

To:  
The Deputy Minister of Finance of Georgia  
**Mr. Mamuka BARATASHVILI**

Cc:  
The Head of the Revenue Service  
of the Ministry of Finance of Georgia  
**Mr. Levan KAKAVA**

## European Business Association Letter

Difficulties faced by IT companies with a Virtual Zone Person Status

*October 25, 2021*

The European Business Association (EBA) unites over 100 Georgian and European companies. The organisation's vision is that doing business in Georgia will be the same as doing business in Europe and the mission covers two main directions: 1. To advocate/lobby for European businesses in Georgia; 2. To facilitate the development of trade and investment between Georgia and Europe.

EBA positively assesses the reforms made by the Revenue Service in recent years. However, there are still several issues ignored which may cause harm to the foreign investment.

With this letter EBA would like to bring your attention to one of the problematic issue that IT companies with a Virtual Zone Person (VZP) Status face due to the recent actions of the Revenue Service of Georgia to penalize dozens of IT companies with a VZP status operating in the country of Georgia.

The Virtual Zone Person is a program developed by the Georgian Ministry of Finance to promote Georgia's investment climate by stimulating internationally operating IT companies to invest in Georgia. As such, it is fully in line with the wider efforts of the Government of Georgia to promote the development of a strong and stable domestic IT industry and knowledge economy. In order to promote this development, it is crucial to project an image of stability and transparency, and to ensure that IT companies willing to invest in Georgia are treated fairly.

However, the recent actions of the Revenue Service run counter to this policy objective. Dozens of companies who were proud to be operating in and from Georgia are now penalized by the Revenue Service. With this, Georgia does not send a positive signal to the wider international IT sector who might consider investing in Georgian IT presence.

According to the Revenue Service, penalized VZP entities do not have a real, physical presence in Georgia outside of an “[accountant and cleaning person](#)”. This does not apply to many companies currently under audit. Many companies have significant presence in Georgia in the form of highly educated (IT) personnel, supportive personnel, office space and many other tangential activities. Each year they bring in significant amounts of tax revenue that would otherwise not have ended up in Georgia. Even more importantly, VZP companies provide dozens, if not hundreds of new high-value jobs to the burgeoning Georgian IT sector every year.

Taking into consideration the above mentioned issue and the fact that [until recently there had not been clear criteria for VZP companies](#), we would like to request the Ministry of Finance of Georgia and the Revenue Service to publicize these criteria as soon as possible. More importantly, in order to protect the image of a healthy, transparent and open investment climate in Georgia we ask that VZP companies be judged based on their behavior from the moment of establishment of these criteria onwards, and not retroactively.

This will send a strong signal that the Government of Georgia is an attractive and reliable partner to any IT company that is ready to invest and grow their operations in Georgia.

The European Business Association expresses its readiness to take an active part in the development of processes to overcome the existing challenges mentioned above. We look forward to the relevant supportive actions from the Ministry of Finance of Georgia.

Sincerely,

John Hugo Freddy Braeckveldt

*Chair of the European Business Association*



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