

DIRECT TAXATION QUESTION AND ANSWERS

1. Merger Directive

- Do you provide for a relief for restructurings in domestic situations ?

Yes, we do.

- What are the transactions covered by the relief ?

Mergers, divisions, partial divisions and exchange of shares.

- What kind of relief do you grant (e.g. exemption, deferral etc.) ?

The relief is a tax deferral.

- What are the conditions for granting such relief (e.g. which companies qualify for the relief, what kind of consideration is permitted?)

There are different conditions to benefit from the relief, but in general full liability (residency for tax purposes in Turkey), being a capital company, transferring the assets and liabilities at book value and issuing pro rata shares to the shareholders of transferring companies are the common conditions.

Does the relief also cover cross-border restructurings?

No, it does not.

- If yes, which ones and what are the requirements ?

2. Parent-Subsidiary Directive

- How is double taxation avoided in domestic situations for dividend distribution of a subsidiary to its parent company ?

Dividend distributions from a full liable corporation (resident for tax purposes in Turkey) are exempt from corporate income tax.

- What are the requirements for such a relief ?

Both parts, parent and subsidiary should be full liable corporations (resident).

- Do you apply withholding taxes for dividend distributions from a subsidiary to its parent company resident in your country?

No.

- If yes, what is the rate and is the withholding tax credited at the level of the parent company ?

- How do you eliminate double taxation for dividend distributions from a foreign subsidiary to a parent company resident in your country ?

Economic double taxation related to dividends received by a FLC from a foreign company (subsidiary) is eliminated either by exemption or tax credit method.

- Is it based on unilateral law or based on the respective bilateral Double Taxation Agreements?

It is based on respective bilateral DTA and domestic legislation.

- How many Double Taxation Agreements does your country have?

We have 61 DTAs.

- What is the rate of the withholding tax applicable in your country for dividend distributions ?

%10

- Is there a special rate for a qualified participation? If yes, what are the requirements for a qualified participation?

• In case of dividends from abroad, there is a qualified participation rate, which is 10%.

• In case of domestic dividends, there is no qualified participation.

- What has been the tax revenue from such a withholding tax for the last 3 years, for which data is available ?

Gross Withholding Tax Assessments

	2003	2004	2005	Total
Dividends paid to abroad (Including dividend on investment allowances) (in NTL)	429.330.024	590.198.538	460.360.930	1.479.889.492
(approximate value in EURO)	260.200.015	357.696.084	279.006.624	896.902.722
Branch profits transferred to head office abroad (in NTL)	8.060.873	14.119.180	19.986.233	42.166.286
(approximate value in EURO)	4.885.378	8.557.079	12.112.868	25.555.325
Total (in NTL)	437.390.897	604.317.718	480.347.163	1.522.055.778
(approximate value in EURO)	265.085.392	366.253.162	291.119.493	922.458.047

3. Interest and Royalties Directive

- Do you apply withholding taxes on interest and royalty payments in domestic situations?

• There is no withholding on interest from loans between domestic companies.

• There is withholding on interest from private bonds.

• There is withholding on interest from both bank deposit and repo.

• There is no withholding on royalties between domestic companies.

- Is the situation different for payments between associated companies ?

No.

- If you apply a withholding tax, how do you avoid double taxation ?

If there is a withholding tax, the tax withheld is fully deductible from corporation tax.

- What are the withholding tax rates for payments of interest and royalties to foreign third companies, i.e. non-related companies ?
 - **Withholding rate on interest from loan provided by foreign financial institutions is zero since 1985,**
 - **Withholding rate on interest from loan provided by foreign companies other than financial institutions is 10%,**
 - **Withholding rate on interest from bank deposit and repo derived by foreign companies is 15%,**
 - **Withholding rate on interest from private bonds derived by foreign companies is zero.**
 - **Withholding rate on royalty payments to foreign companies is 22%.**
- Do the Double Taxation agreements of your country provide for a limitation of these withholding taxes?

Most of them do.
- What are the withholding tax rates for payments of interest and royalties between associated companies?

Rates are not different for associated companies.
- What are the requirements to qualify for an associated company?
- Please provide an overview of the respective Double Taxation Agreements of your country with the respective withholding tax rates for interest payments and royalty payments.

TAX RATES ON INTEREST AND ROYALTY IN CONTRACTING STATES

CONTRACTING STATE	INTEREST (%)	ROYALTY (%)
1.AUSTRIA	15	10
2.NORWAY	15	10
3.SOUTH KOREA	10 (for credit and debt claims exceeding 2 years) 15 (others)	10
4.JORDAN	10	12
5.TUNISIA	10	10
6.ROMANIA	10	10
7.NETHERLANDS	10 (For loans exceeding 2 years) 15 (for others)	10
8.PAKISTAN	10	10
9.ENGLAND	15	10

10.FINLAND	15	10
11.T.R.N.C.	10	10
12.FRANCE	15	10
13.GERMANY	15	10
14.SWEDEN	15	10
15.BELGIUM	15	10
16.DENMARK	15	10
17.ITALY	15	10
18.JAPAN	10 (if credit is raised from finance institutions)	10
	15 (others)	
19.U.A.E	10	10
20.HUNGARY	10	10
21.KAZAKHSTAN	10	10
22.MACEDONIA	10	10
23.ALBANIA	10	10
24.ALGERIA	10	10
25.MONGOLIA	10	10
26.INDIA	10 (if it is paid in return for a loan granted by a bank or financial institution)	15
	15 (others)	
27.MALAYSIA	15	10
28.EGYPT	10	10
29.P.R.C.	10	10
30.POLAND	10	10
31.TURKMENISTAN	10	10
32.AZERBAIJAN	10	10
33.BULGARIA	10	10
34. UZBEKISTAN	10	10
35. U.S.A.	10 (if interest arises from loans granted by banks, financial or savings institutions and insurance companies)	5 -10
	15 (others)	
36. BELARUS	10	10
37. UKRAINA	10	10
38. ISRAEL	10	10
39. KUWAIT	10	10
40. RUSSIA	10	10
41. SLOVAKIA	10	10
42. INDONASIA	10	10

43. LITHUANIA	10	5 (of gross amount of royalty which is paid in return for usage of industrial, commercial and scientific equipments)
		10 (others)
44. CROATIA	10	10
45. MOLDOVA	10	10
46. SINGAPORE	7,5 (interests received by financial institutions)	10
	10 (others)	
47. KYRGYSTAN	10	10
48. TAJIKISTAN	10	10
49. CZECH REPUBLIC	10	10
50. BANGLADESH	10	10
51. LATVIA	10	5 (some of gross amounts of royalty which is paid in return for usage of industrial, commercial and scientific equipments)
		10 (all others)
52. SPAIN	10 (if interest arises from a loan granted by a bank or paid in return for a credit sale of commercial goods or equipment to a Contracting State enterprise)	10
	15 (others)	
53. SUDAN	10	10
54. SLOVENIA	10	10
55. SYRIA	10	15 (any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience.
		10 (for the use of, or the right to use, copyright of literary, artistic or scientific work including cinematograph films, records for radio and TV)
56. GREECE	12	10
57. THAILAND	10 (received by any financial institutions including insurance companies)	15
	15 (others)	
58. LUXEMBOURG	10 (loan contracts exceeding 2 years)	10
	15 (others)	

59. ESTONIA	10	5 (of gross amount of royalty which is paid in return for usage of industrial, commercial and scientific equipments)
		10 (all others)
60. IRAN	10	10

- What has been the tax revenue from the withholding taxes on interest payments and royalty payments for the last 3 years for which data is available?

Gross Withholding Tax Assessments

	2003	2004	2005	Total
Interest paid to abroad on bank deposit (in NTL)	6.629.113	2.120.374	3.437.925	12.187.412
(approximate value in EURO)	4.017.644	1.285.075	2.083.591	7.386.310
Interest paid to abroad on REPO transactions (in NTL)	12.771.246	4.058.182	4.955.494	21.784.922
(approximate value in EURO)	7.740.149	2.459.504	3.003.330	13.202.983
Interest on loan provided from abroad (in NTL)	3.996.598	1.611.165	1.039.059	6.646.822
(approximate value in EURO)	2.422.181	976.464	629.733	4.028.377
Royalties paid to abroad (in NTL)	105.269.384	27.686.307	52.784.521	185.740.212
(approximate value in EURO)	63.799.627	16.779.580	31.990.619	112.569.825
Total (in NTL)	128.666.341	35.476.028	62.216.999	226.359.368
(approximate value in EURO)	77.979.601	21.500.623	37.707.272	137.187.496