

ON THE RESTRUCTURING OF TAX ARREARS AND STATE LOANS

This Law defines general principles and an organisational and legal basis for restructuring tax arrears and loan debts of enterprises established in accordance with the legislation of Georgia, as well as for recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person, transferring the right to claim a loan debt to another legal person subject to a discount, all with a view to improving the financial and economic condition of such enterprises and increasing their solvency.

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

Law of Georgia No 2755 of 31 October 2014 – website, 11.11.2014

Article 1 - Definition of terms

For the purposes of this Law, the terms used herein have the following meanings:

- a) enterprise – an enterprise defined by the Tax Code of Georgia, or a business entity of any legal form defined by the Law of Georgia on Entrepreneurs, or an entity defined by the Tax Code of Georgia and recognised as an organisation (including a budgetary organisation defined by the Budgetary Code of Georgia);
- b) the Committee – a committee created within the Ministry of Finance of Georgia examining the appropriateness of restructuring tax arrears and loan debts, whose composition and regulations are approved by the Government of Georgia. In addition to the representatives of the executive authorities of Georgia, the Committee is composed of chairpersons of economic committees in the Parliament of Georgia;
- c) tax arrears – difference between the amount of taxes and/or sanctions that has not been paid by the taxpayer within the established time limit and the amount of taxes and/or sanctions paid in excess;
- d) loan debt:
 - d.a) loan arrears – an obligation arising from a default on a loan issued from the funds of the State Budget of Georgia or a credit issued under state guarantee, which was not fulfilled within the established time limit;
 - d.b) undue loan obligation – a loan issued to an enterprise from the funds of the State Budget of Georgia or a credit issued to an enterprise under state guarantee, the repayment of which is not yet due;
- e) insolvency – the inability of an enterprise to pay off its tax and/or loan debts within the established time limit;
- f) restructuring of tax arrears and loan debts – freezing and/or deferring the payments of tax arrears and/or loan debts (including fines, penalties, surcharges, etc.). The restructuring of a loan debt must include the restructuring of loan arrears and the restructuring of undue loan obligations within the limits of the loan debt in question;
- g) freezing debt payments – suspending an obligation to pay off tax arrears and/or a loan debt for a specific period of time;
- h) deferring debt payments – amortising an obligation to pay off tax arrears and/or a loan debt;
- i) special case – an instance when the restructuring of tax arrears and/or loan debts (including those previously restructured) is carried out if the following conditions exist:
 - i.a) an enterprise, whose control stock or more than 50 % of its shares is owned by the State and/or which has a strategic role and/or export potential for the country's socio-economic development, is being prepared for privatisation with a view to implementing important investment projects;
 - i.b) an enterprise has tax arrears and/or a loan debt that emerged because of the non-receipt of payment for the delivery of goods/service, which had to be financed from the Budget;
- j) bad loan – a loan debt:
 - j.a) that cannot be paid off following the implementation of enforcement measures to ensure its recovery, as provided for by the legislation of Georgia;
 - j.b) that is owed by an enterprise which has been removed from the Registry of Entrepreneurial and Non-entrepreneurial (Non-commercial) Legal Entities or which has been liquidated in accordance with the procedures established by the legislation of Georgia;
 - j.c) that is owed by an enterprise whose assets have been transferred unencumbered and free of debts to a new owner in accordance with Article 38(13) of the Law of Georgia on Insolvency Proceedings;
 - j.d) that, according to the Committee's assessment, cannot be paid in the light of the current situation of the enterprise;
 - j.e) with respect to which there is a court decision entered into legal force;
 - j.f) with respect to which there is a court decision entered into legal force in relation to the person's insolvency, bankruptcy and/or rehabilitation, which does not meet the creditor's claim;
 - j.g) single outstanding liability – non-restructured tax arrears or an obligation deriving from a single loan agreement, which exist as of a certain date.



Law of Georgia No 1556 of 3 June 2005 – LHG I, No 31, 27.6.2005, Art. 194

Law of Georgia No 1709 of 17 June 2005 – LHG I, No 35, 4.7.2005, Art. 217

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 1966 of 3 November 2009 – LHG I, No 35, 19.11.2009, Art. 255

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

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Article 2 - General provisions

1. The restructuring of tax arrears and/or loan debts, including in special cases, as well as recognising a loan debt as a bad loan and writing it off, forgiving a loan debt or transferring the right to claim a loan debt to another legal person subject to a discount, shall be carried out by a decree of the Government of Georgia, in accordance with the procedures established by this Law.

2. The procedures established by this Law (including in special cases) shall apply to the arrears existing as of the date of restructuring the tax arrears and/or loan debt.

3. The right of restructuring tax arrears and/or loan debts in accordance with the procedures established by this Law shall be granted to an enterprise only once and only in the case of insolvency and a single outstanding liability, except in a special case.

4. The time frame for restructuring tax arrears and/or loan debts shall be determined in accordance with the procedures established by this Law.

Law of Georgia No 1709 of 17 June 2005 – LHG I, No 35, 4.7.2005, Art. 217

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

Article 3 - Procedures for deliberating and deciding on issues of restructuring tax arrears and loan debts, as well as recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person, and transferring the right to claim a loan debt to another legal person subject to a discount

1. The issue of the appropriateness of restructuring tax arrears and/or a loan debt, as well as recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount, shall be examined by the Committee.

2. The Committee shall have the right to invite representatives from the enterprise, and relevant ministries and agencies, as well as from the bodies of the Autonomous Republics of Abkhazia and Ajara and local self-government, in the course of examining an issue of restructuring tax arrears and/or a loan debt, recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount.

3. The Committee shall examine an issue as provided for by paragraphs 1 and 2 of this article and adopt one of the following decisions:

a) to submit a proposal to the Government of Georgia on the appropriateness of restructuring tax arrears and/or a loan debt, or on the appropriateness of the early termination of restructuring, if the enterprise breaches the conditions of the restructuring agreement;

b) to submit a proposal to the Government of Georgia on writing off a loan debt that has been recognised as a bad loan;

c) to submit a proposal to the Government of Georgia on forgiving a certain or full amount of an individual loan debt;

d) to submit a proposal to the Government of Georgia on transferring the right to claim an individual loan debt to another legal person subject to a discount;

e) to make changes to a schedule prepared in accordance with an agreement concluded with an enterprise operating in the regime of restructuring tax arrears and/or a loan debt;

f) to assign an individual loan debt to a third person;

g) to specify the amount of individual tax arrears and/or loan debt, taking into account the emergence of these arrears for reasons beyond the control of the enterprise.

4. In order to have an issue of restructuring tax arrears and/or a loan debt examined, an enterprise shall submit the following documents to the Ministry of Finance of Georgia:

a) a written application by the head of an enterprise;

b) a decision of the partners'/shareholders' meeting, authorised persons, on the restructuring of tax arrears and loan debts;

c) the consent of the creditors to the restructuring of tax arrears and loan debts, whose claims constitute more than two thirds of the total amount of the claims of the creditors (excluding the State);

d) an approval by a representative body of the Autonomous Republics of Abkhazia and Ajara and/or of a local self-governing unit as to the appropriateness of restructuring tax arrears in respect of the respective budget. If the tax arrears of the enterprise in respect of the budget(s) of the



Autonomous Republics of Abkhazia and Ajara and/or local self-governing unit(s) do not exceed 5 % of the enterprise's revenues, such approval shall be given by the executive body of a local self-governing unit, and in the case of the autonomous republic, by the government of the autonomous republic;

e) a plan for the restructuring of tax arrears and loan debts;

f) proposals on the terms and conditions of freezing and/or deferring the payments of tax arrears and loan debts;

g) information or a statement of comparison related to tax arrears (certain types of taxes, fines and penalties), issued by a respective tax authority(ies);

h) a list of debtors and creditors (with an indication of amounts) certified by the head of the enterprise and its chief accountant;

i) a list of immovable property and an audit report stating the value of the property;

j) accounting balance sheets for past and current years certified by the head of the enterprise and its chief accountant, and a document stating the causes of insolvency certified in the same manner.

Note: A local self-governing unit shall not be required to submit the documents specified in sub-paragraphs (b), (c), (e) and (i) of this paragraph.

4¹. For the examination of the issue of recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount, the enterprise shall submit a written application to the Ministry of Finance of Georgia stating the conditions and reasons that lead the enterprise to request the examination of the issue of recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount. The application shall be accompanied by documents as provided for by an ordinance of the Government of Georgia.

5. Following the receipt of all documents (or, pursuant to a written request of the enterprise, of not all of the documents, if one of the documents does not exist) provided for by paragraphs 4 and 4¹ of this article, the Ministry of Finance of Georgia shall submit them to the Committee which shall, within 2 months from the receipt of the documents, adopt a decision on the appropriateness of restructuring tax arrears and/or a loan debt or recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount. The documents may be submitted to the Ministry of Finance of Georgia in tangible and/or electronic form. The procedure for the submission by enterprises of documents to the Minister of Finance of Georgia in electronic form shall be established by the Minister of Finance of Georgia.

6. If the Committee adopts a favourable decision on restructuring tax arrears and/or a loan debt or recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount:

a) the enterprise and the Ministry of Finance of Georgia shall conclude an agreement providing for the conditions and terms of restructuring arrears, a schedule of payment of arrears, and other issues related to restructuring;

b) the relevant parties and the Ministry of Finance of Georgia shall conclude an agreement on assigning a loan debt to a third person and/or transferring the right to claim a loan debt to another legal person subject to a discount.

7. In the case of a favourable decision by the Committee, the Ministry of Finance of Georgia shall submit the Committee's minutes and the copy(ies) of an agreement(s) to the Government of Georgia which shall adopt a decision on restructuring tax arrears and/or a loan debt, or recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount.

8. Tax arrears and/or loan debts shall be considered restructured and an enterprise shall commence operating in the regime of restructuring from the date defined by a decree of the Government of Georgia.

8¹. The date of recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount, shall be determined by a decree of the Government of Georgia.

9. If the Committee adopts a negative decision, the respective conclusion shall be sent to the enterprise. The conclusion shall contain reasoned arguments and/or remarks which served as grounds for the refusal of restructuring tax arrears and/or a loan debt or recognising a loan debt as a bad loan and writing it off, forgiving a loan debt, assigning a loan debt to a third person or transferring the right to claim a loan debt to another legal person subject to a discount.

10. (Deleted).

Law of Georgia No 1556 of 3 June 2005 – LHG I, No 31, 27.6.2005, Art. 194

Law of Georgia No 3643 of 10 November 2006 – LHG I, No 44, 27.11.2006, Art. 291

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 3599 of 17 September 2010 – LHG I, No 54, 12.10.2010, Art. 351

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

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Article 4 - Conditions for restructuring tax arrears

1. Except in special cases, the time frame for restructuring tax arrears shall be a maximum of 60 months, including a period of freezing debt payments that shall be a maximum of 24 months.



2. During the period of freezing, interest and penalties provided for by the Tax Code of Georgia shall not be charged on restructured tax arrears.
3. During the deferment period, the amount of restructured tax arrears which remained payable according to the schedule shall be charged interest at the rate of 6 % per annum.
4. The restructuring of tax arrears may be carried out repeatedly only in a special case, including the arrears that have already been restructured (together with the amount of interest charged by the respective period).
5. In special cases, the time frame for restructuring tax arrears shall be a maximum of 180 months, including a period of freezing debt payments that shall be a maximum of 60 months.
6. Restructured tax arrears shall be paid off in accordance with an agreement concluded between the enterprise and the Ministry of Finance of Georgia, and the schedule prepared on the basis thereof.

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

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Article 5 - Conditions for restructuring loan debts

1. Except in special cases, the time frame for restructuring a loan debt shall be a maximum of 60 months or not more than 24 months from the maturity date provided for by the loan agreement, including a period of freezing of debt payments that shall be a maximum of 24 months.
2. During the period of restructuring, the rate of interest to be charged on the amount of the restructured loan debt, which remained payable according to the schedule, shall be determined by the Committee. The rate of interest shall be no less than 6 % per annum.
3. During the restructuring of a loan debt, the amount of surcharge to be imposed for the breach of the date of payment of the amount payable shall be determined by the Committee.
4. A restructured loan debt shall be paid off in accordance with an agreement concluded between the Ministry of Finance of Georgia and the borrowing enterprise, and the schedule prepared on the basis thereof.
5. From the restructured loan arrears, the remaining balance in the form of the principal amount and the interest charged shall be paid first, and after that the penalty charged as a result of non-payment of the principal amount and the interest.
6. In special cases, the time frame for restructuring a loan debt (including one already restructured, together with the amount of interest accrued by the respective period) shall be a maximum of 180 months, including a period of freezing of the debt payment that shall be a maximum of 60 months.
7. In order to secure the performance of obligations, the borrowing enterprise shall provide security for a claim, except in cases defined by the Government of Georgia. The value of any security provided for a claim shall exceed the amount of the restructured loan debt and the interest charged thereon.

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

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Article 6 - Restructuring plan of an enterprise

A restructuring plan of an enterprise shall contain:

- a) an analysis of the financial and economic conditions and the economic activities of the enterprise;
- b) organisational, technical, technological and other measures which shall ensure the improvement of the financial and economic conditions of the enterprise and the repayment of restructured tax arrears and/or loan debts.
- c) the indicators of production growth, the realisation of goods, the operating costs and the profit of the enterprise and other main indicators;
- d) calculations of the expenditure of financial revenues and financial resources.

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Article 7 - Conditions for the operation of enterprises in the regime of restructuring tax arrears and/or loan debts

1. During the period of restructuring tax arrears and/or a loan debt, the enterprise shall:
 - a) pay off its current tax liabilities fully and in due time;
 - b) fulfil the conditions of the agreement concluded with the Ministry of Finance of Georgia;
 - c) (deleted).
2. During the period of restructuring tax arrears and/or a loan debt, the enterprise shall have the right to pay off the restructured amount in advance or part thereof together with the interest accrued by the respective period, and to request in writing a respective change to the arrears repayment schedule



(including the reduction of the repayment period and the amount). In such case, the request shall be considered and a decision thereon shall be made by the Committee. If the amount is paid off in advance, interest shall not be charged on such amount.

3. During the period of restructuring tax arrears and/or a loan debt, creditors who have given their consent to the enterprise for restructuring the debt shall not have the right to file an insolvency application with a court against the enterprise and to bring a case before a court to secure the repayment of the debt.

4. The creditors, whose control stock or more than 50 % of shares is owned by the State, shall not have the right to bring a case before a court to secure the repayment of a debt against an enterprise operating in the regime of restructuring in special cases.

Law of Georgia No 4525 of 28 March 2007 – LHG I, No 9, 31.3.2017, Art. 90

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

Article 8 - End or early termination of the restructuring of tax arrears and/or loan debts

1. The time frame for restructuring tax arrears and/or loan debts shall end and the conditions under the respective agreements shall be terminated:

- a) by a decree of the Government of Georgia, where the enterprise breaches conditions of the agreement on restructuring tax arrears and/or loan debts;
- b) in the case of the expiry of the time frames provided for by the conditions for restructuring tax arrears and/or loan debts;
- c) at the written request of the enterprise, on the basis of the Committee's conclusion, where the enterprise pays off the restructured debt in advance (early) together with the interest accrued by the respective period;
- d) by a decree of the Government of Georgia, on the basis of a written request of the enterprise.

2. Where the restructuring of tax arrears and/or loan debts is terminated early in cases provided for by paragraphs 1(a) and (d) of this article:

- a) financial sanctions provided for by the tax legislation of Georgia shall be imposed on the enterprise for the unpaid amount of restructured tax arrears from the date when the restructuring started;
- b) the tax authorities shall apply the measures provided for by the Tax Code of Georgia for the forced recovery of unpaid amounts of restructured tax arrears;
- c) the Ministry of Finance of Georgia shall apply security for a claim under Article 5(7) of this Law with respect to the borrowing enterprise. In the absence of such security for a claim, the Ministry of Finance of Georgia shall file a civil claim to ensure the payment of loan arrears.

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

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Article 8¹ - Unified registry of restructured liabilities

- 1. The Ministry of Finance of Georgia shall establish a unified registry of restructured liabilities.
- 2. The procedure for maintaining a unified registry of restructured liabilities and the form of the registry shall be approved by the Minister of Finance of Georgia.

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Article 9 - Transitional provisions

- 1. The Law of Georgia on the Restructuring of Tax Arrears shall be considered invalid upon the entry into force of this Law.
- 2. The restructuring of import duties shall be carried out in accordance with the procedures established by this Law only with respect to arrears on these duties existing by 1 January 2005.
- 3. The conditions defined by Article 58(2) of the Law of Georgia on the State Budget of Georgia for 2008 may be used for the purposes of this Law during 2008, only with respect to credits (loans) issued from the domestic credit resources of the State in the amount of not more than GEL 100 000 000, the obligation for which repayment will arise in the periods following 1 January 2008.

Law of Georgia No 1709 of 17 June 2005 – LHG I, No 35, 4.7.2005, Art. 217

Law of Georgia No 5860 of 12 March 2008 – LHG I, No 6, 25.3.2008, Art. 22

Law of Georgia No 3599 of 17 September 2010 – LHG I, No 54, 12.10.2010, Art. 351

Article 10 – Final provisions

- 1. This Law shall enter into force upon its promulgation.
- 2. (Deleted – 6.4.2017, No 621). *(Paragraph 2 shall apply to legal relations arising from 1 January 2017)*



Law of Georgia No 1709 of 17 June 2005 – LHG I, No 35, 4.7.2005, Art. 217

Law of Georgia No 971 of 30 December 2008 – LHG I, No 41, 30.12.2008, Art. 343

Law of Georgia No 3452 of 16 July 2010 – LHG I, No 42, 22.7.2010, Art. 271

Law of Georgia No 4062 of 15 December 2010 – LHG I, No 75, 27.12.2010, Art. 482

Law of Georgia No 5505 of 9 December 2011 – website, 20.12.2011

Law of Georgia No 113 of 19 December 2012 – website, 27.12.2012

Law of Georgia No 1848 of 25 December 2013 – website, 28.12.2013

Law of Georgia No 621 of 6 April 2017 – website, 13.4.2017

President of Georgia

Mikheil Saakashvili

Tbilisi

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