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Law No. 7352 (The Law on Amending the Tax Procedure Law and the Corporate Income Tax Law)

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The amendments envisaged to be made in the tax legislation with the "Draft Law on Amending the Tax Procedure Law and the Corporate Income Tax Law" has been submitted to the Turkish Grand National Assembly on 13.01.2022. The regulations envisaged by the Bill of Law, which consists of a total of 4 articles, execution the enforcement and enforcement articles, were included in our International Tax Bulletin No. 1, dated 17.01.2022.

The above-mentioned Bill of Law has been published in the Official Gazette dated 29.01.2022 with the name of "The Law No. 7352 on Amendments to the Tax Procedure Law and the Corporate Income Tax Law".

The regulations in the said Law are presented below in detail for your information.

1. **Inflation Adjustment Application Is Postponed Until 31.12.2023**

According to the reiterated article 298 of the Tax Procedure Law, if the conditions for inflation adjustment are met, the financial statements must be adjusted for inflation in the accounting periods when the conditions are met.

Inflation adjustment was applied in 2003 and 2004, and no inflation adjustment has been made since the conditions have not been met till now, except for those within the scope of subparagraph (9) of paragraph A of the aforementioned article.

In addition, with the regulation made in the temporary article 31 of the Tax Procedure Law with the Law dated 03.06.2021 and numbered 7326, the income and corporate taxpayers who keep the books according to the balance sheet method have an opportunity for revaluation of their immovables and other depreciable economic assets with a 2% tax until 31.12.2021.

Again in 2021, with the changes made in the Tax Procedure Law with the Law No. 7338 dated 26.10.2021; In terms of depreciable economic assets, continuous revaluation without tax has been introduced.

With this regulation, based on the demands of taxpayers to postpone the application of inflation adjustment even if the conditions arise, due to the revaluation opportunities in question and the reason that inflation adjustment has not been implemented since 2004, inflation adjustment will not be made until the end of 2023.

In the current situation, inflation adjustment would be made in the 2021/IV provisional tax period, since the conditions determined in the repetitive article 298/A of the Tax Procedure Law (10% in the last year, 100% Domestic PPI increase in the last 3 years) were fulfilled in the 2021 accounting period.

In this regard, with the temporary article 33 added to the Tax Procedure Law, Financial statements dated 31.12.2023 will be subject to inflation adjustment regardless of whether the inflation adjustment conditions are met or not. The profit/loss difference arising from the adjustment made will be shown in the previous years' profit/loss account, the previous year's profit determined in this way will not be taxed, and the previous year's loss will not be considered as a loss.

2. Exemptions Added to the Corporate Income Tax Law

With the 2nd article of the said Law, the temporary article 14 is added to the Corporate Income Tax Law. According to said article:

- **In the case that institutions convert their foreign currencies in foreign currency deposit and participation accounts into Turkish Lira** until the date of filing the declaration for the 2021/IV provisional tax period (17/2/2022) and evaluate the Turkish Lira assets thus obtained in Turkish Lira deposit and participation accounts with a maturity of at least three months, the portion of the foreign exchange gains corresponding to the last three months in period-end valuation will be exempt from corporate tax (the portion corresponding to the period between 01.10.2021 - 31.12.2021). In addition, foreign currency gains on the date the foreign

currency assets are converted into Turkish Lira, as well as interest and profit shares at the end of maturity are exempt from corporate tax.

- In the case that the institutions convert the foreign currencies in their balance sheets dated 31.12.2021 into Turkish Lira at the conversion rate until the end of 2022, **within the scope of "supporting the conversion of foreign currencies", and convert them into Turkish Lira deposit and participation accounts** with a maturity of at least three months, the earnings from these accounts (including interest, dividend, support payments made by the Central Bank of the Republic of Turkey) will be exempt from corporate tax.

- In the case that the institutions convert the assets in their gold accounts and **the gold account balances in return for processed and scrap gold into Turkish lira at the conversion price** and evaluate the Turkish lira asset thus obtained within the minimum periods specified in the article, including the corporate income generated on the date the gold is converted into Turkish lira and those resulting from the period-end valuation, the interest and profit shares obtained from the accounts opened in this context at the end of maturity and other earnings will be exempt from corporate tax.

On the other hand, article 5/3 of the Corporate Tax Law shall not be applied, limited to this exception, regarding foreign currencies converted into Turkish lira deposit and participation accounts and gold accounts over the conversion rate/price within the stipulated time and manner. According to the aforementioned article, "Except for the financial expenses related to the purchase of subsidiary shares, the expenses related to the profits of the corporations exempted from corporate tax or the losses arising from the activities within the scope of the exemption are not accepted to be deducted from the non-exempt corporate income."

Accordingly, due to the decrease in exchange rates compared to the exchange rate on the date of purchase, taxpayers who have foreign exchange losses during the valuation in the 2021/IV temporary tax period and/or during conversion to TRY within the framework of currency protected deposit arrangements will be able to deduct such losses from their corporate tax. For these, no legally accepted expense (KKEG) treatment will be made based on article 5/3 of Corporate Income Tax Law.

The above-mentioned exception arrangements will also be applied to the earnings of income taxpayers who keep books on the balance sheet basis, with the same conditions being valid.

In case of withdrawal from the Turkish lira deposit or participation account before the maturity date, the taxes that are not accrued on time due to the exempted amounts will be collected together with the default interest and tax loss penalty. It is understood that even if the account is partially broken, the opportunity provided for the entire account will be lost and a penalty will be imposed on the total price.

Law No. 7352 has entered into force as of 29.01.2022 when it was published in the Official Gazette.

You can find the original version of the law published in the Official Gazette here.

Kind Regards,

Please contact us for the further details on our international tax bulletin