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TAX EXEMPTION TO INCOME FROM THE CONVERSION OF FOREIGN CURRENCY AND GOLD ACCOUNTS TO TRY DEPOSIT/PARTICIPATION ACCOUNTS HAS ENTERED INTO FORCE

Law No. 7352 (the Law), which regulates tax exemption on income from conversion of foreign currency and/or gold account balances in the balance sheet dated 31.12.2021 to TRY deposit accounts for at least 3 months, was published in the Official Gazette (OG) dated 29 January 2022 and numbered 31734 and entered into force on the same day.

1. SCOPE OF THE EXEMPTION:

Earnings of corporate income taxpayers that will arise when the below mentioned accounts are converted to TRY deposit/participation accounts with a maturity of at least 3 months¹ until the end of 2022 is exempt from tax.

- Foreign currency deposit accounts of corporate income taxpayers in US dollars, Euros and British Pounds and participation accounts in foreign currency existing as of 31/12/2021,
- The balances of the existing gold account of corporate income taxpayers on 31/12/2021 and the gold accounts for processed and scrap gold to be opened after this date,

Personal income taxpayers who record their official books on balance sheet basis can also benefit from this exemption under the same conditions.

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¹ Even the minimum maturity duration is stipulated as 3 month by the law, currently in accordance with the Turkish Republic Central Bank Communique, corporations can only open deposit accounts within this scope for minimum 6 months.

2. EXEMPTION APPLICATION:

2.1. Application in Foreign Currency Accounts:

The exemption application varies depending on whether the date of converting the foreign currency accounts into TRY deposit/participation account is made until the end of declaration for the 4th provisional income tax return of 2021 (until 17 February 2022)

2.1.1. Exemption to be applied in case of conversion of foreign currencies into TRY deposits until 17 February 2022:

The following earnings of income/corporate taxpayers who converted their foreign currency accounts in their balance sheet dated 31/12/2021 into TRY deposit/participation accounts until 17 February 2022 are exempt from tax:

- Foreign exchange gains arising from the period-end valuation of such foreign currency accounts for the 4th provisional income tax period (1 October 2021-31 December 2021),
- Foreign exchange gains arising on the conversion date (from 1 January 2022 to conversion date),
- Interest or profit arising from the period-end valuation of such TRY deposit/participation accounts,
- Interest or profit and other earnings (including support payments) arising from such TRY deposit/participation accounts on the maturity date.

2.1.2. Exemption to be applied in case of conversion of foreign currencies into TRY deposits after 17 February 2022:

If income/corporate taxpayers convert such foreign currency account in their balance sheet dated 31/12/2021 into TRY deposit/participation accounts from the end of filing date of 4th provisional income tax return of 2021 (from 17 February 2022) to 31/12/2022, the below earnings will be exempt from tax:

- Foreign exchange gains for the period; from the beginning of the provisional income tax period which includes the date on which foreign currencies are converted to TRY deposit /participation accounts, to the opening date of TRY deposit/participation accounts (they cannot benefit the exemption on foreign exchange gains regarding 1 October 2021-31 December 2021 period),
- Interest or profit arising from the period-end valuation of such TRY deposit/participation accounts,
- Interest or profit and other earnings (including support payments) arising from such TRY deposit/participation accounts on the maturity date.

2.2. Application on Gold Accounts:

Income/corporate taxpayers convert the gold account balances in their balance sheets dated 31/12/2021 and the gold account balances to be opened after this date, to TRY deposit/ participation accounts until the end of 2022 can benefit from the exemption regarding the below earnings:

- Earnings arising from the conversion of the said assets for the period; from the beginning of the provisional tax period which includes the date on which such accounts are transferred to TRY deposit/participation accounts to the opening date of the TRY deposit/participation accounts,
- Interest or profit arising from the period-end valuation of such TRY deposit/participation accounts,
- Interest or profit and other earnings (including support payments) arising from such TRY deposit/participation accounts on the maturity date.

2.3. Status of losses due to conversion or deposit accounts:

According to the Law, in case of exchange rate loss due to the exchange rate valuation or conversion of the foreign currencies within this scope, such losses can be deducted as an expense from the tax base.

2.4. Sanctions to be applied in case of withdrawal of opened deposit accounts before maturity:

According to the legal regulation, one of the conditions of the exemption is, the assets shall be converted into TRY deposit/participation accounts with a maturity of at least 3 months.

In case of withdrawal from the TRY deposit/participation account before the maturity date, the taxes that are not accrued on time due to the exemption will be claimed by charging tax penalty and late payment interest.

Kind Regards.