



LEGAL NEWSLETTER

September – January
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In this issue, we have outlined major features of the new Tax Code of Georgia, the most important legislative novelty for the period until January 2011 as well as the package of the amendments to the anti money laundering regulations applicable to commercial banks and insurance companies operating in Georgia. There are other important legislative enactments waiting in the wings so Keep watching this space for updates on developments in Georgian legislation.

In the foregoing issue of the BLC Legal Newsletter we bring you a write-up on the recent developments in the fields of tax, property acquisition, registration requirements, insurance and other regulations. Suggestions and comments are welcome.

Hoping to have added some value to your reading on legal framework in Georgia.

Sincerely,

BLC Team

Legal amendments effected throughout September – January 2010/2011:

- *From January 1, 2011 new Tax Code entered into force bringing up important novelties to the Georgian tax and customs regulation system.*
- *New rule of payment of the purchase price for acquisition of immovable property through wire transfer was introduced by the parliament of Georgia.*
- *As a result of new regulations lease and rental agreements executed by entities as well as banking guarantee agreement was subjected to mandatory registration at the National Agency of Public Registry of the Ministry of Justice of Georgia.*
- *The National Bank of Georgia adopted new rule for mandatory administration, liquidation and bankruptcy of insurance companies and determined the amount of their minimum capital.*
- *The Civil Registry Agency of Georgia offers new service of online legalization and apostilization of the documents issued by the same agency. The new service is available only for Georgian citizens or Georgian residence card holders.*
- *Several of international agreements were ratified by the Parliament of Georgia and yet several of bilateral treaties are still pending ratification in 2011.*

Tax & Customs

Adopted in 2010 a new Tax Code of Georgia entered into effect from January 1, 2010. One of the major novelties introduced by the new Tax Code is that it merges in principal provisions of the Customs Code of Georgia, which was abolished upon adoption of new Tax Code. Furthermore, as the tax card of a taxpayer will reflect all his tax and customs liabilities, the taxpayer will hereinafter be able to allocate tax balances between tax and customs charges, as it deems appropriate.

Most importantly, taxpayer who's VAT taxable turnover for any continuous 12 months period does not exceed 30.000GEL will be exempt from any tax provided it is registered as a taxpayer, whereas taxpayer who's aforementioned turnover is between 30.000GEL-100.000GEL and does not employ more than 10 people will pay a single tax at a fixed percentage of the total turnover.

Another novelty introduced is that the ruling issued by the tax inspection on a question referred to it by a taxpayer shall be binding on the tax inspection and thus can be relied upon by the taxpayer in order to determine the tax treatment of any matter. Tax reporting period was changed into quarter instead of month and thus respective returns shall be filed and payments made quarterly. New rules address to related party transactions to define the transaction price for taxation purposes. These rules and regulations are said to be in line with respective EU tax directives and OECD tax conventions. The concept of "service export", subject to VAT taxation, was also introduced by new Tax Code.

Under the new Tax Code, the income tax rate will be reduced to 18% by January 1, 2013.

And last, but not least, through Order #990 dated December 31, 2010 the Minister of Finance of Georgia elaborated new rule for application of market price for the tax purposes. According to this rule tax authority is entitled to apply market price for the tax assessment purposes if it establishes that the price declared by the parties to the taxable transaction falls short of real price thereof. The tax authority is obliged to issue respective normative act substantiating with respective legal and factual evidence the application of the market price. The Order came into effect from January 1, 2011.

Acquisition of Immovable Property

On March 3, 2010 the Parliament of Georgia introduced amendment to the Civil Code of Georgia. Namely, the novelty concerned acquisition of the immovable property and set out mandatory non-cash settlement procedure. According to the new rule, if immovable property is acquired through sale-purchase agreement the purchase price shall be paid by means of wire transfer through

commercial banks, unless the purchase price is paid in installments. Most importantly, the novelty was intended to be effective from January 1, 2012. However, on December 10, 2010 the Parliament of Georgia respectively amended the Law of Georgia on Public Registry giving effect to the law from January 1, 2011. According to the new law, for registering title over the immovable property at the LPPL National Agency of Public Registry of the Ministry of Justice of Georgia, among other documents, the owner must submit respective receipt from the banking institution certifying payment of the purchase price. Accordingly, although respective provision of the Civil Code of Georgia has not yet entered into force, non-cash settlement shall be considered as mandatory prerequisite for purchasing immovable property in Georgia from January 1, 2011.

Mandatory Registration Rules Public Registry

Another novelty introduced in December 2010 concerns mandatory registration at the LPPL National Agency of Public Registry of the Ministry of Justice of Georgia (the "Public Registry") applicable to certain transaction. On December 7, 2010 executed by the law N 3888 – Its amendments were introduced to the Law of Georgia on Public Registry. According to the above amendments, any of the below listed agreements entered into by legal person of private law (i.e. any entity regardless whether commercial or non-commercial) shall be registered at the Public Registry. Compulsory registration relates to the following agreements: Sale-Purchase (immovable property only); Right to build; mortgage of right to build; Usufruct; Servitude; Mortgage; Rent, sub-rental; Lease, sub-lease; Lending (gratuitous); Leasing; Obligations concerning title over the immovable property. In addition, mandatory registration rule also applies to banking guarantee agreements notwithstanding whether concluded by legal entity or individual.

Most importantly, the Law was given a retroactive effect and any of the above agreements executed prior to adoption of the Law (i.e. December 7, 2010), must be duly registered at the Public Registry until April 1, 2011 otherwise the rights derived from such agreements will cease to exist.

Insurance

On October 11, 2010 the President of the National Bank of Georgia approved Rules on Mandatory Administration, Liquidation and Bankruptcy Proceedings for Georgian Insurance Companies executed by Decree N 126/01. In addition, the National Bank of Georgia introduced mandatory minimal capital

requirement for the insurance companies operating in Georgia through Decree N 125/01 dated October 11, 2010. The minimal capital necessary for obtaining insurance license as well as carrying out insurance activity was determined in the amount of GEL 1 million and GEL 1.5 million depending on the type of insurance services rendered. In addition, on October 11, 2010 the National Bank of Georgia adopted new Rules on Registration and Abolishment of Registration of the Insurance Brokers which contains precise regulation on registration procedure at the National Bank of Georgia.

Legalization and Apostille

On December 31, 2010 the President of Georgia issued decrees #1096 and #1099 introducing a new possibility for those who are outside the territory of Georgia to certify the documents issued by the Agency of Civil Registry of the Ministry of Justice of Georgia by apostille or legalize them, whichever applicable. Applicants have possibility to send the request on apostilization/legalization via online communication means which enables communicating parties to see and hear each other simultaneously. In order to enjoy this service, the identity of the applicant must be verifiable based on the data maintained by the Civil Registry Agency which means that the applicant must either be a citizen of Georgia or hold Georgian residence card, regardless whether permanent or temporary.

The document certified by apostille or legalized by the Civil Registry Agency via online communication shall be either handled to the person designated by the applicant or be served directly to the applicant by insured mail. This new service was launched from January 3, 2011.

International Treaties

On September 14, 2010 the Parliament of Georgia ratified International Agreement between United States of America and Georgia on Assistance (for Improvement of Infrastructure and Economical Capabilities and Support Internally Displaced People) signed back on August 12, 2010.

The Parliament of Georgia further ratified Protocol of European Convention on Consular Functions for Protection of Refugees signed back on December 11, 1967 in Paris. The Protocol was ratified and thus became binding on Georgia from November 9, 2010.

On November 3, 2010 new international agreement was entered into between the Government of Islamic Republic of Iran and the Government of Georgia on Abolishment of Visa Requirement for Holders of Ordinary Passports. The treaty was approved by the President of Georgia on November 5, 2010. Another treaty for abolishment of visa requirements but this time only for holders of diplomatic and special passports was signed with the Government of Peru on October 29, 2010. This treaty was approved by the President of Georgia on November 10, 2010. Both treaties are currently pending ratification at the Parliament of Georgia and once ratified will further encourage business and commercial relationships between these countries and Georgia by means of significant ease of international travel.