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Turkey enacts new tax law

Law No. 7394 was published in the Turkish *Official Gazette* on 15 April 2022. The Law was passed without changes from the proposed Bill. For background on the proposed Bill, see EY Global Tax Alert, *Turkey proposes new tax bill*, dated 20 March 2022.

The key provisions of the Law are:

Increased corporate income tax rate for financial institutions

The Turkish corporate income tax rate will be applied at 25%, instead of the standard rate of 20%, on the income of corporations in the financial sector such as banks, companies established under the Law No 6361, electronic payment institutions, asset management companies, and insurance companies. This provision entered into force on the date of its publication (15 April 2022) and is applicable to the tax returns that must be submitted as of 1 July 2022 and is also applicable on corporate income for the taxation period starting from 1 January 2022.

Corporation tax exemption for capital replenishment funds

Funds transferred to Turkish companies by shareholders to replenish diminished capital, will be excluded in the determination of corporate income. This provision entered into force on the publication date of the Law (15 April 2022).

Amendments to the several corporate income tax exemptions

- The corporate income tax exemption provided for real estate investment companies will not cover taxpayers who use the title of "Real Estate Investment Company" but do not have portfolio management related to real estate. The amendment entered into force on the date of its publication (15 April 2022), and is applicable to tax returns that must be submitted as of 1 July 2022 and is also applicable on the corporate earnings for the taxation period starting from 1 January 2022.
- According to Article 5/1-a of the Corporate Income Tax Law, dividends derived by corporations from the specified investment funds are exempt from corporate income tax. With the amendment in the Law, income, in addition to dividends, derived from returning participation shares to the fund and the earnings to be generated as a result of the year-end valuation of these participation shares will

be considered within the scope of this exemption. This provision entered into force on the publication date of the Law (15 April 2022).

Non-tax deductible advertising expenses

Advertising expenses of taxpayers who acquire advertising services from those who have been banned from providing advertising services under the so-called Social Media Law No. 5651, will be non-tax deductible in the determination of the income tax base. This provision entered into force on the publication date of the Law (15 April 2022).

VAT exemptions for certain construction works and engineering services

- The application of the Value Added Tax (VAT) exemption on the delivery of goods and performance of services in relation to the construction works performed under the investment incentive certificate for manufacturing industry and tourism sector, will be extended until 31 December 2025. This provision will enter into force on 1 May 2022.
- Engineering services provided to taxpayers who manufacture in Turkey electric motor vehicles that they developed as a result of their research and development activities in Turkey, within the scope of the investment incentive certificate, will be exempted from VAT until 31 December 2023. This provision entered into force on the publication date of the Law (15 April 2022).

Extended holding period for the VAT exemptions for real estate purchases by nonresidents

According to the VAT Code, the first delivery of residences or workplaces to nonresidents are exempt from VAT provided that the consideration is brought to Turkey in foreign currency. In cases where the conditions are not satisfied, the seller and the buyer are severally responsible to fulfil the VAT liability together with the tax penalties and delay interest. If the residence or workplace that has been purchased under the scope of this VAT exemption is disposed of within one year, the nonresident disposing the residence or workplace is responsible for payment of the unfulfilled VAT, for the reason that the conditions were not satisfied, prior to the disposal in the title deed registry. The Law increases this one-year disposal period to three years. This provision will enter into force on 1 May 2022.

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