2021-085

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

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

- Gross Domestic Product (GDP) increased by 21.7% in the second quarter of 2021.
    - GDP with chain linked volume index (2009=100) increased by 21.7% compared with the same quarter of the previous year in the second quarter of 2021.
- Housing prices continue to fall from peak.
    - Housing price index published by the Central Bank of the Republic of Turkey (CBRT) in June increased by 29.2 percent compared to the same period of the previous year. The increase in new housing prices was 33 percent. The highest increase was recorded in İzmir with 29.9 percent in 3 big cities.
    - Thus, the slowdown in housing prices continued in June after May. In April, the highest level in the index history was recorded based onannual increase in housing prices.
- Fitch Ratings Raises Turkey's Growth Forecast for 2021.
    - In its recent review, Fitch Ratings increased its growth forecast for Turkey to 7.9 percent for 2021 from 6.3 percent in its June assessment, due to the remarkable performance in 1Q21 and continued resilience in economic activity.
    - "Low government deficits and debt, stronger growth performance and structural indicators, such as GDP per capita and human development" were lined up as the upside of the Turkish economy.

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B. Main Economic Indicators

- Manufacturing PMI hits 8-month high.
  - Manufacturing PMI announced by Istanbul Chamber of Industry (ICI) reached its highest level after January with 54.10 in August.
- Seasonally adjusted unemployment rate realized as 10.6%.
  - The number of unemployed persons aged 15 years old and over decreased by 823 thousand to 3 million 399 thousand persons in June 2021 in Turkey compared to the previous month. The unemployment rate occurred as 10.6% with 2.5 percentage point decrease.
- Budget posted a deficit of 45.8 billion TL in July.
  - The Ministry of Treasury and Finance announced that the central government budget balance gave a deficit of 45.8 billion liras in July. The 7-month deficit reached 78.3 billion liras.

C. Major Tax Issues

- Force Majeure has been declared by the Ministry of Treasury and Finance for the areas affected by the fire.

- Excise tax bases changed for passenger vehicles. It is stated that with this decision, significant discount will be provided in the prices of low-priced new cars.

  - The base limits, which are the basis for SCT in vehicle sales, have been increased. The base limits for the special consumption tax (SCT) applied in the sales of vehicles with an engine displacement of 1,600 and hybrid vehicles with an engine volume of 1,800 cm3 with an electric motor up to 50 kW have been increased.
  - Thus, the prices of cars with a price of up to 320 thousand TL will decrease by about 16 percent.

- Application, Declaration and Notification Periods and First Installment Payment Periods Within the Scope of Law No. 7326 Have Been Extended by One Month

  - Presidential Decree No. 4420 (Decree)" published in the Official Gazette dated 27.08.2021, the application, declaration and notification periods deadline were extended to September 30, 2021, and the payment period of the first installments to November 01, 2021 (as the date of October 31, 2021, coincides with the weekend). Under the program taxpayers can:
    - restructure their unpaid tax debts and other payables to the State,
    - settle their pending tax disputes,
    - protect their past accounts against potential tax audits by making voluntary tax base increases,
    - correct their business records to reflect the reality of their situations

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- It has been decided that the rates of State right fees taken from some mines will be increased by25%.
    - State right rates determined for aluminum, copper, zinc, iron, chromium, and lead with the President's Decision dated August 18, 2021, and numbered 4384 will be applied with 25% increments.
    - State right is the portion that falls to the State's share of the income to be provided by mineral extraction and the payment obligation belongs to the license holder. The state right is taken from the price of the mineral extracted from the quarry at the beginning of the quarry.
    - Detection reports of state rights in mines are written by Sworn-in Certified Public Accountants. If their certification is not correct, certified public accountants shall be jointly and severally liable with the license holder for the right of the lost State and the penalties to be imposed, limited to the scope of the certification.

D. R&D and Incentives

- Super incentives are coming to the sectors polished by the pandemic.
    - Within the scope of the Technology-Oriented Industry Move program, the 4th call was made for the health and chemistry sectors, the shining stars of the pandemic period.
    - Products such as vaccines, diagnostic kits, artificial organs, biotechnological drugs, pacemakers, syringes, sphygmomanometers, blood bags, dialysis kits will be given super incentives. Applications started on 10th August and will continue until 13th September.

- The "Communiqué on the Research and Development Support Program" was published in the Official Gazette dated 3 August 2021 and numbered 31557 by the Ministry of Agriculture and Forestry and entered into force.
    - Within the scope of the Communiqué, it is aimed to support research and development projects deemed appropriate to develop information and technologies on priority issues needed bythe ministry and the agricultural sector.

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- Except for the size and capacity where commercial production can be made; purchases of tools, machinery, equipment, software and hardware.
- Rental fees of agricultural tools and equipment (tractors, combines, seeders, plows, sprayers and similar agricultural tools and equipment required to be used in the project).
- Purchases of consumables, excluding those in quantities that can be commercially produced.

- The expenditure items that will not be supported from the Support Program budget are:
  - Any capital usage costs, promotional material, marketing, and commercial advertising expenses.
  - Project preparation, application and contract expenses, progress and final reports and their printing expenses.
  - Expenses incurred for converting the results of the project into commercial practice, excluding registration, patent and certification expenses.

E. Banking & Finance

- With the Communiqué Amending the "Communiqué on the Procedures and Principles Regarding the Fees to be Collected from Financial Consumers'':
  - Financial Leasing, Factoring and Financing Companies Association" has been changed to "Financial Institutions Association".
  - In case the transaction amount for EFT transactions is 1,000 TL or less, it cannot exceed 1 TL for transactions made through mobile banking applications and internet banking and regular payments, 4 TL for transactions made through ATMs, and 5 TL for transactions made through other channels. If the transaction amount is between 1,000 TL and 50,000 TL these limits have been changed to 2TL, 8 TL and 10 TL, respectively.

- By the Banking Regulation and Supervision Agency on 19 August "Communiqué on Information Systems Management and Audit of Information Exchange Institutions and Risk Centers" was published in the Official Gazette dated 2021 and numbered 31573.
- Profit of banks in 7 months is 40.2 billion liras.
  - Net profitability of the banks was announced as 40.2 billion liras as of the end of July. This figure was approximately 40 billion liras in the same period of last year.
  - The profitability of banks compared to the same period of the previous year indicates an increase of 3.1 percent.

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F. Commercial Arrangements

- The current deadlines for application, objection, and finalization regarding the certification and support processes for Renewable Energy have been extended by one month.
- The National Artificial Intelligence Strategy (2021-2025) was announced with the Circular.
- "Deferred Tax on Assets and Liabilities Arising from a Single Transaction - Amendments to TAS 12" was published by the Public Oversight, Accounting and Auditing Standards Authority in the Official Gazette dated 27 August 2021 and numbered 31581 to fully comply with International Financial Reporting Standards.

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 many 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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