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

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

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

- Strategic Plan, Performance Program and Activity Reporting for public administration have a new Bylaw instead of three.
    - Public administrations should prepare strategic plan and performance program while using tax money.
    - Activity Reports should be submitted in February every year.
- IMF announced **GDP growth** rates for countries including Turkey.
    - The International Monetary Fund (IMF) has revised its GDP forecasts for countries around the world in its latest World Economic Outlook April 2021 report.
    - Accordingly, growth forecast for the Turkish economy has been revised upwards to 6 percent in 2021, up from 5.5 percent. With this, Turkey is among the top three emerging economies with the highest growth expectations for 2021 after India and China.
- Items for Economic Reform Plan in Turkey
    - 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.

B. Main Economic Indicators

- The **balance of payments** statistics for February 2021 is announced by the Central Bank of Turkey.
  - The current account deficit recorded USD 2,610 million indicating an increase of USD 1,233 million compared to February of the previous year, bringing the 12-month rolling deficit to USD 37,786 million.
- Turkish Statistical Institute announced **inflation figures** for April 2021.
  - Consumer price index increased by 17,14% and domestic producer price index increased by 35,17% on an annual basis.
- Foreign Trade Statistics for **March 2021.**
  - According to the provisional data, produced with the cooperation of the Turkish Statistical Institute and the Ministry of Trade, in March 2021; exports were 18 billion 984 million dollars with a **42.2% increase** and imports were 23 billion 637 million dollars with a **25.6% increase** compared with March 2020.
- **Public management debt report** is published in March 2021.
  - Public Debt Management Report (hmb.gov.tr)
- Ministry of Finance and Treasury announced the domestic borrowing strategy for May- July 2021
  - You can find more Eng5 May - July 2021 Domestic Borrowing Strategy (hmb.gov.tr)
  - Central Government Debt Statistics were published as well by currency, interest and instrument type.
  - More statistics can be found by clicking Public Finance - TR Ministry of Treasury and Finance Official Portal (hmb.gov.tr)

C. Major Tax Issues

- Corporate Tax Returns for 2020 were submitted by more than 930.000 taxpayers in April 2021 in Turkey.

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- Corporate tax rate is 22% for 2021 and will be 25% for 2021 and 23% for 2022 with a new Tax Law nr. 7316.

- New Tax Law nr. 7316 has following amendments.

    - Providing 50TL daily support to employees in the food and beverage industry (stamp duty free),
    - Ability to sell movables and real estate electronically against tax debt,
    - Increasing the corporate tax from 20% to 25% for 2021 to 23% for 2022 and applying 20% for 2023,
    - Considering 12 months retroactively in temporary incapacity allowance,
    - Removing the possibility to pay back SSI incentives for 6 months.

- **Finance expenses are limited** by a Presidential Decree and explanatory Communique is **updated** with feedback and open for public consultation.

    - Taxpayers whose utilized foreign liabilities exceed their equity, except for credit institutions, financial institutions, financial leasing, factoring and financing companies will be unable to deduct 10% of the total of the expense and cost items related to the utilized foreign liabilities made under the title of interest, commission, delay interest, dividend, F/X differences, etc. in corporate tax calculation. It means that 90% of the financing expenses will be deducted.

    - The limitation applies only for the amounts that exceed the equity. Costs and expense items recorded within the investment expenses are not subject to the limitation.

    - This limitation entered into effect by the publishing date of the Decree (February 4th, 2021) for all income derived within the taxation period starting as of January 1, 2021.

    - There are many gray areas such as the definition of equity, finance expenses and revenues and if those are allowed to be written off, previous credits taken before February 4th, 2021 etc.

- Tax Communique nr. 314 explaining new e-commerce incentives for earnings and other amendments were published in the Official Gazette.

    - On the condition that it does not exceed 220.000 TL annually, these earnings will be contented with a 2% or 4% withholding tax, which is the final income tax, by the banks. Banks will do the withholding.

    - The withholding rate varies depending on the employment of a person next to the tradesman who will benefit from the exemption. If nobody works with him, 4% rate is applied.

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- In addition, in order to encourage and register real persons engaged in electronic commerce, a 50% income tax exemption has been introduced for revenues from 400 thousand TL to 2.4 million TL via express cargo or the Postal Administration, with increasing tranches based on employment.

- Draft Corporate Tax Communique

  - Communique explaining withholding taxing on the shares bought by the same firm in some conditions and tax reduction for public companies which go public for the first time in BİST (İstanbul Stock Exchange) for the first 5 years were updated with feedbacks taken from the public.

- VAT will continue to be applied as 1% for accommodation (overnight) services.

  - VAT reductions for education and training, tradesmen services, restaurants and others were not renewed.

- The period of the withholding tax reduction from deposit account interests and participation accounts dividends has been extended until May 31, 2021.

- The Law Proposal Amending the Enforcement and Bankruptcy Law and Some Other Laws has been submitted to the Turkish Grand National Assembly.

- Regulation on Rural Neighborhoods and Rural Settled Areas has been published.

  - The regulation is extremely important in terms of tax exemptions and discounted tax rates taxes provided in those areas.

- Very important regulations on **tax reviews**, reconciliation, **tax audit** unit and commissions have been published.

- Significant changes were made in the Regulation of Municipalities, which regulates the **Contribution Shares for Expenditures** in road, water and sewerage services.

D. Social Security Issues

- The **short-time working allowance, cash wage support and termination ban** has been extended again, this time for two months.

  - It is extended till the end of June 2021.

  - This is the last extension as the right to the President to extend should be given by the Parliament again.

- Social Security Institution revised the termination codes set out in the circular nr 2013/11 with the circular nr 2021/9.

  - With the new Circular, the Institution removed the code "*29 - termination by the employer due to the employee's behaviors that are contrary to the rules*

of ethics and goodwill" from its table of reasons for termination in the circular nr 2013/11.

- New codes for termination are added instead of code number 29.

- **New incentives** started after the new Law nr. 7316.
  - The Social Security Administration are publishing secondary legislation for this application.

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.

- Secondary legislation after R&D and Technopark Law Amendment nr. 7263.
- Arrangements have been made on the Bylaw of Supporting the Projects of Private Theaters.
  - In the Regulation dated 2018, the application dates were updated, the information and documents sought and the areas to be supported were redefined.
  - Obtaining a copy of the applicant's signature circus demonstrating that he was authorized for the applicant's private theater was abandoned. In addition, the working procedures and principles of the Evaluation Commission regarding the supports have been changed.
- The Law Proposal, which foresees changes in the **Tourism Incentive Law**, has been submitted to the Parliament.
  - The law proposal was accepted by the Tourism Commission, except for one article.
- The duration of the **loss of turnover support** has been extended until May 31, 2021.
  - The period to benefit from the support in question will be 4 months.
- KOSGEB announced its rapid support program for micro and small enterprises.
- KOSGEB has made calls for proposals for KOBIGEL - SME Development Support Program 2021-1 and 2021-2 in order to improve digitalization in manufacturing industry sectors.
  - The application deadline is May 17, 2021.

F. Banking & Finance

- Inflation Report 2021-II was published by the CBRT on April 29, 2021.

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- At the CBRT Monetary Policy Committee meeting on April 15, 2021, it was decided to keep the policy rate (one-week repo auction rate) constant at 19 percent.

- A bilateral agreement of cooperation (MoU) has been signed between the Capital Markets Board (CMB) and the Central Bank of the Republic of Azerbaijan (CBA), which has the authority to regulate and supervise the capital markets in Azerbaijan.

- New regulation has been issued on not using crypto assets in payments in Turkey.

- New Communiqué (sequence no: 19) on remote identification methods for verifying customer identity has been published by the Financial Crimes Investigation Board (MASAK).

G. Commercial Arrangements

- The Product Safety and Technical Regulations Law ("Law") No. 7223 published in the Official Gazette dated March 12, 2020 entered into force on March 12, 2021.

    - The law regulates the issues related to product safety and product liability together.

- Transfer of shares for Joint Stock Companies should be declared to the Central Registration Unit by the year end.

    - There is no registration and announcement obligation for joint stock companies in the share transfer (except for the conversion of a single-partnered joint stock company, the change of the partner of a single-partnered joint stock company, or the case of a joint stock company with a single partner), but in the event of transfer of bearer shares with this communiqué, notification obligation has been introduced.

- The regulation regulating the jewelery trade has been published.

    - With the Regulation on Jewelery Trade dated April 14, 2021, the activities and powers of the enterprises dealing with jewelry, the conditions to be sought in authorization, the renewal and cancellation of the certificate, the subjects of activity, the principles and rules to be followed, the information system to be established and the transfers, inspection and penalty regulations are included.

    - There are transitional arrangements for existing businesses to comply with these conditions until 31.12.2021.

    - The information system in question should be established until October 14, 2021.

    - According to the 11th article of the Regulation, no other commercial activity can be carried out in the workplace dealing with jewelry trade.

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- The Regulation regulating the Electric Scooters, which we have seen frequently on the streets recently, has been published.
    - The bylaw specifies rules to comply with during the use of shared e-Scooters.
    - E-scooter firms should get Authorization from the Ministry. Then they have to obtain a shared e-Scooter Permit for shared e-scooter management which will be granted per municipality/zone.
    - The speed of electric scooters can be up to 25 km / hour.
    - Shared e-scooter permission will be given 1 out of every 200 people.
    - A fee of 10 thousand TL is charged for the shared e-scooter authorization certificate.

H. Other Legislations

- The Amending Law on Licensed Survey and Cadastre Engineers and Offices was published in the Official Gazette dated 27.04.2021 and numbered 31467.
- The Regulation Amending the Regulation on Opening a Business and Working Licenses was published in the Official Gazette No. 31457 dated April 17, 2021.
- With its announcement dated April 28, 2021, the Public Procurement Authority made statements under the heading of "Matters to be Considered in Tender Transactions within the Scope of Full Closing Measures".

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.

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

Best regards,

Partners, Taxia

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