

Tax Legislation Updates

Orders of the Minister of Finance of Georgia

In March 2022, by the orders of the Minister of Finance of Georgia №67, №74, №75, №84, №90, several amendments were made to the order №996 of 31 December 2010 on Tax Administration, which came into force upon their publication¹.

Also, by the order №82 of the Minister of Finance of Georgia, on March 28, 2022, an amendment was made to the Order 31994 of 31 December, “on Approving Current Control Procedures, Writing Off of Inventories, Repayment of Recognized Tax Debt and Implementation of Tax Debt Enforcement Measures”, which entered into force upon publication².

Order of the Head of the Revenue Service on Determining the Status of an Unqualified VAT Payer and a Special Rule for the Use of Electronic Tax Invoices

On March 1, 2022, the order N3751 of the Head of the Revenue Service of February 16, 2022 on “Determining the Special Rule for Restriction the Right on Issuing/Confirming Tax Invoices/Tax Documents/Waybills in Certain Cases and Applying the Electronic Tax Invoices by the Taxpayer³” which defined:

- ✓ VAT payer status;
- ✓ Granting and revoking the status of unqualified VAT payer;
- ✓ Applying special rule for the use of the tax invoice by the tax payer;

- ✓ Rule of VAT deduction on the basis of electronic tax invoice issued by a person using a special rule;
- ✓ Grounds for termination of special rules for the use of tax invoices.

Taxation with Profit Tax and Benefits of Virtual Zone Persons

By order of the Head of the Revenue Service of March 25, 2022, the methodological reference "On taxation with profit tax of a virtual zone enterprise" was approved, which came into force on March 28, 2022. This methodological reference is used to explain the special cases when a person in a virtual zone will enjoy the benefit established by the Tax Code of Georgia or the use of this benefit will be restricted.

At the same time, the order N42644 of December 31, 2021 of the Head of the Revenue Service "On Taxation with Profit Tax of the Virtual Zone Enterprise" was repealed.

Other Legal Updates

Draft Law on Covered Bonds

On March 2, 2022, at the initiative of the Government of Georgia, the draft law "On Covered Bonds" prepared by the Ministry of Economy and Sustainable Development and the National Bank of Georgia was submitted for consideration to the Parliament of Georgia. In connection with the adoption of the draft law, it is planned to amend other legislative acts, such as the “Tax Code of Georgia”, the Law of Georgia “on Enforcement Proceedings”, the Law of Georgia “on Commercial Banks”, “the Civil Procedure Code of Georgia”, “the Civil Code of Georgia”, “The Code of Criminal Procedure of Georgia”, the Law of Georgia “on Financial Pledge, Mutual Setoff and Derivatives”, the Law of Georgia “on Public Registry” and the

¹ <https://matsne.gov.ge/ka/document/view/5403240?publication=0>
<https://matsne.gov.ge/ka/document/view/5408702?publication=0>
<https://matsne.gov.ge/ka/document/view/5408594?publication=0>
<https://matsne.gov.ge/ka/document/view/5420496?publication=0>

<https://matsne.gov.ge/ka/document/view/5423169?publication=0>

² <https://matsne.gov.ge/ka/document/view/5418493?publication=0>

³ <https://rs.ge/LawNewsArchive?newsId=576>

Organic Law of Georgia “on the National Bank of Georgia”.

According to the explanatory note to the bill, it serves the purpose to share the practice of European countries and to create an important source of financing and factors contributing to lending through the issuance of covered bonds by commercial institutions (commercial banks). According to the explanatory note, along with deposits and other alternative sources of fundraising, the issuance of covered bonds for credit institutions can become one of the means of access to cheap and stable financing, which will encourage lending to the real economy and the process of economic growth.

The bill lays down the investor protection rules concerning requirements for issuing covered bonds, supervision of issuers of covered bonds, and their activities.

Under the bill, covered bond is a debt obligation that is issued by a credit institution and that is secured by cover assets to which covered bond investors have direct recourse as preferred creditors. In addition, according to the bill, the demand of the covered bond investors will not depend only on the sale of the cover assets, and the credit institution will be able to fulfil the payment obligations directly from the personal funds. Therefore, there is no need for a commercial bank to sell the cover assets and transfer them to a special purpose vehicle (SPV).

According to the explanatory note to the bill, another advantage of covered bonds is that payment obligations attached to covered bonds are not subject to automatic acceleration upon the insolvency or resolution of the credit institution issuing the covered bonds.

According to the draft law, the cover pool eligible assets for the issuer of the cover bonds (except for the refinancing bank) may be claims arising from mortgage loans of the commercial banks, additional assets (funds within the limits established by the draft law, as well as debt obligations issued in accordance with the normative act of the Government of Georgia, the relevant international financial institution or the National Bank of Georgia), as well as claims arising from derivatives.

To ensure that all cover assets are identifiable by the credit institution issuing the covered bonds at all times and separate from the issuer's other assets, the bill imposes appropriate obligations on the issuer. In particular, credit institutions issuing covered bonds will register all their transactions in relation to the covered bond programme collateral assets in the relevant register of cover assets and, in the case of money, securities and derivatives, reflect in the issuer's internal register. In the case of money and securities, due to their generic nature, the issuer should also take additional measures for their segregation. It is important that after the registration of cover assets, they are not subject to registration of provisional measures by the court or enforcement authorities.

A significant guarantee of creditor protection is provided by the bill, according to which it is required for the credit institutions issuing covered bonds to appoint an audit firm as the cover pool monitor to perform ongoing monitoring of the cover pool. Cover pool monitor should have the right to audit the financial statements of a public interest entities.

In order for the National Bank to ensure the issuance of relevant normative acts, regulating the issues envisaged by the draft law, the main articles of the draft law are envisaged to enact on the 90th day after the publication of the law.

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