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### AMENDMENTS TO THE TAX CODE WITH UNEXPECTED TWISTS

Effective from January 2017, new amendments were introduced to the Tax Code of Georgia. Key changes in brief:

- Individuals will now be taxed with the property tax on motor vehicles. The initial bill suggested different tax rates for old vehicles. However, eventually the Parliament went for 0.2% for the households with the income in the range of GEL 40,000 to GEL 100,000 and 1% for those above GEL100,000, irrespective of the age of the taxed vehicle. The property tax rate is calculated based on the market price of the vehicle;
- Excise duty on vehicles was increased, ultimately resulting in increase of the vehicle price. Please, note that the increase rate will not affect the vehicles bought till 1 January 2017 and will enter the territory of Georgia until 31 March 2017; As excise duty is calculated based on the engine of the vehicle, cars older than 7 years are expected to carry higher tax burden;
- Excise duty was also increased on the tobacco and tobacco products. As increased tax burden will affect the tobacco price, the amendment intends to incentivize Georgian population to quit smoking and opt for a healthy lifestyle;
- Advances will now be taxed with VAT. New VAT regulations will affect the advances paid for the goods and services supplied after 1 January 2017;
- VAT taxable sale of immovable property will be taxed as of the date of execution of the deed of transfer of title on the property, irrespective of when the payment of the purchase price is due; If the transfer of title depends on performance of any condition or obligation by the parties, VAT is payable on the date of performance of such obligation or condition.

### NEW AMENDMENTS TO THE GEORGIAN CIVIL CODE SHAKING UP THE EXISTING LENDING MARKET

On 15 January 2017, game-changing amendments to the Civil Code of Georgia entered into force. The background story behind the amendments: the Government was concerned by significant growth of companies issuing short-term loans online (local typology of payday loans), which are easily accessible, but high-cost loans, coupled with inability of vast majority of population to manage their financial obligations. Online crediting companies issued small, unsecured loans mostly to non-bankable citizens and used to recover the loans by charging tremendously high penalties and default interest rates or extension fees. This segment of the financial sector was

deregulated, until now. Pursuant to simultaneous amendments to the Law of the National Bank of Georgia, the National Bank took over the regulation thereof.

The highlights of the amendment are as follows:

- The effective annual interest rate was capped at 100% of the principal amount of the loan;
- Any penalty or any other financial sanction imposed on the debtor for the breach of commissions, fees, any financial expenses, as well as any provision of the loan agreement, in aggregate, shall not exceed annual 150% of the outstanding principal amount of the loan;
- Any loan issued to individual shall be in Georgian Lari only, unless the principal amount exceeds GEL100,000;
- A lender may not impose on the debtor any prepayment fee or penalty, or any fine for early repayment of the loan, which exceeds 2% of the outstanding principal amount of the loan;
- Entrepreneurs or related group of entrepreneurs are allowed to borrow finances in any form from more than 20 individuals, only when the amount so borrowed/attracted from each individual exceeds GEL100,000. The latter regulation shall not apply to commercial banks, credit unions, brokerage companies and public offering of securities, as well as to other financial institutions determined by the National Bank of Georgia.

### ENCOURAGE THE "LARISATION" (INCREASE OF THE SHARE OF GEL DENOMINATED TRANSACTIONS) IN THE FINANCIAL SECTOR

As a declared remedy against depreciation of Georgian Lari, the Government has announced so called "Larisation" policy, which entails increase of the share of GEL in the financial sector. For this end, the State undertook to subsidize the conversion of the foreign currency denominated loans issued to borrowers who are less protected from the currency fluctuation risks. In pursuit of the same goal, the new amendments to the Law on the National Bank of Georgia oblige entrepreneurs to denominate the price in Georgian Lari only when offering or advertising goods or services. The said rule comes into force from 1 July 2017. As confirmed by the representatives of the National Bank of Georgia, the requirement to set prices in GEL applies to offers and advertisements only and shall not extend to denomination of contractual price. However, it remains as a practical challenge as to how the price offered or advertised in GEL can be denominated in different currency in the actual contract.

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