

## **DEVELOPMENTS IN TAXATION IN TURKIYE (TURKEY)**

**The Government of Türkiye (formerly Turkey) has introduced new tax regulations. These include the extension of currency-protected deposits and a tax on inflation profits. It has also been decided that the additional tax is constitutional. The Ecovis consultants explain the latest developments.**

### **Extension of currency-protected deposits**

As part of the policy to protect the value of the Turkish lira (TRY) in Türkiye, for the first time on 23/02/2022, with the Exception in the Fourth Paragraph of the Provisional Article 14 of the Corporate Tax Law, foreign currencies in the balance sheets dated 21/12/2021 and 31/12/2022 were converted into TL so regulation has been exempted interest, dividends, and exchange rate differences from income and corporate taxes by depositing them into Exchange Protected Deposit accounts.

The period has been extended to 31/12/2022 in the regulation regarding the exemption of interest, dividends, and exchange rate differences from income and corporate taxes if converted into TL and deposited into Exchange Protected Deposit accounts. Accordingly, corporate tax exemption will be valid for interest, dividends, exchange rate differences, and other earnings obtained within the scope of the evaluation of foreign currencies in corporate taxpayers' balance sheets as of 31/12/2022, within the scope of Currency Protected Deposit.

### **Inflation adjustment: Inflation gains will be subject to tax as of 2024**

Under Turkish tax law, the financial statements of income and corporate taxpayers who determine their earnings on a balance sheet basis are subject to inflation adjustment if the increase in the price index is more than 100% in the last three accounting periods, including the current period, and more than 10% in the current accounting period.

General Communiqué No. 555, published on 30 December 2023 and the TPL Circular No. 165, published on 20 February 2024, provide comprehensive explanations of the methods and rules concerning inflation adjustment.

As a rule, assets, liabilities, costs, and equity items are valued on the date they are recorded. In simple terms, the inflation adjustment increases the values of non-monetary assets, liabilities, and equity items included in the balance sheets by the inflation rate (calculated from the PPI index on the date they are recorded in the books and the PPI index on the relevant balance sheet date) to make them realistic in terms of purchasing power.



**“We support companies in correctly implementing the new tax regulations.”**

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Until the end of the 2023 accounting period, the profit/loss resulting from the inflation adjustment made on the balance sheet will be shown in the “retained years’ profit/loss” accounts. However, in 2024 and subsequent periods, earnings resulting from inflation adjustment will be included in normal period earnings and will be subject to tax.

Although inflation adjustment conditions were put in place for the first provisional tax period of 2024 (January – March 2024), the Ministry of Finance announced in the General Communiqué that this would not be the case.

### **Additional tax not unconstitutional**

The 2023 earthquakes in the east and southeast of Türkiye put a heavy burden on public finances. Law No. 7440, published on 12 March 2023, required some corporate taxpayers to pay an additional tax of 5% – 15% as part of their corporate tax for 2022. The tax was the subject of lawsuits claiming that it violated the principle of equality in taxation and created a retroactive tax liability. However, on 14 March 2024, the Constitutional Court rejected the claim that the additional tax was unconstitutional.

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