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TAX NEWS

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Subject: Notes on Inflation Adjustment

Recently, the Revenue Administration prepared a draft of the General Communiqué on the Tax Procedure Law for the determination of the procedures and principles of financial statements subject to inflation adjustment for the end of the 2023 accounting period and subsequent accounting periods.

Some of the highlights of the explanations made in the said draft are summarized in this bulletin.

What is inflation adjustment?

In general terms, inflation adjustment is the process of adjusting financial statements that do not reflect the actual situation due to changes in the purchasing power of money to make them reflect the actual situation.

Inflation adjustment is the adjustment of the Turkish Lira value of the non-monetary assets included in the financial statements to their value at the date of the financial statements. The adjustment is made by multiplying the amounts of the non-monetary assets to be included in the inflation adjustment by the adjustment coefficients.

When will it be applied?

As of the end of 2023 calendar year (taxpayers who are assigned a special accounting period, as of the end of the special accounting period ending in 2024), the financial statements for the 2023 accounting period should be subject to inflation adjustment. In addition, depending on the conditions, inflation adjustment will be applied to the 2024 accounting period including the temporary tax periods (the accounting period ending in 2025 for those who are assigned a special accounting period) and the following periods (temporary tax periods and accounting periods) depending on the continuation of the conditions.

Which financial statements will be subject to inflation adjustment?

Inflation adjustment will be applied only to the balance sheets among the financial statements.

Will it have an impact on tax?

The profit/loss difference arising from the inflation adjustment of the financial statements as of December 31, 2023 will be shown in the retained earnings account. The previous year's profit thus determined will not be subject to tax, and the previous year's loss will not be recognized as a loss.

However, the tax base for the 2024 accounting period will be determined according to the adjusted balance sheet. The profit or loss at the end of the temporary tax periods and the accounting period will

be determined according to the balance of the "Inflation Adjustment Account". The balance of the "Inflation Adjustment Account" is closed by transferring it to the "Profit or Loss for the Period Account" through the "Inflation Adjustment Profit or Loss" accounts, and the profit or loss of the enterprise for the period is found according to the type of balance.

As a result, the corrections to be made to the balance sheet as of December 31, 2023 will not have a direct tax effect; however, since the non-monetary items corrected in the balance sheet as of December 31, 2023 will be considered as expenses, costs or income items at their corrected values in 2024 and subsequent years, the correction of the balance sheet as of December 31, 2023 will have an indirect tax effect in 2024 and subsequent years. From 2024, the inflation adjustment differences resulting from the inflation adjustment will be related to the income statement and will directly affect the tax base of the current period.

Who needs to do it?

Inflation adjustment will be made by income or corporate taxpayers who determine their earnings on a balance sheet basis.

Which steps will be followed?

In inflation adjustment, taxpayers will fulfill the following transactions/steps respectively.

- a) It shall be determined which of the assets in the financial statement are non-monetary assets.
- b) The amounts to be considered in the inflation adjustment of the identified non-monetary assets (amounts subject to adjustment) will be found.
- c) Adjustment dates and adjustment/transportation coefficients will be determined for the inflation adjustment of the identified non-monetary assets.
- ç) The determined adjustment basis amounts shall be multiplied by the adjustment/carrying coefficients to which they belong, and the adjusted amounts of non-monetary assets shall be calculated, and inflation differences shall be recorded.
- d) Non-monetary assets shall be shown in the financial statement with their adjusted values and monetary assets shall be shown in the financial statement without adjustment.

In which order will the correction be made?

Taxpayers within the scope;

- a) The balance sheet for the end of the 2023 accounting period will be prepared without taking into account the provisions regarding inflation adjustment.
- b) Inflation adjustment will be made to be valid for the balance sheet of the end of the 2023 accounting period and the tax base for the 2023 accounting period will be calculated over the profits determined according to the financial statements before the adjustment.
- c) The balance sheet issued at the end of the 2023 accounting period will be subject to inflation adjustment in any case.

What will be the starting values for 2024?

The amounts calculated as a result of the correction of the balance sheet at the end of the 2023 accounting period will be considered as the starting values of the following period, regardless of whether inflation adjustment will be made in the following period.

Depending on the existence of inflation adjustment conditions, the correction transactions for the period after 1/1/2024 (starting from 1/1/2024) will be made over the corrected values in the balance sheet dated 31/12/2023 subject to inflation adjustment.

In the following accounting period, depreciation and amortization will be calculated over the adjusted values.

Will inflation adjustment be made in the 2024 accounting period?

Depending on the conditions, inflation adjustment will be made for the 2024 accounting period starting from the temporary tax period in which the conditions are met and for the following periods (including temporary tax periods) depending on the continuation of the conditions.

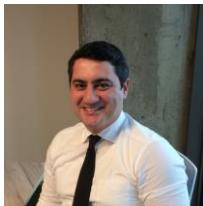
For more information, please contact us.



İsmail Yavuz,
Tax Partner
iyavuz@deloitte.com



Çağatay Yüce,
Tax Partner
cyuce@deloitte.com



Erhan Tarhan,
Tax Senior Manager
etarhan@deloitte.com

Yours sincerely,

Deloitte Turkey

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