

---

# *PwC Georgia Tax & Law Brief*

*23 April 2019*

---

## **Amendments to the Instruction Established by the Order N996 of Minister of Finance of Georgia**

---

According to the recent amendments to the Instruction Established by the Order N996 of Minister of Finance of Georgia dated 29 March 2019:

### *Revocation of VAT registration*

- The VAT payer shall apply to tax authority with the request to cancel VAT registration, if the following requirements are satisfied simultaneously:
  - The registration was voluntary;
  - No more than 30 calendar days have passed since the registration date;
  - The fact of requesting – issuing the VAT invoice has not been confirmed;
  - No VAT declaration has been submitted;
- In accordance with the amendments, the form of application for cancellation of the VAT payer's status was changed.

*Source: The Legislative Herald of Georgia, 22 April 2019*

---

## **Draft of Amendments to the Law of Georgia on “Insurance”**

---

The draft amendments to the law of Georgia on “insurance” was submitted to the Parliament of Georgia, pending 1<sup>st</sup> hearing.

### *Brokerage activity in the field of insurance*

- According to the expected changes, brokerage activity in the field of insurance shall be defined as the activity, which involves at least one of the following:
  - Offering to enter into insurance/reinsurance agreement;
  - Conducting preparatory works and organizing the process of entering into the insurance/reinsurance agreement;

***Company name of the insurance brokers***

***Registration of the insurance broker***

***Conditions of ensuring financial stability of the insurance broker***

- Entering into insurance/reinsurance agreement on behalf of the insurer/reinsurer company;
- Managing the process of evaluating loss and reimbursement procedures based on the insurance case;
- Within the limits indicated by the insurer/the policyholder, promoting execution of insurance/reinsurance agreement by collecting insurance premium and granting insurance payments;
- Brokerage activity in the field of insurance shall be performed by insurance agents or insurance brokers;
- The insurer may perform brokerage activities both directly and through the insurance agents/brokers;
- Company name of the insurance broker shall include “insurance broker” or other combination of these words;
- One is not entitled to use “insurance broker” or other combination of these words in its company name, unless the Service registers the company;
- The insurance broker may perform brokerage activities after the relevant registration;
- During the whole period of performing brokerage activities, the insurance broker shall have minimum amount of capital/warranty fund set by the Service, that shall be placed on a separate account/accounts of the licensed banking institution of Georgia;
- During the whole period of performing brokerage activities, the insurance broker shall insure its professional liability;
- While performing brokerage activities, the insurance broker shall have separated personal and customer accounts in the licensed commercial banks of Georgia. The funds existed on the consumer account shall be used only for the purposes of insurance premiums and insurance payments;
- The funds existed on the consumer account are not included in the trust property and can not be used to satisfy other creditors. Besides, the consumer account, can not be subject to provisional measures and forced enforcement procedures.

*Source: The Parliament of Georgia, 22 April 2019*

---

**Draft of Amendments to the Order of the President of the National Bank of Georgia (NBG) #151/04 dated 23 December 2016 on “Approving Rules of Protection of the Rights of Consumers by Financial Organizations”**

---

Draft of amendments to the order of the president of the National Bank of Georgia (NBG) #151/04 dated 23 December 2016 on “Approving rules of protection of the rights of consumers by financial organizations”, was published on the website of the NBG.

***Loan issuer entity***

- According to the expected changes, the order shall, inter alia, apply to the loan issuer entity, that will be deemed as financial institution;

***Obligations of the financial organization while requesting insurance***

- If for granting special financial product, the financial organization requests insurance of pledged/mortgaged property or life insurance of the borrower, it shall offer the customer products of at least 5 different insurance companies;

***Advertising the product of credit/deposit***

- If any parameter determining the price of the credit/deposit is connected with the public index, the financial organization shall indicate that the parameter is indexed;
- If any parameter determining the price of the financial product is voiced in the commercials/offers, the APR shall be voiced too;
- The financial organization may indicate in commercials/offers only the APR;
- Agreement stored by the financial organization and the customer shall have the equal force;

***Obligations of financial organizations***

- Upon the customer’s request, the financial organization shall provide:
  - Information regarding the current accounts/credit and deposit financial products in the form of extract. At least once in a month, the extract on maximum last 2 years shall be provided for free;
  - Certificate of debt;
- If the information indicated in the above paragraph is placed on the official form, the financial organization may request the commission. In such cases, the financial organization shall offer the customer the free alternative to provide the requested data;
- In the specific financial product agreement, the financial organization shall inter alia indicate:

***Specific financial product agreement***

- Complete information on covenants non-fulfillment of which enables the financial organization to amend/terminate the agreement and/or any its

provisions unilaterally;

- Dispute resolution clauses;
- Information on re-pledging pledged property (if such right does exist). The present information shall be indicated in the heading of the agreement too;

***Requirement for the specific financial product that is secured with suretyship/mortgage/pledge***

- If the borrower and the owner of mortgaged/pledged property are two different persons or/and the obligation is secured with suretyship, the general agreement shall not be secured with suretyship/mortgage/pledge. In this case, suretyship/mortgage/pledge shall be made for each individual credit;
- Financial organization shall provide to the surety or owner of the mortgaged/pledged property copies of the credit agreement and its heading and shall inform the borrower about the present obligation in advance;
- The extract provided by the financial organizations, shall inter alia, indicate distribution of each installment among interest, penalties, other charges imposed by the financial organization and the principal amount;
- In case of existing agreements or if no more than 2 years have expired since termination/completion of the agreement, the extract, indicated in the previous paragraph, shall be provided for free at least once in a year;
- In the case of early partial repayment if at least 20%, minimum 500 GEL, of the principal amount of loan is repaid, the financial organization shall offer the consumer the new schedule at least on the following:
  - Distribution of remaining principal amount for the same period by reducing the monthly installments;
  - Reduction of the remaining periods via the same monthly installments;
- According to the order, consumer's claim shall be defined as any application (written or oral) of the consumer by which s/he expresses dissatisfaction/complaint on financial organization and/or any its product. Moreover, the complaint received via the telephone channel, which requires further discussion, shall not be regarded as claim of oral form.

***The detailed extract of repayments and withdrawals***

***Obligation of the financial organization to offer the borrower new schedule***

***Consumer's claim***

*Source: The National Bank of Georgia, 22 April 2019*

---

## **Draft of Amendments to the Law of Georgia on “Licenses and Permits”**

---

The draft amendments to the law of Georgia on “licenses and permits” was submitted to the Parliament of Georgia, pending 1<sup>st</sup> hearing.

### ***Rules of directly issuing the mineral abstraction license***

- According to the expected changes, upon the consent of the government of Georgia, the license may be issued directly in the following cases:
  - Water supply licensee – granting right to abstract groundwater for the purposes of supplying drinking water;
  - Abstracting the healing mud and underground mineral water of external usage (medical spas) for tourist and recreational purposes;
  - Abstracting underground still water from private land plot for commercial purposes provided that annual amount of abstracted water does not exceed 5 000 cubic meters.

*Source: The Parliament of Georgia, 22 April 2019*

---

## **Decisions of the Constitutional Court of Georgia**

---

The constitutional court of Georgia ruled on the constitutional claim of “SKS” LLC concerning provisions of the Law of Georgia on State Procurement.

### ***Purchasing postal and courier services from “Georgian Post” LLC by the procurement organization without the Law of Georgia on State Procurement***

- According to the contested provisions, the Law of Georgia on State Procurement does not apply if the procurement organization purchases postal and courier services from “Georgian Post” LLC.
- The Constitutional Court of Georgia explained that, freedom of enterprise is restricted if the government, via state funds, selectively benefits certain economic agents and affects the competition or creates such risk.
- The Constitutional Court stated, that contested provisions contradicted with the Constitution of Georgia due to the following reasons: a) “Georgian post” LLC was not obliged to provide population with postal and courier services throughout the country at affordable prices; b) transparent/objective parameters are not set to calculate economic expenses that are needed for providing the public service; c) it is not excluded that Georgian Post LLC will not benefit more than it is needed to cover the costs of postal and courier services and reasonable profit.
- The Constitutional Court ruled that, the provisions of the Law of Georgia on State Procurement, according to which the law does not apply if the procurement

organization purchases postal and courier services from Georgian Post LLC, is unconstitutional. The present rule shall be declared invalid since 1 May 2020.

The constitutional court of Georgia ruled on the constitutional claim of “Tiflisi 777” LLC concerning provisions of the Law of Georgia on Insolvency Proceedings.

***Transferring trust property to the state ownership***

- The alleged provision regulates the issue of trust property, which was not alienated on the third auction or remained after the third auction. According to the contested provision, the creditors shall be offered to take these properties into their ownership and if within established term none of the creditors expresses such will, the property will be transferred to state ownership.
- The Constitutional Court stated that the present rule contradicted with the Constitution of Georgia due to the following reasons: a) it did not prevent corruption and fraudulent schemes; b) property is transferred to the state ownership at the stage, when insolvency proceedings are still going and registration of the person has not be cancelled yet, i.e. the provisions do not aim to eliminate insolvent persons; c) the contested provision does not guarantee reimbursement of the expenses of the National Bureau of Enforcement as a trustee.
- The Constitutional Court ruled that, the provisions of the Law Georgia on insolvency proceedings, according to which the trust property remained after the third auction, ownership on which was not taken by creditors, shall transfer to the state ownership, is unconstitutional.

The constitutional court of Georgia ruled on the constitutional claim of Irakli Khvedelidze concerning provisions of the administrative offences code of Georgia.

***Appealing the order delivered by the first instance court in an administrative case***

- According to the contested provision, the order delivered by the first instance court in an administrative case, may be appealed within 10 days after its delivery.
- The complaint alleged that, countdown of the 10 - day term of appeal shall start not from delivery of the order but from the moment when justified order is transferred to the person;
- The Constitutional Court stated that the present rule contradicted with the Constitution of Georgia and set an artificial barrier for the right to appeal due to the following reasons: a) the person does not have a chance to become acquainted with the justified order and based its content make decision whether to appeal it and submit relevant justified complaint; b) in order not to miss the term of appeal, one has to appeal the order within 10 days without any justifications and provide proper arguments only after having received justified order.

- The Constitutional Court ruled that, the content of the provision of the code of Georgia on administrative offenses, according to which the order issued in an administrative case may be appealed within 10 days after its delivery, is unconstitutional. The present rule shall be declared invalid since 1 July 2019.

*Source: The Constitutional Court of Georgia, 22 April 2019*

---

**Let's talk**

For a deeper discussion of how this issue might affect your business, please contact us at PwC Georgia

---

**Sergi Kobakhidze**

Director, Tax & Law Practice  
E-mail: [sergi.kobakhidze@pwc.com](mailto:sergi.kobakhidze@pwc.com)  
Tel: + 995 32 250 80 50

**Vano Gogelia**

Head of Legal Practice  
E-mail: [vano.gogelia@pwc.com](mailto:vano.gogelia@pwc.com)  
Tel: + 995 32 250 80 50

PwC in Georgia offers Integrated Assurance, Tax, Legal and Advisory services. PwC Network globally employs 208,109 people in 756 locations across 157 countries who share their thinking, experience and solutions to develop fresh perspectives and effective practical advice.

PwC Georgia **Tax Services** includes tax advisory services, tax reviews and tax compliance, transfer pricing compliance, representation during tax disputes, tax structuring, double tax treaty advice, tax due diligence support, customs matters and others.

PwC Georgia **Legal Services** offers a full range of legal support in corporate and commercial law, corporate reorganizations, corporate secretarial work, M&A, competition compliance & litigation, secured transactions, employment law, immigration, construction law and other. With over 3,200 lawyers across more than 85 countries, we have the broadest geographical coverage of any legal services network in the world.

