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Circular

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Subject: Law numbered 7352, including postponement in inflation adjustment and exemption of corporate tax regarding foreign exchange indexed deposit account income, has been published.

Summary: *Our explanations regarding the amendments made in the Corporate Tax Law and Tax Procedure Law with the Law No. 7352 published in the Official Gazette dated 29 January 2021 are called to your attention below:*

In accordance with article 1 of above Law, financial statements shall not be subject to inflation adjustment regardless of whether requirements for inflation adjustment have occurred or not in 2021 and 2022 accounting periods including advance tax periods (as of accounting periods ending in 2022 and 2023 for those assigned a special accounting period) and advance tax period of 2023 accounting period. On the other hand, financial statements dated 31/12/2023 shall be subject to inflation adjustment regardless whether requirements for inflation adjustment have occurred or not.

In accordance with article 2 of above Law, the following income shall be exempted from income/corporate tax in case foreign currency included on balance sheet, dated 31/12/2021, of companies and income tax taxpayers, keeping books on balance sheet basis, are translated into Turkish Lira until February 17, 2022 and such Turkish Lira assets are utilized under Turkish Lira deposit and participation accounts for at least 3 months:

a. Portion of foreign exchange gains, arising from year-end valuation of such foreign currencies, which are corresponding to period between 01/10/2021 and 31/12/2021,

b. Foreign exchange gain which shall emerge between the translation date of such foreign currencies to Turkish Lira until February 17, 2022 and interest and dividends and other income including year-end valuation of Turkish Lira deposit and participation accounts which shall be earned at the end of maturity.

Article 2 of above Law also covers regulations regarding exemption implementation in scope of foreign currency and gold accounts translated into Turkish Lira until the end of 2022 after February 17, 2022.

In case any loss arises from the valuation of foreign currency or gold accounts translated into Turkish Lira deposit and participation account based on translation rates/prices, such loss can be taken into account as expense for the determination of company income.

These provisions have entered into force as of the publication date of the Law (January 29, 2022).

The "Draft Bill of Law on Making Amendments on Tax Procedure Law and the Corporate Tax Law" presented to the Presidency of the Grand National Assembly of Turkey on January 13, 2022, was accepted at the meeting of the General Assembly of the Grand National Assembly of Turkey on January 20, 2022 and published in the Official Gazette dated January 29, 2022 with the law number 7352. Amendments made regarding the abovementioned Law are called to your attention below:

1. Postponement in terms of inflation adjustment

Pursuant to the repeating article 298 of the Tax Procedure Law, if the increase in the price index of income and corporate taxpayers who determine their income on the basis of the balance sheet is more than 100% in the last three accounting periods, including the current period, and more than 10% in the current accounting period, their respective financial statements should be subject to inflation adjustment.

As a matter of fact, considering the indexes announced at the beginning of 2022/January and the inflation rate for the last one year (December/2020-December/2021 D-PPI) is 79.89 percent and the inflation rate for the last three years (December/2018-December/2021 D-PPI)has been realized as 141.70 percent, it is seen that these two requirements have been met.

The Draft Communiqué issued by the TRA in order to determine the procedures and principles of the aforementioned adjustment processes has been published on its website. In the announcement, it was stated that the development of the Draft Communiqué and the preparation of it for publication are continuing.

However, the provisional article 33 was added to the Tax Procedure Law. with article 1 of the Law No. 7352. Accordingly, **financial statements shall not be subject to inflation adjustment** regardless of whether requirements for inflation adjustment have occurred or not in **2021 and 2022** accounting periods including advance tax periods (as of accounting periods ending in 2022 and 2023 for those assigned a special accounting period) and **advance tax period of 2023 accounting period**.

On the other hand, financial statements dated 31/12/2023 shall be subject to inflation adjustment regardless whether requirements for inflation adjustment have occurred or not. Profit/loss difference, arising from inflation adjustment made, shall be demonstrated under accumulated profit/loss account. Retained earnings determined accordingly shall not be subject to taxation and deemed as retained losses.

The above provisions are not applicable for taxpayers carrying out trading and manufacturing of gold and silver, exclusively processed continuously. Therefore, these taxpayers shall continue to make inflation adjustments as before, regardless of whether the requirements are met or not.

These provisions have entered into force as of the publication date of the Law (January 29, 2022).

2. Corporate tax exemption for exchange difference, interest and dividend income earned in scope of foreign exchanged indexed deposit account

As you may recall, with the Communiqué published in the Official Gazette dated January 11, 2022, amendments have been made to the "Communiqué on Supporting the Conversion of Turkish Lira Deposit and Participation Accounts", and Turkish resident legal entities were also included in the application, which was previously applicable only for Turkish resident individuals.

In this framework; the balances of foreign currency deposit accounts in US Dollars, Euros and British Pounds and participation fund accounts in foreign currency, existing on 20.12.2021 of Turkish resident individuals and of legal entities existing on 31.12.2021, will be converted into Turkish lira at the translation rate upon request of the account holder. A Turkish lira deposit or participation account will be opened by the bank with a maturity of 3 months, 6 months or 1 year for Turkish resident individuals and with a maturity of 6 months or 1 year for Turkish resident legal entities.

With regard to this issue, with article 2 of the Law No. 7352, the provisional article 14, the details of which are given below, has been added to the Corporate Tax Law.

a. Foreign currency translated to Turkish Lira until February 17, 2022

In accordance with article in question, the following income shall be exempted from corporate tax in case **foreign currency (US Dollar, EUR, British Pound) included on balance sheet, dated 31/12/2021**, of companies are translated into Turkish Lira until the submission date of 4th advance tax return **(February 17,2022)** and such amounts are utilized under Turkish Lira deposit and participation account for at least 3 months:

a. Portion of foreign exchange gains, arising from year-end valuation of such foreign currencies, which are corresponding to period between 01/10/2021 and 31/12/2021,

b. Foreign exchange gain which shall emerge between the translation date of such foreign currencies to Turkish Lira until the submission date of 4th advance tax return of 2021 (February 17, 2022) and interest and dividends and other income including year-end valuation of Turkish Lira deposit and participation accounts which shall be earned at the end of maturity.

b. Foreign currency translated into Turkish Lira after February 17, 2022 in 2022

As we mentioned above, the most significant advantage regarding the foreign currency sold until February 17 is the exemption of the income arising from the exchange rate valuation between October 1 and December 31, 2021. Such exemption does not apply to those who exchanged their foreign currency in the balance sheet as of 31 December 2021 after 17 February 2022.

If the foreign currency in the balance sheet as of 31 December 2021 is converted into Turkish lira at the conversion rate until the end of 2022 (after 17 February 2022) and such amounts are utilized in Turkish lira deposit and participation accounts with a maturity of at least three months, the foreign exchange gains will be calculated in the provisional tax period. The portion that falls between the end of valuation and the date it is converted into Turkish lira will be considered as exempt from corporate tax. On the other hand, interest and dividends earned at the end of maturity, including income from period-end valuation and other incomes may also benefit from such exemption.

c. Gold accounts translated into Turkish Lira

Gold accounts in the balance sheets dated 31 December 2021 and gold accounts of processed and scrap gold to be opened after this date are also included.

If these account balances are converted into Turkish lira at the conversion price by the end of 2022 and then used in Turkish lira deposit and participation accounts with a maturity of at least three months, the income obtained will also be considered as an exemption. Income and earnings to be exempted consist of the earnings on the date the said assets are translated into TL, and the interest and dividends obtained at the end of maturity. Those arising from the period-end valuation are also considered within the scope of such exemption.

d. Loss arising due to valuation of foreign currencies or gold accounts during conversion

During the discussions made at the General Assembly of the Parliament, a paragraph stating that provision of paragraph 3* of article 5 of Corporate Tax Law shall not be applied limited to such exemption regarding foreign currencies and gold accounts translated into Turkish Lira deposit and participation account based on conversion rate price has been added through a proposal.

With this regulation, corporate taxpayers who will convert their foreign currencies and gold accounts into Turkish Lira in order to support financial stability are prevented from being adversely affected by foreign exchange losses that may occur during the conversion and in case of a loss due to the valuation of foreign currencies or gold accounts during the conversion of both foreign currencies and gold accounts into Turkish Lira, such loss can be taken into account in the determination of income of the company.

* *"Excluding the financial expenses related to the purchase of subsidiary shares, it is not accepted to deduct the expenses related to the profits of the corporations exempt from corporate tax or the losses arising from the activities within the scope of the exemption from the non-exempt corporate income."*

e. Withdrawing from Turkish Lira accounts opened in scope of the Law before maturity

In case of withdrawal from the Turkish lira deposit or participation account before the maturity date, the taxes that are not accrued on time due to the exempted amounts will be collected from the taxpayers together with the default interest by deducting the tax loss penalty.

The tax penalty is applied as one-fold of the tax amount not accrued on time, and the default interest is applied as 1.60 percent per month.

f. Taxpayers keeping books according to balance sheet basis

During the negotiations held in the Plan and Budget Commission, the regulation regarding the application of the above exemption provisions to the earnings of income taxpayers who keep books on the basis of the balance sheet, being valid under the same conditions, has been added to the Bill of Law and enacted in the above manner.

These provisions have entered into force as of the publication date of the Law (January 29, 2022).

Best Regards,

Kuzey YMM ve Bağımsız Denetim A.Ş.

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.