



Business Environment in Georgia

2016

KPMG Georgia

kpmg.ge



Contents

Business Environment in Georgia	1
Contents	3
Georgia at a Glance	4
Free Trade Agreement and Incentives for Investors	5
Foreign Direct Investments	7
Import/Export	8
Banking Sector Overview	9
Microfinance Sector	11
Insurance Sector	12
Online Lenders	13
Legal and Regulatory Environment	14
– Tax Code	15
– Labor Code	16
– Law of Georgia on Accounting, Reporting and Auditing	18
– Different Legislative acts issued	18
Appendix. Legal forms in Georgia	19



Georgia at a Glance



Profile

Area:	69,700 sq km
Population (2015):	3.7 million
Average life expectancy:	73 years
Official language:	Georgian
Capital:	Tbilisi
Currency:	Lari (GEL)

Global Rankings

Ease of Doing Business 24 th place out of 189 countries The World Bank 2015	Index of Economic Freedom 22 th place out of 178 countries Heritage Foundation 2015	Corruption Perception Index 48 th place out of 168 countries Transparency International 2015
---	---	--

Key Macroeconomic Indicators

Description / Year	2013	2014	2015
Nominal GDP (in million USD)	16,140	16,508	13,960
Real GDP growth (%)	3.40%	4.60%	2.80%
GDP per Capita (USD)	3,600	3,676	3,743
External Debt/GDP (%)	82.13%	83.09%	107.26%
FDIs (in million USD)	942	1,758	1,351
Official Inflation rates*	-0.50%	3.10%	4.00%
Unemployment rates (%)	14.60%	12.40%	N/A
Average monthly salary (USD)	465	463	N/A
Average Annual Exchange Rates (GEL/USD)	1.66	1.77	2.27
Average Annual Exchange Rates (GEL/EUR)	2.21	2.35	2.52

Source: NSOG, NBG

*Consumer Price Index (annual average to the annual average) is used for the inflation rates calculation.

Free Trade Agreement and Incentives for Investors

Deep and Comprehensive Free Trade Area (DCFTA)

Since September 2014 free trade area was set up between EU and Georgia covering the trade in goods, but also energy and services. DCFTA was set up as part of the Association Agreement signed on 27 June 2014 between the EU and Georgia and aims to gradually integrate Georgia's economy with the European economy. DCFTA will help Georgia gain better access to the EU market for its goods and services and also set a path for further reforms in trade-related policies.

Free Trade Agreement

Georgia's liberal trade regimes provide investors with favourable trading opportunities. To date, Georgia has signed Free Trade Agreements with CIS countries that include Ukraine, Russia, Belarus, Moldova, Kazakhstan, Azerbaijan, Armenia, Uzbekistan and Turkmenistan, as well as its neighbour, Turkey.

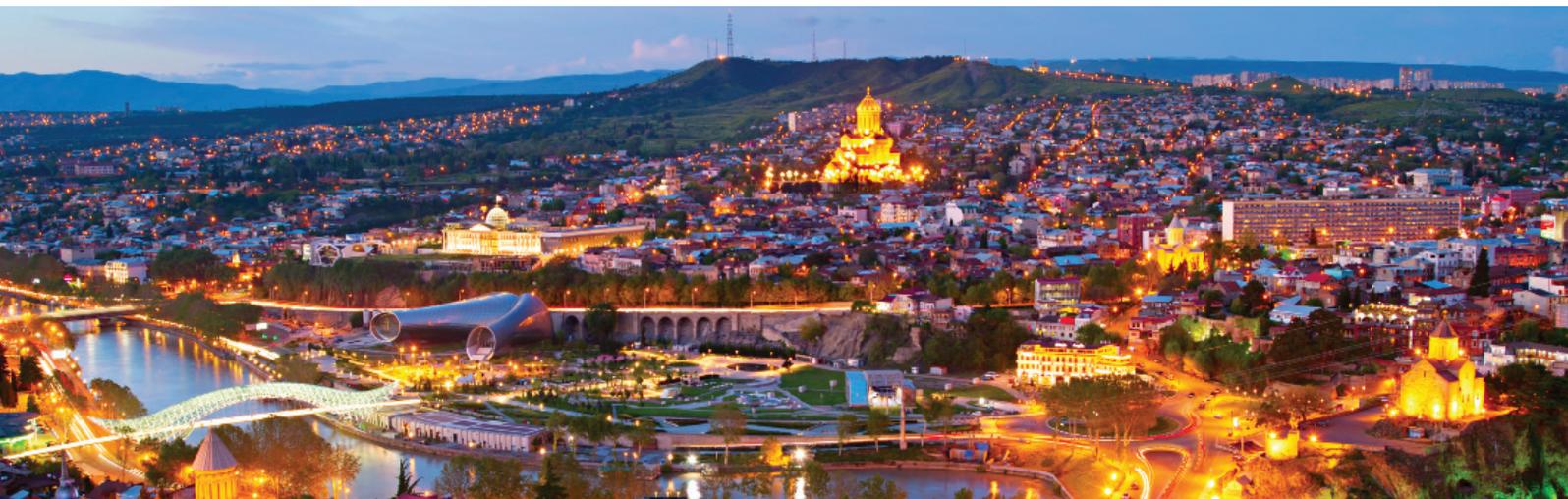
In the beginning of 2016, the final round of negotiations was held between Georgia and the European Free Trade Association. Negotiations were successful and on 27th of June 2016, the FTA will be signed in Geneva, giving Georgian products duty free access to the markets of Iceland, Liechtenstein, Norway and Switzerland.

Technology Park

In the beginning of 2016 the prime minister of Georgia opened a technology park. This is a USD 5 million project, which was started at the beginning of 2015 and completed one year later. The project itself was carried out by the Innovation and Technology Agency of the Ministry of Economy.

Tech Park provides resources for start-ups and is equipped with small incubators, learning centres and laboratories, a library, as well as large offices for companies. It also includes co-working spaces, training centres, showrooms, conference rooms and a recreational space.





Energy

The government of Georgia offers 10-year Power Purchasing Agreements (PPA) for up to 100% of total generation in winter months, the investor has an option to export the remaining generated electricity.

Starting from 2008 Georgia has liberalized and deregulated the energy market. Renewable energy projects are based on the Build-Own-Operate (BOO) principle. There are no tariffs set for newly-built hydro power plants (HPP) and the investor is free to choose the customer and negotiate the price. No fee is required for the connection to the transmission grid.

No license is required for export of electricity and new HPPs have priority access to the capacity on the new interconnection to Turkey. Generation and export activities are exempted from VAT.

Hospitality and Real Estate

Georgia has two Free Tourism Zones - Anaklia and Kobuleti that offer pre-packaged hotel projects, a free casino license for a hotel with a capacity of over 80 rooms, free land and certain tax exemptions. The Government of Georgia offers to interested investors good terms for the construction of hotels along the seashores within these Free Tourism Zones. The government of Georgia will provide engineering and infrastructural networks to the territories and exempt the investor from profit and property taxes for 15 years.

Manufacturing

As noted above, Georgia has a Free Trade Agreement (FTA) with Turkey and CIS countries, as well as the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. Currently there are 5 Free Industrial Zones (FIZs) in Georgia: one in Poti port (operated by RAKIA Georgia) two located in Kutaisi (operated by Georgian International Holding and the Hualing Group) the fourth FIZ is just outside of Tbilisi, next to Tbilisi Sea (owned and operated by Georgian Technology Park, a leading blockchain technology company) and fifth in Kulevi (operated by Socar). If a company produces goods for export in a FIZ, the Company is exempted from all taxes.

If a company imports products from a FIZ into Georgia, it has to pay VAT and 4% of revenue is to be paid by FIZ enterprise. All FIZs are operated by private companies and investors should rent a space from the FIZ operator.

Agriculture

The government of Georgia initiated two new projects which support agriculture development in Georgia:

- **Cheap agro-credit program** – 11 banks are involved in this program, where part of loan interest payments are subsidized by the Agriculture Projects Management Agency (under the Ministry of Agriculture).
- **Grants for agro processing companies** – new agriculture processing factories (minimum value of project USD 200,000) can get a grant (maximum GEL 500,000 and 40% of total project) from the Agriculture Projects Management Agency.

Other Conditions

- **Work Permit** – According to the Ministry of Foreign Affairs of Georgia no work permit and/or visa/ residence permit is needed for citizens of EU, the US and a number of other states for up to 365 days (total of 94 countries).*
- **Produce in Georgia** – The program was initiated by the government of Georgia in June 2014. In the beginning the aim of the program was to support industrial manufacturing and agriculture processing in terms of financial and infrastructure support and technical consulting.

According to the new initiative of the government, a hotel development incentive scheme has been introduced within the program. In the frames of this initiative entrepreneurs receive financial and technical assistance from the state.

Additionally, the program was recently expanded to encourage the film industry development in Georgia. The government offers international and local producers a special 20-25% cash rebate scheme on the qualified expenses incurred in Georgia.

Both, the hotel development and the film production incentive programs are implemented by Enterprise Georgia, the body under the Ministry of Economy and Sustainable Development

* Website of Ministry of Foreign Affairs of Georgia: <https://www.geoconsul.gov.ge/HtmlPage/Html/View?id=25&lang=Eng>

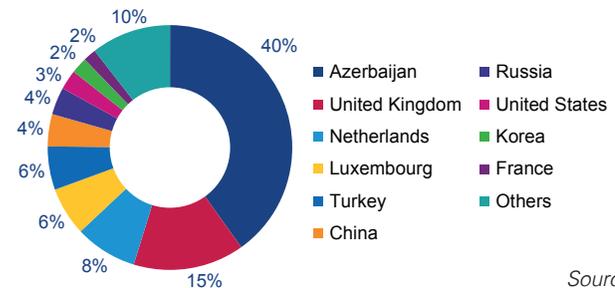
Foreign Direct Investments



During 2015 Azerbaijan held the leading position (40%) in terms of the volume of Foreign Direct Investment (FDI) made into Georgia.

It is worth mentioning that the volume of FDI from the United Kingdom, Netherlands and Luxembourg amounted to 15%, 8% and 6% respectively of the total foreign direct investments of the period.

FDI in Georgia by countries for 2015

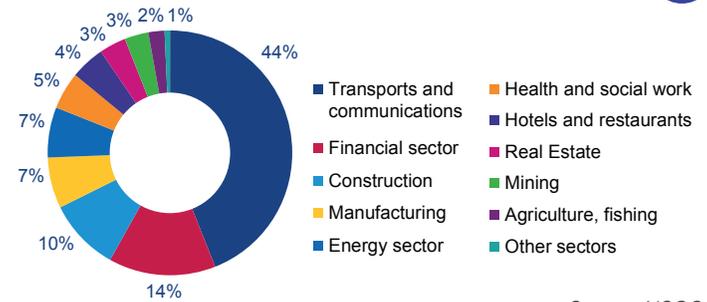


Source: NSOG

The transport and communications sectors have attracted approximately 44% of the total FDI to Georgia in 2015.

FDI made in the financial, construction, manufacturing, and energy sectors amounted to 14%, 10%, 7% and 7% respectively. The sum of the FDI in all the other sectors equalled 18% of the total FDI.

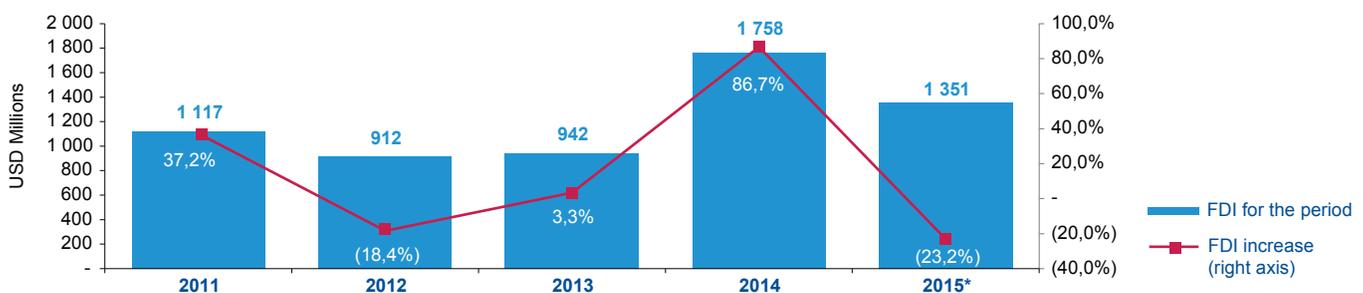
FDI in Georgia by sectors for 2015



Source: NSOG

The highest level of FDI in Georgia in the last five years was recorded in 2014 when FDI increased by around 86.7% and reached USD 1,758 million. FDI for 2015 was USD 1,351 million, which was a decrease of 23.2% compared to the previous year.

FDI in Georgia, 2011–2015



*Preliminary data

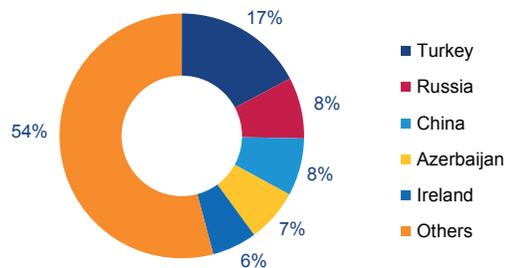
Source: NSOG

Import/Export



Turkey (17%), Russia (8%), China (8%), Azerbaijan (7%) and Ireland (6%, which mainly consists of pharmaceutical products as part of a World Health Organization programme*) were the top five importers to Georgia in 2015. Import from all the other countries amounted to around 54% of the total import in the country.

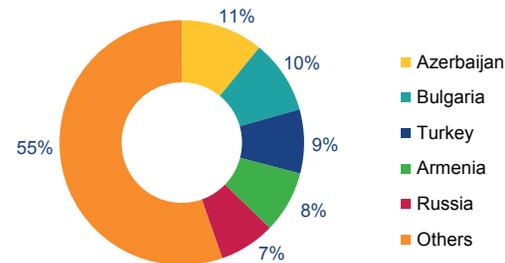
Percentage of import value by countries in 2015



Source: NSOG

Azerbaijan (11%), Bulgaria (10%), Turkey (9%), Armenia (8%) and Russia (7%) were the top five export countries from Georgia in 2015. Export to all the other countries amounted to around 55% of the total export from the country.

FDI in Georgia by sectors for 2015

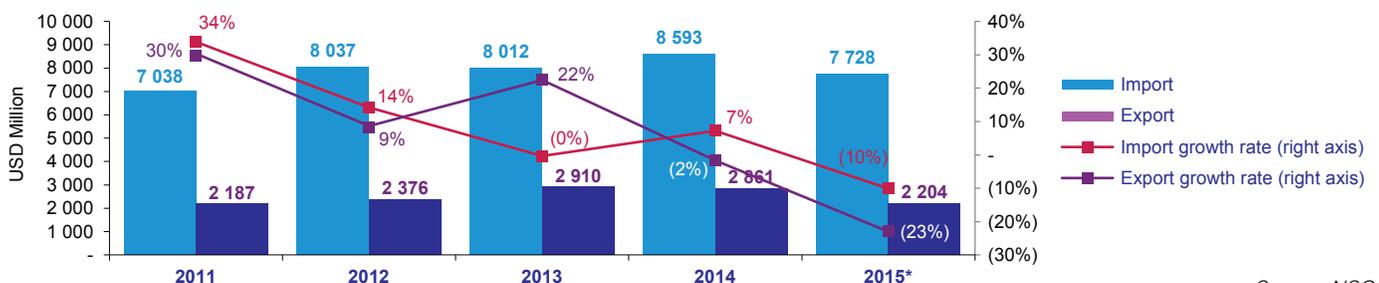


Source: NSOG

During the last five years the highest level of import was recorded in 2014 (USD 8,593 million), while, on the other hand, export reached its maximum level in 2013 (USD 2,910 million).

Both the import and export had negative growth rates in 2015. Imports declined by 10%, while the level of exports reduced by 23%.

Import/export, 2011–2015



Source: NSOG

*Preliminary data; The import figure includes the donation for hepatitis C medicine (USD 443 million). Excluding the donation, the import decreased by 15% to USD 7,285 million.

Banking Sector Overview



The banking system remains the biggest part of the Georgian financial market. As of 31 December 2015, there were 19 commercial banks operating in Georgia.

Key Financial Indicators of the Georgian Banking Sector (in million GEL)

Key Financial indicators*	2015	2014	Change
Assets	25,165	20,617	22.06%
Loan portfolio	16,086	13,070	23.08%
Liabilities	21,653	17,031	27.14%
Deposits**	14,347	11,617	23.50%
Total Equity	3,513	3,587	-2.06%
Share Capital***	998	1,106	-9.74%
Total Income****	2,476	2,047	21.01%
Interest income	2,197	1,763	24.60%
Net profit after taxes	537	475	13.18%

Source: NBG

* The indicators of the financial position are as of the last day of the corresponding period

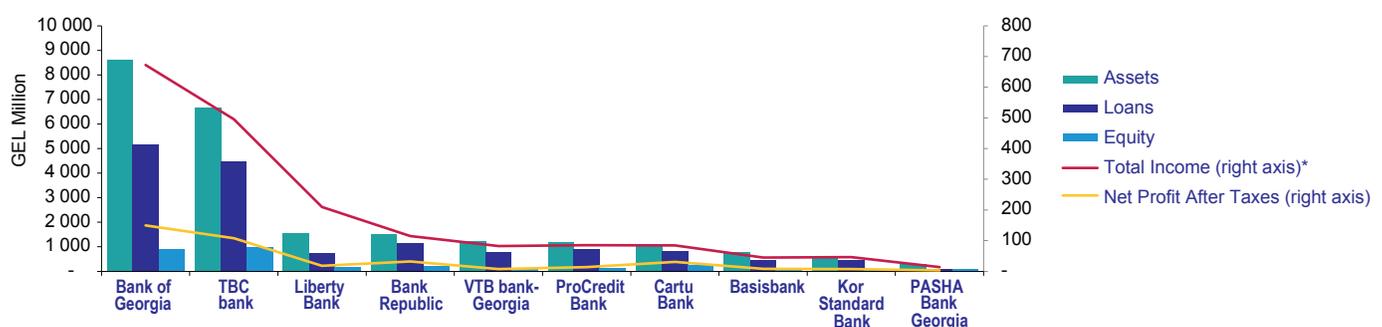
** The figure does not contain bank deposits

*** The main reasons of the share capital decrease are acquisition of PrivatBank by Bank of Georgia and restructuring of Bank of Georgia that took place in August 2015 (split of banking and investment business)

**** The total income consists of interest income and fee and commission income

Considering the level of assets, loans and equity, Bank of Georgia and TBC Bank held the leading positions as of 30 September 2015. The Banks were also market leaders in terms of generated income and net income during the first three quarters of the year.

Top Ten Banks of the Georgian Banking Sector as of 30 September 2015



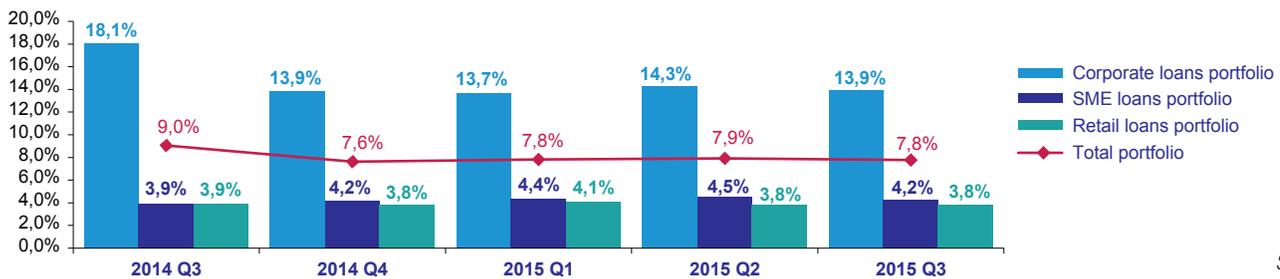
* The total income consists of interest income and fee and commission income

Source: NBG



As of the end of the third quarter 2015, non-performing loan rates for corporate loan portfolios amounted to 13.9%, which was significantly higher compared to the non-performing loans rates for SME loans portfolio (4.2%) and retail loans portfolio (3.8%). The non-performing loan rate for the total portfolio equalled to 7.8% as of 30 September 2015, which showed a decrease of 1.2% compared to 30 September 2014.

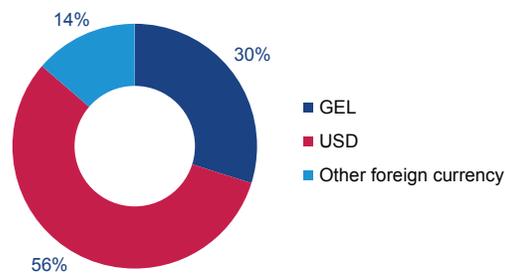
Non-performing loan rates for the Georgian banking sector



Source: NBG

As of 31 December 2015, the dollarization level in Georgia remained high. As of the end of the 2015, 56% the deposits were placed in USD, while only 30% in national currency.

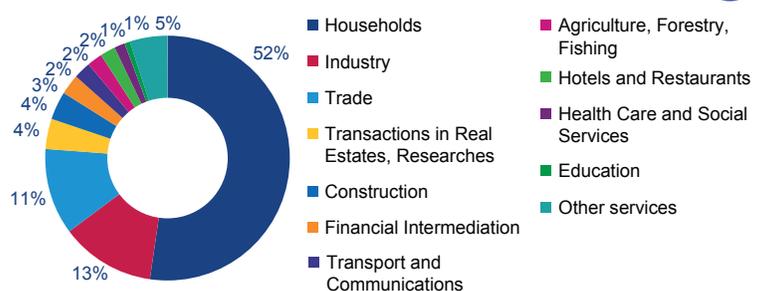
Structure of deposits



Source: NBG

The major part of the loans was borrowed by households (52%), industry (13%) and trade (11%), while each of health care and social services and education held only 1% of the total loans issued as of 31 December 2015.

Structure of loans



Source: NBG

Microfinance Sector



The microfinance business represents one of the fastest growing sectors in the country. As of 31 December 2015 there were 69 licenced microfinance organizations operating in Georgia.

Key Financial Indicators of the Georgian Microfinance Organizations (in million GEL)

Key Financial indicators*	2015	2014	Change 31.12.2015/ 31.12.2014
Assets	1,611	1,107	45.53%
Loan portfolio	1,198	852	40.61%
Liabilities	1,247	836	49.16%
Total Equity	364	271	34.32%
Share Capital	64	71	-9.86%

Source: NBG

Compared to 2014, the sector increased significantly in 2015. The assets and loan portfolio of the sector increased by 45.53% and 40.61% respectively.

There was also sharp rise in terms of liabilities (49.16%) and total equity (34.32%), while the share capital of the sector decreased by 9.86%.



Law of Microfinance Organizations

According to the Law of Microfinance Organizations microfinance organizations are authorized to:

- Extend micro loans including consumer, collateral, mortgage, unsecured, group and other types of loans (credits) to physical persons and legal entities;
- Make investments in government and public securities;
- Implement money remittances;
- Perform functions of an insurance agent;
- Render consultation services related with micro lending;
- Accept loans (credits) from resident and non-resident physical persons and legal entities;

- Own stake in share capital of legal entity, the total amount of which should not exceed 15% of the share capital of the given microfinance organization;
- Other financial services and operations provided in Georgian legislation, including micro leasing, factoring, foreign exchange and promissory note operations, issuance of bonds, realization, redemption and other related transactions.

The organizations have right to set interest rate, commissions and service fees.

Microfinance organizations are prohibited to accept deposits from physical persons as well as from legal entities.

Insurance Sector



As of 31 December 2015 there were 14 licenced insurance companies operating in Georgia.

Key Financial Indicators of the Georgian insurance companies (in million GEL)

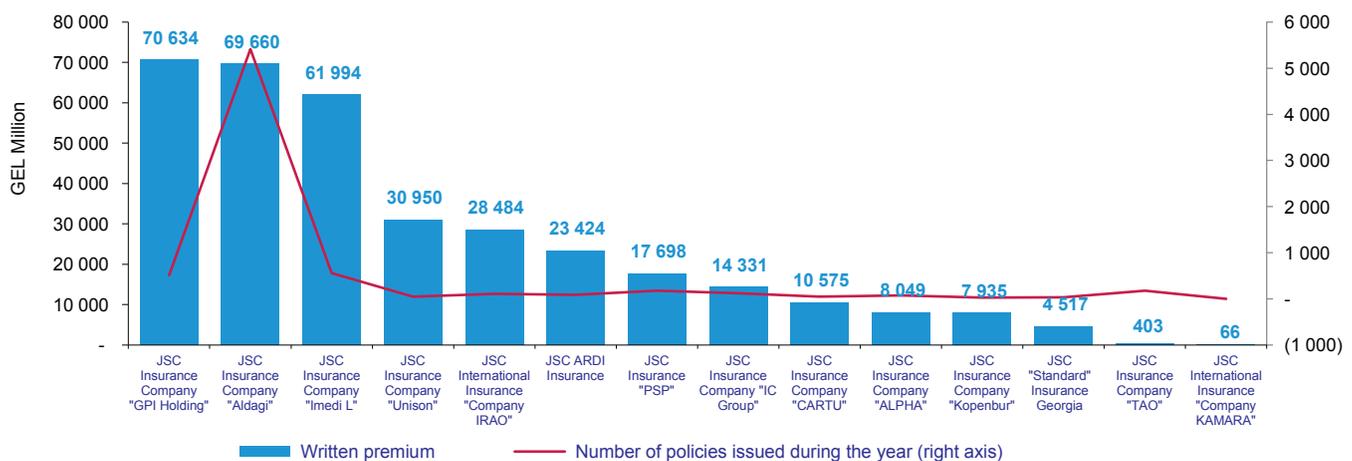
Key Financial indicators*	2015	2014	Change 31.12.2015/ 31.12.2014
Assets	520	492	5.84%
Liabilities	420	397	5.87%
Total Equity	100	95	5.07%
Share Capital	93	86	8.23%
Insurance income, net	69	91	-24.47%
Net profit after taxes	3	40	-93.49%

Source: Insurance State Supervision Service of Georgia

Compared to the previous year, 2015 appeared to be less successful for the Georgian insurance sector. On the one hand, the assets of the sector increased slightly (5.84%), on the other hand, there was a significant decrease in terms of profitability. Net insurance income decreased by 24.47%, while net profit after taxes reduced by 93.49%.

Based on the results of 2015, Insurance Company "GPI Holding", Insurance Company "Aldagi" and Insurance Company "Imedi L" were the top three leading insurance companies in terms of written premiums. It should be mentioned that the same companies were leaders based on the number of policies issued during the year.

Ranking of the insurance companies based on written premiums



Source: Insurance State Supervision Service of Georgia

Online Lenders

The organizations issuing online loans first appeared on the Georgian market a couple of years ago.

As of today, there are dozens of online lenders operating on the market and the industry is not regulated although at a meeting of the Economic council in early May 2016 the decision was made to propose legislation to regulate this sector.

The online lenders generally offer the first loan for free, which means customers do not pay interest. But afterwards the effective interest rate is quite high and often exceeds 400%.

The loan amounts range from GEL 50 to GEL 1,000. The organizations issue loans without any guarantee and the loan is approved within 15-60 minutes. The online lenders only requirement is that the borrowers must be 20-21 years old and above.

The loan issuing process is simple. The potential borrowers have to fill out an online application on the organization's websites, insert a desirable amount on the calculator and the maturity period.

No financial information about the financial results of the online lenders is available due to lack of regulation.



Legal and Regulatory Environment



Business activities in Georgia are regulated by the following major laws and codes:

- **Law on entrepreneurs;**
- **Tax code;**
- **Labour code;**
- **Different Normative acts issued.**

Law on entrepreneurs

Legal Forms

The law defines the following legal forms of entrepreneurs:

- Individual Entrepreneur (IE);
- a general partnership (GP);
- a limited partnership (LP);
- Limited Liability Company (LLC);
- Joint Stock Company (JSC);
- Cooperative.

An individual or an entity willing to set up any of above-mentioned entities should apply to the National Agency of Public Registry, acting as registering body. (Registration is completed within one day after the submission of relevant documents).

Branch

Enterprises may establish Branch Offices which shall not be legal entities. The branch office of an enterprise registered in Georgia shall not be subject to registration, whereas foreign entities are required to register a branch office (permanent establishment) in Georgia. The registration process is similar to the above.

Individual Entrepreneur (IE)

An individual entrepreneur is not a legal entity. In business activities it interacts as an individual and its obligations towards creditors is unlimited.

General partnership (GP)

A general partnership is a company where several persons (partners) conduct entrepreneurial activity jointly, under one

common company name, and are jointly and severally liable with all their assets to the creditors as joint debtors.

Limited partnership (LP)

A limited partnership is a company where several persons carry out entrepreneurial activity under one common company name, where the liability of one or several partners to creditors of the partnership is limited to payment of a fixed guarantee amount – limited partners (Commandite Partners) and the liability of other partners is not limited – Personally Liable Partners. There is no minimum capital requirement.

A Limited Liability Company (LLC)

A Limited Liability Company is an entity owned by one or more partners. Its obligations towards creditors are limited to the entire property of the company. There is no minimum capital requirement.

A Joint Stock Company (JSC)

A Joint Stock Company is an entity where capital is divided into certain classes of shares. The number and nominal value of shares is determined by the charter of company. Its obligations towards creditors are limited to the entire property of the company. Shareholders of a JSC have no obligations towards creditors.

The Supervisory Board shall be composed of at least 3 and no more than 21 members, if a joint stock company is a publicly accountable enterprise under the "Law of Georgia on Security Market" whose securities are tradable on the stock market; or if a joint stock company is licensed by the Financial Supervision Agency of Georgia; or when the number of a joint stock company shareholders exceeds 100. In all other cases, a Supervisory Board shall not be mandatory.

Cooperative

Cooperative shall be a company based on the labour activity of its members or established for developing the business and increasing the income of the members. The objective of a cooperative shall be the satisfaction of interests of the members. A cooperative shall not aim primarily at gaining profit.

Accounting and auditing

Accounting and auditing shall be carried out according to the respective laws governing financial relations.

It shall be mandatory to perform an audit in an enterprise which, according to the Law of Georgia on Securities Markets, is publicly accountable, and the securities of which are able to be traded on a securities market, or in an enterprise licensed by the Financial Supervision Agency of Georgia, or in an enterprise whose number of partners exceeds 100. The Supervisory Board shall annually hire an auditor who must be legally and economically independent from the company, its directors and partners.

The most commonly used legal form in Georgia is the Limited Liability Company (LLC)

Tax Code

Registration

All entities must be registered as taxpayers with Revenue Service of Georgia (RSG) where they will be provided with a tax payer ID number, also with a user name and password to access their page on the website of RS.ge since all tax declarations as well as VAT invoices are submitted through this website.

Taxes

Currently there are several types of taxes in Georgia as follows:

Nationwide Taxes:

- Individual Income Tax – 20%;
 - Rental Income received by a natural person for renting a residential space to a natural or legal persons – 5%
 - Surplus gained by a natural person from the sale of vehicle or a residential house and a land attached to it – 5%
- Corporate Income Tax – 15%;
- Withholding taxes for the payments made to non-residents:

Description/Year	2015
Dividends	5%
Interest	5%
Royalty	5%
International transportation	10%
International communications	10%
Other Georgian-source income	10%
Employment income	20%
Interest, Royalty and other Georgian sourced payments to Off-shore countries	15%
Rental income paid to individuals	5%, 20%

- Value Added Tax (VAT) – 18%;
- Excise – rates are fixed (except for certain tobacco products) the excise rate of which is the sum of 10% of retail selling price of tobacco and the applicable excise rate) per physical unit of excisable good (litre, kg, ton, etc.); For example, the excise rate applicable to beer is GEL 0.6 per litre, to filter cigarettes containing tobacco – GEL 1.1 per 20 pieces.

- Import Tax (Customs) – 0%, 5% or 12% (most goods are subject to the 0% rate);

Local Taxes:

- Property Tax (except for land) – up to 1% (exact rate is established by local self-governing body) of annual average net book value of property;
- Property Tax (land) – depends on type of land and is calculated based on certain rates per hectare/square meter.

Anticipated changes in Profit Taxation

On March 24, 2016, the amendments to the Tax Code of Georgia initiated by the Georgian Government and prepared by the Ministry of Finance of Georgia were presented to the Parliament of Georgia for consideration. The Draft Law is mainly related to the reform of Profit Taxation; particularly, it is proposed to introduce the so-called Estonian Model.

The major aspects of the Draft Law are as follows:

- It is not exemption from Profit tax, rather Profit taxation will be shifted from the moment of earning the profits to the moment of their distribution
- Distribution of dividends between Georgian entrepreneurs having the status of legal entities, is not considered to be profit distribution, consequently is not subject to taxation.
- Methodology of determining tax base is being changed drastically. Profit tax base mainly will be calculated by dividing the amount of the distributed earnings by 0.85
- In addition, taxable events include the following: free of charge supply, providing loans to individuals and non-resident entities, non-arm's length transactions with related parties.
- Transactions on non-market terms and conditions between Georgian resident related entities is not subject to Profit tax.
- The tax period for Profit tax will be a calendar month
- No changes apply to tax rates. Profit tax rate will still be 15%, withholding tax on dividends – 5%.
- New model will not apply to Not-for-profit organizations.
- It is proposed to make the law effective for tax periods starting January 1, 2017, except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which law will be effective from January 1, 2019

Double Taxation Agreements

According to information provided by the official website of the Ministry of Finance of Georgia (MOF) Georgia has negotiated a number of agreements for the avoidance of double taxation (DTT), of which 52 have entered into force. The list of a) already effective double-tax treaties, b) ratified treaties by Georgian parliament, c) initialled agreements and d) initiated negotiations is available on the following link of the MOF website: <http://mof.ge/en/4681>. The majority of DTTs are drafted in accordance with the OECD model tax conventions; however some are more in line with the UN model convention.

According to Georgian legislation international agreements (including DTTs, FTAs) prevail over Tax Code of Georgia.

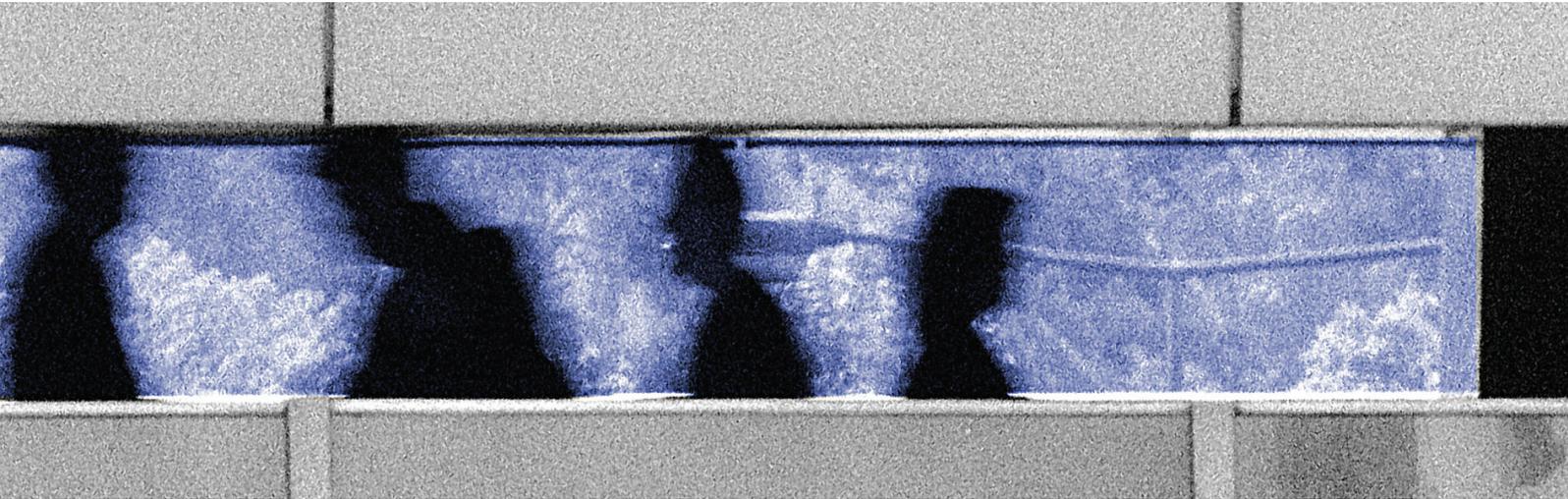


Labor Code

The labour code was adopted by the parliament on 17 December 2010, however, the latest significant amendments were made in July 2013.

Some of the major points of the labor code are as follows:

Discrimination	Labour and pre-contractual relations shall prohibit any type of discrimination due to race, skin colour, language, ethnicity or social status, nationality, origin, material status or position, place of residence, age, sex, sexual orientation, marital status, handicap, religious, public, political or other affiliation, including affiliation to trade unions, political or other opinions.
Employee age	A person is considered as capable of work from the age of 16. Legal capacity of minors under 16 (not less than 14) to enter into a labour agreement shall originate by consent of their legal representative or a custody/guardianship authority unless the labour relations contradicts minors' interests, prejudices their moral, physical and mental development, and limits their right and opportunity to acquire compulsory primary and basic education. Children below 14 are allowed to work only in the fields of sport, art and culture and as well as for performing certain advertising work.
Pre-contractual relations	An employer shall be obliged to provide the candidate with the information about: <ul style="list-style-type: none"> a) the work to be performed; b) the form (written or oral) and the period (fixed-term or open-ended) of a labour agreement; c) the working conditions; d) the legal status of an employee in labour relations; e) the remuneration of labour.
Labour contract	A labour agreement shall be oral or written, fixed-term or open-ended. Agreement must be in written form if labour relations last for more than three months. A labour agreement can be written in several languages, it just needs to be indicated which language prevails in case of discrepancy between the texts;
Hiring	Employers are free to hire any person whether a Georgian resident or not. Foreigners do not need a work permit. An employer shall submit a notification to the LEPL Social Service Agency in connection with the employment of immigrants legally residing in Georgia.
Remuneration	Decree No. 351 of June 4, 1999 of the President of Georgia sets minimum salary requirement in amount of GEL20. Salary can be set in any foreign currency, however, the actual payment should be made in Georgian Lari equivalent.
Work, Break and Rest Time	An employer shall determine the duration of working time not to exceed 40 hours a week. The time exceeded 40 hours per week will be considered as overtime work. Overtime work shall be compensated by increasing the amount of hourly pay rate. The amount of the above compensation shall be determined by agreement of the parties. The parties may agree on granting additional time off to an employee in return for overtime compensation.



Vacation/leave An employee has the right to get not less than 24 working days of paid and 15 calendar days of unpaid leave per year;

At the employees' request, they shall be granted maternity and child care leaves of absence of 730 calendar days, from which 183 calendar days shall be paid. Maternity, child care, and new-born adoption leaves of absence shall be paid from the State Budget of Georgia as determined by the legislation of Georgia. Cash allowance shall be a maximum of GEL 1,000. Employers and employees may agree on extra pay.

Employment Termination The Labour Code sets grounds for termination of labour agreements, which shall be:

- a) economic circumstances, technological, or organisational changes requiring downsizing;
- b) expiration of a labour agreement;
- c) completion of the work under a labour agreement;
- d) voluntary resignation of an employee from a position/work under a written application;
- e) written agreement between parties;
- f) incompatibility of an employee's qualifications or professional skills with the position held/work to be performed by the employee;
- g) gross violation by an employee of his/her obligation under an individual labour agreement or a collective agreement and/or of internal labour regulations;
- h) violation by an employee of his/her obligation under an individual labour agreement or a collective agreement and/or of internal labour regulations, if any of the disciplinary actions under the above individual labour agreement or collective agreement and/or internal labour regulations has already been administered to the employee during the last one year;
- i) long-term disability, unless otherwise provided for by a labour agreement, if a disability period exceeds 40 consecutive calendar days or total disability period exceeds 60 calendar days within six months, and, at the same time, the employee has already used his/her leave of absence under Labour Code;
- j) entry into force of a court judgement or decision precluding from performing the work;
- k) legally effective court decision on declaring a strike illegal under Labour Code;
- l) death of an employing natural person or of an employee;
- m) initiation of liquidation proceedings for an employing legal person;
- n) other objective circumstance justifying termination of a labour agreement.

When terminating a labour agreement on any of the grounds under points a), f), i), n) above, employers shall be obliged to notify employees about it in writing at least 30 calendar days in advance. Besides, employees shall be granted a severance pay of at least one month salary within 30 calendar days after terminating the labour agreement. Or alternatively employers may notify employees about termination in writing at least three calendar days in advance and in this case employees shall be granted a severance pay of at least two months' salary.

If termination is initiated by an employee, a written notification should be submitted to the employer 30 calendar days prior.

Law of Georgia on Accounting, Reporting and Auditing

According to the draft law that is planned to enter into force from June 2016, entities shall perform accounting and financial reporting in accordance with the following procedures:

- Public Interest Entities (PIE, traded on stock exchange, banks, microfinance organizations, insurance companies, pension funds, investment funds and other companies as defined by the Government of Georgia) and large enterprises (total assets over GEL 50 million, total revenues over GEL 100 million, average number of staff over 250) perform accounting and financial reporting in accordance with the International Financial Reporting Standards (IFRS)
- Small (total assets below GEL 10 million, total revenues below GEL 20 million, average number of staff below 50) and medium enterprises (total assets below GEL 50 million, total revenues below GEL 100 million, average number of staff below 250) shall perform accounting and financial reporting in accordance with the International Financial Reporting Standards for Small and Medium-sized Businesses (IFRS for SMEs). However, they may elect to apply the International Financial Reporting Standards (IFRS)
- Micro enterprises (total assets below GEL 1 million, total revenues below GEL 2 million, average number of staff below 10) and non-profit legal entities shall perform accounting and financial reporting in accordance with standards set by the Accounting, Reporting and Auditing Supervision Agency, except for the case when legislation regulating the specific field provides for possibility to apply a different standard. In addition, the standard introduced by the Agency for micro entities shall be based on accrual method

An entity, for the purpose of meeting requirements of the present Law, shall:

- Define the accounting policy
- Design chart of accounts
- Develop mechanism and procedures for keeping and controlling documents reflecting economic events
- Define the timeframe and technology for processing accounting information
- Develop financial reporting forms and define procedures related to preparation and filing of financial statements on the basis of respective standards
- Develop the set of processes and regulations (internal control system) that ensures business efficiency and effectiveness, reliability of financial statements and compliance with the effective legislation

According to the law, effective from the year ended 2017 and 2018, depending on the size of the company, all the companies are expected to file their accounts by 1st of July each year. Moreover, PIEs, large and medium - size enterprises are obliged to have their financial statements audited.

The draft law also introduces requirements for auditor registration, certification and quality control reviews, as well as mandatory audit firm rotation rules every 10 years which may be extended to 20 years.

Different Legislative acts issued

There are several legislative acts issued for some of the industries and/or companies which regulate their commercial activities. For instance:

Banks are regulated with legislative acts issued by the National Bank of Georgia

- The Law of Georgia on “Licences and Permits” regulates areas governed by licences and permits, defines a comprehensive list of the types of licences and permits, and lays down the procedures for issuing, changing, and repealing licences and permits
- The law of Georgia on “Competition” defines the principles for protecting free and fair competition from unlawful restrictions in order to create a basis for the development of free trade and a competitive market. Further, it prohibits the unfair actions of undertakings, abuse of dominant position, anticompetitive agreements, etc.. The authorized body to ensure compliance with and fulfilment of the provisions of this Law is the Competition Agency
- Law of Georgia on “Personal Data Protection” is intended to ensure protection of human rights and freedoms including the right to privacy in the course of personal data processing. The legality of data processing in Georgia is monitored by the Personal Data Protection Inspector who shall examine (inspect) of lawfulness of data processing at public and private institutions
- The Intellectual property issues are mainly regulate by the Law on Copyright and Neighbouring Rights, Trademark Law, Patent Law, Law on Appellations of Origin and Geographical Indications of Goods, Law on Design, Law on Border Measures Related to Intellectual Property. In addition Georgia has signed major international conventions, acts and the treaties in respect to the IP rights (for instance, WIPO Convention, WIPO Copyright treaty, etc.)
- The Law of Georgia on “Facilitating the Prevention of Illicit Income Legalisation” regulates relations associated with the identification and facilitation of the prevention of illicit income between the relevant authorised bodies and persons determined by this Law, as well as relations between Georgia, on the one hand, and foreign authorised bodies and international organisations, on the other hand. The law of Georgia on “State Support for Investments” is intended to promote investments by improving the procedures necessary for investment and business activities. The Georgian National Investment Agency represents the Government of Georgia in matters related to state support for investment (for more information please see: <http://www.investingorgia.org/en/>). In addition, Law of Georgia on “Promotion and Guarantees of Investment Activity”, determines legal grounds for the implementation of both foreign and local investments in the territory of Georgia and guarantees for their protection.

Appendix. Legal forms in Georgia

Legal form	General partnership (GP)	Limited partnership (LP)	Cooperative	Joint Stock Company (JSC)	Limited Liability Company (LLC)	Branch (permanent establishment)
Legal entity	Yes	Yes	Yes	Yes	Yes	No
Minimum charter capital	N/A	N/A	N/A	N/A (only for Banks – GEL 12 million and for MFOs – GEL 250 k)	N/A	N/A
Number of owners	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	N/A
Owner(s) obligations towards creditors	Unlimited	Commandite Partner – limited to guaran-tee amount; Personally Liable Partners - Unlim-ited	No obligations	No obligations	No obligations	Branch is a part of the foreign-based company. Owner's liability depends on the legal structure of the foreign-based company
Entity's obligations towards creditors	Responsible with its entire property	Responsible with its entire property	Responsible with its entire property	Responsible with its entire property	Responsible with its entire property	Responsible with its entire property
Corporate income tax (15%)	Yes	Yes	Yes	Yes	Yes	Yes
Tax on dividend (5%)	Yes	Yes	Yes	Yes	Yes	N/A

Contact us

KPMG in Georgia

3rd floor, Besiki Business Center,
4 Besiki Street, Tbilisi, 0108,
Georgia

T +995 (32) 93 57 13 / 93 56 95

F +995 (32) 98 22 76

E general@kpmg.ge

www.kpmg.ge

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").