An enterprise with tourist status as a stimulant for attracting investments and tourists to Adjara

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Tourism is one of the priority sectors of the Autonomous Republic of Adjara. The country has a significant legislative regulatory framework to promote the development of tourism in the country. The article deals with the Decree of the Government of Georgia, issued in 2015, on the procedure for granting the status of an enterprise to a tourist enterprise, as well as its operation and cancellation, the concessive initiatives of which are based on the Tax Code of Georgia. Objects with this status have become a profitable source of income and means of living for non-residents and for construction business - it is the easiest way to attract investments. Hotels apartments could find easily their niche in the consumer market.

Keywords: tourist enterprise status; tourism; investments; apartments; hotels; tax benefits.

Introduction

Tourism is one of the priority sectors of the economy of the Adjara Autonomous Republic, as evidenced by statistics on the growth of investment in tourism, as well as increasing number of tourists in the country. Nevertheless, it should be noted that the development of tourism in the region faces a

number of challenges, namely: a short tourist season, a low budget accommodated availability for travelers, high air transport rates, a poor quality of tourist services and a shortage of tourist products. In order to cope with the above problems, it is important to cooperate with the government and business sectors.

Diagram 1

Number of Tourists in 2013-2017

Source: National Statistics Office of Georgia

Adjara ranks second after Tbilisi in terms of the number of visitors and is the most interesting and attractive region for tourists. In 2018, the number of foreign visitors in Adjara amounted to 1.9 million, which is 14.7% higher than the data for 2017. As for tourists – their number reached 807 thousand. The main goal of tourists is the rest and the recreation (90%), while the second place belongs to business travel (9%). The top 10 countries, the representatives of which come to Adjara as tourists, are: Turkey, Azerbaijan, Russia, Israel, Ukraine, Armenia, Belarus, countries of South Arabia and Kazakhstan.

As for their placement by dwellings, the survey shows that the indicator of the number of tourists renting an

apartment and living in a hotel is the same - 27% in both cases, and the number of tourists placed in Guesthouses is 20%, in hostels - 7%, in the homes of relatives - 13% and in their own apartments - 3%.

Investments in the Adjara region exceeded 1.5 billion US dollars within the last 3 years. Tourism, energy and construction occupy a leading position in the total investment. Along with the positioning of international hotel brands in Batumi (Hilton, Radisson, Sheraton, Marriott, etc.), the local construction business of hotels and hotel apartments, which have their niche in the consumer market, is also developing.

Diagram 2

Source: Ministry of Finance and Economy of Ajara A.R.

Special attention is paid to the expansion and development of the country's tourism market in order to improve the legislative framework. In addition, there is a significant legislative regulatory framework to promote the development of tourism in the country. In the article, a special place is given to the Decree of the Government of Georgia, issued in 2015, on the procedure for granting the status of an enterprise to a tourist enterprise, as well as its operation and cancellation, the concessive initiatives of which are based on the Tax Code of Georgia.

Today, in the field of construction business in Ajara, the greatest interest has been increased with respect to the construction of hotel apartments, which are represented by the so-called status of a "tourist enterprise". Objects with this status have become a profitable source of income and means of living, both for non-residents and for business, as it is the easiest way to attract investments. In addition, hotel apartments have a developed infrastructure, which attracts tourists and residents of the city so much. These advantages are often not used by new buildings. It should also be noted that the profit depends on the management capabilities as well. The hotel apartments are always tidy and clean, as the management company of the owner of the apartment takes care of them. As a rule, a standard package of services

includes cleaning, property insurance, attracting customers, their accommodation and the income transferring to the owner for a certain period of time. Many companies, responsible for the management of apartments, provide an opportunity to monitor the situation and manage the income of apartments in the online mode. In addition, on the one hand, tourists are interested in competitive prices for apartments, and on the other hand, the construction business has quite favorable tax breaks.

Foreign tourists show uncommon interest in real estate, in particular, apartments, as they represent: safe environment for living in the country, registration of property rights to real estate in a day, lack of property taxes, residence permit (when buying real estate in excess of 35,000 US dollars).

The government of Georgia establishes the procedure for granting, operating and revoking the status of tourist enterprise. In addition, the government, together with the local authorities, determines the minimum area required for the use of hotel apartments. (Part 4 Article 261 of the Tax Code of Georgia)

The status of tourist enterprise can be obtained on the own initiative of a person building a hotel; however, in accordance with the established procedure, a hotel is a

building and / or an integrated complex of buildings with its own infrastructure, which, according to project documents, is considered to be a hotel. The hotel also owns one or several parts of a multifunctional building / complex together or separately, where hotel rooms / apartments with their infrastructure should be distributed according to the project document.

At the same time, the definition of a hotel / apartment room to obtain the status is also of interest: the hotel / apartment room is an isolated zone located in a hotel, which is designed for any person's purposes (including rest, rehabilitation, business) for short-term or long-term reception / accommodation.

A builder concludes the "Sale and Purchase Agreement" with an owner of the assets, on the basis of which he can use the hotel assets or part of them as hotel rooms or apartments. This means that at the time of the construction of the hotel, the minimum area, prescribed by law, can be sold, but the builder reserves the right to rent and manage the apartment, and most importantly, the asset buyer pays for this procedure. For this purpose, hotel assets must be renovated, and hotel rooms / apartments should be provided with furniture / inventory.

This circumstance is the most important moment in the development of tourism, since the hotel developer receives the status of tourist enterprise, if he commits a new owner of assets, previously defined as hotel apartments, to rent them, with the result that the hotel gets the opportunity of intense load.

However, in accordance with the Tax Code (Subparagraph "g", Part 4, Article 168), the sale of hotel assets by a tourist company is considered to be the return of this property by a tourist company, as it undertakes to hand over its assets, sold under the "Sale and Purchase Agreement" as hotel rooms / apartments (including the right to use, to rent, to manage, property as a trustee and / or intermediary in other similar contractual terms), despite the fact that the right to own assets is registered in the public register. This circumstance gives the developer the right to use those important tax benefits, which are called the status of tourist enterprise. In particular, it exempts from the right to deduct from VAT, what can be said is the reduction of the most important tax pressure for construction companies.

The owner is exempt from income tax by the tourist agency and / or in accordance with the Agreement if the invited person / persons does not stay in the hotel for more than 60 days.

Compensation paid by a tourist company to an individual on the basis of a relevant agreement is taxed at a rate of 5% of the amount paid to the source of payment. In this case, the income, received by an individual who was taxed at the source of payment, will not be included in the recipient's total income and will not be taxed in the future.

VAT is not charged

In case of transferring a hotel assets / parts of them by a tourist agency to another person for the purpose of returning this property. If the tourist agency returns the same hotel assets / parts after 2 years after they are transferred to another person, then such a transaction is also exempted from the right to deduct from VAT, and this is the

basis for the adjustment of the taxable amount of the transaction. In this case, the tourism enterprise has the right to adjust the taxable transaction.

VAT is not also charged for

Free accommodation in the apartment of a person / persons invited by a travel company and / or in accordance with the Agreement, living in a hotel for not more than 60 days.

Despite tax breaks, tourist enterprises have important responsibilities: in particular, after the construction of the hotel is completed, within no more than 10 years of the hotel exploitation and for the normal functioning of the hotel, they are responsible for ensuring that the taxable VAT turnover should not be less than the VAT amount, exempt from hotel assets / parts according to the Code.

As stated above, by provision of tourist status the government refused from 18% of the VAT, although, it caused the growth of the flow of tourists in this sector, the employment growth among the population, as well as the high activity of investments in business. This is confirmed by the fact that only in Adjara, 34 objects with such a status are recorded, among which 17 objects have investment obligations to the state and were created as a result of privatization.

Providing the status of tourist enterprise is not possible for all persons involved in the construction business, and as the project is drawn up taking into account the needs of the hotel, it will apply to the tax service, which provides status in accordance with the main individual administrative and legal acts of the tax authority before the building of a hotel is completed.

The application must contain and be accompanied by:

- Name of the enterprise;
- Registration data of a person (identification code, name, address);
- Brief description of the activity.
- Building permit / certificate of construction;
- Document confirming the right to land / use and a cadastral map of the area where construction is underway;
- Project construction documentation.

The Revenue Service will review the application within 10 working days after receiving it and decide whether or not to grant the status of tourist enterprise to a person.

In addition to granting the status of tourist enterprise, the Revenue Service may require a bank guarantee, insurance policy or mortgage / mortgage lending. To some extent, this is for the state the guarantor of the fulfillment of the mandatory conditions that impose a tourist enterprise upon receipt of status. And most importantly, these guarantees should be provided by the person no later than the time of exemption from VAT payment, so that during the transfer of assets the company could not take advantage of the tax benefits obtained after assigning the status, and also that the obligations, imposed on it, should be fulfilled. The validity of these guarantees should be at least 2 years, and its value should be at least 18% of the exempt from VAT.

The travel agency has the right to reduce the value of the security at the expense of the amount of VAT paid by the person, invited to facilitate the functioning / operation of the hotel; to replace the provisioning facilities with others; to

replace movable / immovable property presented as collateral; to extinguish property during the period lien by an audit report and provide the Revenue Service with a tax pledge / mortgage loan in order to determine the new value of the property.

We have studied and interviewed those persons who have obtained the status of tourism enterprise operating in Adjara and sold hotel apartments in already completed real estate complexes: *Orbi Group Ltd, Metro Atlas Georgia LLC, Pita LLC - Sky Tower Hotel*. The survey showed that, on average, 70% of the realized hotel apartments are sold for foreigners, for whom the provision of living space is carried out according to the right of management of the hotel apartments. The survey also confirmed that, provided to vacationers in the years 2017-2018, the area averaged up to 85%. Apartment owners and tourists, who rent apartments, mainly come from Russia, Ukraine, Belarus and the Emirates. Information about renting apartments basically comes from the websites of companies and booking.com. In practice, there are also cases of double renting, both by local and foreign travel agencies; for the purpose of subsequent rental,

persons conclude contracts for accommodation in a hotel-apartment with enterprises that have tourist status.

Conclusions

Therefore, we should positively evaluate the resolution approving the status of a tourism enterprise, which represents a certain innovation in business. Granting status has opened up new opportunities and prospects for the region: making new investments, attracting foreign tourists, increasing the growth of new work places, increasing market profits and raising awareness about the region.

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