

ITS in the News



Turkish Government Slashes Corporate Tax Rates

by Mustafa Camlica, Ernst & Young, Istanbul

The long-awaited reduction of the Turkish corporate tax rate is finally a reality. Prime Minister Tayyip Erdogan announced on November 29 that the corporate tax rate will be reduced from 30 percent to 20 percent effective January 1, 2006.

The reduced corporate tax rate will be applicable for corporate income generated from January 1, 2006. The temporary tax that corporate taxpayers pay on a quarterly basis will also be cut from 30 percent to 20 percent.

Erdogan said the motive behind the reduction in the corporate tax rate is to increase Turkey's competitiveness with current and future EU member states that attract foreign direct investment, as well as to improve the investment environment in Turkey and widen the corporate tax base.

The reduction in the tax rates is not limited to corporate tax rates, but also is effective for income tax rates. Accordingly, as of January 1, 2006, the marginal top tax rate of 40 percent will be reduced to 35 percent, the number of income tax brackets will

be reduced from five to four, and tax rates will be applied at 15 percent, 20 percent, 27 percent, and 35 percent on a gradual basis.

Another important issue is the abrogation of the investment allowance application. Currently taxpayers allot 40 percent of the value of the new fixed assets they have purchased to be used during their commercial activities from their corporate tax base as an investment allowance.

The investment allowance application will not be in force as of January 1, 2006; however, as a grandfather clause, companies that wish to benefit from the investment allowance for the fixed assets they have acquired may choose between two options. The company may benefit from the investment allowance for the fixed assets that they have not been able to use as of January 1, 2006, but will be subject to 30 percent tax on corporate income until the investment allowance expires. Alternatively the company would not use the investment allowance but would benefit from the reduced corporate tax rate of 20 percent.

Apart from the amendments to corporate and income tax laws, future changes to the Turkish tax system include new transfer pricing rules, debt-to-equity ratios for thin capitalization rules, fiscal unity for filing consolidated corporate tax returns, and controlled foreign corporation regulations.

For additional information regarding this *ITS in the News*, please contact the following advisor:

Ernst & Young, Istanbul

Mustafa Camlica

+90 212 283 0001

Mustafa.Camlica@tr.ey.com

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