiality laws in regard with financial information or information about companies enabling actual owner of the property or income to be protected.

CHAPTER 28. CHARGE OF THE TAX AT THE SOURCE OF PAYMENT

Article 195. Taxation of Dividend at the Source of Payment.

1. Dividends paid by the Georgian enterprise to the physical person or a foreign enterprise, shall be subject to taxation at the rate of 10% at the source of payment.
2. Dividends paid to persons defined in the article 2.1 of the law of Georgia “On entrepreneurs”, except for the sole proprietor, shall not be subject to taxation at the source and shall not be included in the gross income of the dividends receiving enterprise.
3. Dividends, received by the resident physical person, which were taxed at the source of payment, shall not be included in the gross income of the dividends beneficiary and shall not be subject to further taxation.

Article 196. Taxation of the Interest at the Source of Payment.

1. Interests paid by the permanent establishment of the non-resident or by the resident, or on its behalf, shall be subject to taxation at the payment source at the rate of 10% of the payable amount, if the source of payments is in Georgia.
2. Interest paid on credits (loans) allocated by the resident banks shall not be subject to taxation at the source of payment.
3. Interest received by the person, taxed at the source of payment, shall not be included in the gross income and shall not be subject to further taxation.
4. Resident legal person, whose profit is subject to taxation and who has received interest taxed at the source of payment in Georgia, has right to offset paid tax presenting document certifying payment of tax.

Article 197. Taxation of Non-residents at the Source of Payment.

1. Income of the non-resident, earned from the source in Georgia, not related to the permanent establishment of the non-resident on the territory of Georgia, shall be subject to taxation at the source of payment at following rates:
 - a) Dividends – in accordance with the article 195;
 - b) interest – in accordance with the article 196;

- c) Amounts paid by enterprise, legal person and/or physical person-entrepreneur on the basis of risk insurance and re-insurance, leasing, international telecommunication services and international shipping services, – at the rate of 4%. Subject to this rate also is income received by non-resident subcontractors carrying out oil and gas operations determined by Law of Georgia “On Oil and Gas”
 - d) other paid amounts, deemed by this Code to represent income earned from the Georgian source – at the rate of 10%;
 - e) income paid in a form of the salary – at the rate determined by the article 167.
2. For the purpose of this article, payments, which shall be paid by the permanent establishment of the non-resident in Georgia or on its behalf, shall be considered paid by the Georgian enterprise.

CHAPTER 28. TAX ACCOUNTING GUIDELINES

Article 198. Tax Year.

Tax year is a calendar year.

Article 199. Principles for Recording Income and Expenditures.

1. The taxpayer shall maintain accurate and timely records of income and expenditures on the basis of documented data, using methods provided for in this Chapter, assigning them to the relevant reporting period in the course of which they were received or borne in such a manner as to clearly reflect the taxable income (profit). The taxpayer should maintain records for tax purposes using the cash basis method or the accrual basis method, depending on which method is used for financial accounting.
2. The taxpayer has to record all transactions connected with its activities and ensure the control of their beginning, course, and end. At the same time, contents of economic transaction, its subject, amount and titles of parties participating in this transaction are to be described completely and clearly in the primary reporting documentation. Besides the stated, for the purpose of economic activity, upon supply of goods for economic purposes (except for the supply in terms of special VAT invoice, which include the details envisaged by the bill of lading) within the country it is obligatory to issue strict registration bill of lading, according to the form and procedure defined by the Ministry of Finance. Without this kind of document transportation, storage and sale of goods is prohibited.
3. Taxable income (profit) must be defined by the same method, which is used by the taxpayer for accounting. At the same time, the adjustment of income must be made only

in compliance with the requirements of this Code. If according to the deductions foreseen in the Code the accounting data of taxpayer and marginal norms stated by the Code are different, then in order to determine taxable object the taxpayer should provide tax recording of the deductions.

4. Pursuant to the provisions of this article taxpayer is liable to keep records using the accrual basis method or cash bases method subject to conditions that taxpayer uses one method during tax year.
5. If the taxpayer maintains records using the accrual basis method, the moment of receipt of income shall be deemed the moment of supply of goods, or rendering of a service;
6. In the case of a physical person, the requirement to keep records using the accrual basis method applies only to income from entrepreneurial activity.
7. If an accounting method of the taxpayer has changed, adjustments to elements connected to the taxpayer must be made in the year the accounting method is changed, so that none of the elements is left out or included twice.
8. In case taxpayer receives income or incurs expenditures on a non-cash basis, then the moment of income receipt or the moment of rendering expenditures will be defined by the same rules which are used for defining income and expenditures in cash basis

Article 200. Recording Income and Expenditures Using the Cash Basis Method.

A taxpayer using the cash basis method of accounting shall record income upon its receipt or the receipt of the right to use and dispose of it, and shall deduct expenditures once the payment has been made (above does not apply to depreciated assets defined in the article 183).

Article 201. Moment of Receipt of Income When Using the Cash Basis Method.

1. In case of paying cash, the moment of receipt of the income is considered the moment of receipt of cash monetary resources; if non-cash payment is made, it is the moment of transfer of monetary resources to its settlement account of the taxpayer at a bank or to another account which he/she may manage or from which he/she is entitled to receive mentioned resources.
2. In the case of fulfillment of a financial liability of a taxpayer, in particular, in the case of mutual offsetting, the moment of receipt of the income shall be considered the moment when the liability is annulled or fulfilled.

3. If a taxpayer receives promissory note (or any other debt liabilities) from his debtor for the purposes of repayment of his financial liability, the moment of receipt of the income is considered the nearest possible moment when it is to present the promissory note (debt liability) for repayment to another person, but not later than the nearest possible moment of submission for reimbursement.

Article 202. Moment of Carrying out of Expenditures When Using the Cash Basis Method.

1. The moment of carrying out of expenditures when a taxpayer uses the cash basis method in tax accounting is considered to be the moment when the taxpayer actually makes the expenditures, except for the cases stipulated by part 3 of this Article.
2. In case of the cash basis payment the moment of carrying out of expenditures is considered to be the moment of payment of monetary resources by the taxpayer; if non-cash payment is made it is the moment the bank writes off monetary resources from the taxpayer's settlement or other accounts.
3. In the case of the annulment or fulfillment of a financial liability to a taxpayer, in particular, in the case of mutual offsetting, the moment of performance of the expenditures is considered to be the moment when the financial liability is annulled or fulfilled.
4. When paying interest on a debt liability or when making payments for rental property, if the term of the debt liability or rental agreement extends over several reporting periods, the amount of actually paid interest (rent) that is deducted for the tax year is the amount of interest (rent), which shall be calculated in accordance with the accrued (accruable) sum for each reporting period.

Article 203. Recording Income and Expenditures Using the Accrual Basis Method.

A taxpayer maintaining records using the accrual basis method should record income and expenditures based on the time of the acquisition by the taxpayer of the right to that income or acknowledgment of the expenditures respectively, regardless of the moment of actual receipt of income or performance of payments.

Article 204. Moment of Receipt of Income When Using the Accrual Basis Method.

1. The right to receive income (including penalty sanctions) shall be considered to have been acquired if the relevant amount is subject to payment to the taxpayer or the taxpayer has fulfilled all its obligations under the transaction (agreement).

2. If the taxpayer renders services, the right stipulated in part 1 of this Article is considered to be obtained at the moment of completion of the fulfillment of the service by him stipulated according to the transaction (agreement).
3. If a taxpayer receives or has the right to receive income in the form of interest or income from the rental of property, the right to receipt of the income is considered to be acquired at the moment of expiration of the term of the debt obligation or rental agreement. If the term of the debt obligation or rental agreement extends over several reporting periods, the income is distributed among these reporting periods according to its accrual.

Article 205. Moment of Carrying out of Expenditures When Using the Accrual Basis Method.

1. Except for the cases stipulated by part 3 of this article, the moment of carrying out of expenditures connected with a transaction (agreement) when a taxpayer uses the accrual basis method in tax accounting is considered to be the moment when all the following conditions are fulfilled:
 - a) the taxpayer's acceptance of a financial liability can be acknowledged indisputably;
 - b) the amount of the financial liability can be valued with sufficient accuracy;
 - c) all of the parties to the transaction or agreement have actually fulfilled all their liabilities under the transaction or agreement and the relevant payment is subject to mandatory payment.
2. Financial liability means an obligation assumed as a result of a transaction (agreement) for the purpose of fulfilling which, the other party to the transaction (agreement) will be required to indicate the income corresponding to it in monetary or other form.
3. When paying interest on a debt liability or when making payments for rented property, the moment of carrying out expenditures is considered to be the moment of expiration of the term of the debt liability or rental agreement. If the term of a debt liability or rental agreement extends over several reporting periods, the expenditure is distributed among these reporting periods in accordance with its accrual.

Article 206. Joint Ownership.

In the case of a joint ownership (co-ownership) arrangement that involves ownership by more than one person but without the establishment of a legal person, the incomes and deductions are attributed to their owners and are taxed according to their share.

Article 207. Income and Deductions under Long-Term Contracts.

1. In the case of a taxpayer uses the accrual method of accounting, income and deductions in connection with long-term contracts are recorded during a tax year with regard to the percentage of their actual completion.
2. The amount of fulfillment of contract shall be determined by comparing the expenditures borne prior to the end of the tax year against the total expenditures under the contract.
3. Long-term contract means a contract for manufacture, installation, or construction, or the performance of related services, which is not completed within the tax year in which work under the contract commenced, other than a contract estimated to be completed within six months of the date on which work under the contract commenced.

Article 208. Procedure for Recording Stocks of Commodities and Materials.

1. For tax recording stocks of commodities and materials the person is liable to have journal for recording commodities and its movement by each specific place (where commodities are received, stored or supplied) of economic activity, whose format and keeping procedures are determined by the Ministry of Finance. The persons carrying accounting-reporting based on computer-based programs, can transfer electronic information on commodities and its movement to the journal for recording commodities and its movement and approve by person in charge. Forms and rules of execution of such journals is established by the Minister of Finance of Georgia.
2. A taxpayer is obliged to include in commodity and material stocks any processed or partially processed goods in its ownership, regardless of their location, in particular, raw materials and materials acquired for subsequent sale or for production of goods, fulfillment of work, or rendering of services.
3. When determining taxable income, the value of commodity and material stocks at the beginning of the period is subtracted from gross income, and the value of commodity and material stocks at the end of the period is added to gross income.
4. When recording commodity and material stocks, the taxpayer shall reflect in the tax accounting the value of goods produced or acquired by it, to be determined on the basis of outlays (except for productions costs) or the price of their acquisition, respectively. Also, the taxpayer shall include in the value of such goods the outlays on their storage and transportation.
5. When recording commodity and material stocks, the taxpayer shall be entitled to assess the value of a product having defects, being obsolete or out of fashion or which cannot be sold at a price in excess of the outlays for its production (its acquisition price) for possible sale price.

6. If the taxpayer does not keep individual records for goods under its ownership, the taxpayer is entitled to select and use one of the following methods of accounting for commodity and material stocks:
 - a) the FIFO method - in accordance with which the goods considered to be sold first during the period are those allocated to inventory at the beginning of the reporting period and then the goods produced (acquired) during the reporting period according to the time of their production (acquisition);
 - b) the LIFO method - in accordance with which the first goods considered sold during the reporting period are those produced (acquired) last;
 - c) the method of valuing at average cost.

Article 209. Compensated Deductions and Reduction of Reserves.

1. If previously deducted expenses, losses, or bad loans are reimbursed, then the amount received shall become the income for the year in which it was reimbursed.
2. If previously deducted reserves are reduced, then the amount reduced shall be included in gross income.

Article 210. Profit and Losses upon the Supply of Assets.

1. Profit from the supply of assets shall consist of the positive difference between income from the supply and the cost of the assets as determined in accordance with Article 211 of this Code.
2. Losses from the supply of assets shall consist of the negative difference between income from the supply and the cost of the assets.
3. Parts 1 and 2 of this Article shall not apply to the assets subject to depreciation under the group method.
4. Upon the transfer of assets on a gratuitous basis or at a reduced price, the profit of the transferring person shall be determined as the positive difference between the market value of the property so transferred and its cost as determined in accordance with Article 211 of this Code.

Article 211. The Cost of Assets.

1. The cost of assets shall include outlays for their acquisition, production, construction, assembly, and installation, as well as other outlays that increase their value, except levies and/or custom duties.
2. In case of supplying only a part of an asset, the cost of the asset at the moment of supply shall be distributed between the remainder and the supplied parts.

Article 212. Non-recognition of Profit or Loss.

1. No profit or loss shall be taken into account in determining taxable income on:
 - a) a transfer of assets between spouses;
 - b) a transfer of assets between former spouses on the time of a divorce;
 - c) an involuntary destruction or confiscation of an asset, whose receipts are reinvested in an asset of the same nature before the end of the second year following the year in which the destruction or confiscation takes place.
2. The cost of a replacement asset described in subsection “c” of part 1 of this Article shall be determined with reference to the cost of the replaced asset at the moment of destruction or confiscation.
3. In cases under subsection “a” or “b” of part 1 of this Article the value of transferred assets shall be the value of the assets for the transferor at the time of the transaction.
4. The requirements of this Article shall not apply to an asset, which is subject to depreciation using the group method under Chapter 25, except that subsections “a” or “b” of part 1 apply where all assets in the group are transferred simultaneously.

Article 213. Liquidation.

1. Liquidation of a legal person shall be considered to be sale of more than 50% shares of the partner (partners) excluding cases when there is no reorganization in accordance with the operations defined in the article 215.7.
2. If a legal person is liquidated and the assets are transferred to a partner, which is a legal person, the value of the asset shall commensurate to the member's share in the legal person, and the partner (held a 50 percent or more interest in the legal person immediately prior to the liquidation, then:
 - a) the transfer shall not be treated as a sale of the asset by the liquidated legal person;

- b) the cost to the partner (shareholders, complementary, special partners and other persons of such type) of the asset transferred is the same as the cost of such asset prior to transfer to the liquidated legal person;
 - c) the distribution of the asset is not a dividend;
 - d) profit and loss shall not be taken into account on the cancellation of the partner's share in the liquidated legal person.
3. The requirements of this article shall not apply to an asset, which is subject to depreciation using the group method under Chapter 25 of this Code, unless all assets of the group are transferred simultaneously.
 4. In the case of an asset referred to in part 3 of this article the beneficiary takes as the cost of the balance of the group of assets at the time of transfer, and where more than one such asset is transferred the balance of the group is divided among the assets in proportion to their market values at the time of transfer.
 5. Part 2 of this article applies only if the complete liquidation is approved by the tax agency as not having tax avoidance as a principal objective.

Article 214. Procedure for Assessing the Cost of Assets Transferred in Exchange for a Partner's Share.

1. The sale of transferred assets shall not be treated as a supply of assets, if a person (persons) transfer assets for 50 or more percent of shares in the legal entity.
2. The transferee's cost of an asset to which part 1 of this article applies shall be the same as the transferor's cost at the moment of transfer.
3. The cost of a partner's share received in an exchange described in part 1 of this article shall be equal to the cost of the asset or assets transferred less any liability transferred.
4. The requirements of article shall not apply to assets, which is subject to depreciation using the group method under Chapter 28, unless all assets in the group are transferred simultaneously.
5. In case as referred to in part 4 of this article, all assets in the group are being transferred simultaneously, the transferee takes as the value of the asset the book value of the group at the moment of transfer. If more than one such asset is transferred the book value of the group is divided among the assets in proportion to their market values at the moment of transfer, and the transferor in exchange takes as the cost of a partner's share received the book value of the group at the moment of transfer.
6. This article does not apply to a transferor of an asset with a defect to right, if the indebtedness exceeds the cost of the assets transferred by the transferor.

Article 215. Reorganization of a Legal Person.

1. The cost of property and shares owned by a legal person or legal persons which are parties to an approved reorganization transactions shall be the same as the cost of such property and share before the reorganization.
2. Transfer of property and share among the legal persons, which are parties to an approved reorganization transaction shall not be treated as a sale of the property.
3. Any exchange of shares in a resident legal person which is a party to an approved reorganization transaction for shares in another resident legal person which is also a party shall not be treated a sale of the shares.
4. The cost of the shares exchange under part 3 of this article shall equal the value of the original share.
5. The distribution of shares in a legal person, which is a party to an approved reorganization transaction and share produces similar rights to in another legal person which is also a party to such transaction shall not be a dividend.
6. The value of the original shares referred to in part 5 of this Article shall be allocated to the distributed shares by using the coefficient which is determined as the ratio between value of shares subject to distribution and the original value of the shares after the distribution.
7. Provided that the merger, acquisition, joining, takeover, or division is approved by the tax agency as not having tax avoidance as a principal objective, reorganization shall include:
 - a) a merger of two or more resident legal persons;
 - b) the acquisition or takeover of 50 percent or more of the shares with voting rights and 50 percent or more of the total cost of shares by value of a resident legal person solely in exchange for shares with similar rights of a party involved in the transaction of the acquisition or takeover;
 - c) the acquisition of 50 percent or more of the assets of a resident legal person by another resident legal person solely in exchange for voting shares with no preferential rights as to dividends;
 - d) a division of a resident legal person into two or more resident legal persons.
8. A party of the reorganization transaction shall be considered a resident legal person that directly involved in the reorganization transaction, and resident legal person, which possess or is owned by a resident legal person who is directly involved in this transaction.
9. For purposes of the part 8 of this article, ownership of a legal person shall mean ownership of 50 percent or more of the shares with voting rights and 50 percent or more of the value of all other shares of the legal person.

10. The requirements of this article shall not apply to an asset, which is depreciated using the group method under Chapter 26, unless all assets in the group are transferred simultaneously.
11. For the assets grouped under one depreciation norm defined in part 10 of this article the transferee of the assets takes as the cost of the asset the book value of the group at the moment of transfer, in case more than one such asset is transferred the balance value of the group is divided among the assets in proportion to their market values at the moment of transfer and the transferor deems value of shares received in exchange of partners' (shareholder, complementary, special partner and other persons of such type) as the book value of the group at the moment of transfer.

Article 216. Limitation of the Carrying Forward of a Loss and Deduction in the Case of Change of Ownership of Shares of a Legal Person.

Where there has been a change of 50 percent or more of partners with shares with voting rights in the underlying ownership of a legal person, as compared with the previous year, the carrying forward of a loss, deduction and credit from a previous tax year ceases to be available, starting with the tax year in which the change occurred, unless for a period of three years after the change, the legal person continues to conduct the same entrepreneurial activity and starts in a new entrepreneurial activity with the consent of tax agencies.

CHAPTER 29. TAX ADMINISTRATION PROCEDURES

Article 217. Filing a Tax Return.

1. A return for personal income and profit taxes and statements of accounts provided for under legislation shall be presented to the tax agency at the place of registration prior to April 1 of the year following the reporting year by the following taxpayers:
 - a) resident physical persons having income not taxed at the source of payment in Georgia;
 - b) resident physical persons having monetary resources in accounts with foreign banks;
 - c) Georgian enterprises;
 - d) nonresident physical or legal persons having income from a Georgian source that is not taxed at the source of payment;
 - e) resident physical persons, whose revenues during the calendar year exceeds 35,000 GEL.
2. Physical persons defined under the article 168.1.k.and 168.1.l shall carry out simplified accounting of income and expenditures and file returns to the corresponding tax agency on a quarterly basis until the 15th day of the following to the end of the quarter month, in accordance with rules set by the Ministry of Finance. In addition, above mentioned physical persons shall not submit to the tax agency calculations, defined in the part 7 of this article.

3. Upon the cessation by a taxpayer of entrepreneurial activity in Georgia, he/she shall file a return with the tax agency concerning gross income and deductions within 30 days.
4. Upon liquidation of a legal person, the liquidation commission or the taxpayer shall immediately notify the tax agency in writing. Within 15 days after the decision to liquidate the legal person, the liquidation committee shall file a return with the tax agencies.
5. A physical person who is not obliged to submit a return may file a return in order to claim a refund or recalculation of the tax.
6. A non-resident taxpayer having no permanent establishment in Georgia, who receives income as stipulated by subsections “c” and “d” of part 1 of Articles 197, and is taxed at the source of payment, shall be entitled to file a return claiming a refund of tax. The return shall be submitted within the terms as defined in part 1 of this article. Such taxpayer shall be taxed in the same manner as if the income were connected with a permanent establishment of the taxpayer in Georgia. The expenses of the taxpayer incurred in connection with such income are deductible under the procedure established for permanent establishments, provided that the tax shall not exceed the amount of tax withheld at the source of payment as stipulated by article 183 of this Code.
7. A person shall present calculations according to the amounts of salaries and taxes paid and withheld according to a reporting month on a monthly basis (until the 15th day of the month following the reporting month), pursuant to the rule set by the MOF.
8. Sale of the tangible asset, being in the ownership of the physical person for less than 2 years (except sale of assets used for economic activities and/or sale of securities) also gratuitously received property during tax year with value more than 1,000 GEL (except for cases when property is gratuitously transferred from I and II level legatees and cases mentioned in the part 10 of this article), the income tax shall be subject to payment not later than the third day following the transfer of the asset; with regard to this fact, the taxpayer shall file a tax return with the tax agency.
9. In case of the sale of the asset, being in the ownership of the physical person, which was used for economic activities (except for sale of securities), also upon a gratuitous receipt of property (except of gratuity from I and II level legatees and cases mentioned in the part 11 of this article) the registering agency registers the right to ownership of the new owner only based on the notice provided to the physical person, seller of the asset or receipt of gratuitous property. The reference proves fulfillment of the tax liability or exemption thereof.
10. In the course of a tax year, upon gratuitous receipt or inheritance of the property with the value of more than 150,000 Georgian Lari from III and IV level legatees, the income tax is payable for 2 years, by 15th of the month after a 5 month period after the receipt of such

property (income), in constant amounts. Such physical person will file a return at tax agency.

11. For the cases envisaged by part 10 of this article, the registering agency registers the right to ownership of the new owner only on the basis of the notice received by the physical person, certifying tax liabilities or exemption thereof.
12. Rules of taxation of reimbursement paid to Georgian citizens by international organizations in Georgia having diplomatic status is defined by the Government of Georgia.

Article 218. Procedure for Withholding Tax at the Source of Payment.

1. The following tax agents--legal persons, enterprises (organizations) or physical persons - entrepreneurs, shall withhold tax at the source of payment:
 - a) persons who make payments to hired physical persons;
 - b) persons who pay pension to a person, other than the pensions, which are paid in the state social security system;
 - c) persons who pay taxes considered under the article 197.1 of this Code;
 - d) physical persons-entrepreneurs, enterprises (organizations), who compensate for the value of provided services to a person who does not have taxpayer identification number according to the rule set under the Code.
 - e) persons, engaged in the gambling business and pay profit to physical persons.
 - f) persons who pay scholarships, except state scholarships;
2. Persons paying income shall bear responsibility for withholding and transferring taxes to the budget. If amounts of tax are not withheld, an income paying person shall pay to the budget the tax not withheld and the associated fines and penalties. The amount of tax and associated fines and penalties may be paid by the income recipient on behalf of the income payer.
3. A person who withholds tax at the source of payment in accordance with part 1 of this article shall:
 - a) transfer the tax to the budget upon making the payment;
 - b) upon payment of wages, issue to the physical person receiving the income, upon his notice, a statement indicating his last name and initials, the amount and type of income and the amount of tax withheld (if tax was withheld);
 - c) within 30 days of the end of the tax year, to present to the tax agencies, and also to send to persons receiving income in accordance with part 1 of this Article, upon their notice a statement reflecting the registration number of that person, his name or last name and initials, living address, the total amount of income, and the total amount of tax withheld during the accounting year.
4. Tax agents defined in the part d and e of this article are liable to present information of paid amount to tax agency monthly not later than 15th of the month following the reporting month, pursuant to the rules set by Minister of Finance of Georgia.

5. Income tax withheld by the tax agent is payable at the local budget in accordance with place of employee's actual activities, in the case of employment outside Georgian territory—in accordance with tax agent's place of registration.

Article 219. Current Tax Payment.

1. Enterprises (organizations), or physical persons – entrepreneurs, engaged in economic activities shall make current payments to the budget according to the annual tax of the previous tax year in the following amounts:
 - a) before 15 May – 25 %;
 - b) before 15 July 25 %;
 - c) before 15 September – 25 %,
 - d) on 15 December- 25 %.
2. The taxpayers not having taxable income during the previous tax year shall not pay any current taxes.
3. If the taxpayer proves that his expected income (profit) in the current tax year will be at least 50 percent less than in the previous year, he/she shall be authorized to reduce or not to pay at all the amount of current taxes. At the same time, in case when expected income reduction by no less than 50 percent is not confirmed by the presented annual actual results and taxpayer has not fully paid the amounts of the current payments during the tax year, then the taxpayer shall be imposed fines in accordance with this Code within the period from the date set for current payments to the date set for submitting tax return.
4. The current payments made to the budget shall be included into the tax charged against the taxpayer for the tax year.

PART X. VALUE ADDED TAX

CHAPTER 30. GENERAL PROVISIONS

Article 220. Taxpayer

1. A Value Added Tax (hereinafter - VAT) taxpayer is a person who is registered or is required to be registered for VAT.
2. A person who is not a VAT taxpayer, but who carries out a taxable import of goods to Georgia shall be considered a VAT taxpayer in respect of such import only.
3. A non-resident person rendering services in Georgia without a VAT registration and a permanent establishment shall be considered as a VAT taxpayer in respect of such services and shall be subject to reverse charge pursuant to article 241 of this Code.

Article 221. Mandatory Registration

1. A person shall be subject to a VAT registration if he/she:
 - a) carries out an economic activity and the total amount of VAT taxable transactions carried out in any continuous period up to 12 calendar months exceeds GEL 100 000. Such person shall be required to file an application with a tax agency to be registered as a VAT taxpayer no later than the second day after such moment arises.
 - b) produces and/or imports of excisable goods in the framework of economic activities. The person shall be required to register as a VAT taxpayer before a supply of the excisable goods takes place.
2. For a VAT mandatory registration of a non-resident person, a supply of goods and rendering of services through a permanent establishment in Georgia shall be taken into consideration to determine the total amount of taxable transactions.
3. A person subject to a VAT registration pursuant to part 1.a of this article shall be considered as a VAT taxpayer no later than the second day after the obligation to apply for registration arises.
4. In case of detection of an unregistered person subject to a VAT mandatory registration, a tax agency shall initiate the registration process of this person.
5. In case of reorganization providing one of the parties is a VAT taxpayer, a newly established person or persons shall be required to file a VAT registration application with a tax agency before a VAT taxable transaction is carried out but no later than 10 days following completion of reorganization.
6. If a legal person is founded and goods are contributed to the authorized capital (payment for shares) by a VAT taxpayer, a newly-established person shall be required to file a VAT registration application with a tax agency before VAT taxable transactions are carried out but no later than 10 days following the foundation.

Article 222. Voluntary Registration

1. A person not required to be registered as a VAT taxpayer may voluntary apply to a tax agency for a VAT registration.
2. A person voluntarily registered as a VAT taxpayer shall be considered as a VAT taxpayer from the moment registration takes effect. Registration takes effect on the first day of a month following moment when a tax agency issues a tax certificate to the person.

Article 223. Registration.

1. The Ministry of Finance of Georgia shall define the VAT registration procedures.
2. A tax agency shall be required to register a person in a VAT taxpayer register and issue a registration certificate approved by the Ministry of Finance of Georgia no later than the second day following submission of an application.
3. A VAT registered taxpayer shall be required to specify his/her Taxpayers Identification Number and certificate number in all invoices and tax returns and official correspondence submitted to a tax agency.

Article 224. Termination of Registration.

1. In case of a liquidation or decease of a VAT taxpayer (inter alia, a permanent establishment of a non-resident person), a VAT registration shall be terminated.
2. A taxpayer may notice the relevant tax agency to terminate a VAT registration after 2 years following his/her last registration providing the total amount of taxable transactions (without VAT) carried out during the last 12 months by a taxpayer does not exceed GEL 100 000.
3. Registration shall be considered as terminated on the first day of the month following the month when a taxpayer applies for termination and/or when the obligation to apply arises.

CHAPTER 31. OBJECTS OF TAXATION**Article 225. Taxable object.**

1. A VAT taxable object is:
 - a) a taxable transaction;
 - b) a taxable import;
2. A taxable transaction is:
 - a) a supply of goods (service), including supplied on a gratuitous basis, if it is carried out on the territory of Georgia pursuant to articles 239 or 240 of this Code (except for supplies exempt under this Code).
 - b) a use of the VAT taxable goods (service) for non-economic purposes, if a taxpayer has obtained a VAT credit for these goods (service).
 - c) a supply of goods (service) by a taxpayer to his/her employees with or without payment;
 - d) if registration is terminated, balance of goods for which taxpayer has obtained or is entitled to obtain a VAT credit, is considered as VAT taxable supply;
 - e) export of goods;
3. The following shall not be treated as a taxable transaction:
 - a) a supply of assets in case of a reorganization of an enterprise;

- b) a supply of assets contributed to the authorized capital of another enterprise.
4. The value of returnable containers shall not be included in a taxable amount, except for retail trade, in case of which a taxable turnover is reduced by the amount a seller pays to a customer for returned containers. If returnable containers are not returned within the 90 - day- period after the supply of goods took place, they shall be deemed as sold and be taxed in accordance with the procedures stipulated by this Code.

Article 226. Supply of Enterprise.

1. A supply of all assets of an enterprise or an independently operating unit of this enterprise by a VAT taxpayer to another VAT taxpayer in a single transaction shall not be considered as a VAT taxable transaction.
2. The provision specified in part 1 of this article shall apply if a supplier and recipients notify a tax agency in writing about such supply within 15 days following a supply.

CHAPTER 32. DETERMINATION OF TAXABLE TRANSACTION AND OF TAXABLE IMPORT

Article 227. Amount of Taxable Transaction.

1. The amount of a taxable transaction shall be determined pursuant to the amount of compensation a taxpayer receives or is entitled to receive (including any duty, taxes, or other fee payable), without VAT.
2. The amount of a taxable transaction shall be determined pursuant to the market price of goods (service) (including any duties, taxes, or other fees payable) but without VAT, if:
 - a) a taxpayer receives or is entitled to receive goods or service in exchange of a taxable transaction;
 - b) goods for which the taxpayer has obtained a VAT credit if these goods (services) are used for non-economic activity or if a taxpayer supplies them to his/her employees;
 - c) in cases specified under article 22.10 of this Code;
 - d) goods supplied free of charge.
3. In case of a supply of international communications service, the amount of a taxable transaction shall be determined as a difference between VAT-exclusive proceeds earned and to be earned by communications organizations from a supply of service and amount transferred or to be transferred to foreign organizations for this service.
4. If registration is terminated, amount of taxable transaction shall be determined pursuant to the value of balance of goods for which taxpayer has obtained or is entitled to obtain a VAT credit.

Article 228. Adjustment of the Amount of a Taxable Transaction.

1. The amount of a taxable transaction shall be adjusted if:
 - a) a taxable transaction is terminated;
 - b) the nature of a transaction is changed;
 - c) the amount of the previously agreed compensation for a transaction is altered, whether due to a reduction of prices or for any other reason;
 - d) goods (service) are returned in full or in part to a VAT taxpayer.

2. Upon occurrence of one of the circumstances described in part 1 of this article, the amount of the taxable transaction shall be adjusted if a taxpayer has:
 - a) submitted a VAT invoice, and the VAT sum shown in the invoice is incorrect;
 - b) incorrectly declared a VAT sum in a VAT tax return.

3. A taxable turnover shall be adjusted if a seller has written out and duly submitted to a buyer a tax adjustment invoice.

4. A tax adjustment invoice is a document approved by the Ministry of Finance of Georgia confirming the adjustment of a taxable transaction. The Ministry of Finance of Georgia shall define the procedures for writing out and submitting of a tax adjustment invoice.

5. If a taxable transaction is adjusted and if the VAT payable exceeds the sum declared by a taxpayer, the surplus amount shall be considered as a sum payable during the reporting period when the circumstances specified in part 1 of this article occurred and this amount shall be added to the VAT payable in the reporting period pursuant to article 246 of this Code.

6. If the amount of a taxable transaction is adjusted pursuant to this article and the amount stated in an invoice or a tax return exceeds the VAT payable, the surplus amount reduces VAT payable in the accounting period when circumstances specified in part 1 of this article occurred. This amount is subtracted from VAT payable in the reporting period when such adjustment took place in accordance with article 246.

Article 229. Amount of Taxable Import.

1. The amount of taxable import equals the customs value of goods determined in accordance with the customs legislation of Georgia and the sum of duties and taxes payable upon the import of the goods into Georgia, except for the VAT payable in Georgia.
2. In case of services considered as part of import under article 243.2 of this Code, shall be incorporated into the amount of a taxable import, without VAT.

CHAPTER 33. Tax Exemptions

Article 230. Exemptions from the Tax

1. The following supplies of goods (services) and/or types of imports shall be VAT exempt:
 - a) rendering of financial services;
 - b) supply or import of national or foreign currency (except for that used for numismatic purposes) and of securities;
 - c) import of gold to be transferred to the National Bank of Georgia;
 - d) supply and/or import of excise and special stamps of the Ministry of Finance;
 - e) supply and/or import of confiscated and ownerless valuables, treasure and purchased valuables as well as valuables inherited by the state, the sale proceeds of which are transferred to the budget;
 - f) supply of state property under privatization program;
 - g) import of humanitarian aid and goods having the status of grants, in accordance with the rules established by the Law of Georgia on “Humanitarian Aids and State Grants”. Rendering of services on the basis of agreements, that is financed for above-mentioned reasons by a foreign organization and one participating party of which is relevant body of executive government of Georgia. For the purposes of this part, rules of rendering of services within contracts are established by the Government of Georgia.
 - h) import of goods by physical persons under the limit established for exemption from customs duties;
 - i) import of machinery, means of transportation, spare parts and materials needed for oil and gas industry according to the law of Georgia “On Oil and Gas”, as well as, supply of goods (works, services) necessary to implement oil and gas operations by investors and operating companies in compliance with agreements specified by above-mentioned law and/or licenses issued for carrying out of oil and gas operations;
 - j) supply by the Georgian Patriarchate of crosses, candles, icons, books, and calendars used exclusively for religious purposes; the construction, restoration and painting by order of the Georgian Patriarchate of cathedrals, monasteries, as well as reconstruction, restoration, conservation works and archeological excavations provided by state programs for protection and revival of the historical and cultural monuments of Georgia included in the list of the treasury of world heritage;
 - k) transit, re-import, temporary entry of goods onto the customs territory of Georgia. Upon temporary entry of goods in the customs territory of Georgia (unless temporary entry of goods, ships and airline vehicles defined by article 231, temporary entry of goods defined by Article 42.4 of the Customs Code of Georgia and temporary entry of goods for fulfillment of liabilities under international treaties signed by Georgia (construction of Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzrum pipelines), also upon temporary entry of goods defined by article 42.4 of the Customs Code of Georgia whose time at Georgian customs territory has been extended, VAT due shall be paid or a bank guarantee shall be

retained by the customs. When the goods exit Georgia, VAT paid shall be refunded to the taxpayer or bank guarantee is annulled to the extent of the actually exported goods;

- l) import of goods intended for re-export. On importing of the above goods onto the customs territory of Georgia the VAT due shall be paid and/or a bank guarantee shall be retained by the customs or the imported goods of the relevant value in the form of a guarantee. When the goods are exported from Georgia, the bank guarantee shall be annulled and the VAT paid shall be refunded by the customs or the goods retained in the form of guarantee shall be returned to the taxpayer to the extent of the actually exported goods;
- m) import of materials and semi-finished goods intended for production of export goods, as well as import of wrapping materials in the extent of volume of exported finished goods. VAT due shall be paid or a bank guarantee shall be retained by the customs upon the import of such materials, semi-finished goods or wrapping materials, when the finished goods exit territory of Georgia, VAT paid shall be refunded to the taxpayer or bank guarantee is annulled to the extent of the actually exported goods;
- n) fulfillment of work or rendering of services by navigation enterprises (ship owners) founded by non-residents of Georgia not carrying out any entrepreneurial activity in the territory of Georgia and sailing under the Georgian flag;
- o) import of goods specified in international commodity codes 010210, 010310000, 010410100, 010420100, 010511, 051110000, 060210, 250300, 280300, 310100000, 3103, 3104, 3105, 380810, 380820 (except for 380820100), 380830;
- p) import of goods specified in international commodity codes 040700, 060290100, 071331100, 071332100, 071333100, 071339100, 100190910, 100300100, 120600, 12092, 120923, 120991, 283325000, 380820100 in accordance with annual quotas verified by MOF and Ministry of Agriculture of Georgia, as well as supply of above-mentioned products.
- q) urban and inter-regional transportation service rendered at the state controlled prices and tariffs (except for taxis);
- r) educational services rendered by educational institutions; import of computer engineering, equipment and chemicals necessary for scientific and educational activities;
- s) burial ritual service (*inter alia* transportation service);
- t) medical service, care services rendered to children in child shelters, sick, disabled, and elderly people and /or activities under state health care programs;
- u) supply, import of goods (notebooks, books, newspapers and journals), realization services, printing services and/or advertising services rendered by newspapers-journals specified in international commodity codes 4901, 4902, 4903 00 000 and 4904 00 000; supply of goods (notebooks) specified in international commodity codes 482020000, import of goods specified in international commodity codes 480100, 480252200 and/or 481021000;
- v) art and sport educational services rendered to children under 16 years, care services rendered at preschool institutions;
- w) Import and/or supply of goods specified in international commodity codes 121110000, 121120000, 130110000, 130120000, 150420, 151530, 1520, 1702110000, medical (pharmaceutical) products under chapters 28 and 29 (except for chewing gums), *inter alia* vaccines, as well as goods indicated in the following codes 391212000, 391231000, 701010000, 701094790, 960200000 (gelatin capsules);

- x) the supply and/ or import of goods indicated in following commodity codes of foreign economic activities: 841920000, 9001 30 000, 9001 40, 9001 50, 9018-9022, 9025 11 910 and 940290000; of invalid wheelchairs, iodized salt, x-ray films, insulin syringes, diagnostic test systems, glucometers (test systems of which are registered by the Ministry of Labor, Health and Social Affairs of Georgia) defined in the codes 8713, 871420 000;
 - y) import of goods intended for the official use of foreign diplomatic and equalized representative offices, and also for the personal use of diplomatic, administrative, and technical personnel of these representative offices (including family members living with them) to the extent that the exemption is required by relevant international agreements to which Georgia is a party, as well as the import of goods of Georgian diplomatic representatives outside Georgia. As well as import personal effects and household items for the personal use of the foreign citizens and their families that are involved in oil and gas extraction industry in Georgia;
 - z) initial supply of agricultural products by persons involved in agricultural activities (before changing nomenclature code)
 - aa) the supply or import of baby food and infant hygiene products marked as such upon wholesale/retail supply;
 - bb) the supply and/or import of diabetic foodstuffs marked as such upon wholesale /retail supply;
 - cc) import of goods-chases, body, spare parts facilities specified in international commodity codes 870600190, 870600990, 870790100, 870790900, 870810900, 870829100, 870829900, 870831100, 870831910, 870831990, 870839100, 870839900, 870840100, 870840900, 870850900, 870860100, 870860910, 870860990, 870870100, 870880100, 870880900, 870891100, 870891900, 870892100, 870892900, 870893100, 870893900, 870894100, 870894900, 870899100, 870899300, 870899500, 870899920 and 870899980 for tractors specified in international commodity codes 870190110-870190500, as well as import of goods specified in international commodity codes 843290 and 843390000;
 - dd) import and/or supply of passenger cars specified in international commodity codes 8703;
2. VAT exemptions apply to the entire territory of Georgia and operate only in respect of a supply of goods (services) within Georgia.

CHAPTER 34. ZERO-RATED TRANSACTIONS

Article 231. Taxation of Export of Goods.

1. The export of goods shall be taxed at a zero rate.
2. For the purposes of part 1 of this article, export of goods shall be zero-rated in the reporting period for which a taxpayer submits the following documents to a tax agency:
 - a) an agreement on import of goods signed between a resident and a non-resident person;
 - b) a customs freight declaration permitting export regime of goods;

Article 232. Taxation of Goods (Service) Intended for Official Use by Diplomatic Representative Offices.

A supply of goods (service) intended for official use of foreign diplomatic and similar representative offices and for personal use of members of diplomatic missions and these representative offices (including family members living with them) shall be taxed at a zero rate. In case if any country applies a different taxation regime regarding the diplomatic representation of Georgia, the same regime shall be used with regard to the goods (service) supplied for the diplomatic representation of this country. The list of such countries and the taxation regime is determined by a resolution of the Georgian Government.

Article 233. Taxation of International Air Transportation and Shipment.

1. Transportation and other services directly related to the international shipment of goods and the international transportation of passengers such as safety, opening, packing and safekeeping services, examining of goods, completion and replacement of freight delivery notes, service of agents at the harbors shall be taxed at a zero rate.
2. Aviation fuel, lubricants and other auxiliary materials delivered aboard for an international flight shall be taxed at a zero rate. Aviation fuel, lubricants and other auxiliary materials imported into Georgia and intended for carrying out international flights shall be subject to a VAT payment or a bank guarantee shall be provided to the customs agency and the paid tax amount shall then be returned to the importer or the bank guarantee shall be annulled upon actual delivery aboard the plane of the aforementioned goods intended for the implementation of an international flight pro rata of actually delivered goods.

Article 234. Taxation of Gold Transferred to the National Bank of Georgia.

A supply of gold to the National Bank of Georgia shall be taxed at a zero rate.

Article 235. Taxation of a Travel Agency.

Organized bringing of foreign tourists into territory of Georgia by the tour operators and a supply of tourist service package to them shall be taxed at a zero-rate.

Article 236. Taxation of Repair Services of Capital Assets.

Repair service of fixed assets rendered on a contractual basis for a foreign enterprise, foreign organization and/or other Government on the territory of Georgia (providing repaired fixed assets shall be returned back) shall be taxed at a zero rate.

Article 237. Transfer, dispatch, production and supply of electric power

Up to January 1, 2007 transfer, dispatch, production and supply of electric power is taxed at a zero rate, except for the supply of electric power to the consumers (among them, to other consumers for the purpose of its further supply).

CHAPTER 35. TIME, PLACE AND SPECIAL RULES OF TAXATION TRANSACTION

Article 238. Time of a Taxable Transaction.

1. The time for a taxation transaction shall be considered:
 - a) the moment of a supply of goods (services);
 - b) in case of a supply of goods involving loading – the moment of loading.

2. If goods (electricity, thermal energy, gas water) are supplied on a regular or a permanent basis, the moment when a tax invoice for any part of such transaction was issued or payment was made shall be deemed as time of a supply of goods but no later than the last working day of the reporting month.

3. If services are rendered on a regular or a permanent basis, the moment when a tax invoice for any part of such transaction was issued or payment was made shall be deemed as time of a supply of goods but no later than the last working day of the reporting month.

4. If goods (services) are used for a non-economic activity pursuant to article 225.2.b of this Code, in respect of which a taxpayer obtained a VAT credit, the moment when goods (works, services) were used shall be considered as the time of a taxable transaction.

5. In cases specified in article 225.2.c of this Code, the moment when goods or services were supplied to employees shall be considered as the time of a taxable transaction.

6. If a VAT registration is terminated pursuant to article 225.2.d of this Code, the day prior to the effective date of a registration termination shall be considered as the time of a taxable transaction in respect of the goods in stock existing on that day.

7. If property is leased by a VAT taxpayer, the time of a taxable transaction is a payment date specified under a lease, but not later than the last working day of the reporting month.

Article 239. Place of Supply of Goods.

1. If a supply of goods involves transportation of goods, a location of goods upon commencement of transportation shall be considered the place of a supply. In other cases, the place of transfer of goods shall be considered a place of supply.

2. A place of receipt of goods shall be considered as the place of a supply of electricity or thermal energy, gas or water. In case these goods are exported, Georgia shall be considered as the place of a supply.

Article 240. Place of Rendering Services.

1. For the purpose of this Part, the place of rendering services shall be considered:
 - a) a location of immovable property, if the service is directly related to that property;
 - b) a place where services are actually rendered, if related to movable property;
 - c) a place where services are actually rendered, if they are related to culture, art, education, sports or similar;
 - d) a location of goods or passengers before transportation/shipment, if the service is related to that transportation. Pursuant to article 233 of this Code services related to air transportation of passengers and shipment of goods outside the territory of Georgia shall be considered as carried out on the territory of Georgia;
 - e) a place where results of the service rendered are used by a service recipient, if a person rendering this service and a recipient of this service are located in different countries. The provisions of this item shall apply to the following services:
 - transfer of ownership or concession of patents, licenses, trademarks, copyrights, or other similar rights;
 - consulting, legal, accounting, engineering services as well as data processing services and other similar services;
 - staffing services;
 - lease of movable property (except for means of transportation);
 - services specified in this item that are rendered by an agent acting on behalf of the main party to a contract (enterprise or physical person);
 - f).a place where the economic activity of a person rendering services takes place.
2. If a place where a service is rendered is described in more than one of the items of part 1 of this article, a place of rendering services shall be determined pursuant to the first of those items.
- 3.

Article 241. Reverse Charge.

1. Services rendered to an agent on the territory of Georgia by a non-resident person not registered as a VAT taxpayer shall be taxed pursuant to this article.

2. For the purposes of this article, a tax agent is any resident person registered as a taxpayer that has a Tax Identification Number.
3. In case where part 1 of this article applies, a tax agent charges VAT on the sum payable to a non-resident. The VAT amount shall be determined by applying the tax rate specified in article 245.1 of this Code.
4. If a tax agent is registered as a VAT taxpayer, the assessed VAT is payable upon submission of a VAT tax return for the month in which services were rendered. A document confirming the payment of the assessed VAT shall be considered to be a tax invoice. .
5. If a tax agent is not registered as a VAT taxpayer, he/she shall be obliged to pay assessed VAT in compliance with the procedures defined by the Ministry of Finance of Georgia within 15 days following the day when services were rendered.
6. A tax agent shall submit a tax report to a tax agency pursuant to the procedures defined by the Ministry of Finance of Georgia.

Article 242. Time of Import.

The import of goods takes place when goods are taxed by the customs duty pursuant to the customs legislation. If goods are exempt from the customs duty, the import of goods takes place when the customs duty should have been paid if the goods were not exempt.

Article 243. Mixed Transactions.

1. A supply of goods (rendering services) complementary to a main supply of goods or rendered services shall be considered as a part of the latter.
2. Rendering of services complementary to the import of goods shall be considered as a part of the import of these goods.
3. A joint supply of taxable and exempt goods (services) shall be considered as separate transactions of taxable and exempt goods (services).

Article 244. Transactions of Agent.

1. A supply of goods (services) by a person acting as an agent (proxy) of another person shall be considered as a transaction of the latter.

2. Part 1 of this article does not apply to services rendered by an agent to the person (principal) whose agent is he/she.
3. Part 1 of this article does not apply to goods supplied in Georgia by a non-resident person through a resident agent, if this non-registered person is not registered as a VAT taxpayer in Georgia. In this case, for the VAT purposes, a supply shall be considered as carried out by an agent.

CHAPTER 36. RULES OF CALCULATION AND PAYMENT OF VAT

Article 245. VAT Rates.

1. The VAT rate is 18 percent of a taxable turnover or a taxable import.
2. A taxable turnover is the total value of taxable transactions carried out during the reporting period.

Article 246. VAT on Taxable Turnover Payable to the Budget.

The VAT payable to the budget in respect of a taxable turnover shall be determined as a difference between the VAT charged on a taxable turnover and the sum of creditable VAT.

Article 247. VAT Credit.

1. A person registered as a VAT taxpayer shall be entitled to a VAT credit.
2. A VAT credit is a tax sum paid or payable pursuant to a tax invoice issued in accordance with article 248 of this Code and/or a customs declaration issued in respect of a taxable transaction and/or taxable import, if goods (service) are used or will be used for the purpose of the economic activity of a taxpayer.
3. If the VAT paid or payable by a taxpayer in respect of the issued tax invoices and/or customs declarations is partly for the taxpayer's economic activity and partly for other purposes, then amount of creditable VAT shall be determined pursuant to the value of goods (services) used and/or to be used for economic activity. In case such differentiation is impossible, a VAT credit shall be carried out on a pro rata basis.
4. No VAT credit is allowed:
 - a) on cars, except for cars purchased by persons whose principal activity is a purchase/sale, lease or rent of cars;

- b) on the VAT paid for charity, social and entertainment events;
 - c) pursuant to part 5 of this article, on the VAT paid for goods (services) used to produce VAT exempt goods (services) irrespective whether the further supply is anticipated or not;
 - d) with tax invoices not making possible identification of a seller of goods (services).
 - e) on tax invoices not submitted to a tax agency not later than 45 days after the month following issuance of these tax invoices.
5. If a VAT taxpayer carries out taxable and VAT exempt transactions pursuant to this Code, a VAT credit shall be determined pro rata to the value of goods (services) used in taxable transactions. If such differentiation is impossible, a VAT credit shall be determined on the basis of the ratio of a taxable turnover to the total turnover of the past year. This provision shall apply after compliance with the requirements of part 3 of this article.
 6. A VAT creditable on a pro rata basis as specified in part 5 of this article shall be adjusted pursuant to the December tax return of the current year, in which the exact ratio of annual taxable and exempt turnover shall be determined.

Article 248. Tax Invoice.

1. A VAT registered taxpayer shall be required to issue a tax invoice to a recipient of goods (service) upon his/her notice no later than the second day after a taxable transaction is carried out and submit it to a recipient irrespective whether the latter is a taxpayer or not.
2. A tax invoice is a strict reporting document approved by the Ministry of Finance of Georgia.
3. A supplier of goods (service) shall be prohibited to submit a tax invoice that incorrectly specifies his/her particulars to a purchaser. Such invoice shall be submitted for cancellation to a tax agency together with a tax return for the relevant month.
4. The Ministry of Finance of Georgia has a right to work out a special tax invoice for certain goods (service) and certain categories of purchasers and to determine the relevant issuing, recording and applying procedures. A special computer print-out form of a VAT invoice can be worked out for those VAT taxpayers that have computerized accounting system and that provide services and supply electricity, thermal energy, gas and water regularly and uninterruptedly to a wide range of customers. This tax invoice shall be issued to a purchaser pursuant to supplies carried out during the relevant reporting period. The Ministry of Finance of Georgia shall determine numbering rules and procedures related to a VAT credit entitlement in respect of such invoices.
5. The Ministry of Finance of Georgia shall determine the rules how to issue and submit tax invoices.

CHAPTER 37. TAX RETURN FILING PROCEDURES AND REPORTING PERIOD

Article 249. Filing of Tax Returns and Payment of VAT.

1. A VAT taxpayer shall be required:
 - a) to submit a VAT tax return to a tax agency according to the place of registration for each reporting period no later than the 15th of the month following the reporting period;
 - b) to pay a VAT to the budget within a deadline determined for submission of a tax return for each reporting period.
2. The provisions of part 1 of this article do not apply to a person deemed as a taxpayer only in respect of import of goods and/or reverse charge pursuant to article 241 of this Code.
3. The assessment and payment of a VAT on a taxable import shall be made by customs agencies pursuant to this Code and the customs legislation.

Article 250. VAT Reporting Period.

The VAT reporting period is a calendar month.

Article 251. Settlements if VAT to Be Credited Exceeds VAT Assessed for the Reporting Period.

1. If a VAT taxpayer that exports goods and/or supplies the fixed assets subject to depreciation pursuant to article 183 of this Code during the reporting period as well as purchases products used for fixed assets production pursuant to the article 183.3 and 4, a VAT credit that exceeds a VAT assessed shall be returned to a taxpayer within one month following submission of the relevant application to a tax agency pursuant to the procedures specified in article 71 of this Code.
2. For other VAT taxpayers, a surplus of the VAT creditable over the VAT assessed in the reporting period shall be offset against the future VAT payments or be returned to a taxpayer after a 6-month period pursuant to the procedures specified in article 71 of this Code.
3. If any sum is erroneously refunded by the tax agency to a VAT taxpayer, a tax agency shall be entitled to return of the above sum according to the VAT payment procedures. If a tax audit confirms that the bogus and fictitious transactions/deals were carried out, a VAT credit shall be annulled.

Article 252. VAT Credit or Refund on Goods Purchased under Grants.

1. A grant recipient that purchases goods and/or services provided for in a grant agreement, in compliance with the Georgian Law “On Grants”, shall be entitled to claim a VAT refund or credit in respect of these goods or services pursuant to article 71 of this Code after submitting a tax invoice or a document confirming a VAT payment pursuant to article 241 of this Code to a tax agency.
2. A VAT shall be refunded or credited only, if the relevant notice is submitted within 3 months following a taxable transaction. The provisions of article 251.1 and 3 of this Code shall apply to this article.

PART XI. EXCISE**CHAPTER 38. EXCISE****Article 253. Taxpayers.**

1. Excise taxpayer is:
 - a) a person that produces excisable goods in Georgia;
 - b) a person that imports excisable goods in Georgia;
 - c) a person that carries out export of ferrous and nonferrous metal.
2. With respect of goods produced on the territory of Georgia from raw materials supplied by a customer, a producer is deemed to be an excise taxpayer.

Article 254. Taxable Object.

The object of an excise tax is:

- a) taxable transaction
- b) import excisable goods in Georgia

Article 255. Taxable Transaction.

A taxable transaction is:

- a) supply of excisable goods produced in Georgia;
- b) removal of excisable goods from warehouse of an enterprise;
- c) transfer of excisable goods produced in Georgia from customer’s raw material to a customer;
- d) use of excisable goods of own production for producing non-excisable goods;
- e) export excisable product;

Article 256. Determination of Taxable Transaction Amount.

The amount of a taxable transaction shall be determined:

- a) in respect of the goods produced on the territory of Georgia (except for goods specified in items d, e, f and g of this article)- on the basis of the compensation received or receivable by a taxpayer from a customer or any other person, excluding excise tax and VAT, but no less than a wholesale market price without excise and VAT. In respect of goods sold by a taxpayer at a retail market price, the amount of a taxable transaction shall be determined on the basis of wholesale market price exclusive excise and VAT.
- b) in case of import (except for goods specified in items d, e, f and g of this article)- pursuant to the total of the customs value of the goods determined in accordance with the customs legislation of Georgia (but not less than excise and VAT exclusive wholesale market price), and of duties and taxes payable on the import of the goods into Georgia (without excise and VAT).
- c) upon export of ferrous and nonferrous scrap metal—in accordance with the weight;
- d) alcoholic beverages- pursuant to the volume alcoholic beverages;
- e) tobacco products- pursuant to the quantity tobacco products;
- f) oil distillates- pursuant to the weight of oil distillates;
- g) motor vehicles-pursuant to the engine capacity;

Article 257. Time of Taxable Transaction.

1. In respect of the locally produced excisable goods supplied or removed from a warehouse, time of a taxable transaction is the moment of a supply and/or removal of goods from a warehouse;
2. In cases specified in article 255.c, the moment of transfer of excisable goods shall be considered as the time of a taxable transaction.
3. In respect of import of excisable goods into Georgia, the time of import as defined by the customs legislation shall be considered as the time of a taxable transaction.
4. In cases specified in article 253.d, the moment when use of excisable goods starts shall be considered as the time of a taxable transaction.
5. In cases specified in article 255.e the time of taxable transaction is the moment of export.

Article 258. Excise Tax Rates.

The excisable goods listed in this article shall be taxed at the following rates:

	Commodity	Commodity Nomenclature Code	Measurement unit	Rate
1	2	3	4	5
1.	Sparkling wines (including champagne)	2204 10 2204 21 100 2204 29 100	1 liter	GEL 0.70
2.	Fortified wines bottled bulk	2204 21 870 2204 21 990 2204 29 870 2204 29 990	1 liter	GEL 1.20 GEL 0.70
3.	Vermouth and other natural wines flavored with herbal or aromatic extracts	2205	1 liter	GEL 2.50
4.	Wine of fresh grapes not included in items 1 and 2 Bottled Bulk	2204	1 liter	GEL 0.40 GEL 0.10
5.	Other fermented beverages (cider, perry, mead); mixture of fermented beverages; and mixture of fermented beverages and soft drinks not specified in this table	2206 00	1 liter	GEL 2.50
6	Ethyl sprit	2207	1 liter	GEL 1.30
7.	Spirits obtained by distilling grape wine or grape marc	2208 20	1 liter	GEL 2.30
8.	Whisky	2208 30	1 liter	GEL 2.50
9.	Rum and tafia	2208 40	1 liter	GEL 2.50
				GEL 2.50

The new Tax Code for Georgia (January 2005) has been translated by the USAID Georgia Fiscal Reform Project. The English translation is for reference only as the only official version of the Tax Code is the original Georgian language version. Efforts have been taken to provide that the translation be as accurate as possible, however, should any problems be identified, please feel free to contact this Project.

10	Gin and wine liquor	2208 50	1 liter	
11.	Vodka	2208 60	1 liter	GEL 1.50
12.	Liquors and cordials	2208 70	1 liter	GEL 2.30
13.	Other alcoholic beverages	2208 90	1 liter	GEL 2.50
14	Beer	2203 00	1 liter	GEL 0.20
15.	Tobacco products (except for tobacco raw materials): -cigar, cigarillo with cut ends and cigarillo (slim cigars) containing tobacco - filtered cigarettes - all other unfiltered cigarettes and cigarette -other products produced from tobacco and its replacements, homogenized or restored tobacco, tobacco extracts and essences; b. local tobacco products (except for tobacco raw material): - cigar, cigarillo with cut ends and cigarillo (slim cigars) containing tobacco - filtered cigarettes - all other unfiltered cigarettes and cigarettes -other products produced from tobacco and its replacements, homogenized or restored tobacco, tobacco extracts and essences	2402 10	1 unit	GEL 0.90
		2402 20	20 units	GEL 0.90
		2402 20	20 units	GEL 0.25
		2403 (except 2403 10 900, 2403 99 900)	1 kg	GEL 20
		2402 10	1 units	GEL 0.70
		2402 20	20 units	GEL 0.70
		2402 20	20 units	GEL 0.15 GEL 20
		2403 (except for 240399900, 240310900)	1 kg	
16	Passenger automobiles Up to 1 year 1-2 year 2-3 year 3-4 year 4-5 year 5-6 year 6-12 year 12-13 year 13-14 year More than 14 years	8703	Engine capacity 1cm ³	GEL 1,5
				GEL 1.4
				GEL 1.3
				GEL 1.2
				GEL 1.0
				GEL 0.70
				GEL 0.50
				GEL 0.60
GEL 0.70				
GEL 0.80				
17.	Condensed natural gas, except for	2709 00 100	1000cm ³	GEL 150

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	pipeline			
18	Oil distillates Light, medium heavy	271000 110- 2710 390 2710 00 410-271000 590 27 00 610- -2710 00 690	1 ton 1 ton 1 ton	GEL 250 GEL 220 GEL 150
19	Oils and other products borne from carbohydrate distillation at the high temperature, other similar production in composition of which ratio of aromatic components exceed amount of non-aromatic components. (other than naphthalene and creosote oils, that are used to produce hydro carbonate. (commodity code 2803)	2707(except 270710100-270760000, 270799910)	1 ton	GEL 350
20	Oil gas and gas-like hydrocarbons	2711 12 2711 13 2711 14 000 2711 19 000	1 ton	GEL 120
21	Other products produced from crude oil and bituminous minerals, except for crude oil; products, not indicated elsewhere, products produced from bituminous minerals with consistency of 70% or more (except for light, medium and heavy oil distillates and mazut)	27 1000 (except for 27 1000 110 27 1000 690 and 27 1000 710- 27 1000 780)	1 ton	GEL 400
22	Liquid products of pyrolysis	39110000 39119090	1 ton	GEL 400
23	Additives, solvent, antiknock	270710100-270760000 (except for 270740000) 2712 20000; 290211100-290230900; 2905 11 000-290516900 3811 11100-3811 90 000 3814 00 100- 3814 00900	1 ton	GEL 400

24	No mineral oil	340311000 340319100 340319910 340319990 340391000 340399100 340399900	1 ton	GEL 400
25	ferrous and/or non-ferrous metal scrap		1 ton	GEL 25

Article 259. Taxation of Export.

1. Export of the excisable goods shall be taxed at a zero rate, except for ferrous and/or non-ferrous metal scrap .
2. For the purposes of this article, zero rate shall be applied to the reporting period when a taxpayer submits the following documents to a tax agency:
 - a) a tax invoice and a document verifying payment of excise tax to a supplier indicated in the tax invoice.
 - b) an agreement between a resident and a foreigner on export of excisable good;
 - c) a customs freight declaration confirming export regime of goods.

Article 260. Excise Credit for Inputs.

1. A person that carries out a taxable transaction or export of excisable goods shall be entitled to a tax credit in the amount of excise paid on supplied (transferred, removed from the warehouse for the purpose of sale, exported) goods (raw materials) purchased to produce excisable goods or a refund of excise pursuant to article 71 of this Code. The similar procedure shall be applied to credit or refund for goods purchased by a producer from the importer for production of the excisable good (raw materials).
2. A credit or refund is allowed for the excisable goods used:
 - a) as samples for analysis or for inspection in the course of production;
 - b) for scientific research;
 - c) for medical purposes by hospitals and pharmacies.
3. An excise credit or refund under this Article is allowed only upon presentation of a tax invoice indicating payment of excise by a producer of the raw materials, or in case of the import of the raw materials - upon presentation of the customs declaration.

Article 261. Payment of Excise.

1. Excise shall be paid within the 15th of the next month after carrying out a taxable transaction.

2. In case of excise tax arrears for any period of time, a taxpayer shall not be allowed to supply goods (removal goods from the warehouse) without paying excise starting from the period the arrears arise until the arrears are recovered. In the above case excise shall be paid at a tax point of a transaction.
3. In case of import and/or export of ferrous and/or non-ferrous metal excise shall be at the customs agencies according to the procedures established for the customs duties.
4. Importers (declarers) and producers of the excisable products subject to excise stamping on the territory of Georgia shall pay a total amount of nominal value of excise stamps upon purchase of excise stamps. Value of the nominal is determined by MOF.

Article 262. Filing of Returns.

1. A taxpayer shall file a tax return specifying taxable transactions carried out pursuant to procedures established by the of Finance of Georgia by the 15th of the month following the reporting month.
2. An excise taxpayer shall be required to indicate his/her notice for a credit as specified in article 260 of this Code in an excise tax return. A person not registered as an excise taxpayer, but entitled to claim a credit by virtue of this article, shall present an application for the receipt of compensation within 3 months following the time the right to compensation arises.

Article 263. Excise Stamps.

1. Before carrying out taxable transaction, the following goods are subject to excise stamping:
 - a) alcoholic beverages, including beer, the alcoholic constituency of which is higher than 1.15 degrees (other than beverages of 50 grams and less as well as bottled in vessels of 10 liters and more);
 - b) tobacco products except for pipe tobacco.
2. It is prohibited:
 - a) to carry out a taxable transaction of goods subject to excise stamping without excise stamps;
 - b) to supply alcoholic beverages bottled in vessels of 10 liters and more (except for beer and wine) to a retailer;
3. Marking of the above excisable goods shall be carried out according to the rules defined by the Ministry of Finance of Georgia.
4. The tax and/or customs agencies shall seize the unstamped imported and provided for sale excisable goods subject to mandatory stamping according to the established procedure. Starting the moment of seizure, goods shall be deemed as a state property and sale or destruction of the unstamped goods shall be carried out according to the

procedure stipulated by the Ministry of Finance of Georgia.

5. Any shortage of excise stamps (loss, destruction and other) by importers and local producers is deemed as an import or/and supply of the corresponding amount of goods and shall be taxed in consistence with the legislation of Georgia.
6. In case of not importing goods during 6 months after having received the excise stamps, an importer shall be required to return them back. Starting the second day after completion of the above period, non-return of excise stamps shall be deemed as an import of the excisable goods subject to excise stamping and a supply of them on the territory of Georgia and shall be taxed accordingly. If during the following period the excisable goods marked with non-returned excise stamps are imported, the amount of taxes due shall be calculated pro rata to the amount of actually imported goods.
7. Transfer of excise stamps from one entrepreneur to another entrepreneur except for the cases when an importer of excisable goods subject to affixing stamps transfers goods to the producer of excisable goods for application of the stamps on the above goods.

Article 264. Tax Invoice.

An excise taxpayer that sells the excisable goods shall be required to issue and submit a tax invoice covered by provisions of article 248 of this Code to a recipient of goods. Provisions of article 251 should apply.

Article 265. Tax Exemptions

1. The following are exempt from excise tax:
 - a) alcoholic beverages produced for the personal consumption and used by a physical person;
 - b) import of two liters of the alcoholic beverages and two hundred cigarettes by a physical person;
 - c) in case of a person entering Georgia by automobile, fuel filled in the petrol tank which is constructively and technologically connected to motor system;
 - d) transit and temporary import of excisable goods into the customs territory of Georgia. Upon temporary entry of excise goods into the customs territory of Georgia (except for temporary entry of excise goods stipulated by article 42.4 of the Customs Code of Georgia; temporary entry of motor vehicles that are intended for official use of foreign diplomatic and equalized representations, and also for the personal use of diplomatic, administrative, and technical personnel of these representative offices (including family members living with them) to the extent that the exemption is required by relevant international agreements to which Georgia is a party; and temporary entry of motor vehicles that are intended for personal use of foreign citizens (including family members living with them) employed in oil and gas exploration and extraction activities, as well as employed for fulfillment of liabilities under international treaties signed by Georgia (construction of Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzrum pipelines); as well as upon temporary entry of goods defined by article 42.4 of the Customs Code of Georgia

whose time on Georgian customs territory has been extended excise tax is paid or a bank guarantee is retained by customs bodies, and in case mentioned goods are exported from Georgia, a bank guarantee is canceled or the paid excise is refunded to an excise taxpayer to the extent of the actually exported goods;

- e) aviation fuel to be supplied on board for flights upon submitting bank guarantee to the customs agencies during the import;
- f) import and/or supply of oil products necessary to carry out oil and gas transactions specified by Law of Georgia “On Oil and Gas”;
- g) import of goods specified in line 23 of article 258, if it is not intended for producing excisable goods. Excise tax is to be paid upon import, after submission of documentation defined by MOF ordinance, verifying that the goods have not been used for production of disaster.

PART XII. SOCIAL TAX

CHAPTER 39. SOCIAL TAX

Article 266. Taxpayers.

Social taxpayers are:

- a) employer
- b) an enterprise (organization) or an entrepreneur-physical person who makes payments for the services rendered in Georgia to physical persons not registered as taxpayers;
- c) physical persons - entrepreneurs and members of partnership (according to the article 206 of this Code) carrying out economic activity in Georgia.

Article 267. Taxable Object.

1. A taxable object in the cases described in article 266.a of this Code is an income earned in the form of wages as determined by virtue of article 174 of this Code.
2. A taxable object in the cases described in article 266.b of this Code is a compensation or benefit earned for services rendered.
3. Reimbursement specified in article 174.3 shall not be subject to taxation.
4. For taxpayers described in article 267.c of this Code, a taxable object shall be a taxable income from entrepreneurial activity and taxable income received from activities defined by article 1.2 of the Law of Georgia “On Entrepreneurs”, as determined by the provisions of this Code on income tax.

Article 268. Tax Rate.

The social tax rate shall be determined as 20 % of a taxable object.

Article 267. Procedures for Determination and Payment of Tax.

1. In the cases described in article 266.a and b, a social tax shall be withheld upon payment of wages or other remuneration to the employee. If wages are paid through banks, an employer shall present payment order in respect of the assessed tax. Without presentation of the aforementioned payment order by a taxpayer, wages shall be not issued by bank. A social tax shall be computed by a taxpayer within the 15th of a month following the reporting period and a tax report shall be submitted to tax agencies as approved by the Ministry of Finance of Georgia.
2. The physical persons described in article 266.c of this Code shall pay a social tax in accordance with deadlines set for advance payments of income tax, with relevant proportion. The current payments of a social tax shall be defined by virtue of article 219 of this Code according to a tax return submitted for the previous reporting year. A social tax return shall be submitted together with an income tax return.

Article 270. Tax Concessions.

The following shall be exempt:

- a) amount paid to persons confined to correctional institutions by court decision;
- b) payments for temporary inability to work paid out of the resources of the State Social Insurance Fund;
- c) amounts paid out of the resources of organizations which was received as grants;
- d) income of the persons working at diplomatic and consular establishments as employees who are not citizens of Georgia;
- e) income earned by the non-resident person of Georgia residing on the territory of Georgia for less than 90 days during the tax year if this income is paid out by an employer who is a non-resident of Georgia or on his behalf, and not by the permanent establishment of a non-resident; as well as the income of foreign citizens hired for oil and gas works according to the law of Georgia "On Oil and Gas".
- f) income of physical persons as defined by article 168.1.k, l;
- g) up to January 1, 2007 amounts paid to persons by employer carrying out activities connected with agricultural production and initial supply of agricultural products before its reproduction (change of product code), if revenue earned from supply of products does not exceed 100,000 GEL

PART XIII. LOCAL TAXES

CHAPTER 40. PROPERTY TAX

Article 271. Taxpayers.

A property taxpayer is a person (inter alias a lessor) that:

- a) owns an object taxable by this tax;
- b) has the right to use by virtue of the legislation or under factual ownership a state-owned land plot (factual ownership means possession of land actually or use of land, except land ownership by virtue of the Georgian legislation and legal ownership)

Article 272. Taxable Object.

1. For a Georgian enterprise, a taxable object of a property tax (except for land) is fixed assets, non-assembled equipment, unfinished capital investments and intangible assets existing on its balance sheet;
2. For foreign enterprises, a taxable object of a property tax (except for land) is their property located on the territory of Georgia;
3. For organizations, a taxable object of a property tax (except for land) is their property or a part of property listed on its balance sheet and used for economic activity;
4. For a physical person, a taxable object of a property tax (except for land) is the following property owned by him/her:
 - a) total area of immovable property (buildings/constructions or their parts), except property used for economic activity;
 - b) property used for economic activities;
 - c) passenger cars registered in Georgia pursuant to the established procedures; (specified in international commodity code 8703)
 - d) yachts (motor boats), planes and helicopters registered in Georgia pursuant to the established procedures.
5. For Georgian or foreign enterprises, organizations and/or physical persons, a taxable object of a property tax is:
 - a) a land plot owned by them;
 - b) state-owned land plot with the right to use by virtue of the legislation or under factual ownership

Article 273. Tax Rates.

1. The tax rate for taxable objects defined in article 272.1, 2, 3 and 4.b is no more than 1 %

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of the average annual value of residual assets on the balance (average annual value of assets on the balance at the beginning and at the end of calendar year).

2. For taxable objects defined in article 272.4.b the tax rate is no more than 1% of the property value (calculated based on the assets value defined in line with the article 211 of this Code and depreciation norms in line with the article 183.3 of this Code)
3. For taxable objects defined in article 272.4.a, the tax rate is differentiated according to revenues received by taxpayer family during a calendar year and is defined as following:
 - a. for the families with revenues from 40,000 GEL to 60,000 GEL-no less than 0.05% and no more than 0.2% of the property market value;
 - b. for the families with revenues from 60,000 GEL to 100,000 GEL-no less than 0.2% and no more than 0.4% of the property market value;
 - c. for the families with revenues 100,000 GEL and more-no less than 0.4% and no more than 0.8% of the property market value;
4. The tax rate for taxable objects defined in article 272.4.c is differentiated according to the engine capacity and age of each type of cars and is no more than:

N	Type of passenger automobiles according to the engine capacity	Age of Motor Vehicle	Tax amount (In GEL)
1.	Passenger automobile with engine capacity up to 2000cm ³	up to 1 years	50
		1-3 years	40
		3-4 years	30
		4-5 years	20
		5-6 years	10
		More than 6 years	5
2.	Passenger automobile with engine capacity from 2000cm ³ to 3000cm ³	up to 1 years	150
		1-3 years	130
		3-4 years	110
		4-5 years	80
		5-6 years	25
		More than 6 years	5
3.	Passenger automobile with engine capacity more than 3000cm ³	up to 1 years	300
		1-3 years	250
		3-4 years	200
		4-5 years	100
		5-6 years	50

	More than 6 years	5
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5. The tax rate for taxable objects defined in article 272.4.d is differentiated according to the type of motor vehicles and engine capacity:

	Type of Transport	Nomenclature Code	Tax Rate
1.	Yacht (motor boat)	890310900; 890392100; 890392990; 890399900	No less than GEL 3 and no more than GEL 7
2.	Plane	8802 20; 8802 30; 8802 40;	No less than GEL 2 and no more than GEL 5
3.	Helicopter	8802 11; 8802 12;	No less than GEL 2 and no more than GEL 5

6. For persons specified in article 272.5 of this Code, a base tax rate payable on the agricultural land shall be differentiated according to administrative units and shall be computed per 1 ha per annum, in GEL.

- a. for land outside a city (borough) administrative unit occupied by sown and perennial crops

Name of Administrative Unit		Base Rate, GEL/ha	
		Quality of land	
N		good	poor
1	Tbilisi, Marneuli	57	31
2	Bolnisi, Gardabani	52	27
3	Rustavi	51	27
4	Batumi, Gagra, Gali, Gudauta, Gulripshi, Ochamchire, Sukumi	51	27
5	Kobuleti, Khelvachauri, Gurjaani, Dedoplistskaro	44	24
6	Telavi, Lagodekhi, Signagi	43	22
7	Gori, Kvareli, Mtskheta, Akhmeta, Dmanisi, Eredvi	39	21
8	Kaspi, Tetriskaro, Samtredia	38	20
9	Kareli, Khashuri, Sagarego	36	20
10	Kurta, Tsalka	34	19
11	Abasha, Zugdidi	34	18

12	Akhalkalaki, Akhaltsikhe	34	19
13	Martvili, Senaki, Khobi, Poti	33	17
14	Ninotsminda	33	17
15	Akhalgori, Vani, Zestafoni, Lanchkuti, Ozurgeti	30	15
16	Bagdadi, Terjola, Khoni, Kutaisi	28	15
17	Tskaltubo, Tsalenjikha, Chkorotsku	24	13
18	Sachkere, Tsageri, Tskinali	22	12
19	Ambrolauri, Dusheti, Tianeti, Adigeni, Borjomi	18	11
20	Aspinza, Tkibuli, Khulo, Keda	17	9
21	Kharagauli, Shuakevi, Chiatura, Chokhatauri, Oni, Mestia, Lentekhi, Kazbegi, Djava	13	8

b. For use of natural haymaking meadows and pastures:

N	Administrative Unit	Base Rate L/Hectare			
		Meadows	Pastures	Cultivated	
				Meadows	Pastures
1	Abasha, Akhalkalaki, Gori, Batumi, Bolnisi, Gagra, Gali, Gardabani, Gudauta, Gulripshi, Gurjaani, Dedoplistskaro, Dmanisi, Zugdidi, Tbilisi, Tetrtskaro, Telavi, Lagodekhi, Lanchkuti, Marneuli, Mtskheta, Ninotsminda, Ozurgeti, Ochamchire, Rustavi, Samtredia, Senaki, Signsgi, Sukhumi, Kutaisi, Kobuleti, Kvareli, Tsalka, Tskaltubo, Kevachauri, Khobi, Poti	6	3	8	4
2	Adigeni, Aspinja, Akhalgori, Bagdadi, Borjomi, Vani, Zestaponi, Terjola, Tianeti, Kaspi, Martvili, Sagarego, Sachkere, Tkibuli, Kareli, Keda, Shuakevi, Chokhatauri, Chkorotskhu, Tsalenjikha, Kharagauli, Khashuri, Khoni, Khulo, Akhaltsikhe	4	2	7	3
3	Ambrolauri, Akhmeta, Dusheti, Lenteki, Mestia, Oni, Kazbegi, Tsageri, Tskinali, Chiatura, Java	2.5	1.5	4	2

- For land specified in parts 5 of this article, a base tax rate payable on specific land plots can be reduced or increased up to 50 % considering land categories and location.
- For persons specified in article 272.5 of this Code, a base tax rate payable on non-agricultural land shall be up to GEL 0.24 per 1sq. m per annum.

9. Land plot allocated to person using the natural resources under the relevant license, is taxed at the rate established for natural haymaking meadows and pastures.

Article 274. Tax Computation Procedure.

1. For taxable objects defined by virtue of article 272.4.a of this Code the tax payment is calculated in line with the article 275.1,2,3 of this Code.
2. For taxable objects defined by virtue of article 272.4.c of this Code the tax payment is calculated by tax agencies. Ministry of Internal Affairs is liable to provide Tax Department of Ministry of Finance of Georgia with information regarding taxable objects and owners not later than April 1 of reporting year.
3. For taxable objects specified by virtue of article 272.4.d, a property tax shall be computed by tax agencies on the basis of data on taxable objects and their owners submitted by marine and/or air transportation authorities to the Tax Department no later than June 1, with regards to taxation objects and their owners.
4. Agricultural land tax is calculated by multiplying tax rate by area of land plot.
5. Non-agricultural land tax is calculated by multiplying base rates by territory coefficient and area of land plot.
6. Non-agricultural land tax coefficient is differentiated according to the location and zone.
7. Identification of the borders of the zone and differentiation of territorial coefficients of the tax is carried out on the basis of territorial expert social-economic assessment, taking into account data of documents regarding the construction plans for the populated area or other city construction documents and is approved by the local self-government authorities.

Article 275. Tax Payment and Reporting Procedures.

1. For taxable objects specified in article 272.4.a, tax agencies send property tax declaration form to physical persons according to their place of residence to complete no later than 1 May of the reporting year.
2. Declaration specified in part 1 of this article should be submitted by physical person and filed to tax agency not later than June 1 of reporting year.
3. Physical person specified in the second part of this article pays tax in two equal parts – by 15 July and 15 October of a tax year.
4. For taxable objects specified in article 272.4.c, tax agencies shall be required to submit a tax notice regarding the calculated tax amount to taxpayers no later than 1 August of the reporting year and the tax shall be paid no later than 15 November till January 1, 2007.
5. After January 1, 2007, for taxable objects specified in article 272.4.c tax is paid upon annual transport facility registration, repeated registration (in case owner of transportation facility did not pay tax for the current year) or annual technical inspection. Registration, repeated registration or technical inspection shall not be carried out if the owner fails to present document certifying payment of the property tax.

6. For taxable objects specified in article 272.4.d tax agencies shall be required to provide tax payers with “tax notice” on tax amount not later than August 1, tax is payable not later than November 15.
7. For taxable objects specified in article 272.1,2,3 and 4.b tax due shall be paid as current payments according to property location and shall be transferred to the budget in equal installments on a quarterly basis, no later than the 15th of the second month of each quarter. The current payments transferred to the budget shall be considered as the payable tax amount assessed for the reporting year. At the same time, if a taxpayer exists only during an incomplete calendar year, the tax shall be paid pro rata this period.
8. For taxable objects specified in article 272.1,2,3 and 4.b taxpayers are liable to file to tax agency property tax calculation based on last year data not later than April 1 of reporting year.
9. The registration of land property taxpayers and tax assessment shall be affected every year as of March 1.
10. If a person purchased or leased the state-owned land after 1 March, a person shall be liable to pay taxes till the end of a year on pro rata basis.
11. For the purposes of registration of taxpayers and computation of the tax due, the local self-government agencies shall be required to submit lists of taxpayers specifying the relevant land area, category or zone and tax rate to tax agencies by 1 April of the reporting year.
12. A land area subject to taxation includes land under buildings and structures, land necessary for proper functioning of these buildings and structures and a sanitary/technical zone of buildings/structures.
13. Tax agencies shall send tax notices concerning the property taxes assessed to the land to taxpayers by June 1 of the reporting year, indicating information needed to compute the tax due.
14. A document certifying the land ownership or a lease agreement or any other document verifying the right to use a land plot shall serve as a basis necessary to assess a property tax to a land plot. A factual ownership of the state-owned land shall serve as a basis for a tax assessment.
15. The land tax shall be imposed to a person starting the month following the month when title to land or the right to use the land was granted; in case of the state-owned land- when becoming a factual owner of the existing land.
16. A property tax on the agricultural land shall be paid prior to 15 November of the reporting year.
17. A property tax on the non-agricultural land shall be paid in two equal parts prior to 15 August and 15 November.
18. A property tax for land plots, on which buildings and structures are located, and which are owned by several persons, shall be paid for each building separately, pro rata co-

owner's share.

19. The public register shall register ownership on land plots only upon submission of a certification issued by tax agency verifying payment of a property tax or nonexistence of liability.

Article 276. Tax Exemptions

1. The following is exempt from a property tax:

- a. owner of immovable property specified in the article 272.4.a if the revenue earned during calendar year by owner family do not exceed 40,000GEL;
- b. till January 1, 2007 property on balance of entity carrying out activity connected with publishing newspapers and magazines and this property should be used for such activities only;
- c. Land plots directly occupied for main activities of railway transportation, including land plots occupied by rail and rail distance, carriage and locomotive depots, buildings and communications necessary for functioning of the railway, alienation line and defense zone, except for land plots occupied medical, cultural/household, trade, sport and objects not in direct connection with the functioning of the railway. Also, land plots under railway station are not exempt from land tax;
- d. property used for environmental protection and fire protection except land;
- e. motor roads, communications and electronic transmission wires;
- f. standardizing and test bench equipment of the territorial agencies of the State Department of Standardization, Metrology and Certification of Georgia;
- g. property of organizations, except the property used for economic activity;
- h. property needed for oil and gas activities according to the law of Georgia "On Oil and Gas";
- i. the portion of state-owned land allocated to budget-funded organizations, other than lands used for purposes of entrepreneurial activity;
- j. land areas of organizations for the protection of native and historical monuments occupied by structures recognized by the state as monuments of history, culture and architecture, unless they are used for entrepreneurial activity, other than selling entrance tickets;
- k. natural parks, botanical and dendrite gardens, municipal parks for culture and relaxation, cemeteries, zoological gardens and parks, oceanographic stations, alleys, preserves, arboretums, forestry organizations as well as open departmental gardens and forests, other than plots used for entrepreneurial activity;
- l. city reservoirs and their water areas, lands used for transport and underground communications, other than used for production of agricultural goods and economic activity;
- m. hydro-meteorological centers and land plots used for the functioning of stations and equipment for monitoring pollution;
- n. lands occupied by reservoirs designated for operations of the electrical stations and irrigation/drainage systems for providing the population with potable water, as well as the related sanitary, security, and technical zones;

- o. Land plots used for carrying out of oil and gas operations (activities) determined by Law of Georgia “On Oil and Gas” (if not used for other purposes).
- p. vessels, registered in the Public Register of Georgia and sailing under the flag of Georgia, except taxable base specified in the article 272.4.d of this Code;
- q. plots of agricultural land in which half or more of the topsoil is damaged because of natural disaster;
- r. communities, villages of Kurti, Eredvi, villages Avnevi and Nuli-temporarily, until the conflict is settled and the economic situation is regulated.
- s. state-owned and unused pastures and haymaking meadows, and lands and reserve lands or designated for re-cultivation;
- t. plots of land used for airports, airfields, helicopter fields, air navigation security zones as well as for underground communications and plots allotted for the future development of ports if they are not used for economic activity;
- u. physical or legal persons who have received agricultural lands for re-cultivation purposes for the first five years following its allocation;
- v. on the territory of former settlements, as well as families of individuals settled in accordance with state settlement measures - for five years from the time of settlement;
- w. agricultural land plot not exceeding 5 hectares in the ownership of physical person as of March 1, 2004;
- x. melioration infrastructure under the ownership of the government transferred to legal entity of public justice under usufruct agreement in accordance with Law of Georgia on “Land Melioration”, Also, until 1 January 2014, melioration infrastructure, transferred to melioration associations provided by Law of Georgia on “Land Melioration”, and located on their service territory;
- y. disabled veterans of the Second World War and persons equated with them – for land plots allocated through privatization;
- z. Inhabitants of villages and settlements situated on southern slope of Caucasus chain and Racha-Guria mountains specified by the law of Georgia on “Social and cultural development of mountainous regions” on the land plots in the given territory; the land tax is reduced by 50% for the inhabitants of mountainous regions in southern Georgia for the land plot in the given regions;
- aa. property of medical establishments used for medical activities, except land;
- bb. land plots under medical establishments, if not used for non-medical economic activities;
- cc. land plots which are allocated to functioning of scientific-research, educational institutions, experimental breeding stations and experimental farm plots, used for scientific and educational purposes financed from the budget;

- dd. plots which are allocated for the purposes of the functioning of societies and organizations for the blind, deaf-and-dumb, retarded persons, or physically undeveloped children, and veterans of war, elderly houses, orphanages and boarding schools, as well as centers of social adaptation and work-related rehabilitation of teens for executing their main functions and funded from the budget. Plots of land used by orphanages, boarding schools, children villages and kindergartens, that perform child care and education free of charge, if these land plots are not used for economic activity;
- ee. plots of agricultural land in which half or more of the harvest is damaged because of natural disaster (blizzard, hail, drought, flood) and other force majeure circumstances. The basis for the exemption from land tax is decision of local self-governing bodies, which is granted in agreement with relevant territorial unit of the Ministry of Agriculture of Georgia. The resolution of the commission is made twice—within 2 weeks after the disaster termination date and prior to harvesting;
- ff. hunting farms;

2. The established tax exemptions do not apply to the cases when the exempted physical or legal person leases the plot of land (or its portions), or the buildings and structures (or part of them) located on land which he/she transfers these property under lease agreement to another physical or legal person.

3. Exemptions granted under part a of this article are void in case property is used for economic activities.

CHAPTER 41. TAX ON GAMBLING BUSINESS

Article 277. Taxpayers.

The tax on gambling shall be paid by the persons that carry out entrepreneurial activities by organising lotteries, operating casinos, and other gambling business and are granted permits and/or licenses to carry out such activities by virtue of the legislation.

Article 278. Taxable Object.

A taxable object is:

- a) income earned from sale of lottery tickets;
- b) gambling tables and machines used for gambling purposes;
- c) cash-desks for totalizators, bingos and bookmakers (specially organised places where bets are received and/or gains are paid by a cashier and/or special machine or other means);
- d) incentive lottery prize fund;
- e) systemic-electronic games.

Article 279. Tax Rates.

Tax rates shall be differentiated according to a type of gambling business and be determined as follows:

- a) for lottery organizers- no more than 20% of proceeds from sale of lottery tickets;
- b) for each gambling table in a casino-GEL 5 000 -10 000 per month;
- c) for each gambling machine-GEL 50- 200 per month;
- d) for each cash-desk of a totalizator, bingo and bookmaker – GEL 300 -600 GEL per month;
- e) for each incentive lottery -10% of prize fund;
- f) for systemic-electronic gamble – GEL 2000 to 10 000 GEL per month.

Article 280. Reporting and Payment Procedures.

1. Organizers of incentive games and lotteries shall be required to submit a tax return approved by the Ministry of Finance of Georgia to the local tax agencies and pay a tax no later than the 15th of the month following the reporting period.
2. Tax payable by organizers of incentive games should be defined in line with prize fund for each accounting month. For the last accounting month of incentive lottery tax amount should be defined in line with retained amount of prize fund.
3. Organizers of casino tables, gambling machines and cash-desks of totalizators, bingo and bookmakers shall pay the taxes due by the purchase of tax payment marks.
4. For the purposes of this chapter, a tax payment mark is a mark to be affixed to gambling tables, gambling machines, totalizators, bingo and bookmakers cash-desks that verifies payment of a tax and the right of the organizer to set up gambling tables and machines at the place where gambling takes place and to organize totalizators, bingo and bookmakers’;
5. A tax payment mark is to include:
 - a. unique code;
 - b. tax period;
 - c. differentiated color according to a type of gambling business
6. A tax payment marks are approved by Ministry of Finance of Georgia.
7. Organizers of games shall purchase tax payment marks from tax agencies for the price applicable on the territory where the taxable object is located before commencement of the reporting period.
8. A tax payment mark shall be registered at a local tax agency in the name of the organizer of games.
9. Organizers of games shall be required to affix tax payment marks on the visible places of the gambling tables, machines, totalizators, bingo and similar on the starting (first) day and remove these marks on the last day of each reporting period.
10. The Ministry of Finance of Georgia shall define procedures for purchase, registration, affixing and change (in case of damage) of tax payment marks.

PART 14. CONCLUDING PROVISIONS

CHAPTER 42. CONCLUDING PROVISIONS

Article 281. Transitional Provisions

1. The VAT rate is 20 percent of a taxable turnover or a taxable import till 1st of July, 2005.
2. In accordance with the article 208 of this Code, journal for inventory accounting and movement will be established for use starting March 1, 2005.

Article 282. Concluding provisions

1. This Code shall become effective on 1 January 2005.
2. Procedural provisions of this Code will be used starting January 2005 for the tax periods ended before 1 January 2005.
3. The Tax Code of Georgia (Parlamentis Utskebani, No. 32, 27 July 1997) shall become void in respect of tax periods commenced on 1 January 2005 starting the effective date of this Code.

The President of Georgia

Michael Saakashvili

Tbilisi,

December 22,__ 2004