



## Amendments to Methodical Reference

### Contents

- Taxation of virtual zone persons by the profit tax
- About free industrial zone enterprise
- About Value Added Tax



### Taxation of virtual zone persons by the profit tax

On 16 January 2023 head of the Revenue Service published the order №33544 (29.12.2022) on the approval of the methodical reference "About taxation of virtual zone persons by the profit tax". Based on this amendment, the previously existing order of the head of the Revenue Service №7547 of 25 March 2022 "On the approval of the methodical reference about taxation of virtual zone persons by the profit tax" was declared invalid.

The updated methodical reference contains new examples regarding transactions and taxation related to the activities of a virtual zone person. New illustrative examples demonstrate the tax treatment approaches developed by the Revenue Service. In addition, the updated methodical reference provides more illustrative examples compared to the old version and covers more issues.

The terms and issues that are important for the purposes of taxation of the activity of virtual zone person, such as, for example, "software product", "Information Technologies Activities", etc. have been defined and clarified by new examples.

In addition, the updated methodical reference answered questions about the taxation of a legal entity of a virtual zone person, which were often asked before and there was no answer. For example, this is the case where support services for the previously delivered software product are provided after receiving the status of the virtual zone person.

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The example determined that in connection with the software product created before receiving the status of virtual zone person, the profit (distribution of profit) earned from the supply of information technologies outside Georgia developed by a legal entity after obtaining the status of a virtual zone person, will also be subject to the tax relief established by subparagraph "p" of the first part of the Article 99 of GTC, because this service is an integral part of the software agreement.

Other issues are also discussed concerning the representatives of this field, in particular how to consider the use of services together with the hired work, cases of creation of a software product by the founder and other.

The methodical reference came into force from 30 December 2022.

## About Free Industrial Zone Enterprise

On 16 January 2023 head of the Revenue Service published the order №33543 (29.12.2022) on the approval of the methodical reference About Free Industrial Zone (FIZ) Enterprise. This methodical reference regulates the rules of activity of the FIZ enterprise, including, the types of activities which are allowed or prohibited, the rules for using tax relieves, also, defines the tax liabilities and rights within the limits of this status.

In accordance with Georgian Law "About Free Industrial Zones", a free industrial zone is a type of free zone stipulated by the Customs Code of Georgia, where additional conditions and tax incentives apply. FIZ enterprise may be an enterprise of any organizational-legal structure and any form of ownership, that is registered in a free industrial zone in accordance with the norms of enterprise registration established by the legislation of Georgia.

## AUTHOR'S COLUMN

This publication covers important new tax changes that business should take into consideration for their daily operations and governance.

This issue provides information on amendments to the methodical reference on the taxation of virtual zone persons by the profit tax.

Please contact BDO to discuss these matters in the context of your particular circumstances.

**MARIAM KHUSKIVADZE**  
MKhuskivadze@bdo.ge

**MIKHEIL ENUKIDZE**  
MEnukidze@bdo.ge

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Various illustrative examples are presented in the mentioned methodical reference to ensure the correct application of the rules defined by the Tax Code of Georgia, in particular, the correctness of the taxation by the Corporate Income Tax and the Property tax for FIZ enterprise and the correctness of the taxation of income received from the free industrial zone enterprise at the source of payment. Also, prohibitions for free industrial zone enterprise and cases of supply/purchase of goods by FIZ enterprise are discussed.



The methodical reference came into force from 30 December 2022.



## About Value Added Tax

On 20 January 2023 head of the Revenue Service published the order №207 (12.01.2023) stipulating amendments to the Order of the Head of the Revenue Service №7536 of 17 March 2021, on the approval of the methodical reference “About Value Added Tax”.

According to the amendment, a new example №6 has been added to the paragraph 2 of the annex 9 of methodical reference, which refers to the actual transfer of the goods under rent, leasing or similar agreement. This example regulates the issue of determining the VAT liability in case of replacement of the receiving party of the leased item. This case creates the obligation to issue the corrected tax invoice to the original recipient and the ability to issue new tax invoice for the new recipient.

The methodical reference came into force from 13 January 2023.

