
**REPUBLIC OF TURKEY
MINISTRY OF TREASURY AND FINANCE
Revenue Administration**



TURKISH TAXATION SYSTEM

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List of Abbreviations and Acronyms

BITT	Banking and Insurance Transactions Tax
CIT	Corporate Income Tax
CN	Combined Nomenclature
DST	Digital Service Tax
OG	Official Gazette
PIT	Personal Income Tax
PTHVR	Property Tax on High Value Residences
PTT	Postal Service and Telecom
RA	Revenue Administration
SCT	Special Consumption Tax
TPL	Tax Procedure Law
TRY	Turkish Lira
VAT	Value Added Tax

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TURKISH TAXATION SYSTEM

A. TAX PROCEDURE LAW

(Law No.213, Official Gazette No. 10703 dated 10.01.1961)

Tax Procedure Law (TPL) regulates ways of implementation and use of rights, responsibilities and tasks arising from tax relation as well as accrual and assessment principles. This law comprises the procedures and main rules of all tax laws.

The law covers general taxes, duties and fees imposed at a nationwide level as well as taxes, duties and fees which are imposed at provincial level. However, taxes, duties and fees collected by customs administrations are not within the scope of the TPL.

The TPL consists of 5 main sections.

1. Taxation (Articles 4-152)

This section comprises provisions about main issues such as; taxpayer, liable person, legal representative, time limits, types of assessment, notifications, payment, errors and the ways of correction, tax inspections.

Taxpayer or liable person is the real or legal person that is imposed tax duty according to the tax legislation.

The liable person is responsible towards the tax office, with respect to the payment of the tax.

No legal capacity shall be required for being a taxpayer or liable person. The fact that events giving rise to taxation are prohibited by law does not remove the tax liability or responsibility.

Persons who are obliged to deduct tax from the payments made or to be made shall be responsible for the entire deduction and payment of the tax related to the performance of other related duties incumbent on them.

2. Duties of the Taxpayer (Articles 153-257)

This section comprises provisions concerning taxpayer duties, declarations, bookkeeping and records, as well as documents to be issued.

3. Valuation (Articles 258-330)

This section sets forth provisions relating to valuation and depreciation of the economic assets and wealth of the taxpayer.

4. Penalty Provisions (Articles 331-376)

This section comprises provisions for penalties to be imposed on taxpayers violating tax laws, as well as provisions for payment, conciliation process and abolishment of penalties.

TPL defines tax loss as failure to assess tax in due time or as an under-assessment of tax due to failure of fulfilment of tax-related obligations or due to inaccurate or incomplete accomplishment of the said obligations by taxpayers.

Failure of fulfilment of tax-related duties by taxpayers (for instance, cases of incorrect or incomplete notification to the tax administration with respect to events giving rise to taxation)

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causes tax loss, in consequence of which the respective taxpayers are imposed a tax loss penalty.

There are 4 types of penalties envisaged by TPL:

- Tax loss fine is defined as the amount of the tax loss charged to the taxpayer or to the liable person. In case the tax loss is caused by the acts mentioned in Article 359 (such as altering or concealing of books, records, making of fraudulent calculation and committing of accounting frauds in books and records, etc.) this penalty is applied three fold to the taxpayer or liable person and one fold to the participants of such acts.
- Irregularity is an infraction of the provisions of tax laws concerning the form and the procedure. Irregularities are categorized as the first and second degree irregularities according to the level of seriousness of the action and are penalized in accordance with the relevant degrees.
- Special irregularity penalties are imposed on those who do not provide information required according to the related articles of TPL, who do not present books, records and other documents on request by competent authorities and officers, who do not fulfil the obligations required by the authority granted by Article 252 to the Ministry of Treasury and Finance, and on executives of the public administrations and institutions which do not provide the requested information.
- Imprisonment is another penalty imposed on those who commit acts mentioned in Article 359. According to the type of these illicit acts (such as accounting frauds in books and records, opening of accounts in the name of unreal persons, altering or concealing of books, etc.) the imprisonment periods may vary from 18 months to 3 years, 2 to 5 years or 3 to 5 years.

Tax penalties are paid within one month from;

the end of the period given for bringing a case, if no action has been brought to the tax court against the penalty, the date in which the notification to be issued by the tax administration upon the resolution of the tax court is communicated to the related person, if an action has been brought to the tax court against the penalty. In case taxpayers committing acts that entail a tax loss penalty for declaration based taxes and others participating in these acts notify their unlawful acts of their own accord with a petition to the concerned authorities, a tax loss penalty will not be imposed providing that conditions specified by Article 371 are satisfied.

Conciliation is a process based on agreement between tax administration and taxpayer on the tax amount and its penalty.

If conciliation is requested before the assessment done by the tax administration, in other words at the stage of the preparation of tax audit report, it is called “conciliation before assessment”, if the request is made after the assessment, it is called “conciliation after assessment”. However taxpayers can benefit only from one of these options. In case conciliation is reached, the Minutes of conciliation drawn up by commission will be decisive and definitive and hence the tax administration will do whatever is necessary immediately.

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Taxpayer shall not sue or make complaint to any authority about the cases on which conciliation has been reached and a report has been drawn up.

5. Tax Cases (Articles 377-417)

This section covers the procedures to be followed in the settlement of tax disputes before the judicial bodies.

B. TAXES ON PROFITS AND INCOME

According to the Turkish tax legislation there are two main types of income taxes, personal income tax and corporate income tax. Personal income tax is levied on income and earnings of real persons (individuals), while corporate income tax is levied on the income and earnings of corporations.

The rules of taxation for individual income and earnings are provided in Personal Income Tax (PIT) Law dated 1960. Likewise, the rules concerning the taxation of corporations are set forth in Corporate Income Tax (CIT) Law dated 1949 (a new CIT Law was introduced in 2006).

Despite the fact that each type of tax is governed by different laws, many rules and provisions of the PIT Law are also applied to corporations, especially, in terms of income elements and determination of net income.

1. PERSONAL INCOME TAX

(Law No.193, Official Gazette No. 10700 dated 06.01.1961)

1.1. Taxable Income

Personal income tax (PIT) is levied on the income of individuals. The term “individuals” refers to real persons. In the application of income tax, partnerships are not deemed to be separate entities and each partner is taxed individually on his/her share of profit. An individual's income may consist of one or more income elements listed below:

- Commercial earnings,
- Agricultural profits,
- Salaries and wages,
- Income from independent personal services,
- Income from immovable property and rights (rental income),
- Income from capital investment,
- Other income and earnings.

1.2. Tax Liability

In general, residency criterion is applied in determining tax liability for individuals. This criterion requires that an individual who is domiciled in Turkey is liable to pay tax for his/her worldwide income (unlimited liability). Any person who resides in Turkey for more than six months in one calendar year is assumed to be a resident of Turkey. However; foreigners who

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stay in Turkey for six months or more by the reason of a specific job or business or for particular purposes which are specified in PIT Law are not treated as resident. Therefore, unlimited tax liability is not applicable to them.

In addition to residency criterion, within a limited scope, nationality criterion also applies regardless of residency status. Turkish citizens who live abroad and work for government or a governmental institution or a company whose headquarter is located in Turkey, are considered 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 govern this issue.

The income is assumed to be derived in Turkey in the following circumstances:

Commercial Earnings: 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 yielding 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 regarded as immovable must be used or accounted for in Turkey.

Income from Capital Investment (interest, dividends, etc.): Investment of the capital must be made in Turkey.

Other Income and Earnings: The activities or transactions generating for other income, specified in the PIT Law, 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.

1.3. Determination of Net Income

1.3.1. Commercial Earnings

Commercial earnings are 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 commercial

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earnings. Generally, activities performed by tradesmen and artisans who do not have permanent establishments are not assumed as commercial and industrial activities, and so they are exempt from income tax.

Furthermore, in order to tax the income arising 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 handles these activities as the other income and earnings. The PIT Law does not list each commercial and industrial activity; it only refers to the Turkish Commercial Law for the scope of these terms. However, several activities are listed for clarification in Article 37.

These activities are as follows:

- Operating mines, stone and lime quarries, extraction of sand and pebbles, operation of brick and tile kilns,
- Stock brokerage,
- Operating private schools, hospitals and similar places,
- Persons' permanent business of purchase and sale, or construction of immovable properties,
- Persons' regular purchase and sales of securities in their name and for their own account, full or partial sale of land which has been obtained by purchase or barter and subdivided within 5 years of its date of purchase and sold during this period or in subsequent years,
- Earnings from dental prosthesis.

The taxpayers who obtain business profit are divided into two groups according to PIT Law;

- Those who benefit from the tradesman exemption and who are not subject to personal income tax,
- Those who do not benefit from the tradesman exemption and who are subject to personal income tax.

According to the method of determination of income, business profits subject to personal income tax are also divided into two;

- Personal income tax determined on the simple procedure basis,
- Personal income tax determined on the actual basis

Those who are subject to personal income tax on the actual basis are also divided into two;

- Those whose income is determined on the basis of balance sheet method,
- Those whose income is determined on the basis of operation account method.

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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,
- Providing being related to business; losses, damages and indemnities paid pursuant to a written agreement or a judicial decree or upon prescription by 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, land, expenditure, consumption, stamp and municipal taxes, fees and charges related to the business,
- Depreciations set aside according to the provisions of the TPL,
- Payments to the unions,
- The contribution payments made by the employers to the pension system on behalf of the wage earners. (Total contribution payments made to the individual pension system by the employers and the wage earners and considered in the determination of tax base, shall not exceed the rate and limits indicated in paragraph (3) of the first subsection of Article 63 of the PIT Law),
- The production cost of foodstuff, cleaning, clothing and heating supplies donated to the charity and foundations operating in poor relief, within the procedures and principles set out by the Ministry of Treasury and Finance.

Payments which are not accepted as expenses:

The payments listed below are not considered as deductible expenses;

- Funds withdrawn from the enterprise by the owner or by his/her spouse or children, or other assets in kind acquired by them,
- Monthly salaries, wages, bonuses, commissions and compensation paid to the owner of the enterprise, to his/her spouse, or his/her 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/her spouse, his/her minor children including interests on all form of receivables,

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- Excluding the transactions mentioned in paragraphs 1 and 4, in case the entrepreneur purchases or sells commodities or services based on the charges or prices he/she determines with the associated bodies contrary to the principle of conformity with the market rates, the differences between the charges or prices in conformity with the market rates and those applied by the entrepreneur that materialize to the disadvantage of the enterprise are considered to have been withdrawn from the enterprise,
- 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,
- 50% of the advertising expenses for all kind of alcohol and alcoholic beverages, tobacco and tobacco products (current rate has been reduced to 0% by a Governmental Decree. The President has the authority to raise this rate up to 100% and reduce it to 0%),
- Depreciation and expenses of motor-driven sea crafts such as yachts, cutters, boats, speed boats and aircrafts such as airplanes and helicopters acquired by renting or registered to the establishment not related to the main field of operations of the enterprise,
- Expenditures related to indemnities paid against material and moral damages arising from acts through press, radio or television broadcasts.

1.3.2. Agricultural Profits

Income derived from agricultural activities is also subject to the PIT. 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 considered to be 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. The incomes of farmers exceeding the limits of size of operations specified in Article 54 of the PTL and who own a reaper thresher or a motor vehicle of the same nature or more than two tractors up to age of 10 years shall be taxed on actual basis (according to the agricultural operation accounting method or, the balance sheet method).

The farmers whose incomes are not taxed on actual basis shall not submit tax return for such incomes. 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 are not included in the records of the agricultural exploitation, shall be taxed according to the provisions relating to commercial earnings.

Gross revenue arising from agricultural activities consists of the following elements:

- Sales values of every kind of agricultural products produced, purchased or obtained in any way including products transferred from previous years,
- Proceeds received in return for operating of agricultural machinery and equipment in the agricultural works of other farmers,

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- In case they are sold, sale values of assets that are indicated as expenses,
- Insurance compensations received due to crops damaged, before or after they were produced,
- Proceeds received from selling of the economic assets (except immovable properties used in agricultural production).

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

- Expenditure incurred for supplying seeds, fertilizers, fodder, chemical products and similar substances related to the operations of the enterprise,
- Cost of livestock, agricultural products and other agricultural substances purchased for resale,
- Payment of wages, premiums and other amounts to the workers employed in enterprises in return for their service,
- Expenditure for boarding, medical treatment, medicines and insurance premiums of the workers,
- Expenditure incurred for the operation and maintenance of agricultural installation, machinery, equipment and vehicles (fuel, lubricating oil, electricity, spare parts etc.) and repair expenditure,
- Depreciation set aside according to the TPL,
- Payments made, by means of rent or fee, for production tools used,
- General expenses made for the obtaining and sustaining agricultural income:
 - a) Interest of loans borrowed and spent for the enterprise,
 - b) Taxes, charges and levies paid, provided they are concerned with the enterprise,
 - c) Travel and lodging expenses related to the enterprise in proportion with the importance and size of the work (to be proportional with the time period required for travel purpose),
 - d) Rent expenses related to the enterprise,
 - e) Other expenditures in the form of general expenses:
 - Damages, losses and compensations paid pursuant to contracts, verdicts and laws, provided they are concerned with the enterprise,
 - In case of disposal of economic assets subject to depreciation, losses, calculated according to Article 328 of the TPL, (except immovable properties used in agricultural production,
 - All of the depreciation amount and half of the expenses of vehicles belonging to the enterprise and also used for personal and family requirements,

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- Farmers' products transferred from the past years which are subject to taxation on actual basis, shall be valued and indicated as expenditures on the average cost of production base stated in Article 45 of the TPL.

1.3.3. Salaries and Wages

Wages and salaries are defined as the benefits, provided in cash, in kind or in other ways that may be represented in terms of money, in compensation for services rendered, to those working subject to an employer and working at a certain work place.

The payments listed below shall also be considered wages and salaries:

- Retirement, disability, widow and orphan pensions out of the exclusion limits specified in paragraph 11 of Article 23,
- Money paid in cash and in kind, other benefits given in compensation for services in return of past or future services,
- Money paid or provided in cash, in kind and other benefits paid to the members of The Grand National Assembly of Turkey, provincial general council and municipal council and to the members of all permanent and provisional commissions that are established pursuant to the special laws or administrative resolutions and to other persons similar to those mentioned above in return for their titles,
- Money paid or provided in cash, in kind and other benefits to the chairmen and members of boards of directors and auditors as well as to the liquidators in return for their titles,
- Money paid or provided in cash, in kind and other benefits to the appraisers, official mediators, experts, sport referees and any kind of members of competition juries,
- Payments made and benefits provided to the sportsmen as transfer fees or under other names,
- Payments made, after expiry of contract of service, under various names such as compensation paid within the scope of reciprocal termination or mutual rescission agreements, compensation for job loss, severance pay and compensation for job security.

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

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

1.3.4. Income from Independent Professional Services

Income resulting from all kinds of activities related to self-employment considered independent professional services income.

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“Independent professional service” is the execution of work, under the personal responsibility on own behalf and own account without being attached to an employer and based more particularly on personal effort, scientific and professional knowledge or specialisation rather than on capital, and having no commercial character,

Independent professional services comprises services rendered by independent professionals such as lawyers, accountants, doctors, consultants and engineers. Income from independent professional services within a year as well as expenses paid are recorded on an independent professional service income book. In general, all expenses related to independent professional services can be deducted from revenues. However, the scope of those expenses is narrower than that specified for commercial and business activities.

The following expenses are allowed to be deducted from the gross revenue in determination of independent professional services:

- General expenses incurred for obtaining and maintaining of professional income,
- Boarding and lodging expenses of employees and workers at the workplace or its premises, their medical treatment and medicine expenses, insurance premiums and pensions,
- Travel and lodging expenses related to business (provided that they are limited to the period required by the object of the trip),
- Depreciation amount reserved according to the TPL for installation, fixed assets and vehicles included in inventory, used in business activities,
- Expenses related to vehicles rented or included in the inventory which are used in the business,
- Amounts paid for the purchase of professional publications,
- Cost of goods and services procured for performance of business activities,
- Registration and pension contributions paid to the pension funds for independent professional services and contributions paid to the professional organizations,
- Professional, announcement and advertisement taxes paid for obtaining and maintaining of the independent professional service income as well as charges and levies in kind related to workplace,
- Compensations paid pursuant to the laws, verdict and contracts related to independent professional services.

1.3.5. Income from Immovable Property

Real property which includes land buildings, and permanent leasehold rights shall be defined as immovable property. Ships, boats, aircraft and other types of transportation vehicles are also regarded as immovable property in the application of the PIT Law. Income from immovable property comprises:

- Land, buildings, mineral water, mines, quarries, sand and pebble pits, brick and tile kilns, salinas, together with their integral parts and appendants,

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- Places of fishing nets and traps,
- Integral parts and appendants and all installations, fixtures and furniture of immovable properties, leased separately from the building,
- Rights registered as immovable properties,
- Exploration, exploitation and concession rights and licenses, patent rights (the incomes derived from leasing of patents by their inventors or legal heirs are regarded as self-employment), the right of utilization or rights such as usage privileges on all kinds of trade mark, brand, trade name, all technical drawings, design, model, plan, cinema and television films, sound and image tapes; information acquired in the fields of industry, commerce and science, secret formula or production method (the costs of the material and equipment necessary for the utilization of such rights are also considered as revenue from immovable properties),
- Copyrights (Incomes derived from the leasing of such rights by their authors or legal heirs are considered professional earnings),
- Ships and shares of ships (Without any consideration for their tonnage and whether they have an engine or not) and all motor vehicles used for loading and unloading,
- Motor transport and towing vehicles, all motor vehicles, machinery, installations and their attachments.

In order to determine net income from immovable property, expenses specified in Article 74 which are related to maintenance, management, renovation, insurance depreciation, etc. may be deducted from the gross income on the actual basis. It is also allowed to make a lump-sum deduction instead of applying of actual basis method, except the income from the lease of the rights mentioned above. In such cases, the lump-sum deduction rate is 15% of the rental income.

1.3.6. Income from Capital Investment (Interest, Dividends, etc.)

The interest, dividend, rent and similar revenues derived from the capital composed of the values in monetary capital or in cash (income from business activities, agricultural activities and independent personal services are not considered income from capital investment).

Regardless of their sources, the following earnings are deemed to be income from capital investment:

- Dividends of all kinds of shares,
- 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,
- Income 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,

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- The portion that remains after deduction of the corporate income tax from the corporation earnings calculated before the deduction of the reductions and exemptions, of institutions with limited tax liability that submit annual or special tax return according to the Corporate Income Tax Law,
- Interests of every kind from bonds, treasury bonds, and earning from the securities issued by the Public Housing Administration,
- Interest from debt-claims of every kind particularly interest from banks and other financial institutions,
- Deposit rates,
- Profits from selling coupons of stocks and bonds before their maturity,
- Income in kind and cash from the transfer of unaccrued dividends in the name of their holders,
- Amount of discount received in return for all bills discounted,
- 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,
- Income payments made by the retirement funds in the nature of legal entity, aid funds, retirement and insurance companies,
- Income from Individual Pension System,
- Income from any capital market instruments issued in accordance with the provisions of the Capital Market Law.

In determining of the net income from capital investment, 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.

1.3.7. Other Income and Earnings

Capital gains and non-recurring income are governed by the provisions of the article “Other Income and Earnings” of the PIT Law.

1.3.7.1. Capital Gains

Capital gains specified in the PIT Law are as follows:

- Income 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,

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- Income arisen from disposal of the rights enumerated in paragraph 5 of the first subsection of Article 70 of the PIT Law (except patent rights),
- Income exceeding certain amount of TRY from the selling of intellectual rights which are treated as immovable property for tax purposes,
- Income from selling of participation rights and shares,
- Profits from wholly or partly alienation of an enterprise which has ceased its operations,
- Profits derived from alienation of land, buildings, rights to operate mineral deposits sources and other natural sources, fish farming facilities, rights registered as immovable property, and ships, boats, aircraft and other transportation vehicles within five years after their acquisition.

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

1.3.7.2. Non-recurring Income

Non-recurring income comprises:

- Income derived from execution of commercial transactions or from acting as intermediary for such transactions on occasion,
- Income received in return for stopping or vacating an activity of a commercial, agricultural enterprise or independent professional service and in return for not bidding for contracts,
- Income received in return for transferring of leasehold rights or for evacuating of leased immovable property,
- Income received in return for independent professional services rendered on occasion,
- Post-derived earnings of the taxpayers from their previous business,
- Income derived by the limited liable taxpayers from transportation activities performed on occasion.

1.4. Other Deductions

In the determination of the income tax base, taxpayers shall be entitled to make the following deductions from the income:

- Insurance premiums such as life (50% of the premiums paid for life insurance shall be deducted), death, accident, illness, disability, maternity, birth and education, belonging to the taxpayer himself/herself and his/her spouse and children underage, provided that these premiums do not exceed 15% of the declared income and the total amount of minimum wage,
- Education and health expenditures related to the taxpayer himself/herself, his/her spouse and children underage, provided that they do not exceed 10% of the declared income

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and that these expenditures are made in Turkey and confirmed with documents to be received from real or legal persons subject to corporate income tax,

- Annual deduction calculated for the declared income of the disabled who are engaged in self-employment or who are taxed according to the simple procedure basis, according to the principles stated in article 31 (self-employed persons and employees who are liable to look after a disabled person shall be entitled to benefit from this deduction (including the deduction base)),
- Of the total donations and charities made against a receipt, to the public administrations under government budget or with special budget, to special provincial administrative bodies, to municipalities and villages, to foundations that are granted tax exemption by the President, to associations that work for public interest, up to 5% of the declared income,
- All kinds of expenses made for the construction of schools, medical facilities, student hostels and child care centres with a capacity of at least 100 beds, orphanages, retirement homes, care and rehabilitation centres, prayer facilities subject to permission and control of local authority and facilities for religious education under the control of Presidency of Religious Affairs, youth centres and youth and scout camps of Ministry of Youth and Sports, or all kinds of donations and charities that are given to these institutions for the construction of such facilities, as well as all cash and real donations and charities rendered for the continuation of their activities,
- Whole production costs of foodstuff, cleaning, clothing and heating supplies donated to the charity and foundations operating in food banking to help the poor, within the procedures and principles set out by the Ministry of Treasury and Finance,
- 100% of the expenses, donations and charities made and given against receipt, in respect of activities which are realized by the institutions or supported by the Ministry of Culture and Tourism for the promotion, development and preservation of cultural, artistic and historical values,
- For the amateur sport branches, the whole amount, and for professional sport branches 50% of the sponsorship expenses,
- All in kind and cash donations made against receipt, to aid campaigns initiated by the President,
- Except for their economic enterprises, all cash donations and charities that are made against a receipt to the Turkish Red Crescent and the Turkish Green Crescent,
- The portion of the amounts allocated as venture capital investment fund, which do not exceed 10% of the declared revenue.

1.5. Tax Return

Annual tax return is used for consolidation of earnings derived from various sources within a calendar year. The filing period for annual tax returns is 1-25 March of the year following the year to which they relate.

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On the other hand, special tax return is used by taxpayers subject to limited tax liability, to declare profits and earnings for which they are not obliged to file annual tax return and special tax return must be filed within 15 days from acquirement.

- ❖ In 2020, 19.06% of the General Budget Tax Revenues comes from PIT and the total amount of tax revenues derived from PIT is 158.814.288.000TRY.

2. CORPORATE INCOME TAX

(Law No. 5520, Official Gazette No. 26205 dated 21.06.2006)

2.1. Taxable Income

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

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

2.2. Tax Liabilities

According to the CIT Law, legal entities covered by the law whose registered head office is situated in Turkey, or the centre of all their business transactions is in Turkey are taxed on their world-wide income (unlimited liability). By specifying two criteria the law intends to prevent any problem, which may arise in determining of tax liability. The term “registered head office”, as used in the context of the CIT Law, implies that it is the head office of the taxable corporations as stated in the laws and rules regarding their establishment, or in their articles of association. Therefore, it is not difficult to ascertain where the registered head office of a company is located. However, the business head office, which is defined as the centre where all business transactions are actually managed, is not easy to determine in some cases.

2.3. Determination of Net Taxable Income

In essence, the provision of the PIT Law concerning the determination of the business profit also applies to the procedure required in determining of 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 the PIT Law allowed to be deducted from revenues, the following amounts may also be deducted by corporations for determination of business profit:

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- Expenses for the issuance of securities,
- Foundation and organization expenses,
- Expenses made for the General Assembly as well as merger, transfer, spin-off, dissolution and winding up,
- The profit share of the partner of a commendam with issued capital shares, who has unlimited liability,
- The profit shares paid by the participation banks for the participation accounts,
- In case of the insurance and reinsurance companies, technical reserves required for the insurance contracts still valid on the date of inventory.

The following losses can be deducted for determining the corporate tax base, by indicating each year's total amounts separately in the corporate tax return:

- The losses as indicated in the past years' tax returns—not exceeding five years,
- The losses from activities abroad which have been transferred for not more than five years to Turkey, except those related to earnings exempt from corporation tax in Turkey, can be deducted only in the following cases:
 - The tax base (including the loss) declared under the tax laws of the country in which the activities took place, has been reported by a duly authorized audit firm of such country, and
 - The original and a translated copy of that report have been submitted to the related tax office in Turkey.

In determining the corporate tax base, the following deductions can respectively be made from corporate earnings for determining of the corporate tax base, provided that they are also indicated on the tax return.

- A “R&D deduction” as much as 100% of the expenses that the taxpayers shall make for the research and development work within their enterprises, exclusively in search for new technologies and knowledge,
- For the amateur sport branches, the whole amount, and for professional sport branches 50% of the sponsorship expenses,
- Of the total donations and charities made against a receipt, and to the public administrations under government budget or with special budget, to special provincial administrative bodies, to the municipalities and villages, to the foundations that are granted tax exemption by the President, to the associations that work for public interest and to the institutions and establishments that are engaged in scientific research and development activities, up to 5% of the corporate earnings for that year,
- All kinds of expenses made for the construction of schools, medical facilities, student hostels and child care centres with a capacity of at least 100 beds, orphanages, retirement homes and care and rehabilitation centres, prayer facilities subject to permission and control of local authority and facilities for religious education under the control of Presidency of Religious Affairs, and for the construction of youth centres

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which belong to the Ministry of Youth and Sports and scouting camps or all kinds of donations and charities given to these institutions for the construction of such facilities, as well as all cash and real donations and charities rendered for the continuation of their activities,

- 100% of the expenses, donations and charities made and given against receipt, in respect of activities which are realized by the above mentioned institutions or supported by the Ministry of Culture and Tourism for the promotion, development and preservation of cultural, artistic and historical values,
- All in kind and cash donations made against a receipt to the aid campaigns initiated by the President,
- Except for their economic enterprises, of all cash donations and charities that are made against a receipt to the Turkish Red Crescent and the Turkish Green Crescent,
- The portion of the amount set aside as venture capital investment funds not exceeding 10% of the taxable income,
- 50% of the profits derived from services provided in Turkey, and exclusively utilised abroad, by service businesses engaged in architecture, engineering, design, software, medical reporting, record keeping, call centre, data storage for non-residents in Turkey and for those whose registered and business head offices are abroad, as well as the profits of corporates providing services to non-residents in Turkey and operating in the areas of education and health subject to the permission and control of the relevant ministry (in order to benefit from this deduction, invoice or other documents shall be drawn up in the name of the customer abroad),
- “Protected workplace discount” which is 100% of annual gross amount of wage payment made to mentally or psychologically disabled employees who are employed in the protected workplaces (discount applies to a maximum of 5 years for each disabled employee and the annual amount to be deducted shall not exceed 150% of the annual gross minimum wage for each disabled employee),
- Within the accounting periods of capital stock companies, with the exception of entities engaged in banking, finance and insurance activities and state owned enterprises, over the monetary increases in paid-in or issued capitals which are registered with the trade registry or disbursed part of paid-in capital in the capital stock companies recently established, by taking into consideration “the weighted annual average interest rate which is applied to commercial credits accredited by the banks” which is announced by the Central Bank of the Republic of Turkey for the period in which the deduction is obtained, 50% of the amount calculated up to the end of relevant account period.

The following deductions are not allowed for determining of the net corporate income:

- Interests that are calculated and paid on equity capital,
- Interest, difference of exchange parities and other expenses paid on camouflaged capital,

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- Earnings distributed as hidden income through transfer pricing,
- Reserves—regardless of the type and name under which they might have been set aside (including all reserve funds set aside from net earnings in accordance with presidential decrees, statutes, main statutes or contracts and general provisions of banks according to the Banking Law),
- Corporate tax, all kinds of fines, tax fines, late fees and overdue interests,
- Losses incurred for issuing securities at prices below their nominal value as well as the commissions paid and all similar expenses with respect to such securities,
- Expenses and depreciation costs of the sea vessels such as yachts, cutters, boats, speed boats, and the air vessels such as airplanes and helicopters that are rented by or registered to the enterprise's name, and which are not associated with the main field of activities of such enterprise,
- Except for the penalties stipulated in the contracts, material damages and compensations for pain and suffering incurred as the result of offences of the corporation itself, its shareholders, directors and employees,
- Material damages and compensations for pain and sufferings paid upon offences committed due to using press or radio and television programs,
- 50% of the advertisement costs for all kinds of alcohol and alcoholic beverages as well as tobacco and tobacco products.

2.4. Exceptions and Exemptions

Some exceptions for corporate income which are governed by the provisions of Article 5 of the CIT Law, are as follows:

- Participation exceptions applied for dividends derived by companies from Turkish (resident) participations (Art. 5/1-a) and from foreign participations (Art. 5/1-b). Dividends qualifying for the participation exception are fully exempt from CIT,
- 75% of capital gains derived by corporate taxpayers from the disposal of shares owned for at least two years qualify for tax exception, and 50% of capital gains derived from the sales of immovables held in the assets for the same period of time (Art. 5/1-e).

Some exemptions granted to certain entities which are specified in Article 4 of the CIT Law, are indicated below:

- Domestic, national and international exhibitions and fairs opened by public administrations and establishments, with the permission of local authorities,
- Pension, aid funds and social security institutions established by the Law.

2.5. Deduction of Losses

According to Article 9 of the CIT Law, the following losses can be deducted when determining the corporation tax base, by indicating each year's sum separately in the corporation tax return.

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- The losses as indicated in the past years' tax returns – not exceeding 5 years,
- The losses from the activities abroad transferred for no more than 5 years, and excluding those related to the earnings that are exempt from corporation tax in Turkey, can be deducted only in case;
 - The tax base –including the loss– declared under the tax laws of the country in which the activities took place, has been reported by a duly authorized audit firm of such country, and
 - The original and a translated copy of that report have been submitted to the related tax office in Turkey.

2.6. Corporate Tax Return

Similar to the PIT, the CIT 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 single tax return, even if the income has been derived through different business places or branches and those have their own accounting and allocated capital.

Tax return includes the results of the related 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 following the closing month of a fiscal period. The CIT must be paid by the end of the month during which the tax return has been submitted. Non-resident foreign corporations use special tax return for reporting certain profits and earnings. Special tax return must be given within 15 days from the obtainment of earnings and profit (this procedure is called "Special Tax Return").

Those who are obliged to make tax withholding are required to file a withholding tax return to the related tax office in regard to the payment or accrual of these taxes.

Withholding tax return shall be filed until 23rd of the following month and paid until the evening of 26th day of the same month.

2.7. Tax Rates

CIT is applied at the rate of 20% on the corporate income. On the other hand, this rate shall be applied as 22% for the taxation periods 2018, 2019 and 2020. The President is authorized to reduce the rate of 22% to as low as 20%.

Taxpayers (limited to commercial and agricultural incomes of limited taxpayers) shall pay advance tax at the rate of corporate income tax; these payments are deducted from CIT of the current accounting period.

In order to promote taxpayer compliance, on January 8th, 2017 the Law No. 6824 entered into force. The Law enables eligible taxpayers to benefit from 5% of personal/corporate income tax reduction on their annual personal/corporate income tax returns. This reduction is applicable for the returns submitted after January 2018.

- ❖ In 2020, 12.6% of the General Budget Tax Revenues comes from CIT and the total amount of tax revenues derived from CIT is 105.047.373.000TRY.

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C. TAXES ON GOODS AND SERVICES

Turkish taxation system comprises several indirect taxes, among which the most important ones are value added tax and special consumption tax (also called “excise duty”).

1. VALUE ADDED TAX

(Law No. 3065, Official Gazette No. 18563 dated 02.11.1984)

The Value Added Tax (VAT) Law (Law No. 3065) entered into force on January 1st, 1985.

Value added tax is levied on the supply and the importation of goods and services. 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 to Turkey.

VAT is levied at each stage of the production and the distribution process. However; liability for the tax is imposed 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 on which the computation of the VAT liability is based on the difference between the VAT liability of a person on his/her sales (output VAT) and the amount of VAT that he/she has already paid on his/her purchases (input VAT). The Turkish VAT system employs multiple rates and the Presidency is authorized to change the VAT rates within certain limits.

1.1. VAT Taxpayers

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 the other taxes.

Taxpayers of VAT are:

- in case of delivery of goods and rendering of services, those who carry out such tasks,
- in case of importation, those who import goods and services,
- in case of transit transportation, addressees of customs or passing formalities,
- in the sales made at the auction locations, those who make these sales
- Post and Telegraph Corporation and administrations of radio and television,
- organizers of any kind of games of chance and gambling,
- organizers of shows, concerts and sporting events with the participation of professional artists and professional sportsmen,
- those who lease properties and rights referred to in Article 70 of the PIT Law, and
- applicants for optional tax liability.

1.2. VAT Responsibility and Reverse Charge VAT

In the event that the taxpayer is not resident or does not have a permanent establishment, a legal head office or place of management in Turkey, or in other cases deemed necessary, the

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Ministry of Treasury and Finance is authorized to hold anyone involved in a taxable transaction liable for the payment of tax.

According to the VAT Law, there is a reverse charge VAT mechanism, which requires the calculation of VAT by resident companies on 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.

The reverse charge mechanism is of two types, full and partial. For instance, full reverse charge is applicable when services provided by a taxpayer who is not resident or does not have a permanent establishment or legal head office or place of management in Turkey,

Examples for partial reverse charge are as follows;

- Toll-manufacturing and ready-made materials (textiles) are subject to partial withholding: Only 50% of the calculated VAT is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 50% of calculated VAT to the tax office directly.
- Junk metal, waste paper, junk plastic material deliveries are exempt from VAT: In the case of the renouncement of the above mentioned exemption, the purchaser pays 30% of the calculated VAT to the seller. Therefore, the purchaser will be responsible for paying 70% of the calculated VAT to the tax office directly.

1.3. Tax Base

The tax base of transactions is generally the total value of deliveries and services. The VAT Law covers deliveries and services, importation, international transportation, and special types of tax base.

1.4. Exclusions from the Tax Base

The following elements are not included in the tax base:

- a) Discounts, in compliance with business practices, in transactions of delivery and service indicated on invoices and similar documents,
- b) The VAT calculated.

1.5. Tax Rates

1.5.1. Standard Rate

The standard rate of VAT on taxable transactions is set as 10% in the VAT Law, but based on the authority given by the VAT Law to The Council of Ministers; this rate was increased to 18% as of 15 May 2001. There are also two reduced rates of 1% and 8%.

1.5.2. Reduced Rates

- For the deliveries and services mentioned in List No. I, VAT rate is 1% (e.g. wholesale supply of some agricultural products, livestock and meat; certified seeds; bread; supply of houses with net area is up to 150m²; funeral services; leasing of machinery and

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equipment covered by the Investment Incentive Certificate pursuant to the financial leasing legislation,

- For the deliveries and services mentioned in List No. II, VAT rate is 8% (e.g. basic food stuffs, clothing products; some furniture; health care services; pharmaceuticals and medical devices; care services for the young, elderly, sick or disabled provided by nursing homes and orphanages; educational services and related services; admission charges for cinema, theatre, opera, operetta, ballet, museum; restaurant and catering services; accommodation services).

1.6. Deductible VAT (VAT Credit)

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. Then, the VAT previously paid on importation and on goods and services supplied to the taxpayer, is deducted from this amount.

In cases, where total amount of VAT subject to deduction within a certain taxation period exceeds total amount of VAT on the basis of taxpayer's transactions subject to taxation, the difference thereof shall not be returned to the taxpayer but deferred to the subsequent periods.

1.7. Non-deductible VAT

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

- a) The VAT indicated in the documents relating to the goods acquired and services received that are not subject to VAT, or included in the cost of such goods and service,
- b) The VAT indicated on the purchase invoice of automobiles possessed by enterprises, except those automobiles used by enterprises whose field of activity consists, in part or entirely, of leasing or operation in various manners of automobiles for such business purposes,
- c) The VAT relating to lost goods, except for goods lost due to earthquake, flood disaster, and fire that occur at a place where the Ministry of Treasury and Finance declares compelling reason on account of fire.
- d) The VAT paid on account of expenditures that are accepted as non-deductible in the determination of the income in accordance with the PIT and CIT Law,
- e) VAT unpaid by the buyer on receivables that become bad debt in accordance with Article 322 of the Tax Procedure Law.

1.8. VAT Refund

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

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- Exportation of goods and services,
- Exemption in vehicles, precious metals and oil exploration works, national security expenditure as well as investments made under an Investment Incentive Certificate,
- Transit transportation,
- Diplomatic exemption,
- Exemption on purchases of persons with disabilities (Article 17/4.s),

are deducted from the VAT (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 Treasury and Finance.

On the other hand, VAT receivables arising from the fact that input VAT is more than output VAT due to transactions subject to partial reverse charge may also be refunded, on the basis of principles to be determined by the Ministry of Treasury and Finance.

- ❖ In 2020, 27.69% of the General Budget Tax Revenues came from VAT (on imports and domestic transactions) and the total amount of tax revenues derived from VAT (on imports and domestic transactions) was 230.712.091.000TRY.

2. SPECIAL CONSUMPTION TAX

(Law No. 4760, Official Gazette No. 24783 dated 12.06.2002)

2.1. General Explanation

Special consumption tax (SCT) is levied only for once at one stage of the consumption process of the goods within the scope of four lists annexed to the SCT Law No. 4760.

The goods subject to tax are indicated as tariff codes generating from Turkish Customs Tariff Nomenclature (TCTN). TCTN is in compliance with the Combined Nomenclature which is the international classification system for goods.

There are mainly four product groups that are subject to SCT at different tax amounts or rates.

- List (I) is related to petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents,
- List (II) is related to land, air and sea vehicles (cars and other vehicles, motorcycles, planes, helicopters, yachts etc.),
- List (III) is related to alcoholic beverages and cola soda pops, cigarettes and other tobacco products,
- List (IV) is related to other consumption goods (caviar, furs, mobile phones, white goods and other electrical household machines etc.).

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2.2. Taxpayers of the SCT

Taxpayers vary by list and transaction as follows:

- For List (I), manufacturers including refineries or importers of the petroleum products,
- For List (II), traders of motor vehicles, importers for their use (not for selling) or sellers of untaxed vehicles through auction,
- For List (III), manufacturers and importers of the goods or sellers of untaxed goods through auction,
- For List (IV), manufacturers and importers of the goods or sellers of untaxed goods through auction.

2.3. Taxation of the Goods in List (I) Annexed to the SCT Law

The List (I) annexed to the Law consists of two tables: Table (A) and Table (B).

Table (A) is composed of petrol, diesel, fuel oil, natural gas and LPG while solvents, thinner and mineral oils (lubricating oils) are within the scope of Table (B).

Coal and coke, and electricity are not within the scope of the Law.

2.3.1. Taxable Event for Goods in List (I)

For the goods laid down in List (I) taxable event does not occur at the time of importation but at the domestic delivery of the goods.

Delivery means the transfer to recipient or to those acting on behalf of him/her, the right of disposition of property by the owner or by those acting on behalf of him/her.

Importation means the entry of goods subject to SCT into the customs territory of the Republic of Turkey.

On the other hand, at the stage of importation, guarantee is required for the corresponding duty that becomes payable in Turkey.

2.3.2. Exemptions

Exemptions for the goods within List (I) are:

- Exportation exemption,
- Diplomatic exemption,
- Supply of goods to be exported,
- Energy products delivered to the armed forces,
- Energy products used for petroleum exploration and production activities,
- Free of charge delivery of goods which have been distributed to the public institutions in case of disasters, infectious diseases and similar circumstances, according to the Customs Law,
- Exemption on diesel for vehicles leaving Turkey for export.

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2.3.3. Tax Amount

Tax shall be collected according to the amounts stated in List (I) annexed to the Law.

The SCT amounts set for goods in List (I) can be defined by kilogram, liter, meter cube, standard meter cube, kilo calorie, their sub and over units and if necessary can be defined by containers, wraps or units with respect to their size.

The President is authorized to change the amounts within the limits indicated in the Law.

2.3.4. Declaration, Assessment and Payment

SCT is assessed and collected upon declaration of taxpayers.

There are two taxation periods in a month. The first taxation period is the first 15 days of each month and the second taxation period comprises the remaining part of the month. Tax return is submitted electronically to the tax office by the end of the 10th day following the end of the taxation period and the tax shall be paid within the periods of submission of the return.

2.3.5. Deferment and Cancellation

The tax on goods within the scope of List (I) delivered to the exporters for the purpose of exportation is assessed, accrued and then deferred by related tax office upon the request of taxpayers, provided that the tax is not collected by these taxpayers from exporters.

Deferred tax is cancelled when the goods are exported within 3 months from the first day of the month following the date of delivery to the exporter.

2.3.6. Tax Deduction

If any good within the List (I), which is subject to SCT, is used in manufacturing of other goods enumerated in the same list, the tax paid shall be deducted from the due tax.

2.4. Taxation of the Goods in List (II) Annexed to the SCTL

Vehicles such as haulers for half-trailers, cars and vehicles designed for transport of persons, vehicles designed for transport of goods, vehicles for special purposes, motorcycles, helicopters, planes, ships, yachts, vessels for entertainment and sport are within the scope of List (II) annexed to the Law. Components and part of these goods are not subject to SCT.

For the purposes of taxation, the vehicles are classified according to necessity of entry and registration. Land, air and sea vehicles are recorded and registered by traffic registration institutions, General Directorate of Civil Aviation and municipalities or port authorities respectively.

2.4.1. Taxable Event for Vehicles Subject to Entry and Registration

First acquisition is the taxable event for vehicles subject to entry and registration such as automobiles, buses, trucks, motorcycles, airplanes, helicopters, ships, yachts etc.

In terms of SCT, first acquisition implies, in respect of vehicles which have not already been recorded and registered in Turkey, importation, acquisition by auction, acquisition from merchants of motor vehicles of such vehicles or starting to be used or capitalized by merchants of motor vehicles or registered in the name of them.

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2.4.2. Taxable Event for Vehicles Not Subject to Entry and Registration

Taxable event occurs at the time of their delivery, importation or public auction.

Delivery means the transfer to recipient or to those acting on behalf of him, the right of disposition of property by the owner or by those acting on behalf of him.

Importation means the entry of goods subject to SCT into the customs territory of the Republic of Turkey.

2.4.3. Exemptions

Exemptions for the goods within List (II) are:

- Exportation exemption,
- Diplomatic exemption,
- Importation exemption (only for goods which are free of customs duty),
- Exemption for goods subject to regimes (transit, customs warehouse, inward processing, customs control, free zones and provisional warehousing) generating from the Customs Law No. 4458,
- Exemption on the first acquisition of vehicles by the relatives of taxpayers who lost their lives in war and duty,
- Exemption on the first acquisition of certain motor vehicles by disabled persons,
- Exemption on the first acquisition of planes and helicopters by Turkish Aeronautical Association,
- Exemption on the first acquisition of all vehicles in List (II) by the central organization of Presidency,
- Exemption on the first acquisition of 8701.20, 87.04, 87.05 and 87.09 Combined Nomenclature (CN) coded vehicles within List (II) for the purpose of petroleum exploration.

2.4.4. Deferment and Cancellation

The SCT of the vehicles delivered to the exporters for the purpose of exportation is assessed, accrued and then deferred by related tax office upon the request of taxpayers provided that the tax is not collected by these taxpayers from the exporters.

The deferred tax is cancelled when the vehicles have been exported within 3 months from the first day of the month following the date of delivery to the exporter.

2.4.5. Tax Deduction

If any vehicle subject to SCT within List (II) is used in manufacturing of other vehicles in the same list, tax paid shall be deducted from the due tax.

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2.4.6. Rates

Tax shall be collected according to the proportional rates stated in List (II) annexed to the Law. The President is authorized to change the rates and/or amounts within the limits indicated in the Law.

2.4.7. Declaration, Assessment and Payment

SCT is assessed and collected upon declaration of taxpayers.

Tax return for the vehicles subject to entry and registration is submitted electronically to the tax office just before the end of first acquisition and tax is paid on the same day.

On the other hand, tax return for the vehicles not subject to entry and registration tax is submitted electronically to the tax office until the 15th day of the month following the end of the previous month. The tax is paid within the period of submission.

2.5. Taxation of the Goods in List (III) Annexed to the SCT Law

List (III) annexed to the Law consists of two tables: Table (A) and Table (B).

Table (A) is composed of cola soda pops and alcoholic beverages while cigarettes and other tobacco products are within the scope of Table (B).

2.5.1. Taxable Event for the Goods in List (III)

Taxable event occurs at the time of the delivery of the said goods by their manufacturers, their importation or sale at public auction before tax is applied.

Delivery means the transfer to recipient or to those acting on behalf of him/her, the right of disposition of property by the owner or by those acting on behalf of him/her.

Importation means the entry of goods subject to SCT into the customs territory of the Republic of Turkey.

2.5.2. Exemptions

Exemptions for the goods within List (III) are:

- Exportation exemption,
- Diplomatic exemption,
- Importation exemption (only for goods which are free of Customs Duty),
- Exemption for goods subject to regimes (transit, customs warehouse, inward processing, customs control, free zones and provisional warehousing) generating from the Customs Law No. 4458.

2.5.3. Deferment and Cancellation

The SCT of the vehicles delivered to the exporters for the purpose of exportation is assessed, accrued and then deferred by related tax office upon the request of taxpayers provided that the duty is not collected by these taxpayers from the exporters.

Deferred tax is cancelled when the vehicles have been exported within 3 months from the first day of the month following the date of delivery to the exporter.

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2.5.4. Tax Deduction

If any good subject to the SCT within List (III) is used in manufacturing of other goods in the same list, tax paid shall be deducted from the due tax.

2.5.5. Rate or Amount

Tax shall be collected according to the rates and/or amounts stated in List (III) annexed to the Law. The President is authorized to change the rates and/or amounts within the limits specified in the Law.

Proportional taxation method is used in calculating of the SCT on cigarettes and other tobacco products. Nevertheless, tax on cigarettes and other tobacco products calculated on proportional basis cannot be less than the tax amount calculated according to minimum specific tax amounts.

Minimum specific tax amount is levied for each piece of cigarette in a packet and per gram of other tobacco products.

Specific tax amount per 20 pieces of cigarettes, per 50 pieces of macarons and per 50 grams of other tobacco products is finally calculated in order to determine the total SCT.

For alcoholic beverages, proportional taxation is the principal method applied but the tax calculated cannot be less than the tax amount calculated according to minimum specific tax amounts. In practice, tax on beer is calculated by the application of both proportional and specific method taking account of alcohol degree in one liter of product, providing that the proportional calculation cannot be less than the tax amount calculated according to minimum specific tax amounts. The SCT on other goods, except beer, is calculated solely on the basis of minimum tax amounts, because of the fact that the proportional rates are determined as zero (0).

The minimum specific tax amount levied on alcoholic beverages varies according to the goods by taking into account either the degree of alcohol in one liter of the product (beer or wine, etc.), or the liter of pure alcohol contained in the specific product (whisky, vodka etc.).

Tax on cola soda pops is calculated on proportional basis without using any minimum specific tax amount.

2.5.6. Tax Base

Tax base for cigarettes and other tobacco products is the retail selling price of these goods to final customers including VAT. The tax base for importation of cigarettes and tobacco products shall be also the retail selling price of these goods.

Tax base for alcoholic beverages, cola and soda pops is VAT tax base excluding SCT.

2.5.7. Declaration, Assessment and Payment of Duty

The SCT is assessed and collected upon declaration of taxpayers.

Tax return is submitted electronically to the tax office until the 15th day of the month following the end of the taxation period and the tax shall be paid within the period of submission of the tax return.

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2.6. Taxation of the Goods in List (IV)

List (IV) consists of goods such as caviar, cosmetics, fur, air conditioner, heater, white goods, mobile phone, television, camera, sound and image recorders, revolver etc.

2.6.1. Taxable Event for the Goods in List (IV)

The taxable event occurs at the time of delivery of the said goods by their manufacturers, importation or sale at public auction before the tax is applied.

2.6.2. Exemptions

Exemptions for the goods within List (IV) are:

- Exportation exemption,
- 9302.00.00.00.00 and 93.03 CN coded goods delivered to the Ministry of Defence, Ministry of Justice, Gendarmerie, Coast Guards, National Intelligence, Defence Industry Under secretariat, Police and Customs Guards,
- Goods delivered to public institutions without any charge,
- Importation exemption (only for the goods which are free of customs duty),
- Exemption for goods subject to regimes (transit, customs warehouse, inward processing, customs control, free zones and provisional warehousing) generating from Customs Law No. 4458.

2.6.3. Deferment and Cancellation

The SCT of the good within the scope of List (IV) delivered to the exporters for the purpose of exportation is assessed, accrued and then deferred by related tax office upon the request of taxpayers, provided that tax is not collected by these taxpayers from exporters.

The deferred tax is cancelled when the vehicles have been exported within 3 months from the first day of the month following the date of delivery to the exporter.

2.6.4. Tax Deduction

If any good subject to SCT within List (IV) is used in manufacturing of other goods in the same list, the tax paid shall be deducted from the due tax.

2.6.5. Rate

The tax shall be collected according to the rates stated in List (IV) annexed to the Law. The President is authorized to change the rates and/or amounts within the limits specified in the Law.

Taxation is proportional for all goods in List (IV) except one of them: the minimum tax, which has been determined, is applied only to mobile phones. The tax on mobile phones calculated on proportional basis cannot be less than the tax amount calculated according to minimum tax amounts.

2.6.6. Tax Base

Tax base for the goods in List (IV) is the VAT tax base excluding SCT.

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2.6.7. Declaration, Assessment and Payment

SCT is assessed and collected upon declaration of taxpayers.

Tax return is submitted electronically to the tax office until the 15th day of the month following the end of the corresponding taxation period and the tax shall be paid within the filing period of the return.

- ❖ In 2020, 24.88% of the General Budget Tax Revenues comes from SCT and the total amount of tax revenues derived from SCT was 207.283.154.000TRY.

3. SPECIAL COMMUNICATION TAX

(Law No. 6802, Official Gazette No. 9362 dated 23.07.1956)

Telecommunication services are subject to special communication tax. This tax is not included in the VAT base.

The special communication tax rates are as follows:

- 7.5% on mobile electronic communication services (including the sales for prepaid cards),
- 7.5% on services regarding the transmission of radio and television broadcasts on satellite platforms and cable medium,
- 7.5% on internet providing services by wired connection, wireless and mobile networks,
- 7.5% on electronic communication services not listed above.

The fixed amount of special communication tax collected at the first subscription of the mobile phone is 79TRY for 2020.

Taxpayers are the operators who provide the electronic communication services.

The tax base for special communication tax is the same as the VAT base. Taxpayers shall declare the communication tax on the VAT returns and pay the accrued tax by the 15th day of the following month. Special communication tax cannot be deducted for income and corporate tax purposes.

- ❖ In 2020, 0.53% of the General Budget Tax Revenues came from special communication tax and the total amount of tax revenues derived from special communication tax was 4.488.226.000TRY.

4. BANKING AND INSURANCE TRANSACTIONS TAX

(Law No. 6802, Official Gazette No. 9362 dated 23.07.1956)

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

Taxpayers are banks, bankers and insurance companies.

All transactions and services performed by banks and insurance companies are subject to banking and insurance transactions tax (BITT) regardless of the nature of the transaction. There will be tax applied on the money, which they collect as interest, commission and

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expenditure for the services they performed on behalf of themselves. Bankers' certain transactions and services performed and stated in Law No. 6802 are the subject of this 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 to the gains of such companies acquired from the transactions they have conducted. The purchase of goods and services by banks and insurance companies is subject to VAT but is regarded 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 2% BITT according to the Council of Ministers Decision of 2008.

Taxation period in BITT is each month of the calendar year. Taxpayers declare their taxable transactions and pay their taxes by the evening of the 15th day of the following month.

- ❖ In 2020, 3.24% of the General Budget Tax Revenues came from BITT and the total amount of tax revenues derived from BITT was 27.067.541.000TRY.

5. DIGITAL SERVICE TAX

(Law No. 7194; Date of Enactment: 05.12.2019; Effective Date: 01.03.2020, Digital Service Tax Application General Communiqué: Official Gazette No. 31074 dated 20.03.2020)

5.1. Subject of the Tax

The revenue obtained from the following services provided in Turkey are subject to digital service tax (DST):

- a) All kinds of advertising services provided in digital environment (including advertisement control and performance measurement services, data transmission and management services related to users, and technical services related to the delivery of advertising),
- b) Sale of any audible, visual or any digital content (including computer programs, applications, music, video, games, in-game applications and so forth) in digital environment and services provided in digital environment for listening, watching, playing or recording of such content on electronic devices or for use on such devices,
- c) Services for the provision and operation of digital environments where users can interact with each other (including services provided to sell or to facilitate the sale of a product or service between users).

The revenue from the intermediary services provided by digital service providers in the digital environment for the above-mentioned services are also subject to DST.

5.2. Taxpayer and Authorised Tax Office

The taxpayer of the DST is the digital service provider. Whether they are fully accountable pursuant to the PIT Law No. 193 dated 31.12.1960 and to the CIT Law No. 5520 dated 13.06.2006, and whether they carry out their activities through their permanent establishment or permanent representatives in Turkey with limited tax liability do not affect the tax liability for digital service. Large Tax Payers Tax Office is the authorized tax office to impose DST.

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5.3. Tax Base and Tax Rate

The basis of the DST is the revenue generated due to services subject to tax in the relevant taxation period. The tax rate is 7.5%.

5.4. Exemptions and Exceptions

In the period prior to the relevant accounting period, those whose revenues in Turkey are less than 20 million Turkish Lira or whose worldwide revenues are less than 750 million Euro or Turkish Lira equivalent in foreign currency for the services covered by the Law are exempt from the DST. If the taxpayer is a member of a consolidated group in terms of financial accounting, the total revenue of the group for services subject to tax shall be taken into account in the application of these limitations. The revenues derived from the following services performed in digital environment are exempt from the DST:

- a) Services requiring the payment to the treasury share according to the additional Article 37 of the Law No. 406 dated 04.02.1924 on Telegraph and Telephone,
- b) Services subject to special communication tax under the Article 39 of the Law No. 6802 dated 13.07.1956 on Expense Taxes,
- c) Services under the Article 4 of the Banking Law No. 5411 of 19.10.2005,
- d) Sales of products developed as a result of R&D activities in R&D centres defined in the Article 2 of the Law No. 5746 dated 28.02.2008 on the Support of Research, Development and Design Activities and services provided exclusively through these products,
- e) Payment services under the Article 12 of the Law No. 6493 dated 20.06.2013 on Payment and Securities Reconciliation Systems, Payment Services and Electronic Money Institutions.

5.5. Taxation Period, Declaration, Assessment and Payment of the Tax

The taxation period is the one-month periods of the calendar year. DST is assessed upon the declaration of the taxpayer. Tax returns can be sent and paid electronically on <https://digitalservice.gib.gov.tr/>

- ❖ In 2020, 0.12% of the General Budget Tax Revenues came from DST and the total amount of tax revenues derived from DST was 1.060.932.000TRY.

D. TAXES ON PROPERTY

1. INHERITANCE AND GIFT TAX

(Law No. 7338, Official Gazette No. 10231 dated 15.06.1959)

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

The transfer of the following assets through inheritance or any other non-controversial way from one real/legal person to another is subject to inheritance and gift tax:

- Assets within the borders of Turkey,

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- Assets located worldwide provided that they are possessed by Turkish citizens.

Non-resident foreigners are subject to inheritance and gift tax on assets located only in Turkey.

Assets acquired as gift or through inheritance are subject to a progressive tax rate ranging from 10% to 30% and from 1% to 10%, respectively, calculated on the value in accordance with the TPL.

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 instalments over a period of 3 years.

- ❖ In 2020, 0.15% of the General Budget Tax Revenues came from inheritance and gift tax and the total amount of tax revenues derived from inheritance and gift tax was 1.298.073.000TRY.

2. PROPERTY TAX

(Law No. 1319, Official Gazette No. 13576 dated 11.08.1970)

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 No. 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 a 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 exists, then any person that uses the building/land is considered 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 case there is a reason for modification of tax value.

Property tax is paid to local municipalities annually in two equal instalments; 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.

2.1. Property Tax on High Value Residences

Residential houses located within the borders of Turkey with a value over 5.000.000TRY are subject to property tax on high value residences (PTHVR). The tax base is the amount exceeding 5.000.000TRY.

PTHVR is calculated annually by the relevant tax office for the excessive amount of the tax value of residential houses at rates varying between 0.3% and 1%.

Taxpayers of PTHVR are owners of a residential house, its beneficial owner; if any, and in the absence of both, those who are possessing a residential house as if its owner.

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Liability for PTHVR starts at the beginning of the following year from the date on which the residence value exceeds the amount specified in Art. 42 of the Law No. 1319, from the date on which the revaluation of the tax value is made in the event that necessities arise for revaluation and from the date on which tax exemption is suspended.

Taxpayers shall submit tax returns together with documents related to the value of residential house to the competent tax office which is affiliated to the local revenue administration where residence is located by the end of February 20th of the following year in which the residence value exceeds the amount specified in Art. 42 and tax returns shall be submitted annually in the same way for the following years.

PTHVR shall be paid in two equal instalments by the end of February and August of the relevant year.

3. MOTOR VEHICLE TAX

(Law No. 197, Official Gazette No. 11342 dated 23.02.1963)

Land motor vehicles registered at traffic bureaus or offices, as well as helicopters and airplanes registered at the Directorate General of Civil Aviation are subject to the Motor Vehicle Tax.

Taxpayers are real and legal persons who have motor vehicles that are registered in their own names at 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 instalments, 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 vehicles etc.
- List 2: minibuses, panel vans, motorized caravans, busses, trucks etc.
- List 3 : planes and helicopters

The amount of the motor vehicle tax for land transportation vehicles is determined according to their age, type, number of seats, cylinder capacity, maximum gross weight, vehicle value, electric motor power, and for planes and helicopters according to their maximum takeoff weight.

- ❖ In 2020, 1.91% of the General Budget Tax Revenues came from motor vehicle tax and the total amount of tax revenues derived from motor vehicle tax was 15.978.942.000TRY.

E. OTHER TAXES

1. STAMP TAX

(Law No. 488, Official Gazette No. 24783 dated 12.06.2012)

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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 tax 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.

Documents exempt from stamp tax are listed in Annex II of the same Law.

The Law provides that each relevant party shall be responsible for payment of the total amount of stamp tax on the contracts.

Each original document is subject to stamp tax separately.

- ❖ In 2020, 2.51% of the General Budget Tax Revenues came from stamp tax and the total amount of tax revenues derived from stamp tax was 20.961.323.000TRY

2. GAMBLING TAX

(Law No. 5602, Official Gazette No. 26469 dated 21.03.2007)

Betting, lotteries and other forms of gambling are subject to gambling tax. Taxpayers are organizers of gambling activities and proportional taxation is applied in this tax.

Gambling tax rates are as follows:

- 5% on bets based on sports competitions
- 7% on horse racing
- 10% on other games of chance

The taxation period for gambling tax is each month of the calendar year.

Taxpayers declare their taxable transactions and pay accrued tax by the evening of the 20th day of the following month.

Gambling tax cannot be deducted for income and corporate tax purposes.

- ❖ In 2020, 0.41% of the General Budget Tax Revenues came from gambling tax and the total amount of tax revenues derived from gambling tax was 3.463.727.000TRY.

3. CUSTOMS DUTY

(Law No. 4458, Official Gazette No. 23866 dated 04.11.1999)

Goods imported from abroad are subject to customs duty. Taxable events are free circulation of goods, registration of customs declarations, and temporary importation in case of partial exemption.

Taxpayer is principally the person who declares to the customs office. Customs duties are assessed on written declaration given by the taxpayer and are paid within 10 days from the date of notification.

- ❖ In 2020, 3.07% of the General Budget Tax Revenues came from customs duty and the total amount of tax revenues derived from customs duty was 25.630.784.000TRY.

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4. FEES

(Law No. 492, Official Gazette No. 11756 dated 17.07.1964)

There are different types of fees: Judgment Fees, Notary Fees, Tax Judgment Fees, Title Deed Fees, Consulate Fees, Ship and Harbour Fees, Permit of License and Certificate Fees, Traffic Fees, Passport, Visa and Ministry of Foreign Affairs Certification Fees.

The above mentioned fees are collected on the basis of various rates or fixed amounts.

- ❖ In 2020, 3.67% of the General Budget Tax Revenues came from fees and the total amount of tax revenues derived from fees was 30.652.753.000TRY.

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