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Turkey introduces bill that postpones inflation accounting and announces new corporate income tax exemptions on gains in case of conversions into Turkish Lira

On 17 January 2022, new draft legislation (the Bill) was accepted by the Turkish Parliament's Planning and Budget Commission and presented to the Turkish Parliament. The Bill proposes the postponement of inflation accounting until 31 December 2023. This Bill proposes to add a temporary article 33 to the Tax Procedure Code and under this article, even if all necessary conditions are met for inflation accounting in 2021, 2022 fiscal periods (including quarterly tax periods) and 2023 quarterly periods, inflation accounting will not be applicable.

Also, irrespective of whether conditions are met, balance sheets of 31 December 2023 will be subject to inflation adjustments. However, these adjustments will have no effect on the tax calculations of 2023.

The Bill further proposes a corporation income tax exemption on the gains occurred in relation to the foreign currency accounts of the companies which are converted to Turkish Lira (TRY) time deposit accounts. Under this proposal, the following income would be exempt from corporate tax:

- If taxpayer companies convert their foreign currencies, which are available on the balance sheet of 31 December 2021, into a TRY time deposit or participation account with at least three months maturity until the submission date of the Q4/2021 advance corporate tax return (i.e., 17 February 2022):
 - F/X gains in relation to the period 1 October 2021 through 31 December 2021
 - F/X gains generated in relation to conversion of such foreign currencies
 - Interest, profit shares and other earnings
- If taxpayer companies convert their foreign currencies which are available on the balance sheet of 31 December 2021 into a TRY time deposit or participation

account with at least three months maturity, anytime within the quarterly tax periods of 2022:

- F/X gains corresponding to the period between the last day of the relevant quarterly tax period and the date on which foreign currencies are converted into a TRY account
- Interest, profit shares and other earnings

The Bill will enter into force and be in effect once all the legislative procedures are completed.

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