



TAX BULLETIN 04-09

TAX REGULATIONS WITHIN THE NEW ECONOMIC MEASURE PACKAGES OF TURKEY FOR THE GLOBAL FINANCIAL CRISIS

Turkish Government has prepared a new measures package to revive domestic demand in response to a global financial malady. By the Cabinet Decision announced on 16.03.2009, The Government reduced VAT and special consumption tax in automotive, construction, textile, white and Brown goods sectors and it is expected to extend financial support for exporters.

According to the new regulation, while the special consumption tax rates (SCT) on some white and brown goods have been restated as " 0 " for the next three months, SCT on cars below the capacity of 1600 cc have been lowered to 18 per cent from 37, to 54 from 60 for cars 1600 cc and 2000 cc and to 80 per cent from 84 for cars over 2000 cc. SCT will be one per cent instead of 10 per cent on light commercial vehicles.

In an effort to give impetus to Turkey's slowing economy, the government also decided to reduce the VAT rate on sales of new dwellings. According to the amendments effected on 16.03.2009, Vat rate on sales of dwellings whose net area is more than 150 m² will be 8 per cent for three months instead of 18 per cent. For the sales of those smaller than 150 m², the Vat rate, which was 1 per cent before the amendment, has not been changed. It has been announced that this package would worth around 5.5 billion Turkish Liras (3.2 billion US Dollars).

In the previous package, approved by the Turkish Parliament in February 2009, the government was empowered to reduce some corporate tax on investments, and also cut taxes on textiles and clothing manufacturers if they move their plants to certain cities. The most important regulations brought by the previous package can be summarized as below:



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-Reduced Corporate Tax Rate

The regulation was put into effect on 28.02.2009. As far as it is understood from the article 32/A of the corporate tax law, main characteristics of the new regulation can be summarized as below

*Tax payers have to have investment incentive certificate from the Undersecretary of Treasury

*Corporations operating in finance and insurance business, joint ventures, investments in the scope of the laws numbered 4283 and 3996, and investments based on mining search and extraction permits can not apply reduced corporate tax rate application.

* "A participation rate to investment" will be announced by the Cabinet for the investments based on investment incentive certificate. This rate will be determined for each group of cities and will not exceed 25 % for each group. But, for the investments more than 50 billion Turkish Liras, the rate will not exceed 45 %.

* After determining the participation rate, those rates are applied to the investment amount. The result is named as "participation amount to investment. Until the tax advantage created by reduced tax rates on the earnings from the investments with incentive certificate reaches to the "participation amount to investment", those earning will be taxed at reduced tax rates. Here is an example:

The amount of investment with incentive certificate	50.000.000.-TL
The determined participation rate	40 %
The participation amount to investment (50 * 0,40 =)	20.000.000.-
TL	
The reduced tax rate	10 %

As it is seen from the example above, up to the amount of earnings derived from the investment reaches to (20.000.000 / 0, 10 =) 200.000.000,-TL, reduced corporate tax rate to be applied to the earnings will be 10 %.

*The Cabinet have the authority in determining the reduction at corporate tax rate.

*The reduced tax rate application begins at the advance tax period on which the investment comes into the operation stage partially or completely

*In the event that the investment is turned over before operation phase, the corporation that has taken over the investment has the advantage of reduced tax rate application with the same conditions.



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*In the event that the investment is turned over after the operation stage, the corporation who turns over the investment can benefit from the reduced tax rate up to the transfer date. After the transfer date, the company who has taken over the investment can apply the reduced tax rate for the remaining part of "participation amount to investment".

*Reduced tax rate application is not only for corporate tax payers but also income tax payers.

-Public Land Allocation

In addition to these mentioned above, with the previous package, those who have the right to use reduced tax rates on the earnings derived from the investments with incentive certificate were given a right of easement on public lands for forty nine years with some limitations.

Apart from those major regulations brought by the package, there are some other regulations and changes made on various tax laws as well:

*The gains derived from capital market transactions of investment trusts and mutual funds were exempted from the bank and insurance tax.

*The special communication tax on wireless and mobile internet service providing was reduced from 15 per cent to 5 per cent.

*Both income and corporate tax payers operating in certain sectors like textile, clothing etc would apply reduced tax rates on the earnings with condition that they employ at least 50 workers and move their plants up to 31.12.2010 to the cities determined by the Cabinet.