

Circular

Istanbul, 3 August 2018

Circular No: 89

Subject: The Council of State decides that the bonus shares obtained from the addition of profit reserves to capital should be regarded as dividend.

Section 5.6.2.4.3 of the Corporate Tax General Communiqué series no.1 titled as "Status of earnings from the sale of bonus shares" previously contained a regulation as, "In case of capital increase by using reserves that are separated from profit for the period, there is no difference between granting bonus shares to these shareholders as a consequence of this transaction and actually distributing dividends. In either case, the shareholders have the opportunity of a right for disposal on the profits generated within the corporation. Therefore, in the event of the acquisition of bonus shares by the shareholders as a result of the capital increases provided from profit reserves, these equity shares acquired will be monitored in the nominal shareholding participation accounts and will not be subject to corporation tax due to the exemption of participation gains". The aforementioned regulation was revoked through the verdict from the 4th Office of the Council of State dated 14.06.2017 no.2013/2951, Decision no.2017/5260.

Council of State Tax Litigation Departments Board (DVDDK) has overturned the decision of the 4th Chamber of the Council of State summarized above through the merits no.2017/626, Decision no.2018/51, which was given by majority of votes on 07.02.2018 regarding the issue.

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.