

New tax law into force in 2018

A new tax law has been published in the Official Gazette in Turkey on 5 December 2017 with important changes in tax legislation. The Government had proposed a law amending different laws from taxation to crowdfunding, communication, mining, personnel data protection, industry zones, central bank, agricultural properties and many others and it has been accepted by the General Assembly in Parliament as well as the President.

The law of the amendment of various tax laws is made of 124 Articles including executive and enforcement articles, and 38 of these articles are related to tax regulations and some of them have very important taxation effects on taxpayers. Draft Law has had important changes in the Budget Commission and in the General Assembly. 21 articles were omitted and 18 articles were added to the draft.

The effective date of most of the changes will be 1 January 2018. Some have different effective dates, please make sure to follow those varied dates.

Please find below summary explanations regarding the amendments in the Commission and General Assembly which will be made on tax legislations regarding the different tax laws.

1- Regulations on the Corporate Income Tax Law

- Corporate income tax rate was proposed to increase to 22% for banks, leasing companies, factoring companies, financing companies, payment and electronic money institutions, authorised foreign exchange institutions, asset management companies, capital market institutions, insurance and reinsurance companies and pension companies on the first Draft submitted to the Parliament.
 - *It was proposed in the Commission that the corporate tax rate would be applied as 22% for all corporate tax payers, but just for 2018-2019 and 2020. This proposal has been accepted and for the coming 3 years' corporate tax rate will be 2% higher*
 - *For the firms having special accounting period, this rate will be applied for the periods starting in 2018, 2019, 2020*
 - *Turkey decreased corporate tax rate to 20% in 2006. The general trend in corporate taxation in the last decade around the world is mostly decreasing*
 - *We will see if these rates will be permanent or provisional in the near future*
- The exemption applied to the gains of the corporates derived from the sales of the immovable properties included in their assets for 2 years is reduced from 75% to 50%.
 - *According to the Tax Expenditure Report of the MoF, the exemption for the sales of immovable properties is the biggest figure in public budget (go to www.gep.gov.tr)*
 - *This change is effective from 5 December 2017*



- Corporate income tax exemption granted to earnings derived from the assignment of the immovable and participation shares of those owing money to the banks and their guarantors in return for these debts, and granted to the earnings of the banks derived from the sell-out of these assets is extended to include financial leasing and financing companies; 75% exemption rate included in the current law is amended as 50% for immovable properties and kept 75% exemption rate for participation shares.
 - *This change is effective from 1 January 2018.*
 - *With those 2 amendments for the sale of immovable properties' exemption, "sale and lease back and sukuk" options might be more advantageous as they offer 100% exemption rates in the Corporate Income Tax Law*
- In investments with incentive certificates, the use of the investment contribution rates and the corporate income tax incentive rate valid for the year 2017 expenditures are also amended for the use in investment expenditures of the year 2018.

2- Regulations on VAT Law

- It is amended to allow the declaration and payment by the service providers of the value added tax related to the services provided in electronic environment to real persons who are not subject to value added tax by those who do not have a residence, workplace, registered office and business center in Turkey.
 - *E-commerce activities have been scrutinised by the Turkish Revenue Administration recently. This helps operational costs reduced by taxpayers. The MoF will issue a Communique on this matter*
 - *This change is effective from 1 January 2018*
- It is amended to ensure exemption from the value added tax of the roaming services received from abroad within the framework of international roaming agreements, and of the services of reflection, to the customers in Turkey.
- It is amended to ensure exemption from the value added tax of the assignment and delivery of the immovable properties and participation shares of those who owe money to financial leasing and financing companies and of their guarantors in return for these debts. With the new law, the exception granted for the assignment and delivery to the banks is also introduced for assignments and deliveries made to leasing companies and financing companies.
- It is also amended to ensure application of refunding value-added tax, which is charged due to the construction expenditures made in 2017 because of the manufacturing industrial investments, for the year 2018.
 - *This was first applied in 2017 for manufacturing incentive certificate holders, keep the application for 2018 as well*
 - *This change is effective from 5 December 2017*



- It is amended to ensure VAT Exemption in procurement of goods and services for the Project of the Ministry of National Education titled Movement to Increase Opportunities and Technology in Education (FATIH).

3- Regulations on Income Tax Law

- It was proposed to increase the 27% portion to 30% in the income tax tariff. It has been omitted in the Commission so it has not been effective.
 - *Although the favorable brackets for wages' income taxation was going to be kept, 3% increase were going to have fiscal burden on the middle income (2.400TRY more tax for a white-collar for the first annual 110.000TRY)*
- In the case of selection of lump sum method in the taxation of the rental incomes, it is amended to reduce the considered lump sum expense rate from 25% to 15%.
 - *Real estate capital revenues such as lease are calculated either lump-sum or expenditure method. This 40% reduction on lump-sum would affect the landlords whose total numbers 1million in Turkey*
 - *This change is effective from 5 December 2017 but it covers rental incomes starting from the beginning of 2017*
 - *It seems that this amendment will have effects to the rental earnings that has already gained and it might be criticised in this respect*
- It was proposed to amend how to calculate the profit distribution withholding tax over the distributable profits of the full taxpayer corporations, but this has been removed in the Commission phase.
 - *The rate was thought to be around 1% but Cabinet is going to have the right to increase to 25% in theory*
 - *This amendment has not approved*
- Amendments have been made to prevent the situation which occurs due to the fact that the incomes of those with minimum wage are passed to the second bracket of the income tax tariff in the last month of the year.
 - *With the amendment, the minimum wages should be same by the January 2017, the difference should be considered as "Minimum Reduction for Wages"*
 - *This change is effective from 5 December 2017, but valid through 1 September 2017*
 - *The MoF has prepared a Communiqué on this issue and procedure of this amendment (nr.299/Income Tax Law Communiqué)*

4- Regulations on the Tax Procedure Law

- It is amended that the settlement addresses of taxpayers registered in the Central Civil Registration System (MERNIS) shall be added to the known addresses, and if the taxpayer cannot be found at the address of his/her work place, to go to his/her settlement address registered in MERNIS shall be a principle.



- Authorities of the Ministry of Finance on taxation of electronic commerce are amended.

5- Regulations on the Stamp Tax Law

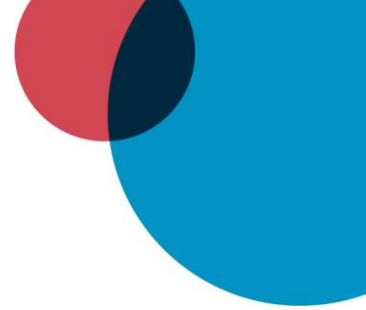
- It shall be possible to use the authority of the Council of Ministers on the increase or decrease of the stamp tax rates and amounts, jointly or separately, according to the paper types.
- Amendment is made for exemption from the stamp tax of the documents issued by the special purpose entities, which are established to provide funds in return for marketable securities exported abroad for the financing of the public-private partnership projects, in order to extend these funds to the project contractor companies, and of the documents issued due to the transactions for securing them and re-payment.
 - *Turkey has been using PPP for big hospital projects recently. The capacity would increase 50.000 beds with those projects*

6- Regulations on the Special Consumption Tax Law

- It is amended to introduce restriction on Exception in Vehicle Acquisition of the Handicapped within the scope of Exemption.
 - *Special consumption tax is free for handicapped but with a threshold amount for the vehicle (200.000TRY, including taxes)*
- It is amended to include the macarons and soda pops into the scope of the special consumption tax.
- Authorities granted to the Council of Ministers determine the rate, the minimum lump-sum tax amount and the lump-sum tax amount for cigarettes and other tobacco products are amended to include macarons.

7- Regulations on Expenditure Taxes Law, Motor Vehicles Tax, Special Consumption Tax, Inheritance and Transfer Tax and other Tax Laws

- Special communication tax rates which are currently 5%, 15% and 25% for various services are amended to become 7.5% for all services.
 - *GSM operators and end users would be affected highly. Different modes of the communication services have made the Government to even-out the tax rates*
- Regardless of where the transaction is made, monies rendered favorable as a result of forward transaction and option contracts are exempted from the bank and insurance transactions tax.
- The fee for APA (Advance Price Agreement) is proposed to eliminate which is around Euro12k for application and renewal.



- Real estate tax increase should not be more than 50% than previous assessment period taxes.
- It is amended to increase the inheritance and transfer tax from 10% to 20% for the lottery prizes won in contests and draws organised with lottery games.
 - *Chances are high for the Tax Office to get more tax on lottery. It means 100% increase for taxpayers*
- With the amendment made in the Motor Vehicles Tax (MVT) Law, the tax value of the vehicle is added to the existing taxation criteria and the tax amount to be paid is differentiated according to the value of the vehicle. It is amended to make increase in the tax rates of various vehicles. Considering the possible effects of this change the Commission have worked on this offer and made changes on this.
 - *According to the current regulation, automobiles are subject to Motor Vehicle Tax on 9 brackets between less than 1300cc and more than 4001cc and tax is decreased depending on the age of the vehicle. New proposal adds the “value of the automobile” on the tax schedule*
- Article 22/A of the Law No. 6183, which governs transactions that cannot be done without the payment of public receivables, has been amended.
- It is amended to ensure that the domestic banks, which will be intermediary for the payment of the public receivables by the taxpayers abroad with the bank cards and similar cards of the foreign banks, can receive fee for the expenses they incur.
 - *Turkey is ranked one of the first countries for the firms to pay tax by credit card and other financial transactions*
- Durations regarding Objection to Precautionary Attachment, Objection to Payment Order, Payment with Collateralised Receivables and Property Declaration are amended in the Public Receivables Law.
 - *All those dues used to be 7 days, now they should be 15 days*
- “Tax exemptions” in Customs Law was changed as “0” % tax rate so the Cabinet are allowed to increase them to 50% and define the rate from 0-50%.

Please do not hesitate to contact us, if you need additional information related to above mentioned issues.