

CIRCULAR NUMBER: 2022/016eng.

January 14, 2022

A DRAFT LAW PROPOSING POSTPONEMENT OF INFLATION ADJUSTMENT UNTIL THE END OF 2023 AND A CORPORATE TAX EXEMPTION ON FOREIGN EXCHANGE GAINS IN FX-TO-TL CONVERSIONS AND THE RELATED GAINS IS SUBMITTED.

The regulations set forth by the draft law on Amending Tax Procedure Law and the Corporate Tax Law, which was submitted to the Grand National Assembly of Turkey on January 13, 2022, are briefly provided below. We would like to emphasize that the said regulations are still part of a draft law and that there may be additions and amendments during the deliberations of the committee and the General Assembly of the Grand National Assembly of Turkey.

1. Deferral of Inflation Adjustment Until the End of 2023

Pursuant to the regulation in Article 1 of the draft law, financial statements will not be subject to inflation adjustment regardless of whether the conditions for inflation adjustment are present as per repeated Article 298 of the Tax Procedure Law for 2021 and 2022, including quarterly provisional tax declarations (also for the taxpayers who have special fiscal years ending in 2022 and 2023) and for the provisional tax periods of the 2023; financial statements dated December 31, 2023 will be subject to inflation adjustment regardless of whether the conditions for inflation adjustment are present; the profit or loss difference arising from the inflation adjustment to be made will be indicated in the prior years' profits or prior years' losses accounts; the profit or loss to be determined this way will have no effect on earnings subject to taxation for the 2023 accounting period.

2. Corporate Tax Exemption on Proceeds from Exchange Differences In FX-to-TL and Gold-to-TL Account Conversions and The Related Gains from These Accounts

The regulation in Article 2 of the draft law proposes that the following corporate tax exemptions be provided to corporations.

2.1. Corporate Tax Exemption on Foreign Exchange Gains Attributable to 2021 Q4 Due to the FX Valuation on December 31, 2021 regarding the FX Accounts on the Balance Sheet dated December 31, 2021 to be converted to Turkish Lira accounts until February 17, 2022, and on the Foreign Exchange Gains to arise Until the Date of Conversion in 2022, and the Proceeds from the Aforementioned Turkish Lira Accounts in 2022

Regarding the accounts converted into Turkish Lira over the conversion rate within the scope of supporting the conversion to deposit and participation accounts denominated in Turkish Lira, if institutions convert their foreign currencies in their balance sheets dated December 31, 2021 into Turkish Lira until the submission of the fourth provisional tax declaration (until February 17, 2022) and keep the Turkish Lira assets thus obtained **in TL-denominated deposit and participation accounts opened in this context with a maturity of at least three months**, it is proposed that their below-mentioned earnings be exempted from corporate tax.

a) The foreign exchange gains due to the year-end valuation of the said foreign currencies attributable to the period between October 1, 2021 and December 31, 2021, and

b) Further foreign exchange gains to occur on accounts that will be converted into Turkish Lira until the date of submission of the fourth provisional tax declaration of 2021 (until February 17, 2022), and the interest to be yielded at the maturity,.

2.2. Corporate Tax Exemption on Foreign Exchange Gains Between the End of the Provisional Tax Period and the Conversion Date and for the Proceeds from the Related TL-Denominated Accounts if the FX Accounts in the Balance Sheet dated December 31, 2021 are converted into TL until the end of 2022

The foreign exchange gains attributable to the period between the end of the provisional tax period and the date they are converted into Turkish Lira, if institutions convert their foreign currencies on their balance sheets dated December 31, 2021 into Turkish Lira at the conversion rate within the scope of supporting the conversion to TL-denominated deposit and participation accounts until the end of 2022 and keep **in TL-denominated deposit and participation accounts with a maturity of at least three months**, , and the interest to be yielded at maturity will be exempt from corporate tax.

2.3. Corporate Tax Exemption on Gains at the Conversion Date and Proceeds from the Related TL-Denominated Accounts if the Gold Accounts in the Balance Sheet dated December 31, 2021 are converted into TL accounts until the end of 2022

The foreign exchange gains due to the conversion of gold accounts on balance sheets dated December 31, 2021 and the gold account balances for processed and scrap gold to be opened after the foregoing date into Turkish Lira at the conversion rate within the scope of supporting the conversion to TL-denominated deposit and participation accounts until the end of 2022 and keep **in TL-denominated deposit and participation accounts with a maturity of at least three months**, , and the interest to be yielded at maturity, will be exempt from corporate tax.

2.4. In Case of Withdrawal from Accounts Converted to TL Before the Expiry of At Least Three Months, The Taxes Not Collected on Due Date will be Collected Together with the Tax Loss and Default Interest

If money is withdrawn from a TL-denominated deposit or participation account before the maturity date, the taxes not accrued on time due to the exempted amounts will be collected together with the default interest including tax loss penalty.

Sincerely,

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

APPENDIX

Bill on Amending the Tax Procedure Law and the Corporate Tax Law

(*) 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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