

Important Client Alert

**NEW CABINET DECREE
ON TRANSFER PRICING**



CENTRUMCONSULTING
International Consulting and Transfer Pricing Services

NEW CABINET DECREE ON TRANSFER PRICING WITH SIGNIFICANT INFLUENCE ON INTERNATIONAL ENTERPRISES TOGETHER WITH MOST OF THE OTHER ENTITIES

Article 13 of Corporate Income Tax Law, regulating transfer pricing rules, was amended through the Law No. 6728 on the Improvement of the Investment Environment and in this scope additional authority was given to the Turkish Cabinet to determine transfer pricing procedures.

Turkish Revenue Administration (Turkish Tax Authority) prepared a Draft Cabinet Decree to allow the Turkish Cabinet to exercise this authority and to fulfil the commitments Turkey has made at the international level.

The Draft Cabinet Decree on Transfer Pricing, which will be published shortly, contains procedures on transfer pricing and automatic exchange of information with other countries within the framework of international agreements. Accordingly, in the Draft Cabinet Decree following procedures on transfer pricing are included;

- ◆ The scope of the related parties definition,
- ◆ Transactional profit methods (Transactional Net Margin Method and Profit Split Method),
- ◆ Implementation of roll-back mechanism for advance pricing agreements,
- ◆ Transfer pricing documentation requirements and
- ◆ Procedures for international automatic exchange of information.

The most important issue in the Draft Cabinet Decree on Transfer Pricing is the new transfer pricing documentation requirements. Thus, the expected transfer pricing documentation requirements are in brief as follows:

Master File

Operating in Turkey, companies that are members of multinational groups and whose turnover and total assets are over TRY 250 Million (as of today approx. 70,4 Million USD) will need to prepare master file in accordance with the standard introduced by the OECD. Master file will be

prepared for the first time for the financial year 2017 and will be submitted upon the request by Turkish Tax Authorities and tax auditors.

Local File (Annual Transfer Pricing Documentation)

Although there is no significant change from the point of local file requirements, certain amendments are introduced in terms of scope. This change is in line with the local file standard developed by the OECD Action 13. Draft Cabinet Decision does not envisage a change in the period of preparation of the annual documentation, and it must be prepared until the due date for annual corporate tax return.

Country-by-Country Reporting

Country-by-Country Reporting (CbCR) refers to a report that will be submitted to the Ministry of Finance for the first time by multinational companies. Based on the Cabinet Decree, this reporting requirement is brought for the ultimate parent company of Turkish multinational groups, which has a consolidated turnover of 2 Billion 37 Million TRY (equal to 750 Million Euro as of January 2015). Companies in this scope are required to file the first reporting until December 31, 2017 (within 12 months of the end of the accounting period for companies with special accounting periods). In addition, it will be obliged to carry out CbCR notifications for other companies which fall within the scope of CbCR but whose ultimate parent company is domiciled in another country. This notification will be made through an electronic form to be filled out via the website of Turkish Revenue Administration. The period of notification requirement in this regard is determined as 1 month from the date of release of the Cabinet Decree.

Take Away

The upcoming Council of Ministers Resolution will affect many companies very closely. For that reason, it is useful to initiate the necessary work on the transfer pricing documentation as especially CbCR and CbCR notification will be filed in 2017.



Besides, it will be helpful to closely follow the additional clarifications to be made by means of the "General Communique on Transfer Pricing No.3" to be published after the Cabinet Decree.

Please note that detailed disclosure of the matter will be included in "Centrum Consulting International Tax Bulletin", which we will prepare following the release of Cabinet Decree.

Please contact us for further information about the Draft Cabinet Decree on Transfer Pricing.



Burçin GÖZLÜKLÜ

Managing Partner, Sworn-in Financial Advisor
E-mail: burcin.gozluklu@centrumauditing.com
Phone: + 90 216 504 2066



Ramazan BİÇER

Partner, Consulting Services Leader
E-mail: ramazan.bicer@centrumauditing.com
Phone: + 90 216 504 2066

