



TAX BULLETIN 010-09

SUBJECT: New Tax Incentives For Small And Middle Sized Companies

A stimulus package of law, numbered 5094, announced at the official gazette dated 03.07.2009 and numbered 27277 has been put into effect. Consisting of 41 articles and 2 temporary articles all together, this law has made so many changes and brought new regulations on the income tax law and the other tax laws. One of the most important tax regulation brought by the law is the merger of small and medium sized companies without being subject to corporate tax. According to the law, companies

- who were established in accordance with the Turkish Commerce Code

- whose annual net sales or total assets are more than 25 million Turkish Liras as of 31.12.2009

- whose total employees are between 10 to 250 according to the company's insurance return of December 2008,

are regarded as small and medium sized companies and they are the ones who can benefit from the new regulation.

When it comes to the details of the regulation, in case that two or more full liable corporate tax payer company (companies defined above) merge in accordance with the 18'th article of Corporate Tax Law and create a full liable joint stock company or two or more full liable corporate tax payer are taken over by a full liable joint stock company till 31.12.2009, profits derived from the merger are exempted from corporate tax law , on condition that

- All the gains from the merger should be added to the capital of merged company as of merger date.

- all fixed assets owned by the merging company as of merger date should be taken over by the merged company with a market price

- the other assets owned by the merging company as of merger date should be taken over and recorded in the balance sheet by the merged company in accordance with the appraisal standarts in Turkish Procedural Code.

- the merged company will commit paying all tax debts accrued or to be accrued of merging company and fullfill the other tasks regarding to taxation.This written commitment



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will be attached to the corporate tax return to be submitted within 30 days following the date on which merger is published in Official Gazete.

-the merged company will employ a certain number of employees for three years after the merger

On the other hand, some other details with regard to the new regulation can be summarized as below:

*The merging company's losses up to shareholders equity as of merger date can be deducted from the corporate tax base.

*The merged company can depreciate the assets taken over on the book value in merging company for the rest of the depreciation period.

*In case the merged company sells the assets taken over by a lower price than the take over price, the loss can not be deducted from the corporate tax base.

In addition to this, profits derived from the merger of small and medium sized companies are not subject to VAT either.

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