2021-001

Date : January 4th, 2021

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

Distinguished readers,

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

We are here with the financial / tax regulations that took place in December.

The legislative agenda started intensively with the Employment Omnibus Law, amendments in Technopolis and R&D Laws, new regulations on Clean Energy and a new Law on Agriculture, amendments in money laundering legislation etc.

In addition, there are important developments in transfer pricing reporting (CbcR) in Turkey.

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 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

- 2021 **Central Government Budget Law** has been published as Law nr. 7258.
  - According to the Law, budget expenditures were estimated to be 1 trillion 346.1 billion, non-interest expenditures as 1 trillion 166.6 billion, budget revenues as 1 trillion 101.1 billion TL and tax revenues as 922.7 billion TL. In 2021, the budget is expected to have a **deficit of 245 billion TL.**
- As of November 2020, **Central Government Gross Debt Stock** has been announced with the Press Release of the Ministry of Treasury and Finance dated December 21st 2020.
- As of November 2020, **Treasury Receivable** data has been announced by the Ministry of Treasury and Finance's announcement dated December 21st 2020.

- With the announcement of the Ministry of Treasury and Finance dated December 7th 2020, the **treasury cash realization** statistics for November 2020 were published as well.

B.Main Economic Indicators

- Quarterly **Gross Domestic Product** is positive in 3rd quarter in Turkey.
  - Turkish Statistical Institute announced that **GDP** with chain linked volume index (2009=100) **increased by 6.7**% in the third quarter of 2020 compared with the same quarter of the previous year.
  - *"At a time when almost all economies in the world have been staggering under the burden of the COVID-19 outbreak, Turkey managed to handle this period with trivial damage and ended the 3rd quarter of 2020 with a noteworthy performance.*
  - *According to the data of the Turkish Statistical Institute (TurkStat), Turkey's economy posted a growth rate of 6.7 percent in 2020 Q3 and the GDP at current prices reached TRY 1.4 trillion. With this outcome, Turkey ranked first in the world and became the only OECD member country to post a positive growth during this period. https://www.invest.gov.tr/en/news"*

- Turkish Statistical Institute announced **inflation figures** for November 2020.
  - Consumer price index increased by **14.03%** and domestic producer price index increased by **23.11%** on an **annual basis.**

- **Balance of Payments** Statistics
  - The Central Bank released the balance of payments statistics for October 2020. **The current account posted USD 273 million deficit compared to USD 2,737 million surplus observed in the same month of 2019,** bringing the 12-month rolling deficit to USD 33,795 million.

- Labour force statistics for the period of September 2020.
  - Turkish Statistical Institute announced the labour force statistics for the period of September 2020. The unemployment rate in Turkey realized as **12.7% with 1.1 percentage point decrease** compared to the same period of the previous year.
- More information can be found at the web page of the Ministry of Finance and Treasury. https://en.hmb.gov.tr/investor-relations-office

C.Major Tax Issues

- New Stimulus Package was enacted in the Parliament and became effective after approval of the President and publishment on the Official Gazette as Law nr. 7256.
  -
  - You can find more information regarding with the changes brought by the New Package in our bulletins nr. 2020-122 and 2020-123.
- **Tax Figures Increase Rate:** Communiqués on the re-determination of fixed limits and amounts included in laws and communiqués were published in the Official Gazette in order to determine tax figures applied in 2021.
  -

- According to the General Communique No.521 dated November 28th, 2020, the tax figures, brackets and amounts will be able to increase 9,11% (tax evaluation rate for 2021)

- With the Communiqué on the Amounts of Recycling Participation Shares to be Received in Accordance with the Environment Law No. 2872 (2021/1), the GEKAP shares in 2021 were increased at the rate of revaluation.
- With the General Communiqué on Inheritance and Gift Tax (no: 52), some limits and amounts included in the Law were updated with the revaluation rate.
- Extension of the VAT, withholding and entertainment tax rate reductions previously announced is set by the President with new Decrees.
  - Presidential Decrees on the necessary regulations on this issue have been published in the Official Gazette and entered into force in December.
  - VAT rates in some services was reduced temporarily till the end of year (2020) before in order to promote the economy mostly for SME's and general public.
    - Now, this reduction is extended to the end of May, 2021. You can find more information regarding with these reductions in our blogs.
  - Reduction on the withholding tax on rent.
    - With the President's Decision No. 2813 dated 30 July 2020, withholding rates were reduced by half till the end of the year for some sort of rental activities. It used to be 20% originally. This reduction is extended as well.
- Entertainment tax rates applied for domestic and foreign films will be applied as 0% (zero) until 31/5/2021 (including this date).
- SCT amounts charged on fuel products were updated.
- e-applications on Tax Procedures has been widening.
  - An Announcement was made on the Obligation of the Firms with Authorization Certificate (D1) Engaging in Intercity Scheduled Passenger Transportation to Switch to the e-Ticket Application.
- A Regulation on Transferring, Using and Controlling the Special Fund (Share Determined over the Income Tax Received by Withholding from Athlete Wages) to the Special Account was published.
  - It is a public policy program aiming at withheld tax is used in proper ways to promote amateur sport branches.
- Country-by-Country Reporting **(CbCR) Obligation** in Turkey started and first report should be submitted in February 2021.
  - Based on the circular published by Turkish Tax Authorities on December 18th, the reporting period for Country-by-Country Reporting (CbCR) has been postponed to 26th of February, 2021.

- In the circular, the following explanations were provided by Turkish Tax Authorities:

- *"Due to the requests forwarded to our Administration, on the basis of the authority given by Article 6 of the Presidential Decree No. 2151 dated February 24, 2020;*

  - *the period for the first CbC Report on the 2019 accounting period and*
  - *the first CbC Report on the special accounting period ending in January/2020 that must be filed by the end of January 31, 2021*

to be filed via BTRANS ***System has been extended until 26th of February, 2021.***

- On the other hand, CbC reports, which must be prepared for special accounting periods ending in February/2020 and beyond, will be filed electronically until the end of the 12th month following the end of the relevant special accounting period, as set out in the Presidential Decree.

- After extension of the reporting deadline, Turkey ratified the country list of CbCR on OECD website. So, Turkey will receive the reports 47 countries and will be able to share with 37 countries.

- Based on the Presidential Decree No. 2151, CbC reporting requirement is brought for the ultimate parent company of Turkish multinational groups, which has a consolidated turnover of **750 Million EUR.**

- Companies in this scope are required to file the first reporting **until December 31,** 2020 (within 12 months of the end of the accounting period for companies with special accounting periods).

- Finally, it is clear that recent changes in Turkish transfer pricing legislation will affect many companies very closely. For that reason, it is useful to initiate the necessary work on the transfer pricing documentation including Masterfile, local file and CbCR. You can find more information about the recent changes in our bulletin nr. 2020-118 in English and ask our TP experts.

- **Tax Treaty Updates:** Double Tax Treaty between Turkey and Iraq is signed.
  - The Agreement is signed on December 2020 and it will enter into force after it has been ratified by the two countries. After this new agreement the number of Double Taxation Avoidance Treaties has reached 95, of which 85 have entered into force.

D.Social Security Issues

- A Circular was issued by the Turkish Social Security Institution (SSI) regarding the Law No. 7256 on the structuring of tax and SSI debts. (Circular Number 2020/45)
- **New incentives** for employees and employers to increase and promote employment were announced with new Law and Communiques.
- **Minimum Wage** Determination Commission Decision has been published.
    - Minimum wage is mandatory in Turkey as a country-wide daily salary for both men and women.
- The **Health Implementation** Communiqué (SUT) published annually on drugs to be paid by the SSI was published.
- Circular No. 2020/51 on Jobs Subject to **Short Term Work** has been published by SGK (SSI). According to the circular, the pensions of those who retire by borrowing abroad will not be cut if they work in short-term jobs.
- **The Termination Ban and Unpaid Leave Application** has been extended: With the Presidential Decree No. 3344 published in the Official Gazette dated December 30th, 2020 and numbered 31350, the termination prohibition and unpaid leave periods, which were brought to the agenda with the pandemic, were extended again, this time for a period of two months.
- The Presidential Decisions Nr. 3316 and 3317 were published in the Official Gazette No. 31343 on December 23rd, 2020 to extend the application deadline for short-term working due to COVID-19 to 31 January 2021 and the short-term working allowance to 28 February 2021.

E.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.

- Technology Development Zones **Law Proposal** is being discussed at the Commission in the Turkish Grand National Assembly, and important changes are foreseen regarding **R&D and Technopolis** The Law is still in the Parliament and will be heard in January 2021 after opening of the Parliament.
    - Including the time spent outside in R&D-design centers and techno parks (applications within the scope of flexible work including the pandemic) within the scope of incentives (**between 20% and 50%),** including the employment of doctoral students within the scope of support, the R&D / Design tax discount amounts subject to tax exemption **(2% and an upper limit)** to be kept in the fund for a certain period of time and to be allocated to other venture companies as capital, to expand the scope of basic sciences graduate support provided by the state, to support the mentoring and lectures of the Ph.D.) and to increase the amounts related to Venture Capital support are important steps taken specifically.
    - Extending R&D tax incentive supports to **2028 (originally 2023)**, increasing the rate of support personnel from **10% to 20%** in companies with fewer personnel, clarifying whether income tax withholding incentives are exemptions, accrual / cancellation, and to whom this incentive is given, master license etc. The elimination of the condition of having worked for at least one year during the time spent outside

for the trainings and the fact that the inspections will be carried out every **3 years instead of 2 years** have been facilitating regulations. Explanatory and additional arrangements were made in some articles in the Commission.
    - You can access these changes and all the details on the subject in our bulletin 2020-114 and 2020/121 or ask our innovation and incentives experts.
- A new amendment has been made to the Decision on State Aids for Investments.
- The Communiqué on Supporting **Organic Beekeeping Breeders** (Communiqué No: 2020/42) was published and the old Communiqué (2019-60) was repealed.
- Implementation and Audit Regulation on Supporting Research, Development and Design Activities has been amended.
- Changes were made in the KOSGEB (SME Promotion Agency in Turkey) Organization Regulation.

F.Banking & Finance

- The Monetary Policy Committee of the CBRT (TCMB) has decided to increase the policy rate, which is one-week repo auction rate, from 15% to 17%.
- A Memorandum of Understanding was signed between the CBRT and the Central Bank of Azerbaijan on December 14, 2020 to create a basis for the development of cooperation in central banking.
    - Within the scope of the said agreement, it is planned to carry out studies to develop cooperation between the central banks of the two countries on central banking.
- CBRT Governor Naci Ağbal made a presentation regarding the new period and confidence was given to the markets. pdf (tcmb.gov.tr)
- Monetary and Exchange Rate Policy for 2021 was published. Please find more in the link. TCMB
- CBRT increased the advance and rediscount interest rates.
- The Capital Markets Board (SPK) has published the Communiqué (III-45.2.A) Amending the Communiqué on Principles Regarding Repo and Reverse Repo Transactions by Intermediary Institutions (III-45.2).
- The Capital Markets Board has published the Communiqué on the Exclusion and Selling Rights (II-27.3).
- The Regulation on Insurance and Private Pension Activities within the Framework of Participation Principles was published.
- The Law no: 7262 of Mass Destruction Law on the Suppression of Financing of Spread of Weapons United Nations Security Council (UNSC) resolutions and the Financial Action Task Force (FATF) designed to ensure compliance with the advice is accepted in the Grand National Assembly.
    - The Law is published in the Official Gazette on 31st December, 2020.
    - We will update our readers more if requested about this Law.
- According to the announcement of the Ministry of Treasury and Finance dated December 8, 2020, Sector Research Reports have been published for each of the sectors in terms of money laundering and KYC regulations in Turkey.
- With the Communiqué on Making Amendments in the Communiqué on the Procedures and Principles Regarding the Fees to be Received from Financial Consumers (Issue: 2020/7), the fees to be collected over the instant and continuous transfer (FAST) system of funds were determined.
- Regulation on Procurement of Support Services by Banks has been amended.

G.Commercial Arrangements

- **MERSİS:** Within the framework of the digital transformation efforts of the Ministry of Commerce, it has been made possible to access the legislation applied in the field of **trade registry** from a single point in digital environment via the Central Registry System (**MERSİS**).
- The Communiqué Amending the Communiqué on the Procedures and Principles Regarding the Application of Article 376 of the Turkish Commercial Code numbered 6102 was published in the Official Gazette on December 26, 2020 and entered into force.
    - This legislation in general sets out the rules regarding with capital losses and negative equity situations for companies.
    - Half of the sum of the expenditures arising from leases, amortizations and personnel expenses accrued in 2020 and 2021 may not be considered in the calculations regarding capital loss and negative equity, in addition to the exchange fluctuations.
    - The Communiqué limits the use of the loss compensation fund to offset losses and reformulates the principles regarding the payment of cash contribution in capital increases.
- The Presidential Decree No. 3323 on **Rent and Subsidy Supports** to be Provided to Tradesmen and Craftsmen and Real Person Merchants due to the Coronavirus Outbreak was published in the Official Gazette on December 23, 2020 and entered into force.
- The Regulation Amending the Regulation on the Principles and Rules to be Applied in **Retail Trade** entered into force after being published in the Official Gazette on December 26, 2020.
- The Communiqué on Increasing the Monetary Limits in Articles 68 of the Law No.6502 on the **Protection of Consumers** and Articles 6 of the **Regulation on Consumer Arbitration Committees** was published in the Official Gazette on 26 December 2020 to enter into force on 1 January 2021.
- The Regulation Amending the Regulation on the Procedures and Principles Regarding **Tobacco Production**, Processing, Domestic and Foreign Trade and the Regulation Amending the Regulation on the Production and Trade of Tobacco Products were published.
- The Communiqué on Administrative Fines to be Imposed in 2021 in accordance with Article 77 of the Law No.6502 on the **Protection of Consumers** was published in the Official Gazette on December 26, 2020, effective from January 1, 2021.
- **The Retail Sales Tariff** and Distribution Tariff Communiqués were amended by the Energy Market Regulatory Authority (EMRA).
- Modules regarding the 10th, 13th and 19th Parts of the Financial Reporting Standard for Large and Medium Enterprises were published on 29.12.2020 of the Public Oversight Authority.
- The Public Oversight Authority has made important updates in standards regarding independent auditing and accounting.

H.Foreign Trade & Customs

- Free Trade Agreement (STA) is a very important agreement was signed between Turkey and the UK.
- The Turkish Customs Tariff Schedule to be implemented in 2021 was published in the Official Gazette as the President's Decree No. 3345.

- Amendments were made to the Communiqué on Tax, Duties and Fee Exemptions in Export, Transit Trade, Sales and Deliveries Counted as Export, and Foreign Exchange Earning Services and Activities.
    - Tax exemption certifications will be accessible online rather than publishing in the Official Gazette monthly basis.
- An amendment was made on the Certificate of Origin to enter into force as of the beginning of 2021.

I.Other Legislative Changes in Turkey

- The application period, which can be made until 31.12.2020, has been extended to 31 March 2021 by making changes in the **Parking Lot Regulation**.
- The Regulation on the Execution of Vehicle Parking Services (Valet) of Enterprises and Workplaces was published.
- **Building Inspection** Implementation Regulation has been amended.
- The Regulation Amending the Regulation on the Procedures and Principles to be applied in the Preparation, Collection and Follow-up of the **Traffic Fine Decision Records** was published.
- Regulation on Classification, Labeling and Packaging of Substances and Mixtures has been amended.
    - The inspection obligations stipulated in the **Heat Meters** Regulation have been postponed.
- The Regulation Amending the Electronic Product Certificate Regulation has been published.
- The Law No. 7257 Amending the **Electricity Market Law** and Certain Other Laws was published in the Official Gazette on December 2nd, 2020 and became effective on the same day.
    - The New Legislation introduced significant new legislative changes for the mining, electricity and natural gas business sectors.
- Law No. 7261 on the Establishment of an Environment Agency was published in the Official Gazette.
    -
    - (2/3133) Law on the Establishment of the Environment Agency Proposals and Amending Law was held in the Parliamentary General Assembly and approved by the President.
    -
    - After the recycling contribution share application, the deposit application will also enter our daily lives. In this context, to prevent environmental pollution prepared by the Law, to contribute to the improvement of green areas, national scale to the establishment of a deposit management system, run to, to undertake activities for the monitoring and control Turkey aims at establishing the Environment Agency.
    -
    - In addition, it is aimed that waste management companies in general are also responsible for waste management, that administrative fines are in proportion to ensure deterrence, and some regulations are made to stop activities without environmental permits and licenses indefinitely.
    -

- On the other hand; some changes have been made in order to encourage and expand the use of bicycles and electric scooters, which are safe, healthy and environmentally friendly means of transportation. With the new Law offer; it is aimed to give tasks such as building roads, lanes, parks and charging stations of bicycles and e-scooters to local administrations, and building bicycle paths and noise barriers on highways to the General Directorate of Highways.

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.

We are planning to organize a webinar on "***Monthly Updates in Tax***" both in Turkish and English. First webinar in 2021 is on Thursday, January 7th 17:00-18:15 (CET)

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.

Because of the mailing system we would like you to mark our bulletins and e-mails as safe.

Best regards,

Partners, Taxia