

LEGAL NEWS

HEADLINES OF TAX LEGISLATION

Ministry of Finance of Georgia clarified the transfer pricing rules. According to the current wording of the respective Decree #423 transactions between the related Georgian and foreign companies, as well as transactions between the Georgian and offshore/tax haven registered companies shall be carefully scrutinized. Typical approach is application of the market standards and prices for the similar transactions. The decree is mainly based on the OECD guidelines.

Parliament voted for minimizing the period of possible tax assessments. From 2015 the period of tax assessments conducted by the Revenue Service shall be decreased to 5 years, from 2016 the same period shall be decreased to 4 years and from 2017 to 3 years.

COMPETITION RULES

Competition rules of Georgia have been substantially modified. The law applies to the private parties, public officials and agencies involved in the possible restriction of free trade and competition, deprivation of access to services and commodity markets. The law imposes the criteria and exemptions to be further elaborated in the sub-normative acts. By adopting the massive amendments the legislator intended to align the local regulations with the European standards, considering the specifics of business environment in Georgia.

BLC Law Office shall host the roundtable of interested businesses and professionals within coming weeks to discuss the novelties introduced to the Competition Rules.

NEW MORTGAGE RULES

Civil Code was amended to require mandatory notarization of the mortgage agreements. The notaries shall clarify to the parties the consequences of violating the contracts.

The amendments further limit freedom of parties to impose the interest on loans. Currently the interest rates shall correspond to the annual market average of the financial institutions. The restrictions do not apply to the banks, micro-finance and non-depository institutions.

NOVELTIES IN ENERGY REGULATIONS

Due to bringing the new 400 KV Borcka-Akhalsikhe transmission line into operation, the Georgian energy laws have been modified to protect investments in this industry and consider the specifics of the Turkish energy regulations. Now the renewable energy plants (including HPPs) built in Georgia since 2010, with the effective long term Transmission and Dispatch Agreements, gain the first priority on access to the capacity in the transmission line. However, the capacity shall be reserved on the “take or pay” basis.

Further amendments relate to the unilateral termination of MoUs by the government of Georgia and claiming the bank guarantees in the events of delays in the construction of the renewable energy plants. The primary drawback of the rule is its unconditional and rigid nature, especially exposing the constructions in the final stages. Delays in commencing the operation of the plant may deprive the investor of the fair recovery of the investment thus hindering the access of the industry players to the project financing.