

Istanbul, 7 March 2017

Circular No: 39

Subject: Statement issued concerning the VAT refund receivables arising through withholding and reduced rate resulting from identical process.

VAT General Implementation Communiqué's section titled as "III/B-3.4.1. Taxpayers with processes procuring refund right as well as the transactions subject to reduced rate" contains explanation on methods to be followed in the circumstance that VAT refund receivables exist arising from other processes along with transactions subject to reduced rate. However, the concerning section does not include any explanation related to the approach to be shown in case any VAT refund receivable exists arising from withholding and reduced rate linked to identical process.

Through the Communiqué series no.11 published in the Official Gazette dated 15 February 2017, the paragraphs provided below has been added to the end of aforementioned section (III/B-3.4.1.) within the VAT General Implementation Communiqué:

"In the circumstance that any VAT refund receivable had occurred since withholding and reduced rate is implemented, linked to identical process, first of all the VAT receivable arising from withholding is refunded. Pursuant to that, VAT refund claims arising from transactions subject to reduced rate and withholding implemented are handled in accordance with the explanation existing in this (I/C-2.1.5.) section of the Communiqué.

On the other hand, the VAT calculated over the transaction cost (including the withholding amount) is completely entered into the "VAT Calculated" column of the table for calculation of refund amount arising from the transactions subject to reduced rate.

For instance: (A) company delivers angora wool valued at 100.00 TL to the weaver (B) company. The VAT calculated for this delivery which is subject to reduced rate is $(100.000 \times 0,08 =)$ 8.000 TL while the mentioned delivery also subject to withholding at a ratio of (9/10). In this transaction of the (A) company that is both subject to withholding and reduced rate, the refund of VAT at $(8.000 \times 0,90 =)$ 7.200 TL will be claimed under the procedure and principles related to withholding. In the circumstance that the (A) company claims refund regarding the transactions subject to reduced rate, 8.000 TL which is the amount prior to partial withholding implementation should be entered to the "VAT calculated" column of the table."

Through these paragraphs added into the aforementioned section of the VAT General Implementation Communiqué, transactions to be handled when a VAT refund receivable arises for both withholding and reduced rate caused by identical process have been clarified based on the Communiqué.

Pertaining to that, in the circumstance that any VAT refund receivable had occurred since withholding and reduced rate is implemented, linked to identical process, first of all the VAT receivable arising from withholding will be refunded. The VAT calculated over the transaction cost (including the withholding amount) will completely entered into the "VAT Calculated" column of the table for calculation of refund amount arising from the transactions subject to reduced rate.

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.