TAX NEWSLETTER

Contents

Public Ruling

Taxation of transfer of assets by an individual in exchange for a share in an enterprise/distribution made to a partner upon liquidation of an enterprise or reduction of capital

On 3 July 2026, Public Ruling №208 of the Minister of Finance of Georgia "On the Taxation of assets transferred by a person in exchange for a share in an enterprise/distribution made to a partner upon liquidation of an enterprise or reduction of capital " was published.

The Public Ruling addresses the conditions for applying the tax privilege provided under Article 151 and Subparagraph "z" of Paragraph 1 of Article 82 of GTC. In particular, pursuant to Article 151, the transfer of assets (with or without liabilities) by a person (or persons) to a legal entity in exchange for a 50% or greater interest (shares) in that legal entity shall not be regarded as a supply of assets. Furthermore, pursuant to Paragraph 1 of Article 82 of GTC, the surplus received from the transfer of real estate to a partner natural person in exchange for his/her share in the enterprise by way of liquidation or capital reduction of such company, is exempt from income tax if more than two years have elapsed from the creation of the natural person's title to that share of the enterprise.

It should be emphasized that the provisions of Article 151 of GTC do not apply where any party to the transaction is subject to corporate income tax under the taxable objects provided for in Paragraphs 1 and 3 of Article 97 of GTC (i.e. is subject to the so-called Estonian corporate income tax model), except where the assets are transferred by an individual to a legal entity in exchange for a 50% or greater interest (shares) in that legal entity. In addition, the scope of Article 151 does not extend to the transfer of assets by a person to a legal entity established under the legislation of a foreign country in exchange for an interest (shares) in that entity.

It should be noted that Paragraph 1 of Article 151 of GTC may be applied only if, prior to the transfer of the asset, the person already held a 50% or greater interest (shares) in the enterprise, or acquires a 50% or greater interest (shares) in the enterprise as a result of the transfer of the asset.

Furthermore, the Public Ruling also regulates cases involving transactions carried out by a group of persons. In particular, where several persons jointly transfer an asset held in co-ownership to an enterprise in exchange for an interest (shares), such transaction shall be regarded as a single transaction, provided that, as a result of the transaction, the interest/control over the asset substantially remains with the same group of persons and, collectively, they receive a 50% or greater interest (shares) in the enterprise in exchange for the asset.

With regard to the value of the asset, it should be noted that, for tax purposes, when applying Article 151 of GTC, the asset shall be recorded at the value it had for the transferor at the time of its transfer. Where the asset is encumbered with a liability, the amount of the partner's contribution and the value of the interest received by the partner shall be deemed to be the net value of the asset (i.e. the value of the asset reduced by the amount of the transferred liability). At the same time, it should be taken into consideration that, pursuant to Paragraph 6 of Article 151 of GTC, the provisions of this article do not apply to the transferor of an impaired asset where the liability exceeds the value of the transferred asset.

The application of Subparagraph "f.c" of Paragraph 1 of Article 82 of GTC (exemption from income tax) requires the existence of a supply of assets. Accordingly, this provision cannot apply where, pursuant to Article 151 of GTC, the transaction is not regarded as a supply of assets at all.

Accordingly, where a person transfers assets to the capital of an enterprise in exchange for less than a 50% interest, the transaction does not fall within the scope of Paragraph 1 of Article 151 of GTC and, therefore, the value of the property transferred to the enterprise shall be determined at its market value.

At the same time, it should be noted that the portion of the distribution made to a partner upon the liquidation or capital reduction of an enterprise that exceeds the value of the partner's contribution shall be regarded as a dividend and shall be subject to both corporate income tax and income tax.

Furthermore, pursuant to Subparagraph "Z" of Paragraph 1 of Article 82 of GTC, the surplus received from the transfer of real estate to a partner natural person in exchange for his/her share in the enterprise by way of liquidation or capital reduction of such company, is exempt from income tax if more than two years have elapsed from the creation of the natural person's title to that share of the enterprise. However, it should also be noted that this tax privilege applies only to the transfer of ownership of immovable property. Therefore, where movable property is transferred to an individual partner upon the liquidation or capital reduction of an enterprise, the tax privilege provided under Subparagraph "Z" of Paragraph 1 of Article 82 of GTC shall not apply.

The amendment came into force from July 4, 2026

Amendment to the Order

Procedure for Appealing a penalty Imposed as a Result of Pension Monitoring

On July 7, 2026, Order №13 of the General Director of the Pension Agency of Georgia was published, introducing amendments to Order №3 of May 7,2025 of the General Director of the Pension Agency of Georgia, "On the Approval of the Procedure for Identifying Violations of the Obligation to make Pension Contributions and cases of Excess Pension Contributions, refunding Excess Pension Contributions, imposing Fines and Penalty Interest, Enforcement, and Relevant Communication." As a result of the amendment, the procedure for appealing penalty imposed as a result of pension monitoring was established.

Under the amendment, a new Article 17^1 was added to Order №3, pursuant to which a person may appeal the relevant electronic penalty receipt/decision either by applying to the Pension Agency or by filing a complaint with the court. This appeal procedure applies both to administrative offences identified as a result of monitoring and to the consequences of failure to fulfil the obligation to make pension contributions arising after 1 May 2025.

For the purpose of filing a complaint with the Pension Agency, an employer may, either personally or through a representative, submit the complaint by appearing at the Pension Agency's office, by sending the complaint by post, or, where applicable, by appearing before an authorized administrative body through its territorial offices (branches).

In connection with the amendment, Annex №2, relating to the form of the electronic penalty receipt, was also updated.

The amendment came into force from July 8, 2026

Procedure for the Refund of Withholding Tax Amounts

On February 5, 2026, Order №37 of the Minister of Finance of Georgia was published, establishing the procedure for the refund of Withholding Tax Amounts for Persons Benefiting from a Tax Incentive. The Order also provided that the procedure would come into force in July 2026. However, on 28 July 2026, Order №243 of the Minister of Finance of Georgia was published, amending the effective date of the aforementioned Order. As a result of the amendment, instead of 1 July 2026, the procedure will come into force from 1 January 2027.

We remind you that pursuant to order №37, a new Article 39^6 has been added to Order №996, providing that persons benefiting from the tax incentive stipulated under Paragraph 2 of Article 82 of GTC (excluding persons who are either a parent of three or more children permanently residing in a high-mountain settlement or a person with the status of permanently residing in a high-mountain settlement) will be entitled to benefit from the procedure for the refund of personal income tax withheld at source.

In order to obtain the refund, the person is obliged to submit to the tax authority an application titled "On the Procedure for the Refund of the Amount of Tax Withheld at the Source for Persons Benefiting from a Tax Incentive," in which the bank account for settlement to which the refund is to be made must be specified.

The amount is subject to refund on the 20th of each month to the bank account specified by the person in the tax authority, starting from the tax period following the month in which the application was submitted, within the amount of the net overpayment reflected on the taxpayer's personal tax ledger.

We also remind you that for the entire period of use of this procedure, the person cannot benefit from the certificate issued to the hired individual for the purpose of applying the benefit to income received from the payment source.

The amendment came into force from July 29, 2026

New Types of Licenses in the Gambling Sector

On 3 July 2026, amendments to the legislation regulating the gambling sector were published. Under these amendments, new categories of licenses were introduced, with a separate licensing fee established for each category. Specifically, the following licenses were introduced:

- License for the International Organization of Games of Chance and/or Prize Games in a System-Electronic Form
- License for the International Organization of Casino Games in a System-Electronic Form
- License for the International Organization of Slot Machine Games in a System-Electronic Form.

For each type of license (issued for a period of five years), an annual licensing fee of GEL 100,000 has been established.

The Law of Georgia "On Organizing Lotteries, Games of Chance and Other Prize Games" has also been amended to further clarify the concept of the international organization of games. According to the amendments, such activities include the organization of the relevant games through the internet, telephone, and/or specially designed electronic means, where participation by citizens of Georgia is not permitted.

The amendments came into force on 4 July 2026

AUTHOR'S COLUMN

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

The publication provides an overview of tax and other legislative changes, their practical implications, and key issues relevant to businesses.

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

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