# Turkey

# Tax Guide

# -2014-


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# CONTENTS

# TURKISH TAX SYSTEM

## *IN GENERAL*

The Turkish tax regime is an important part of the economy and can be divided into three main categories:

- Income Taxes, such as Income Tax Individuals and Income Tax on Corporates
- Taxes on Expenditure, such as Value Added Tax or Banking and Insurance Transaction Tax or Stamp Tax
- Taxes on Wealth, such as Property Tax or Inheritance and Gift Tax

## A. INCOME TAX

### 1. Income Tax on Individuals

An individual is subject to the income tax on his/her income and earnings. The rules of taxation for individual income and earnings are provided in the Income Tax Law 1960 (ITL).

#### Taxable Income

Turkey has a unitary tax system under which income derived from different sources is aggregated and tax due is computed on the total aggregate income. Tax is imposed on a calendar year basis. The term individuals mean natural persons. In the application of income tax, partnerships are not deemed to be separate entities and each partner is taxed individually on their share of profit. An individual's income may consist of one or more income elements listed below:

- Business profits,
- Agricultural profits,
- Salaries and wages,
- Incomes of Self-employed individuals
- Revenues from immovable properties and rights (rental income)
- Income from movable property (income from capital investment)
- Other incomes and earnings regardless of its source.

Residents who have full tax liability status in Turkey are taxed on their income derived both in Turkey and outside Turkey.

#### Liability

Unlike most other countries, Turkey taxes individuals both on the basis of citizenship and residence. All individuals, whether domestic or foreign, along with corporations residing in Turkey, are liable to pay income tax on all income sources *"full-fledged taxpayer"*. Turkish citizens are deemed to be full-fledged tax payer unless they have evidence of residence abroad. Any Turkish citizen, who lives abroad and works for government or a governmental institution or a company with headquarter in Turkey, is considered as full-fledged taxpayer and any income they earn are subject to the income tax. Any non-resident earning an income in Turkey through the channels of employment, ownership of property, business transactions or any other income-generating activity is also liable to pay taxes, but only on the income, earned in Turkey *"foreign-based taxpayer".* **The aim of foreign-based tax liability is not to tax the individual but to <u>tax the incomes earned out of activities conducted in Turkey.</u>**

Foreign-based taxpayer is defined in Article 3/2 of Corporate Tax Law as a legal entity whose neither legal nor business headquarters are located in Turkey. In terms of natural person the Article 6 of Income Tax Law defines the foreign-based taxpayer as natural persons who are not settled in Turkey. According to the Article (4) of the same law, individuals who are residing in Turkey for an uninterrupted period (including temporary absences) of more than 6 months in any calendar year are deemed to be resident for tax purposes. However, foreign individuals who are on assignment in Turkey for a specific business project or mission, or those in Turkey for holiday, health care or educational purposes are not regarded as resident, even if they stay for more than 6 months.

There is no difference between foreign-based tax liability and full-fledged tax liability in terms of the nature and components of gains. On the other hand, the generation of gains and consideration of such gains **generated in Turkey** has been regulated in detailed and conditioned to principles that are different from the principles of full-fledged tax liability.

Income tax is charged on a trade or business, employment, professional services, dividends and interest, agriculture and rentals.

The general rule is that taxpayers must remit the amount of tax due in two equal payments. Taxpayers carrying on business or professional activities must make quarterly income tax payments during the tax year.

**Assessment of the Tax**

From a tax point of view, for the foreign-based taxpayers, it is especially important to determine under what conditions income is deemed to be earned in Turkey. The issue is dealt by the Article 7 of the Income Tax Law which provides the following conditions to determine whether or not the income and gains of foreign-based taxpayers are earned in Turkey;

*Business profit*
A person must have a permanent establishment or permanent representative in Turkey and income must result from business carried out in this permanent establishment or through such representatives.

*Agricultural income*
Agricultural activities generating income must take place in Turkey.

*Wages and Salaries*
Fulfillment of the following conditions indicates that the wage income is acquired in Turkey for individuals with foreign-based taxpayers' liability:

- If the employment service is performed in Turkey or,
- If the services are "evaluated" in Turkey.

An employment service will be considered as having been evaluated in Turkey, if the salary amount is paid in Turkey or it is booked as cost or expense by the Turkish entity.

*Incomes of Self-employed individuals*
If the self-employment activities are performed in Turkey or the self-employment activities are evaluated in Turkey, this indicates that self-employment earnings are acquired in Turkey for individuals with foreign-based taxpayers' liability.

*Revenues from immovable properties and rights*
Revenues acquired from rental of immovable properties and rights by their owners, by their holders, by those holding easement and usufruct rights or by their tenants are taxable in Turkey

- if the immovable property is located in Turkey; or
- if such properties and rights are used or evaluated in Turkey.

Property and rights those subject to a rental income are defined in Article 70 of Income Tax Law No.193.

Rental income derived by resident and non-resident individuals from immovable assets and royalties for patents and rights are subject to withholding tax a rate of 20%. This withholding tax may be eliminated or reduced under applicable double-taxation treaties.

*Incomes from Movable Capital investment*
Investment of the capital must take place in Turkey.

*Other Income and Earnings*

The activities or transactions generating for other income, specified in the Income Tax Act, must be performed or accounted for in Turkey. The following types of income are included in investment income;

- Dividends from all types of share certificates
- Earnings arising from participation shares
- Profits distributed to the chairman and members of the board of directors of companies
- Interest income derived from public and private bonds and treasury bills
- All interest income (Time deposits, repo and others)

**Tax Rates**

In principle, individual income and earnings are subject to income tax at progressive tax rates which vary between 15% and 35% and calculated on a cumulative basis. The personal income tax rate varies from 15% to 35%.

**Income tax rates applicable to yearly gross earnings, 2013**

| Exceeding TL | Not Exceeding TL | Tax On Lower Amount TL | Rates (%) |
|---|---|---|---|
| 0 | 11.000 | - | 15 |
| 11.000 | 27.000 | 1.650 | 20 |
| 27.000 | 60.000 (97.000 for wages) | 4.850 | 27 |
| 60.000 (97.000 for wages) | - | 13.760 (23.750 for wages) | 35 |

*Source:* Revenue Administration's Website

**Exclusions and Exemptions**

Certain amounts received by individuals need not to be reported for tax purposes.

The followings are specifically exempt,

- Annual rental income up to **3.300** TL for houses and up to **27.000** TL for offices and up to **1.400** TL for other commodities and rights (this is not an exemption in nature but rather lower limit for the taxable income)
- Employment income wholly consisting of salaries derived from one resident employer, provided that all payments are taxed by withholding mechanism on payroll,
- Interest income which has been subjected to withholding tax at source,

- Half of dividend income received by a resident taxpayer from a resident corporation,
- Income derived by authors, sculptors, painters and composers, etc. and their heirs from copyrights and patent rights,
- Pensions and other social security compensations received up to certain levels,
- Reimbursement (made by the employer) of travelling expenses incurred by employees for business purposes,
- Salaries paid in foreign currency by the representative/liaison offices of foreign companies,
- Retirement and termination indemnity payments ( maximum 3.438,22 TL for the second half of 2014)
- Capital gains from the disposal of Turkish corporation shares held for more than two years,
- Capital gains from the disposal of real estates retained by individuals for more than five years.

## Deductions and Allowances

Turkish income tax law provides various deductions and allowances for each category of income. Some important deductions and allowances are as below:

- The business expense deductions set out for companies are also applicable to individuals, to the extent that they relate to an individual's business income, and
- Compulsory pension contributions and social security premiums,

The following benefits are not taxable from the employee standpoint:

- Insurance premiums paid for the taxpayer and his family for death, sickness, disability, birth and education are deductible from the taxable salary. However, the insurance company should be established in Turkey and monthly insurance premiums should not exceed those established by law,
- If meals are provided at the business premises, total payment made by the employer is tax exempted. Otherwise, only certain amount is exempted.
- Transportation provided by the employer,
- Accommodation provided by the employer, to the employees working in mining, factory and those whom the employee should provide accommodation in accordance with the special legislation.
- Children allowance up to the amount received by a government employee, for maximum two children,
- Indemnity and assistance payments for reasons of death, disability, illness and unemployment,

- Assistance paid to employees because of marriage and birth, limited to two months' salary.

Annual expenses incurred on education and health up to 10% of the income declared on the annual tax return are deductible,

Effective from January 1, 2007, minimum subsistence allowance entered into force. The minimum subsistence allowance is based on the deduction of a specific total from the income taxes assessed on the wages paid to the wage earners. Accordingly, minimum subsistence allowance shall be determined by taking into consideration the following percentages of the annual gross total of the minimum wage that has been determined as of the beginning of the calendar year on which the concerned wage has been derived, that are applied on workers who are older than 16 years of age, and who are employed in the industry sector:

- 50% of the taxpayer himself,
- 10% of the spouse who is not employed in any work place and who does not have any income,
- To be applied separately on each child, 7.5% for the first 2 children, and 5% for the other children. In the draft tax law that is currently under discussion, the percentage for the third child will is increased to %10 percent to encourage the parents to conceive a third child.

Rental income earners may either itemize expenses related to immovable or may deduct a lump sum of 25 % of gross rentals expenses,

In calculation of taxable capital gains, the cost of assets whose disposal led to capital gains may be indexed to the inflation only if the inflation during the holding period is in excess of 10%. Non-residents are allowed to eliminate foreign exchange gains when calculating the taxable gains from disposal of Turkish securities.

## 2. Income Tax on Companies

New Corporate Tax Law No: 5520 has been entered into force on 21 June 2006. In this context, the previous Corporate Tax Law No: 5422 dated 03 June 1949 and its annexes and amendments have been abolished. It has made some important amendments in the current applications and also brought some new concepts into the tax legislation.

### Taxpayers

Corporations and corporate bodies specified by the Law as taxpayers in respect to the company tax are as follows:

a. Companies with Share Capital; Joint stock companies, limited liability companies and limited companies with shares which are founded under the Turkish Commercial Code and similar foreign companies. Funds which are subject to regulation and supervision of Capital Markets Board and similar foreign Funds are also included here.

b. Co-operatives; Co-operatives founded under Co-operatives Law No: 1163 or co-operatives founded under its special laws and similar foreign co-operatives.

c. Public Enterprises; Commercial, industrial and agricultural organizations outside of (i) and (ii) above, which have continuous business activity and owned by or affiliated to central and local administrations, municipalities, and other public organizations,

d. Commercial, industrial and agricultural organizations outside of (i) and (ii) above owned by or affiliated to foreign states, foreign state administrations and organizations are also treated as state economic enterprises.

e. Economic entities owned by foundations and associations: commercial, industrial and agricultural organizations outside of (i) and (ii) above, which have continuous business activity and owned by or affiliated to foundations or associations and similar foreign enterprises are economic entities run by foundations or associations. Unions are treated as association and congregations are treated as foundation.

f. Joint Ventures: These are established between entities subject to Corporation tax and individuals to render work with the objective of sharing profits under the joint responsibility. Corporate tax liability of joint ventures is subject to election by its partners and therefore the joint ventures are considered as partnerships (i.e. partners are liable to tax) unless the partners made such an election so that the joint venture is treated as if it is a company for corporate tax purposes.

State economic enterprises and economic entities run by foundations and associations, whether or not they have a) legal personality, b) independent accounting systems, or c) share capital or d) own business places and regardless of whether they are formed for the purposes of profit, are subject to taxes on income.

## Taxable Income

All income (including capital gains) generated by the above-mentioned legal entities that are subject to corporate tax is taxable unless exempted from tax or excluded under the incentive rules. Expenses incurred in the course of the business are generally deductible. The income elements by Corporate Tax Law are the same as those covered in the Income Tax Law.

*Capital Gains Tax*

Capital gains are normally regarded as part of ordinary corporate income. In principle, capital gains derived from the sale of shares in a local company by either a foreign company or a local company are taxable.

Taxation of capital gains derived from the sale of shares between non-residents (individuals or corporations) differs according to the legal status of the company whose shares are held. The existence of a bilateral tax treaty between the country of residence of the non-resident shareholder and Turkey may generally result in capital gains tax being avoided in Turkey on the condition that the holding period exceeds one year.

In general, this is also true for the capital gains arising from the sale of shareholding in a limited liability company.

Tax resident companies are eligible for the participation exemption scheme in respect of certain shareholdings. However, 75% of capital gains derived from the sale of domestic participations are exempt from corporation tax if the following conditions are satisfied:

- the shares must have been held for two years prior to the disposal
- the amount of the gain must be kept in a special reserve account for at least five years
- the exempt profits are not transferred within the specified period to another account (except for transfers to the capital account by way of a capital injection); and
- the consideration for the sale is collected by the end of second calendar year following the year of the sale.

The sale revenue must be collected by the end of the second calendar year following the year of sale.

On the other hand, the draft law provides different percentage of exemption for different period of time in which the capital gains occurred. According to the draft law, if the shareholding is sold at the end of two exact year of the time the shareholding obtained, 40%; if sold at the end of three exact year, 50%; if sold at the end of four exact year, 60%; and if sold at the end of five exact year 75% of capital gains derived from such sale is exempted.

*Branch Profits Tax*

There is no branch profits tax in Turkey. Any profit made by a foreign company which is set up to conduct a business in Turkey is subjected to corporate income tax.

*Sales Tax/Value Added Tax*

Value Added Tax “VAT” is levied on all goods and services supplied within the scope of commercial, industrial, agricultural and independent professional activities and on the importation of goods and services. The supply of all goods and services is subject to VAT unless exempt. Greater detailed information on VAT provided under the subsection “1. Value Added Tax” of the section “B. TAX ON EXPENDITURES” below.

*Special Consumption Tax*
Special consumption tax was introduced on 12 June 2002 in order to simplify the Turkish tax system. When special consumption tax came into force, the high level VAT taxes were decreased to a maximum of 18%.

The Council of Ministers’ Decision numbered 2011/2304 published on the Official Gazette and the website of the Revenue Administration became effective on 13 October 2011. It sets the increased rates and fixed amounts of Special consumption taxes applicable to certain types of goods (i.e. tobacco products, mobile phones etc...) Special Consumption Tax is explained in more details under the under the section “B. TAX ON EXPENDITURES” below.

*Local Taxes*
There are general municipal taxes and real estate taxes on building and land.

**Liability**
One of the most important concepts that the New Corporate Tax Law No: 5520 has brought into Turkish company tax law is the classification of the taxpayer with regard to the liability. From the liability aspect, the New Law classifies the taxpayer companies as full-fledged and foreign-based taxpayers. Full-fledged taxpayers are liable for tax on their worldwide income while taxpayers are subject to tax on income earned in Turkey.

Corporations are regarded as full-fledged taxpayers if their statutory head office or actual business center is located in Turkey as stated in the articles of association. Thus foreign-owned subsidiaries wholly established in Turkey are regarded as full-fledged taxpayers whereas foreign branches are treated as foreign-based taxpayers. A foreign corporation is regarded as a foreign-based taxpayer in Turkey and is taxable on its Turkish-sourced income only.

**Tax Rates**
The effective corporate tax rate is **20%**. However, incentive programs provide for reduced corporate tax rates for income from the investments supported.

**Assessment of the Tax Value**
The corporate tax value is assessed by deducting expenses from the income of an enterprise. The items below are exempted from corporation tax.

## Exemptions

*Dividends*

- 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 the dividends are attributable to a Turkish permanent establishment or branch. Dividends received by the companies from founder's shares that give a participation right to the profit of another resident company and from other redeemed shares are exempt from corporate taxation. Capital gains are not covered under this exemption.
- Dividends received from participations outside Turkey are exempt from corporate taxation if certain conditions are valid. These are, generally, among others, (i) the participation rate has to be at least 10 %, (ii) the participation should have been held at least for 1 year, and (iii) foreign tax burden is at least 15 %, (iv) gain should be transferred to Turkey until the date filing of corporate tax return of the fiscal year in which the relevant gain obtained. Capital gains upon disposal of shares in foreign participations are not covered under this exemption. Under the same conditions, foreign branch profits may also eligible for this exemption.
- The capital gains obtained by a resident joint stock company from the sale of the shares of the participations/subsidiaries whose legal and business centers are outside of Turkey (i.e. shares of the foreign subsidiaries) are exempted from the corporate tax if the following conditions are satisfied all together;

    a) At least 75% of the total assets of the Turkish company, other than cash equivalents, should be composed of participation in foreign subsidiaries shares at least for an uninterrupted period of 1 year as of the date of the gain obtained,
    b) Turkish joint stock company must hold at least 10% of shares of these foreign subsidiaries,
    c) The foreign subsidiary must be a company in the status/nature of a joint stock or a limited liability company,
    d) The shares of the foreign subsidiary must be held by the resident joint stock company at least for two whole years.

- Gains obtained by the companies through the business place or legal representatives abroad are exempted from the corporate tax with the fulfillment of the certain conditions. These are, generally, among others, (i) gains should be subject to at least 15% tax burden in accordance with the tax legislation of the relevant countries, (ii) gains should be transferred to Turkey until the date of the filing of the corporate tax return of the fiscal year in which the relevant gain obtained.

*Export exemption*

Profits of non-resident companies which have a place of business or a permanent representative in Turkey which forwards goods purchased in Turkey for the purpose of export, without selling such items in Turkey, are not considered as taxable profits attributable to the place of business or permanent representative.

*Exempt Income*

The following types of income are exempted from Corporation Tax:

**a.** New share issue premiums (Agio), which represent the difference between the nominal and sale values of shares issued by joint-stock companies, are exempt from corporation tax.

**b.** Offshore income from construction, repair, maintenance and technical services is exempt from corporation tax.

**c.** Portfolio management income by securities investment funds and companies, the profits of real estate investment funds and companies, and venture capital investment funds and companies, and pension funds, and housing financing funds and wealth financing funds, and the portfolio management profits obtained by investment funds or companies which have portfolio based on the gold and precious metals dealing in exchange markets founded in Turkey are exempt from corporation tax. However, this income, except for pension funds' income, will be subject to a withholding tax at 15 % irrespective of whether distributed or not under new Corporate Tax Law. Council of Ministers is authorized to reduce this withholding tax rate to zero or to increase it to 20% and also authority to differentiate within the same limits according to the types of funds or companies and nature & allocation of the assets in their portfolios. In this context; the withholding tax rates are as follows based on Council of Ministers Decree 2009/14594;

- 0% for portfolio management income by securities investment funds and companies.
- 0% for profits of housing financing funds and wealth financing funds.
- 0% for profits of real estate investment funds and companies.
- 0% for profits of venture capital investment funds and companies.

**d.** 75 % of capital gains arising from the disposal of immovable properties and participation shares, founder's shares, pre-emptive rights and redeemed shares in other companies are exempt from the corporate tax. Major requirements are;

- assets sold should have been held at least for two years;

- the exemption is applied in the year in which sale occurred and capital gain benefit from the exemption should be kept in a special reserve account at least for five years
- sales revenue should be collected until the end of second calendar year following sale year
- exempted amount cannot be transferred to another account (other than paid-up capital) or withdrawn from company within five years and also the company is not liquidated within 5 years.

**e.** There are tax-holidays available also under some specific laws related to the business activities maintained in Turkish Free Zones (i.e. the income concerning manufacturing activities in Free Zones is exempted from corporate income tax up to the membership of Turkey to EU, this exemption does not cover the dividend distributed) and in Technology Development Areas as well as the tax holiday available for profits made through operating vessels that are registered as Turkish International Ship Registry Office. Profits arising from providing education and rehabilitation services are exempt from corporate taxation for period of 5 years starting from commencement of such businesses subject to fulfillment of certain conditions.

**Allowable Deductions**

Net business income is determined by deducting expenses relating to the operating of the business from the gross income realized by the business.

The tax law first provides that all general expenses incurred with the purpose of generating and maintaining commercial income are tax deductible. Then the law lists all other tax-deductible expenses. Non-deductible expenses are also separately determined.

- Charges to Turkish companies for management expenses by a parent or sister corporation are tax deductible as long as they comply with Turkish transfer pricing regulations. Please also see explanations stated under non-allowable deductions section.
- Taxes imposed on goods such as taxes on real estate, stamp tax, registration duties and municipal fees, are deductible.
- Payments of royalties for the use of patents, copyrights, know-how and trademarks are deductible.
- A specific bad debt reserve is allowed where:

  a) The dispute on the receivable is under review by the Courts, or

b) Miscellaneous receivables which have not been paid after a formal notarized or written request to pay,
c) The Banking Law and related regulations have special reserve requirements for non-performing loans.

- Expenses incurred for business entertainment are deductible on condition that bills, which state the purpose and the names of the guests, support them.
- Travel expenses (including meals and lodging) are deductible if they are incurred for business purposes and are reasonable as compared with the importance of business. Payments by an employer to an employee in excess of the amount paid to government officials earning the same salary levels are subject to taxation as remuneration. However, if an employer pays actual meal and lodging expenses, based on receipts issued by the third parties, such payments are not taxable.
- Donations to government offices, municipalities, villages, associations that pursue the public interest and foundations under the Civil Code with a tax exempt status granted by the Government, and organizations engaged with scientific research and development are deductible up to 5 % of taxable income of the relevant year.
- All construction expenses made for the school, health premises, dormitories, nursery schools, rest homes, rehabilitation centers donated to the establishments stated above, and all kind of donations and gifts made to these corporations for the construction of the mentioned premises or for the continuance of the activities of the existing premises.
- Total amount of the donation made in cash or in kind via Prime Ministry upon a receipt for the natural disasters decided to be helped by Board of Ministers.
- Total amount of sponsorship expenses for amateur sport activities decided by the relevant laws and 50% of sponsorship expenses for the professional sport activities.
- Employee salaries and payment to the chairman, directors and auditors are deductible. Payments may be in the form of allowances, fees, premiums and bonuses. Payments in kind are also tax deductible but are deemed as salary and taxed as such.
- Interest costs; either as a direct charge or as depreciation allowance when capitalized.
- Undocumented expenses up to 0.5 % of the gross income realized in foreign currency related to export, construction and maintenance services performed outside of Turkey, and international transportations.
- Fees paid to the Employer's Union are deductible with the condition that monthly fees paid should not exceed the daily total payment of salaries.
- A loss incurred in any financial year can be carried-forward for 5 years against future profits for purposes of corporation tax. It cannot be carried back. An order of priority applies for the use of losses and exemptions to offset taxable income for the year.

Past years' losses are used after exemptions that apply even in the event of a loss. After the losses are used, the other exemptions that apply in profitable years are administered (R&D deduction, tax-deductible donations and others).

Resident companies may deduct the losses incurred in business activities performed abroad if the foreign losses are approved by auditors authorized under the laws of the relevant jurisdiction. Foreign losses from foreign activities cannot be deducted if income arising from such activities is exempt from corporation tax in Turkey.

- 100 % of research and development (R&D) expenditures may be deducted from the tax base if certain conditions are fulfilled. This is an incentive that is granted in addition to the ordinary depreciation expense recognition of capitalized R&D expenditures. The incentive covers the following expenses:
  - Raw materials and supplies' expenses
  - Personnel expenses
  - General expenses
  - Payments for benefits and services provided by outsourcing companies
  - Taxes, duties and fees
  - Depreciation and depletion
  - Financial expenses

  Companies that are not able to deduct R&D expenditures because of insufficient taxable income may deduct the unused amount in the following years.

  In addition, to support R&D activities, the Turkish Scientific and Technological Research Institution (TUBITAK) may provide monetary aid to companies with respect to their R&D activities under certain conditions.

- Assets that are used in a company for more than one year and that are subject to wear and tear are depreciated.

  The useful life concept is used for the depreciation of fixed assets.

  The taxpayers may select the straight-line method or the declining-balance method to calculate depreciation. A company may change from the declining-balance method to the straight-line method (but the reverse change is not permitted) at any time during the useful life of a fixed asset. A company may exercise this option on an asset-by-asset basis.

  The balance of the regular depreciation for the year of acquisition is deductible in the last year of depreciation of the asset, together with the regular depreciation for the last year.

## Non-allowable Deductions

*Disguised Profit Distributions (Transfer Pricing)*

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

*Legal Reserves*

Any kind of reserves (including all kinds of reserves computed under the Turkish Commercial Code, Banking Law and special laws concerning corporations or their Articles of Associations) is not deductible.

*Cost Allocation*

Interest, commissions etc. paid to a parent company or branches outside Turkey for purchases and sales carried out on behalf of a non-resident company in Turkey and amounts allocated to meet the expenses and losses of the parent company and its branches outside Turkey, are not tax deductible with the exceptions of;

- amounts related to the generation and continuation of income in Turkey and allocated in line with the cost allocation keys determined in accordance with the arm's length principle, and
- travel expenses incurred by authorized persons sent from foreign countries in connection with the auditing and supervision of a branch in Turkey.

*Thin Capital Costs*

Interest, foreign exchange losses and other similar expenses related to the borrowings from related parties which are regarded as thin capital are treated as non-deductible expenses for corporate income tax purposes.

The Corporate Tax Law imposes a specific debt/equity ratio of 3:1 for consideration of thin capital. If the borrowing obtained directly or indirectly from shareholders or persons related to shareholders exceed three times the shareholders' equity of the company at any time during the relevant year, the exceeding portion of the borrowing will be treated as thin capital.

If the shareholder (or related party) providing the loan is qualified as a bank or a financial institution which operates in line with its own field of activity, then the 50% of the borrowings obtained from these will be taken into consideration in the calculation of debt/equity ratio - hence the allowable debt/equity ratio will be increased to 6:1.

However, borrowings obtained from the intra-group credit companies which are only financing the relevant group companies cannot be taken into consideration as 50% in the calculation of debt/equity ratio.

Loans mentioned below (but not limited to) will not be qualified as thin capital;

- Loans obtained from the 3rd parties against non-cash guarantees provided by shareholders or the persons related to the shareholders,
- Loans obtained by companies' subsidiaries, shareholders or related persons from the banks and financial institutions or from the stock markets that are transferred wholly or partially to the company with the same term and conditions.

Excluding foreign exchange differences, the interests paid or calculated and other similar expenses over the thin capital (that exceeds the 3:1 debt equity ratio) is treated as dividend distributed to shareholders as of the last day of the accounting period in which thin capital conditions are satisfied.

**Investment Incentive Allowance**
Investment Incentive Allowance was a mechanism which enabled the taxpayers to deduct some of their eligible investment expenditures against their fiscal profits. In the absence of any fiscal profits, the carried forward investment allowance was being allowed to be carried forward for utilization against the future fiscal profits without any time limitation.

Article 19 of the Income Tax Code concerning investment incentive allowance has been abolished as of January 1, 2006. However, it is envisaged that the application of investment incentive allowance, with some exceptions, would continue to be applied until the end of 2008 under some circumstances.

Alternation has been made in 2010 as the companies might continue utilizing deferred investment allowances as %25 of their fiscal income due to the law numbered 6009, article 5. Finally, in February 2012, constitutional court decided to terminate existing process and by the publish of decision in official journal on 18.02.2012, the companies are able to utilize the whole amount of their investment incentives.

**Double taxation relief**
*Unilateral relief*
A tax credit is granted for foreign tax paid up to the amount of Turkish corporate income tax attributable to foreign income. Any part of the credit that cannot be used in a particular year maybe carried forward to the following three years, but the foreign tax amount is limited to the Turkish corporate income tax attributable to the foreign

income. The foreign tax paid must be documented through foreign tax office receipts approved by the Turkish consulate in the country in which the foreign tax was paid.

Specific conditions apply to use foreign tax credits relating to dividends received by resident Turkish companies from their foreign participations.

*Tax treaties*

Turkey has a broad tax treaty network, which uses the exemption or credit method to eliminate double taxation. Turkey tends to follow the OECD model convention in its treaty negotiations and has included in all its income tax treaties a mutual agreement procedure and an exchange of information procedure.

According to rulings issued by the tax authorities, to obtain benefits under a tax treaty, tax must first be withheld; a refund will be issued after documentation (e.g. residence certificate) is provided.

**Anti-avoidance rules**

*Transfer pricing*

Turkey's transfer pricing rules are generally in line with the OECD Transfer Pricing Guidelines. The rules apply when transactions (i.e. the sale or purchase of goods, services and intangibles) between related parties (both resident and nonresident) are not determined in accordance with the arm's length principle. In such cases, profits arising from the transaction will be deemed to be a "disguised profit distribution through transfer pricing" subject to both corporate income tax (20%) and dividend withholding tax (15%).

The transfer pricing rules provide for the three traditional methods listed in the OECD Guidelines (comparable uncontrolled price, cost plus and resale price methods). Other acceptable methods include profit-based methods (profit split method and transactional net margin method), as well as methods to be determined by the taxpayer that prove to be the "best method" based on the taxpayer's particular circumstances. Finally, taxpayers are required to select and use the most appropriate transfer pricing method that provides them with the arm's length price based on the facts and circumstances of their transactions.

Taxpayers are required to maintain contemporaneous documentation to support their transfer pricing, which must be submitted by the deadline for filing the annual corporation tax return.

It is possible to obtain an advance pricing agreement (APA) from the Ministry of Finance to determine the transfer pricing method with respect to cross-border related party transactions. The selected method will apply for a maximum of three years, provided the conditions at the time the APA is entered remain unchanged. APAs can be unilateral, bilateral or multilateral.

*Thin capitalization*

The thin capitalization rules apply where loans from shareholders or related parties exceed a 3:1 debt-to-equity ratio at any time in an accounting period. Loans from related party banks or financial institutions will not trigger the rules unless the amount of the borrowing exceeds six times the shareholder equity. Related parties, for these purposes, are defined as shareholders and persons related to shareholders that own, directly or indirectly, 10% or more of the shares, voting rights or the right to receive dividends of the company. The equity amount to be determined in accordance with the Tax Procedures Code at the beginning of the accounting period will be the equity considered for purposes of determining whether the thin capitalization rules apply.

Where the debt-to-equity ratio is exceeded, interest, foreign exchange losses and any relevant related expenses will be deemed to constitute a hidden profit distribution or a remittance of profits (in the case of nonresidents operating in Turkey through a permanent establishment/branch) as of the last day of the accounting period in which the conditions for application of the thin capitalization rules are satisfied. Such expenses are nondeductible and subject to dividend withholding tax at the 15% rate. (A tax treaty may reduce the rate of dividend withholding tax to 10% or 5%, depending on the country of residence of the recipient of the dividends.)

The following loans are not considered to constitute thin capital:

- Loans from third parties under a non-cash guarantee provided by shareholders or related parties;
- Loans granted to shareholders or related parties where the loans are obtained from third-party banks, financial institutions or capital market institutions and that are granted to related parties under the same conditions as if obtained from third-party banks/financial institutions (i.e. “pass-through loans”); and
- Loans received by financial leasing and factoring companies from related banks provided the loans are obtained for the financing of their main operations in accordance with legislation governing their operations.

*Controlled foreign corporations*

The controlled foreign corporation (CFC) rules are triggered when a Turkish resident company controls, directly or indirectly, at least 50% of the share capital, dividends or voting power of a foreign entity, and the following conditions are satisfied:

- 25% or more of the gross income of the CFC is comprised of passive income, such as dividends, interest, rents, license fees or gains from the sale of securities that are outside the scope of commercial, agricultural or professional income;
- The CFC is subject to an effective tax rate lower than 10% in its country of residence; and
- The annual total gross revenue of the CFC exceeds the foreign currency equivalent of TRY 100,000.

If all of the above requirements are met, the profits of the CFC will be included in the profits of the Turkish company in proportion to the Turkish company's share in the capital of the CFC, regardless of whether the profits are distributed, and will be taxed currently at the 20% Turkish corporation tax rate.

*General anti-avoidance rule*
Turkey has a general anti-abuse rule (GAAR) that relies on the "substance-over-form" principle and allows the tax authorities to disregard the form of a transaction where it is clear that the taxpayer is attempting to avoid tax.

In addition to the GAAR, another anti-avoidance rule provides for the imposition of a 30% withholding tax on certain payments made to residents in low tax jurisdictions.

**Administration**
*Tax year*
The tax year is the calendar year or a fiscal year. It is possible to request a special accounting period from the Ministry of Finance.

*Filing and payment*
Corporations are required to pay advance corporate tax based on their quarterly profits at a rate of 20%. Advance corporate income tax payments made during the year are offset against the final corporate tax liability of the company, which is determined in the annual return. Advance corporate tax returns must be submitted by the 14th of the second month following the quarterly period and the tax is payable by the 17th of the same month. Any excess payment may be offset against other tax liabilities, and if there are no other liabilities, the taxpayer may request a refund.

A corporate income tax return must be filed by the 25th day of the fourth month after the end of the company's accounting period. Corporate income tax is payable by the end of the month in which the tax return is due (i.e. by the end of April for companies using the calendar year as the fiscal year). However, the Ministry of Finance may extend the payment deadline.

Withholding tax returns must be filed with the local tax office by the 23rd of the following month and tax paid by the end of the 26th day of the month in which the return is submitted.

*Consolidated returns*
Turkish tax law treats every company in a group as an independent unit. No provision is made for affiliated companies to file a consolidated return or to surrender losses to another company within the group; each entity is taxed separately.

*Statute of limitations*
The general statute of limitations for the assessment and the collection of tax is five years, starting from 1 January after the due date of the tax return.

*Tax authorities*
The Turkish tax authorities are the Revenue Administration, which is established at the national level and is responsible for the collection of tax and enforcement of the tax law in Turkey.

*Advance rulings*
A taxpayer may request from the Ministry of Finance or from the authorities designated by the Ministry, an advance ruling on their fiscal situation and questions that they would consider equivocal and causing uncertainty with respect to the application of tax. The responsible authorities will issue the ruling as a written notice or in a circular.

## Withholding Taxes
*Dividends*
Dividends paid to a Turkish resident entity (i.e. Turkish holding company) or to a Turkish branch of a foreign company are not subject to withholding tax. Dividends paid to a nonresident company are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

*Interest*
Interest on loans payable to foreign states, international institutions, or foreign banks and foreign corporations that qualify as financial entities in their country of residence and that provide loans to the public (not only to the companies in a specific group) is subject to a 0% withholding tax. A 10% rate applies to interest paid on loans from nonresident entities that are not authorized/qualified as “financial entities” and that provide loans only to specific group companies.

*Royalties*
Royalties paid by a Turkish company to another Turkish company are not subject to withholding tax. However, such payments made to a nonresident in respect of

copyrights, patents and trademarks are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

*Branch remittance tax*
A remittance of branch profits to a head office is subject to a 15% withholding tax, applied on the amount after the deduction of corporate income tax from taxable branch profits.

*Wage tax/social security contributions*
Salary paid by an employer in Turkey is subject to withholding tax at source at the relevant progressive rates, which range from 15% to 35%. Social security premiums are calculated as a percentage of gross salary and are payable by both the employee and the employer: 14% for the employee and 20.5% for the employer, up to an upper earnings level of TRY 7.371,00 for the period 1 July 2014 to 31 December 2014. There also is an unemployment contribution scheme, with the premiums of 1% for the employee, 2% for the employer and %1 for the government.

*Other withholding taxes*
Professional service fees paid to a resident/nonresident are subject to a 20% withholding tax if the services are provided in Turkey or the payment is made in Turkey.

A 20% withholding tax is levied on payments made to a nonresident for the lease of immovable property if the property is located in Turkey or the relevant rights are used in Turkey.

## B. TAXES ON EXPENDITURE

### 1. Value Added Tax (VAT)

**In General**
All deliveries of goods and services that take place in Turkey in the context of commercial, industrial, agricultural and professional activities are subject to VAT. Goods and services imported and deliveries and services arising from other activities are also subject to VAT.

**Taxpayers**
In general, the person liable for the payment of VAT is the one who delivers and imports the goods or performs the services.

**Deductibles**
The input VAT that a taxpayer pays for goods and services purchased can be offset against (deducted from) output VAT calculated on deliveries of goods and services. In case the amount of output VAT on sales is greater than the input VAT, the positive

difference becomes payable. In case the amount of output VAT is less than the input VAT, the difference can be carried forward and can be offset against oncoming output VATs.

In certain conditions (i.e. exportation, deliveries that are subject to reduced VAT rate etc.), the VAT carried forward could be offset against other tax liabilities and social security debts of the taxpayer or it could be refunded in cash. The refund procedure includes detailed and complicated formalities.

VAT is reported and paid monthly. Each month's VAT return must be submitted to the tax office until the 24th of the following month. If the return shows a VAT payable balance, it must be paid till the evening of 26th day of the month that the return is filed.

**Tax Rates**
Generally the VAT rate in Turkey is 18%.

However, reduced rates are applied for a number of deliveries of goods and services such as:

**VAT rates, 2014**

| Goods and Services | Rates |
|---|---|
| Deliveries of newspapers and magazines | 1% |
| Processing and deliveries of agricultural commodities | 1% |
| Basic foods | 1%-8% |
| Houses (up to net 150 m2) | 1% |
| Secondhand passenger cars | 1% |
| Cinema, theater, opera, etc. | 8% |
| Deliveries of books and similar publications | 8% |
| Medical products and devices, etc. | 8% |
| Cotton and certain textile products | 8% |
| Shoes, cases, bags, carpets, leather dressings | 8% |

*Source:* Revenue Administration's Website

**Exclusion and Exemptions**
Some deliveries which qualify VAT exemption in certain conditions are listed below:

- Exportation of goods and services
- Local deliveries under the condition of exportation

- Certain imported goods
- Goods purchased by tourists
- Marine, air and rail conveyance deliveries and services rendered for their maintenance and repair
- Services rendered at marines and airports for marine and air conveyances
- Goods and services purchased by those engaged in petroleum, gold, silver or platinum exploration
- Deliveries of machinery and equipment within the scope of the investment incentive certificates which grant VAT exemption
- Services and deliveries provided by parties in connection with construction, renovation and expansion of the seaports and airports
- International transportation services
- Deliveries made and services provided to diplomatic representatives and consulates of foreign countries in Turkey as well as to their members who possess diplomatic rights on condition of reciprocity
- Deliveries made and services provided to international organizations and their personnel that have been granted a tax exemption based on international agreements
- Deliveries of shares and immovable properties which are acquired during at least 2 years
- Banking and insurance transactions
- Certain deliveries realized for cultural, educational and social purposes
- Deliveries made and services provided by military factories and shipyards that are in accordance with the purposes for which they were established
- Merger and spin-off transactions
- Deliveries of gold, silver, precious metals, foreign exchange, cash, stamps, stocks, bonds and scraps
- Services rendered in the free zones
- Transmission of crude oil, oil, and oil-based products through pipelines
- Deliveries of land and places of business by economic enterprises which were set up for the purpose of the establishment of organized industrial zones and minor industrial sites and deliveries of housing units to the members of housing cooperatives.

**VAT Assessment Base**

The basis for the VAT assessment is the amount incurred for the goods and services received. In this case, "the amount incurred" is defined as amount on goods received as well as any benefits, services, etc. that are capable of being represented in terms of money. The VAT assessment base also includes various types of charges such as credit charges, interest charges, and premiums, shipping, loading, unloading, and similar charges made by the seller for delivery to a point specified by the recipient; packing charges, insurance, commission fees and similar outlays. On the other hand, discounts shown on invoices are not subject to VAT.

In the case of transactions where the price is not determined and where the price is obviously too low compared with comparable prices and/or charges, the comparable prices are taken as the VAT assessment base.

## Non-deductible VAT

In order to secure VAT receivable in certain occasions, the companies which purchase goods and services are held responsible for the filing of VAT on behalf of goods and service provider. The company, which purchases relevant goods and services, declares and pays reverse charge VAT by a separate VAT return and deduct the same amount in the normal VAT return.

The services of foreign companies which are provided or benefited in Turkey are subject to reverse charge VAT.

Reverse charge services rendered from abroad are quite wide-ranging and are as follows:

a. Transfers of copyright, patents, licenses, trademark, know-how and similar rights;
b. Commissions;
c. Independent professional services such as engineering, consulting, data processing and provision of information etc.
d. Interest payments on the liabilities to foreign entities other than banks and other institutions;
e. Rental services;
f. Transfer or assignment of the right to use capacity for transmission, emission, or reception of signals, writings, images, sounds or information of any nature by wire, radio, optical or other electromagnetic systems;
g. Any other services not specified above when supplied to a recipient registered for Turkish VAT.

Where a foreign entity, having its headquarters outside of Turkey, establishes a branch in Turkey and renders services via the branch, then such services would not be subject to reverse charge. The branch itself must account for the VAT according to ordinary procedure since it is subject to VAT register in Turkey, because of the permanent establishment.

## 2. Banking and Insurance Transaction Tax (BITT)

### In General

BITT is imposed on the gross income of banking and insurance companies with respect to all types of transactions, except the transactions conducted according to the Financial Leasing Code. In order for the BITT to occur, a transaction has to be conducted; a collection related to the transaction has to be made in cash or on account and the amount collected has to be on advantage of the related party.

### Taxpayers

Taxpayers are banks, insurance companies and bankers. Financing companies, lenders and factoring companies are also taxpayers.

### Rates

General BITT rate is 5%. The tax rates for specific transactions are stated below:

**BITT rates, 2014**

| Transactions | Rates |
|---|---|
| Interbank deposit transactions | 1% |
| Repossessions | 1% |
| Sale of government bonds and treasury bills | 1% |
| Foreign exchange transactions | 0% |
| Money market transactions between banks and brokers | 1% |

*Source:* Revenue Administration's Website

### Other Issues

BITT is declared and paid monthly. A return has to be filed and the tax has to be paid by the 15th day of the month that follows the month of the transactions.

## 3. Special Consumption Tax (SCT)

### In General

Goods in the lists attached to the Special Consumption Tax Law are the subject of the tax. Special consumption tax is realised during importation or at the end of production and at rates from 0.5% to 130%.

There are mainly 4 different product groups that are subject to special consumption tax at different tax rates:

- List I is related to petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents.

- List II is related to automobiles and other vehicles, motorcycles, planes, helicopters, yachts.
- List III is related to tobacco and tobacco products, alcoholic beverages and cola.
- List IV is related to luxury products.

**The Taxpayers**

The Taxpayers of the Special Consumption Tax Taxpayers are different according to the lists. They are;

- For List I; manufacturers and importers of the petroleum products,
- For List II; merchants of motor vehicles, exporters for using or sellers through auction,
- For List III; manufacturers, exporters or sellers through auction of tobacco, alcoholic beverages and cola,
- For List IV manufacturers, exporters or sellers through auction of luxury products.

**Exemptions**

Some deliveries, importations and initial acquisitions qualify the special consumption tax exemption in certain conditions specified in the special consumption tax legislation (i.e. export deliveries; import, first acquisition and deliveries of goods specified under List I, II and III to international organizations and their personnel that have been granted tax exemption based on international agreements and to diplomatic representatives and consulates of foreign countries in Turkey as well as to their members who possess diplomatic rights on condition of reciprocity etc.)

### 4. Special Communication Tax

**In General**

Services of cell phone, cable radio and television broadcasts and telecommunication are generally the subject of the tax. Taxable event is the carrying out these services.

**Taxpayers**

The taxpayers of this tax are operators who render telecommunication services. This tax is usually borne by customers.

**Other Issues**

Taxation period is each month of the calendar year. Taxes collected in each month are declared and paid by the evening of the 15th day of the following month.

### 5. Stamp tax

## In General

A wide range of documents in the List I attached to the Stamp Tax Law are the subject of the tax. The term "documents" refers to the documents which are issued by writing on and signing or putting a mark that may substitute for signature and which can be presented to improve or indicate an issue and the documents which are prepared in magnetic environment and as electronic data.

Stamp tax is applied to a wide range of legal documents such as contracts, agreements, letters of undertaking, deeds of settlement, letters of cancellation, letters of guarantee, financial statements, returns and remunerations (payroll).

## Taxpayers

The taxpayers of the stamp tax are those who sign the documents. The companies who sign the contract are joint liable for the payment of the stamp tax. The taxes for the documents issued abroad or in the foreign embassies and consulates in Turkey are paid by those who present these documents to the official bodies in Turkey, who transfer or endorse them or who benefit from their provisions.

Contracts signed outside Turkey may not be subject to stamp tax. However, such a contract will still be within the scope of stamp tax practice if one of the following conditions is fulfilled.

Presenting to Turkish authorities (official departments),

Providing with a formality or endorsement,

Using (benefiting) from the provisions of the contract in any way in Turkey.

The base of the stamp tax is the amount stated on the document. In case the amount is not clearly stated but if it is possible to calculate the value of the contract from the variables stated in the contract, calculated amount will be taken into consideration.

Stamp tax can either be lump sum or proportional. In other words, there is either a fixed amount of tax to be paid or the amount is computed as a percentage of the value of the transaction evidenced by the document.

## Tax Rates

The tax rates or amounts differ depending upon the nature of the document or the transaction. Amounts set in foreign currencies are converted to Turkish Lira over f/x selling rates determined by Turkish Central Bank.

The general stamp tax rate applicable to the agreements is 0.948 %. On the other hand, the tax rate is 0.189 % for rental agreements and letters of cancellation; 0.948 % for letters of guarantee and deeds of settlement and 0.759 % for remunerations (payroll). If another document is referred on the document whose nature is to be determined, the tax is levied according to the nature with regard to the provisions of the referred document. In this case, the amount to be taken as a basis as determined money, will of course include the money and amounts indicated on the attachments or on the documents referred.

Each original copy of the documents is subject to separate stamp tax.

Meanwhile, in the calculation of stamp tax over each document there is a cap\ceiling to be considered which is TL 1.545.852,40 for the year 2014.

**Other Issues**
Stamp tax can be paid in three ways; by putting printed stamp, in respond of receipt and by withholding from the gains. Stamp tax returns shall be submitted till 23th day of the following month and paid till 26th day of the following month of the month in which the document is signed / issued.

### 6. Custom Duty

**In General**
Goods imported from abroad are the subject of the tax. Taxable events are free circulation of goods, registration of customs declaration, and temporary importation in case of partial exemption.

**Taxpayers**
Taxpayers are principally persons who declare to the customs office.

**Other Issues**
Customs duties are assessed on written declaration by the taxpayer and paid within 10 days dating from communication.

## C. TAXES ON WEALTH

### 1. Inheritance And Gift Tax

**In General**
The transition of goods, which belong to Turkish citizens, and goods, which are within Turkey from one to another without return, and by inheritance or in another way are the subject of the tax.

**Taxpayers**
Taxpayers are the persons who acquire goods by inheritance or gratuitously. Turkish citizens who gain possession outside of Turkey without payment are also subject to this tax. Resident foreigners are subject to inheritance and gift tax on worldwide assets

received from Turkish citizens and on assets located in Turkey received from resident foreigners or nonresidents. Nonresident foreigners are subject to inheritance and gift tax on assets located in Turkey only.

**Exemptions**

For year 2014, TL 146,306 for inheritance gains and TL 3,371 for gift gains are exempt from tax.

**Rates**

**Rates, 2014**

| Base (TL) | Inheritance Tax Rates | Gift Tax Rates |
|---|---|---|
| 0 – 190.000 | 1 % | 10 % |
| 190.000 – 440.000 | 3 % | 15 % |
| 440.000 – 970.000 | 5 % | 20 % |
| 970.000 – 1.800.000 | 7 % | 25 % |
| 3.400.000 - ... | 10 % | 30 % |

*Source:* www.alomaliye.com

## 2. Motor Vehicle Tax

**In General**

The subject of the tax is motor vehicle. Taxable event is registration of the motor vehicles in the traffic, municipality and docks.

**Taxpayers**

Taxpayers are persons (both individuals and corporate) who have motor vehicles that are registered to their own names in the traffic, municipality and docks register and the civilian air-vehicle register maintained by the Ministry of Transportation.

**Other Issues**

Tax is assessed and accrued annually in the beginning of January. The motor vehicle taxes are paid in two equal installments, in January and July, every year. The amount of tax is determined separately for each group of vehicle by taking into consideration the age and engine capacity of the vehicle. The motor vehicle taxes paid for the passenger cars are not deductible from corporate and incomes.

## 3. Real estate tax

**In General**

Buildings and lands in Turkey are the subject of the tax.

**Taxpayers**
The taxpayers are the owners of the building/land, owners of any usufruct over the building/land, or if neither of these exist, any person that uses the building/land as its owner.

**Exemption**
There is a partial exemption of 25 % of the tax value (not to be less than TL 2,500) of buildings or apartments used as residences. This partial exemption applies for five years from the year following the year when construction was completed.

**Rates**
The tax base for the building/land tax is the tax value of the building/land. The tax value is the value recorded at the Land Registry.

**Rates, 2014**

| Subject | Rates: metropolitan municipality and contiguous regions | Rates: Other regions |
|---|---|---|
| Buildings generally | 0,04 % | 0,02 % |
| Buildings used as residences | 0,02 % | 0,01% |
| Lands | 0,02 % | 0,01 % |
| Parceled lands | 0,06 % | 0,03 % |

*Source:* www.alomaliye.com

**Other Issues**
A declaration is submitted to the municipality where the building or land is located if there is a modification which might lead to a change in tax value. Taxes are paid annually in two equal installments, the first at any time during the period from March through May and the second in November.

**Double Taxation Treaties Table, 2014**

| DOUBLE TAXATION TREATIES IN FORCE (as of 01.01.2013) | | | | | | |
|---|---|---|---|---|---|---|
| | Country | Signature date of the treaty | Date and No of the official gazette: Date - No | Effective Date | Effective date in terms of the taxes | |
| 1) | Austria | 03.11.1970 | 01.08.1973 - 14612 | 24.09.1973 | 01.01.1974 | |
| | Austria(Modified) | 28.03.2008 | 26.06.2009 - 27270 | 01.10.2009 | 01.01.2010 | |
| 2) | Norway | 16.12.1971 | 21.12.1975 - 15445 | 30.01.1976 | 01.01.1977 | |
| | Norway (Modified) | 15.01.2010 | 28.05.2011 - 27947 **(m.)** | 15.06.2011 | 01.01.2012 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3) | South Korea | 24.12.1983 | 02.10.1985 - 18886 | 25.03.1986 | 01.01.1987 | |
| | 4) | Jordan | 06.06.1985 | 15.07.1986 - 19165 | 03.12.1986 | 01.01.1987 | |
| | 5) | Tunisia | 02.10.1986 | 30.09.1987 - 19590 | 28.12.1987 | 01.01.1988 | |
| | 6) | Romania | 01.07.1986 | 21.08.1988 - 19906 | 15.09.1988 | 01.01.1989 | |
| | 7) | The Netherland | 27.03.1986 | 22.08.1988 - 19907 | 30.09.1988 | 01.01.1989 | |
| | 8) | Pakistan | 14.11.1985 | 26.08.1988 - 19911 | 08.08.1988 | 01.01.1989 | |
| | 9) | England | 19.02.1986 | 19.10.1988 - 19964 | 26.10.1988 | 01.01.1989 | |
| | 10) | Finland | 09.05.1986 | 30.11.1988 - 20005 | 30.12.1988 | 01.01.1989 | |
| | | Finland (Modified) | 06.10.2009 | 24.03.2012 – 28243 | 04.05.2012 | 01.01.2013 | |
| | 11) | Turkish Republic of Cyprus | 22.12.1987 | 26.12.1988 - 20031 | 30.12.1988 | 01.01.1989 | |
| | 12) | France | 18.02.1987 | 10.04.1989 - 20135 | 01.07.1989 | 01.01.1990 | |
| | 13) | Germany (Terminated) | 16.04.1985 | 09.07.1986 - 19159 | 30.12.1989 | 01.01.1990 | |
| | | Germany (New) | 19.09.2011 | 24.01.2012 - 28183 | 01.08.2012 | 01.01.2011 | |
| | 14) | Sweden | 21.01.1988 | 30.09.1990 - 20651 | 18.11.1990 | 01.01.1991 | |
| | 15) | Belgium | 02.06.1987 | 15.09.1991 - 20992 | 08.10.1991 | 01.01.1992 | |
| | 16) | Denmark | 30.05.1991 | 23.05.1993 - 21589 | 20.06.1993 | 01.01.1991 | |
| | 17) | Italy | 27.07.1990 | 09.09.1993 - 21693 | 01.12.1993 | 01.01.1994 | |
| | 18) | Japan | 08.03.1993 | 13.11.1994 - 22110 | 28.12.1994 | 01.01.1995 | |
| | 19) | U.A.E. | 29.01.1993 | 27.12.1994 - 22154 | 26.12.1994 | 01.01.1995 | |
| | 20) | Hungary | 10.03.1993 | 25.12.1994 - 22152 | 09.11.1995 | 01.01.1993 | |
| | 21) | Kazakhstan | 15.08.1995 | 08.11.1996 - 22811 | 18.11.1996 | 01.01.1997 | |
| | 22) | Macedonia | 16.06.1995 | 07.10.1996 - 22780 | 28.11.1996 | 01.01.1997 | |
| | 23) | Albania | 04.04.1994 | 05.10.1996 - 22778 | 26.12.1996 | 01.01.1997 | |
| | 24) | Algeria | 02.08.1994 | 30.12.1996 - 22863 | 30.12.1996 | 01.01.1997 | |
| | 25) | Mongolia | 12.09.1995 | 30.12.1996 - 22863 | 30.12.1996 | 01.01.1997 | |
| | 26) | India | 31.01.1995 | 30.12.1996 - 22863 | 30.12.1996 | 01.01.1994 | |
| | 27) | Malaysia | 27.09.1994 | 30.12.1996 - 22863 | 31.12.1996 | 01.01.1997 | |
| | 28) | Egypt | 25.12.1993 | 30.12.1996 - 22863 | 31.12.1996 | 01.01.1997 | |
| | 29) | China | 23.05.1995 | 30.12.1996 - 22863 | 20.01.1997 | 01.01.1998 | |
| | 30) | Poland | 03.11.1993 | 30.12.1996 - 22863 | 01.04.1997 | 01.01.1998 | |
| | 31) | Turkmenistan | 17.08.1995 | 13.06.1997 - 23018 | 24.06.1997 | 01.01.1998 | |
| | 32) | Azerbaijan | 09.02.1994 | 27.06.1997 - 23032 | 01.09.1997 | 01.01.1998 | |
| | 33) | Bulgaria | 07.07.1994 | 15.09.1997 - 23111 | 17.09.1997 | 01.01.1998 | |
| | 34) | Uzbekistan | 08.05.1996 | 07.09.1997 - 23103 | 30.09.1997 | 01.01.1997 | |
| | 35) | U.S.A. | 28.03.1996 | 31.12.1997 - 23217 | 19.12.1997 | 01.01.1998 | |
| | 36) | Belarus | 24.07.1996 | 22.04.1998 - 23321 | 29.04.1998 | 01.01.1999 | |
| | 37) | Ukraine | 27.11.1996 | 22.04.1998 - 23321 | 29.04.1998 | 01.01.1999 | |
| | 38) | Israel | 14.03.1996 | 24.05.1998 - 23351 | 27.05.1998 | 01.01.1999 | |
| | 39) | Slovakia | 02.04.1997 | 03.10.1999 - 23835 | 02.12.1999 | 01.01.2000 | |
| | 40) | Kuwait | 06.10.1997 | 28.11.1999 - 23890 | 13.12.1999 | 01.01.1997 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 41) | Russia | 15.12.1997 | 17.12.1999 - 23909 | 31.12.1999 | 01.01.2000 | |
| | 42) | Indonesia | 25.02.1997 | 15.02.2000 - 23965 | 06.03.2000 | 01.01.2001 | |
| | 43) | Lithuania | 24.11.1998 | 10.05.2000 - 24045 | 17.05.2000 | 01.01.2001 | |
| | 44) | Croatia | 22.09.1997 | 10.05.2000 - 24045 | 18.05.2000 | 01.01.2001 | |
| | 45) | Moldova | 25.06.1998 | 25.07.2000 - 24120 | 28.07.2000 | 01.01.2001 | |
| | 46) | Singapore | 09.07.1999 | 18.07.2001 - 24466 | 27.08.2001 | 01.01.2002 | |
| | 47) | Kirgizstan | 01.07.1999 | 12.12.2001 - 24611 | 20.12.2001 | 01.01.2002 | |
| | 48) | Tajikistan | 06.05.1996 | 24.12.2001 - 24620 | 26.12.2001 | 01.01.2002 | |
| | 49) | Czech Republic | 12.11.1999 | 15.12.2003 - 25317 | 16.12.2003 | 01.01.2004 | |
| | 50) | Spain | 05.07.2002 | 18.12.2003 - 25320 | 18.12.2003 | 01.01.2004 | |
| | 51) | Bangladesh | 31.10.1999 | 15.12.2003 - 25317 | 23.12.2003 | 01.01.2004 | |
| | 52) | Latonya | 03.06.1999 | 22.12.2003 - 25324 | 23.12.2003 | 01.01.2004 | |
| | 53) | Slovenia | 19.04.2001 | 23.12.2003 - 25325 | 23.12.2003 | 01.01.2004 | |
| | 54) | Greece | 02.12.2003 | 02.03.2004 - 25390 | 05.03.2004 | 01.01.2005 | |
| | 55) | Syria | 06.01.2004 | 28.06.2004 - 25506 | 21.08.2004 | 01.01.2005 | |
| | 56) | Thailand | 11.04.2002 | 08.01.2005 - 25694 | 13.01.2005 | 01.01.2006 | |
| | 57) | Sudan | 26.08.2001 | 17.09.2003 - 25232 | 31.01.2005 | 01.01.2006 | |
| | 58) | Luxemburg | 09.06.2003 | 08.01.2005 - 25694 | 18.01.2005 | 01.01.2006 | |
| | 59) | Estonia | 25.08.2003 | 04.07.2004 - 25512 | 21.02.2005 | 01.01.2006 | |
| | 60) | Iran | 17.06.2002 | 09.10.2003 - 25254 | 27.02.2005 | 01.01.2006 | |
| | 61) | Morocco | 07.04.2004 | 22.06.2005 - 25853 | 18.07.2006 | 01.01.2007 | |
| | 62) | Lebanon | 12.05.2004 | 17.08.2006 - 26262 | 21.08.2006 | 01.01.2007 | |
| | 63) | South Africa | 03.03.2005 | 20.11.2006 - 26352 | 06.12.2006 | 01.01.2007 | |
| | 64) | Portuguese | 11.05.2005 | 15.12.2006 - 26377 | 18.12.2006 | 01.01.2007 | |
| | 65) | Serbia-Montenegro | 12.10.2005 | 08.08.2007 - 26607 | 10.08.2007 | 01.01.2008 | |
| | 66) | Ethiopia | 02.03.2005 | 09.08.2007 - 26608 | 14.08.2007 | 01.01.2008 | |
| | 67) | Bahrain | 14.11.2005 | 21.08.2007 - 26620 | 02.09.2007 | 01.01.2008 | |
| | 68) | Qatar | 25.12.2001 | 05.02.2008 - 26778 | 11.02.2008 | 01.01.2009 | |
| | 69) | Bosnia-Herzegovina | 16.02.2005 | 08.04.2007 - 26487 | 18.09.2008 | 01.01.2009 | |
| | 70) | Saudi Arabia | 09.11.2007 | 03.02.2009 - 27130 **(m.)** | 01.04.2009 | 01.01.2010 | |
| | 71) | Georgia | 21.11.2007 | 10.02.2010 - 27489 | 15.02.2010 | 01.01.2011 | |
| | 72) | Oman | 31.05.2006 | 13.03.2010 - 27520 | 15.03.2010 | 01.01.2011 | |
| | 73) | Yemen | 26.10.2005 | 13.03.2010 - 27520 | 16.03.2010 | 01.01.2011 | |
| | 74) | Ireland | 24.10.2008 | 10.08.2010 - 27668 | 18.08.2010 | 01.01.2011 | |
| | 75) | New Zealand | 22.04.2010 | 04.07.2011 - 27984 **(m.)** | 28.07.2011 | 01.01.2012 | |
| | 76) | Canada | 14.07.2009 | 29.04.2011 - 27919 **(m.)** | 04.05.2011 | 01.01.2012 | |
| | 77) | Switzerland | 18.06.2010 | 12.01.2012 - 28171 | 08.02.2012 | 01.01.2013 | |
| | 78) | Brazil | 16.12.2010 | 12.01.2012 - 28171 | 09.10.2012 | 01.01.2013 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 79) | Australia | 28.04.2010 | 21.05.2013 | 05.06.2013 | 01.01.2014 |
| | 80) | Malta | 14.07.2011 | 27.04.2013 - 28630 | 13.06.2013 | 01.01.2014 |

## Chart of Principal Turkish Taxes, 2014

| Taxes | Details | Rates |
|---|---|---|
| **Income Taxes** | | |
| Corporate Income Tax | Increase in net worth | 20% |
| Advance corporate income tax | Net taxable income | 20% |
| Individual/income tax | | 15-35% (all source of income including employment income) |
| **Value added tax - VAT** | Sales Value | |
| ▪ General | | 18% |
| ▪ Certain products and services | | 8% |
| ▪ Certain products | | 1% |
| **Banking & insurance transaction tax** | | |
| ▪ General | | 5% |
| ▪ Interbank deposit transactions | | 1% |
| ▪ Repossessions | | 1% |
| ▪ Money market transactions Between banks and brokers | | 1% |
| ▪ Sale of government bonds and treasury bills | | 1% |
| ▪ Sale of foreign currency | | 0% |
| **Stamp Duty** | Value specified in the documents | Usually at 0.948% (0.189% for rental contracts, 0.759% for salaries) |
| **Gift and inheritance tax** | Value | 1-30% |

| | | |
|---|---|---|
| **Custom duties** | Value | Various |
| **Transfer of real estate** | Sales value | 2%, each buyer and seller |
| **Special consumption tax** | | |
| ▪ Petroleum products | Per liter, kilogram, etc. | Specific |
| ▪ Vehicles | Value and engine size | 1 to 130% |
| ▪ Alcoholic beverages&tobacco products | Value, retail sale price for tobacco products | (*) 25% - 65,25% and lump-sum |
| ▪ Certain luxury goods | Value | 3% - 20% |
| **Special communication tax** | Service fee | |
| ▪ Mobile telecommunication services | | 25% |
| ▪ Radio & television broadcasting services through satellite or cable | | 15% |
| ▪ Wired, non-wired and mobile internet service providing facility | | 5% |
| ▪ Other telecommunication services | | 15% |
| **Lottery taxes (national lottery, horse racing, toto, lotto, etc.)** | Various | Specific and ad valorem at 5%-10% |
| **Motor vehicle tax** | Model, engine, weight | Specified amount revised each year |
| **Real estate taxes** | Real estate taxes | |
| ▪ Buildings | | 0.01 - 0.04% |
| ▪ Land | | 0.01 - 0.06% |
| **Entertainment tax** | Per tariff, gross profit | Specific, 0-20% |
| **Communication tax** | Fee | 1% |
| **Electricity and gas consumption tax** | Sales value | 1%-5% |
| **Environment protection tax** | Per flat and business premises | Specified amount revised each year |
| * Only the percentage tax rate is applied provided that it is not less than the tax calculated by using the minimum lump-sum tax amounts. | | |