

Taxation in Turkey

As corporate entities, the net incomes of Joint Stock and Limited Liability Companies are subject to the corporation tax. Besides, they can be subject to the value added tax, excise and other transaction taxes depending on the scope of the company.

Accounting, Filing and Auditing Requirements

The tax assessment period is the calendar year. The corporate taxes in Turkey are assessed on an annual basis, but the advance payment is required in quarterly installments (in May, August, December and February).

A final tax return generally must be filed by 25 March of the following year. Fines are imposed for unauthorized late payments.

Employers are responsible for the withholding tax on remuneration paid to their employees. The tax must be withheld on a monthly basis for all employees.

Companies exceeding the following limits of at least two criteria among three criteria in two successive fiscal periods shall be subject to independent audit.

Total Assets : min. TRY 150 million
Net Sales : min. TRY 200 million
Employee number : min. 500

Corporate Income Tax

The Corporate tax in Turkey is assessed on an annual basis, but advance payment is required in quarterly installments.

Dividends received from participations outside Turkey are exempt from corporate taxation if certain conditions are met. These are, in general, that; (i) the participation rate has to be at least 10 %, (ii) the participation should have been held at least for 1 year, (iii) the foreign tax burden is at least 15 %, and (iv) the gain should be transferred to Turkey until the date filing of the corporate tax return of the fiscal year in which the relevant gain obtained. Capital gains upon the disposal of shares in foreign participations are not covered under this exemption.

Dividends received by a Turkish company from a resident corporate taxpayer are not taxed in the hands of the recipient company. The exemption is also available to the non-resident companies to the extent that dividends are attributable to a Turkish permanent establishment or branch.

Value Added Tax (VAT)

The transfer of all goods and the rendering of all services including importation the same into Turkey are, in general, subject to VAT. The generally applied VAT rate varies between 1%, 8%, and 18% depending on the type of goods or services. For instance, the rate of VAT on the lease payments of financial lease arrangements in relation to investment (non-consumer) goods (including those provided by non-resident financial lessors via cross-border financial leasing) is 1% whereas the increased rates of VAT (%18) is charged on the sale of some luxury goods and cars.

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VAT is ultimately borne by the final consumer, who is not allowed to deduct VAT. To compute VAT liability, a VAT entrepreneur must determine the total output VAT within a reporting period. From this total, the entrepreneur deducts the input VAT, which is the VAT paid to suppliers on the supply of goods and services and the VAT liable on intra-community acquisitions and imports of goods. The positive difference between output VAT and input VAT is paid to the tax authorities. There are a number of formal requirements for the deduction of input VAT, e.g. concerning the content of the invoices received.

VAT entrepreneurs in Turkey must calculate their VAT liability and file preliminary VAT returns to the Turkish tax authorities either on a monthly basis or a quarterly basis.

Where a nonresident VAT entrepreneur carries out services that are taxable in the Republic of Turkey to other VAT entrepreneurs, the reverse charge mechanism applies, meaning that the recipient of the service will be liable for VAT.

In accordance with the Value Added Tax Law, following transactions are exempted from the VAT liability.

- The export of goods and services
- Roaming services rendered in Turkey for customers outside Turkey (i.e. non-resident customers)
- Petroleum exploration activities
- International transportation
- Deliveries made to diplomatic representatives, consulates and international organizations with tax exemption status and to their employees
- Supply of machinery and equipment, including importation, to persons or corporations that are VAT taxpayers and that have an investment certificate issued by the relevant authority
- Services rendered at harbors and airports for vessels and aircrafts
- Social and other exemptions apply to deliveries made to the government and other related organizations for cultural, educational, health and similar purposes
- Banking and insurance transactions are exempted from VAT as they are subject to a separate Banking and Insurance Transactions Tax at a rate of 5%
- Research and development allowances
- Deductions from the tax base of corporations related to certain donations, aid or sponsorship expenditures for sport activities

Stamp Tax

The stamp tax in Turkey is levied on certain documents evidencing legal transactions such as contracts, notes payable, letters of credit and letters of guarantee, financial statements and payrolls. Documents evidencing such transactions are recorded and become legally enforceable only if they are stamped to show that the proper amount of stamp tax has been paid.

The stamp duty is levied as a percentage of the stated value on the document at rates ranging from 0.189% to 0.948. However, exemptions are available in relation to certain transactions, such as cross border financing, issuance and transfer of securities, exportation, etc., provided that such exemptions are explicitly granted by law.

Stamp tax rates:

Agreements (general rate)	0.948%
Rental/Lease agreements	0.189%
Documents related to wage payments	0.759%
Maximum obtainable Stamp tax over each original document	1,487,397 TL

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Special Consumption Tax

The sale of certain goods such as cars, cigarettes, oil, energy and natural gas is also subject to additional excise and special consumption taxes that could be as high as 50 %. There are four main product groups that are subject to special consumption tax at different tax rates:

- Petroleum products, natural gas, lubricating oil, solvents, and derivatives of solvents
- Automobiles and other vehicles, motorcycles, planes, helicopters, yachts
- Tobacco and tobacco products, alcoholic beverages
- Luxury products

Unlike VAT, which is applied on each delivery, special consumption tax is charged only once.

Banking and Insurance Transaction Tax

All revenues of resident banks, finance and insurance companies, such as interest, commission, premiums and other fees and charges, are subject to the banking and insurance transaction tax ("BITT") between 5% and 1%.

Real Estate Sale and Purchase Tax

The sale and purchase of a real estate are levied at a rate of 3.3% over the sale and purchase price, half of which is payable by the seller and the other half by the purchaser. It is possible, however, to cap the sale and purchase price at the amount of minimum real estate values declared periodically by the municipalities.

Buildings, apartments and land owned in Turkey are subject to real estate tax ranging at a rate between 0.1% and 0.6%, while contribution to the conservation of immovable cultural property is levied at a rate of 10% of this real estate tax.

Wage Tax and Social Security Contributions

Social security contribution is a contribution towards government benefits such as retirement pension, unemployment and incapacity benefits. Prior to the commencement of the work, newly established companies must be registered with the local labour office as an employer. Moreover, employers must inform the Social Security Institution (SSI) about each employee that works in their workplace for whom employers will be paying social security premiums. Companies must ensure that employers' and employees' contributions to the Social Security are paid on monthly basis.

Employers have to pay the social security premium (approximately 34.5 percent) and unemployment social security fund payment (2 percent) on the gross wages. Moreover, under the provisions of the Income Tax Law, employment incomes are taxed through withholding. Employers are obliged to withhold the income tax before disbursing employee salaries.

The social insurance in Turkey covers industrial accidents, occupational diseases, illness, maternity, disablement and death.

Withholding Tax

A withholding tax, also called a retention tax, is a government requirement for the payer of an item of income to withhold or deduct the tax from the payment, and pay that tax to the government.

Typically the withholding tax is treated as a payment on account of the recipient's final tax liability. It may be refunded if it is determined, when a tax return is filed, that the recipient's tax liability to the government that received the withholding tax is less than the tax

withheld. Additional tax may be due if it is determined that the recipient's tax liability is more than the withholding tax.

The withholding taxes on the selected payments of resident corporations are as following;

- Dividends are subject to 15%
- Interest on treasury-bill and treasury bonds derived by resident corporations is subject to 0%
- Interest on other bonds and bills derived by resident corporations is subject to 0%, bank deposits are subject to 10%-18% (for bank deposits opened after January 2, 2013)
- Profit shares paid by participation banks in consideration of participation accounts are subject to 10%-18% (for participation accounts opened after January 2, 2013)
- REPO agreements are subject to 15%.

Withholding taxes on the selected payments of non-resident corporations;

- Dividends are subject to 15%
- Interest on treasury-bill and treasury bonds derived by non-resident corporations is subject to 0%
- Interest on other bonds and bills derived by non-resident corporations is subject to 0%, bank deposits are subject to 10%-18% (for bank deposits opened after January 2, 2013)
- Profit shares paid by participation banks in consideration of participation accounts are subject to 10%-18% (for participation accounts opened after January 2, 2013)

Double taxation agreements may exist between Turkey and the country of which the investor is a resident. In that case, the provisions of any relevant treaties will be applied for the withholding taxes.

Personal Income Tax

He personal income tax in Turkey is based on a progressive scale ranging from 15% - 35% depending on the amount of income earned by the individual. The 15% rate is applicable to all residents earning below 12,000 Turkish lira per annum, while the highest tax bracket (%35) applies to those earning more than 66,000 Turkish lira a year.

Resident taxpayers have to include 1/2 of gross dividends received from a resident company in their taxable income. The withholding tax paid at source, however, is wholly creditable against tax calculated on the return.

Where international or bilateral treaties are in place between Turkey and the investor's country of origin, the related terms of that treaty will principally be applied, to the extent possible.

Double Taxation Relief

Turkey has a broad tax treaty network, with most treaties following the OECD model treaty. Treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other and protect companies resident in one country from discriminatory taxation in the other. Turkey's treaties generally contain OECD-compliant exchange of information provisions.

Turkey has comprehensive double taxation agreements in force with 63 countries. The list of agreements in force is as follows: Albania, Algeria, Azerbaijan, Austria, Bahrain, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Egypt Estonia, Ethiopia, Finland, France, Georgia,

Georgia, Germany, Greece, Hungary, India, Indonesia, Iran, Israel, Italy, Japan, Jordan, Kazakhstan, Korea, Kuwait, Kyrgyz Republic, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malaysia, Moldova, Mongolia, Montenegro, Morocco, New Zealand, Norway, Oman, Netherlands, Cyprus, Norway, Pakistan, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Serbia and Montenegro, South Africa, South Korea, Singapore, Slovakia, Slovenia, Spain, Sudan, Syria, Sweden, Tajikistan, Thailand, Tunisia, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, Yemen, United States of America and Uzbekistan.

In accordance with the treaties, where a company is already paying taxes in the treaty country, the income arising out of Turkey may be exempted from taxation. In order to benefit from exemption, the applicant must prove that the taxes are paid in the country of origin. Usually, the certificate of taxation from the foreign taxation authority is necessary.

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