AGENDA ITEM: SAVINGS TAXATION

Country Session: The Republic TURKEY 11-12 July 2006





PERSONAL INCOME TAX

SUBJECT AND TAXPAYER

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Income of real persons are subject to Personal Income Tax.

Income is the total net earnings and profits gained in a calendar year.

Source principle is adopted related to the acquisition of earnings and accome elements are fixed and named.



ELEMENTS OF THE INCOME

- Commercial earnings,
- Agricultural earnings,
- Fees,
- Professional earnings,
- Income from immovables,
- Security and interest earnings,
- Other earnings and profits;
 - Earnings of value appreciation,
 - Incidental profits.



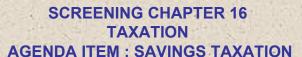
TYPES OF TAXPAYERS FULL LIABLE TAXPAYER (1/3)

The real persons indicated below are taxed on their total profits and revenues obtained within and outside Turkey.

- 1. Those domiciled in Turkey (the persons indicated below are considered as resident in Turkey):
 - Those whose residence is in Turkey,
 - Those who abide in Turkey continuously for more than six months in a calendar year.

FULL LIABLE TAXPAYER (2/3)

2. Turkish citizens attached to public undertakings and institutions of establishments of which the head offices are situated in Turkey ar residing abroad due to their work related with the said, institution undertakings and establishments.





FULL LIABLE TAXPAYER (3/3)

Foreigners indicated below are not considered resident in Turke even if they stay in Turkey for more than six months;

Businessmen, scientists, specialists, officials, press and rad correspondents, who come to Turkey on a given or temporal mission or for business, and other persons in a similar situation a well as those who come to Turkey for studies, medical treatment rest and travel.

Those who are detained or remain in Turkey for reasons beyor their control, such as detention, conviction or illness.

LIMITED TAX LIABILITY

Real persons not resident in Turkey are taxed only on the income and revenues they obtain in Turkey.



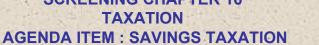


INCOME FROM MOVABLE CAPITAL Scope (1/4)

The dividend, interest, rental and similar incomes obtained by the owner through his capital consisting of cash or assets which can be represented in monetary terms, except his earnings arising from his commercial, agricultural or professional activities, are considered as incomes from movable capital.

Following incomes shall, irrespective of their source, be considered as incomes from movable capital;

Dividends belonging to individuals received from all kinds of shares,





INCOME FROM MOVABLE CAPITAL **Scope** (2/4)

Dividends paid to the chairman and members of board of directors of companies,

For institutions with limited tax liability and that submit annual o special tax return pursuant to Corporate Income Tax Law, the portion that remains after deduction of the corporation tax from the corporate income calculated before the deduction of the allowances and exceptions,

Interest accrued on all types of bonds and Treasury bills and revenues from the securities issued by Housing Developmen Administration of Turkey and Privatization Administration,



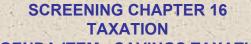
INCOME FROM MOVABLE CAPITAL Scope (3/4)

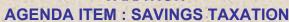
- Interest paid on all credits (including the interest paid on clain secured by ordinary, preferred and pledged bills and the intere arisen from the credits in current account, and interest paid on the amounts owed by the public entities and secured by bills),
- Interests on deposits,
- Amounts obtained from sales of the coupons of shares ar debenture before due date,
- Amount received in cash and in kind in consideration of the transfer and assignment of the shares from profit not accrued y in the name of holders or participation shares,



INCOME FROM MOVABLE CAPITAL Scope (4/4)

- Amount of discount received from all bills discounted,
- Share of profit paid to those open credit without interest, share of profit paid against the certificate of profit and loss sharing and shares of profit paid by the participation banks against the profit and loss sharing account,
- Repo incomes,
- The payments made by the retirement funds in the nature of legalentity, aid funds, retirement and insurance companies,







TAXATION OF INCOME FROM MOVABLE CAPITAL AND INCOME FROM SALE- REPURCHASE OF MOVABLE CAPITAL (1/6)

The following incomes are subject to 15% witholding tax between 01.01.2006 – 31.12.2015. Witholding is applied by banks and financial intermediaries. For each kind of earnings and proceeds mentioned below, Council of Ministers is authorised to reduce the witholding ratio to 0% or to increase it up to 15%.





- Interest from all kinds of bonds and Treasury bills,
- Revenues from the securities issued by Housing Developmen Administration and Privatization Administration,
- Interests on deposits,
- Share of profit paid to those open credit without interest, share of profit paid against the certificate of profit and loss sharing an shares of profit paid by the participation banks against the prof and loss sharing account,
- Repo incomes.





TAXATION OF INCOME FROM MOVABLE CAPITAL AND INCOME FROM SALE - REPURCHASE OF MOVABLE CAPITAL (3/6)

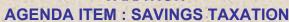
purchase and sale incomes of securities and other capital mark instruments,

redemption incomes of securities and other capital market instruments, periodic incomes of securities and other capital market instruments, incomes obtained from the loop transactions of securities and other capital market instruments.

incomes obtained from the loan transactions of securities and other capit market instruments,

(Witholding tax ratio mentioned above is 0% for the incomes of the limit tax liable real persons and corporations for the last four income elementary mentioned above.)







TAXATION OF INCOME FROM MOVABLE CAPITAL AND INCOME FROM SALE - REPURCHASE OF MOVABLE CAPITAL (4/6)

Exceptions of Taxation by Witholding Procedure (1/2)

Incomes obtained from the sale of the securities that are listed istanbul Stock Exchange and that are held for more than one year,

Incomes obtained from the sale of the participation certificates the investment funds whose portfolio continously contains at lea 51% of securities that are listed in the İstanbul Stock Exchange are that are held for more than one year,

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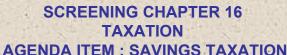


TAXATION OF INCOME FROM MOVABLE CAPITAL AND INCOME FROM SALE- REPURCHASE OF MOVABLE CAPITAL (5/6)

Exceptions of Taxation by Witholding Procudure (2/2)

The sale-repurchase of the securities that are issued by t Treasury abroad, the earnings yield at their redemption and t periodical earnings of those,

The interests arising from the interbank deposits and the mon belonging to the financial intermediaries invested in money marke





TAXATION OF INCOME FROM MOVABLE CAPITAL AND INCOME FROM SALE- REPURCHASE OF MOVABLE CAPITAL (6/6)

Matters with important features:

If the return is not submitted, witholding is the final taxation.

Losses are written-off from the earnings in the following witholdir period.

For the losses that occurred in different banks and financi intermediaries or in different witholding periods, optional return cabe submitted.



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TAXATION AND DECLARATION OF DIVIDENDS (1/2)

Dividends belonging to individuals received from all kinds of shares,

Distributed by full liable corporations to persons as a dividend,

Dividends paid to the chairman and members of board of directors of companies

are subject to 10% witholding tax.



AGENDA ITEM: SAVINGS TAXATION

TAXATION AND DECLARATION OF DIVIDENDS (2/2)

- The half of the gross amount of the obtained dividend is excepted.
- For the year 2005, if the residual amount of the exception is exceeding 15000 NTL (≈ 9090 €), the return shall be submitted.
- If the return is submitted, the amount witheld is written-off.
- In cases where there is no obligation for declaration, the witholding will be the final tax.





EXCEPTIONS OF INCOME FROM PRIVATE PENSION PLANS AND OTHER INSURANCES

25% of the compensations is paid; to the persons acquiring the right retirement from a personal private pension, and to the individuals wh leave the system due to compulsory reasons such as death, disableme or liquidation;

10% of the compensations granted to the persons who paid the premiums uninterruptedly for ten years to the other insurance companie established in Turkey and whose head offices are situated in Turkey, ar to the individuals who leave office due to compulsory reasons such a death, disablement or liquidation;

Total amount of compensations granted from the annual incom assurances by single premium are exempted from income tax.



XCEPTION RELATED TO PENSIONS AND COMPENSATION (1/

Below mentioned payments by non-profit pension funds established by law and determined in Social Security Law No: 506;

- retirement, disability, widowed and orphan pensions,
- retirement, orphan and marriage premiums granted due prevailing laws or status hold, other than the pensions paid returned savings, and lump-sum compensation payments those who do not complete the retirement period and the widows and orphans are tax exempted.



XCEPTION RELATED TO PENSIONS AND COMPENSATION (2/

If the monthly and lump-sum payments made by non-profit pension funds determined in Social Security Law No: 506; are higher that the maximum payment made to the highest level civil servant, the excessive amount is subject to tax.



ALIENATION OF PROPERTY (1/3)

The proceeds gained from the disposal of goods and rights stated below are regarded as appreciation proceeds:

The gains obtained from disposal of securities excluding those shares acquired gratuitously, shares of the full liable taxpaye institutions held more than two years and shares that are listed in istanbul Stock Exchange held for more than one year,



ALIENATION OF PROPERTY(2/3)

Exploration, exploitation and concession rights and licenses, paternights, trade mark, brand, trade name, all technical drawings design, model, plan, cinema and television movies, sound and image tapes; information acquired in the fields of industry commerce and science secret formula or production process,

Earnings derived from the disposal of copyrights and patent rights by the persons other than their authors and inventors and lega inheritors of them,



ALIENATION OF PROPERTY(3/3)

Gains arising from partially or completely disposal of an enterprison of which operations have been terminated,

Regardless of the acquisition method (excluding those on gratuitoubasis), gains obtained from disposal of land, building, rights that are registered as real estate, ships and shares on ships and various motorized loading and unloading vehicles for four years starting from the date of acquisition.



DETERMINATION OF APPRECIATION GAINS

In the determination of appreciation gains, inflation adjusted gains a taxed through indexing the acquisition costs of goods and rights whi have been disposed.

The gains resulting from exchange rate differences are not taken in account in the calculation of appreciation gains obtained from the disposal of securities and participation shares acquired in exchange cash or capital in kind brought into Turkey by the limited liabil taxpayers (including corporations).

AGENDA ITEM: SAVINGS TAXATION



WRITTING-OFF LOSSES AGAINST PROFITS DEDUCTIBLE ONES

Losses incurred from some elements of income are set-off agains the profits and revenues from other elements,

The losses suffered as a result of the activities abroad in fulliability,

Remaining part of the loss which could not be deducted shall be deducted from the incomes of the successive years,

The losses which could not be deducted within five consecutive years can not be carried forward to the following years.



WRITTING-OFF LOSSES AGAINST PROFITS NON-DEDUCTIBLE ONES

- Losses resulting from "Other Earnings and Revenues" which are listed among income elements,
- Diminutions of capital in the incomes from movable and immovable capitals,
- Losses incurred abroad related to the revenues exempted from the personal income tax in Turkey.



PERSONAL INCOME TAX SCALE

For 2006

≤ 7.000 NTL (≈ 4.240 €)	15 %
7.000 - 18.000 NTL (≈ 4.240 - 10.900 €)	20 %
18.000 - 40.000 NTL (≈10.900 - 24.240 €)	27 %
≥ 40.000 NTL (≈ 24.240 €)	35 %



AVOIDANCE OF DOUBLE TAXATION (1/4)

Deduction of the Taxes Paid in Home Country

With the condition of having been paid within the year witholding tax is set-off from the tax calculated over annual return.

The amount that could not be set-off is refunded.



AVOIDANCE OF DOUBLE TAXATION (2/4) Deduction of Taxes Paid Abroad (1/3)

Similar taxes paid abroad by full liable taxpayers, on profits and incomes obtained in foreign countries, shall be deducted from the portion of income tax assessed in Turkey, corresponding to profits and income obtained abroad.



AVOIDANCE OF DOUBLE TAXATION (3/4)

Deduction Of Taxes Paid Abroad (2/3)

f the amount to be deducted exceeds the portion of income tax corresponding to profits and income obtained abroad, the difference shall not be taken into consideration.



AVOIDANCE OF DOUBLE TAXATION (4/4) Deduction of Taxes Paid Abroad (3/3)

Conditions:

The taxes paid abroad must be a personal tax levied on income,

The payment of the tax in a foreign country must proved by means documents issued by the responsible authorities and approved by the Turkish embassy or consulate.

