

TAX NEWS NO: 2015/7

July 9, 2015



Subject:

The Resolution of the Council of Ministers pertaining to the incentive capital increase in cash.

The Resolution of Council of Ministers numbered 2015/7910 pertaining to the incentive for capital increase in cash was published in the Official Gazette dated 30.06.2015 and numbered 29402.

As you may remember, with the Law numbered 6637 which was published in the Official Gazette dated 7 April 2015 a new clause has been added to the article 10 titled "Other Deductions" of the Corporate Tax Law for the purpose of encouraging capital increase in cash and explanations on the regulation in question were provided for your attention in our tax news dated [14 April 2015 and no. 2015/3.](#)

According to aforementioned regulations the general rate of the deduction was determined 50% and the Council of Ministers was 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.

The Council of Ministers have amended the percentage of deduction by using this authority as follows;

a) Additional 25% or 50% deduction opportunity will be granted to the publicly traded companies. The rate of the additional deduction will be determined based on the proportion of the nominal values of the shares that are tracked by Central Registry Agency as 'shares

qualified to be traded at stock exchange', to the total amount of paid or issued capital registered to the Trade Registry as of the last day of the year in which the deduction was benefited from.

- In case the concerning ratio is above 50%, the corporations will have the right to claim a total deduction of 100%,
- If the ratio is less than or equal to 50%, the corporations will have the right to claim a total deduction of 75%,

b) For the capital increase paid in cash, that is reserved to be used for the production and industrial plants in connection with investment incentive certificates, a plus rate of 25% will be applied with the limit of investment amount stipulated in the Investment Incentive Certificate.

For instance, suppose that the company has made a capital increase at an amount of ₺ 1.000.000 in July 2015 and the interest rate announced by the Central Bank of Turkey for Turkish Lira denominated commercial loans is % 16. Assume also that the proportion of the nominal values of the shares that are traded at stock exchange to the total amount of paid or issued capital is **below 50%**.

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 + **Plus Rate**)

The annual deduction that the company would benefit;

= 1.000.000 x 0,16 x (%50 + **%25**)

= ₺ 120.000

Pro-rata calculation for the above mentioned period:

(120.000 / 12 months) x 6 months = ₺ 60.000.

The net effect of this methodology to corporate tax return will be 60.000 x 20% = ₺ 12.000.

As a second example, suppose that the company's proportion of the nominal values of the shares that are traded at stock exchange, to the total amount of paid or issued capital is **above 50%**.

$$\begin{aligned} &= 1.000.000 \times 0,16 \times (\%50 + \%50) \\ &= ₺ 160.000 \\ &= (160.000/12 ay) \times 6 months = ₺ 80.000 \\ &= 80.000 \times \%20 = ₺ 16.000 \end{aligned}$$

Yours sincerely,
Deloitte Turkey

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