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Turkey proposes new tax bill

On 25 March 2022, Turkish Parliament members submitted a new tax package (the Bill) to the Parliament.

The Bill addresses crucial topics including tax exemptions, tax rates and incentives, among others. The key provisions of the Bill are:

- Turkish corporate income tax rate is proposed to apply 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.

- Funds transferred to Turkish companies by shareholders to replenish the diminished capital, are proposed to be excluded in the determination of corporate income.

- The corporate income tax exemption provided for real estate investment companies is proposed not to cover taxpayers who use the title of "Real Estate Investment Company" but do not have portfolio management related to real estate.

- 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. Under the amendment proposed by the Bill, income, in addition to the 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 are also proposed to be considered within the scope of this exemption.

- 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. 5156, are proposed to be non-tax deductible in the determination of the income tax base.

- The application of 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, is proposed to be extended until 31 December 2025.

- 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 within the scope of this VAT exemption is to be disposed in 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 tittle deed registry. The Bill proposes to change the one-year disposal period to three years.

- The 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, are proposed to be exempted from VAT until 31 December 2023.

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