

## Tax and Legal Newsletter

### Changes in Tax legislation

#### Latest Amendments to the Georgian Tax Code

From 01.06.2016 to 13/09/2016 the following amendments were made in the Georgian Tax Code:

- Amendments dated June 08, 2016 – Doc No: 5382-IIs; 5406-IIs; 5372-IIs; 5387-IIs;
- Amendments dated June 22, 2016 – Doc No: 5445-IIs; 5491-IIs; 5503

Below is the selection of the most noteworthy changes:

1. Existing 8 percent excise rate for mobile communication services will be effective until January 1<sup>st</sup>, 2017. From January 1<sup>st</sup>, 2017 to January 1<sup>st</sup>, 2018 the rate will be reduced to 3 percent. From January 1<sup>st</sup>, 2018 mobile communication services will be exempted from excise.
2. Income/profit and property tax exemptions for individuals and agricultural cooperatives engaged in agricultural production will be extended for one additional year, until January 1<sup>st</sup>, 2018. Similarly, exemptions related to taxation of dividends received by a member from agricultural cooperative and property tax related to property owned by agricultural cooperatives or leased to them will be extended for one additional year, until January 1<sup>st</sup>, 2018.
3. Transfer of apartment/home to an individual by former creditor will be exempted from VAT provided that the creditor obtained the mentioned property from the same individual as a collateral or the property has been

acquired at auction or otherwise in order to fulfil monetary obligations of the individual.

Individuals getting profit as a result of forgiveness of loan (taken from commercial bank or micro financial organization before January 1<sup>st</sup>, 2014) classified as doubtful by National Bank of Georgia will be exempted from profit tax.

4. Furthermore, the bank or micro finance organization is authorized to deduct from gross income the amount of forgiven loan, except when the commercial bank: a) has already deducted expected reserve of loan losses from gross income for the corresponding period; b) interest and penalty accrued on loan are not included in gross income for the corresponding period.

### **Amendments in Order of Ministry of finance of Georgia # 996 -administration of Taxes**

From 01.06.2016 to 13.09.2016 six amendments have been made.

We would like to highlight the most important parts of the amendments:

1. Defined reflection of timber transportation in bill of lading (RS form).
2. Determined the documents to be submitted at the Tax Authority by an individual who rents living space for living purpose and does not make deductions from the mentioned income and taxed 5 % income tax rate;
3. Realization of 4 living apartments (home) (including buildings under construction) with the attached land by an individual for every continuous 48 months is not considered as economic activity.

### **Other legal Updates**

#### **New Law of Georgia on accounting and Financial Audit**

According to the Decree of President Giorgi Margvelashvili dated June 8<sup>th</sup>, 2016, Law of Georgia on Accounting and Financial Audit (N5386-II) is enacted. Based on relevant International standards the law adopts new regulations related to: bookkeeping, accounting, financial reporting and filing, management and corporate reporting, auditors' professional certification, professional practice, legal basis for state supervisions and quality control framework of audit profession.

### **New State Project on Registration of Land Plots**

In the framework of government project, since August 1<sup>st</sup>, 2016, in the Public Registry have been enacted new regulations regarding registration of land plots in Georgia. Consequently, procedure of land plot registration becomes simpler and more available and cadastral data more accurate and complete. The mentioned law will be effective until July 1<sup>st</sup>, 2018.

The following features and benefits are foreseen in the land plot registration project:

- In the outline of the pilot project Georgian Government enacted 12 districts where registration of property rights or amendments in the registered data will be on proactive basis which implies maximum participation of the Government including document retrieval on its own initiative.
- Providing that agreement between individual having right to register property and person who uses property had been performed in improper way (in writing or orally) the existence of the agreement can be confirmed with written notarized agreement. Submitting such notarized agreement with cadastral drawing is a basis for registration of immovable property which significantly simplifies registration procedure.

## Important Court Cases

On June 17<sup>th</sup>, 2016 Tbilisi Court of Appeal made an important decision. The following issues are highlighted in the decision: winning the electronic auction, offer, invitation to make an offer, transfer of ownership on property.

- The court explained that preferential purchase right on real property is legally binding only if such right is duly registered in LLPL National Agency of Public Registry, otherwise the preferential purchase right does not have legal force.
- The decision clarifies that when the Service Agency of Ministry of Finance of Georgia sells real property of legal entity or individual at electronic auction the Agency just supports disposal of the property.
- Duly performed immovable property purchase agreement is the legal basis for transfer of ownership on real property. Certificate of winning of auction issued by the Service Agency of Ministry of Finance of Georgia is not a basis for transferring of ownership on real property.

The mentioned decision on court case # №28/5921-14 is publicly available.

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