

Which profit distribution has been deferred?

The new type coronavirus (Covid-19) outbreak that started in Wuhan of China was declared as “pandemic” by the World Health Organization on 11/3/2020. The outbreak is now all over the world. According to the data of the European Union Outbreak Prevention and Control Centre dated 29/4/2020, the outbreak has been 3,05 million cases in 206 geographical regions (including unrecognized countries) as 216,56 thousand deaths and 1,1 million cases in the last 14 days.

Due to the outbreak, governments are announcing monetary and financial incentive packages to “protect public health, businesses and human resources”. As the whole world is going through an extraordinary period, implementation of extraordinary rules is also on the agenda. Therefore, Turkey introduced Law no.7244 comprising the amendments including the limitation of “dividend distribution” published in the Official Gazette dated 17/4/2020. With the provisional Article 13 added to the Turkish Commercial Code through the Law no.7244, it is aimed to protect the existing equities so that resources in capital companies are not reduced through cash dividend distribution and additional financing is not required.

Through the article added to the Turkish Commercial Code, only 25% of the net profit for the year 2019 can be distributed in capital companies until 30 September 2020. During this period, previous year profits and free reserves will not be subject to distribution and advance dividend distribution will not be allowed. Over 25% of the unpaid parts of the dividend distribution decisions taken before the amendment were postponed to 30 September 2020 and their distribution was restricted. However, if the distribution of “previous year profits and free reserves” had been decided by the general assemblies of the capital companies before the amendment, except for the net profit of 2019, we believe that the second paragraph of the provisional Article 13 does not prevent this distribution. With the relevant regulation, the cash dividend distribution of capital companies has been postponed and no restriction has been imposed on dividend distribution by issuing “non-cash share certificate”.

The distribution of cash dividend in capital companies has been postponed and no restriction has been imposed on dividend distribution by issuing “non-cash share certificate”. Within that context, both the part exceeding 25% of the net profit for the year 2019 and previous year profits and free reserves can be distributed as “non-cash share certificate by adding to the capital”. Thus, resources in capital companies will remain among the equities of companies through distribution with bonus share. In addition, the dividend distributions realized by the capital companies by adding the net period profit to the capital shall not be subject to declaration as the dividend obtained by real person shareholders. On the other hand, investors in an expectation of dividend income can meet their cash needs by disposing the shares they acquire from bonus share distribution.

For all these reasons, the distribution of both the net profit for the year 2019 and the previous year's profits as “non-cash share certificate is advantageous for both individuals and the companies that distribute dividend and may be beneficial for the development and deepening of capital markets.



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