

# Inflation adjustment according to Tax Procedure Law in the light of recent developments and specific subjects

## 1. Introduction

Draft Tax Procedure Law General Communique on inflation adjustment (hereinafter referred to as "Draft Communiqué") was added to the official website of the Turkish Revenue Administration (TRA) on 18 October 2023. The Draft Communiqué in question was updated with changes and additions as a result of the comments received, and the updated Draft Communiqué was made available on the official website of the Turkish Revenue Administration on 24 November 2023.

## 2. Specific subjects in terms of inflation adjustment

### 2.1. Financial statements to be subject to adjustment: Balance sheet

With Article 7/2 of the Draft Communiqué; based on the authority granted by subparagraph (b) of paragraph (8) of paragraph (A) of Article 298 of Law No. 213, taxpayers who have to make inflation adjustment are required only to restate the balance sheet from the financial statements to be subjected to inflation adjustment.

### 2.2. Shares and participations purchased in foreign currency

In accordance with Article 5/1-ç of the Draft Communiqué prepared by the Turkish Revenue Administration on the subject; shares and subsidiaries denominated in foreign currencies will be subject to inflation adjustment by multiplying the relevant foreign currency amount by the exchange rate on the adjustment date.

### 2.3. Aggregated method applications in subjecting inventories to inflation adjustment

Two types of aggregated methods, namely the "simple average method" and the "stock turnover rate method", have been determined within the scope of Article 18 of the Draft Communiqué prepared by Turkish Revenue Administration regarding the determination of the aggregated method that may be valid for stocks in the correction of the balance sheet dated 31.12.2023. On the other hand, the aggregated methods that can be taken as basis in inflation adjustment transactions for the 2024 accounting period and the following periods, depending on the continuation of the conditions, have been determined as the "Simple Average Method" and "Moving Weighted Average Method" according to Article 37/2 of the Draft Communiqué.

### 2.4. Deduction from tax base in subsequent accounting periods after determination and adjustment of non-real financing costs

In accordance with Article 40/3 of the Draft Communiqué; limited to the adjustment of the balance sheet at the end of the 2023 accounting period, the undepreciated amount from the cost of unreal financing expenses added to asset value may be taken into account as an expense in determining the period earnings in 5 years and in equal installments in 2024 and subsequent accounting periods.

## **2.5. Situation of fixed assets which were subject to revaluation and revaluation funds**

The following is required for inflation adjustment to be made on 31.12.2023:

- The revalued depreciable fixed assets and their related depreciations are subject to inflation adjustment by taking into account their last revalued values,
- The last day of the last revaluation period shall be taken as the basis for the correction process for the fixed assets subject to depreciation.

The balance of the revaluation value increase fund accounts created within equity must be included under the retained earnings account (as of 31.12.2023).

## **2.6. Determination of adjustment dates of fixed assets capitalized using investments in construction in progress account**

According to article 20 of Draft Communiqué, as the basis for adjustment of the values that are not included in the balance sheet as of the end of 2023 Accounting Period, have been transferred to asset account before the balance sheet date, and have come from the construction in progress account, the dates on which the construction in progress account is used should be taken, not the capitalization dates of the values in question. Accordingly, the adjustment of these fixed asset values will be carried out in two stages. First of all, investment expenditure regarding each month will be adjusted until the capitalization date at the end of the month in which the expenditure occurred, and then the capitalized amount will be adjusted as a whole until the end of 2023 Accounting Period.

## **2.7. Determination of the adjustment date for assets acquired through transfer, spin-off and merger**

According to article 17/4 of Draft Communiqué, due to the transfer, change of type and full and partial spin-off transactions occurring before 31.12.2023, the date of adjustment of the assets in the is not the date of transfer, but the date when the assets in question are taken into the inventory of the transferred or be subjected to spin-off and in case of merger, the date on which it is transferred to the records of the merged entity will be taken into account as the date of adjustment.

## **2.8. The situation of provisions for expenses**

The following will be discussed in scope of article 5/1-c of Draft Communiqué:

- In correcting the mandatory provisions made according to TPL; making adjustments depending on whether the resource is monetary or non-monetary,
- The adjustment effect of voluntary provisions that do not comply with the TPL and affect the profit for the period should be taken into account in the calculation.

## **2.9. Disposal of non-depreciable assets after inflation adjustment**

In Article 53/1 of the Draft Communiqué; if the non-monetary assets included in the balance sheet at the end of the 2023 accounting period, which have been subject to correction and are not subject to depreciation, are sold for a price below their adjusted value, the loss corresponding to the difference between the after-correction value and the pre-correction value will not be taken into account in determining the income or corporate tax base.

## **2.10. Adjustment of accumulated depreciation**

In accordance with the updated version of the Draft Communiqué as of 24 November 2023;

- In the adjustment of the balance sheet at the end of the 2023 accounting period, accumulated depreciations will be adjusted by taking into account the increase rate that occurs after the correction in the value of the fixed assets they belong to at the balance sheet date.
- In accordance with Article 320 of the TPL, depreciation amounts that have not been allocated in previous years will not be considered as allocated and therefore will not be taken into account in inflation adjustment.
- It will be optional to subject fixed assets and accumulated depreciation which have completed their useful life, and whose value has been completely depleted through depreciation, to be subject to inflation adjustment.

## **2.11. Retained earnings and losses position**

According to the updated Draft Communiqué; the profit/loss arising from the inflation adjustment made on the balance sheet at the end of the 2023 accounting period will be shown in the "Retained Years' Profits/Loss" accounts. Profits or losses from previous periods in the records will also be transferred to this account by recording them in the inflation adjustment account at their fixed values. (There was no such determination regarding profits or losses from previous periods in the Draft Communiqué dated 18 October 2023) On the other hand; prior year or current period commercial profit before the correction dated 31.12.2023 will not be reset to zero during the inflation adjustment.

## **2.12. Making inflation adjustment and statutory recording time**

In the second paragraph of Article 51 of the updated Draft Communiqué dated 24 November 2023; it has been clearly stated that the records of the inflation adjustment made for 2023 will be transferred to the legal books of 2023, and the records of the inflation adjustment to be made in 2024 and the following periods will be transferred to the relevant period books.

## **3. Conclusion**

Explanations made in Draft General Communiqué on Tax Procedure Law regarding inflation adjustment are of high significance in terms of demonstrating the approach of the Administration in terms of specified issues in inflation adjustment. This article emphasizes

certain specified issues in inflation adjustment based on explanations included in this Draft Communique.

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