

TAX BULLETIN

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Bulletin Date : 12.10.2023
Bulletin No : 2023/002

INFLATION ADJUSTMENT (IN TERMS OF TAXATION) WILL BE APPLIED FOR THE FINANCIAL STATEMENTS OF FY2023¹

As per Repeated Article 298 of the Tax Procedure Law (TPL), income and corporate taxpayers shall apply inflation adjustment if the increase in the domestic producer price index is more than **100%** in the last three accounting periods, and more than **10%** in the current accounting period. The inflation adjustment application ends if both conditions are not met.

Such conditions were met as of 31.12.2021. However, with Law no 7352 Inflation Adjustment was postponed to 31.12.2023 regardless of the inflation rates on that date. Therefore, inflation adjustment did not apply in 2021, 2022 and the 1st, 2nd, and 3rd quarterly Corporate Income Tax (CIT) periods of 2023.

Therefore, taxpayers will apply inflation adjustment for their financial statements of FY2023 and following periods until the inflation rate decreases to below the thresholds.

In this context, taxpayers subject to the special accounting period will not apply inflation adjustment for the financial periods ending in 2022 and 2023 but will apply inflation adjustment for the financial period ending in 2024.

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BDO International global ağıının toplam gelirleri 2021 yılında 12,8 milyar ABD Doları olarak gerçekleşmiştir. BDO, 164'dan fazla ülkede bulunan 1.803 ofiste faaliyet göstermekte olup, bu ofislerde denetim ve danışmanlık hizmetleri veren ortaklar dahil dünya çapında 111.307 kişi çalışmaktadır.

Dikkat ve titizlikle hazırlanan bu yayın, geniş anlamda görüşleri içermekte olup, genel bir yol gösterici olarak değerlendirilmelidir. Özel durumlara ilgili olarak, mesleki görüş ve yardım almadan, bu yayına dayanarak uygulamalarda bulunulmamalıdır. Bu konuların kendi özel durumunuza ilişkin etkilerini görüşmek için BDO Yayıncılık A.Ş. ile temas kurabilirsiniz. Bu yayındaki bilgilere dayanarak belli eylemlerde bulunmak veya bulunmamak nedeniyle doğabilecek zararlar nedeniyle, BDO Yayıncılık A.Ş. ve ortakları, çalışanları ile yazarları herhangi bir yükümlülük veya sorumluluk kabul etmemektedirler.

¹ No Communiqué has yet been published by the Ministry of Finance regarding the inflation adjustment to be made on 31.12.2023. Therefore, the Tax Bulletin is prepared by taking into account the secondary legislation stipulated in the last inflation adjustment period which is in 2003 and 2004.

What is an Inflation Adjustment?

Inflation adjustment is the adjustment of financial statements that do not express the real situation due to changes in the purchasing power of money (inflation).

Accordingly, inflation adjustment is a process that consists of increasing the Turkish Lira value of the assets to the value on the date of financial statements. The adjustment will be made by multiplying the amounts of non-monetary assets with the adjustment coefficients.

Which Taxpayers Will Make Inflation Adjustment?

Income and corporate taxpayers who determine their earnings on the basis of balance sheet are obliged to apply inflation adjustment according to TPL and the General Communiqués published by Ministry of Finance if the relevant conditions are met.

Which Financial Statements Will be Adjusted within the Scope of Inflation Adjustment?

As per TPL and other secondary legislation, only the balance sheet will be subject to inflation adjustment. Profit loss table or other financial statements will not be adjusted.

Which Items in the Balance Sheet Will be Adjusted?

Considering the relationship between purchasing power and changes in the value of national currency, the assets included in the financial statements can be categorized into two groups:

- a) **Monetary Items:** Items whose nominal values remain the same as the value of the national currency, however whose purchasing power changes in the opposite direction according to price movements.
- b) **Non-monetary Items:** It refers to items other than Monetary Items.

Monetary items (monetary assets and monetary liabilities) are not subject to inflation adjustment. Because the value of the monetary asset appearing on the balance sheet also shows the purchasing power of that item as of the balance sheet date.

However, since the values of non-monetary assets (non-monetary assets and non-monetary liabilities) appearing in the balance sheet are not values that show the purchasing power of these assets as of the balance sheet date, non-monetary assets are subject to inflation adjustment in order to purify the balance sheet from the effects of inflation.

Monetary and non-monetary assets by type are included in the annex of the Communiqué to be published by the Ministry of Finance.

Unless otherwise stated, equity items are considered "non-monetary assets".

Which amounts will be considered in inflation adjustment?

In the adjustment process of non-monetary items, their amounts/values as of the date of adjustment will be considered which are determined in accordance with the valuation rules of TPL.

On the other hand, while determining the amounts of non-monetary assets to be taken into account in inflation adjustment, some values are deducted from the amounts of non-monetary assets. In this context;

- a) Non-Real Financing Cost will be deducted from the value of the relevant non-monetary item.
- b) Capital increases resulting from the addition of some funds to the capital, such as the revaluation value increase fund, which were allocated and added to the capital before 1/1/2024, are not considered as increases and are not subject to inflation adjustment.

Which Coefficient Will be Applied in Adjustment?

The adjustment of the balance sheet will be carried out by the **Domestic Producer Price Index (D-PPI)** values announced monthly by the Turkish Statistical Institute.

Adjustment Coefficient	=	D-PPI for the Date of the Balance Sheet
		D-PPI for the Date Based on Adjustment

The relevant Dates Based on Adjustment are determined by the Communiqué.

To ease the calculation of coefficient for *inventories* some aggregated methods are stipulated in the Communiqué.

What will be the tax effect of Inflation Adjustment?

The profit/loss resulting from the inflation adjustment on the balance sheet at the end of the 2023 financial period will be recorded in the "570/580- Previous Years Profits/Loss" accounts.

The profit determined in this way will not be subject to tax, and the loss will not be considered as a tax-deductible loss. However, after 1.1.2024 and following periods depreciation of fixed assets and cost of goods sold will be calculated on the adjusted values.

Therefore, the inflation adjustment for the financial statements of FY2023 will not create a tax effect in FY 2023 but start to create tax effect starting from 1.1.2024 and following periods.

However, profits and losses arising from inflation adjustment in 2024 and following periods will be considered as taxable profit and tax-deductible loss.

Kind regards.