



Amendment to the order

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Amendment to the order №996 “About Administration of Taxes” issued on 31 December 2010 by the Minister of Finance of Georgia.

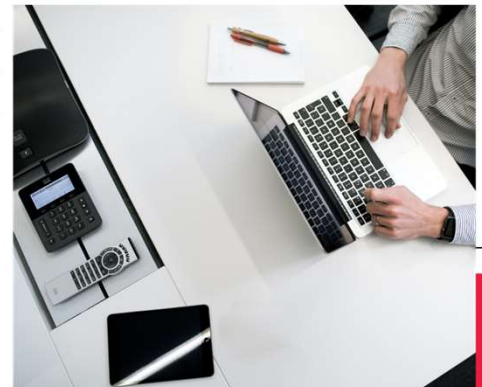
Extension of the deadline for submitting information on the timber starting balances

On 13 July 2023 the order №266 of Minister of Finance of Georgia was published that made the amendment to the order №996 “About Administration of Taxes” issued on 31 December 2010 by the Minister of Finance of Georgia.

As you are aware, an electronic module for accounting of timber movement and balances has been developed at the Revenue Service, that provides for the production of an electronic journal of timber accounting, as well as the subscription of a special form and commodity notification about starting balances, which will be the basis for the subscription of the timber waybill. In addition, we remind you that the taxpayer is obliged to be guided by the updated regulation of timber accounting, including by the electronic module of timber accounting on the authorized page (“timber accounting”) and the new rule for issuing the timber waybill, since June 15, 2023.

Within the framework of the above, the amendment has been made to the order №996 and 64th part of the Article 112 of the transitional provisions has been changed. According to the amendment, the deadline for submitting information on the starting balance of timber was extended by one month. In particular, the taxpayer is obliged to submit information on the balance of timber in its ownership as of June 15, 2023 to the tax authority no later than August 16, 2023, instead of 15 July, 2023.

The amendment came into force from July 14, 2023.



Income received as a result of supplying a catalytic converter (catalyst) of a motor vehicle

On July 4, 2023 the order №256 of Minister of Finance of Georgia was published that made the amendment to the order №996 “About Administration of Taxes” issued on December 31, 2010 by the Minister of Finance of Georgia.

The amendment affected the Article 39³ of the mentioned order, that refers to the taxation at the source of payment of the income received by a natural person from supply of goods in certain cases. According to the amendment, the new sub-paragraph “c” of the first paragraph has been added to the mentioned article. According to the amendment, the income earned from supplying scrap metals/waste of a motor vehicle catalytic converter (catalyst) and/or a motor vehicle catalytic converter (catalyst) component parts (including amortized muffler filter and/or ceramic muffler filter) shall be taxed at source at the rate of 3%.

The amendment came into force from July 19, 2023.

New annexes of monthly Corporate Income Tax (CIT) and annual Personal Income Tax (PIT) Returns

On July 19, 2023 the order №275 of Minister of Finance of Georgia was published that made the amendment to the order №996 “About Administration of Taxes” issued on December 31, 2010 by the Minister of Finance of Georgia.

According to the amendment, the information on the movement of loan and capital must be reflected in the monthly CIT and annual PIT returns.

Annual PIT Tax Return

An amendment has been made to the annex №II-04 and the article 33 of the mentioned order, those regulate the rules for filling out the annual PIT tax return by an individual. A new annex named "Loan Accounting" has been added to the annex №II-04, and a new paragraph 9 has been added to the article 33, where the rule for filling out the annex "Loan Accounting" was defined, according to which information about received/issued loan(s) is reflected in the mentioned annex.

The mentioned change will affect the PIT tax return of 2023, the deadline of submission of which is until April 1, 2024. The taxpayer should reflect the information about received/issued loan(s) in the appropriate graphs.

Monthly CIT return

Also, the amendment affected the annex №II-08⁶ and the article 40¹ of the mentioned order, those regulate the rules for submitting the CIT tax return. A new annex 3 named "Accounting of loans and capital" has been added to the annex №II-08⁶, and a new paragraph 9 has been added to the article 40¹. By the amendment the rule for filling out the annex "Accounting of loans and capital" was defined,

according to which information about received/issued loan(s) and information about the capital of the enterprise as well as the capital held by the enterprise in another enterprise shall be reflected, in particular:

- Information about received/issued loan(s)
- The following information shall be recorded in the part of the enterprise's capital: the amount of the enterprise's capital as of the beginning of the reporting month, the increase of the enterprise's capital during the reporting month, the reduction of the enterprise's capital during the reporting month, the amount of the enterprise's capital as of the last date of the reporting month
- In case the company owns capital in another enterprise: the amount of capital in another enterprise as of the beginning date of the reporting month, the increase of capital in another enterprise during the reporting month; the reduction of the capital in another enterprise during the reporting month and the amount of capital in another enterprise as of the last date of the reporting month.

From August 1, 2023, the taxpayer must reflect the information as of July about received/issued loan(s) and the information on capital of the enterprise as well as the capital held by the enterprise in another enterprise in the relevant graphs of the tax return of July, also the same information as of the relevant periods should be reflected in corresponding accounting months.

The amendment came into force from August 1, 2023.

Mutual agreement procedure determined by international agreements on avoidance of double taxation

On July 6, 2023 the Order №258 of Minister of Finance of Georgia was published that approved the mutual agreement procedure rules defined by international agreement on avoidance of double taxation.

Based on the international agreement on avoidance of double taxation ratified by the Parliament of Georgia and entered in force, the taxpayer is entitled to request the initiation of the mutual agreement procedure in accordance with the mentioned rule, If the taxpayer considers that the action of one or both states parties to an international agreement cause or may cause its taxation inconsistent with the provisions of the same international agreement, including:

- On the issue related to the International controlled transactions
- On the issue related to the Permanent Establishment
- On the issue related to the dual residency of the taxpayer
- On the issue of withholding tax at the source of payment
- On the issue related to the incorrect/unfaithful use of the provisions stipulated by the international agreement.

The present order regulates the start of the mentioned mutual agreement procedure, the functions of the competent body of Georgia, the obligations of the taxpayer and the rule of termination of the mutual agreement. Among them, the following issues are worth noting:

- To start the mutual agreement procedure, the taxpayer should submit an application about mentioned issues to the competent body of Georgia
- If the taxpayer, who is not a resident of Georgia, has applied to the competent body of Georgia to start the mutual agreement procedure, the competent body of Georgia should notify the competent body of the other contracting state about the above and jointly discuss the issue of the approach to be used in this regard.

- The application should be submitted by the taxpayer within three years from the moment of discovery of non-compliance with the provisions of the international agreement, unless otherwise stipulated by the international agreement.
- The decision made by the competent body of Georgia as a result of the mutual agreement procedure should be implemented within three months of the decision.

The order came into force from July 7, 2023.

Granting and cancellation of an unqualified VAT payer status

On July 28, 2023 the order №14558 was issued by the Minister of finance of Georgia, that made the amendment to the order №3751 issued by the head of Revenue Service on February 16, 2022 on approval the instruction about „Restriction of the Right of Taxpayers to issue/confirm Tax Invoices, Tax Documents and issue waybills in certain cases and determining the special rules for using the electronic tax invoice issued by the taxpayer”.

The amendment has been made in the Article 2 of the mentioned order, that determines granting and cancellation of an unqualified VAT payer status. In particular, sub-paragraph "b" of the first paragraph was changed, according to which, a VAT payer is granted the status of a unqualified VAT payer if a person with the status of a qualified VAT payer has not submitted a tax return/calculation (except for the person's property tax return/calculation) during any consecutive 12 calendar months or has submitted and the sum of a tax to be assessed on its basis does not exceed one GEL. It should be noted that before the change, the basis for granting the status of an unqualified VAT payer was the case when the taxpayer did not record any transaction on a taxpayer's personal account card except for the transaction that's amount was zero.

Also, a new paragraph 8 was added to the article of special provisions of the said order (Article 8), according to which a person with the status of an unqualified VAT payer is also restricted to take the tax invoices and tax documents in material form.

The amendment came into force from July 1, 2023.

Amendment to the Law

Voluntary Private Pension

On July 19, 2023, the Law of Georgia on "Voluntary Private Pension" was issued. The enactment of the mentioned Law led to the amendments into the Tax Code of Georgia, that will ensure the implementation of the Law on Voluntary Private Pension, by the enactment of the relevant tax treatment.

The Law of Georgia on "Voluntary Private Pension" was developed based on the best international practices, the purpose of which is to develop the Voluntary Private Pension market in Georgia, to ensure its unrestricted competition, to secure the financial sustainability of the Voluntary Private Pension schemes, to encourage long-term investments and to protect the interests of participants and



beneficiaries. According to this law, there can be two types of Private Pension schemes - Personal Pension scheme and Group Pension scheme. Only Asset Management Companies and Insurers have the authority to register the Personal Pension scheme, and both employed physical persons and any other physical persons (including self-employed persons) can contribute. It is essential that under the mentioned Law, each participant has the right to voluntarily contribute to one or more Personal Pension schemes and for even more flexibility, can at any time transfer their pension assets from one to another Personal scheme. As for the Group Pension scheme, it is determined by the employment and only an employee who is in labor relations in accordance with the Labor Code of Georgia can participate in it. It is important that the employee can also contribute to one or more Personal Pension schemes along with a Group Pension scheme.

So as Voluntary Private Pension schemes can compete with the Funded Pension scheme, it was important to implement competitive tax treatments. For that cause, the following amendments were made to the GTC:

The Article 82 of GTC, defining the exemptions from personal income tax, has been amended. A new subparagraph "b4" was added to the first part of this article, determining the types of income received by a natural person within the Voluntary Private Pension scheme, that are exempted from the personal income tax:

- Pension contributions up to 6,000 GEL during the year made by the participant and/or in his/her favor.
- Benefits received by the participant as a result of contribution to the pension scheme.
- Collecting pension assets recorded on the participant's personal pension account in the form of annuity or programmed withdrawal, in case of early retirement, disability, or whether the retirement age is reached.

It should be noted that the mentioned exemptions apply to the withdrawal of the benefits received from participation in the pension scheme, only if the pension assets are collected in accordance with the rules envisaged under the mentioned law. Particularly, pension assets can be collected in the form of annuity when the retirement age is reached, by programmed withdrawal, in case of disability, or 5 years before reaching the retirement age. In addition, when the pension is paid as a lump sum, if the beneficiary withdraws the pension within the total 6,000 GEL annual preferential contributions, the participant will not be able to use income tax exemption and such contributions will be taxed by PIT at the rate of 20%.



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AUTHOR'S COLUMN

This publication covers important new tax changes that business should take into consideration for their daily operations and governance.

This issue provides information on amendments into the Tax Code of Georgia about administration of taxes, voluntary private pensions and other topics.

Please contact BDO to discuss these matters in the context of your particular circumstances.

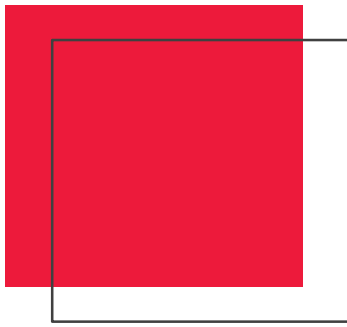
MARIAM KHUSKIVADZE
MKhuskivadze@bdo.ge

MIKHEIL ENUKIDZE
ME nukidze@bdo.ge

► Read more www.bdo.ge

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The Article 101 of GTC, that defines salary income, has been amended as well. The new sub-paragraph "h1" was added to the second part of this article. According to the amendment, the contributions to the pension scheme under the Law of Georgia on "Voluntary Private Pension", made by the employer in favor of the employee were defined as salary income.

Amendment was also made to the Article 154 of GTC, that defines the withholding tax procedures at the source of payment. The new sub-paragraph "p" was added to the first part of the article, according to which the withholding agent, who is an Asset Management Company, Insurer or Pension Company, is responsible for withholding taxation when disbursing pension assets recorded on a personal pension account of the person, who is the participant of the pension scheme under the Law of Georgia "On Voluntary Private Pension".

The new part 141 was added to the Article 309 Transitional provisions of GTC. According to the new record, from January 1, 2025 on the disbursements made by the legal entities, who were carrying out voluntary private pension activities before January 1, 2025, will apply the regulations defined under this code that are related to the relations determined by the Law of Georgia on "Voluntary Private Pension".

Other tax amendments made regarding the mentioned Law determine the regulation of other technical issues, such as the replacement of the terms with new definitions, the classification of activities related to voluntary private pensions as financial services/transactions, considering the provisions related to tax secret for the voluntary private pensions, and the non-proliferation of enforced payment procedures for tax liabilities on the participant's pension assets.

The amendment came into force from January 1, 2025.

Amendment to the Methodical Reference

“About cash in the cash register” - Annex №9

On July 13, 2023, the head of Revenue Service issued the order №415615 that amended the order №22708 (Part I) on “approval of methodical reference for determining the tax liabilities of a person in individual cases” issued by the Head of Revenue Service on July 8, 2019. Particularly, the amendment was made to the Methodical Reference “About cash in the cash register” - Annex №9.

We remind you that the following Methodical Reference, considering the Article 73 of GTC, regulates the issues of calculating a reasonable balance from the cash balance at the taxpayer's cash register during tax audits and the taxation of an unreasonable balance. As a result of the amendment, in the updated

Methodical Reference, a few definitions of terms and principles of using the mentioned Reference were changed. Additionally, new terms and examples were added those demonstrate tax approaches developed by the Revenue Service. Also, the updated Methodical Reference specifies different approaches to the calculation of the reasonable balance, compared to the old version of the Methodical Reference.

The amendment came into force from July 4, 2023.