

# საქართველოს ახალგაზრდა იურისტთა ასოციაცია GEORGIAN YOUNG LAWYERS' ASSOCIATION



## Statement by Civil Society Organization in Georgia

During the Spring Session 2010, the Georgian Parliament began discussing the new Tax Code. According to the first part of the draft code, paragraph 308, the income tax rate applied to NGOs (non-governmental organizations) will be increased to 20% beginning January 1, 2011.

In accordance with the current Tax Code, the income tax rate applied to income from grants is 12%. It was planned to increase to 18% beginning January 1, 2012 and then decrease to 15% from January 1, 2012. However, the new draft elaborated by the Government of Georgia to move toward the 15% rate was postponed until January 1,

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2014. This means that the income tax rate from January 1, 2011 to January 1, 2013 will be 20%; 18% from January 1, 2013 to January 1, 2014; and 15% only after January 1, 2014.

Correspondingly, the draft law unexpectedly initiated by the Georgian government considerably increases the tax rate on income received from grants. This unexpected increase in the income tax rate conflicts with previous verbal agreements between the Georgian government and civil society representatives.

This tax increase should not be made without consultations with the civil sector. Unfortunately, the new Tax Code was developed behind closed doors. This barred civil society actors from expressing their positions on the tax regime specifically related to non-governmental organizations. The above mentioned non-inclusion approach took away the possibility of civil society actors to participate in a process, which directly relates to non-governmental activities.

The new Tax Code seemingly ignores the fact that NGOs are not-for-profit institutions whose income is frequently solely based on grants from donor organizations or foreign governments. These funds, as well as NGO activities, focus on promoting democratic development and providing support to vulnerable groups. In fact, in many cases, the funds serve to provide those services that the state itself is unable to provide the population.

In our opinion, the proposed new Tax Code will only impede the activities of non-governmental organizations and is contrary to the interests of donor organizations, namely to spend grant funds on specific services rather than increase spending on personnel.

Increased taxation will burden civil society organizations and will inhibit their ability to attract and retain qualified personnel. The current economic environment in Georgia must be taken into consideration. Due to the 2008 August War and the world financial crisis, the challenges have become more acute and as a result the number of vulnerable groups requiring assistance has increased. Consequently, the need to maintain the preferential status for NGOs is even more important now than it was three years ago, when the Georgian government and NGOs agreement on the 12% income tax rate.

**The NGOs request that the Government of Georgia and the Parliament:**

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- Extend the terms of the moratorium agreed by the Government of Georgia and civil society for three years; particularly, the tax rate on income received as grants should be kept at the 12% rate through January 1, 2014.
- Increase the tax rate only after three years to a rate established through consultations with the civil sector.