



Turkey and the United States reached a compromise on a transitional approach during the interim period before Pillar 1 in effect on the taxation of the digital economy

Summary: Turkey and the United States announced that they have reached an agreement on implementations in the transition period prior to the introduction of the Two Pillars approach announced by the OECD/G20 on 08.10.2021 for the taxation of the digital economy.

On 8 October 2021, a statement issued by 136 countries that are members of the OECD/G20 Inclusive Framework stated that a two-pillar solution for the taxation of multinational enterprises has been agreed. Pillar 1 allows a portion of the revenues of multinational enterprises from digital activities without a workplace in other countries to be taxed in market (source) countries. Pillar 2 envisages a global minimum corporate tax rate. The relevant regulations are expected to come into force in 2023.

On October 21, 2021, the USA, Austria, France, Italy, Spain and the United Kingdom announced that they had reached a political agreement on taxation of digital service providers in the transitional period before Pillar 1 was introduced. While the USA undertakes to remove the measures it has taken for products to be imported from the specified countries, other countries will allow tax credit for digital service taxes paid by USA-based companies during the transition period against corporate tax liability to be accrued in the source countries within the framework of Pillar 1.

On November 22, 2021, Turkey and the United States agreed that the same conditions that apply within the scope of the agreement dated October 21, 2021, mentioned above, will also apply between Turkey and the United States in terms of Turkey's digital service tax and the United States' commercial measures regarding digital service tax. Turkey has been included by reference to the compromise between the USA and 5 other countries on October 21, 2021.

Turkey and the United States will stay in close contact in order to have a common understanding on the commitments under this agreement, and if there are differences of opinion on this issue, they will try to resolve the situation through constructive dialogue.

For any questions please contact vergi@kpmg.com.tr

Kind regards.