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Subject: Monthly Financial/Tax Regulations Summary in Turkey (November 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 November. First of all, we could say that a very rapid financial agenda occurred with the opening of the Turkish Grand National Assembly.

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, tax amnesty proposals including tax debt restructuring in order to ease tax payment capacity decrease because of the Covid-19.

In addition, there are important developments in transfer pricing reporting (CbcR) in Turkey. The first report should be submitted in December 2020.

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

A. Economy and Public Budget

- 2021 **Central Government Budget Law** has been approved in the Finance Committee in the TGNA (Turkish Grand National Assembly).
    - According to the proposal, budget expenditures are 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 31 October 2020, **Central Government Gross Debt Stock** has been announced with the Press Release of the Ministry of Treasury and Finance dated 20 November 2020.

• As of 31 October 2020, **Treasury Receivable** data has been announced by the Ministry of Treasury and Finance's announcement dated 20 November 2020.

• The press release of the Ministry of Treasury and Finance on **Primary Dealer Banks** for the 2021 Period was published on 19 November 2020.

• The Ministry of Treasury and Finance published the Central Government **Budget Realization Report** for October with its announcement dated 16 November 2020.

• With the announcement of the Ministry of Treasury and Finance dated October 30, 2020, the **Treasury Financing Program** for 2021 prepared on the basis of the Medium-Term Program and Central Government Budget forecasts was presented to the public.

• With the announcement of the Ministry of Treasury and Finance dated November 6, 2020, the **treasury cash realization** statistics for October 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.
- **Economic Capacity Utilization** rate rises for November 2020.
    - The Central Bank of Turkey announced the capacity utilization rate of the **manufacturing industry** for November 2020. The rate increased to **75.8%** in November 2020 from 75.4% in October 2020. The rate was 74.6% in September 2020.
- Turkish Statistical Institute announced **inflation figures** for October 2020.
    - Consumer price index increased by **11.89%** and domestic producer price index increased by **18.20%** on an **annual basis.**
- **Balance of Payments** Statistics
    - The Central Bank released the balance of payments statistics for September 2020. The current account posted USD 2,364 million **deficit** compared to

USD 2,828 million **surplus** observed in the **same month of 2019**, bringing the **12-month rolling deficit** to **USD 27,539 million.**

- The previous 12-month rolling **deficit** was **USD 23,203** million.

- Labour force statistics for the period of August 2020.
  - Turkish Statistical Institute announced the labour force statistics for the period of August 2020. The unemployment rate in Turkey realized as **13.2% with 0.8 percentage point decrease** compared to the same period of the previous year.

- Turkey hit the highest monthly **export volume** in October with USD 17.3 billion.
  - October figures also unveiled that export/import coverage ratio in Turkey reached 95.3 percent excluding gold.

- 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 become effective after approval of the President and publishment on the Official Gazette.
  - The Law on Employment Package Including the Restructuring of Tax Liabilities has been accepted by the Commission in the Turkish Grand National Assembly and was **discussed in the General Assembly in the beginning of November 2020.**
  - The Long-awaited Employment Package, which has been consulted for months, has come to the agenda of the Turkish Grand National Assembly as an Ommibus Law. The law stipulates not only **labor and employer law** and measures and provisions to increase employment, but also numerous regulations and amendments to the Income, Corporate and Value Added Tax Laws that concern income and corporate taxpayers, and once again restructuring of public receivables and foreign based assets.
  - Applying a **low corporate income tax rate** instead of 22% in corporate tax, a reduction in the corporate tax rate, albeit temporarily, for those who are **listed to the public,** an income tax exemption for real persons who are e-exporters, the opportunity to be taxed by a simple withholding procedure within the scope of **tax-free tradesmen**, tax amnesty for assets held abroad, **postponement** of **accommodation tax** once again, extension of the taxation

regime under the temporary article 67 of the Income Tax Law until the end of 2025 for capital gains, interests and secuirites will, continuation of the income tax withholding of horse racing personnel, short work, cash wages, extension of employment incentives for women and youth were in the Draft Law.

- Applying a **low corporate income tax rate** instead of 22% in corporate tax was discussed in the Parliament but was not accepted. So, we are assuming that the corporate tax rate would be 20% in 2021.

- You can find more information regarding with the changes brought by the New Package in our bulletins nr. 2020-122 and 2020-123.

- Country-by-Country Reporting **(CbCR) Obligation** in Turkey started and first report should be submitted in December.

  - Based on the Presidential Decree No. 2151, CbCR 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.

- The General Communiqué on the Acquisition of Some Assets to the Economy regarding the Arrangement of **Asset Peace** within the scope of Law No.7256 (Sequence No: 1) was published in the Official Gazette dated 28 November 2020 and numbered 31318.

  - This notification; bringing money, foreign Exchange, gold, securities and other capital market instruments abroad to the national economy by real and legal persons, it includes explanations regarding the registration of money, foreign currency, gold, securities, other capital market instruments and immovables in the country, which are not included in the legal book records of income and corporate taxpayers, by being declared to the tax office.

  - Individuals and firms can dispose of the money, gold, foreign exchange, securities and other capital market instruments held abroad if they duly

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notify these assets to Turkish banks or intermediary institutions by **June 30, 2021** with the form.

- Appliers can utilize those assets until **June 30, 2021** to close the loans from banks and financial institutions abroad and which are recorded in taxpayers' books as of November 17, 2020. Assets used to repay loans may benefit from this application without being brought into Turkey if they are removed from the legal book entries.

- Taxpayers can include the assets brought into Turkey into their company without including in the determination of their current income and can withdraw those assets from their company without including taxable income or distributable income.

- In order to benefit from this provision, taxpayers should bring the assets into Turkey or transfer into a Turkish bank/intermediary institution account **within three months** from the notification date. Losses arising from the disposal of assets brought into Turkey cannot be considered as expense or deduction for income and corporate income tax purposes.

- This asset peace is **not subject to any tax** as it was before. The same asset peace is applicable for the same assets being in Turkey as well including the immovables as well.

- The application date of **Accommodation Tax** has been postponed to 1 January 2022.

  - With Article 42 of the Law on Restructuring Certain Receivables and Amending Certain Laws dated 11/11/2020 and numbered **7256,** the effective date of the accommodation tax **from 1/1/2021** has been changed to **1/1/2022.**

- **Tax Treaty Updates:** Double Tax Treaty between Turkey and Sierra Leone was signed in Ankara.

  - The Agreement 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 94, of which 85 have entered into force.

- **Tax Treaty Updates:** Tax Treaty on double taxation prevention protocol between Turkey and Uzbekistan came into force effective from July 9 2020. The Decree was released on the date of November 25, 2020 on the Official Gazette.

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D. Social Security Issues

- Significant amendments were made in the Regulation on **Expending Working Periods** Abroad in Terms of Insurance Debt by Social Security Institution.

- The Agreement of the Implementation of the **Social Security Agreement** between **Mongolia** and Turkey was approved by the President on November 26, 2020.

- 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)

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.

- The Turkish Statistical Institute released the **"Research and Development Activities for 2019"** report and revealed Turkey's latest R&D spending to GDP ratio.

    - Accordingly, Turkey's R&D expenditure to GDP ratio rose to 1.06 percent in 2019. The Turkish private sector provided 64.2 percent of the country's whole R&D expense and 56.3 percent of its financing.

    - In addition, the amount allocated for R&D activities by the Turkish government reached TRY 14.9 billion in 2019, read TurkStat report.

- New Incentives Programs for Agricultural Projects were announced by the Ministry of Agriculture in order to promote agricultural production and inclusion of youth and women on the economy.

- Technology Development Zones **Law Proposal** is being discussed in the Turkish Grand National Assembly, and important changes are foreseen regarding **R&D and Technopolis** processes. The Law is still in 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 /

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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.

F. Banking & Finance

- CBRT published its Financial Stability Report dated November 2020 and report number with 31.
  - In the report, main factors related to finance, non-financial and financial sector, international developments and macroeconomic outlook, exchange rate, liquidity, interest and credit risks are discussed in detail.
- The method of determining the maximum **interest rates for credit card** transactions was updated by the CBRT.
- CBRT has updated the Reserve Requirements
  - According to the Press Release, 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 enhance transparency, predictability and effectiveness of the monetary policy, with the Monetary Policy Committee Decision of 19 November 2020, the operational framework of the liquidity management was changed to provide all short-term funding through the policy rate, and the monetary policy was tightened through an increase in the policy rate in line with the main objective of price stability. This time, the CBRT decided to simplify the reserve requirement regulation to increase the effectiveness of the monetary transmission mechanism.
  - Accordingly, it has been decided by CBRT;
    - to repeal the reserve requirement practice that links the reserve requirement ratios and remuneration rates to real loan growth rates,
    - to apply the same reserve requirement ratios and remuneration rates to all banks,
    - accordingly, to set Turkish lira and FX reserve requirement ratios:
- Press Release and changes on Turkish Lira **Liquidity Management**
  - In order to simplify the operational framework of the monetary policy, starting from 20 November 2020, the funding currently provided by the

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Central Bank via traditional method repo auctions with one month maturity and late liquidity window facilities will instead be provided via quantity repo auctions with one-week maturity, which constitute the principal monetary policy tool of the Central Bank.

- Within the scope of liquidity management operations, to limit the volatility that may occur in the secondary market overnight interest rates and to ensure a balanced distribution of liquidity among different days of the week, for a one-week transition period, the overnight lending interest rate will be set as the policy rate of 15% from 20 November 2020 to 26 November 2020 (including these dates).

G. Other Legislative Changes in Turkey

- (2/3133) Law on the Establishment of the Environment Agency Proposals and Amending Law will be held in the Parliamentary General Assembly

  - After the recycling contribution share application, the deposit application will also enter our lives. In this context, to prevent environmental pollution prepared by the Law Proposal, 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.

- Regulations covering **warranty, after-sales services** and promotion regulations were amended.

  - According to the Regulation, manufacturers and importers are obliged to issue a guarantee certificate in an understandable language, in a clear, simple and readable manner for the unused goods that they produce or import for consumers, which are included in the list attached to this Regulation.

  - With the change made, the list of products subject to warranty certificate was updated. The renewed list includes products such as baby monitoring cameras, laptop coolers, smart TV boxes, unmanned aerial vehicles (drones).

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- Law No. 7255 on Making Some Regulations in the **Field of Food, Agriculture and Forestry** was published in the Official Gazette dated 4 November 2020.

    - Since the future of the country includes very important regulations in terms of agriculture and food, we wanted to present the subject as its essence, importance and changes. With this Law, while trying to prevent practices that result in the division of agricultural lands, it is aimed to eliminate the factors that negatively affect food safety and reliability. We can give more information if you need.

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.

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.

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

Best regards,

Şaban Küçük & Partners

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