

Opening business in Georgia



GRATA
INTERNATIONAL

GRATA International Law Firm
May 2022

Why Georgia?



Strategic geographical location (i.e. a door to Russia and the Eurasian Economic Union, a single market of 183 million people, as well as to China and to Central Asia) and ease of travel to Europe and East Asia with direct flights to major destinations;



The EU and Georgia signed an Association Agreement on 27 June 2014, which entered into force since 1 July 2016. The agreement introduces a preferential trade regime – the Deep and Comprehensive Free Trade Area (DCFTA). This regime increases market access between the EU and Georgia based on having better-matched regulations;



Flexible legal forms of doing business;



Georgian Language is the official language in Georgia. Residents of Georgia, approx. above 40 years, have good command of Russian. English language is quite commonplace across all ages;

Why Georgia?



Low tax rates and preferences, especially as regards CIT, which aims to bolster corporate growth;



Low cost of labor and utilities;



A developed and stable banking system, advanced digital banking infrastructure, liberal approach towards foreign capital and foreign currency, internationally-oriented banking regulations;



The visa policy of Georgia allows citizens of 98 countries to enter, reside, work and study in Georgia for 1 full year without the necessity to obtain either visa or residence permit.

Legal entities for doing business in Georgia:

- **Individual Entrepreneur (IE).** It exercises his/her rights and fulfils his/her obligations in business relations as a natural person. It is personally liable to a creditor with all his/her assets for the obligations arising from his/her business activities, unless otherwise provided for by an agreement between the individual entrepreneur and the creditor.
- **General Partnership (GP).** Partners of General Partnership are personally liable to creditors, without limitation, for the obligations of the company as joint and several debtors.
- **Limited Partnership (LP).** Limited Partnership is composed of General Partner/Partners and Limited Partner/Partners. The liability of the Limited Partner to the creditors of the Limited Partnership is limited to a guarantee amount, whereas General Partner/Partners are personally liable to the creditors of Limited Partnership, without limitation, as joint and several debtors.
- **Limited Liability Company (LLC).** Limited Liability Company, is a company, the capital of which is divided into shares and the partners' liability for the obligations of which is limited. This Form is mainly used for the businesses without necessity of acquiring public funding and which chiefly operate outside of the domain of regulated financial markets.
- **Joint Stock Company (JSC).** Joint-Stock Company is a company whose capital is divided into shares and shareholders of which are not liable for the obligations thereof. This is a legal counterpart of the U.S. Corporation, mainly operating on the regulated financial markets and observing stringent disclosure and compliance requirements.
- **Cooperative.** Cooperative is a company based on the labor activity of its members or incorporated to support the economic or social activities of its members, the objective of which is to satisfy the needs of its members, and the primary goal of which is not to make profit.
- ***Foreigners are generally allowed to establish legal entities and hold stakes in the companies without restrictions.***

Taxation and Customs

Tax administration procedures are conducted by Legal Entity under Public Law (LEPL) within the Ministry of Finance of Georgia – **the Revenue Service**.

Personal Income Tax rate is flat and amounts to 20% of taxable income

Corporate Income Tax rate is flat and amounts to 15%. Under the Georgian Taxation system all businesses, except profit-sharing businesses, should be exempt from income tax. More specifically, if a company reinvest its profits, it will no longer be obliged to pay income tax.

Different taxation rates apply to the different withholding tax, in particular:

- Dividends shall be taxed at source at the rate of 5% of the amount payable;
- Interests shall be taxed at the source at the rate of 5% of the amount payable;
- Royalty shall be taxed at the source at the rate of 20% of the amount payable.

Taxation and Customs

The Pension Contribution conducted by employed and self-employed participants' amounts to 6% of the taxable salary of an employed person and/or of the income of a self-employed person. This amount is shared proportionally between employee, employer and the government. In case of self-employed, the government participation amounts to 2%.

The VAT rate is flat and amount to 18%.

Import Tax rate is different depending on the product concerned. It may amount to 5%, 12% or fixed tax and its exact amount depends on the quantity and type of imported product or service.

The property tax rate is no more than 1% of the value of the property. In all specific cases, the amount of property tax rate depends on the status of the property owner (whether it is a natural person or a legal person), as well as the type of property and the amount of income.

Currency regulations / Banking

The Lari (GEL) is the only legal tender in Georgia. Since 1998, the GEL has maintained a floating currency. There is no informal or parallel exchange rates in Georgia. Foreign businesses may convert GEL into hard currency at the market exchange rate and freely transfer the proceeds abroad without limitation. One may hold foreign exchange in bank notes or on deposit in designated bank accounts. There are no limitations on these accounts' operations.

National Bank of Georgia and commercial banks use SWIFT to process international payments and messages. There are no restrictions on the number of bank accounts individuals and enterprises may hold with Georgian banks. Banking is one of the fastest growing sectors in the Georgian economy. The cost of lending remains high but may decline as Georgia's banking sector develops.

As of July 1, 2021, Georgia's banking sector consists of 15 commercial banks, including 14 foreign-controlled banks, with 154 commercial bank branches and 830 service centers throughout the country. Two Georgian banks are listed on the London Stock Exchange: TBC Bank (listed in 2014), and the Bank of Georgia (2006).

Credit from commercial banks is available to foreign investors as well as domestic clients, although interest rates are high. Banks continue offering business, consumer, and mortgage loans.

Foreign investors are allowed to open bank account in the local banks. These accounts are permitted to be in foreign currency. There is no restriction imposed upon commercial banks by National Bank of Georgia in this regard.



Sofia Roinishvili

Partner

Tbilisi, Georgia

E: sofia.roinishvili@gratanet.com

T: +995 32 292 1878