ACAR&ERGÖNEN
ATTORNEY PARTNERSHIP

Maslak Mah. Eski Büyükdere Cad. No:7
Giz 2000 Plaza Kat: 17 34398 Sarıyer İstanbul

T: +90 (212) 358 07 00
F: +90 (212) 358 07 05
W: acarergonen.av.tr

New Tax Regulations Introduced by Law No. 7524

The Law No. 7524 on the Amendment of Certain Tax Laws, Certain Laws, and Decree Law No. 375 ("**Law**"), which brings comprehensive changes to the tax legislation, was published in the Official Gazette dated August 2, 2024. The Law contains many significant changes in the income tax, corporate tax, and Value Added Tax ("**VAT**") legislation.

You can access the full Turkish text of the Law here.

I. Amendments to the Income Tax Law

1. Income Tax Exemption for Employees of Technological Initiative Companies

According to the criteria determined by the Ministry of Industry and Technology, a portion of the share certificates given free of charge or at a discount to employees of companies recognized as technological initiatives will be exempt from income tax. If these share certificates are disposed of within certain periods, the tax will be collected from the employer. In case of disposal within three years from the date of acquisition, the entire exempted tax; in case of disposal within four to six years, 75% of the exempted tax; in case of disposal within seven to twelve years, 25% of the exempted tax will be collected from the employer. The statute of limitations for taxes not collected in due time under this exemption will commence from the beginning of the calendar year following the year in which the share certificates are disposed of.

This regulation came into force on August 2, 2024.

2. Use of Daily Revenue Determination in Determining the Income Tax Base

Taxpayers who earn income from commercial or professional activities can be subjected to periodic inspections under the Tax Procedure Law to determine daily revenue. The revenue determined during these inspections will be the basis for determining the income tax base. The monthly average revenue will be calculated to determine the annual revenue. If there is a discrepancy of more than 20% between the book records and the revenue determined by these inspections, the relevant taxpayer will be "invited for explanation." This regulation will also apply to corporate tax taxpayers.

This regulation will come into force on January 1, 2025.

Maslak Mah. Eski Büyükdere Cad. No:7
Giz 2000 Plaza Kat: 17 34398 Sarıyer İstanbul

T: +90 (212) 358 07 00
F: +90 (212) 358 07 05
W: acarergonen.av.tr

3. Withholding Tax on Payments Related to Electronic Commerce Activities

Under the Law on the Regulation of Electronic Commerce No. 6563, payments made by electronic commerce service providers will be subject to withholding tax. The President is authorized to determine the withholding rates for these payments.

This regulation will come into force on January 1, 2025.

II. Amendments to the Corporate Tax Law

1. Domestic Minimum Corporate Tax

The newly added Article 32/C to the Corporate Tax Law introduces a domestic minimum corporate tax, stipulating that the corporate tax payable by corporate taxpayers cannot be less than 10% of the corporate profit before deductions and exemptions. This calculation will be based on the corporate profit determined by adding non-deductible expenses to the commercial balance sheet profit.

In this context, the following exemptions will continue to apply: participation earnings exemption from full taxpayer corporations, emission premium exemption, cooperative risturn exemption, exemption for profits from sale and lease-back transactions with financial leasing and asset leasing companies, exemption for profits from sukuk (lease certificates), exemption for profits from the operation and transfer of ships registered in the Turkish International Ship Registry, corporate tax exemption under the Free Zones Law, deduction of amounts allocated as venture capital fund up to 10% of declared income, protected workplace discount for workplaces established under the Law on Disabled Persons, and R&D and design discounts provided under the Technology Development Zones Law No. 4691.

If the determined domestic minimum corporate tax exceeds the calculated corporate tax for the relevant period, the domestic minimum corporate tax will be declared and paid instead of the calculated corporate tax.

However, the Law also includes provisions for certain amounts that can be deducted from the domestic minimum corporate tax amount. Accordingly:

Maslak Mah. Eski Büyükdere Cad. No:7
Giz 2000 Plaza Kat: 17 34398 Sarıyer İstanbul

T: +90 (212) 358 07 00
F: +90 (212) 358 07 05
W: acarergonen.av.tr

- In calculating the domestic minimum corporate tax amount; the tax not collected due to the application of the reduced corporate tax rate under Article 32 of the Corporate Tax Law for companies that are publicly offered for the first time with at least 20% of their shares being traded on the stock exchange, companies engaged in export activities, and companies with an industrial registration certificate engaged in production activities, can be deducted from the domestic minimum corporate tax.

- The tax not collected due to the utilization of investment contribution amounts in investment incentive certificates obtained before the effective date of the Law can also be deducted from the domestic minimum corporate tax amount.

The domestic minimum corporate tax will also apply to temporary tax periods and will not be applied to companies that start operations for the first three fiscal periods.
The regulation came into force for earnings obtained in 2025 and subsequent taxation periods.

2. Tax Exemption for Real Estate Earnings of Investment Funds and Partnerships

For investment funds and partnerships (excluding pension investment funds) that invest in real estate, in order to benefit from the corporate tax exemption for earnings from these real estates, 50% of the earnings must be distributed as dividends to the shareholders by the end of the second month following the month in which the corporate tax return for the relevant fiscal period is submitted. If the dividend distribution is not made, the corporate tax exemption for real estate earnings will be considered a tax loss.

This regulation came into force on August 2, 2024, and will first apply to earnings obtained as of January 1, 2025.

3. Increase in Corporate Tax Rate for Build-Operate-Transfer and Public-Private Partnership Projects

The corporate tax rate applied to the earnings obtained from projects carried out under the build-operate-transfer model according to Law No. 3996 and public-private partnership projects carried out under Law No. 6428 by the companies that are parties to the relevant contracts has been increased to 30%.

Maslak Mah. Eski Büyükdere Cad. No:7
Giz 2000 Plaza Kat: 17 34398 Sarıyer İstanbul

T: +90 (212) 358 07 00
F: +90 (212) 358 07 05
W: acarergonen.av.tr

This regulation came into force on August 2, 2024, and will apply to earnings obtained in 2025 and subsequent taxation periods.

4. Income and Corporate Tax Exemption in Free Zones

The exemption for earnings obtained from products manufactured by businesses operating in free zones will only apply to earnings from the export of these products. This regulation will come into force on January 1, 2025.

5. Local and Global Minimum Supplementary Corporate Tax

This regulation applies to multinational enterprises with an annual consolidated revenue exceeding 750 million Euros or the equivalent in Turkish lira. The local and global minimum supplementary corporate tax application aims to equalize the total tax calculated on the earnings of large multinational enterprises with the minimum corporate tax rate (15%). This system aims to prevent these enterprises from being taxed in low-tax jurisdictions.

Under this regulation, the fifth section titled "Local and Global Minimum Supplementary Corporate Tax and Temporary Provisions" has been added to the Corporate Tax Law, which previously consisted of four sections. This section includes regulations on the subject, taxpayers, tax base, tax rate, exemptions, and other issues related to the local and global minimum supplementary corporate tax for multinational enterprises covered by the Law.

The regulation also includes detailed transitional provisions for the implementation of the local and global minimum supplementary corporate tax under the newly added Temporary Article 17 to the Corporate Tax Law.

III. Amendments to the Value Added Tax (VAT) Law

1. VAT Exemption for Non-Commercial Vehicles

Services provided to vehicles used for activities such as tourism, entertainment, sports, and amateur fishing, as well as private boats and yachts, have been removed from the VAT exemption.

This regulation will come into force on September 1, 2024.

Maslak Mah. Eski Büyükdere Cad. No:7
Giz 2000 Plaza Kat: 17 34398 Sarıyer İstanbul

T: +90 (212) 358 07 00
F: +90 (212) 358 07 05
W: acarergonen.av.tr

2. Transferable VAT in Cases of Merger, Transfer, Division, and Conversion

The VAT incurred and non-deductible by taxpayers who have ceased operations, divided, or dissolved as a result of mergers, transfers, divisions, or conversions under the Corporate Tax Law can only be deducted by the acquiring taxpayer based on a tax inspection conducted without being subject to the statute of limitations.

This regulation came into force on August 2, 2024.

3. Time Limit for Deduction of Transferable VAT

VAT that cannot be deducted for five calendar years will be transferred to a special account. This VAT can be considered as an expense in determining the income or corporate tax for the year in which the inspection is completed, upon a request made within three years and based on a tax inspection conducted within one year from the date of the request. If no request is made, the VAT transferred to the special account cannot be considered as an expense.

This regulation will come into force on January 1, 2030.

4. Change in the Procedure for VAT Refunds

In order to ensure that VAT refund claims are made correctly and to prevent unjust VAT refunds, it has been established that VAT refund claims will be processed based on tax inspections.

This regulation will come into force on September 1, 2024.

IV. Conclusion

Significant changes have been made to the income tax, corporate tax, and VAT legislation with Law No. 7524. It is crucial for taxpayers to carefully evaluate these regulations and take the necessary steps to comply in a timely manner.

Dr. iur. Onur Ergönen, Managing Partner