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Bad news for exporters in terms of Inward Processing Regime

Presentation of Turkish Revenue Administration made to Presidency regarding legislation regulations is on the agenda of customs world as well as tax world. The presentation includes several tax regulations which are planned to be made in order to reach targets of Medium-Term Program (MTP) prepared for 2024-2026 period.

The presentation in question also included legislation regulations concerning foreign trade closely. Value Added Tax (VAT) regulation towards inward processing regime (IPR), which shall be detailed in this article, is one of these regulations.

What is Inward Processing Regime (IPR)?

Import taxes of input or raw material imported to make export are calculated in this regime (including VAT), however, such taxes are not collected but bound to guarantee. Guarantees are released following the exportation is performed. In a sense, under the export condition, the right to import the raw materials required for the production of products to be exported from abroad without paying import tax is gained. In this regime, it is also possible to make transactions by paying taxes, but this method is not preferred in the current economic conditions. It is estimated that we realize approximately 50% of our exports with this regime.

What is introduced by the regulation?

The regulation is included in the Medium-Term Program that certain amendments will be made towards the Inward Processing Regime. The most concrete step towards this regime is included in the presentation made by the Turkish Revenue Administration. According to the suggestion; VAT, which is among the import taxes, will be calculated from the input or raw material imported for export and will be collected rather than bounded to a guarantee. Thus, IPR will be used in imports, limited to import taxes other than VAT.

Two reasons are given here: The first reason is that while the identical input is purchased domestically with VAT, it is demonstrated that not charging VAT on imported inputs, thanks to this regime, negatively affects domestic producers (Imports are VAT-free, domestic purchases are VAT included). The other justification points out that the transactions within the scope of this regime increase the current account deficit and that the weight of this regime corresponds to 14% of total imports and 43% of total exports.

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