

Turkish Taxation System

TURKISH DIRECT TAXATION SYSTEM

Turkish direct taxation system consists of two main taxes; income tax and corporate tax. An individual is subject to the personal income tax on his income and earnings, in contrast to a company which is subject to corporate tax on its income and earnings. The rules of taxation for individual income and earnings are provided in the Personal Income Tax Law 1960 (PIT Law). Likewise, the rules concerning the taxation of corporations are contained in the Corporate Income Tax Law 1949 (CIT Law). Despite the fact that each is governed by a different legislation, many rules and provisions of the Personal Income Tax Law is also being applied to corporates, especially, in terms of income elements and determination of net income.

PERSONAL INCOME TAX (PIT)

Taxable Income:

The personal income tax is levied on the income of individuals. 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,
- Income from independent personal services
- Income from immovable property and rights (rental income)
- Income from movable property (income from capital investment)
- Other income and earnings without considering the source of income

Tax Liability:

In general residency criterion is being applied in determining tax liability for individuals. This criterion requires that an individual whose domicile is in Turkey is liable to pay tax for his worldwide income (unlimited liability). Any person who remains in Turkey more than six months in one calendar year is assumed as a resident of Turkey. However; foreigners who stays in Turkey for six months or more by the reason of a specific job or business or particular purposes which are specified in the PIT Law are not treated as resident and therefore, unlimited tax liability is not applicable for them.

In addition to residency criterion, within a limited scope, nationality criterion also applies regardless of their residency status, Turkish citizens who live abroad and work for government or a governmental institution or a company whose headquarter is in Turkey, are considered as unlimited liable taxpayers. Accordingly, they are subject to PIT on their worldwide income.

Non-residents are only liable to pay tax on their income derived from the incomes in Turkey (limited liability). For tax purposes, it is especially important to determine in what circumstances income is deemed to be derived in Turkey. The provisions of Article 7 of the PIT Law deal with this issue. In the following circumstances, the income is assumed to be derived 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:

- Services must be rendered or accounted for in Turkey.
- Fees, allocations, dividends and the like paid to the chairmen, directors, auditors and liquidators of the establishment situated in Turkey must be accounted for in Turkey.

Income from Independent Personal Services: Independent personal services must be performed or accounted for in Turkey.

Income from Immovable Property:

- Immovable must be in Turkey;
- Rights considered as immovable must be used or accounted for in Turkey.

Income from Movable Capital investment: Investment of the capital must be 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 term “accounted for” used above to clarify tax liability of the non-residents means that a payment is to be made in Turkey, or if the payment is made abroad, it is to be recorded in the books in Turkey.

Determination of Net Income:

Business Profit:

Business profit is defined as profit arising from commercial or industrial activities. Although this definition is very comprehensive and includes all types of commercial and industrial activities, the PIT Law excludes some activities from the contents of business profits. Generally, activities performed by tradesmen and artisans who do not have permanent establishments are not assumed as commercial and industrial activities and are exempt from income tax.

Furthermore, in order to tax income resulting from commercial and industrial activities there has to be continuity in performing these activities. In other words, incidental activities in that nature are not treated as commercial or industrial activities and therefore, the PIT Law deals with these activities as the other income and earnings.

The PIT Law does not list each commercial and industrial activity and only refers to the Turkish Commercial Law for the scope of these terms. Yet several activities are listed namely for clarification in Article 37. These are as follows:

- The operation mines, stone and time quarries, extraction of sand and pebbles operations of brick and tile kilns;
- Stock brokerage;
- Operating of private schools, hospitals and similar places;
- Regular operations of sale purchase and construction of real estate;
- Purchase and sale of securities on someone's behalf and on a continued basis;
- Fully or partly sale of land which has been obtained by purchase or barter and subdivided within five years of its date of purchase and sold during this period or in subsequent years;
- Earnings from dental prosthesis.

Basically, the taxable income of a business enterprise is the difference between its net assets at the beginning and at the end of a calendar year.

Two methods are used to compute business profits: Lump-sum basis and actual basis in the former method, the PIT Law specifies estimated business profits for taxpayers who are qualified for such treatment according to the relevant provisions of the Law. The main assumption is that those taxpayers specified by the Law have difficulty to keep accounting books and to determine then income on the actual basis. Therefore, their income taxes are assessed on their estimated profits determined by the Law.

In the latter method business profits is determined on the actual basis: Taxpayers are required to

keep accounting books to record their actual revenues and expenses which occur within the calendar year. In general, business related expenses paid or accrued related to business are deducted from revenues:

Expenses to be deducted:

In order to determine net amount of business profits on the actual basis, the following expenses may be deducted from revenues:

- general expenses made for earning and maintaining business profit;
- food and boarding expenses provided for employees at the place of business or in its annexes;
- expenses for medical treatment and medicine;
- insurance and pension premiums;
- clothing expenses paid for employees;
- losses, damages, and indemnities paid based upon written agreements, juridical decrees, or by order of law;
- expenses for travel and lodging relevant to the business;
- expenses for vehicles which are part of the enterprise and used in the business;
- taxes in kind such as building, and consumption, stamp and municipal taxes and fees and charges, related to the business;
- depreciations set aside according to the provisions of the Tax Procedure Law;
- payments to the unions;

Payments, which are not accepted as expenses:

Those payments listed below are not considered as deductible expenses;

- funds withdrawn from the enterprise by the owner or by his spouse or children, or other assets in kind taken by them;
- monthly salaries, wages, bonuses, commissions and compensation paid to the owner of the enterprise, to his spouse, or his minor children;
- interest on the capital invested by the owner of the enterprise;
- interest based on the current account of the owner of the enterprise, his spouse, his minor children including interests on all form of receivables;
- all fines and tax penalties as well as indemnities arising from unlawful actions. Indemnities incurred as penalty clauses of contracts shall not be considered indemnities of a punitive nature;
- % 0 per cent of the advertising expenses for all kind of alcohol and alcoholic beverages, tobacco and tobacco products (current rate has been reduced to 0 percent by a Governmental Decree).

Agricultural Income:

Income derived from agricultural activities is also subject to the income tax. The term agricultural activity means any activity performed in land, sea, lakes and rivers in forms of cultivating, planting, breeding, fishing, hunting and etc. For tax purposes, persons who engaged in such activities are referred to farmers.

Agricultural earnings of farmers shall be taxed by the way of deduction over the proceeds as provided for in article 94 of this Law. Earnings of farmers exceeding the dimensions of size of exploitation specified in article 54 or the earnings of the farmers owning a reaper thresher or a motor vehicle of the same nature or more than two tractors up to the age of 10 years shall be taxed by determining their earnings according to the actual procedure (according to agricultural operations accounting or if they wish, according to the balance sheet principle). The farmers whose earnings are not taxed according to the actual procedure shall not submit tax statement for such earning. However, the income derived from operation of reaper thresher, or any sort of motor

vehicle, or more than two tractors up to age of ten that belong to the farmer but not included in the records of the agricultural exploitation, shall be taxed according to provisions relating to commercial earnings. Gross revenue arising from agricultural activities consists of the following elements:

- sales revenues earned from selling every kinds of agricultural products produced, purchased or obtained in other ways including the products remained from the previous years,
- proceeds received in return of using agricultural machinery and equipment in the agricultural works of other farmers.
- sales revenues derived from the selling of items expensed previously,
- insurance compensations received for the products damaged before or after they were produced.
- revenue arising from the selling of the fixed assets (except immovable used in agricultural activities).

On the actual basis, the following expenses are deducted from the gross revenue to reach taxable income for the year.

- Expenditure incurred for supplying fertilizers, plants fodder, chemical products and like for farming.
- The price of livestock, agricultural products and other items purchased for resale.
- Payments made to persons employed on the farm for services, under the name of remunerations, premium and other.
- Expenses incurred for food, medical treatment and medicines for the workers, their insurance premiums.
- Expenses incurred for the operation and maintenance of farming installations, machinery, equipment and vehicles (fuel, lubricating oil, electricity, spare parts etc.) and their repair.
- The amortizations set aside according to the Tax Procedural Law,
- Payments made for means of production obtained on hire or paying its price.
- General expenses for the realization and maintenance of the agricultural earnings.

a) Interest on money borrowed for and spent on the farm.

b) Taxes, charges and levies paid, provided they are concerned with the farm.

c) Travelling and residential expenses concerning the farm in proportion with the importance and volume of business (provided they are limited to the duration and necessity of the voyage

d) Rent paid for the farm

e) Other expenditures in general.

- Damages and compensation paid on the ground of an agreement or verdict or ordered by law, provided they are concerned with the farm
- In case of sale of economic assets subject to amortization (excepting immovable used for agricultural production) the loses calculated according to article 328 of the Tax Procedural Law
- Total amount of amortization and fifty percent of the expenses on the vehicles included in the business enterprise and used for also personal and family requirements
- The products of the farmers carried forward from the past years and which are subject to taxation on the basis of actual assessment procedure shall be valued and shown as expenditures at the average cost of production stated in article 45 of the Tax Procedural Law.

Salaries and Wages:

Income derived from dependent personal services is subject to the income tax. This income comprises such income from all kinds of employment in both public and private sector as salaries

and wages, as well as associated supplementary income such as allowances, bonuses, anniversary gifts, gratuities, commissions, premiums, compensations and other wage and salary related remunerations including benefits in kind at market value.

In determining taxable amount of salaries and wages the following expenditures are allowed to be deducted from gross amount:

- Legal deduction made according to various laws or regulations,
- Payments made for pensions,
- Payments made for various insurances,
- Payments made for labor union membership,

Income from Independent Professional Services:

The term independent professional services means any activity performed by a person who is self-employed, and based on professional and scientific expertise rather than capital, income from such activities is subject to the income tax.

The term includes services given by such independent professionals as lawyers, accountants, doctors, consultants and engineers. Revenues received from independent professional services within a year as well as expenses paid are recorded on a simple accounting book. In general, all expenses related to independent professional services can be deducted from revenues. But, the scopes of those expenses are narrower than those specified for the commercial and business and business activities. The following expenses are allowed to be deducted from the gross revenue in reaching the profit from independent professional services:

- rents paid for the leased premises in which the professional services are carried out.
- overhead expenses;
- expenses paid for illumination, heating, phone, wages and salaries of bureau employees, and other office overheads;
- vocational and advertisement taxes as well as taxes in kind, including excises and fees paid occupational purposes;
- expenses for occupational books and periodicals;
- payments made for membership of occupational associations;
- traveling and lodging expenses regarding the profession carried on;
- expenses made for tools, equipment, and other materials necessary to perform the profession;
- depreciation expenses for the fixed assets in performing the profession;
- retirement payments;
- Losses, damages, and indemnities paid based upon written agreements, juridical decrees, or by order of law.

Income from Immovable Property:

Immovable property means real property which includes land buildings, and permanent leasehold rights. Ships, boats, aircraft and other types of transportation vehicles are also regarded as immovable property in the application of the Income Tax Law. Income from immovable property comprises:

- rental income arising from the lease land, buildings (furnished or unfurnished), and the rights to work mineral deposits, sources and other natural sources including mines, sand and gravel quarries, and property accessory to immovable property; - rental income from fishing place of every kind;
- rental income from property to immovable property which may be subject to independent leasing;
- rental income from the right to use any copyright of literary, artistic or scientific work, any patent, trade mark, design or model, plan, secret formula or process, or for information

concerning industrial, commercial or scientific experience or for the use of or the right to use, industrial, commercial or scientific equipment;

- rental income from the lease of ships, boats, aircraft and other transportation vehicles.

In computing net income from immovable property, costs related to maintenance, management, renovation and running, and depreciation may be deducted from the gross income on the actual basis; it is also allowed to make a lump-sum deduction instead of actual costs, except for the income from the lease of the rights mentioned above. In such cases, lump-sum deduction is 25 per cent of the rental income.

Income from Movable Property:

Income from movable property means any income such as interest, dividend, rent and the like derived from capital in cash or capital in kind. (Income from business activities, agricultural activities and independent personal services is not considered as income from movable property.) However, such capital income is not considered as income from movable property, should they are earned (gained) through business, agricultural or independent professional activities.

Regardless of their sources, the following earnings are deemed to be income from movable property:

- dividends from stocks of every kind including jouissance shares, founder's shares and interests and other remunerations paid to the stockholders in the preparatory stage of the corporation and earning from the securities issued by investment funds and investment trusts;
- earnings from participation shares including the shares of limited companies, cooperatives and joint ventures;
- dividends paid to the chairmen and the members of the board of directors;
- after tax income of the corporations which are subject to annual declaration or special declaration;
- interests of every kind from bonds, treasury bonds, and earning from the securities issued by the Mass Housing Administration (MHA) and the Public Participation Administration (PPA);
- interest from debt-claims of every kind particularly interest from banks and other financial institutions;
- profits from selling coupons of stocks and bonds before their maturity;
- income from selling of dividends not accrued yet to the owners of the shares;
- dividends paid to those who lend money without interest and dividends paid in return of profit-loss participation notes and profit- loss participation accounts;
- income from repurchasing agreement on bonds and securities
- the income payments made by the retirement funds in the nature of legal entity, aid funds, retirement and insurance companies
- income from Individual Pension System

In determining net income from movable property, costs related to and allowed to be deducted from gross income include insurance costs, collection costs, and taxes and other levies, excluding income tax, paid for securities.

The mentioned elements are included in business profit when they are connected to the business activity of the recipient. In such case, this income is treated as business profit and become subject to the rules described earlier related to the rules described earlier related to the business profit.

Other Income and Earning :

Capital gains non-recurring are dealt with by the Income Tax Law under the heading "Other Income and Earnings". Capital gains specified in the ITL are as follows:

- earnings obtained from disposition of securities and other capital market instruments, except

the shares that are acquired without consideration and those that belong to fully taxable corporations, and which have been kept for more than two years;

- income exceeding certain amount TL from the selling of intellectual rights which are treated as immovable property for tax purposes;
- income from the selling of participation rights and shares;
- profits from the wholly or partly alienation of an enterprise which ceased its operations,
- profits derived from the alienation of land, buildings, the rights to operate mineral deposits, sources and other natural sources, fishing place of every kind, the rights registered as immovable property, and ships, boats, aircraft and other transportation vehicles, within five years after their acquisition.

Net amount of capital gains is determined by deducting acquisition costs and the costs incurred to the alienation of the capital assets from the proceeds received in return of the alienation.

Non-recurring income comprises:

- income derived from the business activities and independent professional services performed on occasion;
- proceeds received not to start or to stop a business activity, agricultural activity or independent professional service, or in return for not bidding for contracts;
- proceeds received to transfer leasehold rights or to evacuate leased immovable property;
- income derived by the taxpayers from their previous operations;
- income derived by the limited liable taxpayers from transportation activities performed on occasion.

CORPORATE INCOME TAX (CIT)

Taxable Income:

The corporate tax is levied on the income and earning derived by corporations and corporate bodies. The income elements by Corporate Tax Law are the same as those covered in the Income Tax Law. In other words, the Corporate Tax Law sets provisions and rules applicable to the income resulted from the activities of corporations and corporate bodies, whereas the income Tax Law deals with the income derived by individuals. Corporations and corporate bodies specified by the Law as taxpayers in respect to the corporate tax are as follows:

- Capital companies and similar foreign companies;
- Cooperatives;
- Public enterprises;
- Enterprises owned by foundations societies and associations;
- Joint ventures.

Tax Liabilities:

According to the Corporate Tax Law, those legal entities covered by the law, which their legal head office situated in Turkey, or the place of effective management in Turkey are taxed on their world-wide income (unlimited liability). By specifying two criteria the law intends to prevent any problem, which may arises in determining tax liability. The term legal head office, as used in the context of the Corporate Tax Law, means the office specified in the written agreements of the mentioned entities. Therefore, it is not difficult to ascertain where the legal head office of a company is located. However, the place of effective management, which is defined as the place in which the business activities are concentrated and supervised, is not easy to determine in some cases.

As may be expected, the Law defines the term limited tax liability quite parallel to term unlimited tax liability, as the liability requires taxing only the income derived in Turkey, provided that both legal head office and the place of effective management are abroad.

Determination of Net Taxable Income:

In essence, the provision of the PIT Law concerning the determination of business profit also applies to the procedure required in determining corporate income. Basically, net corporate income is defined as the difference between the net worth of assets owned at the beginning and at the end of the fiscal year. In addition to the expenses mentioned in article 40 of PIT Law allowed to be deducted from revenues, the followings may also be deducted regarding to the determination of business profit, by corporations:

- expenses related to the issuance of stocks and shares;
- initial organization and establishment expenses;
- expenses incurred for general board meeting as well as expenses made for mergers dissolutions, and liquidations;
- in case of insurance companies, technical reserves required for the insurance contracts still valid at date of inventory;
- profits shares accrued to active partners of partnerships in commendams limited by shares;
- profit shares accrued to partners by participation banks for participation accounts;
- research and development deductions calculated as %100 of new technology and know-how research expenses realized within business.

In determining net corporate income, the following deductions are not allowed:

- interests paid or accrued on the basis of equity;
- interest, exchange difference and other costs paid or accrued on the basis of disguised capital;
- disguised earning distributed by transfer pricing;
- any kind of reserves;
- the corporate tax, fines, tax penalties and late payment penalties and interest.;
- leased or registered motor vehicles' depreciation and other expenses not related with business activities;

Corporate Tax Return:

Like income tax, the corporate tax is also assessed on the base declared through tax returns filled annually by taxpayers. Tax returns contain the results of related taxation period. In principle, every taxpayer is required to file only one single tax return, even if he has derived the income through different business places or branches and those places and branches have their own accounting and allocated capital.

The annual tax return is applicable for the reporting of net corporate profits realized in the course of one accounting period. The corporate tax return shall be submitted to the tax office, which the taxpayer is affiliated to, starting from the first day until the evening of the 25th day of the 4th month that follows the month during, which the fiscal period closes. The corporate tax must be paid until the end of the month the tax return is submitted.

Non-resident foreign corporations use special tax return for reporting certain profits and earnings. Special tax return must be given in 15 days from the obtainment of earnings and profits. (This procedure is called "Special Tax Return".)

Those who are obliged to make tax withholding are required to file a brief tax return to tax office associated with the place of payment or accrual of the payments which they have made during the month, or the profits and revenues on which they have caused accrual to take place, as well as of the taxes which they have withheld from these, by the evening of the 23th day of the following month and they should pay by the evening of the 26th day of this month. (This procedure is called "Withholding Tax Return".).

Tax Rates:

Corporate income tax is applied at 20 % rate on the corporate earnings.

Taxpayers (only for income from commercial activities and agriculture in limited tax liability cases) pay provisional tax at the rate of corporate tax, these payments are deducted from corporate tax of current period.

TURKISH INDIRECT TAXATION SYSTEM

VALUE ADDED TAX

In Turkey, there are several indirect taxes but most important indirect tax is V.A.T.

The beginning of the studies on Value Added Tax (VAT) in Turkey goes back to 1970. In 1974, a draft VAT law, which was the result of studies of a technical group, was prepared. The subject (VAT) was discussed by different levels of public opinion and some project games were organized to test the drafts with the volunteer enterprises. After the appreciation of the results of these discussion and games, seven law drafts were prepared between 1974-1984. The 8th draft was enacted on November 2nd , 1984 and entered into force on January 1st , 1985. By the VAT Law, eight indirect taxes on consumption were abolished.

The Turkish Tax System levies value added tax on the supply and the importation of goods and services. The Turkish name for Value Added Tax is Katma Değer Vergisi, abbreviated to KDV.

Liability for VAT arises;

- (a) when a person or entity performs commercial, industrial, agricultural or independent professional activities within Turkey,
- (b) when goods or services are imported into Turkey.

VAT is levied at each stage of the production and the distribution process. Although; liability for the tax levies on the person who supplies or imports goods or services, the real VAT burden is on the final consumer. This result is achieved by a tax- credit method where the computation of the VAT liability is based on the difference between the VAT liability of a person on his sales (output VAT) and the amount of VAT he has already paid on his purchases (input VAT).

The Turkish VAT system employs multiple rates and the Council of Ministers is authorized to change the VAT rates within certain limits.

VAT TAXPAYERS

General

VAT taxpayers are defined in the VAT Law as those engaged in taxable transactions, irrespective of their legal status or nature and their position with regard to other taxes.

Taxpayers

The following people or entities are liable to VAT:

- Those supplying goods and services,
- Those importing goods or services,
- Those required to complete customs formalities in case of transit of goods through Turkey,
- General Directorates of Postal Services (PT and Telecom) and radio and television corporations,
- Organizers of any kind of chance and gambling,
- Organizers of shows, concerts and sporting events with the participation of professional artists and professional sportsmen,
- Lessors of goods and rights stated in Article 70 of the Income Tax Law.
- Applicants for optional tax liability

Goods and rights set out in Article 70 of the PIT Law including immovable property such as land, buildings, mines and rights which are in the nature of immovable property; and. other goods and rights such as all kinds of motor vehicles, machines and equipment, ships, literary, artistic and

commercial copyrights, commercial or industrial know-how, patents, trademarks, licenses and similar intangible properties and rights.

VAT Responsibility and Reverse Charge VAT

In the event that the taxpayer is not resident or does not have a place of business in Turkey, a legal head office or place of management in Turkey, or in other cases deemed necessary, the Ministry of Finance is authorized to hold any one of the people involved in a taxable transaction responsible for the payment of tax.

According to the Turkish VAT law, there is a so-called reverse charge VAT mechanism, which requires the calculation of VAT by resident companies over payments to abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company or customers on behalf of the non-resident company (foreign company). On the other hand, the local company treats this VAT as input VAT and offsets it in the same month.

- Toll-manufacturing and ready-made materials (textiles) are subject to partial withholding: Only 5/10 of the calculated VAT is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 5/10 of calculated VAT to the tax office directly.
- Junk metal, waste paper, junk plastic material deliveries are exempted from VAT: In the case of the renouncement of the above mentioned exemption, the purchaser pays 5/10 of the calculated VAT to the seller. Therefore, the purchaser will be responsible for paying 5/10 of the calculated VAT to the tax office directly.

Taxable Base

The taxable base of a transaction is generally the total value of the consideration received, not including the VAT itself. The VAT Law deals with the taxable base under four headings, namely the taxable base on deliveries and services, on importation, on international transportation, and special types of taxable base.

In case a consideration does not exist, is unknown or is in a form other than money, the taxable base is the market value. Market value is the average price payable in the market for similar goods and services and is determined with reference to the Tax Procedural Law.

Exclusions From the Taxable Base

The following elements are not included in the taxable base:

- a) Discounts, in amounts in compliance with customary commercial practices, in transactions of delivery and service shown on invoices and similar documents,
- b) The value-added tax calculated.

Tax Rates

Standard rate:

The standard rate of VAT on taxable transactions is set at 10% in the VAT Law, but this rate was increased to 18% as of 15 May 2001.

Special rates:

- For the deliveries and services mentioned in List No. I 1% (e.g. agricultural products such as raw cotton, dried hazelnuts)
- For the deliveries and services mentioned in List No. II 8% (e.g. basic food stuffs, books and similar publications)

The Credit Mechanism

VAT is collected at every stage of the production and distribution process from the initial sale by

the producer to the final sale to the consumer. At each of these stages, the amount of tax payable is the difference between the total amount of tax charged on the invoices issued by the taxpayer and the total amount of tax charged on invoices issued to the taxpayer during the same period. Thus the VAT is initially computed by applying the appropriate rate of taxation to the taxable base for goods and services supplied by the taxpayer during a taxable period. This amount is then reduced by a credit for VAT previously paid on importation and on goods and services supplied to the taxpayer.

Non-deductible VAT (Cost or non-deductible item or capitalized)

In the following cases, VAT may not be credited from the VAT computed on taxable transactions.

- (a) VAT on purchases of cars (which should be recorded as an expense or cost) (except for businesses related with lease or operation of cars)
- (b) Missing and stolen stocks,
- (c) VAT on expenses accepted as non-deductible in determining income according to Income Tax Law and Corporate Tax Law,
- (d) Input VAT on exempt deliveries listed in Article 17 of the VAT Law. [excluding article (17/4-s)]

VAT Refund

Value Added Tax (input VAT) shown on invoices and similar documents related to the transactions which are exempt from the tax, such as:

- Exportation of goods and services,
- Exemption in vehicles, precious metals and oil prospecting activities and national security expenditure and investments made under an investment incentive certificate (IIC)
- Transit transportation,
- Diplomatic exemption ,

are deducted from the Value Added Tax (output VAT) to be calculated on the transactions of the taxpayer which are subject to VAT.

In the absence of transactions subject to VAT, or if the output VAT is less than the input VAT, then the input VAT which cannot be deducted is refunded to those who perform such transactions, on the basis of principles to be determined by the Ministry of Finance.

OTHER INDIRECT TAXES

STAMP TAX

Stamp Tax applies to a wide range of documents, including but not limited to, contracts, agreements, notes payable, letters of credit and letters of guarantee, financial statements and payrolls. Stamp duty is levied according to the type of documents at different tax rates or lump-sum amount listed in Annex I of The Stamp Tax Law. The Stamp Tax Law provides that each relevant party shall be responsible for payment of the total amount of stamp tax on the agreements. Each original document is separately subject to stamp tax.

MOTOR VEHICLE TAX:

The subject of the tax is motor vehicle. Taxable event is registration of the motor vehicles in the traffic and Ministry of Transportation, Maritime Affairs and Communications.

Taxpayers are real and legal people who have motor vehicles that are registered to their own names in the traffic register and the civilian air-vehicle register maintained by the Ministry of Transportation, Maritime Affairs and Communications.

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.

Motor vehicles are classified into three categories in terms of motor vehicle tax:

- List 1 : cars, motorcycles and terrain vehicle etc.
- List 2: minibuses, panel vans, motorized caravans, busses, trucks etc.
- List 3 : planes and helicopters

The amount of Motor Vehicle Tax for land transportation vehicles is determined according to their

age, type, number of seats, cylinder capacity, maximum gross weight and for planes and helicopters is determined according to their maximum takeoff weight..

BANKING AND INSURANCE TRANSACTIONS TAX (BITT):

The subject of the tax is transactions and services performed by banks, bankers and insurance companies.

Taxpayers are banks, insurance companies and bankers.

All transactions and services performed by banks and insurance companies are subject to BITT regardless of the nature of the transaction. There will be the tax upon the money, which they collect under the name of interest, commission and expenditure because of the services they performed on behalf of them. Bankers' certain transactions and services performed and stated in Law Number 6802 are the subject of the tax. Other transactions of bankers are subject to VAT.

The transactions of banks and insurance companies are exempt from VAT, but are subject to BITT, which is due on the gains of such companies from their transactions. The purchase of goods and services by banks and insurance companies is subject to VAT but is considered as an expense or cost for recovery purposes.

The general BITT rate is 5% and some specific transactions are taxed at 1%. In addition, foreign exchange transactions are subject to 0 % BITT according to the Council of Ministers Decision since 2008.

Taxation period in BITT is each month of the calendar year. Taxpayers declare their taxable transactions up to the evening of the 15th day of the following month.

GAMBLING TAX:

The subject of the tax is betting, lotteries and other forms of gambling. Taxpayers are composers of gambling activities and proportional taxation is applied in Gambling Tax.

Taxation period in Gambling Tax is each month of the calendar year. Taxpayers declare their taxable transactions and pay the accrued tax up to the evening of the 20th day of the following month.

INHERITANCE AND GIFT TAX:

Turkish citizens are subject to inheritance and gift tax on worldwide assets received. 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.

Items acquired as gifts or through inheritance are subject to a progressive tax rate ranging from 10% to 30% and 1% to 10%, respectively, of the item's appraised value. Tax paid in a foreign country on inherited property is deducted from the taxable value of the asset. Inheritance and Gift Tax is payable in biannual installments over a period of 3 years.

PROPERTY TAXES:

The buildings and lands in Turkey are subject to property tax.

The tax base for the property tax is the tax value of the building/land according to Property Tax Law numbered 1319.

Property taxes are calculated annually by related municipality based on the tax values of land and buildings at rates varying from 0,1 % to 0,3 %

These rates are increased by % 100 within the frontiers of metropolitan municipality.

The taxpayer is the owner of the building/land, the owner of any usufruct over the building/land or if neither of these exist any person that uses the building/land as its owner.

Property tax liability begins following budget year in the case of acquiring property/change in situation of property or end of exemption.

It is compulsory that a property tax declaration is submitted to the related municipality where the building and land is located in the case of there is a reason for modification of tax value.

Property tax is paid annually to local municipalities in two equal installments; the first is paid at any

time during the period from March through May, and the second in November.
Payment can be made at banks, by cheque, online and in cash.

SPECIAL COMMUNICATION TAX:

Telecommunication services are subject to special communication tax. This tax is not included in the VAT base. Special communication tax rates are as follows:

- on mobile electronic communication services (including the sales for pre-paid lines) %25,
- the services regarding the transmission of radio and television broadcasts on satellite platforms and cable medium 15%,
- the internet providing services by wired, wireless and mobile 5%,
- electronic communication services not listed above 15%.

The tax base for Special Communication Tax is the same as the Value Added Tax base. Tax payers will declare the communication tax on the VAT returns and pay the accrued tax by the 15th day of the following month. Special Communication Tax is not deductible for income and corporate tax purposes.

EDUCATION CONTRIBUTION FEE:

Transactions and certain documents stated in the related law are subject to Education Contribution Fee in different amounts. Education Contribution Fee is taken as a fixed levy according to the document or the transaction. Education Contribution Fee is a temporary fee applicable until 31 December 2010.

CUSTOMS DUTY :

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.

Taxpayer is principally person who declare to the customs office.

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

FEES:

There are different types of fees: Judgment Fees, Notary Fees, Tax Judgment Fees, Title Deed Fees, Consulate Fees, Ship and Harbor Fees, Permit of License and Certificate Fees, Traffic Fees, Passport, Visa and Ministry of Foreign Affairs Certification Fees. Mentioned fees are taken at different rates or fixed price.

SPECIAL CONSUMPTION TAX:

Goods in the Lists attached to the Special Consumption Tax Law are the subject of the tax. For goods in the Lists, Special Consumption Tax is charged only once.

There are mainly 4 different product groups that are subject to special consumption tax at different tax amounts/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 of the Special Consumption Tax

Taxpayers are different according to the lists. They are;

For List I; manufacturers including refineries or 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.

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