

“Adjustment” for Inflation Adjustment is a must!

In line with 31.12.2023 inflation adjustment which is required to be made according to Tax Procedure Law, Public Oversight, Accounting and Auditing Standards Authority (POA) announced with its announcement dated 23.12.2023 that enterprises subject to independent audit or applying TAS/IFRS on a voluntary basis shall made inflation adjustment in the framework of BOBI FRS (Financial Reporting Standards for Large and Medium Size Enterprises). POA has assigned the decision regarding the application of inflation adjustment of finance sector entities to BRSA and SEDDK (Insurance and Private Pension Regulatory and Supervisory Agency) and the aforementioned institutions have decided that it is not required to make adjustment with respect to financial statements dated 31.12.2023. Capital Markets Board (CMB) has announced that entities listed in stock exchange shall be subject to inflation adjustment starting as of their annual financial reports of 31.12.2023 accounting period. In summary, entities which are in different sectors and subject to different legal regulations in Türkiye have faced with applying the identical regulation or not.

Is there only one inflation adjustment?

BRSA and SEDDK decisions aside, entities subject to regulation will have different financial statements adjusted in terms of tax and independent audit. While the adjustment within the scope of independent audit is made in accordance with the provisions of the "International Accounting Standard" ("IAS 29") and "TMS 29" published by the POA, in terms of tax application, it will be made in accordance with paragraph (A) of the 298th article of the TPL and the provisional article 33 of the TPL.

Does adjustment require an adjustment?

TAS and TPL application differences produce different profit/loss as a result of adjustment. The reason is that the domestic producer price index (D-PPI) is used in tax adjustment and the consumer price index (CPI) is used in TFRS. For example, while the PPI coefficient increase in the period January 2005-December 2023 was "25.38", the CPI coefficient increase in the same period was "16.24". The index to be used in inflation adjustment of financial statements should be the CPI index, the price index that best reflects purchasing power. Thus, the index difference between TFRS and TPL adjustment is eliminated. Otherwise, the coefficient difference will result in entities having different previous or current year profit/loss than TFRS and TPL adjustments. There are also problems other than the PPI - CPI index. For example, the application of non-real cost of financing (ROFM) is also different.

Which profit shall be distributed?

Another problem regarding inflation adjustment is regarding the distribution of profits by entities. CMB has decided as follows according to its Bulletin dated 07.03.2024 and numbered 2024/14:

1. Deducting the "indexed amounts of previous years' losses resulting from the adjustment" while calculating the distributable profit figure adjusted for inflation according to TAS/IFRS,

2. The comparison in the profit distribution table should be based on the "unadjusted period profit" and the "previous year losses amount" according to inflation in the 2023 legal books while determining the dividend for 2023,
3. Period losses arising in subsequent periods should not be subject to deduction without deducting previous years' losses arising from the first inflation adjustment and capital account adjustment differences, other than previous years' losses resulting from inflation adjustments and their indexed amounts, should not be used to deduct previous years' losses.

In the draft Communiqué issued by the Ministry of Commerce, the regulations regarding the financial statements to be taken as basis by the general assembly and management body of the entities regarding the inflation adjustment to be applied in the 2023 financial statements of commercial entities subject to inflation adjustment, other than public companies, are as follows:

4. Entities which will prepare their financial statements in accordance with the standards of the POA are required to take into account financial statements on which inflation adjustment is applied,
5. Entities which are not obliged to prepare their financial statements according to standards of POA, through taking into consideration financial statements applied inflation adjustment according to TPL and financial statements which are no subject to inflation adjustment;
 - i. To take into accounting "financial statements on which inflation adjustment is not made" in terms of their dividend payments, allocation of legal reserves, payment to dividend shareholders and dividend advance calculations and
 - ii. To take into account "financial statements on which inflation adjustment is made" in terms of determining dividend distribution from the values remaining after deducting losses from free legal reserves and other distributable resources, capital increase and decrease, merger, division, change of type, capital loss and insolvency,
6. In all entities, the dividend amount expected to be paid should not be more than the total resources subject to dividend payment in the financial statements with inflation adjustment applied in accordance with the provisions of the TPL.

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