2021-071

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Subject: Monthly Financial/Tax Update in Turkey (June 2021)

You can find the important tax-related and financial issues of June 2021. We are glad to share those summaries with our clients and network.

Let's briefly start with the headings and then examine the details. We will share information about Turkish economy in general, and the latest figures in labor, inflation, growth, main tax developments, customs and foreign trade, social security obligations, trade legislations, banking and financial issues, postponed obligations, R&D and incentives below.

A. Economy and Public Budget

- Items for Economic Reform Plan in Turkey is in effect.
    - Minister of Treasury and Finance Lütfi Elvan unveiled Turkey's Economic Reform Action Plan, which contains several measures under 10 main titles including; public finance, price stability, financial sector, current deficit, employment, corporate governance, investment incentives, easing internal trade, competitiveness and market surveillance.
    - Accordingly, some deadlines in the Action Plan included the establishment of; Price Stability Committee, Financial Stability Committee and Economic Coordination Committee by **June 2021,** Health Industries Directorate and Software-Hardware Industries Directorate by **December 2021.**
        - With the Decree No. 77 on the Economic Coordination Board (ECB), the working procedures and principles of the economy coordination board have been determined. The secretariat services of the Board will be carried out by the Ministry of Treasury and Finance.
        - Besides the ECB, Decree No. 74 on the establishment of the **Price Stability Committee** (PSC) was also published. The CBRT Chairman is also a member of the committee.
            - To create policy proposals to ensure price stability. To identify the risks that threaten price stability.
            - To take decisions to ensure that the prices determined or directed by the public are provided with the focus of price stability.

- Turkey Unveils **Foreign Direct Investment Strategy** (2021-2023)
    - "Turkey's Foreign Direct Investment (FDI) Strategy (2021-2023)" has been published in the Official Gazette on June 22. The target-oriented FDI Strategy will provide Turkey with a clear roadmap for attracting value-added and knowledge-intensive investments, which create high-quality employment.
    - The strategy document aims to increase Turkey's FDI performance in terms of both quantity & quality and has been developed based on 3 key principles; being investor oriented, being specialized for quality FDI, and being an outcome of the common mind that emerges with cooperation and coordination.
    - You can read the report by clicking.
    - Global flows of foreign direct investment have been severely hit by the COVID-19 pandemic. In 2020, they fell by one third to $1 trillion, well below the low point reached after the global financial crisis a decade ago. Greenfield investments in industry and new infrastructure investment projects in developing countries were hit especially hard. You can find the key messages of the annual UNCTAD investment report as well.
- China-based **Vivo Commences Production** in Turkey.
    - Following the lead of the global mobile phone manufacturers like Samsung, Oppo, Xiaomi, Realme, Tecno Mobile and TCL; China-based Vivo has also begun production of its phones at its Gebze factory.
    - The investment cost of the facility in Gebze, which has an annual production capacity of **500 thousand** phones, is **USD 25 million.**

B. Main Economic Indicators

- Turkey's **consumer price index (CPI)** increased by **53%** annually and **1.94%** monthly in June 2021.
    - The lowest annual increase was 2.01% in alcoholic beverages and tobacco. Communication with 6.13%, education with 10.86% and clothing and footwear with 7.05% were the other main groups where lowest annual increases realized. On the other hand, transportation with 26.29%, furnishings and household equipment with 25.69% and food and non-alcoholic beverages with 19.99% were the main groups where high annual increases realized.
- Turkey's domestic producer price index (D-PPI) increased by 42.89% on an annual basis and increased by 4.01% on a monthly basis in June 2021.
    - D-PPI (2003=100) increased by 4.01% on monthly basis, increased by 22.04% on December of the previous year basis, increased by 42.89% on same month of the previous year basis and increased by 25.38% on the twelve months moving averages basis in June 2021.

C. Major Tax Issues

- As of 1 July 2021, the termination prohibition and unpaid leave have ended in Turkey.
- The Law, which foresees the **restructuring of some public receivables**, was published in the Official Gazette dated 9th of June and entered into force (Law No. 7326 on the **Restructuring of Certain Claims and Amendments to Certain Laws)**. Thus, the application process began to the Tax Offices.
    - One of the most important regulations of the law is the regulation on tax base and tax increase in order to get Freedom of Tax Audit.
    - Increasing the tax base and tax provides a very important advantage to the beneficiaries. It prevents tax inspection and assessment for the relevant years with tax base and tax increases. A certain amount is paid by increasing the tax base or tax, in return it is guaranteed not to be examined.
    - This Law is important for ongoing inspections and current public receivables as well.
        - Structuring of receivables whose tax inspection and appraisal processes are ongoing,
        - Payment of the debt calculated by **updating** the D-PPI (Domestic Producer Price Index) ratio instead of all unpaid taxes and other debts to the tax office with high interest rates.

- Revaluation of depreciable assets which is a new optional tax regime has great advantages for firms having immovables and properties.
    - With this regulation, in addition to the immovables in the assets of the companies, other depreciable economic assets are also subject to re-valuation within the framework of the provisions of the Law.
    - In addition, the tax rate, which was 5% in the previous regulation in 2018, was reduced to 2%. In this context, companies with valuable assets from previous years are provided with an opportunity to correct their balance sheets and improve the capital of the firms. The deadline for the revaluation option is **December 31, 2021**.
    - Empty lands and lands that are immovable but not subject to depreciation may also be subject to revaluation. A new Communique is expected to be published soon. There are some gray areas that we want to make sure. As this is an important matter you can advise your Tax Advisor in Turkey.
- The resource utilization support fund (RUSF) rate was reduced to %0 for the loans provided by the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) with a Presidential Decree No. 4091 published in the Official Gazette dated 21 June 2021.
    - That Decree determined the RUSF rate as 0% for the loans provided by the EBRD and the IFC to Turkish residents that are not a bank or a financing company.

- The RUSF rate is applied as 3%, 1%, 0.5% and 0%, depending on the maturity period, to the loans obtained from abroad by Turkish residents that are not a bank or a financing company. As this is applied on the principal amount of the loan it is a huge burden for firms receiving loans in F/X
- The RUSF rate of 0% came into force on the publication of the Decree for EBRD and IFC like the banks and financial institutions.

- **Remote working days** should be reported to the Social Security Administration.
  - The software is updated and new blanks were added to the monthly premium and service documents/withholding tax return and premium service declarations for remote working days.
  - Remote working is a new concept and a new Bylaw is published in this year. The Administration requires employers to declare the number of remote working days for the employees monthly basis.

- **Asset peace deadline** is extended till the year end.
  - As per the extension by the Decree of the President to benefit from the incentive under Law No. 7256;
  - Money, gold, foreign exchange, securities and other capital market instruments held abroad by taxpayers should be duly notified to the Turkish banks or intermediary institutions by 31st of December 2021.
  - Money, gold, foreign exchange, securities, other capital market instruments and immovable properties held in Turkey but not recorded in commercial books should be notified to the tax authorities by the year end, December 31st, 2021.

- **VAT** will continue to be applied **as 1%** for accommodation (overnight) services and other reductions were extended till the end of July 2021.
  - VAT reductions for tradesmen services, restaurants and others were renewed as well in the beginning of June for **2 months.**
  - Covid vaccines have %0 VAT till the year end.
  - It is of great importance to announce the VAT rates and reduced rates in advance so that firms and taxpayers see their sales plan. Unfortunately, those tax reductions are announced almost the last day.

- **The New Law on Bankcruptcy and Tax Regulations** on Immovable Transanctions: The Bill that brings important provisions regarding the transfer of immovable property and proposes changes in the **Execution and Bankruptcy Laws** was approved by the Turkish Grand National Assembly and enacted as Law No. 7327.
  - With the law, regulations have been made in the field of execution and bankruptcy system and concordat, together with the ease of doing business in terms of the real estate market and the shifting of trading transactions to the banking system, we will follow an important Reform in this area together.

D. R&D and Incentives

- A Presidential Decree has been published on the amount of **support paid for the storage of agricultural products** in licensed warehouses.
- The Law Proposal, which foresees changes in the **Tourism Incentive Law**, has been submitted to the Parliament. It will be discussed in the General Aseembly.
    - The law proposal was accepted by the Tourism Commission, except for one article.
- The decision regarding the reinsurance support to be committed by the state to the state-supported commercial receivables insurance system has been published.
- Significant changes were made in the ***Investment Incentive System***. Presidential Decision No. 4191 was published in the Official Gazette dated 29 June 2021.
    - Regulations have been made regarding the minimum investment amounts, the definition of environmental investment, the determination of the anticipated interest and profit share support amount, the reduction of the upper limit of **50%** for intangible rights within the total investment to **25%**, and SGK incentives.

E. Banking & Finance

- With the Monetary Policy Committee (Board) meeting held on 17 June 2021, CBRT decided to keep the one-week repo auction rate, which is the policy rate, **at 19 percent.**
- Banking Regulatory and Supervision Authority (BRSA) updates the maximum number of installements for some spesific items such as car lease, electronics, furniture and jewelery. BRSA has made significant changes on risk assessments for personel credit cards and personel credits for real people as well.
- Banking Regulatory and Supervision Authority made an announcement relating with the unqualified saving institutions which do not meet the certain criteria published recently.
    - You can find the list here.
- Capital Markets Board has organized a meeting for *Green Bonds* with the World Bank online. It is one of the items in Economic Reform Plan announced by the Minister of Finance and Treasury mentioned in the first chapter of the bulletin.
- In line with its main objective of price stability, the Central Bank of the Republic of Turkey (CBRT) revised the reserve requirement regulation to improve the effectiveness of monetary transmission mechanism.
    - To improve the effectiveness of monetary transmission mechanism;
    - The upper limit of the facility for holding FX will be decreased from 20% to 10% of Turkish lira reserve requirements. The facility will be terminated on 1 **October 2021.**

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- Reserve requirement ratios for FX deposits/participation funds will be increased by 200 basis points for all maturity brackets.
- As a result of this decision, Turkish lira and FX denominated required reserves are **expected to increase initially** by approximately TRY 13.2 billion and USD 2.7 billion, respectively. In addition,
- FX deposits/participation funds available as of 25 June 2021 and converted to Turkish lira deposits/participation funds after this date will be exempt from reserve requirement liabilities,
- Additional remuneration rate will be applied to Turkish Lira denominated required reserves to increase the share of Turkish lira in the total deposit/participation funds in the banking system.
- These changes will be effective from the calculation date of 19 July 2021 with the maintenance period starting on 6 August 2021.

F. Commercial Arrangements

- The execution dates of Montenegro and Georgia FTAs with Turkey (Free Trade Agreements) signed by Turkey have been determined.
- Packaging waste control regulation has been published. Turkey has been reforming whole system in order to meet the Environment and Social & Governance criteria.
  - According to this regulation; packaging waste, packaging information system, deposit management system, labeling, packaging types, on-site use and placing on the market are defined.
  - It is aimed to use plastic bags not exceeding 40 households per person until the end of 2025, and a recycling rate of 75% in glass, 55% in plastic, 85% in paper and 30% in wood after 2031.

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 in English.

Please tell us if you have any comments or questions on any of the subjects above. As this is a summary, we did not give too much details, we can answer your questions when you have.

Best regards,

Partners, Taxia

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