Setting up your Business in Georgia
Issues to consider

Georgia is one of the world's fastest growing economies and in the region is leading location for global investment. As a result of innovative reforms implemented in Georgia, the World Bank rated Georgia as 11th country in the world in 2010 and as 8th country in the world in 2013 for ease of doing business. In 2006 and in 2008, the World Bank named Georgia the top reformer in the world.

However there are a number of issues which you must consider when you are looking to set up your business in Georgia. This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

• Joint Stock Company (JSC) is a legal entity having capital divided into certain number and types of shares defined by the company charter. A JSC's liability to creditors is limited only by its property. Shareholders are not liable for the company's liabilities. Capital of a JSC can be any amount. A JSC is entitled to issue ordinary and preferred shares if the company charter does not provide otherwise. An annual shareholders' meeting must be held within 2 months after the preparation of the balance sheet to consider the annual results and other issues, if company charter does not provide otherwise. A shareholders' meeting is not required if decisions are made by a shareholder who owns more than 75% of the capital of the company

• Limited Liability Company (LLC) is a legal entity whose liability to creditors is limited to its property. Partners (founders) are not liable for company's liabilities. Capital of a LLC can be specified in any amount. The capital of an LLC is divided into shares. A Partners' meeting must be held to consider the annual results and other issues. An LLC can be founded by one person.

• General Partnership (GP) is a legal entity where two or more persons carry out entrepreneurial activities jointly under a single entity name. Partners are jointly liable to creditors with all their property. The liability of a partner is not limited.

• Limited Partnership (LP) is a legal entity where two or more persons carry out entrepreneurial activities under a single entity name. The liability of some partners (Limited Partners) to creditors is limited to a certain warranty amount, while the liability of other partners i.e. full partners (General Partners), is not limited. Partners of an LP can be both legal entities and individuals. Partners with limited liability (Limited Partners) are not allowed to participate in the management of the LP.

• Cooperative (Co-op) is a legal entity where its members carry out entrepreneurial activity mostly in agricultural or labour sectors. It is more oriented to satisfy the interests of its members, rather than to generate profits. A Co-op's liability to creditors is limited to its property. A general meeting must be held at least once a year to consider the annual results and other issues.

• Individual Enterprise (IE) – is not a legal entity under Georgian company law. An IE is personally liable to creditors

• Branch Office (BO) is the structural sub-unit of a business entity and is not a separate legal entity.

How much Corporation Tax will the business pay?

Current Corporation Tax rates in Georgia are:

Tax rate (%)		Taxable profit (£)
Standard rate	15	Any profit
Tax rate for Free Industrial Zone Company	Exempt	Any profit
Tax rate for International Financial Company	Exempt	Any profit

Carry forward of losses is possible for 5 years or 10 years. In the latter case, statute of limitation increases from 4 to 11 years. Carry back of losses is not possible.

Foreign companies are generally subject to Georgian tax on income generated in Georgia. This Georgian source income is taxed by applying either a regular taxation scheme (i.e. applicable to Georgian companies, that is 15% of a taxable income) if it is earned through a permanent establishment of a foreign company in Georgia, or is subject to withholding taxation if it is not earned through a permanent establishment. Withholding taxation rates on income received from Georgian source are the following:

Payment of dividends	5%
Payment of interest	5%
Payment of royalty	5%
Payment of income from international transport or international communications	10%
Payment of income from oil and gas operations	4%
Payment of salary	20%

Payment of rent	20%
Payments of other Georgian source income to non-residents not connected to their PE in Georgia	10%
Paid interest and paid other Georgian source income to offshore companies	15%

Same rates apply for non-resident individuals on their Georgian source income.

Double taxation treaties may reduce the tax rates. Currently Georgia has effective double taxation treaties with 52 countries.

(Rates above are for the tax year to 31 December 2015)

What if we use Georgia to set up our holding company?

Georgia's competitive tax legislation means that it is a very attractive place to set up a holding company.

If a Georgian company holds shares in another company and these shares are subsequently sold then the resulting gain is exempt from tax as long as these shares are flee floating securities. Also if company receives the status of an International Financial Company, all financial operations (purchasing and selling shares and other financial instruments) are exempt from tax.

Dividends received by a Georgian parent company, whether from the Georgian or overseas are exempt from Georgian taxation and are not subject to withholding taxation.

Dividends paid to individuals, organizations (a non-profit organization that does not carry out economic activities) and non-residents are subject to withholding taxation. Tax rate is 5%.

Dividends received from a Free Industrial Zone Company are not subject to withholding taxation and are not further included in taxable income.

Dividends received from an International Financial Company are not subject to withholding taxation and are not further included in taxable income

What if we make cross-border transactions between group companies?

Georgia follows internationally recognized **Transfer Pricing** (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

For the purpose of transfer pricing rules, two persons are related if:
· One person is directly or indirectly involved in the management or control of another person, or directly or indirectly holds the capital of this person
· Same persons are directly or indirectly involved in the management or control of two other persons, or directly or indirectly hold the capital of those other persons.

For the purpose of the above, a person is considered to be directly or indirectly involved in the management or control of a company, or directly or indirectly hold the capital of that company if they directly or indirectly hold more than 50% of another person or in fact controls the decision making in the latter.
In certain cases these rules may also apply to transactions between a Georgian company and an unrelated foreign company, where the latter is a resident of a low tax jurisdiction/offshore country.
The following are the generally accepted transfer pricing methods:

· Comparable uncontrolled price method
· Resale price method
· Cost plus method
· Net profit margin method
· Profit split method.

The head of the RS is authorized to issue an advance tax ruling on such cross-border transactions upon the taxpayer's request. The ruling is issued for a certain period of time before the start of operations. It sets the method, comparable operations and respective corrections, significant assumptions, etc. for the purpose of determining the price for the operations. If a person acts in accordance with the ruling issued to the latter, the GTA shall not impose additional taxes and/or tax sanctions later on.

What Employment Taxes and Social Security will need to be paid?

If an individual is resident in Georgia then they are subject to Georgian tax laws. Income from employment in Georgia is subject to withholding taxation. Tax rate is 20% for employment income received by both Georgian residents and non-residents. Income from employment includes all remuneration received from employment, including cash and benefits in kind. Benefits in kind are included in employment income at their market price reduced by any payments made by employee to employer for those benefits.

Individuals are considered tax residents in Georgia for the whole tax year if they:
· are actually present in Georgia for 183 or more cumulative days in any period of 12 consecutive calendar months ending in the subject tax year, or are in the Georgian State Service abroad during the subject tax year
· are citizens of Georgia and apply to the GTA for residency status in Georgia, provided they are a not tax resident of any other country
· are high-net worth individuals

Current Personal Income Tax rates in Georgia are:

Band of income (CU) **Tax rate (%)**

Rent income in specific cases received by individuals	5%
Gain from sale of assets received by individuals	5%
Any other income	20%

(Rate is for the tax year to 31.12.2015)

This rate is applied to income received from sources in Georgia without deductions.

Employers do not have liability of payment of any other withholding tax related to income from employment. (For example social security)

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What is Value Added Tax (VAT) and should the business be registered?

VAT is a “goods and services tax” on supplies made, the standard rate of which is 18%. If a business makes taxable supplies in excess of GEL 100000 (approximately USD 43000) in any continuous period of 12 calendar months then it MUST be registered for VAT.

There are four types of supply:

- Taxable – must charge VAT on supplies, can reclaim input VAT
- Exempt without the entitlement to credit – cannot charge VAT nor reclaim input VAT
- Exempt with the entitlement to credit – cannot charge VAT and has right to reclaim input VAT
- Outside the scope – not in the Georgian VAT system

Taxpayer can choose to charge VAT on transactions that are exempt without the entitlement to credit, in which case it will be posible to reclaim input VAT.

The supply of most types of goods and services in Georgia would be classed as Taxable supplies. Export of goods and services provided outside the territory of Georgia are Exempt with the entitlement to credit.

Can we provide Share option plans to our staff?

There are no special regulations or exemptions regarding share option plans. Share options plans are not common in Georgia.

How else can we compensate our employees?

In Georgia common taxable benefits offered to employees may include: receipt of goods and/or services from the employer, reimbursement of different personal expenses, receipt of housing and/or rental allowances from the employer, life and/or health insurance plans paid by the employer, etc. Benefits are included in employment income at their market price reduced by any payments made by employee to employer for those benefits, which is taxed at source with income tax.

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