

Turkish Tax System

In Turkey multi-tax system is applied. The Turkish tax regime can be classified under three main headings

I) Income Taxes

Corporate Income Taxes
Individual Income Taxes

II) Taxes on Expenditure

Value Added Tax
Banking and Insurance Transaction Taxes
Stamp Duty
Special Consumption Tax
Special Communication Tax
Tax on Wagering
Tax on Customs

III) Taxes on Wealth

Inheritance and Gift Taxes
Property Tax
Motor Vehicle Tax

I) INCOME TAXES

1) THE INDIVIDUAL INCOME TAX

The Subject and Elements of Income Tax

Income is described as the net amount of profits and earnings obtained by natural persons in one calendar year. The elements of income are classified in seven categories. These are;

- Income from commercial activities,
- Income from agriculture,

- Income from professionals,
- Wages and salaries,
- Income from capital investment (interest and dividends),
- Income from immovable assets and rights,
- Other income and earnings.

The Taxpayer of Income Tax

Natural persons who earn one of or all of those kinds of income are subject to Individual Income Tax. Those people who obtain these kinds of income are Individual Income Tax payers.

An individual in Turkey is liable for tax on his income as an employee and on income as a self-employed person. In the case of an individual who answers the test of a "permanent resident", the tax will be calculated on his income earned in Turkey and overseas. A foreign resident who is employed in Turkey pays tax only on his income in Turkey.

To be considered Turkish resident, residence of over 6 months in Turkey during any calendar tax year must be established. A foreigner who spends less than a continuous period of six months in Turkey during a calendar year and whose customary home is not in Turkey or who, although staying for more than six months, has come to Turkey for a specific and temporary assignment (e.g. businessman, expert, press or radio, TV correspondent) is regarded as non-resident and is taxed only on his income from employment in Turkey.

Declaration of Individual Income Tax

In Turkish Tax System taxation of income is based on declaration. There are three types of tax return.

a) Annual Tax Return

The annual declaration is used for consolidation of the profits and earnings derived from various sources in the course of one calendar year. An individual whose income is only from a wage is not obligated to file an annual return. The employer deducts tax from the employee and transfers it to the tax authority every month. The annual tax return for each calendar year shall be presented by the 15th day of the March of the following year. The declarations of those who permanently leave the country during a calendar year shall be presented 15 days prior to departure, and in the event of death, within 4 months of the date of decease.

<u>Types</u>	<u>Declaration Time</u>
Lump Sum Taxation	February 15
Others	March 15
Lump Sum taxes declared with the other commercial income	March 15

b) Withholding Tax Return

Withholding is defined as a tax return which is used for declaring to Tax Office total taxes withheld by employers and other people's withholding taxes together with their amounts of net taxable income.

Those are required to withhold taxes

- Public administrations and institutions,
- Public commercial concerns and other incorporations,
- Commercial companies and business partnerships,
- Associations, religious and charitable foundations,
- The commercial operations of associations and religious and charitable foundations,
- Those securing investment funds,
- Tradesman and self-employed individuals who are required to report their true income,
- Farmers whose agricultural earnings are determined on the basis of a balance-sheet or an agricultural trading account.

Taxes withheld at source are declared to the tax office by the evening of the 20th day of the following month. These taxes are paid due to the evening of the 26th day of the this month.

c) Special Tax Return

Non-resident taxpayers do not have to give an annual tax return. The special tax return is used for the reporting of certain profits and earnings by taxpayers subject to limited tax liability.

2) THE CORPORATE INCOME TAX

The Subject of Corporate Income Tax

Earnings and profits of corporations are the subject of corporate tax. The elements of income subject to corporate income tax are;

- Income from commercial activities,
- Income from agriculture,
- Income from professionals,
- Wages and salaries,
- Income from capital investment (interest and dividends),
- Income from immovable assets and rights,
- Other income and earnings.

Taxable event is the obtainment of corporate profits/earnings.

Taxpayer of Corporate Income Tax

The following entities are the taxpayers of the corporation income tax.

- Capital companies,
- Cooperative companies,
- State Economic Enterprises (public corporations),
- Economic entities owned by foundations and associations,
- Joint Ventures.

Whether a company is subject to full or limited tax liability depends on its status of residence. A company, whose statutory domicile or place of management are established in Turkey (resident company), will have full tax liability; in this case, worldwide income is taxable. If a non-resident company conducts business through a branch or a joint venture, it will have limited tax liability; i.e. fully subject to corporate tax on profits earned in Turkey on an annual basis. If there is no presence in Turkey, withholding tax will generally be charged on income earned; for example, for services provided in Turkey. However, if there is an avoidance of double taxation treaty, reduced rates of withholding tax may apply.

Declaration of Corporate Income Tax

In general, the Corporate Income Tax is assessed on the basis of the declaration (tax return) by the person having the responsibility for his taxes.

The Corporate Income Tax declaration can be grouped into 3 categories

a) The Annual Corporate Income Tax Return

The annual tax return is applicable for the reporting of net corporate profits realized in the course of one accounting period.

The corporate income tax returns are submitted to tax office with which the taxpayer is associated during the fourth month following the month in which the accounting period closes. Corporate income taxpayers have to fill and sign their tax returns and submit them to tax offices at least until the evening of the 15th day of the April.

b) Special Tax Return

Non-resident foreign corporations which have limited tax liability use special tax return for reporting certain profits and earnings. Special tax return is given in 15 days from the obtainment of earnings and profits.

c) Withholding 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 of 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 20th day of the following month and they should pay by the evening of the 26th day of this month.

II. TAXES ON EXPENDITURE

1. VALUE ADDED TAX (VAT)

The Turkish tax system levies value added tax on the supply and the importation of goods and services. The Turkish name for VAT is KDV and is introduced in 1985.

The Subject of VAT

Transactions carried out in Turkey are the subject of the VAT. Taxable transactions include the supply of goods and services, importation of goods and services and other activities. The following transactions carried out in Turkey are subject to VAT

Supply of goods and services within the scope of commercial, industrial, agricultural or independent professional activities,

Importation of all kinds of goods and services,

Other activities.

The Taxpayer of VAT

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

Withholding agent are those calculate and pay the tax to the related tax office on the name of taxpayer.

Tax Rates in VAT

Three different rates are applied to varied goods and services groups in VAT.

Reduced Rate	%1	List No I dried foods, cotton,wheat,
	%8	sheep and cattle, bread, newspaper and magazines, etc.List No II basic food items (milk, macaroni, oil, etc.) and other goods and services
General Rate	%18	Goods outside of the Lists I and II

Declaration of VAT

Taxation in VAT is based on tax returns declared in writing by taxpayers. Even if they do not have taxable transactions within taxation period they have to declare tax return.

Taxpayers who are subject to the monthly periods must file and submit their returns to the related tax office by the evening of the 20Th day of the following month. For quarterly period, they must file and submit their returns by the evening of the 20Th day of the following three months.

2. 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 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 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.

3. BANKING AND INSURANCE TRANSACTION TAX

All transactions of banks and insurance companies and bankers are the subject of the tax. There will be the tax upon the money, which they collect under the name of interest, commission and expenditure because of the services they produced on behalf of them.

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

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.

4. SPECIAL COMMUNICATION TAX

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 are enterprises that present these services.

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

A wide range of documents in the List I attached to the Stamp Tax Law are the subject of the tax. These documents are related to acts, conclusions, official reports, papers related to commercial transactions, receipts. When these documents are prepared, tax arises.

Taxpayers are persons who have signed these documents. Tax is levied as a percentage of the value of the document. Stamp tax can be paid in four ways by sticking revenue stamp, by putting printed stamp, in respond of receipt and by stoppage.

6. 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.

TAXES ON WEALTH

1. INHERITANCE AND GIFT TAX

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.

Taxpayer is the person who acquires goods by inheritance or gratuitously. Turkish citizens who gain possession outside of Turkey without payment are also subject to this tax.

Inheritance and gift tax is assessed on the declaration submitted by respondent.

In the case of inheritance, the declaration will be submitted in four months starting with the date of death as a rule of law. If the death occurs in Turkey and the taxpayer is outside of Turkey, the declaration period is extended to six months. In the case of occurrence of death and being of taxpayers outside of Turkey, the declaration period will be again four months. However, when the death occurs in a foreign country and the taxpayer is in another foreign country, the declaration period is extended eight months.

In the case of transmissions by gratuitous, the declaration will be submitted in one month following the date of acquirement of the properties.

2. REAL ESTATE TAX

a) Building Tax

Buildings in Turkey are the subject of the tax. Taxable events are the ownership of the building, setting up usufruct or acting as owner of the building.

Taxpayer is owner of the building, if exist, owner of the usufruct, or if no one of these exists, person who acts as owner of the building.

Tax assessment is made by the related municipality. The tax is assessed and accrued upon the annual declaration. The real estate tax is paid in two installments. The first installment in the months of March, April and May and the second one in December will be paid.

b) Land Tax

Lands in Turkey are the subject of the tax. Taxable events are the ownership of the land, setting up usufruct or acting as owner of the building.

Taxpayer is owner of the land, if exist, owner of the usufruct, or if no one of these exists, person who acts as owner of the land.

Tax assessment is made by the related municipality. The tax is assessed and accrued upon the annual declaration. The land tax is paid in two installments. The first installment in the months of March, April and May and the second one in December will be paid.

3. MOTOR VEHICLE TAX

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

Taxpayers are real and legal persons 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.

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 Rate of Income –Corporate and Value Added Taxes in the General Budget Tax Revenues (Thousand YTL)

Years	Tax Revenues	Income Tax	The Rate in Tax Revenues (%)	Corporate Income Tax	The Rate in Tax Revenues (%)	Total VAT (Inside + Import)	The Rate in Tax Revenues (%)	The Total of IT,CIT and VAT	TheRate inTax Revenue (%)
1993	264.273	106.661	40,4	19.132	7,2	81.877	31,0	207.670	78,6
1994	587.760	181.884	30,9	43.976	7,5	176.742	30,1	402.602	68,5
1995	1.084.350	329.795	30,4	103.241	9,5	354.980	32,7	788.016	72,7
1996	2.244.094	676.017	30,1	189.338	8,4	743.026	33,1	1.608.381	71,7
1997	4.745.484	1.500.245	31,6	396.237	8,3	1.561.562	32,9	3.458.044	72,9
1998	9.228.596	3.481.752	37,7	748.383	8,1	2.725.083	29,5	6.955.218	75,4
1999	14.802.280	4.936.551	33,3	1.549.525	10,5	4.164.334	28,1	10.650.410	72,0
2000	26.503.698	6.212.977	23,4	2.356.787	8,9	8.379.554	31,6	16.949.318	64,0
2001	39.735.928	11.579.424	29,1	3.675.665	9,3	12.438.860	31,3	27.693.949	69,7
2002	59.631.868	13.717.660	23,0	5.575.495	9,3	20.400.201	34,2	39.693.356	66,6
2003	84.316.169	17.063.761	20,2	8.645.345	10,3	27.031.099	32,1	52.740.205	62,6
2004	101.061.191	19.688.330	19,5	9.619.359	9,5	34.325.168	34,0	63.632.857	63,0

Taxpayer Statistics

The Number of Active Taxpayers in Turkey

Type of Tax	The Number of Active Taxpayers in 2003	The Number of Active Taxpayers in 2004
Income Tax	1.735.722	1.774.568
Corporate Income Tax	605.020	632.093
Income from Immovable Property	491.907	573.308
Income Withholding Tax	2.032.950	2.141.913
Corporate Withholding Tax	9.048	9.014
Value Added Tax	2.142.949	2.230.815
Lump Sum Tax	820.621	814.532

Other Incomes and Earnings	20.894	21.570
Other Taxes	2.191.542	2.299.810

The Number of Active Taxpayers according to the Types of Corporations

Type of Corporation	Active
Natural Person	3.212.471
Limited Liability Company	540.153
Ordinary Partnership	48.979
Joint Stock Company	95.278
Others	75.303
Cooperative (Society)	58.814
General Partnership	5.117
Ordinary Limited Partnership	526
Shared Limited Partnership	56
Total	4.036.697

Source: Revenue Administration