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NOTIONAL INTEREST DEDUCTION PERIOD HAS BEEN LIMITED TO 5 YEARS

As per Article 10/1-I of Corporate Income Tax (CIT) Law, companies (except for those operating in finance, banking, and insurance sectors) can deduct 50% of the interest to be calculated over cash capital contribution amounts (after 1st July 2015), and initial capital contributions for companies established after 1.7.2015.

Even the general discount rate is 50%, it is considered as 75% in case the cash capital is provided from abroad. The rate could also change for publicly traded companies and companies which have investment incentive certificates. The discount amount is calculated as follows:

Discount Amount = Cash Capital Contribution X Annual Weighted Average Interest Rate Applied to Bank Credits X Discount Rate X Duration

In case companies do not have enough profit to be set-off against the Discount Amount, the residual Discount Amount can be carried forward without being subject to 5 years limitation of time.

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Until the amendment with the Law No: 7147 (effective from 5.7.2022) companies could benefit from interest deduction without any time limitation (unless they decrease such capital). **However, with the Law No: 7147 the benefit from notional interest deduction period has been limited to 5 years. (The accounting period in which the capital increase is registered and following 4 years.)**

With the amendment, for the cash capital contributions before 5.7.2022, the notional interest deduction period is also limited to 5 accounting periods starting from 2022 and ending in 2026).

Kind regards.