

## Chapter 1<sup>2</sup>

### Film Industry Component of the “Produce in Georgia” State Program

*The December 4, 2015 Decree #612 of the Government of Georgia—website (December 9, 2015)*

#### Article 12. Definitions

For the purposes of the film industry component of the “Produce in Georgia” state program, the following terms shall be used as defined below throughout this chapter.

- A) “Program” refers to the film industry component of the “Produce in Georgia” state program.
- B) “Agency” refers to the Entrepreneurship Development Agency LEPL under the Ministry of Economy and Sustainable Development of Georgia.
- C) “Film Center” refers to the Georgian National Film Center LEPL under the Ministry of Culture and Monument Protection of Georgia.
- D) “Entrepreneurial Entity” refers to a legal entity registered in compliance with the requirements of the Law of Georgia on Entrepreneurs (with the exception of legal entities founded and co-owned by the state or self-governing entities), with no past due state taxes and not listed in the registry of debtors.
- E) “Application” refers to an electronic communication used by an “Entrepreneurial Entity” to apply with the “Agency” for participation in the “Program”.
- F) “Program Beneficiary” refers to an “Entrepreneurial Entity” who, in compliance with the terms defined under the “Program”, and based on an agreement executed in line with the procedures defined by the “Agency”, receives a status of a beneficiary of the “Program”.
- G) “Certificate” refers to a document verifying an agreement duly and properly executed between the “Agency” and a “Program Beneficiary”.
- H) “Project” refers to a set of information included in the “Application” submitted by an “Entrepreneurial Entity” to the “Agency” under the “Program”, which includes the following:
  - H.A) Overview/general information (the name, legal entity status, identification number, and contact information of the “Entrepreneurial Entity”) about a given “Entrepreneurial Entity” and a particular direction under the “Program”.
  - H.B) Context overview of the “Program” direction.

H.C) Production and filming plan, the number of residents engaged in the “Project” in Georgia, expected total budget, amount and breakup of the total sum of qualified expenses.

H.D) General information about the end product:

H.D.A) Actors, producers, film crew, and others involved in the process of production in Georgia, foreign countries involved in production, etc.

H.D.B) In case of foreign investment, information about the foreign partner(s) (documents verifying cooperation, if applicable).

H.E) “Qualified Expenses of the Project” refers to qualified expenses to be incurred by a “Program Beneficiary” in Georgia, if such expenses are expected in Georgia, and used to remunerate goods or services provided by Georgian residents for the “Project Beneficiary” under the “Program” (*subparagraph H.E shall apply to relations established on and after March 1, 2016*).

H.F) Number of expected filming days.

H.G) Documentation on the international distribution of the end product in no fewer than 3 (three) foreign countries (if subparagraphs C, F, and H, article 12<sup>11</sup> of this “Program” are applicable) and in no less than 1 (one) foreign country (if subparagraph G, article 1211 of this “Program” is applicable) (distribution request).

I) “Distribution Request” refers to documents to be submitted by an “Entrepreneurial Entity” under the “Program”, and in line with relevant requirements, with these documents including information confirming international distribution of the end product and/or information on the distribution area, comprising different countries, of the end product.

J) “End Project” refers to a project implemented in Georgia in line with a direction under this “Program”.

K) “End Product” refers to an audiovisual production fully or partially implemented in Georgia, in line with a direction under this “Program”.

L) “Qualified Expense” refers to expenses to be incurred/incurred by a “Program Beneficiary” in Georgia in line with Appendix 2, if such expense is incurred/expected to be incurred for the “Program Beneficiary” by a Georgian resident for services (goods) provided in Georgian territory under this “Program”. “Qualified Expense” does not include expenses incurred from the state budget or financing provided by legal entities cofounded and co-owned by the state and/or a municipality. In case of labor costs (labor

remuneration), wages paid/to be paid to individuals for their labor and taxed 20% income tax shall qualify as “Qualified Expense” (*subparagraph L shall apply to relations established on or after March 1, 2016*).

M) “Overall Qualified Expense” refers to the total amount of concrete “Qualified Expense” incurred/to be incurred by a “Program Beneficiary” (in line with Appendix 2), excluding expenses incurred from the state budget or financing provided by legal entities cofounded and co-owned by the state and/or a municipality.

N) “Promotion Element” refers to the relevance of the “End Product” to Georgia, or usage of Georgia’s landscapes in the “End Product”, or Georgia’s depiction as a locale of action. Employment of Georgian citizens on top positions at one stage of the production of the “End Product” or another. Selection of various footages illustrating Georgia. Employment of Georgian/national elements in the “End Product”. “End Product” postproduction in Georgia, and “End Product” distribution in at least two countries. Dissemination of information on experience filming in Georgia. The “End Product” has at least once participated in and/or won a film festival/major competition recognized by the “Film Center” (*subparagraph N shall apply to relations established on or after March 1, 2016*).

O) “Commission” refers to a commission composed of representatives of the “Agency”, the “Film Center”, the Administration of the Government of Georgia, the Ministry of Economy and Sustainable Development of Georgia, the Ministry of Culture and Monument Protection of Georgia and the Georgian National Tourism Administration under the Ministry of Economy and Sustainable Development of Georgia. This commission will review and make decisions on funding for the “Promotion Element” defined under this “Program”. The composition and activities of the “Commission” shall be approved by the Director of the “Agency” who also serves as the Chair of the “Commission”.

P) “Technical Assistance” refers to the implementation of relevant measures and assistance in coordination with state and municipal bodies in order to support a given beneficiary based on their needs and in line with Georgian legislation.

Q) “Overall Limited Qualified Expense” refers to the sum of limited qualified expenses incurred/to be incurred by a “Program Beneficiary” according to Appendix 2, excluding expenses incurred from the state budget or financing provided by legal entities cofounded and co-owned by the state and/or a municipality (*subparagraph Q shall apply to relations established on or after March 1, 2016*).

*The December 4, 2015 Decree #612 of the Government of Georgia—website (December 9, 2015)*

*The March 21, 2016 Decree #132 of the Government of Georgia—website (March 23, 2016)*

### **Article 12<sup>10</sup>. Goal and Description of Program**

To develop the film industry, the “Program” involves promotion of the development of the local film industry, attracting foreign film production, increasing the local film industry market, developing the country’s tourism potential, and increasing the volume of foreign direct investments.

### **Article 12<sup>11</sup>. Program Directions**

The “Program” consists of directions involving production of the following audiovisual products:

- A) Feature film
- B) *(removed on December 29, 2016, #624)*
- C) TV series or miniseries
- D) Animation
- E) Documentary
- F) Advertising video
- G) Reality show
- H) Music video

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*The December 29, 2016 Decree #624 of the Government of Georgia—website (December 30, 2016)*

### **Article 12<sup>12</sup>. Rights of Program Implementing Entities**

1. Supervision of “Program” coordination and implementation of activities under the “Program” is carried out by the Ministry of Economy and Sustainable Development of Georgia (*hereinafter* “Ministry”).
2. With a view to implementing activities under the “Program”, the “Agency” and/or the “Film Center”, within its purview, is authorized to provide “Program Beneficiaries” with “Technical Assistance”.
3. The “Agency”, within its purview, ensures the following:
  - A) Dissemination of information with a view to promoting the “Program”

- B) Review “Applications” submitted by “Entrepreneurial Entities” and register them according to the rules defined for the “Program”
  - C) Refunding 20% of the “Overall Limited Qualified Expense” to “Program Beneficiaries” according to the terms defined for the “Program” and in the “Agreement” (*subparagraph C shall apply to relations established on or after March 1, 2016*).
  - D) In the case of a “Promotion Element”, refunding between 2 and 5% of the “Overall Limited Qualified Expense” according to the terms defined for the “Program”.
  - E) Define the “Application” form and registration procedures.
  - F) Maintain a registry of “Program Beneficiaries”.
  - G) Define the “Distribution Request” and “Distribution Request” submission forms.
- 4) The “Film Center”, within its purview, ensures the following:
- A) Disseminate information to promote the “Program”.
  - B) For the purposes of this “Program”, assess relevance of different project to “Program” direction.
  - C) Assess a “Project’s” compliance with the requirements defined in paragraph 7, article 12<sup>13</sup>.
- 5) Ministries in charge of state control, along with the “Agency” and the “Film Center” are authorized to access information included in “Applications” submitted by “Entrepreneurial Entities”.

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*The December 29, 2016 Decree #624 of the Government of Georgia—website (December 30, 2016)*

#### **Article 12<sup>13</sup>. Participation in the Program**

1. To participate in the “Program”, an “Entrepreneurial Entity” shall, using the form defined by the “Agency”, submit information about financing to cover at least 50

- (fifty)% of the “Project’s” value and an “Application” requesting financing stipulated under the “Program”.
2. If necessary, an “Entrepreneurial Entity” shall submit additional document(s) to the “Agency” within 10 (ten) calendar days after such its/their request. In case of failure to submit requested document(s) or relevant information within the deadline defined in this paragraph, the “Agency” is authorized to reject the “Application” without review.
  3. The minimal amount of “Overall Qualified Expense” under the “Program”, from which, in the case of the directions defined in subparagraphs A and C, article 12<sup>11</sup> of this “Program”, 20% of “Overall Limited Qualified Expense” will be refunded, constitutes 500,000 (five hundred thousand) GEL. In the case of the directions defined in subparagraphs D, E, F, G, and H, article 12<sup>11</sup> of this “Program”, the minimal amount is 300,000 (three hundred thousand) GEL. Financing allocated from the state and/or local self-government budgets may be taken into account only when calculating the minimal amount of the “Overall Qualified Expense” for the direction defined in subparagraph A, article 12<sup>11</sup> of this “Program”.
  4. Under the “Program” the maximal amount of “Overall Limited Qualified Expense” is 5,000,000 (five million) GEL, with the exception of cases when the amount of “Overall Limited Qualified Expense” is set by the Government of Georgia.
  5. In cases defined in paragraph 4 of this chapter, when the amount of “Overall Limited Qualified Expense” is set by the Government of Georgia, the “Entrepreneurial Entity” shall justify its request and address the “Agency” which, in turn submits it for consideration to the Government of Georgia through the “Ministry”.
  6. If the “Application” submitted by an “Entrepreneurial Entity” to the “Agency” is upheld, the “Entrepreneurial Entity” shall be granted a status of “Program Beneficiary”, and the “Agency” shall execute an agreement with the “Entrepreneurial Entity” and grant it a relevant “Certificate”.
  7. Making change(s) to the content of the “Project” and/or “End Product” submitted by an “Entrepreneurial Entity” under a “Program” direction is allowed if the “Project” and/or “End Product” submitted under a “Project” direction (including change[s] made to the “Project” and/or “End Product”) do not violate the requirements of Georgian legislation, the state “Program”, or the relevant agreement.
  8. Compensation for the “Overall Qualified Expense” (defined in paragraphs 3 and 4 of this article), as stipulated under this “Program”, shall be paid by the “Agency” after the implementation of the “End Project”, also after comparing the expected “Qualified Expense” included in the agreement with the exact “Qualified Expense”

- after the completion of the “Project”. Refunding shall be carried out within 90 (ninety) calendar days after the submission to the “Agency” of an auditor’s report by a relevant auditing company (in compliance with the “Agency’s” request), in the form defined by the “Agency”, and in compliance with the terms defined in the September 5, 2012 Decree #360 of the Government of Georgia “On the Approval of a List of Providers of Audited Financial Reports for Enterprises and/or Individuals and State Enterprises Issuing Expert and Auditor’s Reports”.
9. The “Agency”, in cases defined in paragraph 8 of this article, shall refund 20 (twenty) % of the “Overall Qualified Expense”.
  10. A report prepared by an auditing company certifying a “Project” defined in paragraph 8 of this article (in compliance with the requirements of the “Agency”) shall be submitted by the “Program Beneficiary” no later than 24 (twenty-four) months after the signing of the agreement defined in article 6.
  11. Of the “Qualified Expense” incurred by a “Program Beneficiary”, no more than the amount of “Limited Qualified Expense”, as defined in Appendix 2, shall be reflected in the “Overall Limited Qualified Expense”.
  12. The “Agency”, with the exception of cases defined in paragraph 8 of this article, shall refund between 2 and 5% of the “Overall Limited Qualified Expense” if the “Commission” confirms that the “End Product” contains “Promotion Elements(s)”. Additional refunding is possible only in the case of “End Products” corresponding to the directions defined in subparagraphs A, C, D, and E, article 12<sup>11</sup>.
  13. The additional compensation defined in paragraph 12 of this article may be requested by a “Program Beneficiary” only within 24 (twenty-four) months after the refunding by the “Agency” of the “Overall Limited Qualified Expense” defined in paragraphs 8 and 9 of this article. In addition, the “Agency” shall pay additional compensation within 90 (ninety) calendar days after the submission to the “Agency” of a relevant request by the “Program Beneficiary”, in compliance with this paragraph (*paragraphs 8 through 13 shall apply to relations established on or after March 1, 2016*).

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(December 30, 2016)*

#### **Article 12<sup>14</sup>. Termination of the Agreement**

The agreement, as defined in paragraph 6, article 12<sup>13</sup> of this “Program”, shall be terminated if:

- A) Final fulfillment by the “Agency” and a “Program Beneficiary” of their obligations under the “Program” in line with the terms of the “Program”.
- B) Violation and/or improper fulfillment by a “Program Beneficiary” of the agreement terms defined under the “Program”, in accordance with the rules and terms defined in the agreement.
- C) Termination of the term of the agreement defined under the “Program”.
- D) Other cases defined by Georgian legislation in relation to the “Program”.

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#### **Article 12<sup>16</sup>. Additional Provisions**

To receive financing allocated under this “Program”, relevant “Applications” must be submitted no later than December 15, 2017, in line with the rules defined under the “Program”.

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(December 9, 2015)*

#### Appendix 2

<b>№</b>	<b>Code</b>	<b>Qualified Expense</b>	<b>Limits of Co-financing, % of total qualified expenses budget</b>
1	001	Rental of audiovisual equipment in Georgia	100%
2	002	Rental of wardrobe/costumes	15%
3	003	Hair and makeup services	100%
4	004	Rental of props and set dressing	100%
5	005	Rental of generators	100%
6	006	Rental of Grip equipment and accessories	15%
7	007	Rental of lighting equipment and accessories	15%

8	008	Rental of sound stages, studios, rehearsal rooms,, manufactories (property room, joinery), workshops, sports warehouses, theater stages and event halls	100%
9	009	Rental of office space, office furniture and office equipment	100%
10	010	Rental of air and water transport in Georgia	15%
11	011	Rental, training, feeding and transportation of animals	100%
12	012	Rental of water tanks and mobile toilets	100%
13	013	Hire/rental of public and private personnel and special equipment (military, emergency services, fire department, security and etc.)	100%
14	014	Rental of land transport, vehicles and all special transport for film production	100%
15	015	Security and emergency medical assistance services	100%
16	016	Food and catering services if it is related directly to the final project	15%
17	017	Professional services provided in Georgia, such as insurance, banking, auditing, expert and legal services, also, if necessary, expert consulting services in order to calculate market value in the case of service provided by interdependent persons, or cases prescribed by Georgian legislation.	100%
18	018	Special effects (SFX) services—specialists and equipment	10%
19	019	Special services, such as scuba diving, sky diving, hand-gliding, parachuting, renting/hiring equipment and instructors, mountain guide services, and all special services related to filmmaking	100%
20	020	Laundry and dry cleaning services	100%
21	021	Rental of filming locations and the cost of filming permissions	100%
22	022	Cost of set design, construction and decoration	100%

23	023	Work-related travel expenses of the crew members of “Program Beneficiaries” in the territory of Georgia, in accordance with Georgian legislation	1%
24	024	Accommodation for crew members	15%
25	025	Personnel expenses, including, according to Georgian legislation, incomes paid in the form of salaries to personnel (hired workforce) hired in the territory of Georgia, with their income taxes paid to Georgia’s state budget	60%
26	026	Salaries paid by “Program Beneficiaries”, in accordance with article 101 of the Tax Code of Georgia, to nonresident individuals employed by “Program Beneficiaries” on leading positions (main actor(s), producer, director, heads of the departments), with income taxes levied on their salaries and paid to Georgia’s state budget	15%
27	027	Travel expenses (only in Georgia)	5%
28	028	Fuel expenses (in accordance with the rules defined in the April 18, 2011 Decree #230 of the Finance Minister of Georgia)	5%
29	029	Utility bills	1.5%
30	030	Telecommunications expenses: landline phone, cell phone, internet, and fax fees in Georgia; radio rental (walkie-talkies)	2%
31	031	Image editing	100%
32	032	Animation	100%
33	033	Visual effects (VFX) services	100%
34	034	Color correction	100%
35	035	Score recording	100%
36	036	Sound recording studio rent (Foley Room)	100%
37	037	Image rendering	100%
38	038	Rental of Audio recording studios rental	100%
39	039	Translation	100%
40	040	Subtitles	100%

41	041	Film Processing and printing costs (lab costs)	100%
42	042	Development of deliverables related to the film to be submitted to a distribution and sales company	100%.