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NEW AMENDMENTS TO THE LAW ON ENTREPRENEURS

In February, extensive amendments were introduced to the Law of Georgia on Entrepreneurs. As a general note, it shall be emphasized that the amendment package attempts to regulate the matters that have been subject of ongoing debate in the legal circles due to absence of explicit legislative regulations.

The amended clauses introduce, inter alia, the rules for dilution of participation interest in LLCs, the possibility of which was not directly envisaged in the legislation up till now. Furthermore, the time limits for the distribution of dividends have been introduced - LLCs and JSCs shall have to pay out dividends within the maximum term of 9 months after adopting the shareholders' resolution on distribution thereof.

Another very important development is the new rule, according to which the Chairman of the Supervisory Board, either in JSCs or in LLCs, may not at the same time hold the office of a Director of the same company. This amendment shall come into force as of 15 May 2016. The companies currently employing the same individual for both offices are given two years to reelect either the Chairman of the Supervisory Board or the Director.

The amendments also specify that the existing shareholders in JSCs have pre-emptive rights over the newly issued shares. To limit the insider trading, it also sets forth that the subsidiaries of a reporting entity admitted at the stock exchange shall be prohibited to purchase the shares in this listed entity.

As an attempt to introduce the elements of modern corporate governance applicable to companies traded at a stock exchange, the amendments set forth the obligation of a listed company to maintain at least one independent member of the Supervisory Board.

And most importantly, certain procedural rules applicable to minority squeeze-out have been clarified enabling the corporations to use this mechanism even when the identity or the legal address of certain minority shareholders is not identifiable. Similar difficulties often were major reason for the inability of corporations to use this option granted by the legislation.

NEW REGULATIONS AT THE HOUSE OF JUSTICE

Effective from February 2016, the House of Justice will shorten its business hours until 9:00 PM of the last day of the statutory term. This rule shall also apply to the services to be completed in one business day, provided that the application for such services is filed no later than 12:00 PM on the same day. Most importantly, effective from 20 March 2016, in case of any insufficiency in the documents submitted by the applicant, the House of Justice has to inform the applicant of such discrepancy prior to expiry of the registration term. This effectively enables the applicant to remedy such discrepancy within the initial registration procedure. Notably, this rule does not apply to the services of registration of legal entities or political unions.

UPCOMING AMENDMENTS TO THE TAX CODE OF GEORGIA

Extensive amendments are underway to the Tax Code of Georgia. The announced objective of this new regulation is to encourage reinvestments and disincentivize offshore trading. The bill also proposes abolishment of a thin capitalization rules.

According to the Bill, the corporate income tax (profit tax) will be cancelled for Georgian companies and permanent establishments of foreign entities on reinvested income. Upcoming changes in corporate income tax system are tailored to the so called "Estonian Model" whereby the profits of the companies are not taxed, unless distributed to the shareholders as dividends. Likewise, Georgia aims to fully release reinvested profit from profit tax burden thereby incentivizing reinvestments.

If enacted, the amendments are expected to align tax accounting with financial accounting. For instance, enterprises will no longer be able to use a so-called "swift depreciation" option to deduct the entire value of purchased fixed asset at once. Instead, the companies will now have to follow IFRS rules and deduct depreciation costs accordingly. Also, tax losses accumulated from the previous years will vanish and the losses generated in future periods will no longer be carried forward.

The above amendments shall not apply to Oil & Gas and gambling businesses, operating in the so-called systemic-electronic area, as well as to the commercial banks, microfinance organizations, insurance companies and NGOs.

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The amendments are expected to come into force from July 2016.