

## Circular

7 March 2023

Circular No: 39

### **Subject: Tax regulations on commodities and depreciable economic assets that are lost or damaged due to earthquakes.**

The issues to be considered in terms of tax practices regarding commodities and fixed assets that were lost or damaged due to earthquakes in Kahramanmaraş and our assessments on these issues are called to your attention below:

- Considering the force majeure resulting from the earthquake disaster, it is considered that within the scope of Articles 278 and 267 of the Tax Procedure Law, the arm's length value of the goods whose value has decreased as a result of the earthquake should be determined on the basis of discretion (through the Appraisal Commission).

Pursuant to the provision of the relevant regulation that the values determined ex officio by the town authorities will replace the arm's length value, it is possible to use the values determined ex officio by the town authorities in the determination of the arm's length value.

The amount between the cost of the commodity damaged in the earthquake and the arm's length value determined by the appraisal commission or the court may be considered as an expense in determining the corporate income for the accounting period in which the appraisal commission/court decision is notified to the taxpayer.

In case compensation is received from the insurance company until the date when the arm's length value of the commodity is appraised by the valuation commission, the amount to be found as a result of the comparison of the compensation received from the insurance and the cost value of the commodity damaged due to the earthquake is shown in the profit and loss account, if compensation is received from the insurance company after the date the arm's length value of the commodity is appraised by the valuation commission the amount received should be reflected in the records as revenue.

- Within the scope of Article 317 of the Tax Procedure Law, it is possible to allocate extraordinary economic and technical depreciation for depreciable economic assets damaged as a result of the earthquake, by applying to the Ministry of Treasury and Finance (Turkish Revenue Administration), and this amount can be taken into account as an expense in determining the income.

If compensation is received from the insurance company before allocating extraordinary economic and technical depreciation for the economic assets subject to depreciation, the amount to be found as a result of comparing the indemnity received from the insurance and the net book values of the depreciable economic assets damaged due to the earthquake should be shown in the profit and loss account and if a compensation is received from the insurance company after allocating extraordinary

economic and technical depreciation, the amount received should be reflected in the records as revenue.

- Within the scope of Article 30/c of the VAT Law, there is no need to make any corrections regarding the deduction of VAT on purchases from the deduction accounts for commodities and depreciable economic assets that are lost or devalued due to earthquakes.

*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.*

Best Regards,

KUZEY YMM VE BAĞIMSIZ DENETİM A.Ş.