

Tax Legislation Updates

There were no significant changes made in the Tax legislation in June.

Other Legal Updates

Amendment to the Constitution of Georgia

One of the important changes in the legislation of Georgia in June is the amendments to the Constitution of Georgia regarding the formation of the legislature and the Electoral Code.

Article 2¹ was added to the Constitution of Georgia, which stipulates that members of parliament shall be elected by a mixed system - majoritarian and proportional systems - the number of parliamentarians elected by the majoritarian system will be 30, and the number of parliamentarians elected by the proportional system will be 120. Mandates for the parliamentarians elected by the proportional system will be distributed among the political parties if the votes they receive will exceed 1% threshold. At the same time, amendments provide the principle, according to which the number of parliamentarians elected from political parties will be determined.

State Program on "Support Mechanisms for Mortgage Loans"

In order to overcome the economic risks caused by the new Coronavirus (COVID-19) pandemic, the Georgian government adopted Decree # 387 on June 25, 2020, which approved the state program on "Support Mechanisms for Mortgage Loans".

The legal entity of the public law of the Ministry of Economy and Sustainable Development of Georgia - Produce in Georgia is the relevant authority responsible to implement the program defined by the decree. The direct beneficiary of the state program will be a natural person, whose accrued interest of the mortgage loan will be subsidized with state funds. Although the decree

does not directly indicate, after systematic analysis of the statute, it can be concluded that a natural person will benefit from the program only if he is a citizen of Georgia. Under this program, indirect beneficiaries will also be construction companies - who will be able to finance the completion of construction projects through increased sales, as well as commercial banks that will meet their financial interests based on increased demand for bank loans.

The program consists of subsidy and guarantee components. The subsidy component includes co-financing of interest accrued on mortgage loans. It is a possibility to benefit from the subsidy component of the program on mortgage loans concluded from the entry into force of the decree until December 31, 2020. The possibility of benefiting from the guarantee component exists on mortgage loans concluded after the entry into force of the decree till December 15, 2020.

State Program applies to the mortgage loans, which are attributed to the flat, purchased directly from the construction (developer) company. The program applies for reselling of flats by construction companies as well, if the flat was purchased by the person and later due to the withdrawal from the contract or other legal forms the flat became the property of the same construction company.

According to the program, the total maximum loan amount to be subsidized or guaranteed by the state amounts to 200,000 GEL for one beneficiary. The registration of a natural person in the register of debtors or the existence of a debt to the state is ground for excluding a person from the program.

The maximum term for co-financing of interest rate accrued on a mortgage loan issued by a commercial bank to a beneficiary is 60 months from the date of making a loan (if the term of a loan issued by a commercial bank is less than 60 months, the agency (Produce in Georgia) will co-finance the annual interest rate accrued on the issued loan for the term of the loan). The maximum amount of annual interest rate to be subsidized is no more than 4%.

The program also provides for the termination of the subsidy component. The breach of obligations by the

beneficiary to a commercial bank is one of the occasions for termination of the subsidy component.

As for the guarantee component of the program, the state assumes responsibility to take financial risk in case of default of a natural person in the amount of not more than 20% of the credit portfolio issued by the commercial bank.

After the default of the loans made by the commercial bank, the guarantee within the limits provided by the component will be used by the commercial bank from the guarantee amount deposited from the state treasury on account in the commercial bank.

In order for both the subsidy and the warranty component to be available, the relevant application must be submitted to the Agency no later than December 20, 2020.

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