

# TAX NEWSLETTER

## AMENDMENTS TO THE ORDERS

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### SPECIAL RULE FOR USING TAX INVOICE

On March 28, 2022 the order №7545 (25.03.2022) of the Head of Revenue Service was published to make amendment to the previous order №3751 (16.02.2022) on approving the instruction about „Restriction of the right of taxpayers to issue/confirm tax invoices, tax documents and issue waybills in certain cases and determining the special rules for using the electronic tax invoice issued by the taxpayer”. Paragraph 3, Article 3 was amended to clarify that the tax debts amounting to or exceeding GEL 50,000 and defining the taxpayer's transition to the special rule of using tax invoice, shall be recognized. Accordingly, section (1)(b) of the article 5 of the same order was amended to clarify that if the recognized tax debt is less than the specified amount, the application of the special rule is automatically terminated.

Also, by this amendment, one of the conditions for transferring a person to the special rule was canceled, which had before stipulated the following: if a VAT payer with an unqualified VAT payer status received the status of a qualified VAT payer upon application to the tax authority, the person would automatically switch to a special rule for a one-year period. The amendment also added a second paragraph to the Article 7 of the Transitional Provisions of the Order, which stipulates that persons who had not recognized tax debt in the amount of GEL 50,000 or higher as of 28 March 2022, would be deprived of the right to use the special rule except for persons who have voluntarily transferred to this rule.

Paragraph 7 was also added to the Article 8, stating that the information on persons eligible the special rule of using the tax invoice and having the status of a qualified VAT payer is posted on the official website of the Revenue Service [www.rs.ge](http://www.rs.ge)

The amendment came into force from 28 March 2022.

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## RESTRICTED SERVICES FOR INTERESTED PERSONS AT THE PLACE OF PROVIDING SERVICES

On 9 March 2022, Order №5015 (28.02.2022) of the Head of Revenue Service (28.02.2022) was published, which amended the order N33619 (25.10.2022) of the same body "On restricting the provision of services to a person interested at the place of service provision in certain cases". As a result of the amendment, the list of services which will be limited at the place of service provision were added to Appendix 1 of the order and interested persons will be able to use these services remotely:

- ▶ Registration of the request for reflection of VAT amount paid on goods and / or services purchased under the grant agreement on the taxpayer's personal accounting card
- ▶ Registration of an application for cancellation of registration as a VAT payer
- ▶ Registration of the request for changing VAT payer registration data
- ▶ Registration of the request for the right to issue a special receipt for VAT refund
- ▶ Registration of an application for a change in the list of trade units / vehicles for issuing a special receipt of VAT refund.

The amendment came into force from 20 March 2022.

## TAXATION OF A PERSON'S INCOME IN VIRTUAL ZONE

On 9 March 2022, Order №7547 of the Head of Revenue Service was published, which approved the methodical reference "On taxation of a person's income in a virtual zone" and Order №42644 of the same body dated 31 December 2021 "On taxation of a person's income in a virtual zone" was declared void. This methodical reference is used to clarify special cases where a person staying in a virtual zone will either enjoy or be deprived of tax relief established by the Tax Code of Georgia.

This methodical reference was first made available in February 2022 through the official web page of Revenue Service. It stated that information technologies qualified as created on the territory of Georgia if the the virtual zone person essentially used the labor of persons hired with the relevant professions in Georgia to create these products, which meant that they would have adequate human resources with the necessary qualifications. By the same edition of this methodical reference, it was assessed that the expenses incurred in the form of salary could be considered as substantial salary expenses if amounting to 40% of the financial income of the enterprise.

According to the updated methodical reference the issue of hiring persons with the relevant profile is a necessary condition again and at the same time it was determined that the salary should correspond to the salaries on Georgian labor market according to the respective

profession. Accordingly, the controlling bodies may use the Georgian labor market salary data on to determine the substantial payment of salary. So, there will not be taken into consideration whether the salary expenses incurred are 40% of enterprise's financial income or not.

Note that profit or distribution of profits earned from the supply of information technologies outside of Georgia created by a legal entity of the virtual zone is exempt from profit tax.

The amendment came into force from 25 March 2022.

### 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 related to the special rule for using tax invoice, taxation of income in virtual zone, etc.

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

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