

Entrepreneurial Activities

Amendments to the Law on Entrepreneurs

On March 30, 2007 the **Law of Georgia on Entrepreneurs** was amended extensively. The amendments concern such issues as payment of the charter capital, issuing of excerpts from the Entrepreneurial Registry, the amount of the contribution by each partner in a Limited Liability Company, and also introduce a number of new requirements. Most importantly, the amendments significantly relax the requirements regarding the contribution into the charter capital. Namely, payment of the charter capital either in full or in part shall no longer be a precondition for registration of companies. The amendments further abolish the divisibility requirements regarding the contribution into the charter capital by the partners of an LLC. Such contribution does no longer need to be divisible by ten. In addition, the amendments introduce the right of the 5% shareholders in a Joint Stock Company to request from the governing body of the company the copies of the agreements executed by the company, as well as the information regarding the planned transaction. Other novelties concern the procedures for increasing of charter capital in an LLC. Also, an excerpt from the Entrepreneurial Registry shall be issued immediately upon request. The amendments enter into force as of June 1, 2007.

On March 28, 2007 the **Law of Georgia on Entrepreneurs** was yet again amended. The amendments abolish the requirement to declare insolvency in the event the amount of debts of a company exceeds the value of its assets. This amendment shall enter into force as of August 25, 2007.

Law on Insolvency Proceedings

On March 28, 2007 the Parliament adopted the Law of Georgia on Insolvency Proceedings. The law regulates the insolvency issues of commercial and non-commercial legal persons registered in Georgia, as well as of non-registered unions and joint-activity partnerships.

Abolishing of the Commission for Revision of the Problematic Issues related to the Activities of the Foreign Investors in Georgia

On April 3, 2007 the Government of Georgia adopted a resolution on abolishing of the Commission of the Problematic Issues related to the Activities of the Foreign Investors in Georgia. The purpose of the Commission was to review the problematic issues related to activities of investors in Georgia and preparation of respective recommendations for the sessions of the Government of Georgia.

Tax and Customs

Amendments to the Tax Code

On March 2, 2007 the Parliament adopted amendments to the Tax Code of Georgia. Pursuant to the amendments, the Property Tax shall be paid on vehicles (automobiles), which are not subject to mandatory cyclic inspection, annually, not later than November 15th. If a taxable vehicle is sold prior to this term, then the tax shall

be paid prior to its registration with the authorized governmental agency. In this case, a tax obligation does not arise for the recipient (buyer) of the vehicle for the current year. As for the vehicles (automobiles), which are subject to annual inspection, the property tax shall be paid annually, either at the moment of registration of the vehicle, at the moment of a repeated registration (if the previous owner has not paid the tax during the current year), or at the moment of the mandatory cyclic inspection.

Amendments to Instruction on the Rules for Filling in of the VAT Declaration and its Form

On April 3, 2007 the Minister of Finance of Georgia issued Order # 304 on adopting amendments to the Instruction on the Rules for Filling In of the VAT Declaration and its Form. Among other, the form of Annex "a" of section III of the monthly VAT declaration was newly formulated. In addition, pursuant to the amendments, the amount of the tax obligation shall not be calculated in Tetris and for this purpose, an obligation less than 1 GEL shall be equated to zero.

Amendments to the Resolution on Determining of the Agency Authorized to issue Licenses and Permits within the Customs Field.

On April 5, 2007, the Government of Georgia adopted amendments to the Resolution of the Government of Georgia on Determining of the Agency Authorized to issue Licenses and Permits within the Customs Field. Pursuant to the amendments, the Revenues Service of the Ministry of Finance of Georgia was designated as the agency authorized to issue licenses and permits within the customs sector. The Service shall issue the following permits: the permit on activities of the duty free enterprise; the permit on activities of a customs storage (open and/or closed); and the permit on activities of a temporary storage (open and/or closed).

Banking Sector

Amendments to the Law on Banking Activities

On March 27, 2007 the Law of Georgia on Banking Activities was amended extensively. Article 1 of the Law stipulating the definitions of the terms was newly formulated. The amendments further concern such issues as regulation of the currency exchange units, procedures for issuing and terminating of the license for banking activities to the branches of foreign commercial banks.

In addition the amendments introduce the new obligations of commercial banks with respect to provision of information to the National Bank and the requirements with respect to opening and monitoring of bank accounts of customers.

Regulations on the Plastic Bank Cards

On March 15, 2007 the President of the National Bank of Georgia adopted the Instruction on the Plastic Bank Cards. The Instructions determine the rules for manufacturing of plastic bank cards as well as their service, within the banking system of Georgia.

The Instructions regulate in detail the issues related to emission of

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the plastic cards, the types of operations, the parties to such operations as well as their rights and obligations, the rules for execution of the agreement with the client and the mandatory conditions of such agreements.

Transport and Communications

Law of Georgia on Administration and Regulation of the Transportation Sector

On March 30, 2007, the Parliament adopted the Law of Georgia on Administration and Regulation of the Transportation Sector. The Law applies to all entities involved in transportation activities, all means of transport on the territory of Georgia, all Georgian means of transportation located on the territory of a foreign state (unless otherwise determined by the legislation of such foreign state). The Law does not apply to the railway transport and pipelines, as well as the infrastructures related thereto.

The purpose of the Law is to define the principles for technical regulation of the transportation sector as well as the legal framework for activities of the respective regulatory agency. Technical regulation of the transportation sector is carried out by the Unified Transport Administration, a subordinate division of the Ministry of Economical Development of Georgia, which shall be established as the result of reorganization of the National Transportation Regulating Agency of Georgia, within 60 days upon entering into force of the Law.

Construction

Construction Safety Rules

On March 28, 2007 the Government of Georgia issued the resolution on approval of the Construction Safety Rules. The Rules apply to the site works performed within the scope of a construction permit and determine the safety requirements within a construction site, including with respect to: organization, construction mechanisms, technical equipment and exploitation of instruments, electrical and welding works, loading and unloading, land, concrete and ferro-concrete works, installation and other works. Violation of the Safety Rules shall be subject to a fine in the amount from 200 to 10,000 GEL in accordance with the Law of Georgia on State Supervision of Architectural and Construction Activities.

Amendments to the Rules for Issuing of the Construction Permit

On March 28, 2007 the Government of Georgia adopted amendments to the Rules for Issuing of the Construction Permit and the Permit Conditions. Among other, the amendments stipulate that if the applicant for the construction permit had previously obtained the permit on construction of particular structures and in the future it requests the permit for construction of the same type of structures, the issuing agency shall not investigate those factual circumstances satisfying the conditions of the permit, which have been confirmed by issuing of the previous permit.

Other

The Rules for Compensation of the Health Injuries suffered by Employees as the Result of Performance of their Duties

On March 24, 2007 the Government of Georgia approved the Rules

for Compensation of the Health Injuries suffered by Employees as the Result of Performance of their Duties. The Rules apply to all entities on the territory of Georgia, notwithstanding their organizational form.

On March 27, 2007, the Minister of Internal Affairs of Georgia approved the Fire Safety Rules for Georgia. The rules apply to all entities on the territory of Georgia, notwithstanding their organizational form, as well as to physical persons.

International Agreements

On March 28, 2007, the Parliament ratified the Agreement on the New Baku – Tbilisi –Kars Railway.

Draft Laws

On May 25, 2007 the Government of Georgia and the Ministry of Finance of Georgia jointly addressed the Parliament with the draft law on amendments to the Tax Code of Georgia. Among other, the proposed amendments envisage the following:

- The average weighted rate of Social and Income Taxes for individual entrepreneurs will be reduced from 29,6% to 25%, and the rate of income received as wage - from 26,7 % to 25%. In addition, existing tax rates and concessions for other entities will remain effective for the next 3 years.
- By reducing Profit Tax from 20% to 15% enterprises will be able to save additional 135 million Gel as investment resources
- Land Property Tax accumulated by individual entrepreneurs as of 2005 (85 million GEL) will be written off.

Other important changes include:

- In case of submitting a bank guarantee, or insurance policy by a taxpayer, coercive measures against the taxpayer will be halted (in tax inspection up to 250, 00 GEL and 6 months, and in Revenue Service-up to 1 million Gel and 1 year);
- A taxpayer importing the goods is granted the VAT reimbursement equal to paid VAT.
- In order to clarify particular chapters and clauses of the proposed amendments, the Minister of Finance shall approve respective instructions one month prior to adoption of the amendments. These instructions will be published and made available for the public.

Changes affecting the Banking Sector:

- The amendments clarify that factoring operations belong to the sphere of financial services;
- The penalties shall be reduced;
- It shall be clarified that if a bank receives the loan (a credit line) on a capital market with an average interest rate below the rate defined by the NBG, the difference between the rates will not be considered as a profit;

The draft law will be reviewed by the parliament in June, 2007.