


GOVERNMENT OF GEORGIA PROPOSES FURTHER TAX CUTS TO STIMULATE THE ECONOMY

 GEL/US\$: 1.6500 GEL/EUR: 2.0975
 Galt & Taggart Index: 248

Government of Georgia has proposed a reduction in the personal income tax rate from 25% to 20% and reduction in the dividend income tax rate from 10% to 5%. Both reductions are to take effect on 1 January 2009, subject to parliamentary approval.

This new initiative is an acceleration of the legally binding commitments, made earlier, to reduce the personal income tax rate to 15% by 2013 and to further reduce the dividend income tax rate to 0% by 2012. Legislation was passed earlier in 2008 setting zero dividend tax rate with respect to publicly traded equities (defined as having free float in excess of 25%).

If, as and when this new initiative is passed into law by the parliament, the taxation framework in Georgia will be as follows, while you have;

- Flat personal income tax of 20%
 - Applies only to local-source income, foreign-source income of individuals not taxed at all
 - Will decrease further to 15% by 2013
- Corporate income tax of 15%
- VAT of 18%
- Property tax of 1% on the self-assessed value of property
 - Payable by residents whose annual household income exceeds GEL 40,000, as well as non-residents
- Interest income and dividend tax rates decreasing from 5% (from 1 January 2009) to 0% by 2012
- 0% dividend income tax on dividends from publicly-traded equities from 1 January 2009
- 0% tax on interest income from bank deposits and publicly-traded debt securities (from 1 January 2009)
- No capital gains tax
 - Capital gains are included in the individual and corporate taxable base and taxed at 20% and 15%, respectively
 - Individuals are exempt from tax on capital gains from disposal of assets held for two years or longer
 - Foreign-source income tax exemption for individuals applies to capital gains on foreign assets as well
- No social insurance or similar taxes
- No inheritance tax
- No wealth tax
- No stamp duty or other transaction-based taxes or levies

Georgia has an extensive double tax treaty network with 24 countries, including:

- 15 EU countries
- Most neighbouring countries
- Key jurisdictions for financial and HNW investors, including
 - Great Britain (further improvements of the treaty are being negotiated)
 - The Netherlands
 - Treaty negotiations are underway with Switzerland, Cyprus and Singapore

"I am delighted that we have been able to accelerate the timetable for the further reduction in key tax rates. This will provide a significant stimulus for the economy in 2009 and beyond. Investors and high net worth individuals world-wide should take note that Georgia, over the last five years, has evolved into one of the most attractive low-tax jurisdictions in EMEA", commented *Nika Gilauri*, Minister of Finance of Georgia.

Georgia: Key Economic Data	2004A	2005A	2006A	2007A
Nominal GDP (GEL mln)	9,824.3	11,621.0	13,783.9	16,998.6
Real GDP Growth (y-o-y; %)	5.9%	9.6%	9.4%	12.4%
GDP per Capita (US\$)	1,187.2	1,478.4	1,758.7	2,315.2
CPI (e-o-p; %)	7.5%	6.2%	8.8%	11.0%
Net FDI (US\$ mln)	483	542	1,076	2,014.8
Current Account Deficit as % of GDP	-6.6%	-10.7%	-14.9%	-18.9%
GEL/US\$ (e-o-p)	1.83	1.79	1.71	1.59
GEL/EUR (e-o-p)	2.49	2.12	2.26	2.33
Galt & Taggart Index (e-o-p)	194	320	790	1,041

Source: Department of Statistics, Ministry of Economic Development, Ministry of Finance, National Bank of Georgia

Georgia has, as of the date hereof, the following sovereign credit ratings:

Standard & Poor's	Sovereign Credit Rating	'B/ Stable/B'
FitchRatings	Long Term Issuer Default Rating/Short Term Issuer Default Rating/Country Ceiling	'B+/ Negative /B/B+'

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