

A brand-new tax planning instrument for “Liraization”

In corporate tax systematic, income, obtained by a resident entity from an affiliate, is exempted from taxation in order to prevent double taxation. Therefore, in line with general principle, income from entities whose income is exempted from corporate tax are not covered by “affiliate income” exemption. Such exemption regarding the principle in question was breached in previous years through “resident venture capital mutual fund participation shares and dividends obtained from shares of venture capital investment partnerships”.

Mutual funds have also been covered in the framework of liraization policy. The exemptions below are granted to corporate taxpayers according to article 22 of Law numbered 7394, entered into force on 15.4.2022.

Return of fund certificate to the fund and exemption regarding valuation income

Regulation regarding the exemption of resident venture capital mutual fund participation shares and dividends obtained from shares of venture capital investment partnerships from corporate tax is stipulated under subclause (3) of subparagraph (3) of paragraph 1 of article 5 of Corporate Tax Law. Regulation regarding dividends obtained from other resident mutual fund participation shares (excluding income from mutual funds with assets in foreign currency and gold and other precious metals and capital market instruments based on them) is stipulated under subclause (4) of aforementioned article of the Law.

Income arising from returning of mutual fund’s participation shares, mentioned in above subclauses of Law numbered 7394, is covered by corporate tax exemption.

In addition, gains from appreciation, arising from valuation of such mutual fund certificates based on stock exchange price (fair value) according to article 279 of Tax Procedure Law, are also exempted from tax.

Exemption in terms of income from sales of fund participation shares, held more than two years

75% of income, arising from sales other resident mutual fund participation shares, held more than two years, except for resident venture capital mutual fund participation shares and mutual funds including foreign currency assets and gold and other precious metals and capital market instruments based on them in their portfolio, is covered by the exemption in question according to another amendment made through Law numbered 7394.

It is obligatory according to new regulation that exemption regarding income should be applied within the period in which the sales is made and portion of sales income benefitting from such exemption should be kept under a special fund account under liabilities of balance sheet of the respective entity until the end of fifth year following the year in which

the sales is made. In addition, it is required to collect sale price until the end of second year following the sales period at the latest and income subject to exemption should not be transferred to another account except for capital addition or withdrawn from the entity for five years. However, we would like to remind you that income arising from sales of fund shares held by taxpayers, carrying out security trade, with this purpose, are not covered by the exemption in question.

As a consequence, this permanent incentive introduced for liraization can be transformed to a good tax planning instrument through the establishment of closed-end mutual funds by entities. Yet, decrease in tax income due to such establishment can be compensated by the deepening to be generated in capital markets.

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