

Turkey amends tax laws on deduction of financial expenses and withholding rates on multi-year construction works

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The Turkish Government introduced a restriction on the deduction of financial expenses through Presidential Decision no. 3490 published in the *Official Gazette* dated 4 February 2021.

Also, Presidential Decision no. 3491, published on the same date, amended the withholding tax (WHT) rate on progress payments for multi-year construction works.

This Alert summarizes both provisions.

Restriction on the deduction of financial expenses

Prior to the introduction of the Decision no. 3490, Article 41 of Income Tax Code (ITC) and Article 11 of Corporation Tax Code (CTC) stipulated that, in enterprises whose current liabilities exceed the equity, up to 10% of the total amount of expenses and costs incurred (such as interest, commission, maturity differences, delay interests, dividends, exchange rate differences) relating with the excess amount would be treated as non-deductible expenses for the Turkish company. These Articles authorized the President to set the limit of the non-deductible financial costs and expenses, which may not be more than 10% of the total of these costs.

Through this decision, the President has set the rate of non-deductible financial costs and expenses as 10% for the purposes of these Articles.

Article 11 of the CTC excludes credit institutions, financial institutions, financial leasing, factoring and financing companies from this restriction.

The Decision is effective as of the date of issuance and will be applied to the earnings of the taxable years starting as of 1 January 2021 and onwards.

Increase of WHT rate on progress payments for multi-year construction works

According to the Articles in the CTC (15 and 30) and the ITC (94), progress payments relating to multi-year construction works were subject to a 3% WHT.

Under the President's Decree No. 3491 published in the *Official Gazette* dated 4 February 2021, the WHT rate is increased to 5%.

This Decision enters into force on the date of publication and will be effective to the payments made as of the beginning of the month following its publication.

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EYG no. 000909-21Gbl

1508-1600216 NY
ED None

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