

Subject: Regulations of Bill of Law, including amendments on Income and Corporate Tax and presented to Grand National Assembly of Turkey on October 1.

Summary: *The amendments, foreseen to be applied in terms of Income and Corporate Tax Laws through the Bill of Law presented to Speaker's Office of Turkish Parliament on October 1, 2021, are summarized below:*

- *Income of taxpayers subject to simple entry is exempted from income tax.*
- *Income gained from social content producing and software development for mobile devices are exempted from income tax. In order to benefit from such exemption, it is required to open an account in banks established in Turkey and all the revenue related to such activities should be collected only through this account. 15% of withholding shall be applied by banks based on revenue transferred to accounts in question. Those whose income exceeds the amount in 4th income section of tariff cannot benefit from such exemption.*
- *Agricultural support payments made to farmers by public institutions and organizations are exempted from income tax. Such amounts shall not be declared and no withholding shall be applied accordingly.*
- *It is foreseen that the fourth of the advance tax returns filed by corporate taxpayers and income taxpayers, commercial profit holders (except those taxed in the simple entry) and self-employed persons.*
- *Submission period of income and corporate tax returns are withdrawn back to one month for each. (Income tax returns, from March to February, corporate tax returns, from April to March).*
- *Taxes accrued based on annual income tax returns shall be paid in February and June instead of March and July in two installments. Since there is a provision in Corporate Tax Law stating that return shall be paid until end on the month in which such return is submitted, payment term of corporate tax is automatically brought forwards for one month.*
- *One of the conditions to benefit from tax deductions for tax-compliant taxpayers is that there is no supplementary, ex-officio or administrative assessment in terms of tax types subject to declaration within the last two years. Assessments made in the Bill of Law are depending upon finalization condition.*
- *In the discount application regarding the cash capital increase, it is foreseen that the discount rate will be applied as 75% instead of 50% for the portion of the capital increase covered by cash brought from abroad.*
- *In the reduced corporate tax application, 10% of the amount determined by the application of the investment contribution rate to the investment expenditure on the basis of the investment incentive certificate is allowed to be withdrawn from other accrued tax debts excluding SCT and VAT. In this context, it is required to make a request until the end of 2nd month following the month in which corporate tax return should be submitted.*

Effective dates of regulations in question are called to your attention under related sections of our circular.

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It is foreseen to make certain amendments on certain Laws such as Income Tax law, Corporate Tax Law, Stamp Tax Law, Value Added Tax Law and Special Consumption Tax Law and especially on Tax Procedure Law according to “Bill of Law on Making Amendments on Tax Procedure Law and Certain Laws” presented to Speaker’s Office on October 1, 2021. Regulations making amendments of such bill of law on Income and Corporate Tax Laws are summarized below:

1. Amendments to be made in terms of Income Tax Law

a. Income tax exemption for income determined in simple entry

In Article 46 of the Income Tax Law, there are regulations regarding the determination of commercial income in the simple entry. With the repeating article 20/A added to the Income Tax Law with the 1st article of the Bill, it is foreseen that the earnings of the taxpayers subject to the simple procedure, determined within the scope of article 46, will be exempted from income tax.

Income tax return will not be submitted for these incomes within the scope of the exemption within the scope of the regulation made in Article 7 of the bill, and if a declaration is submitted due to other incomes, these earnings will not be included in the tax return.

The above regulations will enter into force on the date of publication to apply in terms of earnings from 1 January 2021.

b. Revenue exemption for social content producers and software developers for mobile devices

With the 2nd article of the Bill of Law, it is foreseen that the duplicate article 20/B titled "Exemption of earnings in social content production and application development for mobile devices" will be added to the Income Tax Law.

Accordingly, social content producers who share content such as text, images, audio, and video over social network providers on the internet receive income from these activities (such as advertising revenues, sponsorship and sales revenues, donations, gifts, tips, paid subscription revenues) and smartphone or mobile phone or subscription revenues. Earnings from electronic application sharing and sales platforms by application developers for mobile devices such as tablets will be exempted from income tax. Those who have income and revenue from other activities can also benefit from this exception.

In order to benefit from such exemption, it is required to open an account in banks established in Turkey and all the revenue related to such activities should be collected only through this account. Banks will withhold income tax at the rate of 15% as of the date of transfer over the amount of revenue transferred to these accounts.

Those who exceed the amount in the 4th segment of the income tax tariff (in the year 2021, 650,000 TRY) and those who do not collect all their income as stated above, cannot benefit from this exception.

Such regulation will enter into force on the date of publication to apply in terms of earnings from 1 January 2021.

c. Earning exemption in terms of agricultural supports

With the 3rd article of the Bill of Law, it is foreseen that the duplicate article 20/C, titled "Exemption of earnings in agricultural support payments", will be added to the Income Tax Law. With this regulation, agricultural support payments made by public institutions and organizations in order to develop and support the agricultural sector are exempted from income tax. Within the scope of this amendment, the provision regarding the withholding of the said payments with the 8th article of the Proposal is also annulled from the 94th article of the Income Tax Law. The above provisions shall enter into force as of the publication date of the Law.

d. Advance tax, income and corporate tax returns

i. Abolishing of last period advance tax returns (4th period)

In the repetitive article 120 of the Income Tax Law, there is a regulation on "advance tax". Accordingly, the owners of commercial gains (excluding those taxed in the simple entry procedure) and the self-employed pay advance tax on their quarterly earnings to be deducted from the income tax of the current taxation period.

Within the scope of the article, provisional tax returns for quarterly periods are submitted until the evening of the 17th day of the second month following these periods. Accordingly, for taxpayers using the normal accounting period, the 4th period advance tax return must be submitted by 17 February.

Various amendments have been made in the first paragraph of the repetitive article 120 of the Income Tax Law with the 10th article of the Bill of Law in question. One of the amendments is to add following statement: "... Based on quarterly income determined for the first 9 months of related accounting period...". Such amendment refers to abolishment of 4th period advance tax returns.

ii. Submission period of annual income tax returns

An amendment is made under article 92 "Submission of annual return" of Income Tax Law according to article 7 of bill of law. In this framework, annual income tax returns shall be submitted in February instead of March.

iii. Submission period of income tax returns related to Construction works extending to years

In Article 42 of the Income Tax Law, there is a regulation regarding construction and repair works that spread over more than one calendar year. With Article 4 of the Bill, it is foreseen to amend the phrase "March" to "February" regarding the income tax declaration in the second paragraph of the said article.

The above amendments regarding the abolition of the 4th period advance tax return and the submission dates of the income tax returns will enter into force on the date of publication, to be implemented as of the returns to be submitted for the year 2022.



iv. Income tax payment terms

Within the framework of the amendment regarding the withdrawal of the income tax declaration period one month earlier, it is foreseen that an amendment will be made in Article 117 of the Income Tax Law, which includes the installment periods with the 9th article of the Bill of Law. Accordingly, the income taxes accrued on the income reported in the annual declaration will be paid in two installments in February and June, by pulling forward one month each instead of March and July.

This provision will enter into force on the date of publication to be applied from the taxes accrued on the returns to be submitted for the taxation period of 2022.

e. Tax reduction in terms of tax-compliant taxpayers

One of the requirements applicable to taxpayers who intend to benefit from tax reduction is the absence of a supplementary, ex officio or administration assessment in terms of tax types subject to declaration within the year of the tax return for which the deduction is to be calculated, and in the last two years prior to this year.

With the 11th article of the Bill, it is foreseen that some changes will be made in this requirement, and the requirement stating that they have not been assessed within the above-mentioned period is subject to the finalization of the assessments made. Therefore, taxpayers will be able to benefit from the aforementioned discount, in case the assessment has been made within the period specified in the article, but the assessment has not been finalized.

In addition, if the finalized assessments do not exceed 1% of the upper limit of the discount amount valid for the year of the tax return for which the discount is calculated (this limit is applied as 1.500.000 TRY for the declarations submitted in 2021), this requirements will not be deemed to be breached.

These amendments will enter into force on the date of publication to be applied to annual income and corporate tax returns that must be submitted as of January 1, 2022.

2. Amendments to be made in terms of Corporate Tax Law

a. Abolishing of last period advance tax returns (4th period)

In Article 32 of the Corporate Tax Law, there is a regulation stipulating that the corporate taxpayers will pay advance tax in accordance with the principles specified in the Income Tax Law and at the rate of the current period's corporate tax.

Within the scope of the amendment specified in section 1/d-(i) of our circular, the 4th period advance tax returns of corporate taxpayers are also removed.

This regulation will enter into force on the date of publication, to be implemented as of the declarations to be submitted for the year 2022.



b. Submission period of corporate tax returns

With the amendments made to Articles 60 and 61 of the Bill, and Article 14 of the Corporate Tax Law (Resident taxpayer declaration basis) and Article 25 (Taxation period and declaration for non-resident taxpayer), corporate tax returns are also brought forwards for one month. Accordingly, the aforementioned declarations will be submitted in the third month (in March instead of April for taxpayers using the normal accounting period) instead of the fourth month following the month in which the accounting period is closed.

Articles 59 and 60 will enter into force on the date of publication, to be implemented as of the declarations to be submitted for the year 2022 according to effective date article. Since no specific effective date has been determined for Article 61, it is concluded that it will enter into force on the date of publication. However, we are of the opinion that the determination of different effective dates for the changes made in the declaration dates of resident taxpayer and non-resident taxpayer institutions is sourcing from an error. We consider that the phrase stating article 59 and 60 in the effective article should be corrected as articles 60 and 61 during the Commission negotiations.

c. Payment term of Corporate tax

In Article 21 of the Corporate Tax Law, there is a provision that the corporate tax will be paid until the end of the month in which the tax return is submitted. Since the deadline for submitting corporate tax returns is set one month earlier, the payment period is automatically brought forward one month earlier (end of March for taxpayers using the normal accounting period).

d. Tax reduction in terms of tax-compliant taxpayers

Amendments mentioned in section 1/e of our Circular are applicable for corporate taxpayers.

e. Tax reduction application in terms of capital increase in cash

In subparagraph (i) of the first paragraph of Article 10 of the Corporate Tax Law, there are provisions regarding the discount application regarding cash capital increase. Accordingly, 50% of the amount calculated by taking into account the latest interest rate announced by the Central Bank of the Republic of Turkey for the year in which the discount is utilized over the cash capital increases of the capital companies can be deducted from the corporate income. However, institutions operating in the finance, banking and insurance sectors and state economic enterprises cannot benefit from this discount.

The above 50% ratio is applied incrementally, according to the free float ratio of companies whose shares are traded on the stock exchange within the scope of the Council of Ministers Decision issued in 2015, and in production and industrial facilities with investment incentive certificates and machinery and equipment investments belonging to these facilities.



With Article 59 of the Bill, it is foreseen that the above 50% rate will be applied as 75% for the portion of the cash capital increases covered by cash brought from abroad.

Pursuant to the effective article, this article will enter into force on the date of publication, to be implemented as of the declarations to be submitted for the year 2022. However, it would be beneficial if this practice, which was brought to our country in order to increase the inflow of foreign capital / foreign resources, enters into force as soon as possible. For this reason and within the scope of the reasons we have explained in section 2/b of our circular, we conclude that the effective date of this provision should be the date of publication.

f. Reduced rate corporate tax application

In the reduced corporate tax, which is included in Article 32/A of the Corporate Tax Law, taxpayers can use the investment contribution amounts they are entitled to due to the investments they have made within the scope of the investment incentive certificate, by applying a reduced corporate tax rate to their income from both the investment and other activities during the investment period.

With Article 62 of the Bill, it is possible to use 10% of the amount determined by applying the investment contribution rate to investment expenditure on the basis of investment incentive certificate, by deducting it from other accrued tax debts excluding SCT and VAT. In this context, a request must be made until the end of the 2nd month following the month in which the corporate tax return should be submitted.

The amount that can be claimed for cancellation cannot be more than half of the amount calculated after deducting the investment contribution amount used through the reduced corporate tax from the amount of entitled in terms of contribution investment.

It is accepted that the investment contribution amount corresponding to one-fold of this amount used by canceling other tax debts is waived. Corporate tax at a reduced rate cannot be applied to the tax base due to the amount of contribution to investment which are renounced.

The total amount that can be canceled from other tax liabilities cannot be more than 10% of the amount calculated by applying the investment contribution rate to the investment expenditures actually made within the scope of the relevant investment incentive certificate.

Such regulation will enter into force on the date of publication to apply in terms of investment expenditures to be made as of 1 January 2021.

Yours sincerely,
Kuzey YMM ve Bağımsız Denetim A.Ş.
Erkan Baykuş

Should you require any further information regarding this Circular please contact M. Fatih Köprü through telephone number of (212) 408 51 79.

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