## Link to the Profit Tax Law

With effect from 1 January 2017 the Parliament adopted and the President signed into law the amendments and addendum to the Tax Code of Georgia.

The mentioned amendment will change the existing profit tax regime to a system where the tax will have to be paid only if corporate profits are distributed and/or non-business related expenditures are paid, similar to the system adopted by Estonia.

It is envisaged that profit distribution will be driven by IFRS financial statements. The close link between this initiative and the Law of Georgia on Accounting, Reporting and Auditing enhances the importance of companies getting prepared for this change.

# Contacts

**John Robinson**
General Director
Tel.: +995 (32) 24 45 66
ext. 5942
johrobinson@deloitte.ge

**Tamar Natsvlishvili**
Director, Audit
Tel.: +995 (32) 24 45 66
ext. 5946
tnatsvlishvili@deloitte.ge

**Vladimer Kochishvili**
Manager, Audit
Tel.: +995 (32) 24 45 66
ext. 5935
vkochishvili@deloitte.ge

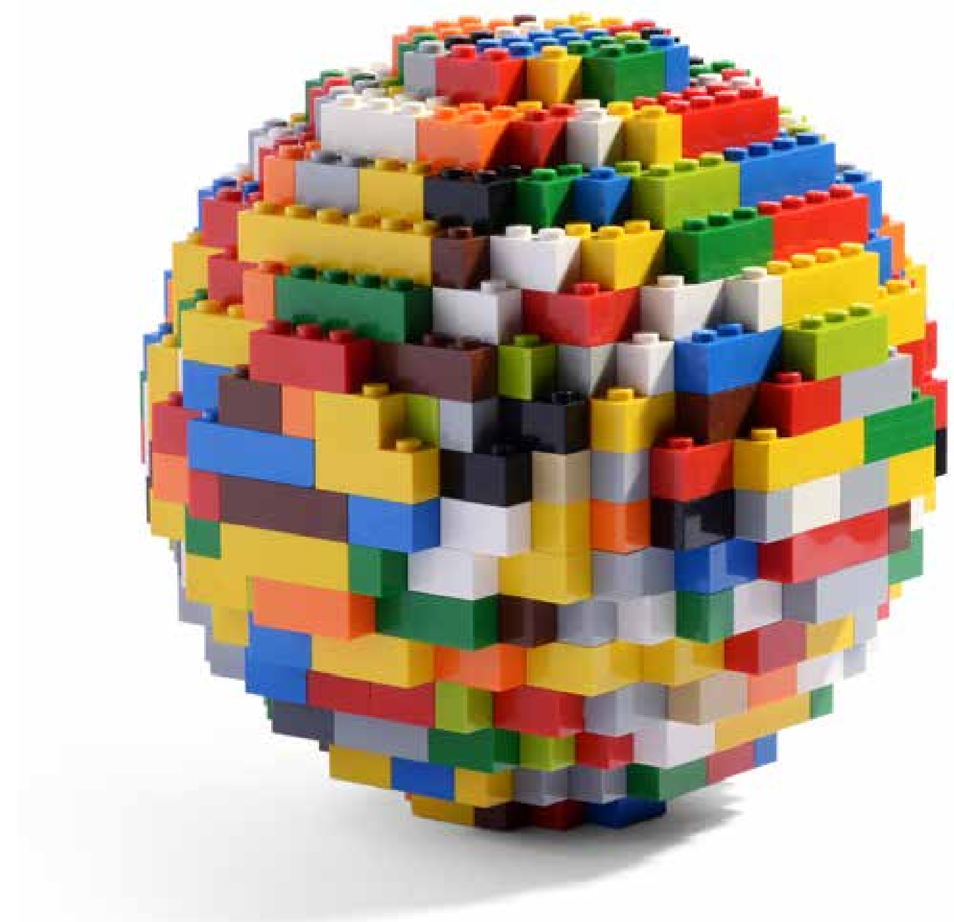
**Deloitte & Touche LLC**
36A Lado Asatiani St.
Tbilisi, 0105
Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69
deloitte.ge

www.iasplus.com



Deloitte.



# What you should know
## Law of Georgia on Accounting, Reporting and Auditing

In June 2016, the "Law of Georgia on Accounting, Reporting and Auditing" was signed into legislation. In addition to this, amendments to the tax code in relation to profit tax were introduced into legislation in May 2016.

These two laws will have a significant effect on the business environment in Georgia specifically as it relates to IFRS financial statements and their use, publication and accessibility by the general public.

**The Law of Georgia on Accounting, Reporting and Auditing classifies entities into 5 categories. An entity should meet at least two of the following criteria to fall into categories 1-4.**

| Category | Total Assets (GEL) | Operating Revenue (GEL) | Employees |
|---|---|---|---|
| **I** | > 50 mln | > 100 mln | > 250 |
| **II** | < 50 mln | < 100 mln | < 250 |
| **III** | < 10 mln | < 20 mln | < 50 |
| **IV** | < 1 mln | < 2 mln | < 10 |
| **PIE** | Public interest entities including: listed companies, commercial banks and credit institutions, microfinance and insurance companies, non-governmental pension funds, investment funds, nonbank depositories and credit unions, other companies, defined as PIE by the Georgian Government. | | |

Size categories for Groups are determined based on the consolidated financial numbers using the same table above.

# Statutory reporting requirements

The new Law of Georgia on Accounting, Reporting and Auditing requires IFRS financial statements to be prepared by all entities, except those that fall under category IV.

In addition, some of the entities are required to get an independent audit opinion on their financial statements.

| Category | Reporting Framework | Audit Obligation | Obligation to prepare management report | Full Financial reporting and filing obligation |
|---|---|---|---|---|
| **PIE** | IFRS | Yes | Yes | Yes |
| **I** | IFRS | Yes | Yes | Yes |
| **II** | IFRS for SME (Optional – IFRS) | Yes | Yes | Yes |
| **III** | IFRS for SME (Optional – IFRS) | No | No | Yes |
| **IV** | Defined by Agency (Optional-IFRS, IFRS for SME) | No | No | Yes |

In addition to the above, payments made to the state is a mandatory report for PIEs and I category entities, which perform oil and gas extraction and wood production from natural forests.

# Transition dates

Entities, which fall into the category I, II and PIE's will be required to prepare and have an audit of IFRS financial statements for the periods ending on or after 31 December 2017.

**Regulation enforcement timetable**

**Category I, II and PIE**
- For the fiscal year ended December 31, 2017

**Category III and IV**
- For the fiscal year ended December 31, 2018

**Filing and publishing Financial Statements**

**For applicable companies the following statements should be filed no later than October 1st following the reporting period:**
- Financial Statements
- Management Report
- Statement on payments made to the state
- Audit Opinion

**Special cases**

**If the reporting period of a company does not coincide with a calendar year it shall file the statements to the Agency immediately after they are available, though within 9 months following the reporting period end.**