

BİLGENER BLOG

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Transfer Pricing and Country-by-Country Reporting in Türkiye

In Türkiye, taxpayers are required to disclose their transactions with related parties. This disclosure is made through the "Transfer Pricing, Controlled Foreign Corporation, and Thin Capitalization Form," which is submitted as an attachment to the Corporate Income Tax Return. When filling out the form, taxpayers must provide detailed information about their transactions with related parties.

There are exemptions to this notification requirement. For instance, corporate taxpayers operating in free zones are not required to submit this form for domestic transactions under certain conditions. However, obligations remain for international transactions and domestic transactions with taxpayers in free zones.

Notifications must be submitted annually alongside the corporate tax return. Failure to fulfill this obligation may result in special irregularity penalties under the Tax Procedure Law.

Transfer pricing documentation requirements in Türkiye are aligned with the three-tiered documentation approach introduced by the OECD's Base Erosion and Profit Shifting (BEPS) project. Taxpayers are required to prepare the following documents:

a. Master File: The Master File provides a high-level overview of the multinational enterprise group's global operations. It is essential for tax authorities to understand the group's value chain, key functions, and financial structure. This report must include the following key components:

1. Organizational Structure:

A detailed chart of the group's legal and ownership structure, including all entities and jurisdictions involved.

2. Business Activities:

A description of the group's major business activities, the geographical distribution of key operations, and value drivers.

3. Intangible Assets:

Information on the group's strategy for developing, owning, and exploiting intangible assets, including ownership details and transfer pricing policies related to such assets.

4. Intra-Group Financial Arrangements:

A description of the group's financing arrangements, including policies on loans, guarantees, and capital allocation.

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Bilgener is a professional services provider group comprised of expert firms specializing in tax, audit, and consulting. Since 1995, it has been guiding both local and global entrepreneurs with a unique approach that combines experience and expertise.

Focusing on the operational needs of entrepreneurs operating in Türkiye, **Bilgener** offers comprehensive and high-quality services to streamline management processes and facilitate informed decision-making. Through our solution-oriented services delivered from a single point, we support sustainable growth for our clients.

We have been the independent member for Türkiye of London-based **Morison Global** since 2002. **Morison Global** is a professional services network established to meet the cross-border accounting, audit, tax, and consultancy needs of its clients. According to the 2024 World Survey published by the International Accounting Bulletin, Morison Global is ranked as the 9th largest international association in the world.

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5. Financial and Tax Positions:

Consolidated financial statements of the group and information on the group's transfer pricing policies for intercompany transactions.

The Master File must be prepared by the end of the twelfth month following the fiscal year and updated annually to reflect changes in the group's operations.

b. Local File: The Local File focuses on the taxpayer's specific transfer pricing policies and intercompany transactions within Türkiye. It serves as a detailed documentation to demonstrate compliance with the arm's length principle. The Local File must include the following key components:

1. Description of the Taxpayer's Activities:

A comprehensive explanation of the taxpayer's operations, organizational structure, shareholders, and capital structure.

2. Local and Global Industry Overview:

Information on the state of the local and global industry in which the company and the group operate.

3. Related Party Identification:

A detailed description of related parties involved in the transactions, including:

- Tax Identification Numbers (or Turkish ID Numbers),
- Addresses, phone numbers, and other relevant contact details,
- Ownership relationships between the taxpayer and related parties.

4. Functional, Risk, and Asset Analysis:

A thorough analysis of the functions performed, risks assumed, and assets utilized by the taxpayer and its related parties in connection with intercompany transactions.

5. Details of Related Party Transactions:

- Classification and categorization of the transactions,
- Analysis of transactions based on related party and transaction type.

6. Pricing Policy:

An explanation of the group's internal pricing policy applied to related party transactions.

7. Intra-Group Agreements:

Copies of relevant intra-group contracts or agreements governing the related party transactions.

8. Transfer Pricing Analysis:

- Selection of the most appropriate transfer pricing method for the transactions,
- Benchmarking studies (comparability analysis) to justify that the applied prices/margins comply with the arm's length principle.

9. Detailed Calculations and Assumptions:

A detailed explanation of the calculations used to determine the arm's length price or profit margin, including any assumptions made.

10. Multi-Year Analysis (if applicable):

Justification for using multi-year data to determine comparability and arm's length pricing, if applicable.

11. Financial Information:

Financial data used in the application of the transfer pricing method, including segmented financial information as necessary.

The Local File must be prepared annually by the deadline for the submission of the corporate tax return and must be readily available for submission to the tax authority upon request.

c. Country-by-Country Report (CbCR): Multinational enterprise groups with consolidated revenues of €750 million or more must submit this report if the ultimate parent entity or surrogate parent entity is resident in Türkiye. The report must be filed electronically by the end of the twelfth month following the reporting fiscal year.

Compliance with documentation requirements strengthens taxpayers' defense during tax audits and may lead to reductions in penalties. For instance, if documentation is complete, potential tax loss penalties can be reduced by 50%.

Under Turkish transfer pricing legislation, taxpayers must also fulfill additional reporting obligations which is CbCR notification form. Members of multinational enterprise groups subject to CbCR must submit an electronic form annually, providing information on whether they are the "ultimate parent entity" or "surrogate parent entity," the entity responsible for reporting on behalf of the group, and the fiscal year in question. This notification must be submitted by the end of June following the reporting fiscal year.

Failure to comply with these obligations may result in penalties under the Tax Procedure Law. It is therefore critical for taxpayers to closely monitor and timely fulfill their transfer pricing and CbCR obligations.

Transfer pricing and country-by-country reporting obligations in Türkiye are designed to align with international standards and ensure transparency. Comprehensive and accurate documentation not only ensures compliance but also minimizes potential tax risks and strengthens the defense during audits.

As Bilgener, we provide end-to-end support for transfer pricing documentation, including Local File, and Country-by-Country Reports. Our experienced team ensures that your transfer pricing reports are fully compliant with Turkish legislation and OECD standards. By leveraging our expertise, you can streamline your compliance processes and focus on your core business. For more information or to discuss how we can assist you, please contact us today.

Best Regards,

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