



SCREENING CHAPTER 16 TAXATION

AGENDA ITEM : VALUE ADDED TAX

**The Republic of TURKEY
11-12 July 2006**



SCREENING CHAPTER 10
TAXATION
AGENDA ITEM : VAT



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SCREENING CHAPTER 10
TAXATION
AGENDA ITEM : VAT



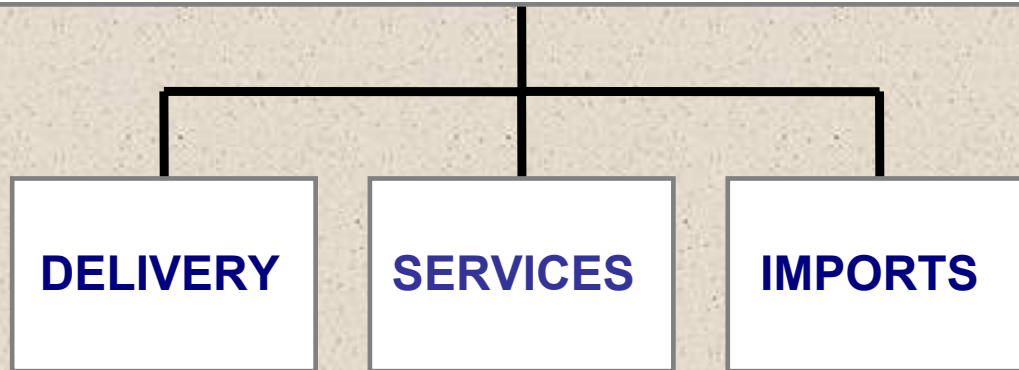
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LEGAL FRAMEWORK

- VAT Law No: 3065
(Official Gazette No 18563, dated 2 November 1984,
put into force on 1 January 1985)
- General consumption tax
- Covers all goods and services
- Applied to all stages from producer to consumer
- Calculated on transaction value with related rate

TRANSACTIONS WITHIN THE SCOPE OF VAT



- ❑ Deliveries and services in Turkey and importation of goods to Turkey are in the scope of VAT.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(1/15) DELIVERY

DELIVERY: the transfer of the right of disposition on a property.

- Delivery of a property to a place or persons shown by the buyer or those acting on his behalf,
- Commencement of the shipment or delivery thereof to the carrier or driver,

are considered as delivery.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(2/15) DELIVERY (cont'd)

- The right of disposal on a property is transferred by two or more persons by signing contract in succession directly to the last person without changing hands at each stage meanwhile is a delivery,



TRANSACTIONS WITHIN THE SCOPE OF VAT-(3/15) DELIVERY (cont'd)

- Water, electricity, gas, heating and airconditioning, and similar distributions are considered as delivery of goods,
- Customarily returned containers and packaging scraps and secondary materials are not in the scope of delivery,
- Barter is considered as two separate deliveries,



TRANSACTIONS WITHIN THE SCOPE OF VAT-(4/15) DELIVERY (cont'd)

States considered as delivery:

- When goods subject to tax are;
 - Withdrawn from the operations,
 - Given to the personnel of the enterprise under the names such as wage, premium, bonus, gift, donation,
 - Used or consumed in the production of the goods delivery of which are subject to exemption.
- Transfer of possession in the bailment lease sales.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(5/15) DELIVERY (cont'd)

- ❑ Deliveries made in Turkey;
 - Within the scope of commercial, industrial, agricultural or professional activities or
 - Transactions specified in VAT Law Article 1 under the title of “Delivery and Services Arising from Other Activities”
are subject to tax.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(6/15) DELIVERY (cont'd)

- Continuity, scope and nature of commercial, industrial, agricultural and professional activities are determined according to;
 - Personal Income Tax Law,
 - Turkish Commercial Code and other related legislation if there are no relevant provisions in the a/m Law.

- For the delivery to be deemed as carried out in Turkey, the goods have to be in Turkey at the time of delivery.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(7/15) SERVICES

Services are the operations other than delivery, those considered as delivery and importation of goods.

TRANSACTIONS WITHIN THE SCOPE OF VAT-(8/15) SERVICES (cont'd)

- ❑ Benefiting from a taxable service by;
 - the owner of an enterprise,
 - the employees of an enterprise
 - or
 - other personsfree of charge is accepted as service.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(9/15) SERVICES (cont'd)

- ❑ Services provided or benefited in Turkey;
 - Within the scope of commercial, industrial, agricultural or professional activities

or

 - Transactions specified in VAT Law Article 1 under the title of “Delivery and Services Arising from Other Activities”,
are subject to tax.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(10/15) SERVICES (cont'd)

- ❑ Continuity, scope and nature of commercial, industrial, agricultural and professional activities are determined according to;
 - Personal Income Tax Law,
 - Turkish Commercial Code and other related legislation if there are no relevant provisions in the a/m Law.

- ❑ Services provided or benefited in Turkey are deemed as carried out in Turkey.

TRANSACTIONS WITHIN THE SCOPE OF VAT-(11/15) IMPORTATION

- ❑ Importation of goods is subject to tax without any other requirement.
- ❑ The following shall have no effect on taxation;
 - The type of importers (public or private sector, natural or legal persons), or
 - The type of importation, or
 - The special nature of the importation.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(12/15) DELIVERY AND SERVICES ARISING FROM OTHER ACTIVITIES

The following transactions are subject to VAT even if not in the scope of commercial, industrial, agricultural and professional activities;

- Organisations of artistic and sports activities with the participation of professional artists and sportsmen,
- Sales at customs warehouses and in auctions,



TRANSACTIONS WITHIN THE SCOPE OF VAT-(13/15) DELIVERY AND SERVICES ARISING FROM OTHER ACTIVITIES (cont'd)

- Transportation of unrefined petroleum, gas and their by-products through pipelines,
- Rental of the goods and the rights such as real estates, construction equipment, motor vehicle, installations, rights in the nature of real estates, rights of exploration and operation, rights of privilege, brand marks, titles, copyrights,



TRANSACTIONS WITHIN THE SCOPE OF VAT-(14/15) DELIVERY AND SERVICES ARISING FROM OTHER ACTIVITIES (cont'd)

- Deliveries and services of public institutions, local administrations, state universities, associations and charity foundations in commercial, industrial, agricultural and professional nature and
- Deliveries and services of those who are registered as taxpayers on optional basis

are in the scope of tax.



TRANSACTIONS WITHIN THE SCOPE OF VAT-(15/15)

Taxation is not prevented and the nature of the proceedings remain the same regardless of;

- Legal status and personalities, nationality, location of residence or places of business or registered head office or business center of those who carry out the activities and
- Whether the commercial, industrial, agricultural and professional activities are imposed by laws or government authorities.



TAXPAYER



- Those supplying goods and services,
- Those importing goods or services
- Those organising artistic and sports activities with the participation of professional artists and sportsmen
- Those renting the goods and the rights such as real estates, construction equipment, motor vehicle, installations, rights in the nature of real estates, rights of exploration and operation, rights of privilege, brand marks, titles, copyrights
- Those who are registered as taxpayers on optional basis



TAX RESPONSIBILITY – (1/2)

- In the case of the taxpayer is not resident or does not have a place of business in Turkey, a legal head office or business center in Turkey and
- In other cases deemed necessary by the Ministry of Finance;

the persons involved in a taxable transaction,
are responsible for the payment of tax.



TAX RESPONSIBILITY– (2/2)

□ In the case of having the goods and purchasing services without documents;

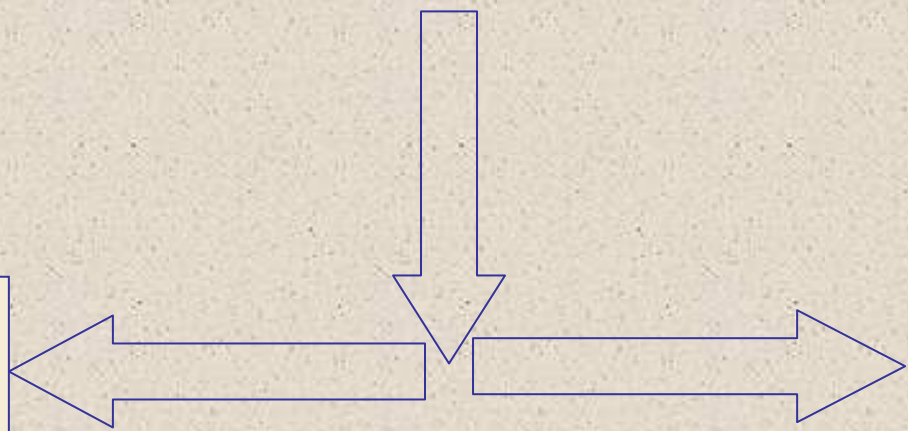
The taxpayers having or purchasing undocumented goods or services are responsible for the payment of tax.



REVERSE CHARGE IMPLEMENTATION

**FULL REVERSE
CHARGE
IMPLEMENTATION**

**PARTIAL
REVERSE
CHARGE
IMPLEMENTATION**



- Tax security oriented implementation



FULL REVERSE CHARGE IMPLEMENTATION

Whole tax is declared and paid by the person in charge.

- Full reverse charge is implemented for ;
 - Service provided from abroad and benefited in Turkey;
 - Copyrights earnings,
 - Renting and advertising services provided by taxpayers who are not VAT taxpayers.



PARTIAL REVERSE CHARGE IMPLEMENTATION – (1/2)

Only certain part of the tax (such as 1/3, 1/2, 2/3, 9/10) is declared and paid by person in charge.



PARTIAL REVERSE CHARGE IMPLEMENTATION – (2/2)

- Partial reverse charge is implemented for;
 - Toll-manufacturing operations in textile and ready wear sector,
 - Delivery of scraps and waste (in the case of renouncement of exemption in Article 17/4-g),
 - Purchase of services such as construction works, cleaning and security by certain organizations such as public institutions and banks,
 - Delivery of copper bullions and some intermediate products produced from copper and copper alloy,
 - Labour force providing services.



**CHARGEABLE
EVENT
(DOMESTIC)**

- Delivery of goods and provision of services
- Issuing invoice and similar documents
- Delivery and provision of each part of goods and services
- Delivery of the goods to the buyer in the sales through commission agent or on consignment,
- Commencement of the shipment or delivery of the goods to the transporter or driver
- Accrual of the value in the distribution or consumption of water, electricity, gas, heating, air conditioning and other types of energy



CHARGEABLE EVENT IN IMPORTATION

Chargeable event occurs at;

- The commencement time of the liability to pay customs duty pursuant to Customs Law No:4458,

- The time of registration of customs declaration for the transactions not subject to customs duty.



TAX BASE – (1/12)

- ❑ The tax base is the value in consideration of transactions.
- ❑ In consideration of these transactions, value is the sum of money; benefit, services and values that are represented by money and goods;
 - Received in any manner or
 - The amount debted by buyers.



TAX BASE – (2/12)

ITEMS INCLUDED IN TAX BASE (cont'd)

- Transport, loading and unloading expenses made by the sellers,
- Costs of packaging,
- Insurance, commission and similar expenses,
- The elements such as taxes, duties, charges, shares and contributions to the funds.



TAX BASE – (3/12)

ITEMS INCLUDED IN TAX BASE (cont'd)

- Miscellaneous incomes such as due date difference, price difference, interest and premium,

- All benefits, services and assets provided under service or similar names.



TAX BASE -(4/12)

- If the price is set as foreign exchange; tax is calculated over the value calculated by converting to Turkish Lira at the current official rate of exchange at the time of occurrence of the chargeable event,
- Exchange rate differences occurred at the time of the installment are accepted as a price item in forward sales made in foreign exchange or indexed to foreign exchange.



TAX BASE– (5/12) EXCLUSIONS FROM TAX BASE

Discounts

- Shown separately in invoices and similar documents
- Amount should be in compliance with the commercial practices

Calculated value added tax

are not included in tax base.



TAX BASE- (6/12) SPECIAL TYPES OF TAX BASE

Special types of tax base is applied;

For the lotteries;

“Participation fee for game or lottery”

For the activities in which professional artists and sportsmen take part ;

➤ “Entry fee to the places where these activities are performed”

➤ “The price of deliveries and services provided in these places”

TAX BASE- (7/12) SPECIAL TYPES OF TAX BASE (cont'd)

- ❑ For the sales in customs warehouses and auction halls;
 - “The final sale price ”

- ❑ In the delivery of products and jewellery containing gold and silver, and gold and silver coins
 - “The tax base is the amount remaining after the price of the gold or silver bullion is deducted”



TAX BASE-(8/12)

SPECIAL TYPES OF TAX BASE (cont'd)

- ❑ Special type of tax base is applied in delivery of:
 - Tobacco products,
 - Newspaper and magazines,
 - Tickets and cards used in-city passenger transportation operated by municipalities,
 - Telephone cards and tokens,

- ❑ Special tax base practices for delivery of a/m products:
 - Tax of the retailer stage is declared by former stage
 - Special tax base is implemented by “former stage”
 - Special tax base of “former stage ”is the sales amount of retailer
 - Retailer does not declare tax separately



TAX BASE – (9/12) SPECIAL TYPES OF TAX BASE (cont'd)

EXAMPLE:

❑ Special tax base for one package cigarette,
factory selling price is 2 €
and selling price to final consumer is 2,4 €

- Up to the district distributor supplying to the retailer (supplier to the final consumer), tax base of every stage is its own selling price,
- Tax base of district distributor is the selling price of retailer to the final consumer (not the selling price to the retailer),
- Tax of the retailer is declared by district distributor. Retailer does not declare tax separately.



TAX BASE – (10/12) SPECIAL TYPES OF TAX BASE (cont'd)

	Sales Price (€)	VAT Base (€)
Factory	2	2
General Distributor	2,2	2,2
District Distributor	2,3	2,4
Retailer (supplier to final consumer)	2,4	–



TAX BASE -(11/12) FAIR MARKET VALUE AND FEE

- If the value is ;
 - Unavailable,
 - Unknown,
 - Fixed by assets other than money,



Fair market value or fee according to the nature of the transaction is the tax base.

- If the value is clearly below the fair market value or fee, the fair market value or fee shall be taken as tax base.

TAX BASE- (12/12)

ITEMS INCLUDED IN TAX BASE IN IMPORTS

- The customs value of the goods,
- When the customs duties are not collected on the base of customs tax value or goods are exempted from customs duty, the CIF value,
- If the value of the goods is unknown, the value of the goods assessed by the customs.

+

At the time of importation any kind of ;

- taxes,
- duties,
- charges and
- shares

paid.

+

Up to the registration date of customs declaration;

- Payments and other expenditures that are not taxed
- Payments resulting from price differences and exchange rate differences.



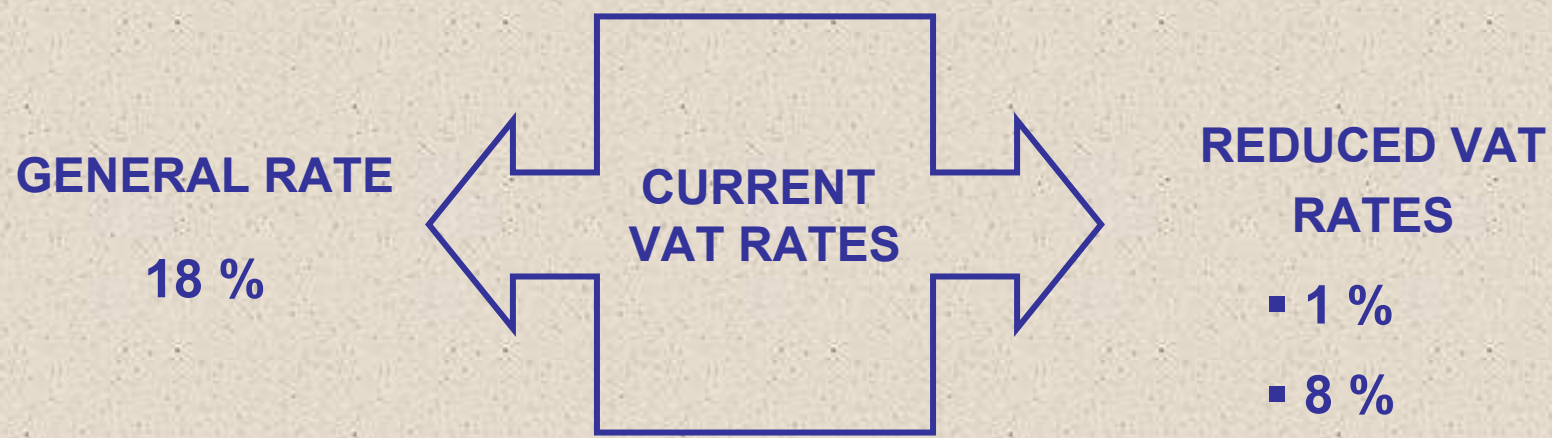
RATES –(1/16)

- ❑ VAT rate specified on Article 28 of the Law is 10% for each of the transactions that are subject to tax
- ❑ The Council of Ministers is authorised;
 - To increase this rate up to 4 times, reduce it down to 1%,
 - To specify different tax rates for various goods and services and retail phase for some of the goods.



RATES –(2/16)

- Currently three VAT rates are applied





RATES –(3/16)

- Goods and services subject to reduced rate are listed in Lists (I) and (II) annexed to Cabinet Decree No: 2002/4480.
- The goods and services that are not listed in these lists are subject to general rate.
- 1% rate is applied on the goods and services in the scope of List (I).
- 8% rate is applied on the goods and services in the scope of List (II).



RATES –(4/16)

8% or 18% rate is applied on retail delivery of some goods listed in List(I).

Retail delivery;

“Sale of goods to those excluding VAT taxpayers selling goods as it is or after processing and VAT taxpayers using the goods in their enterprises.”



RATES –(5/16)

GOODS AND SERVICES SUBJECT TO REDUCED RATE-1/12

☐ Agricultural Products and Foodstuffs 1/7

- Licorice and its honey and essence, daphne leaf, sumac leaf, linden, oregano, sage, cumin, sesame, anise, opium poppy seed, hemp plant seed, fennel seed, ling and seed of broom, caper, canola, carob, apricot stone, corriander, bitter almond, button mushroom, sugar beet (wholesale 1%, retail 18%),
- Seeded and fiber cotton, cotton fiber lint, angora, wool and tricot (wholesale 1%, retail 18%),



RATES –(6/16)

GOODS AND SERVICES SUBJECT TO REDUCED RATE-2/12

☐ Agricultural Products and Foodstuffs 2/7

- Unrefined pelt and skin of ox and horse, sheep and lambs, goat and capricorn (wholesale 1%, retail 18%),
- Dried raisin, dried fig, dried apricots, walnut, hazelnut, pistachio, pinenut, peanut, sunflower seed, zucchini seed, roasted chickpeas, chestnut (wholesale 1%, retail 8%),



RATES –(7/16)

GOODS AND SERVICES SUBJECT TO REDUCED RATE-3/12

Agricultural Products and Foodstuffs 3/7

- Wheat, barley, corn, gruel, rye, millet, rice, soy, haricot bean, dried kidney bean, dried broad bean, chickpeas, lentil (wholesale 1%, retail 8%),
- Ovine and bovine animals and their meats and colons (wholesale 1%, retail 8%),
- Olive oil, potato, onion, garlic, olive (wholesale 1%, retail 8%),



RATES –(8/16) GOODS AND SERVICES SUBJECT TO REDUCED RATE-4/12

□ Agricultural Products and Foodstuffs 4/7

- Wheat flour, breads produced from wheat flour, yufka-foil bread (1%),
- Certificated seeds and fruit plants (1%),
- Delivery of fresh vegetables and fruit to wholesale market (1%),
- Frozen animal sperms for artificial fertilization (1%),



RATES –(9/16) **(GOODS AND SERVICES SUBJECT TO REDUCED RATE-5/12)**

□ Agricultural Products and Foodstuffs 5/7

- Poultry, fish and their meats (8%),
- Milk, milk powder, yoghurt, ayran, cheese, whey and whey powder, egg, paste ferment, packed dry tea, sugar produced from sugar beet (in powder or cubes), bee honey, jam, boiled juice concentrate (pekmez), thin sheet of sun-dried fruit pulp, tahin, halvah, water and mineral water (8%),



RATES –(10/16) **(GOODS AND SERVICES SUBJECT TO REDUCED RATE-6/12)**

□ Agricultural Products and Foodstuffs 6/7

- Rice, pounded wheat, macaroni and similar kind of pastry (manti, erişte), all types of bread (except bread produced from wheat flour), various types of pastry (kadayıf, galeta, poğaç, simit) cereal, pulse, flour and semolina produced from rice and pounded wheat (8%),
- Vegetable margarine and oil, raw oil used in production of vegetable margarin and oil, butter, cotton seeds and grain oil fractions and prina (8%),



RATES –(11/16) **(GOODS AND SERVICES SUBJECT TO REDUCED RATE-7/12)**

□ Agricultural Products and Foodstuffs 7/7

- Fresh, canned, pickled, salamura and dried vegetables and fruits, (except frozen) (8%),
- Seeds, stones, seedlings, plants, fids, layers, micelles and spores etc. for cultivation of fresh vegetables and fruits (8%)
- Animal feed (8%),
- Food consumed for human health (baby food etc.) (8%),



RATES –(12/16)

(GOODS AND SERVICES SUBJECT TO REDUCED RATE-8/12)

☐ Goods and Services Related to Cultural And Educational Field

- Newspapers and magazines (1%)
- Education and training services (8%)
- Student transportation services (8%)
- Services given in private dormitories (8%)
- Paper of newspaper; imprint and writing paper (8%)
- Books and similar publications (8%)
- Pencil, paint pencil, water colour, pastel, school notebook, eraser, pencil sharpener, ruler, compass, square (8%)
- Cinema, theatre, opera and ballet entrance fee (8%)



RATES –(13/16) **(GOODS AND SERVICES SUBJECT TO REDUCED RATE-9/12)**

□ Goods and Services Related To Social Field :

- Wheel chair and other vehicles manufactured exclusively for disabled (1%)
- Delivery of houses smaller than 150 m² (1%)
- Construction works of housing (smaller than 150 m²) for municipalities and social security institutions established by law (1%)
- Construction works for housing cooperatives (1%)
- Funeral services (1%)
- Waste water services provided by municipalities (8%)



RATES –(14/16)

(GOODS AND SERVICES SUBJECT TO REDUCED RATE-10/12)

☐ Goods and Services Related to Health Sector:

- Blood and blood components used for human and animal health (1%)
- Medicine for human, plant protection and animals (8%)
- Diagnosis, treatment, rehabilitation services for human and animal health (8%)
- Ambulance services (8%)
- Delivery and rental of medical devices (8%)
- Anti-serums, immunoglobulines, blood products and vaccines (8%)



RATES –(15/16) (GOODS AND SERVICES SUBJECT TO REDUCED RATE-11/12)

□ Other Goods and Services 1/2:

- Used motor cars (1%)
- Goods subject to financial leasing (1%)
- Transfer of operating rights (1%)
- Penetration asphalt (1%)
- Cash register and tachograph device (8%)
- Every kind of yarn, textiles and clothings (8%)
- Processed pelt, stout leather and their imitations (8%)



RATES –(16/16) **(GOODS AND SERVICES SUBJECT TO REDUCED RATE-12/12)**

□Other Goods and Services 2/2:

- Shoes, slippers, high boots manufactured from any kind of material (8%)
- Bag, luggage, suitcase etc.manufactured from any kind of material (8%)
- Carpet and other floor tiles manufactured from material appropriate for weaving (8%)



DEDUCTION-(1/7) (DEDUCTIBLE VAT)

☐ Taxpayers are allowed to deduct paid VAT;

➤ On deliveries of goods to them and provision of services for them

and

➤ On imported goods and services from calculated VAT of the transactions.



DEDUCTION-(2/7) **(CONDITIONS FOR TAX DEDUCTION)**

In order to deduct charged VAT from calculated VAT; charged VAT should be;

- Related to purchases and expenses related to business activities,
- Shown also in invoices and similar documents,
- Recorded in legal books,
- and
- Related calendar year shall not be exceeded,
- There shall be no provisions in law preventing deduction.



DEDUCTION-(3/7)

(NON-DEDUCTIBLE VAT -1/2)

Charged VAT can not be deducted for the followings;

- Transactions that are not subject to VAT,
- Transactions that are exempted from VAT,
- Passenger cars (for those used in commercial activities such as rental are VAT deductible).



DEDUCTION - (4/7)

(NON-DEDUCTIBLE VAT -2/2)

- Wasted goods (except the goods wasted as a result of earthquakes, floods and fires in the regions that are declared as force majeure by the Ministry of Finance because of fire),
- Expenses that are not accepted in Personal Income Tax Law and Corporate Tax Law.



DEDUCTION- (5/7) (PARTIAL TAX DEDUCTION)

According to Law, if transactions that are allowed to be deducted and that are not allowed to be deducted are done by the same enterprise,

only the deductible portion of the VAT shall be subject to deduction.



DEDUCTION- (6/7)

- ❑ In the case of tax base changes for reasons such as returned goods , non-realised transactions, transactions given up;
 - Sellers should adjust the calculated tax
 - Buyers should adjust the tax base subjected to deduction
- within the period in which the changes occurred.



DEDUCTION-(7/7)

- ❑ In case of adjustment for returned goods ;
 - Goods have to be returned to the enterprise and
 - Records of these goods have to be shown in the book entries and returns.



TAXATION PERIOD

- In principle tax period is one month for the taxpayers and those liable for the payment of tax,
- For some small transportation enterprises (under certain thresholds) and taxpayers subject to simple procedure taxation (those who renounced from exemption) tax period is three months
- In importation transactions, tax period is the entry date of the goods to the customs territory.



DECLARATION AND PAYMENT – (1/2)

- VAT return shall be submitted until the 20th day of the month following tax period and accrued tax shall be paid until the end of the 26th day of the same month.
- VAT return of the taxpayers who closed down their business shall be submitted and paid in the a/m procedure.
- The taxpayers who will leave country shall submit VAT return and shall pay VAT within 15 days before their departure date.
- Even if the taxpayers do not have any transactions subject to VAT during the taxation period, they shall submit VAT return.



DECLARATION AND PAYMENT –(2/2)

- VAT on importation is assessed on;
 - customs declaration or
 - private declaration in case of no customs declaration
- If VAT declaration is submitted with customs declaration, VAT is paid together with customs duty.
- If private VAT declaration is submitted, VAT is paid within the time prescribed for submitting private declarations of these transactions.



EXCESSIVE AND UNNECESSARY COLLECTION OF TAX

- Those who collected VAT although they are not taxpayers,
- Those who collected VAT although they have no transactions subject VAT,
- Those who collected tax more than it should be

are responsible for paying back excessively and unnecessarily collected tax to the tax offices.



ASSESSMENT OF VAT–(1/3)

VAT is assessed by;

- Tax office where the business place of taxpayer is located,
- If the taxpayer has more than one business place, the tax office to which the taxpayer is registered for personal income or corporate tax,
- The related customs office in importation.



ASSESSMENT OF VAT–(2/3)

VAT is assessed on behalf of:

- Natural or legal persons.
- One of the partners in ordinary partnerships (other partners are still jointly liable for paying tax).



ASSESSMENT OF VAT–(3/3)

- ❑ For natural persons who are not resident in Turkey and legal persons whose legal and business centers are not located in Turkey;
 - The person held responsible for tax deduction
 - If there is no responsible person, the permanent representative of foreign taxpayer in Turkey; if there is more than one permanent representative, representative assigned by taxpayer; if such an assignation is not done, any of the representatives
 - If there is no permanent representative, those who make transactions on behalf of foreign taxpayer is accepted as addressee for assessment.



OTHER ISSUES –(1/2)

- ❑ VAT taxpayers are obliged to arrange mandatory bookkeeping entries in order to allow and facilitate calculation and control of VAT.
- ❑ The labels of the retail sale goods shall indicate whether or not VAT amount is included in the sales price (if VAT amount is not included, it should be shown separately on the label).



OTHER ISSUES –(2/2)

- ❑ In determining personal income and corporate tax base;
 - Calculated VAT for transactions that are subject to tax and
 - VAT deductible by taxpayerare not considered as expenditure.



THANK YOU

TYPE OF EXEMPTIONS



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graph TD; A[TYPE OF EXEMPTIONS] --> B[FULL EXEMPTIONS]; A --> C[PARTIAL EXEMPTIONS];
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FULL EXEMPTIONS

- With right of deduction
- With right of refund

PARTIAL EXEMPTIONS

(no refund)

- With right of deduction
- Without right of deduction



FULL EXEMPTIONS (1/3)

- Exportation exemption (Article 11)
- Exemption for sea, air, and railway vehicles (Article 13)
- Exemption for services provided to sea and air transportation vehicles (Article 13)
- Exemption for petroleum explorations (Article 13)



FULL EXEMPTIONS (2/3)

- Exemption for exploring, processing, enrichment and refining activities for precious metals (Article 13)
- Exemption for delivery of machine and equipment referred in Investment Incentive Certificates (Article 13)
- Exemption for construction, modernization and extensions of seaports and airports (Article 13)
- Exemption for national security expenses (Article 13)



FULL EXEMPTIONS (3/3)

- Exemption for transit and international transportation (Article 14)
- Exemption for delivery of diesel to truck, towing vehicles, semi-trailers with refrigeration system (Article 14)
- Diplomatic exemptions (Article 15)



PARTIAL EXEMPTIONS (1/10) (WITH RIGHT OF DEDUCTION (1/2))

- Exemption for transitions, transferring, transformation, division transactions of enterprises (Article 17/2-c)
- Exemption for participation shares and sales of immovables of corporations (Article 17/4-r)
- Exemption for delivery of participation shares and immovables to banks as recompensation claims (Article 17/4-r)
- Exemption for transactions within the scope of Privatization Law (Provisional Article 12)



PARTIAL EXEMPTIONS (2/10) (WITH RIGHT OF DEDUCTION -2/2)

- Exemption for free of charge delivery of computers, hardware and software to the Ministry of National Education (Provisional Article 23)
- Exemption for sales of immovables and shareholdings of Pension Funds (Provisional Article 24)

Non-deductible tax in these exemptions is not refunded.



PARTIAL EXEMPTIONS (3/10) (WITHOUT RIGHT OF DEDUCTION -1/8)

- Importation exemptions(Article 16)
- Exemptions for cultural and educational purposes (Article 17/1)
- Exemptions for social purposes (Article 17/2)
- Exemption for delivery of goods and provision of services to military factories, shipyards, and factory plants (Article 17/3)



PARTIAL EXEMPTIONS (4/10) (WITHOUT RIGHT OF DEDUCTION- 2/8)

- Exemption for delivery of goods and provision of services of tradesmen exempted from Personal Income Tax and of simple procedure taxpayers (Article 17/4)
- Exemption for delivery of goods and provision of services of farmers not subject to real basis taxation and of tax exempted professionals (Article 17/4)



PARTIAL EXEMPTIONS (5/10) (WITHOUT RIGHT OF DEDUCTION - 3/8)

- Exemption for immovables rental (Article 17/4)
- Exemption for banking and insurance transactions (Article 17/4)
- Exemption for credit guarantee transactions of the institutions established to provide credit guarantee for small and medium sized enterprises (Article 17/4)
- Exemption for transactions of the General Directorate of Mint and Stamp Print House (Article 17/4)



PARTIAL EXEMPTIONS (6/10) (WITHOUT RIGHT OF DEDUCTION – 4/8)

- Exemption for the lotteries organised by General Directorate of National Lottery (Article 17/4)
- Exemption for delivery of precious metals, gems and securities (Article 17/4)
- Exemption for delivery of scraps and waste (Article 17/4)
- Exemption for water delivery of agricultural purposes, land reclamation services and delivery of drinking water to villages (Article 17/4)



PARTIAL EXEMPTIONS (7/10) (WITHOUT RIGHT OF DEDUCTION - 5/8)

- Exemption for transportation of foreign oil and gas by pipelines (Article 17/4)
- Exemption for delivery of land and business place of organised industrial zones and small industrial sites (Article 17/4)
- Exemption for house deliveries of housing cooperatives (Article 17/4)
- Exemption for asset management enterprises (Article 17/4)



PARTIAL EXEMPTIONS (8/10) (WITHOUT RIGHT OF DEDUCTION - 6/8)

- Exemption for the transactions of Savings Deposits Insurance Fund (Article 17/4)
- Exemption for the services provided in free trade zones (Article 17/4)
- Exemption for news service provided to General Directorate of Press and Information (Article 17/4)
- Exemption for the transactions in customs zone (Article 17/4)



PARTIAL EXEMPTIONS (9/10) (WITHOUT RIGHT OF DEDUCTION -7/8)

- Exemption for delivery of public immovables and establishment of easement (Article 17/4)
- Exemption for delivery of computer programs and equipments produced for the disabled (Article 17/4)
- Exemption for construction works to housing cooperatives (Provisional Article 15)



PARTIAL EXEMPTIONS (10/10) (WITHOUT RIGHT OF DEDUCTION - 8/8)

- Exemption for construction works to municipalities and social security institutions established by law (Provisional Article 15)
- Exemption for deliveries of goods and provision of services by the entrepreneurs in technology development zones (Provisional Article 20)
- Exemption for delivery of immovables by the General Directorate of Highways and General Directorate of Forestry (Provisional Article 21)



EXPORTATION EXEMPTION -(1/15)

The followings are within the scope of exportation exemption;

- Exportation of goods,
- The followings are accepted within the scope of exportation of goods,
 - Border and coastal trade
 - Delivery to foreign vessels and airplanes
 - Sales in foreign currency to the non-residents in Turkey (shuttle trade)
- Exportation of service,
- International roaming services
- Delivery of goods to be carried in the personal luggage of non-resident travellers'
- Delivery of goods and provision of services to foreign transporters and foreigners participating in fairs and exhibitions



EXPORTATION EXEMPTION – (2/15) (GOODS EXPORTATION – 1/4)

- Delivery should be done;
 - To a customer abroad
 - or
 - To a buyer in free trade zone

- The goods to be delivered should be destined;
 - To a foreign country by leaving Turkish Customs Territory
 - or
 - To a free trade zone



EXPORTATION EXEMPTION – (3/15) (GOODS EXPORTATION- 2/4)

CUSTOMERS ABROAD

- Buyers whose residence, place of business, legal headquarters and business center are abroad
- Branches, representative offices, agents and offices abroad of a parent company in Turkey



EXPORTATION EXEMPTION – (4/15) (GOODS EXPORTATION – 3/4)

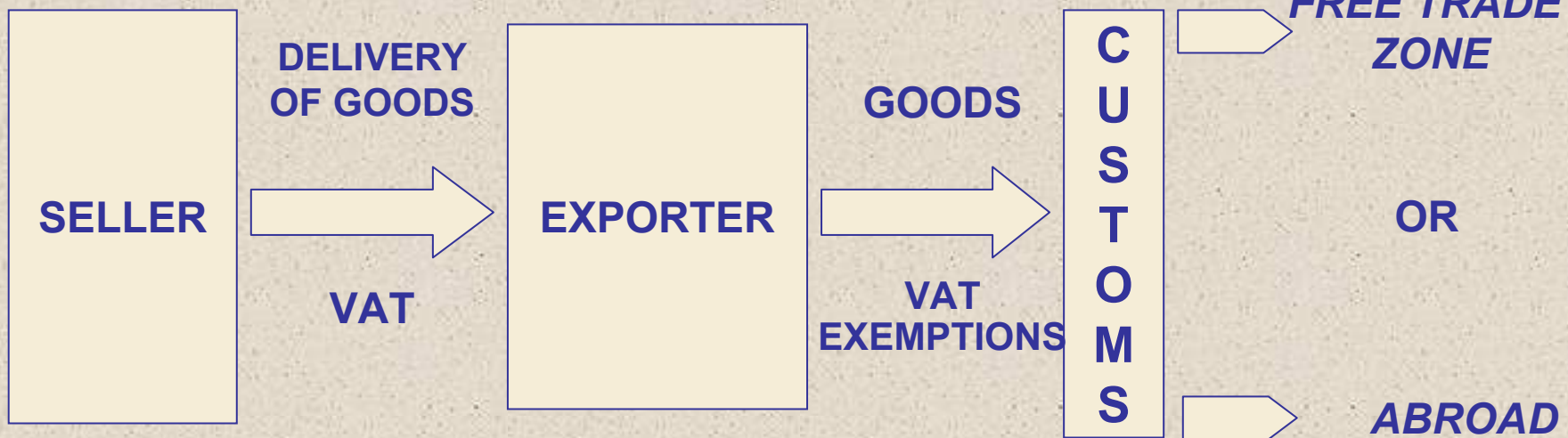
**GOODS DESTINED TO
A FOREIGN COUNTRY**



**GOODS LEAVING
CUSTOMS TERRITORY**



EXPORTATION EXEMPTION – (5/15) (GOODS EXPORTATION – 4/4)





EXPORTATION EXEMPTION – (6/15) (SERVICE EXPORTATION)

- ❑ Services provided to the customers abroad
- ❑ Conditions;
 - Services should be provided in Turkey to a customer abroad
 - Invoices or similar documents should be issued in the name of the customer abroad
 - Service charge should be brought into Turkey in foreign currency.
 - Services should be consumed abroad



EXPORTATION EXEMPTION – (7/15) (INTERNATIONAL ROAMING SERVICES)

Roaming services provided in Turkey to foreign customers by GSM operators in Turkey within the scope of international agreements

are exempted on a reciprocal basis.

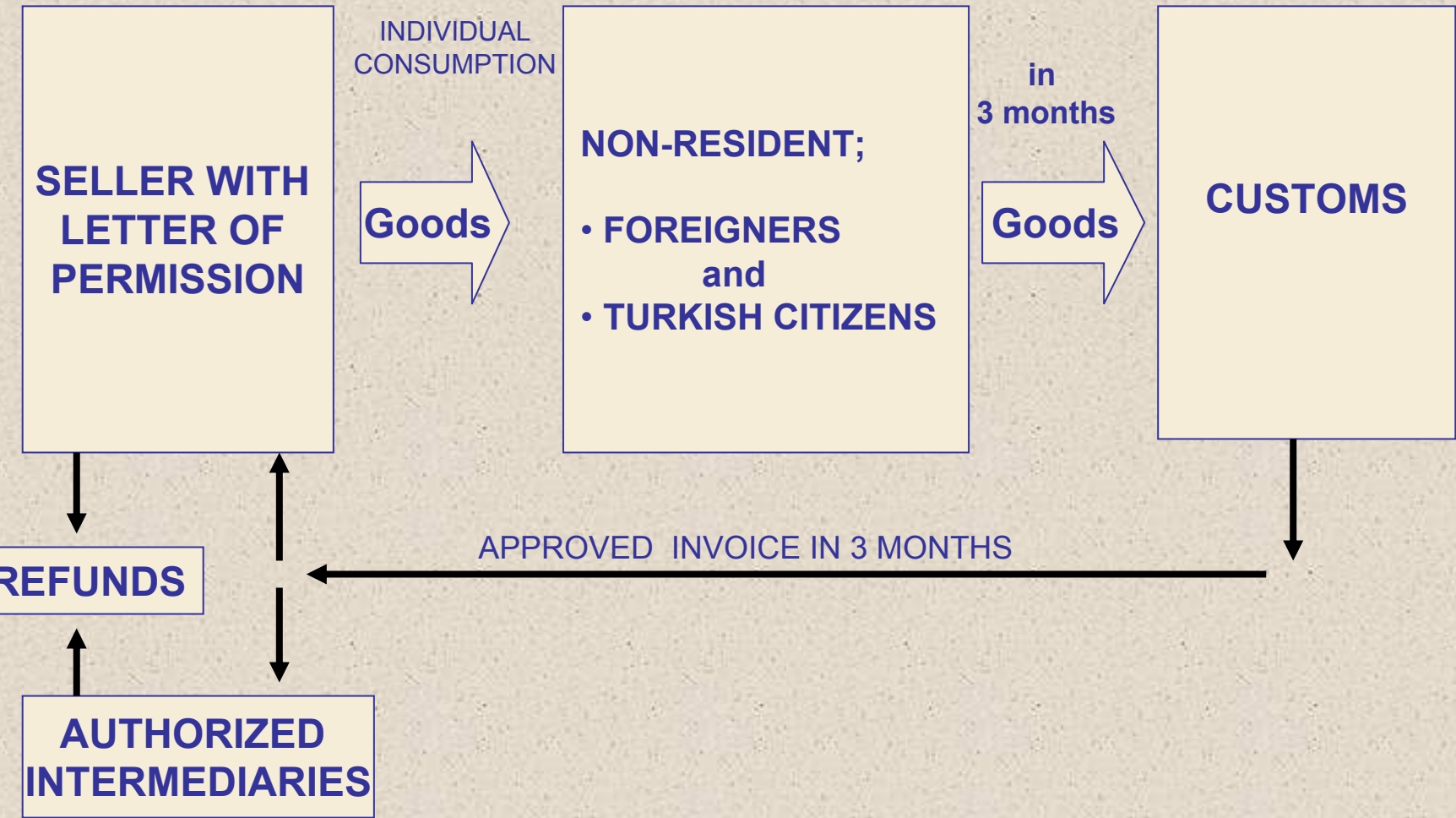


EXPORTATION EXEMPTION – (8/15) (DELIVERY OF GOODS TO BE CARRIED IN THE PERSONAL LUGGAGE OF NON RESIDENT TRAVELLERS -1/2)

- VAT is collected for the goods purchased by non-resident traveller.
- However, after goods leave the customs territory, VAT is refunded by seller or authorized intermediaries to buyer provided that the invoice approved by the customs is submitted
- Turkish citizens who can prove their residence abroad and non-resident foreigners can benefit from this exemption



GOODS TO BE CARRIED IN THE PERSONAL LUGGAGE OF NON RESIDENT TRAVELLERS -2/2





EXPORTATION EXEMPTION – (9/15)

Transporters
and

Participants in fairs and exhibitions in Turkey

who do not have residence, legal headquarters, place of business and business center in Turkey

can benefit from refund right on a reciprocal basis.



EXPORTATION EXEMPTION – (10/15) DELIVERY OF GOODS DESTINED FOR EXPORT-1/4

- Named as “deferment and cancellation” in practice.
- Basically applied to the goods destined for export delivered by the manufacturer to the exporter.
- Special conditions are required for the manufacturers who shall benefit from this practice.
- Exporter should export the goods without making any change on them.
- Exportation has to be completed within 3 months from the delivery of manufacturer.



EXPORTATION EXEMPTION – (11/15)

DELIVERY OF GOODS DESTINED FOR EXPORT-2/4

- VAT is calculated and shown on invoice of the deliveries within the scope of this practice. However, exporters shall not pay VAT to the manufacturer.
- The manufacturer declares uncollected tax.



EXPORTATION EXEMPTION – (12/15)

DELIVERY OF GOODS DESTINED FOR EXPORT –3/4

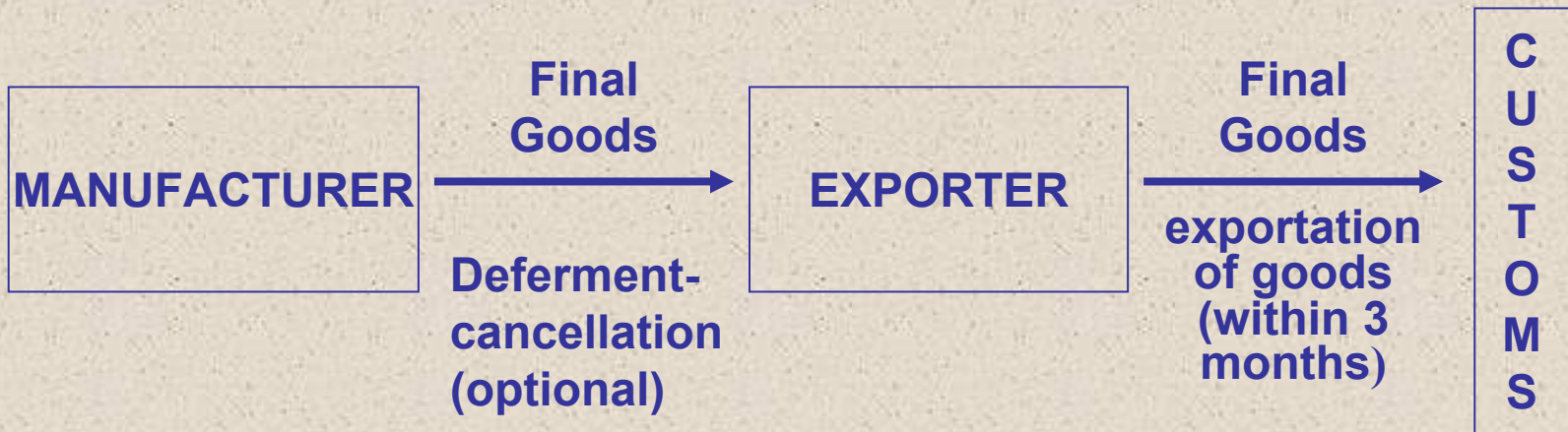
The amount which refers to the payable tax in return is deferred.

Deferment period should not exceed 3 months.

If the goods are exported within 3 months, the deferred VAT is cancelled.



EXPORTATION EXEMPTION – (13/15) DELIVERY OF GOODS DESTINED FOR EXPORT –4/4





EXPORTATION EXEMPTION – (14/15)

DEFERMENT AND CANCELLATION IN THE DELIVERY OF RAW MATERIALS

For the domestic purchases of the raw and supplementary materials that are used in the production of goods which will be exported according to Inward Processing Regimes or temporary importation

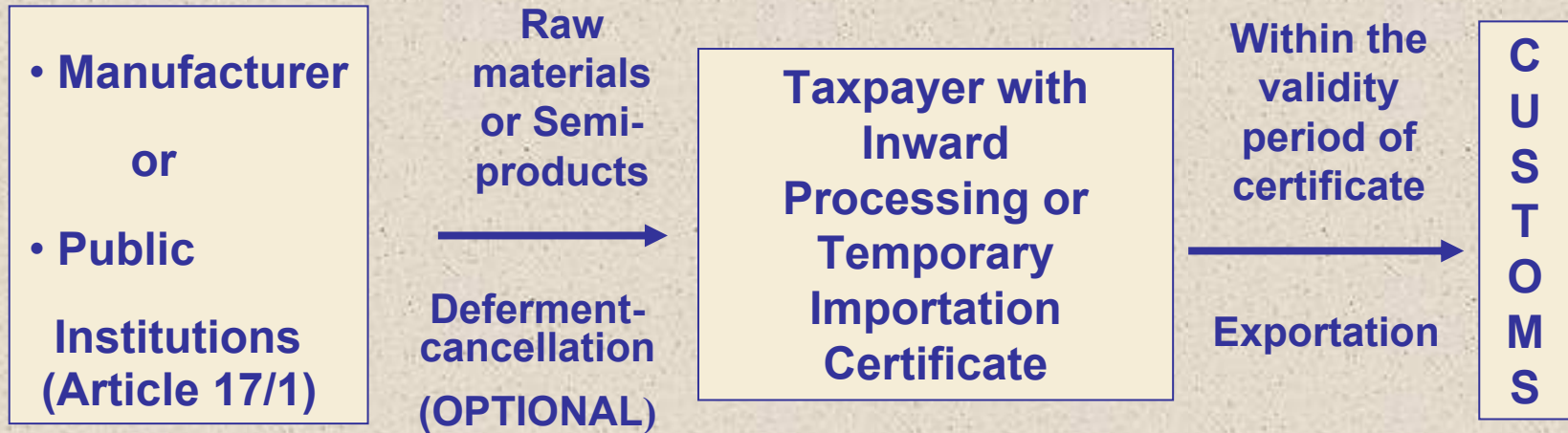
“deferment-cancellation system” can be applied.

The practice of “delivery of the goods destined for export” for final goods, is also applied here.



EXPORTATION EXEMPTION – (15/15)

(Deferment and Cancellation in the Delivery of Raw Materials)



EXEMPTION FOR SEA, AIR AND RAILWAY VEHICLES

- ❑ For the taxpayers whose operations are renting sea, air and railway vehicles or operating them in different ways
 - Delivery and importation of these vehicles to a/m taxpayers,
 - Modification, repair and maintenance services related to these vehicles to a/m taxpayers,
 - Deliveries and services related with the manufacturing of these vehicles to a/m taxpayers
- are exempted from VAT.



EXEMPTION FOR SERVICES PROVIDED TO TRANSPORTATION VEHICLES

- ❑ For sea and air transportation vehicles, services provided;
 - At seaport and airport,
 - Exclusively for traffic of vehicles,
 - For loading, unloading and similar services related to freight and travellers
- are exempted from VAT.



EXEMPTION FOR PETROLEUM EXPLORATION

- Covers exclusively the deliveries of goods and provision of services related with petroleum exploration activities.



EXEMPTION FOR EXPLORATION OF PRECIOUS METALS

- Gold
 - Silver
 - Platinum
- } Related delivery of goods and provision of services to those dealing with “exploration”, “processing”, “enrichment” and “refining” activities
- are exempted from VAT.



EXEMPTION FOR DELIVERY OF MACHINERY AND EQUIPMENT WITH INVESTMENT INCENTIVE CERTIFICATE

This exemption covers ;

- The deliveries to VAT taxpayers,
- Machinery and equipment to be used in deductible operations,
- Delivery of machinery and equipment listed in investment incentive certificates,

Machinery and equipment should be related to production of goods and services and should have economic value subject to depreciation (investment goods).



EXEMPTION FOR CONTRUCTION, MODERNIZATION AND EXTENSION OF SEAPORTS AND AIRPORTS

- Deliveries of goods to the taxpayers who are directly engaged in the construction, modernization, and extension of seaports and airports or
 - Construction contract works supplied to the taxpayers who sub-contract a/m activities to a third party
- are exempted from VAT.



EXEMPTION FOR NATIONAL SECURITY EXPENSES

- ❑ Deliveries and services to the public institutions related to internal and external security regarding the needs of national defence and internal security,
 - Military vehicles, arms, arms ammunition, equipment and related systems,
 - Research and development, software, production, assembly, spare part, maintenance-repair and modernization services related to the a/m items,
- ❑ The deliveries and services to providers of these deliveries and services which are approved by the a/m institutions are exempted from VAT.



TRANSPORTATION EXEMPTION –(1/2)

Within the scope of this exemption;

- Freight and passenger transportation by sea, air, land and railway vehicles which,
 - Departs from Turkey, arrives in foreign country,
 - Departs from foreign country , arrives in Turkey,
 - Departs from foreign country, arrives in foreign country by passing from Turkey,
- This exemption is granted to the taxpayers whose residence, legal headquarter and business center are not located in Turkey, on condition of reciprocity.



TRANSPORTATION EXEMPTION –(2/2)

- Deliveries of diesel to trucks, towing vehicles and semi-trailers with refrigeration systems which transport goods within the scope of export regime;
- For the amount not exceeding “standart fuel tank”, and “refrigeration system depot”
- Only to vehicles going abroad
- are exempted from VAT.
- This exemption can only be used in the border gates determined by a Cabinet Decree,



DIPLOMATIC EXEMPTION

- Within the scope of this exemption, deliveries and services;
 - On a reciprocal basis,
 - to the diplomatic representative offices,
 - to the consulates,
 - to the members thereof having diplomatic rights of foreign countries in Turkey.
 - To international institutions and their members who are provided exemption according to international agreements.



IMPORTATION EXEMPTION –(1/8)

- ❑ Importation of the goods and services delivery and performance of which are tax exempted within the country, are also exempted from VAT.



IMPORTATION EXEMPTION –(2/8)

- Exemptions according to the provisions of Customs Law ;
 - Importation within the scope of Customs Law Article 167,
 - Importation within the scope of temporary importation regime,
 - Importation within the scope of outward processing regime,
 - Importation of goods returned.



IMPORTATION EXEMPTION –(3/8)

EXEMPTIONS WITHIN THE SCOPE OF CUSTOMS LAW ARTICLE 167- 1/4

- ❑ Some goods and services within the scope of Article 167:
 - Used personal goods imported by natural persons (transferring of legal residence, dowry, goods acquired through inheritance, scholastic materials of the students),
 - Souvenirs sent by a natural person to the other or imported by the travellers, not exceeding the total value of 300 €,
 - Various documents and goods of no commercial value, not exceeding 100 €,
 - Diplomatic goods imported on the basis of reciprocity,



IMPORTATION EXEMPTION – (4/8)

EXEMPTIONS WITHIN THE SCOPE OF CUSTOMS LAW ARTICLE 167-2/4

- Medal of honor or other awards,
- Presents received within the framework of international relations,
- Capital goods and other materials imported due to the transfer of offices,
- Fuel oil and mineral oil available in the means of transport and special containers,



IMPORTATION EXEMPTION –(5/8)

EXEMPTIONS WITHIN THE SCOPE OF CUSTOMS LAW ARTICLE 167-3/4

- Products obtained by the farmers acting in the Customs Territory of Turkey, from their properties abroad,
- Seeds, fertilizer and other products used in processing the soil and crops and brought by the farmers of the neighboring countries into their property situated in the Customs Territory of Turkey,
- Pharmaceuticals imported to be used in international sports contests organized in Turkey,



IMPORTATION EXEMPTION –(6/8)

EXEMPTIONS WITHIN THE SCOPE OF CUSTOMS LAW ARTICLE 167-4/4

- Goods sent to those affected by natural disasters,
- Importation of the goods related with funeral,
- Goods for the disabled,
- Samples of no commercial value and products used or consumed in a commercial fair or a similar activity,
- Printed advertisement document and materials for advertisement purposes,
- Goods imported for inquiry, analysis or testing,



IMPORTATION EXEMPTION – (7/8)

□ The goods under;

➤ transit and customs warehousing regime

and

➤ temporary storage and free zone regime

in the Customs Law, are exempted from tax.



IMPORTATION EXEMPTION –(8/8)

In case the returned goods are processed or an addition made to main body abroad;

the difference in value appreciation of the goods is subject to tax on importation.



PARTIAL EXEMPTIONS FOR CULTURAL AND EDUCATIONAL PURPOSES–(1/2)

□ Delivery and services of organizations having public legal personality;

With the purposes of

- Promotion of science and fine arts,
- Rehabilitation and promotion of agriculture,
and
- Related to the activities of operating and managing theatres, concert halls, libraries, exhibitions and sports facilities,



PARTIAL EXEMPTIONS FOR CULTURAL AND EDUCATIONAL PURPOSE–(2/2)

- Education and training provided free of charge in private universities and schools (for max.10% of the total number of students),
- Architectural services and related deliveries provided to those who benefit from survey, restoration and restoring to its original shape of cultural heritage.



PARTIAL EXEMPTIONS FOR SOCIAL PURPOSES–(1/5)

- ❑ Deliveries and services provided by the b/m institutions managed and operated by organizations having public legal personality,
- ❑ Provided that these deliveries and services are in line with the defined objectives of these institutions;
 - Institutions such as hospital, clinic, dispensary, sanatorium, blood bank, organ transplantation banks, botanic and zoology gardens, parks, laboratories,
 - Places such as dormitories, orphanages, homes for the elderly and the disabled,



PARTIAL EXEMPTIONS FOR SOCIAL PURPOSES–(2/5)

- Delivery and services that are made as a legal obligation and free of charge,
- Food, cleaning, clothing and fuel materials donations to certain charity associations and foundations,
- Free of charge deliveries and services to organizations having public legal personality.



PARTIAL EXEMPTIONS FOR SOCIAL PURPOSES–(3/5)

□ Concerning Donations to organizations having public legal personality



Deliveries and services to

➤ **Foreign Countries’;**

✓ **Diplomatic Representative Offices**

✓ **Consulates
in Turkey**

➤ **Foreign Charity Institutions**

□ Legal center of the foreign donor institutions has to be abroad.



PARTIAL EXEMPTION FOR SOCIAL PURPOSES–(4/5)

- Water delivery for agricultural purposes,
- Non- commercial delivery of potable water to persons living in village by legal entity of village,
- Services that are provided by public institutions, agricultural, cooperatives and farmer unions for land rehabilitation,
- Delivery of special computer programs and every kind of instruments (excluding vehicles) especially produced for education, profession and daily life of the disabled,



PARTIAL EXEMPTION FOR SOCIAL PURPOSE–(5/5)

- Delivery of houses by the housing cooperatives to their members,
- Constructions contracts to housing cooperatives (exclusively for houses under 150 m²), to social security organizations established by law and to municipalities,
(provided that building permission should be obtained before 29.07.1998)



PARTIAL EXEMPTION FOR FINANCE AND INSURANCE SECTOR -(1/4)

- Transactions of banks, bankers and insurance companies subject to banking and insurance transactions tax,
- Insurance transactions by insurance agencies and intermediaries
- Delivery of goods and rights which are guaranties of receivables transferred to asset management companies by banks, private financial institutions and other financial organizations,



PARTIAL EXEMPTION FOR FINANCE AND INSURANCE SECTOR -(2/4)

- Delivery of goods and rights which are guarantees of restructured receivables of banks, private financial institutions and other financial organization in the case of default,
- Providing credit guarantee transactions of institutions which are established for this aim targeting only small and medium-sized enterprises within the framework financial and technical cooperation agreements with foreign countries and international financial institutions



PARTIAL EXEMPTION FOR FINANCE AND INSURANCE SECTOR -(3/4)

- ❑ Transfer and deliveries of immovables and participation shares to banks in consideration for debts of guarantor and debtor to banks
 - the charged tax for transfer and deliveries of participation shares and immovables within the scope of this exemption;

Only the portion which could not be deducted until the date of delivery, is considered as expenditure.



PARTIAL EXEMPTION FOR FINANCE AND INSURANCE SECTOR -(4/4)

According to Banking Law;

- Delivery of goods and rights to Savings Deposit Insurance Fund,
- Delivery of these by the Fund,
- Delivery of goods and rights which are guarantees of receivables transferred to the Fund,
- Delivery of participation rights and assets of the companies whose management and control are taken over with the purpose of collecting fund receivables,



PARTIAL EXEMPTION FOR TRANSITION, TRANSFORMATION AND MERGER OF ENTERPRISES - (1/3)

- ❑ Transactions within the scope of Article 81 of Personal Income Tax Law;
 - Transition of personal enterprise to legal inheritors with the condition of continuity on account of death,
 - Transition of a personal enterprise to a capital stock company as a whole,
 - Transformation of unlimited company and ordinary limited partnership to capital stock company,



PARTIAL EXEMPTION FOR TRANSITION, TRANSFORMATION AND MERGER OF ENTERPRISES - (2/3)

“Transfer” and “Division” transactions according to Corporate Tax Law

➤ Charged and non-deductible tax by taxpayers who cease operation, is divided or dissolved as a result of transfer and division ;

“can be subject to deduction by the taxpayers who start their activities or take over the assets of institutions”



PARTIAL EXEMPTION FOR TRANSITION, TRANSFORMATION AND MERGER OF ENTERPRISES - (3/3)

Sales of participation shares and immovables which are in the assets of enterprises at least 2 years.

➤ the charged tax as a result of transfer and deliveries of participation shares and immovables within the scope of this exemption

Only the portion which could not be deducted until the date of delivery, is considered as expenditure.



PARTIAL EXEMPTION FOR SMALL ENTERPRISES

□ According to Personal Income Tax Law;

Delivery and services provided by;

- Tradesmen exempted from personal income tax,
- Taxpayers subject to simple procedure,
- Small farmers not subject to real basis taxation,
- Professionals exempted from personal income tax.



PARTIAL EXEMPTIONS FOR THE SERVICES RELATED TO FOREIGN TRADE

- Services provided in customs warehouses, temporary storage areas and customs zone;
 - Warehouse, storage and terminal services provided for the goods subject to import and export,
 - Renting of duty-free shops and units such as storage and warehouses premises of these shops
- Services provided in free trade zones
- Services of transportation of unrefined foreign oil and gas and their by-products by pipelines.



PARTIAL EXEMPTION FOR PUBLIC INSTITUTIONS -(1/4)

- News services provided to General Directorate of Press and Information
- Immovable goods delivery and providing of easement by Treasury
- Transactions of General Directorate of Mint and Stamp Print House
- Organizations of lotteries by General Directorate of National Lottery



PARTIAL EXEMPTION FOR PUBLIC INSTITUTIONS -(2/4)

- ❑ Professional organizations having public legal personality
 - Provision of licences and permits and similar services,
 - Printed material deliveries related to these services

- ❑ Delivery and services of military factory, navy yard and workshops related to their establishment goal.



PARTIAL EXEMPTION FOR PUBLIC INSTITUTIONS-(3/4)

- Delivery and rental of economic assets within the framework of Privatization Law (charged tax by reason of delivery and leasing transaction in connection with this exemption can be deducted).
- Delivery of immovables by General Directorate of Highways up to the date 31.12.2006.
- Delivery of immovables registered in the revolving funds of the General Directorate of Forestry up to the date 31.12.2006.



PARTIAL EXEMPTION FOR PUBLIC INSTITUTIONS-(4/4)

Computer, hardware and software related to them up to the date 31.12.2010;

- Donations to the Ministry of National Education
- Purchases of the donors

(Charged tax related to this transactions can be deducted by those donating and those supplying and performing to donors.)

Delivery of immovables by Pension Fund up to the date 31.12.2006

(charged tax for these supplies can be deducted.)



OTHER PARTIAL EXEMPTIONS

- Rentals of real estates which are not included in assets of enterprise
- Delivery of industrial lots and workshops to industrialists in organized industrial zones and small scale industry estates
- Delivery of gold and silver bullions and precious stones,
- Delivery of foreign currency, money, finance stamp, securities, shares, and bond
- Metal, plastic, rubber, natural rubber, glass waste and scraps and delivery of bullion made from scrap metal
- Delivery of software and services produced in technology development zones

RENOUNCEMENT FROM EXEMPTION -(1/2)

- Taxpayers carrying out transactions exempted from VAT :
 - By filing an application to the local tax administration,
 - By specifying exempted transactions,can demand the transactions to be taxed.
- Those taxpayers can not renounce from their tax liabilities up to 3 years.



RENOUNCEMENT FROM EXEMPTION -(2/2)

However, renouncement from

Exemption for cultural, educational and social purpose exemptions (17/1,2)

(excluding exempted associations and charity foundations established for public interest)

and

Exemption for delivery and services of military factories, navy yards and workshops in compliance with their establishment purpose (17/3-a)

and

Exemption for transactions subject to banking and insurance transactions tax (17/4-e)

is not possible.



LIMITS OF EXEMPTIONS

Without prejudice to the provisions of international agreements, exemptions related to VAT can only be valid with the amendments to VAT Law.



TAX REFUND – (1/3)

- If the sum of the deducted tax exceeds the sum of the calculated VAT, the difference is “transferred to next taxation period” and is not refunded.
- Refund is only possible for some transactions that are stated in the Law and related legislation.



TAX REFUND – (2/3)

- Transactions entitling refund right;
 - Transactions that are in the scope of exemptions in Article 32 of the Law (full exemptions),
 - Transactions that are subject to reduced rate,
 - Transactions that are in the scope of partial reverse charge application,
 - Transactions prescribed in international agreements,
 - Transactions for which excess and unnecessary tax is paid.



TAX REFUND – (3/3)

- Tax refund from transactions which entitle refund right is done at the request of taxpayer;
 - In cash,
 - and
 - As a set- off against tax and SSI (Social Security Institution) premium debt,

- Refund system is arranged in order to encourage payment on account.



THANK YOU