



QUARTERLY LEGAL NEWSLETTER

Issue 2

June – July – August 2010

The objective of BLC Quarterly Legal Newsletter is to keep you fully informed of major legislative developments in Georgia.

In the last issue, we have outlined major features of the upcoming new Tax Code of Georgia which is expected to come into force from January 2011. There are other important legislative enactments waiting in the wings, therefore, please keep watching this space for updates on legislation.

In the foregoing issue of the BLC Quarterly Legal Newsletter we bring you a write-up on the recent developments in the fields of tax, banking and finance, intellectual property, education law and other regulations. We welcome your suggestions and comments.

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

Sincerely,

BLC Team

Legal amendments effected throughout June – July – August 2010:

- ***From June to August 2010 number of Regulations were issued to regulate various fiscal issues. Bilateral tax treaties with Egypt and Israel were ratified by the Parliament of Georgia and yet number of bilateral treaties regulating double taxation issues are being negotiated by the Government of Georgia with Lithuania, Latvia, Estonia, Czech Republic and Brazil.***
- ***New rates were established for registration of patents by the National Centre of Intellectual Property of Georgia and entirely new instruction on registration of design was issued by the Government of Georgia.***
- ***The president of the National Bank of Georgia issued new order establishing rules of selling the assets of a debtor commercial bank on an open auction without obtaining a court order.***
- ***Parliament of Georgia and the Ministry of Education introduced a package of amendments to the laws and regulations on education. An entirely new piece of legislation was introduced providing for the new standards applicable to the educational institutions for the purposes of authorization and accreditation.***

Tax & Customs

The major legislative news of June-August 2010 was introduction of the new draft tax code which is being discussed by the Parliament of Georgia and shall be adopted in the nearest future. The code is estimated to enter into force from January 2011.

Meanwhile, major amendments were introduced to Georgian tax legislation. Precisely, the Minister of Finance of Georgia issued the Ordinance #439 on regulations for the electronic communication with the Revenue Service. The aforementioned Ordinance modifies previously adopted rules on the tax filing in electronic form as adopted by Ordinance #1000 dated August 16, 2007. According to new rule electronic filing may be used in case of filling tax returns, obtaining VAT invoices, issuing excise stamps, submitting appeal applications and in other circumstances, as prescribed by the legislation. In order to get an access to the system of electronic communication a taxpayer must present a written request to the tax inspection. The new ordinance is effective since June 2010.

On June 3, 2010 the Ministry of Finance issued the Ordinance #452 which modified previously existing rule of calculation and payment of Property Tax. The novelty concerns those individuals whose property tax liability is related solely to the agricultural land. Previously they had an opportunity to present special annual tax return with simplified procedure, whereas now special annual returns as well as rules for their compensation are abolished.

On June 15, 2010, the Minister of Finance of Georgia signed Order #481 introducing amendments to the instructions on the Rules of Taxpayers' Stock Taking. The changes further clarify the requisites that should be included in the primary accounting documents, as well as the period and rules applicable to inventory counts conducted by the tax authorities.

On June 17, 2010, the Minister of Finance of Georgia issued Order # 489 approving amendments and supplements to the instructions on application of various articles of the Tax Code of Georgia. The instructions give guidance to taxpayer on how to interpret and apply certain parts of Tax Code. Instructions exemplify the deductibility of bad debts, repair and maintenance expenses and expenses incurred by taxpayers in connection with preparatory

works required for geological surveys and extraction of natural resources.

On June 9, 2010 the Ministry of Finance was authorized by the President of Georgia to start negotiations with representatives of the government of Bahrain on double tax treaty. Furthermore, the Ministry of Finance was assigned by the President of Georgia to start negotiations with the governments of Lithuania, Latvia, Estonia, Czech Republic and Brazil for international cooperation in tax matters. In addition, on June 28, 2010 by its Resolutions # 3158 and #3157 the Parliament of Georgia ratified treaties on the avoidance of double taxation of income and capital gains and the prevention of tax evasion with Egypt and Israel.

Intellectual Property

On July 3, 2010 by its Ordinance #182 the Government of Georgia approved new rates for the services provided by the National Centre of Intellectual Property (Sakpatenti) related to registration, deposition and obtaining a patent on the intellectual property. New rates shall be effective from July 2010.

In addition, new instruction on registration of Design was adopted by the Government of Georgia by its Ordinance #262 dated August 25, 2010. The instruction sets forth rules and regulations applicable to filling an application and expertise procedures to be followed for registration of design in Sakpatenti.

Banking & Finance

On August 19, 2010 the President of the National Bank of Georgia issued Order #115/01 revoking previous Order #247 dated September 27, 2002 on approval of Instruction on Realization of Debtor's Assets on an Open Auction and establishing new Rules on Realization of Assets of Commercial Bank on an Open Auction. According to the new rule, assets of the commercial bank having debts outstanding vis-à-vis the national Bank of Georgia shall be put on an auction. Most importantly, the auction can be held without obtaining a court order certifying the existence of indebtedness as long as this can be verified from agreement or any other

document, including acknowledgement of the debt by the debtor, whereas previously such court order was necessary for commencement of the auction. However, the bank is still entitled to challenge the existence of the debt in the courts of Georgia.

Criminal Law

Entirely new piece of legislation was adopted by the Parliament of Georgia in July 21, 2010 on International Cooperation in Criminal Matters effective from October 1, 2010. The aforementioned law sets forth procedures for provision of international cooperation and assistance in criminal matters as well as for extradition, delivery of case materials as well as certified copies thereof and enforcement of foreign judgments in Georgia. Needless to say, the aforementioned cooperation sets forth internal mechanisms for fulfillment of the obligations and commitments undertaken by the Government of Georgia by virtue of international instruments such as the Rome Statute of the International Criminal Court and other bilateral or multilateral international agreements.

Education Law

Effective from September 1, 2010 new law was adopted by the Parliament of Georgia on Development of Education Quality on July 21, 2010. The new piece of legislation provides for the legal framework for education quality improvement and sets forth internal and external mechanisms for such improvement.

According to new law, external mechanisms for quality control of the educational institutions are accreditation and authorization, whereas, internal mechanisms are developed by the institutions in accordance with acting Georgian legislation.

The law concerns any educational institution operating in Georgia and provides for particular standards the educational institution has to meet in order to successfully pass authorization and accreditation procedures. In addition, the law designates the National Centre of Educational Quality Development, a legal person of public law attached to the Ministry of Education and Science of Georgia, as a supervisory authority for education quality control.

Respective amendments were introduced to the Civil Code of Georgia on July 21, 2010 according to which, legal person is entitled to carry out certain activities expressly contemplated under the law, only after obtaining respective license, permit or authorization. The terms and conditions, as well as respective fees for authorization and accreditation shall be determined by the Statute of the National Centre of Educational Quality Development.

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