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Subject : **Monthly Financial/Tax Bulletin (February 2022)**

Find out latest developments on tax regulation, keep updated on regulatory changes and their effects on your business in our tax bulletins. You can find the important financial news of last month briefly.

We are glad to share those summaries with our clients and network. As a result of very productive and comprehensive searches, we are here with the second half of February 2022 bulletin.

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

Turkish economy grows 11% in 2021.

- Türkiye's economy grew 11 percent annually in 2021 and 9.1 percent year-on-year in Q4, bringing the average annual GDP growth rate during the 2002-2021 period to 5.5 percent.
- With 11 percent annual GDP growth, Türkiye has been the fastest growing economy in the G20, OECD, and the EU in 2021.

Tax Treaty Updates: Double Tax Treaty between Turkey and Sri Lanka & Turkey and Cambodia were signed.

- The Treaty was signed in Kolombo, capital city of Sri Lanka in January 2022.
- The second Treaty was signed in Ankara, in February 2022.
- Out of 99, 88 DTT of Turkey is in force.

CBCR is ratified with USA.

- As a member of the OECD and G20, Turkey has accepted the triple reporting system for transfer pricing by multinational companies exceeding certain sizes, and has made the necessary arrangements and updates in the corporate tax legislation in this regard.
- The Agreement between the Competent Authority of the Republic of Turkey and the United States of America on the Exchange of Country Based Reports has been Approved.

- It is approved in February 14th by the Turkish President.
- You can see the details of country-by country reporting in Turkey.

Ministry of Finance and Treasury announced the domestic borrowing strategy and debt statistics for March-May 2022.

- Central Government Debt Statistics were published as well by currency, interest and instrument type.
  - Click to view the domestic borrowing strategy.

B. MAIN ECONOMIC INDICATORS

The balance of payments statistics for November 2021 is announced by the Turkish Ministry of Treasury and Finance.

- The current account recorded a deficit of USD 2,681 million decreasing by USD 866 million observed in the same month of 2020, bringing the 12-month rolling deficit to USD 14,256 million.
  - Click to view the announcement.

Turkish Statistical Institute announced inflation figures for February 2022.

- Consumer price index increased by 54.44% annually and 4.81% monthly.
- Domestic producer price index increased by 105.01% on annual basis, by 7.22% on monthly basis.

C. MAJOR TAX ISSUES

March is Tax Return for income tax payers in Turkey.

- Revenue Administration announced the Guidelines and ready-tax return system for people.
- High salary owners, youtubers exceeding certain amount of income, artists exceeding defined threshold should declare annual income tax return.
- Tax returns should be submitted by 31st March. Taxes should be paid in 2 installements, March and July.

VAT is reduced for food items and electricity.

- With the President's Decision on Value Added Tax Rates to be Applied to Goods and Services, numbered 5189, published on 13 February 2022, the VAT rate differentiation has been removed for the wholesale-retail sales. It will be 1% in all food sales (except for the products subject to SCT at a discounted rate).
- With the amendment, VAT will be applied as 8% in electricity deliveries made to residences and agricultural irrigation subscriber groups.
- Only food products subject to excise duty are exempted. VAT will continue to be applied at the rate of 8% on the delivery of these products and 18% in so-called luxury places.
- VAT discount applied on food will not be applied in catering services.

With a new revision made on March 1, 2022, VAT rate was reduced from 18% to 8% on electricity deliveries.

- It covers only the electricity sales, services related is not included.
- It starts in the beginning of March.

ÖTV - Special Consumption Tax (SCT) is updated for fuels by a Presidential Decree.

- The special consumption tax amounts to be applied in accordance with the CBK (Presidential Decree) dated 21/12/2021 and numbered 4938 have been updated as of 1 March 2022 for the goods included in the annex of the Council of Ministers Decision dated 14/5/2018 and numbered 2018/11818.
- Eşel-Mobil System is not used anymore.
- Click the link for current rates.

The Income Tax Exemption Guide for Taxpayers whose Earnings are Determined in Simple Procedure has been Published.

- As of January 1, 2021, according to the repeated article 20/A added to the Income Tax Law with the Law No. 7338; the commercial earnings of the tradesmen and the arts, whose earnings are determined in a simple method, are exempted from income tax.
- Thus, taxpayers who are subject to the simple procedure will not file annual income tax returns in 2022 based on their 2021 commercial earnings.

Social Security Administration (SSI) published Data Bylaw to define the methods of usage of the data collected and to keep the privacy of all the data.

- The purpose of the regulation is to determine the procedures and principles to be followed in the processing of data obtained fully or partially automatically or non-automatically provided that it is a part of any data recording system, within the scope of the duties and authorities of the SSI.

ISKUR 2021 Annual Report Has Been Published.

- Click to access the report.
- We are looking for seeing the other Annual Activity Reports to be announced yearly basis according to the Public Finance and Accountability Law in Turkiye.
- Those reporting system gives idea about the Public Administration's activities, strategic aims and results defined by the Law.

Corporate Tax Exemption is in Force to Promote Converted Exchanges to TRY

- The Law on Amending the Tax Procedure Law and the Corporate Tax Law No. 7352, which includes the postponement of inflation adjustment for 2021, had been approved by the General Assembly of the Assembly on January 20, 2021 and entered into force after being published in the Official Gazette dated January 29, 2022.
- Corporate tax exemption has been introduced for corporate taxpayers who convert foreign currencies and gold balances in their deposit and participation accounts into Turkish lira in terms of foreign exchange difference and interest income.
- Communique regarding with all the details is published by Tax Authority.
- It is published in February 11th, after 2 updates in Draft version.
- CBRT de-listed financial firms in order for them not to enjoy this tax benefit.

The International Labor Law Implementation Regulation has been renewed.

- The Regulation entered into force by being published in the Official Gazette dated February 2, 2022 and numbered 31738.
- Thus, the Implementation Regulation of the Law on Work Permits of Foreigners published in the Official Gazette dated 29/8/2003 and numbered 25214 was repealed.

- With the Regulation, in accordance with the International Labor Law No. 6735 dated 28/7/2016, the procedures and principles, authorities and responsibilities to be followed in the determination, implementation and monitoring of policies regarding international labor and work permits and work permit exemptions to be granted to foreigners, and in the field of international labor force. rights and obligations were rearranged.

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

- **R&D - Technology Development Zones Bylaw is published after long – wait.**
  - Law had been accepted in the Turkish Grand National Assembly, and essential changes were foreseen regarding **R&D and Technopolis** processes. As a result, Law nr. 7263 was enacted and published in Official Gazette on February 3rd, 2021.
  - This new Law includes many controversial topics below:
    - Allowed time spent outside R&D and design centers and technoparks (applications within the scope of flexible work including the pandemic) within the range of incentives (**between 20% and 50%),**
    - Employment of doctoral students within the scope of incentives,
    - New Fund for ventures: R&D / design tax credit 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,
      - A specific portion of R&D credits (2%) should be invested in venture capital fund after a threshold (TRY 1,000,000), This new application will be for the R&D credits and techno park earnings starting from 2021 and should be kept in 2022.
    - expanding the scope of basic sciences graduate support provided by the state,
    - to support the mentoring and lectures of the Ph.D.
    - 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 few personnel,
    - clarifying whether income tax withholding incentives are exemptions, accrual / cancellation, and to whom this incentive is given,

- In addition, the condition of having worked for at least one year in order to keep enjoying tax exemption during the time spent outside for the trainings is eliminated.
- Last but not least, the inspections will be carried out every 3 years instead of 2 years by the Ministry of Industry in R&D and design centers.
- The Ministry of Industry published a Bylaw in order to shed light on some issues regarding with the new applications and changes.
- You can read all the details by clicking the link.

D. BANKING & FINANCE

As of 31 January 2022, Treasury Receivables Data were announced by the Ministry of Treasury and Finance.

- As of 31 January 2022, Treasury Receivables stock was realized as 20.8 billion TL. The highest share in the Treasury receivables stock belongs to Local Administrations with 10.1 billion TL.
- As of the end of January 2022, a total of 0.6 billion TL was collected from Treasury receivables.

Companies established abroad are also included in the scope of the YUVAM account.

- To encourage non-resident Turkish citizens to repatriate their savings to Türkiye, the Central Bank of the Republic of Türkiye has decided to introduce "Deposit and Participation Scheme for Non-Resident Turkish Citizens (YUVAM)" accounts to be held in domestic banks.
- A YUVAM account is a Turkish Lira account that encourages non-resident Turkish citizens to repatriate their savings to Turkiye by offering a Central Bank guarantee of protection against exchange rate volatility, and also provides an opportunity to earn additional income as well as protecting the value of their savings under all circumstances.

Capital Movement Legislation Frequently Updated Recently

- Significant changes were made in the Capital Movements Circular in 2022.
- The services considered as foreign currency income have been updated.
- The scope of real estate assets and the foreign currency payment obligation have been changed.
- Arrangements have been made between the holding and group companies on debt.

- You can read in detail.

On February 16, 2022, the Ministry of Treasury and Finance announced the Gold Account in 10 Questions.

- Income to be obtained by the citizen; may vary depending on the investment instrument and bank they have chosen within the system.
- Additional advantages to be provided will be announced to citizens by the relevant banks and on the platforms to be created.
- Citizens will be able to get physical gold or TL back whenever they want after they deliver their physical gold within the system.
- Click here to access the announcement.

Interest rate kept same by TCMB (CBRT).

- The Monetary Policy Committee of the Central Bank of the Republic of Turkey, at its meeting on 17 February 2022, decided to keep the one-week repo auction rate, which is the policy rate, at 14 percent.
- The Board states that the steps taken to ensure sustainable price stability and financial stability will be pursued with determination and predicts that the base effects in inflation will disappear and the disinflationary process will begin with the steps to be taken and the policies to be implemented.

BDDK (BRSA) released Banking Sector Monthly Bulletin - 2022 January.

- Financial information submitted regularly to the BRSA by the institutions under the scope of the Banking Law and other regulations within the framework of supervision function, those having fundamental information features are presented on month toward the targets of transparency and informing the public.

The Central Bank made a press release on the use of the FAST System as a Payment Method in Shopping.

- It has been announced that FAST, which enables active 24/7 instant money transfers to millions of users today, will increase the transaction amount limit from 2,000 TL for money transfers to 5,000 TL as of February 21st, 2022.

E. COMMERCIAL ARRANGEMENTS

The Ministry of Commerce published market Surveillance and Inspection Regulation.

- The regulation was published on February 9th, 2022.
- The previous bylaw dated April 1st, 2020, has been repealed.

Discounted Pricing should be shown in price tag.

- The Regulation on the Amendment on Commercial Advertising and Unfair Commercial Practices entered into force by being published in the Official Gazette dated February 1st, 2022 and numbered 31737.
- With the Regulation made, it became obligatory to use the lowest price applied within thirty days before announcing the discount for the goods or services like the reference price, in other words, to indicate the price before the discount, in each sale advertisement.

We have summarized recent changes in English in short headings. We will continue to announce to you all the developments in Turkish and in English.

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

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

Best regards,

Partners, Taxia