



Newsletter

2020-112

Date : October 5th, 2020

Subject: Monthly Financial/Tax Regulations Summary in Turkey (September 2020)

Distinguished readers,

We would like to submit the important tax-related and financial issues that occurred within the last month in Turkey.

In addition, you can visit our website (www.taxia.com.tr) designed to support and inform the business society, employees and all stakeholders. We hope that you will benefit and enjoy our newsletters.

Let's briefly start with the headings and then examine the details. We will submit information about economics in general, tax, customs, social security obligations, banking and financial issues, postponed obligations, R&D and incentives below.

A. Main Economic Indicators

- **September 2020 Economic Capacity Utilization Rate Rises**
 - The Central Bank of Turkey announced the capacity utilization rate of the manufacturing industry for September 2020. The rate increased to 74.6% in September 2020 from 73.3% in August 2020.
- **Industrial Production Index Rises**
 - Turkish Statistical Institute announced the industrial production index for July 2020. Calendar adjusted industrial production increased by 8.4% on a monthly basis and by 4.4% on an annual basis.
- **Balance of Payments Statistics**
 - The Central Bank released the balance of payments statistics for July 2020. The current account posted USD 1,817 million deficit compared to USD 1,990 million surplus observed in the same month of 2019, bringing the 12-month rolling deficit to USD 14,941million.

B. Major Tax Issues



- **VAT Rates** in some services have been reduced temporarily till the end of year in order to promote the economy mostly for SME's and general public. VAT on private schools is reduced to 1% from 8% till June 30th of 2021.
 - The Revenue Administration advises the private schools to reduce the fees in order to forward the VAT reduction to the clients.
- **Communique on Transfer Pricing is published after long public consultations.**
 - The Communique nr. 4 regarding with **Transfer Pricing** in Turkey to be in line with OECD standards changes all the TP documentation rules. You can find more information regarding with updates on Turkish Transfer Pricing documentation rules on the special [bulletin nr.2020-84](#).
- The General Communiqué on the Implementation of the Product Tracking System for **Tobacco Products**, Macarons, Leaf Cigarette Paper and **Alcoholic Beverages** was prepared. Those products are subject to special consumption tax in Turkey.
 - It is very important legislation as the special consumption tax on alcoholic beverages and tobacco gets the biggest portion in revenue budget. You can find very detailed information regarding with the new system on the bulletin nr. [2020-110](#).
- **Deposit withholding tax rates were reduced in a decreasing manner according to their maturities.**
 - Withholding tax rates on the interests are redefined according to the terms to be valid until 31/12/2020.
 - Accordingly, withholding will be made at the rate of 5% from those obtained from accounts up to 6 months, 3% from those obtained from 6 months to 1 year, and 0% from incomes obtained from 1 year and more. There is no change in the rates of deduction to be made over the interest income obtained from foreign currency deposit accounts.
 - The application will be valid for interest and dividends to be paid to accounts opened until the end of the year or renewed between these dates. For this reason, it will be useful to review the composition and maturity structure of your financial assets.
- **Banking and insurance transactions tax (BITT), which is taken as foreign exchange transaction tax, has been reduced from 1% to 2 per thousand.**
 - In May 2020, this tax was increased 5 times and the sale of gold without physical delivery became taxable. This time, the tax rate was reduced again with the Presidential Decree No. 3031, which was published on September 30 and published in the Official Gazette No. 31260.
 - With the Presidential Decree dated 23 May 2020 and numbered 2568, the authority granted by Law No.7194 was used and the tax of 2 per thousand



on the amount of foreign exchange sales was increased to 1%. Thus, the tax rate was applied as 1% for a period of 4 months.

- Within the scope of the Practice of Obtaining State Rights from Mines, the state right rates determined for **gold and silver** were increased by 25%.
 - With the Decree No. 2932 published in the Official Gazette No. 31234 state right rates determined for gold and silver among the group IV. mines will be applied with an increase of 25%.
- The number of **double taxation agreements** in Turkey is increasing.
 - The Agreement with Rwanda was approved by the President's Decree No. 3013, published in the Official Gazette dated September 25, 2020. On the same day President of Ukraine No. 3012 published in the decision-Turkey Protocol amending the Double Taxation Avoidance Agreement has been approved.
 - Turkey has signed 93 agreements are in force from 85 of them. (Serbia-Montenegro Agreement is valid for both states since these countries were bound by the agreements made in the old period after these countries separated. Therefore, our agreement with 86 countries is in force).
- **Special consumption** tax (SCT) rates for passenger **cars** have been increased.
 - After the changes made, it has become even more difficult to buy a vehicle in our country and specially to own a vehicle with a higher volume than 1600cc.

C. Social Security Issues

- The **short-time working allowance** has been extended again, this time for two months until the end of October 2020.
 - It is extended with the Presidential Decision No. 2915, which was published in the Official Gazette dated August 31, 2020, and No. 31230.
- Principles and procedures of the Social Security Agreements Between Turkey and Luxembourg, Turkey and Canada were described in the SSI Circular No. 2020/37 and 2020/38.
- Social Security Agreements signed between Mongolia and Turkey, and previously with Poland and Turkey are approved by the President.

D. R&D and Incentives

Turkey proposes lots of different incentives for the majority businesses such as SME, R&D firms and exporters. There are some legislative changes summarized below on those issues:



- Regulation Amending the Regulation on the Procedures and Principles Regarding the Payments Made from the Support and Price Stability Fund within the Scope of State Aids for Export was changed twice in September.
- The Circular (2020-4) on **Supports** to be Provided in **Specialized Free Zones**, whose Decree was issued in June 2020, was published.
 - Supports to be Provided in Specialized Free Zones were determined with the published circular. With the decree, the monthly gross wages of up to 10 (ten) qualified personnel employed by the users operating in the specialized free zones for their activities in this field, at the rate of 50% and a maximum of 15,000 USD per employee per year, the rent expenses for the land and buildings they rent in these areas, % 50 percent and up to \$ 75,000 per year is supported.
 - You can find more information on these changes in our bulletin nr. [2020/109](#)

E. Banking & Finance

- The BRSA published a Regulation amending the Regulation on **Banking and Credit Cards** in the Official Gazette dated 25 September.
- **Credit Rating** Requirement in Turkey.
 - With the Decree dated 10.09.2020 and numbered 9133 taken by the BRSA, the scope of the credit rating requirement of companies other than Banks and Financial Institutions with a turnover of **500 million TL** and above was expanded.
- The Board of **Debt Instruments Owners** (BASK) has been issued by the CMB.
- The Draft Communiqué on Issuance with **Covered Assets** has been opened to opinions and suggestions by the Capital Markets Board (CMB)
- **Capital Movements** Circular updated once again.
 - With the letters of the Ministry of Treasury and Finance dated 20 July, 26 August and 4 September 2020, changes were made in some articles of the Capital Movements Circular of the CBRT dated 2 May 2018.
 - In summary, to date, the declaration and annual update of foreign currency revenues, risk center notifications, information document submission to monitor whether foreign currency is credited, prevention of duplicate use in **foreign currency** loans based on investment incentive certificate, foreign currency loan usage principles in the transfer of licensed and unlicensed electricity generation facilities, explanatory regulations and amendments have been made regarding the declaration of foreign currency revenues in sales to foreign ships and duty free stores, exemptions for the acquisition of new or **existing companies** and cash and non-cash loans, **advance capital**, convertible bonds, revolving loans and possible foreign currency income.



- You can find more information on these changes in our bulletin nr. [2020/108](#)
- **Interest rates:** CBRT increased the interest rates.
 - The Monetary Policy Committee (the Committee) has decided to increase the policy rate (one-week repo auction rate) from 8.25 percent to 10.25 percent.
 - *While global economic activity has shown signs of partial recovery in the third quarter following the normalization steps taken by several countries, uncertainties on global economic recovery remain high. Advanced and emerging economies continue to maintain expansionary monetary and fiscal stances. The pandemic disease is closely monitored for its evolving global impact on capital flows, financial conditions, international trade and commodity prices.*
 - *Economic activity is recovering markedly in the third quarter owing to gradual steps towards normalization and the strong credit impulse. Recent monetary and fiscal measures that aim to contain negative effects of the pandemic on the Turkish economy contributed to financial stability and economic recovery by supporting the potential output of the economy. The normalization trend recently observed in commercial loans has started in consumer loans as well. The recent upturn in imports, which has resulted from deferred demand as well as pandemic-related liquidity and credit policies, is expected to moderate with the phasing out of these policy measures. Although tourism revenues declined due to the pandemic, easing of travel restrictions has started to contribute to a partial improvement. The recovery in exports of goods, relatively low levels of commodity prices and the level of the real exchange rate will support the current account balance in the upcoming periods.*
 - *Pandemic-related supply-side inflationary factors were expected to gradually phase out during the normalization process and demand-driven disinflationary effects were expected to become more prevalent. Yet, as a result of fast economic recovery with strong credit momentum, and financial market developments, inflation followed a higher-than-envisaged path. The Committee assessed that the tightening steps taken since August should be reinforced in order to contain inflation expectations and risks to the inflation outlook. Accordingly, the Committee decided to increase the policy rate by 200 basis points to restore the disinflation process and support price stability.*
 - *The Committee assesses that maintaining a sustained disinflation process is a key factor for achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary stance. In this respect, monetary stance will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process. The*



Central Bank will continue to use all available instruments in pursuit of the price stability and financial stability objectives.

F. International Trade & Customs

- “Regulation Amending the Regulation on the Procedures and Principles Regarding the Payments Made from the **Support and Price Stability Fund** within the Scope of State Aids for Export” was published in the Official Gazette dated 02.09.2020 and numbered 31232.
- With the amendment made in the Smuggling Legislation, the period expired at the end of September for the allocation of medical goods and materials within the scope of combating the epidemic seized due to Covid-19 was extended **until the end of the year**.
- By making amendments to the Decisions Additional to the Import Regime Decision, the **implementation period of the additional customs** duties on many products has been extended.
 - In 2020, an additional customs tax was imposed on various goods, up to 5 thousand in number, and it was decided to apply different rates on a periodic basis.
 - Within this scope, the rates specified in Annex-2 tables, which include **higher rates** until 30.09.2020, and the rates specified in Annex-1 tables, where relatively lower rates are found after this date, should have been applied to the new decision. With the amendment, the date 30.09.2020 in the Decisions has been changed as **31.12.2020**. Thus, the implementation period of the Decision Annex tables (Annex-2) with higher rates was extended for another 3 months.
- The Authorized **Customs Consultancy Notification** was published in the Official Gazette dated 10.09.2020.
- **Waste Import Circular** has been published on 03.09.2020 by the Ministry of Environment and Urbanization.
 - With the new circular, the Waste Import Implementation Circular No 2019/18 has been repealed, and the Circular No. 2020/22 entered into force on 03.09.2020. In 2020, the quota rate of companies with quota calculations was reduced by 30% to the level of 50%.

G. Other Measures and Postponements

- In the Regulation on Opening a Business and Working Licenses, the 3-month additional period regarding the compliance and the process of eliminating contradictions for some workplace types has been extended until **July 31, 2021**.
- It has been decided to make **additional payments** to family physicians and Ministry healthcare professionals due to Covid-19.



- By amending the Regulation on **School Bus** Vehicles, some dates related to compliance have been postponed for **1 year**.
 - This regulation has been introduced in order to minimize the cases and losses that have increased in recent years, and some of them have been postponed.
- Update on **Withholding Tax and SSI** Declaration Combination Project
 - The concise and service premium declaration came into force in July 2020 and there is no postponement. The application used to be continuing in 7 cities of 4 + 3. No postponement is made this time and the implementation started for the whole country as of 1 July 2020. The Revenue Administration announced a brochure regarding with the new application.

H. Other Legislative Changes in Turkey

- KGK has published **Financial Reporting Standard** (BOBI FRS) Modules for Large and Medium Enterprises.
- With its announcement dated September 2020, the Public Procurement Authority clarified some issues regarding the registration process to the **Electronic Public Procurement Platform**.
- Regulations and Communiqués amending the **public procurement legislation** were published in the Official Gazette dated 30 September 2020 and numbered 31260.
- The Regulation on **Private Accommodation Services** for Secondary and Secondary Education Institutions has been published.

We have summarized our notes on the changes and developments regarding the summary financial / tax legislation in the last one month, in English, in short headings. We will continue to announce to you all the developments made in other months in Turkish and English.

Please do not hesitate to contact us for further information. As we summarized the bulletin for you, we keep it very short. Please tell us if you have any comments or questions on any of the subjects above.

Best regards,

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