

# Value Added Tax on Coupon or Interest Payments in relation to Overseas Bond Issuances of Turkish entities

On 10 February 2015, Turkish Revenue Administration issued a tax ruling in relation to Value Added Tax ("**VAT**") on interest/coupon payments to the holders of the corporate bonds of Turkish entities issued outside Turkey. In the ruling, it is clearly stipulated that the interest/coupon payments to non-resident bondholders shall be subject to VAT to be paid by the issuers within the framework of reverse-charge mechanism. In addition, unlike an older tax ruling in this particular subject dated 22 February 2013 indicating that VAT exemption would apply to interest/coupon payments performed through overseas banks and brokerage houses, the new ruling does not include such distinction.

## 1. Reverse-Charged VAT Liabilities

In general, pursuant to the Turkish Value Added Tax Law (the "**VAT Law**") all services provided in Turkey are subject to VAT. Tax authorities tend to classify a bond issuance by an entity as a financial service provided to such issuer by the bondholders and on that basis conclude that VAT should apply. According to the VAT Law in case the taxpayers are not resident in Turkey; such VAT obligation may be imposed on the other parties of the taxable transaction who are resident in Turkey. In this respect, Turkish issuers will be reverse-charged with VAT on interest/coupon payments payable to foreign bondholders unless there is an exemption. In other words,

this will create an additional tax burden on the issuer in addition to the interest/coupon payments.

## 2. Exemption of VAT

Pursuant to the VAT Law, VAT will not be levied on taxable transactions which are within the scope of the Banking and Insurance Transaction Tax ("**BITT**"). Accordingly, tax authorities indicate that interest/coupon payments to banks including foreign banks and insurance companies (although they are not subject to BITT) will be exempt from VAT.

## 3. Application

At this point of time it would appear that overseas bond issuances performed by Turkish entities, will be subject to VAT in respect of

interest/coupon payments to the bondholders, unless such bondholders are qualified as banks or insurance companies in their home jurisdiction. VAT application will differ based on the residency of the bondholders and whether they qualify as banks or insurance companies in their home jurisdictions. Accordingly, interest/coupon payments to (i) foreign banks and insurance companies will not be subject to VAT, (ii) other non-residents will be subject to VAT, and (iii) bondholders incorporated in Turkey will be subject to VAT.

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