



Ministry of Finance of Georgia



# New Tax Code

The Part of New Tax Code Excluding Customs Code Provisions

June 3, 2010



# Purposes of The New Code

## Simplification of Doing Business:

- Increase trust towards Tax System, Reasonable Administration
- Formation of Stable and Sustainable Tax environment
- Encouraging business legalization
- Simplification of legal Provisions – Removing ambiguities
- Reduction of Tax Compliance burden – Simplification of Tax Administration
- Fair distribution of tax burden
- Using the best international tax practices, EU directives



# Micro Business

- **Micro Business (entity with less than GEL 30,000 turnover)**
  - **is EXEMPT FROM TAXES**

**it will encourage:**

- **employment**
- **reduction of poverty through self-employment**
- **full legalization of business**



# Small Business

- Small Business – an individual/sole entrepreneur with less than GEL 200,000 turnover
- VAT registration threshold doubles to GEL 200,000
- Small Business Taxation:
  - will be taxed with one single tax
  - tax rate of 3% or 5% of turnover
  - removing requirements of book keeping in conformity with international standards
- in case of 5% tax rate:
  - small business is obliged to run only simple "purchases and sales journal" and cash registers
- in case of 3% tax rate:
  - Any small business can choose to be taxed at this rate if it provides standard accounting documentation for at least 60% of their turnover



# SPECIAL TRADE ZONE

- Further simplification of procedures for small businesses which are involved in trading at public places
  - organizer/administrator of special trade zones is acting as a tax agent
  - organizer/administrator is in charge of tax liabilities and accounting of "zone participants"
  - tax authorities control an STZ organizer/administrator, instead of "zone participants"

# ADVANCE RULINGS



- Tax authority issues 2 types of advance rulings:
- Advance private rulings
  - An advance tax ruling is a written statement given by the by Tax authority to a taxpayer stating how it will interpret and apply specific provisions of tax law to a definite transactions the taxpayer is contemplating
  - An advance tax ruling is binding upon the Tax Authority. This means that if the transaction was carried out substantially as set out in the request, taxpayer will not be subject to any additional tax or sanctions.
- public tax rulings
  - In case of decision of tax appeals council and other relevant administrative body which changes and/or establishes tax practice different from existing one, the Ministry of Finance is obliged to issue relevant legislator interpretation act – Public Tax Ruling

# SUPREME BOARD OF AUDITORS



- The supreme board of auditors is to be established (consisting of 5 members including the Minister of finance/the head of the board)
- The mission of the board is encourage stable and sustainable tax environment
- **consequently:**
  - any form of tax treatment of transactions not practiced in the past 2 years can be used by tax authority during tax audits only after the consent of the board of auditors

# REDUCTION NUMBER OF PAYMENTS – 2 months interest free loan



- Obligatory declarations and payments and reporting is abolished
  - quarterly payment of taxes (except for income tax, where tax is withheld and paid to budget simultaneously)
  - quarterly tax reporting instead of monthly reporting (some of them only once in a year)



# TAXPAYER RIGHTS

- Special chapter dedicated to taxpayer rights in the new tax code.
- Tax Ombudsman institute is established to secure protection of taxpayer rights
- New principle - "Good Faith" is defined according to which tax appeals council prefers substance of tax offence over its form, if it can be proved that taxpayer acted in good faith and it really believed that facts and circumstances are as he thinks and he did not intend to avoid taxes
- In case of ambiguity in legislation, council of tax appeals is obliged to make a decision in favor of taxpayer

# UNIFICATION OF TAX AND CUSTOMS CODES



- Tax and customs codes:
  - unifies taxpayers tax and customs assets/liabilities, by which companies can transfer excess amount available on tax card to cover customs liability and contrary

# AUTOMATIC RETURN OF EXCESS PAYMENTS



- Excess payments will be automatically returned to taxpayers by tax authority :
  - to entities who report their income electronically
  - companies will have a chance to withdraw from this regime and return to the existing one

# REASONABLE ADMINISTRATION



- Profit Tax:
  - allowance of deductions – if taxpayer cannot prove its expenses with documents, but the fact of expenses are proved practically.
  - disallowing deductions - tax authorities are prohibited from disallowing deductions on which taxpayers have a "document", but with only one non-essential mistake.
- Taxpayers will have right to write off outdated and defective goods.

# “INVENTARIZACIA” and “CHRONOMETRAJI”



- During "INVENTARIZACIA" market price of goods in the last 2 years will not be applied to the current price as a result of an "INVENTARIZACIA" .
- Penalty for "CHRONOMETRAJI" will be reduced from 50 to 20 times. Room for deviation (currently 10%) will be defined by the Government of Georgia taking into account industry specific characteristics.
- "CHRONOMETRAJI" is not allowed to be conducted to persons which use accounting server at the Ministry of Finance of Georgia in their business transactions.
- before "CHRONOMETRAJI" period video recording will be conducted

# IN LINE WITH THE WORLD'S BEST PRACTICES



- Terminology used fully in line with OECD standards
- Transfer Pricing
- International cargo
- Associated entities

# EVEN DISTRIBUTION OF TAX BURDEN



- Expansion of tax base (profit, property, VAT) simultaneously keeping traditional exemptions (press, agriculture, income less 40000 etc)
- Shifting tax burden from small businesses to excise goods, speculative transactions, etc