A new draft tax law will add 28 billion lira ($8 billion) to Turkey’s tax revenue budget in 2018, in accordance with the medium-term program for 2018–2020, as announced by the Turkish Government on September 27, 2017.

Abstract

The tax law and the Law on the Amendment of Decrees on the Law and the Law was presented by the Minister of Finance to the Presidency of the Turkish Grand National Assembly on September 27, 2017, as discussed below.

Corporate Income Tax and Dividend Withholding Taxation

The dividend withholding taxation on profit for corporate taxpayers will be amended to a proposed rate of 1 percent. Looking at the rationale of the amendment, the aim is to encourage the addition of undistributed profits to the paid capital after the corporation tax paid from the corporate profit that the resident corporate taxpayers have retained during the related accounting periods, and to strengthen the financial structure of corporate entities.

The statutory corporate tax rate is currently 20 percent in Turkey. However, the draft law proposes an increase in the corporate tax rate for financial institutions (i.e. banks, Islamic finance houses, brokerage firms, etc.) to 22 percent.

Personal Income Tax

The withholding tax rate for salaries in the third bracket of the personal income tax law will be increased from 27 percent to 30 percent. The amendment will affect the medium and comparatively high salary earners negatively or their employers if employment agreements are based on the net income clause.

Unrecorded Economy and E-Trade

The Ministry of Finance has authorized an order to increase voluntary declaration. This means that the Ministry of Finance will be given the right to carry out electronic transactions of the services provided to the taxpayer and to enable individuals to perform their business and transactions without going to the tax offices in an electronic environment and to make necessary arrangements for comprehension of e-trade with the aim of increasing the efficiency in the fight
against unrecorded economy.

**Motor Vehicles Tax**

As the special consumption tax system for motor vehicles has been amended, the motor vehicles tax law will also be amended. With the amendment, the provision added to the Motor Vehicles Tax Law; the value of the Value Added Tax base shall be determined as the value of the vehicle, except for the delivery of the vehicle, the first acquisition, and the special consumption tax to be calculated.

With the draft; the value of the taxation of automobiles, occupants, land vehicles and similar vehicles will be changed and vehicle values will also be incorporated to the existing tax measures.

If the tax value of a vehicle exceeds 10 percent of the value of the insurance policy, announced by the Union of Turkish Insurance and Reinsurance Companies every January, the Cabinet of Ministers will authorize this as the amount of tax, reducing the motor tax rate to 4 percent and increasing it to the statutory rate.

**Telegraph and Telephone Law**

A new mechanism will be set up to solve the problems that lead to disputes and disputes in the application of the share of treasury share, universal service contribution and contribution to the costs of the Information Technology and Communication Authority.

Accordingly, by limiting the number by the institution, to provide mobile electronic communication services open to the public at national level, concession agreements or authorized operators will pay 15 percent of their monthly gross sales as Treasury share.

Other operators authorized to provide electronic communication services over the networks of the authorized operators will pay 15 percent of their monthly gross sales as Treasury share.

Operators authorized by the Authority to provide GSM or IMT-2000 / UMTS mobile electronic communication services on aircraft will also pay 15 percent of their monthly gross sales as Treasury share.

If the treasury share is not paid or underpaid, the share will be subject to a penalty of one fold. In relation to unpaid Treasury share, universal service contribution, contribution amounts to institutional expenses and related delay interest; the hostility will be directed solely to the institution in cases to be filed in any jurisdiction, including international arbitration.

By adding a provisional article to the Law on Telegraph and Telephone by Draft; it is aimed to get rid of the disputes in the electronic communication sector and get the public as soon as possible.

**Special Communication Tax Law**
According to the draft, the rate of the tax will be amended to a flat rate. Currently, the rates of special communication tax, which is different in the communication services such as design, speech, internet, publishing, will be determined as 7.5 percent for each service.

**Chance Games Revenue Law and the Inheritance and Gift Tax**

With the amendment to the Law on the regulation of betting and games of chance in football and other sports competitions, the phrases regarding franchises are removed from the article. Thus, it is aimed to eliminate hesitations about giving dealerships. All or some of the dealership transactions may be performed by the lead dealer.

Chance Games Receive Revenue Taxes, Funds and Shares in the regulation of the Games defined in the law games and real and legal entrants and competitions organized for the winners and 10 percent of the percentage of inheritance and transfer tax rate applied will be increased to 20 percent.

**Comments**

As a result of the G-20 and OECD initiatives, countries are having common tax matters in their agenda, i.e. Base Erosion and Profit Shifting ("BEPS") actions related legislative changes, "taxation of digital economy" and "automatic exchange of information" within the scope of tax transparency.

The development of the digital economy, in particular, and the emergence of new business models triggered new and complex tax fluctuations for companies operating in all sectors. The OECD's options for analyzing but not recommended on the Final Report of Action 1 within the scope of the BEPS were listed as "withholding tax on digital transactions", "new connection with significant economic value creation" and "equalization tax". The OECD postponed evaluating these options until 2020 after a peer review by the OECD. However, even though not recommended by the OECD, some of the options in relation to taxing digital transactions have been put in place by some countries, i.e. India, France and Germany.

In accordance with this trend, Turkey has also authorized the Council of Ministers by adding a paragraph to Article 11 of the Tax Procedure Law in 2016.

As mentioned, Ministry of Finance published a draft bill amending the Tax Laws of the public in the framework of the 2018–2020 medium term program, which differs from the tax agenda of the G-20 and the OECD. Regarding the digital economy, an amendment has been made in the VAT Law regarding "taxation of electronic commerce" and "arrangements are being made to eliminate the ambiguity of final consumers' tax responsibilities by ensuring that foreign companies providing services to real consumers from abroad are VAT taxpayers".

In accordance with the amendment made in the Tax Procedures Law, the draft included an amendment in the VAT Law for digital economy taxation. According to the proposed amendment, VAT taxation is preferred according to the place where the final consumers are located.
When the changes are in place, constitutional principles such as "justice and equality" should not be ignored in taxation. However, some of the amendments suggested by the bill are likely to create controversy. For example, taxation of banks and financial companies with a different tax rate by dividing them by the general corporation tax rate and subjecting the undistributed profit shares to withholding tax regardless of the distribution condition.

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