



2021-028

Date : March 4th, 2021

Subject: Monthly Financial/Tax Regulations in Turkey (February 2021)

Distinguished readers,

We would like to submit the important tax-related and financial issues that occurred within the last month in Turkey as we did since 2018. We are glad to share those summaries with non-Turkish speaking clients and our network abroad.

You can visit our website (www.taxia.com.tr) created to support and inform the business society, employees and all stakeholders especially in Covid-19 era. We hope that you will benefit and enjoy our newsletters and bulletins.

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.

- ✓ February was a busy month with tax and financial regulations. In particular, the details of the financial reform package that the Ministry of Treasury and Finance has been conducting for a while has become clear. Increasing withholding tax on construction VAT withholding rates, special communication tax and electric vehicle SCT amounts in February were interpreted as a signal that a tax increase could be made on the corporate tax and withholding tax.
- ✓ Although it has not yet become official, a 10% pre-withholding tax application is being discussed in addition to the corporate tax including 2020. Since there is no official statement on this issue, we cannot share any further details. As the details become clear, we will also announce this matter to you. We hope that we will see not only the tax increases, but also the reformist titles that have been voiced for years in the upcoming new legal regulations.

A. Economy and Public Budget

- Central government gross debt stock was TL1,812.1 billion as of December 31st, 2020 according to the announcement dated January 20th 2021.
 - TL 794.4 billion of the debt stock is denominated in TL and 1,017.7 billion is denominated in foreign currencies.

B. Main Economic Indicators

- **Capacity utilization rate** of the manufacturing industry for February 2021
 - The seasonally adjusted rate decreased to 75.5% in February 2021 from 75.6% in January 2021.
- **The balance of payments** statistics for December 2020
 - The current account deficit recorded USD 3,210 million indicating an increase of USD 473 million compared to December 2019, bringing the 12-month rolling deficit to USD 36,724 million.
- **Foreign Trade Statistics** for January 2021
 - According to the provisional data produced with the cooperation of the Turkish Statistical Institute and the Ministry of Trade, in January 2021; exports were 15 billion 45 million dollars with a 2.3% increase and imports were 18 billion 79 million dollars with a 5.9% decrease compared with January 2020.
- **Labor force statistics** for the period of November 2020
 - Turkish Statistical Institute announced the labor force statistics for the period of November 2020.
 - The unemployment rate in Turkey realized as 12.9% with 0.4 percentage point decrease compared to the same period of the previous year.
 - You can find more on [TURKSTAT Corporate \(tuik.gov.tr\)](https://tuik.gov.tr)

C. Major Tax Issues

- New Stimulus Package was published on the Official Gazette as Law nr. 7256. Important Draft Communiques regarding with the tax changes are on the way.
 - You can find more information regarding the changes brought by the New Package in our bulletins nr. [2020-122](#) and [2020-123](#).
 - 2 major explanatory Tax Communiques were prepared and submitted for public opinion by the Turkish Revenue Administration. It is supposed to be announced soon.
 - Draft Income Tax Communique nr. 314 explaining new e-commerce incentives and other amendments.
 - Draft Corporate Tax 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.

- **Withholding tax rate** on pro rata construction works **increased**.
 - Presidential Decree published in February 2021 increased the tax withholding rates applicable to construction and restoration works lasting more than a calendar year from 3% to 5% for allowance amounts and progress payments.
 - The new rate will be applied to the payments made as of March 1, 2021.
- **Financing expenses are limited** by a Presidential Decree
 - 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.
- **VAT withholding applications** are extended and some of the rates are increased.
 - Insurance and reinsurance companies, unions and their higher organizations, private universities and mobile electronic communication operators are also included in the determined buyer status in terms of withholding VAT.
 - Commercial advertising services are included in the scope of partial withholding VAT as well (withholding VAT rate is 3/10).
 - All other deliveries of goods (except water, electricity, gas, heating, cooling and similar energy uses) made to the General Directorate of the State Supply Office and not specifically specified in the Communiqué are included in the scope of withholding VAT as well (withholding VAT rate is 2/10).
 - The amendments brought by the Communiqué will enter into force as of March 1, 2021.

- SCT (special consumption tax) amounts charged on fuel products were updated.
 - The special consumption tax amount was reduced to zero for the goods produced in Refinery and Petrochemical facilities to be used in manufacturing with a Presidential Decree dated February 18th, 2021.
- **Special Consumption Tax (SCT)** rates for passenger cars with only **electric motors** have been re-determined.
 - With the President's Decree No. 3471, dated February 1, 2021; the SCT rates of passenger cars with only electric motors included in the list (II) attached to the Special Consumption Tax Law No. 4760 have been redefined as 10%, 25% and 60%, respectively.
 - According to the Constitution, the State has the power to determine tax rates. With the public finance and economic perspective, we believe that the announcement of tax rate changes at least 1 year ago (365 days) will bring more benefits to our country in terms of legal and economic certainty and rule of law.
- **Country-by-Country Reporting (CbCR) Obligation** in Turkey started and first report should be submitted in March 2021 by the firms exceeding the thresholds.
 - Based on the circular published by Turkish Tax Authorities on December 18th, the reporting period for Country-by-Country Reporting (CbCR) had been postponed to 26th of February, 2021. It is postponed again till the end of March 2021.
 - After extension of the reporting deadline, Turkey ratified the country list of CbCR on OECD website. So, Turkey will receive the reports of 47 countries and will be able to share with 37 countries.
 - 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 you can consult with our experts in transfer pricing.
- **Tax Treaty Updates:** Double Tax Treaty between Turkey and Venezuela is published.
 - Law nr. 7277 was published in the Official Gazette. The Treaty was signed in Caracas, capital city of Venezuela in 2018.

D. Social Security Issues

- The Social Security Agreement concluded between Mongolia and Turkey is determined as the effective date of March 1, 2021.

- Social Security Agreement concluded between the Republic of Poland and the Republic of Turkey is approved.
- Additional 6 percentage points SGK incentive has been extended until the end of 2021.
 - In addition to the “5 points” reduction in Law No. 5510 in order to increase production and employment in 51 provinces and 2 districts in Turkey, the duration of the insurance premium incentive, which is applied as “additional 6 points” over the lower limit of earning based on insurance premium, has been extended until 31 December 2021.
- **Short-term working allowance** continues for another month till the end of March 2021.
 - The Presidential Decree Nr 3556 published in the Official Gazette in February 19th 2021 extends the short-term working allowance due to the pandemic until 31 March 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.

- **R&D - Technology Development Zones Law** was accepted in the Turkish Grand National Assembly, and important changes are foreseen regarding **R&D and Technopolis** processes. The Law nr. 7263 is enacted and it was 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 techno parks (applications within the scope of flexible work including the pandemic) within the scope 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 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.
- 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.
- The Ministry of Industry will publish a Circular and Bylaw in order to shed light on some issues regarding with the new applications and changes.

F. Banking & Finance

- At the Monetary Policy Committee (Board) meeting held on February 18, 2021, the CBRT (TCMB) decided to keep the policy rate (one-week repo auction rate) constant at 17%.
- It is stated that reserve requirement ratios will be used as an instrument to support the monetary stance and the monetary transmission mechanism in pursuit of the price stability objective within a plain framework in the “Monetary and Exchange Rate Policy for 2021” by the CBRT.
 - Turkish lira reserve requirement ratios have been increased by 200 basis points for all liability types and maturity brackets.
 - The upper limit of the facility for holding FX has been decreased from 30% to 20% of Turkish lira reserve requirements.
 - The upper limit of the facility for holding standard gold has been decreased from 20% to 15% of Turkish lira reserve requirements.
 - As a result of these changes, TL-denominated required reserves are expected to increase by approximately TRY 25 billion, while total required reserves in FX and gold are expected to decrease by USD 0.5 billion, should the reserve option utilization rates remain unchanged for the remaining tranches.
 - In addition, the remuneration rate applied to TL-denominated required reserves has been increased by 150 basis points to 13.5%.
 - These changes will be effective from the calculation date of 19 February 2021 with the maintenance period starting on 5 March 2021.
- **Saving financing system** will be regulated as a new financial institution in Turkey.
 - This system, which is an application where people can buy houses and cars by uniting their power of purchase, has been submitted to the Parliament as a Law Proposal on the Savings and Financing System.

- The Law aims to regulate the savings financing and home and car ownership practices, which have grown in recent years. It will cause consolidations and mergers in the market pretty soon as the minimum capital requirement is quite high.
- You can follow our views and evaluations on the subject on our blog post numbered 2021-024.
- **Regulation on the monitoring the currency positions** of the firms by the Central Bank of Turkey was updated.
 - The aforementioned amendment was published in the Official Gazette on 24 February 2021.
 - You can access the regulations, application guide and frequently asked questions from the link: <https://www.tcmbveri.gov.tr/>
 - Systemic Risk Data Tracking System (SRVTS); In coordination with the Financial Stability and Development Committee, to monitor the operations of the company for the purpose of influencing the foreign exchange position of the Central Bank of Turkey (CBRT) is a database created on the site.
 - The procedures and principles, including the scope of the information and documents to be requested, the method of collection and monitoring, the control of their accuracy, their sharing, and the provision of support services, are determined by the CBRT.
 - Liable companies within the scope of the system used to report the data prepared in accordance with the financial reporting framework by logging into SRVTS between certain dates following the quarterly balance sheet periods by using the data form. The entered data used to be checked and approved by the authorized independent audit firm or independent auditor. With the amendment made, monthly reporting was started instead of 3 months or weekly, and the obligation of independent auditing of the submitted data for 2021 was removed.
- With an important decision dated February 4, the CMB (SPK) has taken some **regulatory measures to avoid problems** in public offerings, which are expected to increase in 2021.
- Considering that there are many preparations for public offering transactions this year, those transactions have been made little difficult with the approval of the CMB in order to save the rights of small size investors.
 - Borsa İstanbul A.Ş. has made a significant change in the Quotation Directive in order to increase the depth of the shares that will start to be traded on the stock exchange. The change was made with the announcement dated February 12, 2021 and numbered 2021/7.

- CBRT has announced the notes of “**Summary of the Monetary Policy Committee Meeting**” in February 25th, 2021.
 - You can find the notes in the [link](#).
- CBRT post on “**Open Letter** Written to the Government Pursuant to Article 42 of the Central Bank Law (2021-07)”.
 - You can read the [letter here](#).
- A series of Decisions, Regulations and Communiqués were published within the scope of laundering proceeds of crime and money laundering legislation by the Ministry of Finance and Treasury.
- Banking Regulatory and Supervisory Authority (BDDK) prepared a bylaw for **Client Confidentiality** and issued the same for public consultation.
 - It will determine the scope, form, procedures and principles regarding the sharing and transferring of bank client information.
 - This bylaw will be announced as it gets approval.

G. Commercial Arrangements

- Approval of the "United Nations **Convention on International Peace Agreements** Concluded as a Result of Mediation" signed in Singapore on 7 August 2019 was deemed appropriate.
 - The Law approves the Convention which aims to ensure the international execution of the agreements signed between the parties as a result of commercial mediation.
- **Digital transformation helps the company formation and signature procedure with an update on related Bylaw.**
 - After an update in related bylaw, trade registries will obtain the signatures of persons authorized to represent and bind the companies electronically from the digital signature data kept in public databases. It helps to solve problems and delays for many foreign companies.
- **Unfair Price Evaluation Board Regulation** has been amended.
 - The aforementioned regulation was published on 28 May 2020.
 - According to the article 7 / b of the Regulation, which enumerates the duties of the Unfair Price Evaluation Board, the Board “conducts inspections regarding exorbitant price increases and stockpiling practices and, when necessary, takes or ensures that the defense of the manufacturer, supplier and retail enterprises.

- **Geographical Data Licensing Regulation** has been published.
 - With the aforementioned regulation, changes are made to regulate the activities of companies within the scope of GPS (geographic data systems) developed in recent years and to obtain a geographical data license certificate, license agreement, applications, making contracts, transactions regarding the license and the expert personnel to be employed.
- The deadline for the **Activity Reports**, which must be prepared by the companies, has started.
 - According to the Turkish Commercial Code (TCC), companies are required to prepare their annual reports in February and convene the General Assembly before the end of March.

H. Foreign Trade & Customs

- **85% export requirement in Free Zones** has been determined as 80%.
 - Due to the difficulties experienced due to the pandemic, the 85% criteria were reduced to 80% for 2020. Those companies enjoy withholding tax exemption for their personnel as long as they meet export ratio.
- **Free Trade Agreement (STA)** which is a big agreement for Turkish economy and foreign trade was signed between Turkey and the UK.
 - Law No. 7266 was adopted on 29 January 2021 on the subject. The law was entered into force as it is published in the Official Gazette on February 3rd 2021. It is approved by the President of Turkey in February 24th, 2021.

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