TURKEY

0- SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS

1- AN OUTLINE OF COMPANY LAW

2- WHEN TURKISH COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?

3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICES, ETC.)

4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN TURKEY: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?

5- CALCULATING TAXABLE INCOME

6- TREATMENT OF LOSSES

7- IS INTEREST DEDUCTIBLE?

8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?

9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?

10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?

11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?

12- ARE CAPITAL GAINS TAXED?

13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?

14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?

15- WHAT OTHER TAXES ARE APPLIED IN TURKEY?

16- DIVIDENDS, INTEREST AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?

17- HOW ARE CALCULATED STOCKS OR INVENTORIES?

18- HOW ARE RESIDENT INDIVIDUALS TAXED?

19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?

20- TERMS FOR TAX PAYMENTS: THE FISCAL YEAR IN TURKEY

Last reviewed: January 3, 2024

Embassy of Italy in Turkey

Ankara – Embassy of Italy
Amb. Giorgio Marrapodi
Atatürk Bulvarı n. 118 - 06680 Kavaklıdere - Ankara
Tel.: 00903124574200
Fax: 00903124574281
Website: www.ambankara.esteri.it
E-mail: ambasciata.ankara@esteri.it

Consulate of Italy in Turkey

Istanbul – General Consulate
Gen. Cons. Elena Clemente
Tom Tom Kaptan Sokak n. 5 - Boğazkesen, Beyoğlu, İstanbul
Tel.: 00902122431024
Fax: 0090 212 252 58 79
Website: www.consistanbul.esteri.it
E-mail: consolatogenerale.istanbul@esteri.it

Embassy of Turkey in Italy

Rome – Embassy of Turkey
Amb. Ömer Gücük
Via Palestro 28 - 00185 Rome
Tel.: 003906445941
Fax: 0039064941526
Website: www.rome.emb.mfa.gov.tr
E-mail: ambasciata.roma@mfa.gov.tr

Consulate of Turkey in Italy

Milan – General Consulate
Gen. Cons. Mehmet ÖZÖKTEM
Via Antonio Canova 36 – 20145 Milan
Tel.: 00390231836800
Fax: 00390231836850
Website: www.milano.bk.mfa.gov.tr
E-mail: consolato.milano@mfa.gov.tr

0- SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS

	RESIDENTS	NON-RESIDENTS
CORPORATE INCOME TAX	25%	25% on Turkish source income
TAXES ON CAPITAL GAINS	Taxed as ordinary income	
WITHHOLDING TAXES		
Dividends	10%	
Interest	10% - 18%	
Royalties	15%	
PERSONAL INCOME TAX	From 15% to 40%	
OTHER TAXES		
Environmental tax	It is paid to municipalities in order to fund some services	
Tax on gambling	It is calculated according to specific rates applied to different activities	
Property tax	From 0.1% to 0.6%	
Stamp duty	Paid by each of the parties of a contract	
V.A.T.	0%, 1%, 8%, 18%	
LOSSES		
Carried forward	Up to 5 years	
Carried back	Not applied	
DEPRECIATION		
Fixed assets	Office equipment and furniture: 20% Buildings and similar structures: 2% Portables and software: 33.33% Fire facilities: 6.66%	
Intangible assets	Intangible assets: patents, formulas, designs, licenses, rights and usage permits, etc.: 6.66%	

0- AN OUTLINE OF COMPANY LAW

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
Joint stock companies	It is a corporation having its own trade name and a predetermined amount of capital divided by shares. It is only liable for the amount of its assets with respect to its financial obligations. Liabilities of the owners are limited to the amount of capital they subscribed to. The registered share capital threshold is TL100,000, 25% of which must be paid up before registration if it is subscribed in cash, with the remainder to be paid within 2 years of registration.	Joint stock companies can be incorporated with one or more individuals or legal entity shareholders. There are no residency requirements for shareholders, and there is no limit on the maximum number of shareholders.	Joint stock companies are responsible for preparing annual accounts. They must appoint at least one certified statutory auditor.
Limited liability companies	It is established by one or more individuals or legal entities. The shareholders are not responsible for the debts of the company; their liability is limited to the value of the basic capital shares for which they subscribed and to meeting any obligations to make additional payments that may be specified in the articles of association. Share capital is calculated in accordance with the nominal value of capital subscribed. The minimum capital requirement is TL10,000. Limited liability companies can engage in any activity other than banking and insurance services.	The number of shareholders can be between one and 50. Limited liability companies are subject to the same accounting and audit requirements as joint stock companies.	
Partnerships limited by shares	A partnership limited by shares is similar to a joint stock company with the following exceptions: • the number of founding partners must be 5 or more, and • at least one of the founding partners will have unlimited liability for meeting the partnership's financial liabilities.		
General partnerships	General partnerships are formed by individuals with the purpose of operating a commercial activity. The partners have unlimited liability with respect to a general partnership's financial obligations. Legal entities cannot form general partnerships. A general partnership (collective company) has no requirement for minimum capital.		There are no requirements for the auditing of a general partnership. General partnerships are responsible for preparing annual accounts according to Turkish accounting standards.

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
Limited partnerships	Limited partnerships are formed with the purpose of operating a commercial activity.	A limited partnership must have one or more partners that have unlimited liability with respect to the limited partnership's financial obligations.	There are no requirements for the auditing of limited partnerships. Limited partnerships are not subject to tax, but their partners are subject to income tax on their commercial income or securities income.
Ordinary partnerships	They are established with 2 or more people uniting their efforts and capital to realise a shared objective under an agreement. These entities are subject to the provisions of the Law of Obligations. Ordinary partnerships do not have any legal entity status or commercial title.	There are no legal requirements for establishing the entity in terms of minimum capital. An unwritten agreement may be accepted.	There are no requirements for the auditing of ordinary partnerships. Ordinary partnerships are not subject to corporate tax, but the partners are liable for taxes on the partnership income
Branch offices	It is a unit of its parent company. Special rules apply to branches of foreign banks and insurance companies.	A branch office must be registered at the local trade registry and the local chamber of commerce.	There are no requirements for the auditing of branch offices.
Liaison offices	Foreign companies can open liaison offices in Turkey, provided they do not carry out commercial activities in Turkey.	Applications for establishment/extension are usually finalised within 5 days following submission of an application, provided the necessary information/documents are in order.	Liaison offices are required to provide the Directorate General with an annual report. Liaison offices are granted operation permits for a maximum of 3 years. Extensions may be granted for a further 3 years.

2- WHEN TURKISH COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?

A company is subject to full or limited tax liability depending on its residency status. A resident company, whose statutory domicile or place of management is established in Turkey, will have *full* tax liability on their worldwide income. A non-resident company which conducts business through a branch or a joint venture will have *limited* tax liability, ie be subject to corporate tax only on profits earned in Turkey. If there is no presence in Turkey, withholding tax will generally be charged on income earned, eg for services provided in Turkey. However, if there is a tax treaty, reduced rates of withholding tax may apply.

3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICES, ETC.)

Foreign companies have the right to open liaison offices in order to engage in market research or other related activity.

All expenses in relation to establishing a liaison office in Turkey must be met by the parent company. A liaison office cannot engage in any commercial activity or any field other than the activity permitted. Moreover, these offices cannot apply for transfer of profits and similar transfers, except for those arising from the closure and liquidation of the liaison office.

Liaison offices are not subject to income taxation because they do not carry on income producing trade activity. However, they may be liable for social security payments for their workers.

4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN TURKEY: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?

A Turkish branch's taxable trading profits and capital gains are calculated on the same basis as a resident company.

If income is remitted to a foreign parent company, a 10% withholding tax applies; otherwise it is subject to the standard corporate tax rate in Turkey.

Under the Direct Foreign Investment Law, foreign investors can incorporate new companies through cash or non-cash capital in Turkey, if the relevant authorities have been notified. They can also make investments through the opening of branches, acquiring stock on the Turkish stock exchange or by becoming shareholders of a company by acquiring a minimum of 10% of the shares or voting rights. Foreign investors are free to invest in Turkey and they are subject to the same limitations as national investors.

A non-resident entity is not subject to Turkish tax on trading or business profits unless it directly or indirectly trades or does business in Turkey. In such a case, the non-resident must pay tax on its Turkish source income.

Normally a non-resident will not be doing business until it undertakes contracts of sale in Turkey, or manufactures or performs services in Turkey.

Where a tax treaty exists between Turkey and a non-resident's country of residence, the treaty will specify that the non-resident is subject to Turkish tax only if it has a Turkish branch, PE or an agent with the power to conclude contracts.

5- CALCULATING TAXABLE INCOME

The following are among non-deductible expenses:

- interest, exchange differences and other costs paid or accrued on the basis of thin capitalisation
- disguised earnings distributed by way of transfer pricing
- any kind of reserve
- corporate tax, fines, tax penalties and late payment penalties and interest
- the depreciation of leased or registered motor vehicles and other expenses not related to business activities
- interest paid or calculated on shareholders' equity
- commissions and similar expenses paid in relation to securities
- expenses and depreciation expenses of motor sea vehicles or aircraft, either leased or owned, but not related to the business operations of the company
- tangible and intangible compensatory expenses incurred in relation to the faults and errors of partners, managers and employees of the corporation.

The following are examples of expenses that can be deducted from operating income:

- expenses incurred in relation to issuing securities
- incorporation and organisation expenses
- general assembly expenses and expenses of mergers, transfers, splits, dissolutions and liquidations
- profit shares paid to active partners in limited partnerships by shares
- profit shares paid by interest-free banks with respect to contribution accounts.

In determining the corporate tax base, the following deductions are made from corporate income and are identified in the special section of the corporate tax declaration form:

- 100% "R&D deduction" of research and development expenditure
- 100% sponsorship deduction
- 5% of income deduction for donations and assistance
- 100% deduction for in kind and cash donations made in relation to the construction of schools, health facilities, student dormitories and natural disasters.

6- TREATMENT OF LOSSES

According to Turkish corporate law, losses can be carried forward for offset against taxable income for a maximum of 5 years.

7- IS INTEREST DEDUCTIBLE?

In general, interest expenses of companies are considered costs of borrowing and are approved as financial expenses.

Up to 10% of interest expenses, as well as other linked expenses such as foreign exchange costs and commission, is non-deductible in respect of the amount of total debt which exceeds the equity of the company.

Turkey's thin capitalisation rules operate to deny an interest deduction when interest is paid to a related party, such as a controlling financial institution or other entity resident in a treaty country. Interest derived from concealed capital cannot be deducted as an expense in determining base value profits.

8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?

Economic assets used for more than one year and subject to wear, tear and impairment, are depreciated. Depreciation rates are determined according to the economic lives of assets set by the Turkish Ministry of Finance. The Ministry of Finance has published a general list for amortisation and depreciation.

Assets subject to depreciation	***Economic life***	***Depreciation rate***
Furniture, equipment and other office movables	5 years	20%
Buildings and similar sctructures	50 years	2%
Mobile phones and computer software	3 years	33.33%
Fire fighting facilities	15 years	6.66%
Facilities related to water storage and distributions	15 years	6.66%
Intangible assets: patents, formulae, designs, licences, usage rights and permits, etc.	15 years	6.66%
Sefe-deposit boxes made of iron and steel	50 years	2%
Vehicles	5 years	20%

New machinery and equipment acquired between 26 October 2021 and 31 December 2023, or between 1 May 2018 and 31 December 2019, and used in the manufacturing industry, for research and development or in innovation and design activities may be depreciated at twice its normal rate.

9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?

The income of companies and their affiliates earned in Turkey is generally subject to 25% corporate tax in 2023 (it was 23% in 2022). Income earned within the operating year is declared once every 3 months and is subject to temporary tax at the corporate tax rate. At the end of the year, prepaid taxes are deducted from corporate tax calculated on the annual income.

Companies benefiting from deductions or exemptions may be required to pay a one-off 5% or 10% additional corporate income tax on their 2022 income. The tax is payable in 2 instalments by 30 April 2023 and 31 August 2023.

A 5% corporate income tax reduction applies to tax compliant companies, subject to a maximum reduction of TL1 million per year. Banking, finance, insurance and reinsurance companies are excluded from this reduction.

Reduced corporate income tax rates may apply to newly listed companies or under regional investment incentives.

From 1 January 2022, companies that have an industrial registration certificate benefit from a 1% corporate income tax reduction for profits derived exclusively from their production and export activities.

From 2022, a 25% corporate income tax rate applies to the income of companies in the financial sector, including banks, authorised foreign exchange institutions, asset management companies, and insurance and reinsurance companies.

If income earned is distributed to shareholders, it is subject to 10% dividend withholding tax (15% before 22 December 2021). If shareholders are residents, and profits are used to increase capital instead of being distributed as dividends, then there is no withholding tax applied.

Personal firms are not subject to corporate taxes, but their shareholders are liable for individual income tax.

10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?

In Turkey, with respect to income tax, every company is liable individually. There are no group tax relief provisions.

There is also no group taxation for the purposes of VAT in the Turkish tax system. Every company calculates its VAT individually.

11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?

A non-resident entity is not subject to Turkish tax on trading or business profits unless it directly or indirectly trades or does business in Turkey. In such a case, the non-resident must pay tax on its Turkish source income, at the same rates as those applied to resident companies.
Normally a non-resident will not be doing business until it undertakes contracts of sale in Turkey, or manufactures or performs services in Turkey.
Where a tax treaty exists between Turkey and a non-resident's country of residence, the treaty will specify that the non-resident is subject to Turkish tax only if it has a Turkish branch, PE or an agent with the power to conclude contracts.

12- ARE CAPITAL GAINS TAXED?

Capital gains are generally taxable income subject to standard income tax rates. However, reduced rates or exemptions may apply.
Capital gains derived from the sale of shares in a local company by either a foreign company or a local company are, in principle, taxable income and subject to the standard corporate tax rate. A reduced tax rate applies to gains derived from assets held for more than 2 years, subject to certain conditions.
Capital gains are subject to a 20% rate of tax on 25% of the gain from the sale of shares and on 50% of the gain from the sale of immovable property when either is held for over 2 years, if certain conditions are met.

13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?

A liquidated company is subject to tax on its liquidation profits as ordinary business income. The company enters into the liquidation period from the date the liquidation process is started.
Tax returns are filed by the company based on its liquidation period, instead of the standard tax year period. Final profit or loss is calculated at the end of the liquidation process. Any loss over the period of the liquidation of a company may be carried back over the number of years within the period of liquidation, and overpaid taxes may be reclaimed.

14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?

If the board of directors decides to proceed with a share capital reduction, it must communicate it on the company website and in the trade registry gazette.
The reduction of capital must be completed within 2 years.
The Turkish Commercial Code allows limited companies to repurchase shares where provided for under their articles of association.

15- WHAT OTHER TAXES ARE APPLIED IN TURKEY?

VAT

Value added tax has been applied by the Turkish tax system on the supply and importation of goods and services since 1985.
The regular VAT rate is 18% and it is applied to supply of goods and services within commercial, industrial and agricultural industries, independent professional activities, importation of all kinds of goods and services and other activities (eg postage services, pipe line transportation).
Reduced VAT rates apply to certain products and services, including:

- 1% for supplies of basic foodstuffs, newspapers and magazines, asphalt, funeral services, used cars, social housing, houses constructed for housing cooperatives, boats and yachts, and certain vehicle leasing and rental
- 8% for production, deliveries and services in respect of certain foodstuffs, textiles, yarn, fabric fibres, footwear, bags and luggage, carpets, newsprint, certain books, certain equipment provided for school student use, medical products and devices (human and veterinary), education and training, and admission fees to cultural events and exhibitions.

Goods and services in free trade zones are excluded from VAT.
Exemptions from VAT are offered for certain vehicles, oil exploration and incentive certified investments.

Environmental tax

Municipalities are authorised to collect an environmental tax as a contribution towards the financing of certain services such as garbage collection. This tax is levied at scheduled fixed amounts that vary according to the location of the house or office and is paid through the water bill of the property by the person who lives or occupies that house or office.

Gambling tax

Betting and lotteries are subject to gambling tax which is paid by companies or individuals engaged in such businesses. Gambling tax is calculated by applying specific rates (bookmaking 5%, horse racing: 7%, etc.) and it is payable on a monthly basis. Taxpayers declare their taxable transactions (gross gambling income) and pay the accrued tax before the end of the 20th day of the following month.

Real estate and property taxes

Property taxes are paid each year (one year after acquisition) on the tax values of land and buildings at rates varying from 0.1% to 0.6%. In the case of the sale of a property, a 2% levy is paid on the sale value by both the buyer and the seller. Property tax returns are filed every 4 years and annual taxes are paid in 2 equal instalments, the first being in March, April or May and the second in November.

A luxury housing tax is levied annually on residential property with a value exceeding a set threshold (TL9,967,000 in 2023). The rates for 2023 are as follows:

- TL9,967,001 to TL14,951,000 — 0.3%
- TL14,951,001 to TL19,936,000 — 0.6%
- TL19,936,001 or more — 1%.

Threshold amounts are indexed annually.

Special communication tax

The tax is usually paid by the customer (end user) of telecommunication services at the rate of 10%.

The operator is required to declare the special communication tax on the VAT return and pay the accrued tax by the 15th day of the following month.

Motor vehicle tax

Motor vehicles are subject to tax on registration of the motor vehicle in the Traffic Register. Taxpayers are real and legal persons who have motor vehicles that are registered in their own names in the register maintained by the Ministry of Transportation. Tax is assessed and accrued annually at the beginning of January and paid in 2 instalments.

Motor vehicles are classified into 4 categories for purposes of motor vehicle taxation and the tax is determined according to their sale price, weight, age, cylinder capacity and the fuel used. In 2023, the tax ranges from TL219 to TL101,152 for cars, and from TL817 to TL11,544 for buses, trucks, etc. Electric vehicles are subject to motor vehicle tax at a rate of 25% of the tax applicable to petrol and diesel vehicles.

Inheritance and transfer tax

The transfer of properties owned by Turkish citizens or properties owned by non-citizens in Turkey, to another person for no consideration through inheritance or in some other way is subject to inheritance and transfer tax.

The rates of this tax for 2023 go from 1% to 30%. Inheritance and transfer tax is also imposed on winnings from games of chance, lotteries and similar, at a rate of 20%.

Capital transfer tax

There is no capital transfer tax in Turkey.

Excess profits and minimum tax

There is no excess profits tax nor minimum tax system in Turkey.

Private consumption tax

Private consumption tax (similar to an excise tax) is levied on the delivery, initial acquisition or importation of certain goods. Unlike VAT, which is applied on each delivery, private consumption tax is charged only once.

Private consumption tax is levied on cars (10% to 220% depending on cylinder volume and whether the vehicle has an electric motor), vehicles for transporting goods (10% to 75%, 4% for certain electric motors), motorcycles (8% to 37% depending on cylinder volume), buses (1% to 9%), aircraft (0.5%), sailboats (8%), passenger ships (0%); cigars, cigarettes and tobacco, wine and alcoholic beverages,

A tax of TL6,091 also applies to each mobile phone imported into Turkey.

Stamp duty

The filing of certain documents (contracts, agreements, notes payable, letters of credit, financial statements and payrolls) is subject to stamp duty. Each party to the document is responsible for payment of stamp duty on agreements. Tax returns in respect of stamp duty can be filed online, and payment can also be made electronically. Stamp duty is levied as a percentage or as a fixed fee, with a ceiling of TL10,732,371.80 per original document in 2023. There is no stamp duty on contracts abroad.

Social security contributions

Social security contributions are paid by both employees (as a percentage of the gross salary) and employers, who calculate and withhold also employee’s contributions, paying them to the

Turkish social security authority at the end of the following month. All employees must belong to a social security scheme, which includes insurance for work-related accident and illness, sickness, pregnancy, disability, old age and death. Employee contributions are deductible in determining taxable income.

Office-based employees pay 15% and employers pay up to 22.5% up to an upper earnings level of TL75,060 per month in 2023. The portion of salary exceeding the upper limit is not subject to social security contributions.

As an incentive, employers that do not have any debt owing to the Social Security Institution may reduce their share by 5%, which is then paid by the government.

Unemployment insurance contributions

Unemployment insurance contributions are paid by both employees (as a percentage of the gross salary) and employers, who calculate and withhold also employee's contributions. The applicable rates for 2023 are 1% for employees and 2% for employers. Social security contributions and unemployment insurance contributions are declared electronically to the Turkish Social Insurance Authority and paid by the employer at the end of the following month. Upper earnings levels also apply to unemployment insurance contribution shares. Social security premiums and unemployment contributions are tax deductible.

Education contribution shares

In the Turkish taxation system, there is no payment of education contributions.

Banking and insurance transaction tax (BITT)

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

Resource utilisation support fund (RUSF)

The levy for this fund is a transaction tax, imposed mainly on foreign loans obtained by Turkish residents from entities other than banks or financial institutions. The levy is calculated on the loan amount, except in the case of consumer credit, where it applies to the interest payable.

Corporate record and registry fee

Incorporation of a company and amendments which are made afterwards at the Trade Register office are subject to the corporate record and registry fee.

Digital services tax

From 1 March 2020, a digital services tax at the rate of 7.5% applies to income from certain activities, such as digital advertising services and sales of digital media.

Accommodation services tax

From 1 January 2023, an accommodation services tax applies in Turkey. The tax is levied at the rate of 2% on services provided by hotels, guest houses, hostels and campsites.

16- DIVIDENDS, INTEREST AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?

Dividend withholding tax of 10% applies when profit is distributed by Turkish resident corporations to shareholders. Dividends paid by one Turkish resident corporation to another Turkish resident corporation are exempt from this withholding tax.

Dividends distributed by a Turkish resident corporation to a non-resident corporation or non-resident individual are subject to 10% withholding tax, but it may be reduced under a relevant tax treaty

Dividends paid by a Turkish resident company to a non-resident shareholder are subject to the non-treaty withholding tax rate of 10%, which may be reduced by an applicable tax treaty.

Interest on treasury bills and treasury bonds derived by non-resident corporations is exempt from withholding tax.

Interest from bank deposits is subject to between 10% and 18% withholding tax, depending on whether it is denominated in local or foreign currency, and on the period held.

Royalty income of non-residents is subject to 15% withholding tax.

17- HOW ARE CALCULATED STOCKS OR INVENTORIES?

Inventory is defined as goods held by a company for the purpose of sale or consumption in its business. The inventories are valued at their cost value, however, they are adjusted against the effects of inflation using the wholesale price indices, if the inflation adjustment conditions are realised as specified by the law.

For goods produced, the cost value includes direct and indirect production costs.

The actual or moving weighted average method and the FIFO method may be used for valuation of inventory.

18- HOW ARE RESIDENT INDIVIDUALS TAXED?
Tax liability criteria
Residents are persons whose legal residences are in Turkey or who intend to settle in the country. Persons are considered to be resident if they have lived in Turkey uninterruptedly for more than six months in one calendar year.
Residents are treated as full taxpayers. Individuals whose legal residence is not in Turkey or who do not reside in Turkey for more than six months in a calendar year are treated as limited taxpayers. In general, those who stay in Turkey for more than six continuous months exclusively for the fulfilment of specific and temporary assignments are not considered as resident, and they will still be treated as limited taxpayers.
Foreign individuals who have to remain in Turkey for more than six months due to *force majeure* (e.g. illness, arrest) would still be considered as non-resident in Turkey.
Turkey taxes its residents on their worldwide income, whereas non-residents are taxed on Turkish-source earnings only. Income tax is levied on taxable income at progressive rates after certain deductions and allowances.
Tax rates
Individuals are subject to the following progressive tax rates for 2023:

Taxable income (TL)	***Tax on lower bracket (TL)***	***Tax rate (%)***
Up to 70,000	0	15
70,001 – 150,000	10,500	20
150,001 – 370,000 (550,000) *(1)*	26,500	27
370,001 (550,001) *(1)* – 1,900,000	39,400 (61,500) *(2)*	35
Over 1,900,000	287,940 (281,500) *(2)*	40

(1) The TL 550,000 threshold applies to wages income
(2) The TL 134,500 and TL 607,100 amounts apply to wages income

From 1 January 2022, an income tax exemption applies for wages up to the minimum wage, after deduction of social security contributions and unemployment insurance contributions. The net minimum wage for 2023 is TL8,506.80 per month from 1st Jan 2023 to 30 June 2023 (TL4,253.40 per month for 2022).
Main deductions and reliefs
The annual cumulative amount of personal deductions cannot exceed the annual minimum gross wage.
Personal deductions are possible within defined limits for donations to specific institutions.
Individuals paying their taxes via annual tax returns can deduct their documented education expenses incurred in Turkey from income declared on the tax return. This deduction cannot exceed 10% of the income tax base.
Personal insurance premiums (for self, spouse, and/or children) are deductible. However, the deduction for insurance premiums cannot exceed 15% of the individual's monthly gross income and annual minimum wage amount.
Inheritance and gift tax
Inheritance and transfer taxes are considered taxes applied to wealth in the Turkish taxation system. The transfer of properties owned by Turkish citizens or properties owned by non-citizens in Turkey, to another person for no consideration through inheritance or in some other way is subject to inheritance and transfer tax.
The rates of this tax for 2023 go from 1% to 30%. Inheritance and transfer tax is also imposed on winnings from games of chance, lotteries and similar, at a rate of 20%.
Pension, social security and national health policy
Universal health care, introduced in Turkey in 2003, is funded by a tax surcharge on employers, currently at 5%.
Under this system, all residents registered with the Social Security Institution (SGK) can receive medical treatment free of charge in hospitals contracted to the SGK.
Healthcare in Turkey consists of a mix of public and private health services.

19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?
Tax liability criteria
Residents are persons whose legal residences are in Turkey or who intend to settle in the country. Persons with uncertain residence status are considered to be resident if they have lived in Turkey uninterruptedly for more than six months in one calendar year.

Residents are treated as full taxpayers. Individuals whose legal residence is not in Turkey or who do not reside in Turkey for more than six months in a calendar year are treated as limited taxpayers. In general, those who stay in Turkey for more than six continuous months exclusively for the fulfilment of specific and temporary assignments are not considered as resident, and they will still be treated as limited taxpayers.
Foreign individuals who have to remain in Turkey for more than six months due to *force majeure* (e.g. illness, arrest) would still be considered as non-resident in Turkey.
Turkey taxes its residents on their worldwide income, whereas non-residents are taxed on Turkish-source earnings only. Income tax is levied on taxable income at progressive rates after certain deductions and allowances.

Tax rates

Individuals are subject to the following progressive tax rates for 2023:

Taxable income (TL)	***Tax on lower bracket (TL)***	***Tax rate (%)***
Up to 70,000	0	15
70,001 – 150,000	10,500	20
150,001 – 370,000 (550,000) *(1)*	26,500	27
370,001 (550,001) *(1)* – 1,900,000	39,400 (61,000) *(2)*	35
Over 1,900,000	287,900 (281,500) *(2)*	40

(1) The TL 550,000 threshold applies to wages income
(2) The TL 134,500 and TL 607,100 amounts apply to wages income

From 1 January 2022, an income tax exemption applies for wages up to the minimum wage, after deduction of social security contributions and unemployment insurance contributions. The net minimum wage for 2023 is TL8,506.80 per month from 1st Jan to 30 June 2023 (TL4,253.40 per month for 2022).

Main deductions and reliefs

The annual cumulative amount of personal deductions cannot exceed the annual minimum gross wage.
Personal deductions are possible within defined limits for donations to specific institutions.
Individuals paying their taxes via annual tax returns can deduct their documented education expenses incurred in Turkey from income declared on the tax return. This deduction cannot exceed 10% of the income tax base.
Personal insurance premiums (for self, spouse, and/or children) are deductible. However, the deduction for insurance premiums cannot exceed 15% of the individual's monthly gross income and annual minimum wage amount.

Inheritance and gift tax

Inheritance and transfer taxes are considered taxes applied to wealth in the Turkish taxation system. The transfer of properties owned by Turkish citizens or properties owned by non-citizens in Turkey, to another person for no consideration through inheritance or in some other way is subject to inheritance and transfer tax.
The rates of this tax for 2023 go from 1% to 30%. Inheritance and transfer tax is also imposed on winnings from games of chance, lotteries and similar, at a rate of 20%.

20- TERMS FOR TAX PAYMENT: THE FISCAL YEAR IN TURKEY

The tax calculation period for Turkish taxpayers is generally the calendar year (1 January to 31 December). Books are kept by accounting period. Accounts are closed at the end of every accounting period and opened at the beginning of the following period, with some exceptions.
Corporate income tax should be paid by the end of the month in which the tax return is filed. Taxes not paid by their due dates are subject to penalty interest at a rate of 2.5% per month. Moreover, if tax declaration forms are not submitted by their due dates, then special penalties for errors apply. In cases where a tax loss is caused or tax smuggling is identified, administrative and financial penalties apply.

21- WHAT TAX INSPECTIONS ARE MADE?

An investigation can cover actual stocktaking of the economic assets of the company and of the items included in the tax declaration forms.
Tax investigations are generally conducted by appropriately qualified officials under the General Directorate of Revenues.
Under the Law, data must be retained for 5 (founding documents and financial statements) or 10 years. There is no statute of limitation for tax audits.

22- CAN TAXPAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?

If taxpayers are uncertain about the application of Turkish tax law, they may request information from the Ministry of Finance, or competent authorities. Generally, responses are given within one month and are bounding for both parties.

23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?

There are reporting requirements for certain payments to and from abroad. There is a requirement for banks to report transactions in excess of US$50,000 to the Turkish Central Bank.

24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE TURKISH GOVERNMENT?

Incentives to technological development regions

Turkey's technological development regions are designated special regions, or "techno-parks", in which high-tech or high-tech-targeting companies operate. Such companies are expected to:

- develop technology or software in conjunction with a university, high-tech institute or R&D organisation
- convert a technological innovation into a commercial product, method or service
- attract foreign direct investment
- contribute to the integration of academic, economic and social activities in the geographical location where the techno-park is based.

The objective of establishing technological development regions is to increase Turkey's competitiveness in the international arena, to accumulate technological knowledge, to make innovations in products and production methods, and to increase product quality or standards.

Companies investing in these regions benefit from certain incentives such as:

- an exemption of income and corporate tax for taxpayers undertaking activities in relation to software and research and development (R&D)
- a VAT exemption for the delivery of software developed in the region
- an income tax exemption on wages of employees working in the region
- a corporate tax exemption on the income of managing companies.

Companies operating in these regions are required to pay a 22% income tax for rent payments to university foundations.

If workplaces are rented from managing companies, no income tax is levied on rental income, since they are corporate taxpayers.

Turkish incentives for regional development

Certain incentives are provided for businesses making investments in specified Turkish cities. Incentives include income tax incentives, employer's insurance contributions incentives, reduced electricity fees and free of charge land usage.

Incentives for small and medium sized enterprises

Companies operating in the manufacturing, agro-industry, tourism, education, health, mining and software industries with 250 or fewer employees are called small or medium sized enterprises (SMSEs). In terms of eligibility for incentives, there are also restrictions as to business sectors, certain ceilings set in respect to the total investment amount, and the amount of credits to be allocated, and so forth.

Incentives available to SMSEs include exemption from custom taxes and social housing fund, exemption from VAT, exemption from stamp duty, loan allotments.

SMSEs in certain sectors, including mining and manufacturing, can also benefit from support granted by the Small and Medium Enterprises Development Organisation.

Export incentives

In order to achieve social and economic objectives of development plans and annual programs, incentives for exporters are aimed at supporting the operations of companies that comply with Turkish obligations to international institutions. Serving this purpose, there is support, aids and incentives available for environmental costs, market research, operating foreign offices and shops and promotional activities. Some examples of incentives are as follows:

- aid with respect to the "Turquality Certificate" programme (a certificate granted to the selected products of exporters)
- support regarding the creation of well-known and prestigious trademarks/brands among Turkish export products
- research and development assistance to exporters
- subsidising of the participation costs of exporters in trade fairs and exhibitions held abroad

- subsidising of international trade fairs held in Turkey
- subsidising of some environmental costs of the exporters
- aid with regards to market research
- training and employment assistance
- aid for establishing branches and brand/trademark advertisements abroad
- tax, duty and levy exemptions for export-based and foreign exchange denominated revenue.

Turkish R&D deductions and incentives

100% of R&D expenditure incurred in acquiring new technology and information may be deducted from Turkish corporate taxable income.

Qualifying R&D centres (those employing 30 or more members of staff) benefit from further incentives until 31 December 2028, including:

- 100% R&D deduction if the R&D centre has more than 500 research staff, and an additional R&D deduction of half of additional R&D expenditure compared to the previous year
- stamp duty exemptions
- income tax exemption in respect of employee salary
- 50% reduction in employer social security contributions for 5 years.

A 50% corporate income tax exemption is available in respect of qualifying income obtained from qualifying research, development and innovation activities in Turkey. This incentive is not available to companies benefiting from the technology development region incentives (see above).

Turkish free trade zones

Free trade zones are considered outside the customs regions. Those taxpayers with permits to conduct operations in the free trade zones which export more than 80% of the goods (FOB (free on board) value) they produce to foreign countries are exempt from:

- income or corporate taxes on income derived from operations conducted in these zones (until the date of entry into the EU)
- income tax on wages of employees, employed in these regions (until the date of entry into the EU)
- every kind of tax, stamp duty and fee for transactions related in respect of operations conducted in these regions (until the date of entry into the EU).

The Council of Ministers determines the location and the boundaries of free trade zones.

Turkish regional incentives system for investments

This system of incentives aims to diminish regional development differences, support technological development and R&D, and increase competitiveness.

There are 3 investment incentive schemes with various supporting measures:

- General investment incentives scheme: the minimum investment goes from TL1 million to TL500,000. The incentives apply to all projects that meet the requirements of the scheme.
- Regional investment incentives scheme: the mimum investment under this scheme goes from TL3 million to TL1.5 million. The corporate income tax reduction and social security contribution exemption periods vary depending on the region, and whether the investment is made within or outside an organised industrial zone (OIZ).
- Strategic investment incentive scheme: the purpose is to encourage higher domestic production of goods that are mostly imported into Turkey and to encourage high tech and high value added investments to strengthen Turkey's international competitiveness. The minimum investment under this scheme is TL50 million. The corporate income tax reduction and social security contribution exemption periods vary depending on the region. VAT incurred on construction expenses is refunded on condition a minimum investment of TL500 million or more has been made.

Reduced corporate tax rate for newly listed companies

From 1 January 2021, a reduced corporate tax rate 2 percentage points below the standard corporate tax rate applies to companies that list at least 20% of their shares on the Istanbul Stock Exchange for the first time. The reduced tax rate applies for a period of 5 years. Banks, leasing companies, insurance and reinsurance companies and pension companies may not benefit from the reduced rate.

Istanbul Financial Centre

The Istanbul Financial Centre (IFM) was established in June 2022. Financial institutions that operate in the IFM can benefit from a 100% reduction in taxable profit received from exported financial services from 2022 until 2031 (reduced to 75% from 2032). Other incentives include an exemption from stamp duty and banking and insurance transaction tax for certain financial transactions.

Other Turkish incentives

Other incentives for cultural investments, incentives and state support for foreign activities in relation to technical consulting and contracting firms are also provided. Further information can be obtained from the Ministry of Treasury and Finance website (www.hmb.gov.tr) and from the Ministry of Trade website (www.ticaret.gov.tr).

Incentives also include corporate income tax exemption on:

- up to 10% of taxable profits and 20% of shareholder equity set aside for investment in venture capital trusts, and
- 50% of income derived from certain business services carried out exclusively in Turkey for foreign customers; the services to which this exemption applies are: architecture, engineering, design, software, medical reporting, accounting, record keeping, call centres and data storage.

25- HAS TURKEY SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

Turkey has concluded tax treaties with a number of countries. Non-treaty withholding tax rates apply when they are lower than the rate specified in the treaty.

The following rates apply to non-resident entities:

	Dividends	*Interest*	*Royalties*
	%	*%*	*%*
Non-treaty countries	10/30	0/3/7/10/13/15/18/30	20/30
Treaty countries			
Albania	5/10	0/10	10
Algeria	10	0/10	10
Australia	5/10	0/10	10
Austria	5/10	0/5/10	10
Azerbaijan	10	0/10	10
Bahrain	10	10	10
Bangladesh	10	0/10	10
Belarus	10	0/10	10
Belgium	10	0/10	10
Bosnia and Herzegovina	5/10	0/10	10
Brazil	10	0/15	10/15
Bulgaria	10	0/10	10
Canada	10	0/10	10
Chad	10	0/10	10
China	10	0/10	10
Croatia	10	10	10
Cyprus, Northern	10	0/10	10
Czech Republic	10	0/10	10
Denmark	10	0/10	10
Egypt	5/10	0/10	10
Estonia	10	0/10	5/10
Ethiopia	10	0/10	10
Finland	5/10	0/5/10	10
France	10	0/10	10
Gambia	5/10	0/10	10
Georgia	10	10	10
Germany	5/10	0/10	10
Greece	10	0/10	10
Hungary	10	0/10	10
India	10	0/10	15
Indonesia	10	0/10	10
Iran	10	0/10	10
Ireland	5/10	10	10
Israel	10	0/10	10
Italy	10	10	10
Japan	10	0/10	10
Jordan	10	0/10	12
Kazakhstan	10	0/10	10
Korea	10	0/10	10
Kosovo	5/10	0/10	10
Kuwait	5/10	10	10
Kyrgyzstan	10	0/10	10
Latvia	10	0/10	5/10

Lebanon	10	0/10	10
Lithuania	10	0/10	5/10
Luxembourg	10	10	10
Macedonia	5/10	0/10	10
Malaysia	10	0/10	10
Malta	10	0/10	10
Mexico	5/10	0/10/15	10
Moldova	10	0/10	10
Mongolia	10	0/10	10
Montenegro	5/10	0/10	10
Morocco	7/10	0/10	10
Netherlands	10	0/10	10
New Zealand	5/10	0/10	10
Norway	5/10	0/5/10	10
Oman	10	0/10	10
Pakistan	10	0/10	10
Philippines	10	0/10	10/15
Poland	10	0/10	10
Portugal	5/10	0/10	10
Qatar	5/10	0/10	10
Romania	10	0/10	10
Russia	10	0/10	10
Rwanda	10	0/10	10
Saudi Arabia	5/10	10	10
Serbia	5/10	0/10	10
Singapore	0/10	0/7.5/10	10
Slovak Republic	5/10	0/10	10
Slovenia	10	0/10	10
South Africa	10	0/10	10
Spain	5/10	10	10
Sudan	10	0/10	10
Sweden	10	0/10	10
Switzerland	5/10	0/5/10	10
Syria	10	0/10	10/15
Tajikistan	10	0/10	10
Thailand	10	0/10	15
Tunisia	10	0/10	10
Turkmenistan	10	0/10	10
Ukraine	10	0/10	10
United Arab Emirates	5/10	0/10	10
United Kingdom	10	0/10	10
United States of America	10	0/10	5/10
Uzbekistan	10	0/10	10
Venezuela	5/10	0/10	10
Vietnam	5/10	0/10	10
Yemen	10	0/10	10

Turkey has signed TIEAs with the following countries, based on the OECD model convention: Bermuda, Gibraltar, Guernsey, Isle of Man and Jersey.