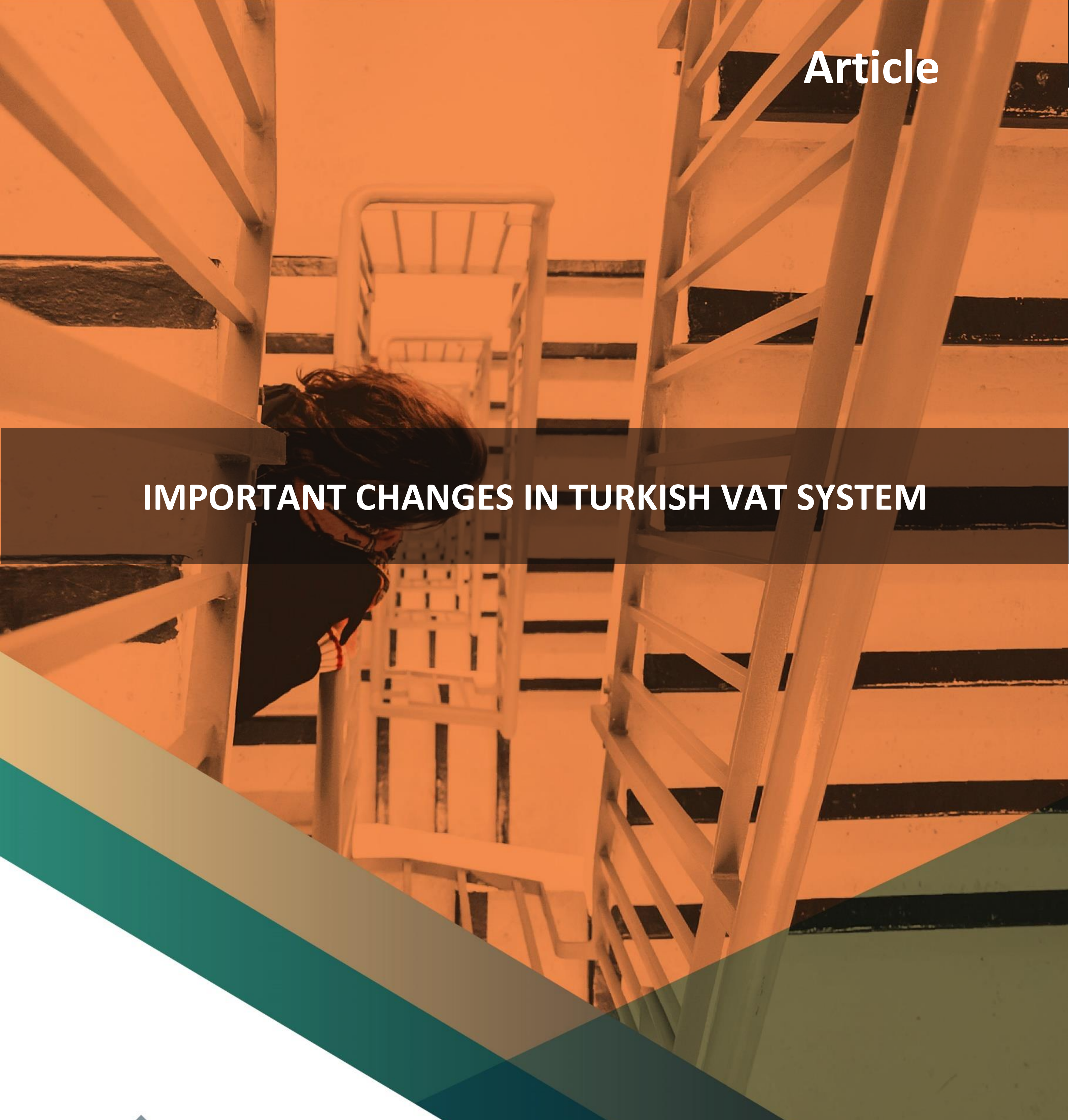

Article

IMPORTANT CHANGES IN TURKISH VAT SYSTEM

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IMPORTANT CHANGES IN TURKISH VAT SYSTEM

Turkish government has recently introduced a draft law amending Turkish VAT Law. Since the first introduction of VAT Law in 1986, this is the most comprehensive amendment in Turkish VAT System.

A Draft Law has been submitted to Turkish Grand Assembly for the approval and it is expected that the enactment of the Draft Law amends Turkish VAT Law.

We understand full VAT exemptions for;

- deliveries and services to donors
- warehousing and terminal services
- health services offered for non-residents
- delivery of machinery and equipment to R&D centres and technology development zones (TDZs)

and partial VAT exemptions for

- conversion of partnerships to a equity company
- delivery of apparel clippers

are introduced in the Draft Law.

However, the most important changes in Turkish VAT System are related with deferred VAT which is not refundable in the existing Law and period of VAT deduction.

A new VAT mechanism which allows group VAT Liability will be a part of Turkish VAT System, as well.

Deferred VAT will be Refundable

Under the current VAT law, excess amount of input VAT can be deferred to the following tax periods, but it is not allowed to refund that VAT. This has been created huge problems in Turkish VAT System.

With the new provision of Draft Law, excess VAT can be deferred and if it cannot be deducted in 12 months period it will be refunded on the condition that the taxpayer claim VAT and apply for refunding within 6 months following the 12 months period.

The Period of VAT Deduction is Extended

Under the current VAT Law, the right to deduct VAT can be exercised during the period in which the relevant documents are entered in the company books, but VAT deduction is not allowed no later than the calendar year.

This will be changed by the extension of VAT deduction period. Accordingly, VAT deduction may be exercised no later than the following calendar year provided that the relevant documents are entered in the books kept pursuant to laws.

Introduction of Group VAT Liability

The Draft Law introduces a new VAT mechanism which allows Group VAT Liability. In this regard, the Ministry of Finance is authorized to register "Group VAT liability", which allows corporate income taxpayers to file a consolidated VAT declaration for all group companies.

Under this mechanism, it is required that a company holds at least a 50% share of group companies. With this mechanism, companies will be also able to deduct VAT of other group companies as they compute their own VAT base.

A company may register for group VAT liability and will be responsible for the assessment of group VAT. Nevertheless, all members of the group are jointly responsible for the VAT payment.

This mechanism is optional; for that reason, we recommend that companies evaluate their VAT position before applying for this mechanism.

Outlook

The Draft Law also brings comprehensive changes in Turkish VAT System. For instance, game development in TDZs is exempted from VAT. Thus, it is advisable that taxpayers monitor the expected VAT changes to determine their VAT position in Turkey.

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