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THE IMPACT OF NEW TRANSFER PRICING RULES ON TURKISH MULTINATIONALS



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The Presidential Decree numbered 2151, dated 24.02.2020 in accordance with Article 13 of Corporate Income Tax Code numbered 5520 brought new transfer pricing documentation requirements. Accordingly, Transfer Pricing Documentation System adopted by OECD has also been adopted by Turkish Legislation. In this sense, our evaluations regarding OECD and Turkish Transfer Pricing Documentation Requirements are stated below:

1. OECD'S TRANSFER PRICING DOCUMENTATION ARRANGEMENTS

1.1. WHAT IS COVERED IN THE OECD ARRANGEMENTS?

Chapter V of OECD Transfer Pricing Guidelines on Transfer Pricing Documentation has been largely amended. OECD/G20 Countries including Turkey have committed to adopt OECD's three tiered transfer pricing (TP) documentation approach, which is stated below:

- + Master File
- + Local File
- + Country-by-Country Reporting (CbCR)

Countries have been advised by OECD to introduce three tiered TP documentation into their domestic tax law.

1.2. WHAT IS EXPECTED FOR MULTINATIONALS?

- + OECD member countries have recently agreed multinational enterprises (MNEs) to implement new TP documentation rules in a similar manner.
- + Master file covering detailed value chain analysis of the group will be requested by the countries where MNEs have an operation.
- + MNEs will prepare local file in accordance with the domestic TP legislation.
- + Transactional based analysis and studies will be required from MNEs within TP documentation.
- + CbCR containing information on revenues, profit (loss) before income tax, income tax paid, business activities and etc. will be filed to Tax Authorities by MNEs.



2. NEW TP REGULATIONS APPLICABLE TO TURKISH MULTINATIONALS

	Master File	Local File	CbCR
What?	As a group, Turkish multinationals will prepare master file including information on group organization, main business activities, financial activities, financial and tax positions.	- TP Annual Report - TP Form	Turkish multinationals will file CbCR where revenues profit (loss) before income tax, income tax paid, income tax accrued, stated capital accumulated earnings, number of employees, tangible assets other than cash and cash, total equivalents, main business activities are provided per country.
Who?	Turkish multinationals with assets and net sales revenue amounting to TRY 500 million and above.	- TP Annual Report: Larger taxpayer and other taxpayers conducting cross-border related party transactions - TP Form: Corporate income taxpayers with the intercompany transactions exceeding TRY 30,000.	Ultimate parent company resident in Turkey will file CbCR if consolidated group revenue amounts to EUR 750 million and above (for 2017 and following fiscal years, Turkish Lira equivalent of 750 Million Euro)



When?	By the end of the second month following the corporate tax return due date (April 25)	- TP Annual Report: April 25 - TP Form: April 25	CbCR will submitted electronically by the end of the 12th month following the fiscal year subject to the report.
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3. NEW TP REQUIREMENTS APPLICABLE TO TURKISH MULTATIONALS

	Master File	Local File	CbCR
Who will prepare?	Ultimate parent company of the group resident in Turkey and group companies resident in other countries where master file is required	Ultimate parent company of the group resident in Turkey and group companies resident in other countries	Ultimate parent company of the group resident in Turkey
In which countries to be filed?	Countries where master file is required under the domestic tax law	Countries where local file is required under domestic tax law	Turkey
When is the initial period?	FY2019	FY2019 (In some countries local file is already requested)	FY2019
When is the first due date?	Turkey: June 30, 2020 Other countries: varies from country to country	Turkey: April 25 (already requested) Other countries: varies from country to country	Turkey: 31 December 2020 Other countries: 31 December 2020 (different dates are also applicable)



4. OUR RECOMMENDATIONS

It is recommended that Turkish MNEs prepare or revise their TP policies including benchmarking studies. It is also highly advised that Turkish MNEs prepare (i) master file (ii) local file and (iii) CbCR in the countries where TP documentation requirements exist.

We advise that Turkish MNEs conduct value chain analysis of the group, detailed analysis of the intangibles owned by the group companies and value creating business activities within the group master file.

As Centrum, we advise that Turkish MNEs centrally carry out studies for the group companies' local file where local business activities, functional profile, commercial and financial transactions are defined and analyzed. We recommend that local file templates are centrally prepared by ultimate parent company of Turkish MNEs in order to uniform documentation at group level and use in the countries where group entities operate.

It is advisable that local files are finalized together with TP experts' support, following the respected financial year. We finally recommend that a dry-run of CbCR is initially carried out and afterwards Turkish MNEs evaluate the impact of CbCR filing on the group.

King Regards,

Please contact us for the further details on our international tax bulletin and transfer pricing documentation services provided by Centrum.



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