July 10, 2023
2023-1195

Turkiye proposes amendments in Turkish tax laws, including an increase in corporate income tax rates

- *On 5 July 2023, a new draft law was proposed to the Turkish Parliament for enactment.*
- *The draft law includes corporate tax increases, additional motor vehicles tax and certain reduced/canceled tax exemptions.*

A draft law presented to the Turkish Parliament for enactment proposes numerous amendments in the Turkish tax law. Included are proposals to:

- Increase the current 20% standard corporate income tax rate to 25%
- Increase to 30% the current 25% corporate income tax rate applied on the income of financial institutions (for banks, financial leasing, factoring and financing companies, electronic payment and money institutions, authorized foreign exchange institutions, asset management companies, capital market institutions, insurance and reinsurance companies and pension companies)
- Five-points reduction on the corporate income tax rate applied on income derived exclusively from exportation activities
- Eliminate the value added tax (VAT) exemption currently applicable to the sale and delivery of immovables held by a corporation for more than two years
- Eliminate the 50% capital gains tax exemption currently applicable to the sale of immovables held by a corporation for more than two years and acquired after the law's publication date
- Reduce to 25% the current 50% capital gains tax exemption applicable to the sale of immovables held by a corporation for more than two years if the corporation currently holds the immovables among its assets
- Abolish the current corporate income tax exemption applied to investment fund earnings (except venture capital funds)

Assuming the draft law is finalized, the provisions concerning the corporation tax rate will come into effect beginning with tax returns that must be submitted as of 1 October 2023. These rates will apply to the earnings of corporations for the year 2023 and subsequent tax periods. The provisions will apply to the earnings of corporations that are subject to a special accounting period, obtained during the special accounting period that begins in calendar year 2023 and subsequent tax periods.

Currently, according to the Corporation Tax Code, immovables can be made subject to tax-free partial demergers. The draft law proposes to remove immovables from the scope of tax-free demerger rules. It is anticipated that this amendment will take effect on 1 January 2024, allowing ongoing partial demerger transactions to be completed.

Collection of one-time additional motor vehicles tax that is equal to the amount of motor vehicles tax accrued in 2023 is proposed. This tax will be applied once to vehicles that are registered by the law's publication date, as well as to vehicles that are registered for the first time by 31 December 2023.

The draft law proposes to give the President authority to determine the rates of the Special Consumption Tax for certain goods. To prevent the fixed tax amounts for the goods listed in attachments of the Special Consumption Tax Law from being affected by inflation, fixed tax amounts will be automatically updated in January and July of each year. The update will be based on the rate of change in the domestic producer price index announced by the Turkish Statistical Institute in the last six months.

It is anticipated that draft law will be enacted after the discussions made in the Turkish Parliament and published after the approval of the President.

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Published by NTD's Tax Technical Knowledge Services group; Carolyn Wright, legal editor

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