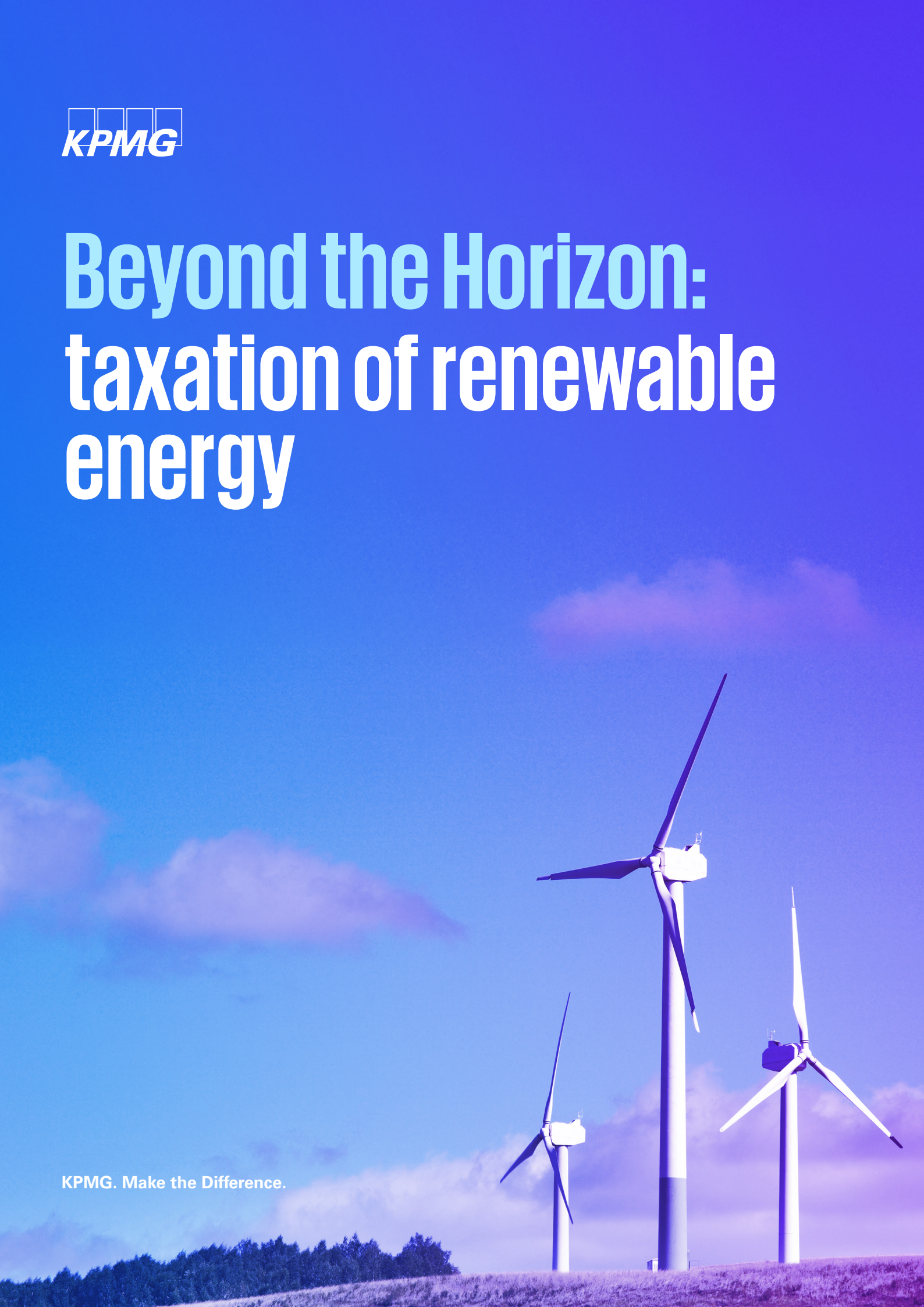




Beyond the Horizon: taxation of renewable energy

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Introduction

We are pleased to present the Georgian chapter of the fourth edition of the global report “Taxation of Renewable Energy – 2025”, prepared by KPMG.

According to the Georgian National Energy and Water Supply Regulatory Commission (GNERC), one of the priorities for future development of the energy sector of Georgia is utilization of hydro and other type of renewable

resources with an ultimate goal to make efficient use of energy resources in the country, increase energy security and sustainability and to fully satisfy the demand on energy.

The Environmental Information and Education Center of Georgia provides the following overview of renewable energy sources in Georgia:



Hydropower

Georgia is rich in water resources, with over 26,000 rivers and significant reserves in glaciers, lakes, and reservoirs. Its hydropower potential is among the highest globally, with an annual capacity of about 15,000 MW (50 billion kWh). Due to seasonal river flows, regulatory reservoirs are needed, but large hydropower plants raise environmental concerns, making small hydropower stations a preferred development focus.



Solar Energy

Georgia's geographic location makes it highly suitable for solar energy, with 250–280 sunny days (6,000–6,780 hours) annually. Solar radiation in Georgia (1,300–2,500 kWh/m²) exceeds the European average, with the highest levels in the Greater Caucasus highlands.



Wind Energy

Wind energy, formed from solar heating, has strong potential in Georgia. The country could generate about 4 billion kWh annually, with an estimated capacity of 1,500 MW. Wind speeds range from 2.5 to 9.0 m/s, providing 4,000–5,000 working hours per year, and suitable sites for wind power stations have been identified nationwide.

According to the Market Monitoring Report 2024 issued by GNERC, in 2024, electricity generated from renewable energy sources constituted 80.7%, while electricity generated from thermal power plants amounted to 19.3%. This represents a slight deviation from the share distribution recorded in 2023, when renewable energy sources accounted for 76.6% and thermal power plants for 23.4%.

Georgia is actively contributing to the development of the renewable energy sector through the adoption of a regulatory framework, the National Energy and Climate Plan, and a financial incentive mechanism for renewable energy production. However, there remains significant potential to further enhance the sector by improving tax policy, including the introduction of tailored tax regimes for Green Energy producers.

This report provides a brief overview of the existing tax environment in Georgia as it relates to renewable energy production.



Georgia

Corporate Income Tax (CIT)

On 13 May 2016 the Parliament of Georgia passed the final reading of law on corporate income tax reform (also known as the Estonian model of corporate taxation). The law became effective for Georgian entities from 1 January 2017 (except financial institutions (such as banks, credit unions, insurance companies, microfinance organisations, loan issuing entities).

The financial institutions (such as banks, credit unions, microfinance organizations and loan providers) remain taxable for CIT based on taxable income and relevant deductions, while for insurance companies' Estonian model of CIT taxation is applicable for tax periods starting from 1 January 2024.

The new system of corporate income taxation does not entail exemption from CIT rather, CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. CIT is not paid on an annual basis as under the classical method, rather it is paid once the taxable transaction occurs. The main tax object is distributed earnings (DE). In addition to DE, the tax object consists of expenses or other payments not related to the entity's economic activities, free-of-charge supply, and over limit representative expenses.

Apart from profits distributed to shareholders as dividends, some other transactions are also considered as DE, such as non-arm's length transactions with related persons that are not covered under the new system, or with persons

exempt from tax, as well as transactions subject to transfer pricing (TP) rules.

The CIT base is not determined based on the classical method (i.e. on taxable income/tax deductions), but is calculated by dividing the amount of distributed earnings/taxable payments/taxable adjustments/expenses by 0.85. The CIT rate is 15%.

As regards the further characteristics of the Estonian model, under CIT rules a payment made by a legal entity to a shareholder as a result of the liquidation of this legal entity or the redemption of shares in this legal entity (which does not exceed the value of the contribution made by the shareholder) is not subject to CIT. Distributions of dividends (except for dividends attributable to net earned profit during 2008–2016) between Georgian entrepreneurial legal entities (except for CIT exempt entities) is not subject to CIT.

Transfer pricing

The Tax Code of Georgia contains a TP chapter XVII, which is mainly based on the Organization of Economic Co-operation and Development (OECD) arm's-length principle and OECD methods. TP rules can be applied to the overseas transactions of a Georgian enterprise with other related parties and/or companies registered in an offshore zone. TP rules also apply to transactions between a permanent establishment and its head office.

Georgia does not provide any specific CIT incentives for companies operating in the renewable energy sector.



Value Added Tax (VAT)

A major amendment to the Tax Code of Georgia, effective 1 January 2021, introduces completely renewed VAT regulation provisions that are aimed at bringing Georgian VAT regulations approximately in line with the EU VAT Directive i.e. it could be said that VAT rules applicable from 1 January 2021 are similar to the EU VAT directive.

VAT of 18% generally applies to taxable transactions (other than VAT-exempt transactions) and imports of goods. A VAT-taxable transaction is a supply of goods or services if this supply is carried out on the territory of Georgia. Generally, the time of the taxable transaction for the supply

of goods/services is the moment when such a supply is made or when an advance payment is received, whichever comes first. The Georgian VAT system applies the invoice-based offset method.

Electricity, gas, thermal energy, cooling energy and other similar properties shall be considered as tangible property for VAT purposes. VAT taxation shall be carried out not later than the last day of each accounting period (month) if guaranteed capacity, electricity, gas, water, thermal energy, cooling energy or other similar goods are supplied regularly or continuously.

According to the TCG, certain transactions are exempt from VAT either with or without the right to deduction. The list of such transactions includes the following:

Exempt from VAT with the right of deduction

- The supply of electricity and guaranteed capacity, as well as the provision of transmission and/or dispatch services, except for the supply of electricity to consumers who purchase electricity for their own use as defined by the Law of Georgia on Energy and Water Supply.

Exempt from VAT without the right of deduction

- Provision of construction-installation, repair, restoration, pilot-design, and/or geological-exploration services funded by concessional loans granted by foreign states and/or international organizations under international treaties of Georgia ratified by the Parliament of Georgia for the rehabilitation of the electricity sector. VAT exemption also applies to the import of goods finance by such loans.

Other taxes

Import Tax

An import taxpayer is a person moving goods on the customs border of Georgia, with the exception of exports. Import tax is based on either the customs value or the physical volume of goods. The rates applicable to the customs value of goods are 0%, 5%, or 12%, taking into account harmonised system codes.

Free Trade Agreements (FTAs) serve as a way to eliminate customs duties and charges, with the exceptions related to products that are not subject to the preferential regime.

To date Georgia has signed FTAs with the following single / group of trading partners:

- Multilateral free trading system with: Commonwealth of Independent States (CIS) countries; the European Union following the signing of an Association Agreement (June 27, 2014), which includes establishing a Deep and Comprehensive Free Trade Area (DCFTA)
- Bilateral FTAs with Turkey and a number of CIS countries
- An FTA with European Free Trade Association (EFTA) states, China, and Hong-Kong.

Property Tax

The property taxpayer is a resident enterprise/organization with respect to the assets recorded as fixed assets and/or as investment property on its balance sheet, uninstalled equipment, construction in progress (CIP), as well as the property issued under leasing thereof.

The tax base is the annual average net book value of property. The tax rate should be within the limit of 1% (usually, maximum (1%) tax rate is established by the Georgian local self-governing bodies).

Transmission lines as well as cable lines of electronic communications networks are exempt from Property Tax.

Property Tax on Land

A taxable object of Land tax are land plots owned by a person as of 1 April of the tax year and a state-owned land plot that is used or possessed by a person as of 1 April of a tax year.

The tax base of Land tax is the area of land. The annual base tax rate on non-agricultural land is GEL 0.24 per square meter, which further can be adjusted by a territorial coefficient not exceeding 1.5. The annual base tax rate on agricultural land is determined by the Government and per 1 hectare varies from GEL 5 to GEL 100. The rate can further be adjusted by a territorial coefficient up to 150%.



Special regulations

Micro Power Plant

A micro power plant is a renewable energy source owned by a retail customer or group of retail customers, connected to the electricity distribution network at the place of consumption, with a capacity not exceeding 100 kW. Such a plant may also be held temporarily by the customer(s) under a contract (e.g., lease, rental, or other arrangement) and not necessarily owned by them.

A *direct customer* is a person connected to licensed networks under market rules, while a retail customer is one who consumes electricity only for personal use and is not classified as a direct customer.

Income earned by a retail customer from supplying excess electricity generated by a micro power plant to a distribution licensee is exempt from individual income tax (generally levied at a flat rate of 20%).

Specific VAT rules apply to the micro power plants, namely:



If monthly supply to the grid exceeds consumption, the excess is credited to the next month.



If supply is less than consumption, the difference is treated as electricity purchased from the grid at the consumer tariff.



At year-end (May 1–April 30), any remaining credit is deemed purchased by the distribution licensee at the commission's average weighted price. This constitutes a VAT-taxable transaction; however, under the Tax Code of Georgia, electricity supplied by a retail customer to a distribution licensee is VAT-exempt with the right to deduction (except for supplies to final customers).



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