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INFLATION ADJUSTMENT

In the general sense, inflation adjustment is the adjustment of financial statements that cannot represent the real case due to changes in the purchasing power of money to make sure they represent the real case. The Tax Procedure Law defines it as *“calculating the amount of non-monetary assets to be considered in inflation adjustment by the adjustment coefficient, in terms of the purchasing power on the date of the financial statement”*.

Inflation adjustment was first performed in 2003 and 2004 pursuant to the Tax Procedure Law No. 5024 and the Law Amending the Income Tax Law and the Corporate Tax Law as well as provisional article 25 and duplicate article 298 added to the Tax Procedure Law. In the following years, no action has been taken regarding inflation adjustment due to the failure to meet the conditions listed in the law.

The duplicate article 298 of the Tax Procedure Law titled “Inflation adjustment and revaluation rate” stipulates the following:

- If the increase in the price index of income and corporate taxpayers, who determine their earnings on the basis of a balance sheet, is more than 100% in the last three accounting periods, including the current period, and more than 10% in the current accounting period, the financial statements shall be adjusted for inflation. In determining the aforementioned rates in the provisional tax periods, the previous thirty-six months including the last month of the quarterly periods instead of the last three accounting periods as well as the last twelve months instead of the current accounting period shall be considered.
- The taxpayers falling in this scope shall be obliged to issue the financial statements and make inflation adjustments as of the end of the provisional tax periods.
- In case of adjustment in any of the provisional tax periods within a given accounting period, adjustments shall also be made in the following provisional tax periods and at the end of the current accounting period.
- The President of the Republic shall be authorized to reduce the 100% rate specified in this article to 35% or to increase it to its legal level again and to increase the 10% rate to 25% or to reduce it to its legal level again.

When the D-PPI figures for November are taken into consideration, it is held that the conditions in the law regarding the application of inflation accounting have been fulfilled. We can say that this will definitely be the case if a negative D-PPI figure is not announced in December.

We would like to state that, pursuant to the law, the Ministry of Treasury and Finance is authorized to determine the types of financial statements - in terms of taxpayers or professional groups or taxpayers' total assets or turnovers - to be subject to or to be excluded from inflation adjustment and whether they will be adjusted in provisional tax periods.

We would like to note that if the article on inflation adjustment is not repealed or the implementation is not postponed through a provisional article, the Ministry of Treasury and Finance is expected to make an explanation and/or issue a communiqué regarding the application of inflation adjustment in the coming weeks.

Sincerely,

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

(*) The remarks in our circulars are for information purposes only. We recommend that the opinion and support of a qualified counsellor be received before establishing final transactions on the questionable matters. Our company shall not be held responsible for any damages to be incurred as a result of transactions to be made solely on the basis of the statements in our circular.

(**) For opinions, criticism and questions about our circulars, you can contact our specialists below.

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