



Turkey adopts OECD transfer pricing reporting standards

Global Transfer Pricing Alert 2020-008

Turkey announced on February 25 its adoption of the transfer pricing documentation standards under the OECD's base erosion and profit shifting (BEPS) Action 13 recommendations.

The announcement – Presidential Decree No. 2151 -- was an expected development in the evolution of transfer pricing documentation requirements in Turkey and may be viewed as a result of greater harmonization with the OECD's guidance on this issue. The changes detailed below will have several important consequences for both taxpayers and the revenue authorities alike:

- Increased cooperation and sharing of information will automatically provide the revenue authorities with a broad spectrum of taxpayer information that was not readily available previously.
- Taxpayers could expect increased scrutiny by the revenue authorities of inconsistencies in transfer pricing policies and/or approaches in different jurisdictions.
- Taxpayers that used to handle transfer pricing compliance locally and in a decentralized way may need to revise their internal processes, because the new rules require a more centralized and coordinated approach to transfer pricing documentation and reporting.

- In general, taxpayers will need to commit increased time and resources for transfer pricing compliance.

The decree provides a three-tier transfer pricing documentation approach:

- A master file with global information about a multinational enterprise (MNE) group, including specific information on intangibles and financial activities;
- A local file (similar to the annual transfer pricing report) with detailed information on all relevant intercompany transactions of the group entity in Turkey; and
- A country-by-country (CbC) report of income, earnings, taxes paid, and certain measures of economic activity.

Master file

Turkish corporate income taxpayers that are members of an MNE group with assets and net revenues each of TRY 500 million or more in the previous year will be required to prepare a master file to be submitted to the Turkish tax authorities for fiscal year 2019 and fiscal years thereafter. The master file must be kept on file and submitted to the authorities only upon official request.

The required information in the master file can be grouped into five broad categories:

- The MNE's organizational structure;
- A description of the MNE's business or businesses;
- The MNE's intangibles;
- The MNE's intercompany financial activities; and
- The MNE's financial and tax positions.

Local file/annual transfer pricing report

Corporate taxpayers will continue to prepare an annual transfer pricing documentation report pertaining to their related-party transactions. There is no change with regard to the deadline for preparation of the annual transfer pricing documentation report, which corresponds to the local file under the OECD's three-tier transfer pricing documentation approach.

CbC report

The CbC reporting requirement applies to MNEs whose consolidated group revenues are EUR 750 million or more. The CbC report is to be prepared by the Turkish ultimate parent entity (or another reporting entity if there are multiple Turkish entities). The first CbC report will be for fiscal year 2019 and must be submitted by December 31, 2020.

The CbC reporting obligation also includes a notification requirement. Accordingly, taxpayers should report to the TRA the following:

- Whether they are an "ultimate parent entity" or a "surrogate entity";
- Which entity is responsible for reporting on behalf of the group; and
- The reporting period.

The CbC report must include the global allocation, by country, of key variables for the MNE, including:

- Revenue, profit, tax paid, stated capital, accumulated earnings, number of employees, and tangible assets data pertaining to each country in which the MNE operates; and
- The names and main activities of each of the MNE group entities pertaining to each country in which the MNE operates.

All the above-mentioned documentation must be prepared in the Turkish language.

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