Executive summary

On 27 September 2017, the Turkish Minister of Finance announced various measures to increase tax revenues. The changes affect a variety of taxes, including corporation tax, income tax, special consumption tax, motor vehicles tax as well as other general tax rules, such as the application of a certain corporation tax exemption rate for share/immovable sales under certain conditions.

The changes announced by the Minister of Finance have been sent to the Turkish Parliament as a draft bill for the approval process.

The changes are expected to enter into force by 2018. Although there may be certain modifications during the legislative process, the changes summarized below should be considered an indicator of a general prospective tax increase.

The announcement did not include the expected increase in revenue expected from the proposed changes. The Central Bank is working to curb inflation, which is expected to end the year at approximately 9.5%, and support the lira currency, which has lost its value significantly against the US dollar during 2017.
Detailed discussion

The key changes include:

▷ An increase in corporation tax rate from 20% to 22% is proposed for companies operating in the finance industry. Banks, financial leasing companies, factoring companies, financing companies, paying and electronic cash entities, authorized foreign exchange entities, asset management companies, capital market entities, insurance and reinsurance companies and pension companies are stated as entities operating in finance sector. The increased rate will be applied to taxes calculated on tax returns submitted beginning 1 January 2018.

▷ Withholding tax at the rate of 1% is proposed on undistributed profits of corporations. Currently companies apply withholding tax at the rate of 15% when they distribute dividends to certain taxpayers (individuals, nonresidents etc.). This will be a significant change in the Turkish tax legislation that has never been introduced/applied before except for the branch remittance tax application. The withholding tax will apply if the profits are not added to the capital or distributed within the two months of the corporation tax return submission date. Detailed explanations on the application are expected.

▷ The current 75% exemption rate applied over the capital gains derived by corporate taxpayers from the sale of immovable property held for at least two years is planned to be reduced to 50%. The reduced rate will be applied as of the date of publication of the regulation. There might be challenges on the application date regarding the immovable property already held on the date of publication of the regulation.

▷ Banking and insurance transaction tax (BITT) exemption on derivate transactions made by banks is proposed. The exemption will be in force from the beginning of the next month following publication of the law.

▷ A stamp tax exemption on the agreements made by the special purposes vehicles incorporated to finance public-private sector cooperation projects is proposed.

▷ Currently, persons deriving rental income may benefit from a lump sum expense at a rate of 25%. Under the new regulation, the rate will be reduced to 15%.

▷ A value added tax registration obligation will be introduced for nonresidents who provide on-line services to end Turkish customer users via electronic media. Detailed explanations on the application are expected.

▷ The duty fee of TL57,000 which is paid on the contracts related to determination of transfer pricing methods (Advance Pricing Agreements) is planned to be eliminated.

▷ Financial leasing and financing companies will be allowed to make special provisions and deduct these provision amounts from their corporation tax bases. This regulation will be in force as of 1 January 2018.

▷ The 27% income tax rate applicable to the third income tax bracket is planned to be increased to 30%. If this change enters in force, income tax brackets will be 15%-20%-30%-35%.

▷ The application of the motor vehicles tax is planned to be amended. Currently the amount of motor vehicles tax for land transportation vehicles is determined according to factors such as their weight, age, cylinder capacity, and fuel usage. With the prospective changes, the sales value of the automobile also will be a factor in the calculation of motor vehicles tax. Additionally, the rate of motor vehicles tax will be increased by 40%.

▷ The tax levied on gains from the lottery or other similar games will be increased from 10% to 20%.

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