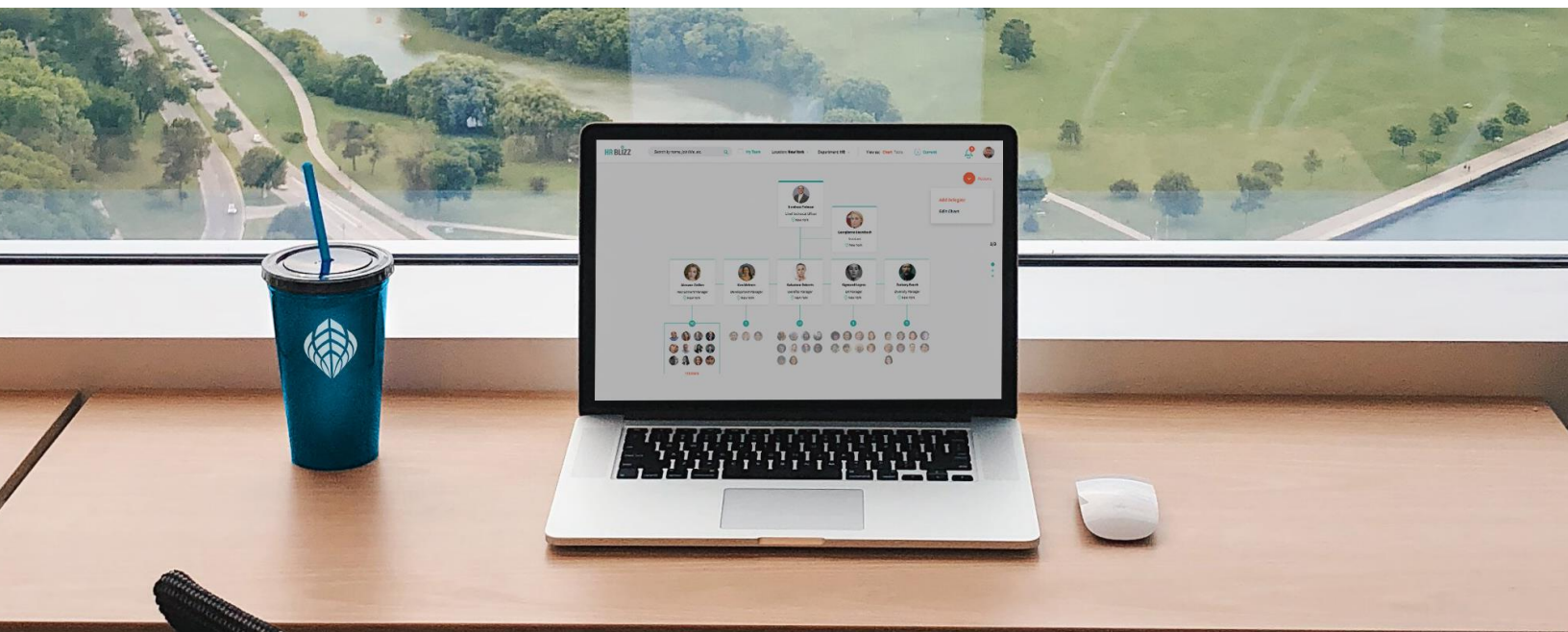




Simplifying Employment  
Tasks Worldwide

# Georgia Payroll & Tax Highlights

2020 Global Payroll Country Guide for Georgia



## GEORGIA



February 24, 2020



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## We help you achieve your global ambitions

Thank you for trusting Mercans to outsource your HR and Payroll functions. We propose HR consulting services, actionable solutions, and cost-effective global payroll processing tools to energize your human capital management in real-time and augment your performance. We are dedicated to becoming your business growth facilitator.



### **Global Payroll Solutions – Boost your HR brand and employee satisfaction**

Rationalize your HR budgets, monitor your data, and optimize your global payroll tasks in real-time. Systematize processes and streamline HRM lifecycles with HR Blizz™, our unified SaaS platform, to ensure your employees are paid accurately and on time.



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### **Global Talent Acquisition – Quickly fill vacancies with only the best candidates**

Mercans supports you in designing/deploying long-term HR strategies and processing full-cycle recruitment. Our ATS Suite Mesar™ and our hiring experts help to screen, select, attract the right candidates for your organization, and populate your pipeline of prequalified talents.



### **BPO Services – Reclaim the focus on your core activities to expand your business**

Concentrate on the essentials: outsource non-primary activities and your front- and back-office functions to Mercans. Save the time, money, and energy needed to refine the value chain engagement of your customers and suppliers, and increase revenue.



### **HR Management SaaS – Access customizable cloud-based online platforms**

Centralize your HR function on an all-in-one user-friendly and self-service platform. Combined with the expertise of our consultants, the Mesar SaaS offers a built-in applicant tracking system and easy-integration features to improve internal processes.



### **Local Statutory Compliance – Forget the hassle of setting up branches abroad**

Mercans seasoned HR advisory team are compliance experts specialized in local cultures, business protocols, and tax and legal specificities. They are committed to ensure quick go-to-market abroad and achieve a compliant global expansion, risk-free from A to Z.



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## Mercans at a Glance

**140+**

Countries

**20**

Years of Success

**500+**

Specialists

**5k+**

Customers Worldwide

**97%**

Client Retention Rate

**1.5X**

Annual Revenue Growth

**25k+**

Largest Single Payroll

**2.5M+**

Pay Slips per Annum

**0**

Security Breaches

**Number one** for outsourced payroll services, we are endorsed by international authorities.



Mercans has the highest industry quality and IT security certifications.





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## Georgia – stable business environment attracting investors

Over the past decade, Georgia’s economy has grown robustly at an average annual rate of 4.5 percent. This was despite numerous shocks, including the global financial crisis of 2007-08, the conflict with the Russian Federation in 2008, and the drop in commodity prices since 2014 that has impacted key trading partners.

Deep reforms in economic management and governance have earned Georgia a reputation of “star reformer.” To bolster the private sector, the country has introduced rules and regulations that make it easier to do business, and the country’s international ratings on governance and the investment climate have soared.

The Deep and Comprehensive Free Trade Area agreement with the European Union and the Free Trade Agreement with China are expected to boost trade integration. Moreover, energy, tourism, and agribusiness can potentially help to integrate the country further into the regional and global economies.

The Georgian economy picked up pace in the first half of 2019, growing at 4.9 percent and accelerating to 5.1 percent by July. While domestic demand was supported by higher consumption, investment contracted due to the completion of several infrastructure projects and declining foreign direct investment.

Mercans and its affiliates do not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.



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# Doing Business in Georgia

## Entity Registration & Incorporation Requirements

Companies are required to obtain tax registration together with legal registration from the National Agency of Public Registry under the Ministry of Justice of Georgia.

The National Agency of Public Registry is responsible for the incorporation of companies in Georgia. The entity incorporation and tax registration are carried out simultaneously, hence no additional actions are required to complete the tax registration of the company.

The Law of Georgia on Entrepreneurs (LOE) sets forth an exhaustive list of enterprises that can be established in Georgia and they are here as follows:

- Joint-Stock Company (JSC)
- Limited Liability Company (LLC)
- General Partnership (GP)
- Limited Partnership (LP)
- Cooperative (CO)
- Individual Enterprise (IE)

The regulations contained in the LOE equally apply to foreign and local companies. Therefore, foreign nationals are eligible to incorporate legal entities listed, considering the absence of any applicable legal limitation. Legal entity incorporation related considerations have been summarized below.

Registering Authority – The incorporation of companies is conducted by the LEPL National Agency of the Public Registry operating within the Ministry of Justice of Georgia (Public Registry). Upon the completion of incorporation process, the Public Registry issues a corporate extract indicating the identification data of the company. Please note, that all document submitted to the Public Registry in course of registration process will be publicly available.

Charter - A company registered under the laws of Georgia must have its Charter (otherwise referred as - Articles of Association or Bylaws) containing the identification data of the company and rules governing the corporate structure. The Charter must be presented to the Public Registry for the registration purposes and should be maintained at the company itself. Stipulated that the Charter of the company is publicly available, the founder(s) of the company may additionally conclude the Shareholders' Agreement articulating the details of corporate management and operation of the company. The founder(s) are not obliged to submit the Shareholders' Agreement to the Public Registry and it is maintained at the company.

Charter Capital - Company does not have to indicate the amount of its Charter Capital in any of the documents submitted to the Public Registry.

Stamp - Companies in Georgia are not required to have a stamp; however, in dealings with banks, tax authorities and civil counterparties, the company will be requested to use the stamp on various documents. Consequently, it is recommended for companies to obtain stamps.



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Apostille / Legalization - Please note that the documents executed in countries other than Georgia shall be notarized and legalized or apostilled.

## **Joint Stock Company (JSC)**

JSC is a legal entity the charter capital of which is divided into shares of equal nominal value. The types of shares applicable in JSC are specifically indicated in LOE. There are two types of shares applicable in the JSC, namely ordinary shares and privileged shares. The shareholders of the JSC may increase the capital of the company through issuing additional shares. The share amounts to a security certifying the claim of a shareholder in relation to the property of the JSC. The liability of a JSC is limited to its total assets. Shareholders are not liable for obligations of the JSC vis-à-vis the third parties.

## **Limited Liability Company (LLC)**

LLC is the most common form chosen for incorporating companies in Georgia. The liability of the shareholder(s) towards the creditors is limited to its entire property. LLC may be established by any individual or legal entity. The capital of the company is divided into shares and unlike the JSC, the partners thereof can not issue any additional shares.

## **Limited Partnership (LP)**

LP is a company where several partners carry out continuous and independent entrepreneurial activity under the common company name. The founders are all personally liable for any debt the company may undertake.

## **General Partnership (GP)**

GP is a company where several persons jointly carry out independent entrepreneurial activity under the common company name. In GP the obligations of one or several partners towards the creditors of the partnership is limited to their investments into the company (limited partners), while the other partners are personally liable for any debts arising in course of operation of the GP.

## **Cooperative (CO)**

Cooperative is a company incorporated with the objective to develop common business and increase the profits of its members. The objective of the cooperative is to accomplish the interests of its members. A cooperative is not primarily aimed at gaining profit. The cooperative is liable against the creditors only with its own property.



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## Individual Entrepreneur (IE)

As the owner of an enterprise, an individual entrepreneur is a physical person whose entrepreneurial activity shall be conducted in an entrepreneurial manner. In legal relations such person shall act on its own behalf. IE is not a legal entity. An individual entrepreneur uses its rights and performs its obligations as a physical person and bears personal responsibility before creditors for any and all obligations arising in course of its entrepreneurial activities.

## Branch Office

Any foreign legal entity (commercial or non-commercial) without the purpose of incorporating any of the separate legal entities under the laws of Georgia, may establish and operate its business through a Branch Office registered in Georgia. The Branch Office is the sub-unit of a business entity and is not considered as a separate legal entity. Therefore, the liability of its founder may not be limited to the assets of the branch itself. The latter denotes that the founder is financially liable for the obligations of the branch.

## Registration Requirements for JSC/LLC/GP/LP/CO

In order to register a JSC/LLC/GP/LP/CO, the founder(s) shall submit a formal application before the Public Registry, along with the Charter (Articles of Association) of the company.

The documents to be supplemented to the registration application and Charter (Articles of Association) to the Public Registry are listed below:

- Decision of the founders on the incorporation of JSC/LLC/JLC/LP/CO in Georgia;
- Document certifying the proof of registration of the founder in the foreign jurisdiction; if the founder is a legal entity, the same or a separate document should indicate the names of the authorized representatives, supervising authority and other corporate details of the founder (Certificate of Registration);
- Decision on appointing the Head of the Company (Director) or the relevant Power of Attorney thereof and written consent of the latter on such appointment;
- Passport photocopies of the founders and director(s);
- Notarized permission of the company's legal address owner or rent agreement, if office area is rented;
- Receipt evidencing payment of registration fee.

## Registration requirements for a Branch Office:

For state registration of the Branch Office of the foreign company, the documentation to be submitted to the Public Registry are listed below:

- Decision of the founder on opening a branch in Georgia;





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- Charter (Articles) of the founder company;
- Document certifying the proof of registration of the founder company in the foreign jurisdiction; if the founder is a legal entity, the same or the separate document should indicate the names of the authorized representatives and other corporate details of the founder;
- Decision on appointing the Head of the Company (director) or the relevant Power of Attorney thereof and consent of the latter on such appointment;
- Notarized permission of the company's legal address owner or rent agreement, if office area is rented
- Passport photocopies of the director to be appointed of a branch;
- Power of Attorney from the director (head) to be appointed at the branch;
- Receipt evidencing payment of registration fee.

## Accounting and Reporting

The financial reporting and audit requirements applicable to the entities operating in Georgia are determined based on the per-defined parameters; e.g. revenue, assets, number of employees, etc.

For example, entities that meet at least two of the below criteria at the end of the reporting period are required to prepare and file audited financial statements in accordance with the International Financial Reporting Standards (IFRS):

- Value of total assets exceed GEL 50 million;
- Revenues exceed GEL 100 million;
- Average number of employees during the reporting period exceed 250.

Smaller entities are typically exempt from audit requirements.

## Banking

There are no specific requirements regarding the mode of payment except the currency rule. All payments within the territory of Georgia must be made only in GEL. As regards payroll, payments can be made in cash or by bank transfer.

Banks are typically open from 09:30 to 18:00.

## Working Week

The standard weekend days in Georgia are Saturday and Sunday. Pursuant to the Labor Code of Georgia, the working time is 40 hours per week. However, in companies with specific working regimes where the work requires more than eight hours of continuous work (per day), working hours should not exceed 48 hours a week. It should be noted that the abovementioned duration does not include break times.

Overtime compensation is determined by agreement between the employee and employer.



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## Basic Facts

<b>Official State Name</b>	The Republic of Georgia
<b>Population</b>	3.7 million
<b>Capital</b>	Tbilisi
<b>Major Languages</b>	Georgian
<b>Currency</b>	Georgian lari (GEL)
<b>Main Industries</b>	Tourism, cultivation of citrus fruits, tea and grapes; mining of manganese and copper; and the output of a large industrial sector producing wine, metals, machinery, chemicals, and textiles.
<b>GDP Growth</b>	4.6% (2019)
<b>Internet Domain</b>	.ge
<b>International Dialing Code</b>	+995
<b>Dates &amp; Numbers</b>	Dates are usually written in the dd.mm.yyyy format.



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## Tax & Social Security

Pursuant to Georgian tax legislation, individuals starting economic activities are required to register with the Georgian Tax Authority (GTA) and obtain a Tax ID prior to their start-up. Foreign citizen non-entrepreneur individuals must register with the GTA and obtain a Tax ID prior to filing their annual personal income tax (PIT) returns. Furthermore, without the National Agency of Public Registry assistance, the RS department is authorized to allow the registration process of taxpayers. These requirements apply to the following persons:

- Georgian citizens
- Foreign citizens
- Legal entities of public law (LEPL)
- Budgetary organizations
- Foreign entities or organizations or their Permanent Establishment (PE)

### Corporate Income Tax

Resident enterprises are subject to corporate income tax (CIT) on worldwide income.

Non-resident enterprises carrying out economic activities in Georgia through a permanent establishment (PE) are subject to CIT with respect to its Georgian-source income.

The CIT rate is a flat 15%.

Non-resident enterprises earning income from Georgian sources, other than through a PE, are subject to withholding taxes (WHTs).

From 1 January 2017, Georgia has switched to a new CIT system. The new system represents the adoption of the Estonian model of CIT to the Georgian tax system. As such, retained profits are no longer taxable until they are distributed. The new regime is not aimed to exempt the profits from taxation but is designed to defer the taxation moment. Consequently, taxpayers no longer need to determine taxable gross income and allowable deductions in order to arrive at the taxable profits, but rather a standard CIT rate of 15% is applicable to the grossed-up value of the following transactions:

- Profit distribution.
- Costs incurred not related to economic activity.
- Free of charge distributions.
- Over limit representative expenses.

Note that commercial banks, credit unions, insurance companies, microfinance organizations, and loan providers will be affected by the new CIT regime after 1 January 2023.



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## Personal Income Tax

In accordance with the Tax Code of Georgia (TCG), irrespective of residency status, a physical person receiving Georgian sourced income is subject to PIT at a rate of 20%.

Individuals who are tax residents in Georgia are generally liable to pay PIT on their worldwide income, though a tax code provides exemption for the foreign sourced income. In the case of tax non-residents, PIT is payable only on their Georgian sourced income, subject to double taxation treaty relief (if any). Accordingly, both tax residents and non-residents of Georgia pay PIT only on their Georgian source income. The Tax Code provides the list of income that is considered as sourced in Georgia. The list includes:

- Income received from employment performed in Georgia
- Income or benefit earned from the supply of goods in the territory of Georgia
- Income earned from the delivery of services in Georgia
- Income earned from leasing movable property used in Georgia or from transferring any other contractual right of use
- Interest and dividend income received from a Georgian resident
- Income received from the sale of shares in a Georgian resident entity
- Other income earned from carrying on activities in Georgia

An individual is recognized as a tax resident of Georgia if one was in Georgia for 183 days or more in any continuous 12-month period ending in the current tax year.

The status of resident or non-resident is established for each tax period. In addition, the days according to which the person was considered a resident during the previous tax period are not considered when establishing residency for the following tax period.

The gross taxable income of a resident individual is any income received in the form of salary, from economic activity not related to employment, or from other activities.

The following payments or benefits received from an employer would be treated as taxable income (not exhaustive):

- Per-diems and accommodation expenses received in excess of norms established by Georgian Ministry of Finance.
- Use of an automobile of any type for private use (Except for the one having electric engine).
- When receiving loans at an interest rate lower than the rate established by the Finance Minister, the difference between the established and actual interest rates.
- Goods or services sold or transferred free of charge by employer to employee.
- Accommodation.
- Assistance for education of an employee or their dependents (excluding training programs directly related to performance of the employee's duties).
- Life and health insurance premiums.



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## Social Security

There are no social security contributions in Georgia.

## Pension Contributions

From 1 January 2019, joining a pension scheme is mandatory for all employees, except for:

- Individuals who have been 60 years of age (55 years of age in case of women) before the enactment
- of the law.
- Self-employed individuals.

The pension scheme is financed by employer, employee, and government, as follows:

- Each employer will transfer 2% of the employee's salary income to one's private pension account while paying the salary.
- Each employer will transfer 2% of the employee's salary income to one's private pension account on behalf of its employee.
- Each self-employed individual will transfer 4% of one's annual income to the individual pension account.
- The government will transfer (i) 2% of the income of the participant to one's private pension account when the annual salary of the participant/income of the self-employed individual is less than GEL 24,000 and (ii) 1% of the income of the participant when the annual salary of the participant/income of the self-employed individual is between GEL 24,000 and GEL 60,000. In case the annual salary of an employee/income of the self-employed individual is greater than GEL 60,000, the government will only contribute to the extent of GEL 60,000.

## Reporting

The tax year is the calendar year.

The following individuals are required to submit individual income tax declarations to the tax authorities at their place of registration before 1 April (for income received in the previous calendar year):

- Resident individuals, including foreign individuals with Georgian tax residency, for whom income is not taxed at the source of payment in Georgia.
- Non-resident individuals with Georgian-source income not subject to taxation at the source of payment.

Resident employers are required to withhold PIT at source and remit the withheld tax to the tax authority upon the payment of salaries. Non-resident employers are not required to withhold PIT and if the employee personally files a PIT declaration and pays the respective taxes. Returns are filed by 15th of the month, following the reporting period in which the payment was made.



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Together with the withholding tax return, information about payments made to non-residents and taxes withheld should be submitted to the GTA within the same deadline. The taxable income of a non-resident is defined as the difference between the gross income gained from a Georgian source and the amounts to be deducted under the Tax Code of Georgia. Also, taxes paid by a non-resident must not exceed the amount withheld at the source of payment.



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## Payroll

According to Georgian Labor Law, remuneration must be paid once a month. If there is a delay, employers are obliged to pay their employees 0.07% of the delayed sum for each day of any delayed compensation or payment.

When labor relations are terminated, an employer shall be obliged to make final settlement to an employee no later than seven calendar days, unless otherwise defined by a labor agreement or law.

Employers are authorized to deduct from the employee's remuneration overpayments or any other funds payable by the employee to the employer. The said deduction shall not exceed 50% of the remuneration.

No additional specific requirements are defined by the Labor Code of Georgia.



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## Employment Law

The Georgian labor code provides extremely flexible conditions for employment. There is no minimum wage, creating conditions where compensation for labor is based entirely on an agreement between employer and employee.

### Leaves

The employee is authorized to take paid leave of at least 24 business days and maximum 15 days of unpaid leave per annum.

An employee's leave pay shall be determined by the average pay for the previous three months. If the time worked from beginning to work or after the last leave is less than three months, then leave pay shall be determined by the average pay of months worked, and in the case of fixed monthly payment, it shall be determined by the last month's payment.

Furthermore, employees are entitled to use maternity leave for a total duration of 730 days, of which 183 days are paid (or in case of pregnancy complications or multiple childbirth — 200 days).

There are no specific requirements defined under the Labor Code which state the mandatory insurance for employees or the amount of salary payment.

### Termination

According to the Labor Code, in order to terminate an employment contract, the employer must send a written notice to an employee at least 1 month earlier before the contract termination and pay at least 1-month's salary. The employer is entitled to send a 3-day written notice prior to termination of labor contract however under these circumstances the employer must pay at least two-month's salary as a compensation.





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## Immigration

To qualify for a work residence permit as a business owner (entrepreneur, freelancer) or an employee the employer must provide an employment agreement or a similar document certifying the employment. Please note that the applicant's monthly salary cannot be less than US\$347 (five times monthly subsistence minimum for working age male). If the employment agreement does not include the monthly income it is recommended to produce a bank account statement from a local bank confirming a balance of around US\$4,163 (12 mo. x \$347/mo.).

In addition, the annual turnover of the employer shall not be less than GEL 50,000 (around US\$18,300) per each foreign employee that applies for residency. A lower amount of GEL 35,000 (US\$12,800) per foreign employee applies to medical and educational institutions.

- Register a company or other business (optional)
- Open a bank account
- Obtain an employment agreement (business manager)
- Obtain a recommendation letter from a Georgian citizen or resident (freelancer)
- Obtain a bank account statement from a local bank
- Visit Georgia (if not already in the country)
- File the application for work residency with the government
- Wait 10-30 days for the residency to be approved (applicant can leave Georgia in the meantime)
- Apply for and get the residence card (ID card)



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## They already trust Mercans





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# What Makes Mercans your HR and Payroll Partner of Choice?

## We Simplify Employment Tasks Worldwide

### Everywhere for Everyone

We are a borderless people engagement enabler, driven by technology and innovation. We deliver bespoke human capital management services and global payroll solutions to empower businesses across 110+ countries regardless of their organizations' size and their industry. We pride ourselves on being global people experts with a striking local presence, committed to making your teams happy, and ensuring the consistent and sustainable growth of your organization.

### Local Presence. Regional Strategy. Global Success

Supported by 500+ payroll and HR specialists with in-depth local knowledge, Mercans operate globally. Our pioneering human resources consulting services and trailblazing SaaS platforms are already satisfying 5,000+ international clients, ensuring timely measurable results and bottom-line savings. Thanks to success-oriented teams striving for excellence and taking care of our clients' tasks within budget, we have gained the trust of major multinational companies.

### A Revolutionary Service Delivery System

Say goodbye to third-party service providers, offshore call centers, fragmented data, and endless chains of sub-contracts.

Mercans cloud-based SaaS Products, HR Blizz™ & Mesar™, combine the performance of proprietary technologies with a human touch. Cost-effective, they are fully-compliant self-service tools, packed with smart built-in features for your peace of mind. All your data are integrated into single interfaces accessible from everywhere and on any device.

### Trailblazing Cloud-Based SaaS Products

HR Blizz & Mesar, our Software-as-a-Service platforms, both propose a preconfigured API integration capability with all the major global HRMS platforms, including SuccessFactors, Workday, Oracle HCM, and MS Dynamics. All Mercans systems and processes are GDPR compliant, ISO 9001, 20000, 27001 certified, and SOC 1 and SOC 2 audited. A registered Finpro expert, Mercans is also a member of the Global Payroll Association and the Global Payroll Management Institute.



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