

## Turkish Tax Facts

Note: From 1<sup>st</sup> January 2005 the currency in Turkey will become the New Turkish Lira (YTL) and the exchange rate is YTL1:TL1,000,000.

<b>Introduction</b>	Taxation in Turkey is mainly at a national level with municipalities having certain rights over some minor taxation charges. The tax regime is administered by the Ministry of Finance.
<b>Tax Year</b>	1 <sup>st</sup> January – 31 <sup>st</sup> December
<b>Assessment Basis</b>	<p>An individual resident in Turkey is subject to tax on their worldwide income as a full taxpayer. A husband and wife are assessed separately for taxation purposes and allowances are not transferable between spouses.</p> <p>Individuals are required to file an annual tax return by the end of February or March each year depending upon the source of the individual's income. However, a tax return is not required if an individual's income is, for example, exclusively from salary and such income has been taxed through withholding taxes.</p>
<b>Tax on employment income</b>	<p>Taxable income includes all amounts, whether salary or benefits in kind, derived from employment in Turkey. Social security and unemployment insurance contributions, approved pension scheme contributions and personal insurance premiums (payable to a Turkish company) are all deductible from taxable income. However, the deduction for pension contributions and personal insurance premiums are limited to 10% and 5% respectively. Furthermore the annual cumulative deduction cannot exceed the annual minimum gross wage.</p> <p>There is a further special deduction regime for employees in respect of family living expenses. Subject to suitable documentation individuals can claim a credit for a certain proportion of their family's expenditure on education, food, health, clothing and residential rent. Depending upon the amount of expenditure on such items a deduction of up to 8% may be claimed.</p> <p>Taxable income is taxed at progressive rates of between 15% and 35% in respect of salary income and between 20% and 40% in respect of other income.</p> <p>Tax due on employment income is generally withheld by the employer</p>
<b>Taxation of Investment Income</b>	<p>Investment income arising from anywhere in the world is taxable. Investment income from a Turkish entity is subject to a withholding tax, which depends upon the type of income and is, for example, 10% on dividends, up to 18% on interest (depending upon the type of interest) and 25% on royalties. Providing investment income is taxed through withholding tax and it does not exceed the declaration limit (14 billion lira in 2004) these sources of income do not need to be declared on an individual's annual tax return.</p>
<b>Tax on Property Rental Income</b>	<p>Income received from property rental is subject to withholding tax at a rate of 22% to be withheld by the lessee if they are a tax payer. If the rent is paid by a non-tax payer the recipient is required to file a tax return in respect of such income.</p> <p>Rental income will then be taxed at the marginal rate of tax applying to other income.</p> <p>Annual rental income is not subject to declaration provided the income has already been subject to withholding tax, it is in respect of property let as accommodation and does not exceed the exemption limit of TL 1.8billion</p>
<b>Wealth Taxes</b>	There are no wealth taxes in Turkey
<b>Capital Gains Tax</b>	<p>The first 12 billion Turkish Lira of capital gains are exempt from taxation as are capital gains from shares traded on the Turkish stock exchange which have been held for at least three months prior to being sold. Gains in the sale of shares in Turkish resident companies are also exempt provided they have been held for more than one year.</p> <p>Capital gains are then added to taxable income and taxed at the progressive rates applying to other income.</p>
<b>Inheritance and Gift Tax</b>	Inheritance and capital transfer or gift tax applies to assets passing on death and to lifetime gifts. Rates between 1% and 30% apply depending on the amount transferred and the relationship between the testator/donor and the recipient.
<b>Regional and Municipal Taxes</b>	There are no regional or municipal taxes in Turkey.

#### **Property Taxes**

An annual property tax, collected by the local municipalities, of between 0.1% and 0.3% is payable on land and buildings located in Turkey, the tax rate depends upon the type of property and is applied to the taxable value of the property as declared periodically by the tax office.

The rates are applied twice for property located in metropolitan municipality areas.

#### **Stamp Duty/Transfer Tax**

A property transfer tax of 1.5% is levied on the purchaser and the vendor on the sale of real estate. Stamp tax applies to a wide range of documents including, but not limited to, agreements, financial statements and payrolls. Stamp tax is levied as a percentage of the monetary value stated on the agreements at rates ranging from 0.15% to 0.75%. Salary payments are subject to stamp duty at the rate of 0.6% of the gross amounts paid.

#### **Sales Tax**

A sales tax of 18% is generally levied on goods and services with reduced rates of 1% and 8% applying to some goods. Certain other goods are exempt from sales tax.

#### **Social Security Contributions**

Social security contributions are payable on salaries between the minimum and maximum thresholds.

Employers generally pay 19.5% in respect of Turkish nationals or expatriates not covered by their home state social security system, whilst an employee is required to contribute 14%.

In addition there is a mandatory unemployment insurance contribution. Employers pay 2% of gross salaries and employees pay 1% of gross salaries up to an earnings limit of 2.88 billion Turkish Lira per month.

Note: For the purposes of this document a billion is equal to one thousand million.

## Taxation of Expatriates Living in **Turkey**

An individual's liability to tax in Turkey is dependent on whether they are considered a Turkish resident by the tax authorities. For tax purposes an individual is considered resident if their legal residence is in Turkey or if the individual stays in Turkey continuously for more than six months in a calendar year.

Individuals considered residents are liable to tax on their worldwide income and are termed as 'unlimited taxpayers'. There is no special tax regime for expatriates and resident foreign nationals are taxed the same as Turkish nationals.

Income received from overseas may be covered under a double taxation treaty. Turkey has negotiated tax treaties with over 50 countries around the world.

A foreign national with residence status in Turkey is not required to pay Turkish social security contributions if they remain covered by their home country and provided proof of foreign coverage is filed with the local social security office. If an individual is not covered by a foreign social security full contributions would usually be imposed in Turkey. Foreign nationals also qualify for unemployment insurance providing there is a reciprocal agreement between Turkey and their home countries.

## Taxation of 'Non-Residents' Living in **Turkey**

Non-residents in Turkey are only liable to taxation on their Turkish sourced income and are termed 'limited taxpayers'. Certain individuals who stay in Turkey for more than six continuous months exclusively for the fulfillment of specific and temporary assignments are not considered as resident and they will still be treated as limited taxpayers.

The liability to tax on Turkish source income is the same as that for residents with regards to income, capital gains, investment income and inheritances/gifts. The same rates and exemptions apply.

## Expatriate **Financial Planning**

While, as a whole, the Turkish tax regime for non-residents is less onerous than the regime for Residents, with only Turkish sourced income and gains being subject to tax, an expatriate should take care over whether they attain resident status in Turkey.

In addition, if you are an expatriate currently living in or considering moving to Turkey, you should review your finances with a suitably qualified financial advisor. In particular, if you are about to move to Turkey, you should plan and review your finances before making the move. You may wish to consider offshore investments, including offshore life products, in order to manage your tax liability and/or control when tax charges are made, as well as considering options available to you for estate planning.

Whilst the specific benefits of an offshore life product will depend upon your individual circumstances they do offer a number of potential benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment funds located in certain countries.
- They allow you, in general, to manage when you take benefits and potentially to defer the benefits to a period that may be more advantageous to you from a taxation perspective.
- Offshore products often feature a strong range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk. Offshore products also offer access to household name fund managers, including many international and specialist fund managers.
- An offshore product has the flexibility to adapt to changes in your individual circumstances, including changes in your residency status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

***Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.***

***This document has been prepared on behalf of the members of the Association of International Life Offices ("AILO") and relies on information and technical analysis provided by third party professionally qualified tax advisers. Whilst AILO has used its best endeavours in selecting its advisers to ensure the accuracy of the information contained in this document, AILO and its advisors cannot be held responsible for any errors and omissions.***

***This document has been prepared for general information purposes only. The information contained in this document is a summary of the law relating to taxation that is generally applicable in Turkey and is intended for guidance only. The information contained in this document reflects the law as at Oct 2004 with 2005 income tax rates shown. Tax legislation is complex and subject to frequent change. This document cannot be relied upon as a specific analysis of the current law as it applies to each individual. Individuals should seek detailed tax advice from a suitably qualified professional adviser before making any decision in relation to his or her tax planning.***

***The information contained in this document does not and is not intended to amount to investment advice and anyone reading it should consult their professional adviser before making an investment into any investment product of a type mentioned in this document.***