

## Georgian Tax and Legal News Refer to the Law



### Important changes to the Civil Code of Georgia

On 29 December 2016, the Parliament of Georgia adopted important changes to the Civil Code of Georgia at the third reading. The aim of the changes is to protect the rights/interests of consumers in loan/bank-loan relationships. The amendments came into force as of 15 January 2017.

Under the new regulation, Article 5051 has been added to the Civil Code of Georgia, determining sellers' obligations in the case of an instalment sale, particularly stipulating that the seller shall fulfill all requirements under the Civil Code of Georgia in respect of interest rates, commissions, penalties or any other financial sanctions.

The maximum threshold for loan interest rates is set and the annual effective interest rate shall not exceed 100 percent.

As regards loan agreements, penalties have been limited. The amount of any commission or any financial expenses, or the total amount of penalties or any financial sanctions in the event of the violation of a loan agreement shall not exceed 150 percent of the remaining principal amount under the loan agreement.

A loan issued in a foreign currency to an individual is allowed if the amount of the loan (including in the event of indexation against the foreign currency in which the loan is issued) exceeds 100,000 (hundred thousand) lari according to the official exchange rate of the National Bank of Georgia as of the date of loan issuance.

In case of the issuance of a loan, the lender is not permitted to set a prepayment penalty or any sanction that exceeds 2 percent of the remaining principal amount of the loan.

Article 6281 has also been added to the Civil Code of Georgia, stipulating that if an entrepreneur or related entrepreneurs obtains financial resources from more than 20 individuals, the loan amount from each individual shall be no less than 100,000 lari. This limitation does not apply to commercial banks, credit unions, brokerage firms or public offerings of securities.

The amendments also introduce provisions 7-8 to Article 868 of the Civil Code of Georgia, stipulating that:

- In case of the issuance of a bank loan, the new requirements in respect of interest rates, penalties or any other financial sanctions shall be fulfilled;
- The bank loan shall be issued to an individual in Georgian lari if the amount of the loan does not exceed 100,000 lari.

## **Important amendments to the Organic Law of Georgia on the National Bank of Georgia**

On 29 December 2016, the Parliament of Georgia enacted important changes to the Organic Law of Georgia on the National Bank of Georgia at the third hearing. The changes enable the National Bank of Georgia to operate more effectively to protect the interests/rights of consumers.

Provisions 21 and 22 have been added to Article 34, which will enter into force on 1 July 2017, stipulating that:

- In the event of the sale of property/rendering of services in Georgia, as well as the offering of property sales or services and/or advertising, the price shall be in lari;
- Provisions, which are different from the above rule, may be stipulated under respective legal acts issued by the National Bank of Georgia.

As of 15 January 2017, the National Bank of Georgia is authorized to establish the rule of disclosure of important information to consumers in the event of the issuance of a loan/bank loan/ attraction of financial resources. Moreover, the rules, which are not enshrined under the new regulation of the Civil Code of Georgia, may be stipulated under legal acts of the National Bank of Georgia.

## **Bill on E-documents and E-services**

The Parliament of Georgia is currently considering a bill on E-documents and E-services, aimed at granting legal force to electronic signatures and at launching e-services.

According to the changes, e-signatures will have legal force. E-documents and e-signatures will be used in Georgia and in other countries as well.

Pursuant to the bill, the relationship with administrative bodies will be simplified, since the e-documents will be used in all cases where the written documents are required (unless otherwise stipulated under Georgian law).

The following laws, among others, might be affected by the draft law and may subsequently require respective amendments:

- The Tax Code of Georgia
- The Civil Procedure Code of Georgia
- The Law on Accounting, Reporting and Audit
- The Organic Law of Georgia on the National Bank of Georgia

## Case Law

On 29 December 2016, the Constitutional Court of Georgia made an important decision (case No. 2/6/623), ruling that certain provisions of Article 39 of the Civil Code of Georgia were unconstitutional under Article 14 of the Constitution of Georgia (the right to equality before the law). In certain circumstances, these provisions defined different state fees for individuals and legal entities; in particular, the law set forth much higher state fees for legal entities than for individuals.

Regardless of the different legal status of the persons, the individuals and legal entities filed a lawsuit to protect the equal interests/rights stipulated in the Constitution of Georgia. The Court considered that the individual and legal entities are equal persons.

The Court found that the different state fees serve one important legitimate goal: to avoid ungrounded claims and protect state services from being overloaded. That said, the Court ruled that the risk of ungrounded claims is posed equally by both types of legal person. Accordingly, the Court found the provisions under discussion to be unconstitutional under Article 14 of the Constitution of Georgia.

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## Representing Tomorrow



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