

Lex Mundi International Tax Deskbook – The Republic of Turkiye

LEX MUNDI INTERNATIONAL TAX DESKBOOK

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THE REPUBLIC OF TURKIYE

TAX DESKBOOK

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The Republic of Turkiye Chapter

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I. Introduction

This discussion emphasizes the taxing regime in the Republic of Turkiye (“**Turkiye**”). The Turkish tax system comprises direct and indirect taxes. Direct taxes include income tax, and the indirect taxes include in general value added tax (VAT), excise taxes, which are charged on the sale and importation of certain goods, raw materials, energy, natural gas, oil etc. and transaction taxes, such as stamp tax, banking and insurance transaction tax, foreign exchange transaction tax, real estate sale and purchase tax, mortgage charge etc.

Direct taxes which are corporate income tax, governed by the Corporation Tax Law (Law No. 5520) (*published in the Official Gazette dated June 21, 2006, No. 26205*) and the income tax, governed by the Income Tax Law (Law No. 193) (*published in the Official Gazette dated January 6, 1961, No. 10700*) (*as amended from time to time*).

The VAT is governed by the Value Added Tax Law (Law No. 3065) (*published in the Official Gazette dated November 2, 1984, No. 18563*) (*as amended from time to time*).

The excise tax is governed by the Special Consumption Tax Law (Law No. 4760) (*published in the Official Gazette dated June 12, 2002, No. 24783*) (*as amended from time to time*).

The major transaction taxes such as stamp tax, governed by the Stamp Tax Law (Law No. 488) (*published in the Official Gazette dated July 11, 1964, No. 11751*) (*as amended from time to time*), banking and insurance transaction tax and foreign exchange transaction tax, governed by the Transaction Tax Law (Law No. 6802) (*published in the Official Gazette dated July 23, 1956, No. 9362*) (*as amended from time to time*), real estate sale and purchase tax, mortgage charge, court charges and other charges, governed by the Charges Law (Law No. 492) (*published in the Official Gazette dated July 17, 1964, No. 11756*) (*as amended from time to time*).

Turkiye is not a federal state, therefore there exist no federal taxes and all taxes are country taxes.

II. Direct taxes

The net income of the corporations is subject to corporation tax and the net income of the individuals is subject to income tax, both of which are country income taxes.

1. Corporations

The net income of the corporations which are defined in Article 1 of the Corporation Tax Law and includes the followings realised from their commercial and agricultural activities in Turkiye is subject to corporate income tax at a rate of 20 %:

- Private and public (i.e. listed) companies (including banks, finance companies, insurance companies, securities, brokerage companies, commercial and industrial companies, investment companies and mutual funds);
- Cooperatives;
- State owned enterprises;
- Commercial entities of the associations and the foundations;
- Joint ventures and partnerships; and
- Foreign entities similar to the above and foreign investment companies, mutual funds and trusts

Under the Corporation Tax Law corporations incorporated in Turkiye and branch offices of foreign companies established in Turkiye are recognized as full tax liability corporates and corporations incorporated outside Turkiye and the branch offices of the Turkish companies established abroad are recognized as limited tax liability corporates.

Tax returns for the corporate income tax are required to be filed with the relevant Turkish tax office until the 30th day of the fourth month following the end of the fiscal year of the corporation, and the corporate income tax assessed is required to be paid in full on such day. The fiscal year of a corporation in principal is the calendar year. However, corporations may, with the prior permission of the Ministry of Finance, select another term (which must be 12 months) as their fiscal year. The corporations are required to file interim tax returns by the end of each quarter and pay advance corporate income tax assessed for such term on such day. The interim corporate income taxes are deducted from the corporate income tax of the fiscal year.

The income (other than commercial and agricultural income) such as interest, dividends and capital gain generated in Turkiye by the limited tax liability corporates are subject to a withholding tax but not to 20 % corporate income tax. However, if a limited tax liability corporate has a permanent representative in Turkiye all of its income is subject to 20 % corporate income tax even if it does not have any permanent establishment in Turkiye.

The withholding tax rates (if not provided otherwise in the Double Taxation Treaties) on certain income of the limited tax liability corporates are as follows:

- Income from the sale of Turkish securities (including Turkish stocks) 0 %
- Income from the securities lending 0 %
- Interest from Turkish debt securities (including Treasury bills/bonds) 0 %
- Income from repo transactions 15 %
- Dividends 15 %
- Loan interest 0 %
- Interest from commercial activities (other than loans) 10 %
- Income from discounting of promissory notes and drafts 10 %

- Income from financial leasing 1 %
- Rent income 20 %
- Income from the sale, transfer and licensing of intellectual property and royalties 20 %

2. Individuals

The net income of the individuals realised from their commercial, professional and agricultural activities in Turkiye and the salaries of the individuals paid in Turkiye are subject to income tax at the following rates:

- Up to TRY 7,000 15 %
- Up to TRY 18,000 (for first TRY 7,000, TRY 1,050) 20 %
- Up to TRY 40,000 (for first TRY 18,000, TRY 3,250) 27 %
- Over TRY 40,000 (for first TRY 40,000, TRY 9,190) 35 %

Under the Income Tax Law individuals resident in Turkiye permanently or more than six months are recognized as full tax liability individuals and individuals resident outside Turkiye are recognized as limited tax liability individuals.

Tax returns for the income tax are required to be filed with the relevant Turkish tax office until the 31st day of March, and the income tax assessed is required to be paid in two equal installments, the first until the end of March and the second until the end of July following the end of the fiscal year. The fiscal year of the individuals is the calendar year. The individuals which are subject to income tax are required to file interim tax returns at the end of each quarter and pay the advance income tax for such interim period on such day. The advance income taxes are deducted from the income tax of the fiscal year.

The income (other than commercial, professional and agricultural income and salaries) such as interest, dividends and capital gain generated in Turkiye by the limited tax liability individuals are subject to a withholding tax but not to general income tax rates.

The withholding tax rates (if not provided otherwise in the Double Taxation Treaties) on certain income of the limited tax liability individuals are as follows:

- Income from the sale of Turkish securities (including Turkish stocks) 0 %
- Income from the securities lending 0 %
- Interest from Turkish debt securities (including Treasury bills/bonds) 0 %
- Income from repo transactions 15 %
- Dividends 15 %
- Rent income 20 %
- Income from the sale, transfer and licensing of intellectual property and royalties 20 %

III. Indirect taxes

1. VAT

Transfer of all goods and services including importation of all goods and services in Turkiye are subject to VAT at a rate of 18 %. However, an increased rate of VAT is charged on the sale of some luxury goods and cars. The rate of VAT on the rental payments of the financial lease transactions is 1 %.

2. Excise Tax

Certain goods, cigarettes, oil, energy, natural gas is also subject to an excise tax at a rate of 8 %. However, the rate of excise tax on certain goods is less or more than 8 %.

3. Banking and Insurance Transaction Tax

All revenues of the local banks, finance companies such as interest, commission and fees and local insurance companies are subject to the banking and insurance transaction tax (BITT) at a rate of 5 %. Revenues from interbank transactions are subject to the BITT at a rate of 1 %. Local foreign exchange spot purchase and forward purchase transactions are subject to the BITT at a rate of 0.1 %. Foreign banks, finance companies, insurance companies and the cross-boarder foreign exchange transactions are not subject to the BITT.

4. Real Estate Sale and Purchase Tax

Sale and purchase of real estates is subject to sale and purchase tax at a rate of 3 % over the sale and purchase price, half of which payable by the seller and the other half by the purchaser.

5. Stamp Tax

All agreements are subject to a stamp tax at a rate of 0.75 % over the aggregate amount therein. However, any document and agreement including security interest documents and agreements in connection with a cash or non-cash credit facility (local and cross-boarder) such as loan agreements, letters of credit, letters of guarantee, pledge agreements, mortgage agreements etc. (in connection with a credit facility) and all documents and agreements in connection with the issuance of securities are exempt from stamp tax.

IV. Inheritance and Gift Taxes

Transfers by a gift and at death trigger the gift and inheritance tax at the following rates:

<u>Amount</u>	<u>Rate of Inheritance Tax</u>	<u>Rate of Gift Tax</u>
First TRY 140,000	1 %	10 %
Following TRY 300,000	3 %	15 %
Following TRY 640,000	5 %	20 %
Following TRY 1,290,000	7 %	25 %
Following exceeding TRY 2,370,000	10 %	30 %

V. Double Taxation Treaties

As of the date hereof, Turkiye had income tax treaties in force with the following countries:

Albania	Algeria	Austria
Azerbaijan	Bahrain	Bangladesh
Belarus	Belgium	Bosnia-Herzegovina
Bulgaria	The Republic of China	Croatia
Turkish Republic of North Cyprus	Czech Republic	Denmark
Egypt	Estonia	Ethiopia
Finland	France	Germany
Greece	Hungary	India
Indonesia	Iran	Israel
Italy	Japan	Jordan
Kazakhstan	The Republic of Kyrgyzstan	Kuwait
Latvia	Lebanon	Lithuania
Luxembourg	Macedonia	Malaysia

Moldova	Mongolia	Morocco
The Netherlands	Norway	Pakistan
Poland	Portugal	Qatar
Romania	Saudi Arabia	Serbia
Russia	Singapore	Slovakia
Slovenia	The Republic of South Africa	South Korea
Spain	Sudan	Syria
Sweden	Tajikistan	Thailand
Tunisia	Turkmenistan	Ukraine
United Arab Emirates	United Kingdom	United States
Uzbekistan		

The Presidency of the Revenues Administration's website (www.gib.gov.tr) is well-advanced and can be visted for information on future developments.

The information on the taxing regime of the Republic of Turkiye herein is provided for general information purposes only in a brief manner, and it should not be taken into consideration as a legal opinion of PEKİN & PEKİN on specific transactions and matters. Readers should consult with PEKİN & PEKİN or their own tax advisors before entering into any specific transaction. For more information, please contact PEKİN & PEKİN Tel + 90 212 313 35 00 or visit our website at : www.pekin-pekin.com