

CIRCULAR
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SUBJECT:
BENCHMARK ANALYSIS REGARDING LOAN INTEREST RATES

Per Article 13 of the Corporate Tax Law (Law No. 5520) – Disguised Income Distribution via Transfer Pricing, *If entities purchase/sell goods or services from/to related parties at values or prices that are inconsistent with the arm’s length principle, the income is deemed to be distributed in a fully or partially disguised manner via transfer pricing. Purchase, sale, manufacturing, construction works, renting, **borrowing or lending money**, bonus, salary, and the transactions that necessitate similar payments are treated as the sale or purchase of goods or services.*

As can be seen, it is explicitly specified in the current transfer pricing legislation that, in case of intra-group loans, either extending loans to a subsidiary company or taking loans from the parent company, interest rates regarding a related-party loan must be determined according to the arm’s length principal.

The below risk factors should be taken into account while performing comparability analysis regarding lending/borrowing interest rates since independent credit corporations also consider the below points.

1. **Financial Risk:** The financial risk of the borrower party is determined according to the borrower party’s balance sheet and income statement.
2. **Collection Risk:** Collection risk is thought of as a weighted average type of loan, in terms of the maturity of the loan, and in terms of whether there exists a guarantor for the loan agreement.
3. **Country / Sector Risk:** The country from which the borrower party operates, and even the sector in which it operates, are factors that should be taken into account for comparability analysis.
4. **Structural Risks:** An evaluation of the borrower party by independent credit rating agencies (Moody’s, Standard & Poor’s and Fitch.) might be performed (especially for large loan amounts).

As a result of the explanations above, the criteria below should be taken into account for internal or external comparability analysis:

- The borrower party's credit rating
- The maturity of the loan (long-term, short-term)
- Type of the loan
- Amount of the loan
- Currency of the loan
- Guaranty situation of loans
- Country and sector risks

At this point, Mazars Denge Transfer Pricing Services has decided to add **Financial Benchmark Services (comparability analysis of loan interest rates)** to our benchmark services as a part of Transfer Pricing services.

As of 2015, with the access of the “**One Source**” company database of **Thomson Reuters** and the **DealScan-Loan Connector** database tool, we are able to provide financial benchmark services. With this enhancement, we are able to calculate the companies' credit rating, and we also have the capacity to conduct loan interest rate benchmark analysis for various types of loans.

You can always contact our **Transfer Pricing Department** about details on our benchmark tool, either for establishing an interest rate for your intra-group loans, or for past financial years' documentation for comparability analysis of intra-group interest rates.

Best regards,

**DENGE İSTANBUL YEMİNLİ
MALİ MÜŞAVİRLİK A.Ş.**

(*) Explanations provided in our circulars are for informative purposes only. We advise you to obtain the opinions and support of a consultant specialized in issues about which you have questions before taking action. Our consulting firm disclaims any and all losses that might be incurred as a result of transactions realized solely on the basis of the explanations provided in our circulars.

(**) You may send your opinions, criticisms and queries about our circulars to our specialists, whose contact details are provided below.

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