

TAX NEWS NO: 2015/3

April 14, 2015



Subject:

A Deemed Interest Deduction to Encourage Cash Equity Financing has been published in the Official Gazette

"The Law on Amendment to Certain Laws and Decree Laws" (Law No: 6637) has been promulgated in the Official Gazette dated 7 April 2015.

According to Article 8 of the Law numbered 6637, **capital companies except for** those that operate in the sectors of **Finance, Banking and Insurance** such as financial leasing, factoring, financing companies, asset leasing companies; and Public Economic Enterprises are allowed a deemed interest deduction that is equal to 50% of the interest calculated on the cash capital increase in the registered capital of the existing corporations or cash capital contributions of the newly incorporated corporations based on the average interest rate announced by the Central Bank of Turkey for TL denominated commercial loans, from their Corporate tax base of the relevant year.

The deduction will be allowed starting from;

- the fiscal year in which the resolution regarding the share capital increase has been registered for the existing companies, or
- the fiscal year in which AoA has been registered for the newly incorporated companies

and will be available for utilization for each subsequent fiscal year.

The amount of decrease in share capital is not considered in the calculation of the

deduction in case of a share capital reduction in the subsequent years.

The deemed interest deduction will be calculated on qualified cash equity that satisfy the below conditions;

- the interest deduction amount will be calculated for the period starting from the month (inclusive and where the month is considered as a full-month) in which the cash contribution is realized until the end of the relevant fiscal year,
- the interest amount that cannot be deducted from the relevant corporate tax base due to insufficient amount of tax base will be carried forward to the subsequent fiscal year,
- the increase of share capital deriving from the below sources will not be considered in the calculation of the deduction amount;
 - in-kind share capital contributions,
 - mergers, take-over and spin-off,
 - injection of other equity accounts into share capital,
 - cash share capital contributions financed by loan/debt arrangements owed to shareholders or related persons as described under Article 12 of Corporate Tax Code

The Council of Ministers is given the authority to amend the percentage of deduction between 0% and 100% for all companies and increase up to 150% only for publicly trading Companies by considering the free float rate based on the below criteria;

- Size of assets,
- The legal personality of shareholders,
- Number of employees,
- Annual net sales revenue,
- Whether or not the income derived from this cash equity financing is in nature of passive income such as interest, dividend, rental income, license fee, capital gains derived from sales of marketable securities,
- Whether or not the cash equity financing is utilized for investments that are provided with Investment Incentive Certificate (IIC),
- The use of cash equity financing such as machinery and equipment or land investments,
- Regions, industries, activities

For instance, suppose that the company has made a capital increase at an amount of £ 1.000.000 in July 2015. Assume that the interest rate announced by the Central Bank of Turkey for TL denominated commercial loans is % 16.

In line with the above data our calculations will be as follows;

The amount to be deducted from the corporate tax base
= Increased Capital Cash Amount x Central Bank Interest Rate x Period (Months) x
Discount Rate

The annual deduction that the company would benefit;
= 1.000.000 x 0.16 x 50%
= £ 80.000

Pro-rata calculation for the above mentioned period:
(80.000 / 12 months) x 6 months = £ 40.000.

The net effect of this methodology to corporate tax return will be 40.000 x 20% = £ 8.000.

Please kindly note that the Law has been published in the Official Gazette, however, the Article will enter into force as from **1 July 2015**.

Yours sincerely,
Deloitte Turkey

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

These materials and the information contained herein are provided by Deloitte Turkey and are intended to provide general information on a particular subject or subjects and are not on exhaustive treatment of such subject(s).

Accordingly, the information in these materials is not intended to constitute accounting, tax, investment, consulting, or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect your personal finances or business, you consult a qualified professional adviser.

These materials and the information contained therein are provided as is, and Deloitte Turkey makes no express or implied representations or warranties regarding these materials or the information contained therein. Without limiting the foregoing, Deloitte Turkey does not warrant that the materials or information contained therein will be

error-free or will meet any particular criteria of performance or quality.

Deloitte Turkey expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, non-infringement, compatibility, security and accuracy. Your use of these materials and information contained therein is at your own risk, and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte Turkey will not be liable for any special, indirect, incidental, consequential, or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence), or otherwise, relating to the use of these materials or the information contained therein.

© 2015 Deloitte Global Services Limited