

Circular

Istanbul, 17 April 2017

Circular No: 54

Subject: Tax ruling indicating that there is no requirement for correction on VAT amounts that are not paid by applying exemption until the date of annulment, in the circumstance that the sale and lease back contract is terminated.

Pertaining to the Article 17/4-y of VAT Law, to be applied on all sorts of movables and immovables purchased directly from the lessee and leased back by the institutions dealing with financial leasing transactions under the Financial Leasing, Factoring and Financing Companies Law no.6361 and that could be subject to those transactions, on the condition that the ownership of the leased asset should be transferred to the lessee at the time contract expires, VAT exemption is applied in the transactions concerning the asset's;

- sale to the institutions dealing with financial leasing transactions,
- being leased to the lessee that it had been transferred from by the institutions dealing with financial leasing transactions,
- resale of it to the lessee by the institutions dealing with financial leasing transactions.

On those transactions, in the circumstance that the contract is terminated under the Article 31 of the Law no.6361 and the asset is sold to another person other than the lessee itself due to commercial requirements, previously some uncertainty existed on the asset's sale to the financial leasing company and on the need for corrections to VAT amounts unpaid by applying exemption within the rental invoices issued by the financial leasing company.

The tax ruling issued by Revenue Administration dated 05.04.2017 and no. 64994458-130[5517-3221]-E.E.419444 contains clarifying explanation on the matter as provided below:

Through the aforementioned tax ruling, in case the contract terminates due to the reasons existing in the Article 31 of Factoring and Financing Companies Law no.6361 and sale of the asset that is purchased and leased back to the third parties by the financial leasing companies, it's indicated that there is no requirement for corrections on the VAT exemption applied on the invoices issued by the financial leasing company for rental transactions till the contract expiry and the mentioned asset's sale to the financial leasing company by the lessee.

Our explanations provided above include general information on the issue. No responsibility can be claimed against EY and Kuzey YMM ve Bağımsız Denetim A.Ş. due to the implications arising from the context of this document or emerging with respect to its context.

Best Regards,

KUZEY YMM VE BAĞIMSIZ DENETİM A.Ş.