



SCREENING CHAPTER 16 TAXATION



AGENDA ITEM : SAVINGS TAXATION

**Country Session: The Republic TURKEY
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PERSONAL INCOME TAX

SUBJECT AND TAXPAYER

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 income 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 or establishments of which the head offices are situated in Turkey and residing abroad due to their work related with the said, institutions, undertakings and establishments.



FULL LIABLE TAXPAYER (3/3)

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

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

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



LIMITED TAX LIABILITY

Real persons not resident in Turkey are taxed only on the incomes 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 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 Development Administration of Turkey and Privatization Administration,



INCOME FROM MOVABLE CAPITAL

Scope (3/4)

- Interest paid on all credits (including the interest paid on claims secured by ordinary, preferred and pledged bills and the interest 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 and 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 yet 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 legal entity, 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% withholding tax between 01.01.2006 – 31.12.2015. Withholding is applied by banks and financial intermediaries. For each kind of earnings and proceeds mentioned below, Council of Ministers is authorised to reduce the withholding ratio to 0% or to increase it up to 15%.



TAXATION OF INCOME FROM MOVABLE CAPITAL AND INCOME FROM SALE- REPURCHASE OF MOVABLE CAPITAL (2/6)

- Interest from all kinds of bonds and Treasury bills,
- Revenues from the securities issued by Housing Development 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 and shares of profit paid by the participation banks against the profit 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 market instruments,

redemption incomes of securities and other capital market instruments,

periodic incomes of securities and other capital market instruments,

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

(Withholding tax ratio mentioned above is 0% for the incomes of the limited tax liable real persons and corporations for the last four income elements mentioned above.)



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

Exceptions of Taxation by Withholding Procedure (1/2)

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

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



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

Exceptions of Taxation by Withholding Procedure (2/2)

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

The interests arising from the interbank deposits and the monies belonging to the financial intermediaries invested in money market



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, withholding is the final taxation.

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

For the losses that occurred in different banks and financial intermediaries or in different withholding periods, optional return can be submitted.



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% withholding tax.



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 (\approx 9090 €), the return shall be submitted.
- If the return is submitted, the amount withheld is written-off.
- In cases where there is no obligation for declaration, the withholding 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 of retirement from a personal private pension, and to the individuals who leave the system due to compulsory reasons such as death, disablement or liquidation;

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

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



EXCEPTION 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.



EXCEPTION 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 than 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 taxpayer 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, patent rights, 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 legal inheritors of them,



ALIENATION OF PROPERTY(3/3)

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

Regardless of the acquisition method (excluding those on gratuitous basis), 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 are taxed through indexing the acquisition costs of goods and rights which have been disposed.

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



WRITTING-OFF LOSSES AGAINST PROFITS DEDUCTIBLE ONES

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

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

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 ($\approx 4.240 - 10.900$ €)	20 %
18.000 - 40.000 NTL ($\approx 10.900 - 24.240$ €)	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, withholding 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)

If 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 be proved by means of documents issued by the responsible authorities and approved by the Turkish embassy or consulate.



THANK YOU