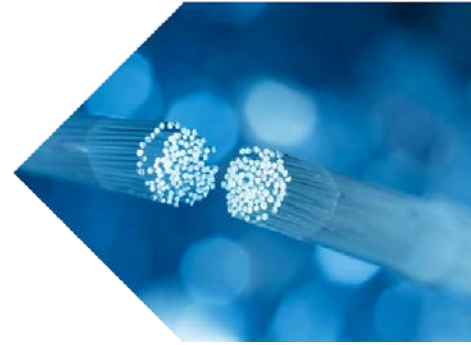


VIRTUAL ZONE PERSON



Virtual zone person

According to Article 8 of Georgian Tax Code (GTC) a “virtual zone person” (VZP) is a legal entity operating in the IT sector, having obtained a certificate that proves this status.

A company with this status gains the advantage of paying no corporate income tax in Georgia on the revenue derived from providing information technology services (i.e. web development, application building) to non-residents in accordance with Article #99 of the GTC.

In addition, once a VZP status has been obtained, a company will be able to enjoy the tax benefits for as long as they continue to offer foreign IT services.

How much and which taxes are to be paid in total?

An IT company that performs services outside Georgia, having obtained VZP certificate will pay 0 Corporate Income Tax and will pay only withholding tax on dividends, which amounts to 5%, according to paragraph 1 of Article 130 of the GTC.

In addition, tax benefits for IT companies are not restricted to direct taxes.

Articles 160 and 161 of the GTC state that VAT is payable in Georgia only for operations taking place within its territory.

Provisions within Article 166 of the GTC further state that VAT cannot be charged when IT services (electronic services) are provided to non-residents, as this classed as being carried out outside the territory of Georgia.

Farther, 20% of the withholding tax has to be paid upon the payment of salary to employees (plus 2%+2% of contribution to pension fund), as well as a property tax of up to 1% of the average book value of a company's assets.

Lastly, if a Georgian company remunerates service of non-Georgian residents, 10% withholding tax and 18% reverse charge VAT might be applicable.

Application of 10% withholding tax depends whether the income received by non-resident is

considered as income received from Georgian source based on article 104 of GTC. In addition, the tax treaty might prevent Georgian company from levying 10% withholding tax.

Application of 18% reverse VAT depends whether the service is deemed to be conducted on territory of Georgia according to article 166 of GTC.

Tax treaty network is available:

Georgia's network of 56 income tax treaties with most European and many non-European states also provides an additional blanket of protection for taxpayers from double taxation risks. Those treaties are mostly based on old versions of the OECD model tax convention (2008 and older). Thus, when a transaction crosses a border and your company's income is to be taxed in other state as well (e.g. taxation at source), application of a tax treaty might prevent such taxation of your income abroad. Tax treaty might prevent you from taxation at source when your company remunerates service to non-resident as indicated above.

Potential treat:

When the VZP certificate is obtained, the responsible people issuing this certificate do not check the facts provided by you in details. They mostly rely on your information and make the decision based on it. However, if a tax audit starts at our company the auditors will definitely check activities of your company and whether you have a legitimate right of holding a title of Virtual Zone Person. Thus, the certificate is not a 100% guaranty of tax exemption and the information shall be provided in very correct details when obtaining it.

Conclusion:

Overall, an IT company choosing to operate in Georgia to service its foreign clients will not only save taxes, but also enjoy tolerant regulations, simple procedures, low costs, a very low level of corruption and take advantage of the available labour trained in the sector.



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