

- In case of sale of economic assets subject to depreciation (excepting immovable used for agricultural production) the losses calculated according to Article 328 of the Tax Procedure Law,
- Total amount of depreciation and fifty percent of the expenses on the vehicles included in the business enterprise and used for also personal and family requirements,
- The products of the farmers carried forward from the past years and which are subject to taxation on the basis of actual assessment procedure shall be valued and shown as expenditures at the average cost of production stated in Article 45 of the Tax Procedure Law.

1.3.3.Salaries and Wages

Income derived from dependent personal services is subject to the income tax. This income comprises such income from all kinds of employment in both public and private sector as salaries and wages, as well as associated supplementary income such as allowances, bonuses, anniversary gifts, gratuities, commissions, premiums, compensations and other wage and salary related remunerations including benefits in kind at market value.

In determining taxable amount of salaries and wages, the following expenditures are allowed to be deducted from gross amount:

- Legal deduction made according to various laws or regulations,
- Payments made for pensions,
- Payments made for various insurances,
- Payments made for labor union membership.

1.3.4.Income from Independent Professional Services

The term ‘‘independent professional services’’ means any activity performed by a person who is self-employed, and based on professional and scientific expertise rather than capital, income from such activities is subject to the income tax.

The term includes services presented by such independent professionals as lawyers, accountants, doctors, consultants and engineers. Revenues received from independent professional services within a year as well as expenses paid are recorded on a simple accounting book. In general, all expenses related to independent professional services can be deducted from revenues. But, the scopes of those expenses are narrower than those specified for the commercial and business activities.

The following expenses are allowed to be deducted from the gross revenue in reaching the profit from independent professional services:

- General expenses made to gain professional earning and survival of business,
- Alimentation and accommodation expenses of the servants and workers at the workplace or its premises, their medical treatment and drugs expenses, insurance premiums and retirement allowances,

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- Travel and accommodation expenses related to business trips (provided that it is limited to the period required by the object of the trip),
- Amortisation amount reserved according to the Tax Procedural Law for installations, fixed assets and the vehicles included in inventories, used in business activities,
- Expenses related to vehicles rented or included in the inventory,
- Amounts paid for business press,
- Cost of goods and services procured for performance of business activities,
- Registration and retirement allowances paid to the retirement funds for self employment activities and other subscription fees paid to the professional organizations,
- Proficiency, announcement and advertisement taxes paid for conducting business and obtaining earning as well as the charges and levies in kind related to workplaces,
- Compensations paid according to the laws, verdict and contracts related to business activities.

1.3.5. Income from Immovable Property

Immovable property means real property which includes land buildings, and permanent leasehold rights. Ships, boats, aircraft and other types of transportation vehicles are also regarded as immovable property in the application of the PIT Law. Income from immovable property comprises:

- Land, buildings, mineral water, mines, quarries, sand and pebble pits, brick and tile kilns, salinas, together with their integral parts and accessories,
- Large fishing nets and traps,
- Integral parts and accessories of buildings, all their installations, inventory and furniture, leased independently from the building,
- Rights registered as real estate,
- Exploration, exploitation and concession and license, patent rights (The incomes earned by leasing the patents by the inventors or their legal heirs shall be the earnings of self-employment), the right of utilization or rights such as usage privileges on all kinds of trade mark, brand, trade name, all technical drawings, design, model, plan, cinema and television films, sound and video tapes; information acquired in the fields of industry, commerce and science, secret formula or production method (Also the costs of the material and equipment necessary for the utilization of such rights shall be considered as revenue from immovable),
- Copyrights (Earnings derived from the letting of such rights by the author or his legal heirs shall be considered as professional earnings),
- Ships and shares in ships (Without any consideration for their tonnage and whether they have an engine or not) and all motor vehicles of loading and unloading,

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- Motorized transport and towing vehicles, all motor vehicles, machinery, installations and their attachments.

In computing net income from immovable property, costs related to maintenance, management, renovation and running, and depreciation may be deducted from the gross income on the actual basis; it is also allowed to make a lump-sum deduction instead of actual costs, except for the income from the lease of the rights mentioned above. In such cases, lump-sum deduction is 25% of the rental income.

1.3.6. Income from Capital Investment (Interest, Dividends, etc.)

Income from capital investment means any income such as interest, dividend, rent and as such derived from capital in cash or capital in kind. (Income from business activities, agricultural activities and independent personal services is not considered as income from capital investment.)

However, such capital income is not considered as income from capital investment, should they are earned (gained) through business, agricultural or independent professional activities. Regardless of their sources, the following earnings are deemed to be income from capital investment:

- Dividends from stocks of every kind including jouissance shares, founder's shares and interests and other remunerations paid to the stockholders in the preparatory stage of the corporation and earning from the securities issued by investment funds and investment trusts,
- Earnings from participation shares including the shares of limited companies, cooperatives and joint ventures,
- Dividends paid to the chairmen and the members of the board of directors,
- For institutions with limited tax liability and that submit annual or special tax return according to the Corporate Income Tax Law, the portion that remains after deduction of the corporation tax from the corporation earnings calculated before the deduction of the reductions and exemptions,
- Interests of every kind from bonds, treasury bonds, and earning from the securities issued by the Housing Development Administration and the Public Participation Administration,
- Interest from debt-claims of every kind particularly interest from banks and other financial institutions,
- Deposit rates,
- Profits from selling coupons of stocks and bonds before their maturity,
- Income from selling of dividends not accrued yet to the owners of the shares,
- Amount of discount received in return for all bills discounted,

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- Dividends paid to those who lend money without interest and dividends paid in return of profit-loss participation notes and profit- loss participation accounts,
- Income from repurchasing agreement on bonds and securities,
- The income payments made by the retirement funds in the nature of legal entity aid funds, retirement and insurance companies,
- Income from Individual Pension System,
- All types of earnings derived from capital market instruments issued due to Capital Market Law.

In determining net income from capital investment, costs related to and allowed to be deducted from gross income include insurance costs, collection costs, and taxes and other levies, excluding income tax, paid for securities.

The mentioned elements are included in business profit when they are connected to the business activity of the recipient. In such case, this income is treated as business profit and become subject to the rules described earlier.

1.3.7. Other Income and Earnings

Capital gains and non-recurring income are regulated by the PIT Law under the heading "Other Income and Earnings".

1.3.7.1. Capital Gains

Capital gains specified in the PIT Law are as follows:

- Earnings obtained from disposition of securities and other capital market instruments, except the shares that are acquired without consideration and those that belong to fully taxable corporations, and which have been kept for more than two years,
- Earnings arisen from disposal of the rights enumerated in paragraph 5 of the first subsection of Article 70 of the PIT Law (excluding patent rights),
- Income exceeding certain amount of Turkish Lira from the selling of intellectual rights which are treated as immovable property for tax purposes,
- Income from the selling of participation rights and shares,
- Profits from the wholly or partly alienation of an enterprise which ceased its operations,
- Profits derived from the alienation of land, buildings, the rights to operate mineral deposits, sources and other natural sources, fish farming facilities, the rights registered as immovable property, and ships, boats, aircraft and other transportation vehicles, within five years after their acquisition.

Net amount of capital gains is determined by deducting acquisition costs and the costs incurred to the alienation of the capital assets from the proceeds received in return of the alienation.

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1.3.7.2.Non-recurring Income

Non-recurring income comprises:

- Income derived from execution of commercial transactions or from acting as intermediary for such transactions on occasion,
- Proceeds received not to start or to stop a business activity, agricultural activity or independent professional service, or in return for not bidding for contracts,
- Proceeds received to transfer leasehold rights or to evacuate leased immovable property,
- Proceeds received due to independent professional services performed on occasion,
- Income derived by the taxpayers from their previous operations,
- Income derived by the limited liable taxpayers from transportation activities performed on occasion.

1.4.Other Deductions Allowed on the Tax Return

In the determination of the income tax base, taxpayers shall be entitled to make the following deductions from the income they will declare in their annual declarations:

- Insurance premiums such as life (%50 of the premiums paid for life insurance shall be deducted), death, accident, illness, disability, maternity, birth and education, belonging to the taxpayer himself/herself and his/her spouse and children underage, provided that it does not exceed 15% of the declared income and total amount of the minimum wage,
- Education and health expenditures made related to the taxpayer himself/herself, his/her spouse and children underage, provided that they do not exceed 10% of the declared income and that they are made in Turkey and confirmed with documents to be received from real or legal persons subject to corporate income tax,
- Annual deduction calculated for the declared income of the disabled who are engaged in self employment or who are taxed according to the simple procedure, according to the principles stated in article 31 (Self-employed persons and employees who are liable to look after a disabled person shall be entitled to benefit from this deduction (including the deduction base),
- Of the total donations and help made against a receipt, and to the public administrations under government budget or with special budget, to special provincial administrative bodies, to the municipalities and villages, to the foundations that are granted tax exemption by the Cabinet of Ministers, to the associations that work for public interest and to the institutions and establishments that are engaged in scientific research and development activities, up to 5% of the declared income,
- All kinds of expenses made for the construction of schools, medical facilities, student hostels and child care centers with a capacity of at least 100 beds, orphanages, retirement homes, care and rehabilitation centers, or all kinds of donations and help that

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are given to these institutions for the construction of such facilities, as well as all cash and real donations and help rendered for the continuation of their activities,

- The production cost of foodstuff, cleaning, clothing and heating supplies donated to the charity and foundations operating to help the poor, within the procedures and principles set out by the Ministry of Finance,
- 100% of the expenses, donations and help made and given against receipt, in respect of activities which are realized by the above mentioned institutions or supported by the Ministry of Culture and Tourism for the promotion, development and preservation of cultural, artistic and historical values,
- For the amateur sport branches, the whole amount, and for professional sport branches 50% of the sponsorship expenses,
- A "R&D deduction" as much as 100% of the expenses that the taxpayers shall make for the research and development work within their enterprises, in search for new technologies and knowledge,
- All cash and real donations that are made against receipt, upon natural disasters for taken a decision to launch an aid campaign,
- Except for their economic enterprises, of all cash donations and help that are made against a receipt to the Turkish Red Crescent and the Turkish Green Crescent,
- The portion not exceeding 10% of the tax revenue that is declared of the amount set aside as venture capital investment funds.

1.5. Tax Return

Annual tax return is used for consolidation of earnings derived from various sources in the calendar year and the declaration time for annual tax return is between the dates of 1-25 March.

Also, special tax return is used by taxpayers subject to limited tax liability, to declare profits and earnings for which they are not obliged to file annual tax return and the special tax return must be filed in fifteen days from acquirement.

- ❖ In 2015, 21.04% of the General Budget Tax Revenues comes from PIT and the total amount of tax revenues derived from PIT is 85.753.179.000 TL (Turkish Lira).

2. CORPORATE INCOME TAX

(Law No. 5520, Official Gazette No. 26205 dated 21.06.2006)

2.1. Taxable Income

The corporate tax is levied on the income and earnings derived by corporations and corporate bodies. The income elements by the Corporate Income Tax (CIT) Law are the same as those covered in the PIT Law. In other words, the CIT Law sets provisions and rules applicable to the income resulted from the activities of corporations and corporate bodies, whereas the PIT

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Law deals with the income derived by individuals. Corporations and corporate bodies specified by the Law as taxpayers in respect to the corporate tax are as follows:

- Capital companies and similar foreign companies,
- Cooperatives,
- Public enterprises,
- Enterprises owned by foundations societies and associations,
- Joint ventures.

2.2.Tax Liabilities

According to the CIT Law, legal entities covered by the law of which registered head office is situated in Turkey, or the centre of all business transactions in Turkey are taxed on their world-wide income (unlimited liability). By specifying two criteria the law intends to prevent any problem, which may arise in determining tax liability. The term ‘‘registered head office’’, as used in the context of the CIT Law, means it is the head office of the taxable corporations as stated in the laws and rules about their establishment, or in their articles of association. Therefore, it is not difficult to ascertain where the registered head office of a company is located. However, the business head office, which is defined as the centre where all business transactions are actually managed, is not easy to determine in some cases.

2.3.Determination of Net Taxable Income

In essence, the provision of the PIT Law concerning the determination of business profit also applies to the procedure required in determining corporate income. Basically, net corporate income is defined as the difference between the net worth of assets owned at the beginning and at the end of the fiscal year. In addition to the expenses mentioned in Article 40 of the PIT Law allowed to be deducted from revenues, the followings may also be deducted regarding to the determination of business profit, by corporations:

- Expenses for the issuance of securities,
- Foundation and organization expenses,
- Expenses made for the General Assembly as well as merger, transfer, spin-off, dissolution and winding up,
- The profit share of the partner of a commendam with issued capital shares, who has unlimited liability,
- The profit shares paid by the participation banks for the participation accounts,
- In case of the insurance and reinsurance companies, technical reserves required for the insurance contracts still valid at date of inventory.

The following losses can be deducted when determining the corporation tax base, by indicating each year's sum separately in the corporation tax return:

- The losses as indicated in the past years' tax returns—not exceeding five years,

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- The losses from the activities at abroad transferred for not more than five years, and excluding those related to the earnings that are exempted from corporation tax in Turkey, can be deducted only if and when;

-The tax base –including the loss– declared under the tax laws of the country in which the activities took place, has been reported by a duly authorized audit firm of such country, and

-The original and a translated copy of that report have been submitted to the pertinent tax office in Turkey.

In determining the corporation tax basis, the following deductions can respectively be made from corporation's earnings, provided that they are also indicated on the tax return.

- A "R&D deduction" as much as 100% of the expenses that the taxpayers shall make for the research and development work within their enterprises, exclusively in search for new technologies and knowledge,
- For the amateur sport branches, the whole amount, and for professional sport branches 50% of the sponsorship expenses,
- Of the total donations and help that are made against a receipt, and to the public administrations under government budget or with special budget, to special provincial administrative bodies, to the municipalities and villages, to the foundations that are granted tax exemption by the Council of Ministers, to the associations that work for public interest and to the institutions and establishments that are engaged in scientific research and development activities, up to 5% of the corporations earnings for that year,
- All kinds of expenses made for the construction of schools, medical facilities, student hostels and child care centers with a capacity of at least 100 beds, orphanages, retirement homes and care and rehabilitation centers, or all kinds of donations and help that are given to these institutions for the construction of such facilities, as well as all cash and real donations and help rendered for the continuation of their activities,
- 100% of the expenses, donations and help made and given against receipt, in respect of activities which are realized by the above mentioned institutions or supported by the Ministry of Culture and Tourism for the promotion, development and preservation of cultural, artistic and historical values,
- All cash and real donations that are made against receipt, upon natural disasters for taken a decision to launch an aid campaign,
- Except for their economic enterprises, of all cash donations and help that are made against a receipt to The Turkish Red Crescent and The Turkish Green Crescent,
- The portion exceeding 10% of the tax revenue that is declared of the amount set aside as venture capital investment funds,
- %50 of the profits derived from services provided in Turkey, and exclusively utilised abroad, by service businesses engaged in architecture, engineering, design, software, medical reporting, record keeping, call center, data storage for non-residents in Turkey and for those whose registered and business head offices are abroad, also the profits of

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corporates providing services to non-residents in Turkey and operating in the areas of education and health subject to the permission and supervision of the relevant ministry (In order to benefit from this deduction, invoice or other documents shall be drawn up in the name of customer abroad),

- “Protected workplace discount” which is 100% of annual gross amount of wage payment made to mentally or psychologically disabled employees who are employed in the protected workplaces (discount applies to a maximum of 5 years for each disabled employees and an annual amount to be deducted shall not exceed 150% of annual gross minimum wage for each disabled employee),
- Within the accounting periods of capital stock companies, with the exception of entities engaged in banking, finance and insurance activities and state owned enterprises, over the monetary increases in paid-in or issued capitals which are registered with the trade registry or disbursed part of paid-in capital in the capital stock companies recently established, by taking into consideration “the weighted annual average interest rate which is applied to commercial credits accredited by the banks” which is announced by the Central Bank of the Republic of Turkey for the period in which deduction obtained, 50% of amount calculated up to the end of relevant account period.

In determining net corporate income, the following deductions are not allowed:

- Interests that are calculated and paid on equity capital,
- Interest, difference of exchange parities and other expenses paid on camouflaged capital,
- Earnings distributed as slush fund through transfer pricing,
- The reserves—regardless of the type and name under which they might have been set aside,
- The corporate tax, all kinds of fines, tax fines, late fees and overdue interests,
- The losses that are incurred for issuing securities at prices below their nominal value as well as the commissions paid and all similar expenses with respect to such securities,
- The expenses and the depreciation costs of the sea vessels like yachts, cutters, boats, speed boats, and the air vessels like airplanes and helicopters that are rented by or registered to the enterprise's name, and which are not associated with the main field of activities of such enterprise,
- Except for the penalties stipulated in the contracts, material damages and compensations for pain and suffering incurred as the result of offences of the corporation itself, its shareholders, directors and employees,
- Material damages and compensations for pain and sufferings paid upon offences committed by use of press or upon radio and television programs,
- 50% of the advertisement costs for all kinds of alcohol and alcoholic beverages as well as tobacco and tobacco products.

2.4.Exemptions and Exceptions

Exceptions on corporate income are regulated in Article 5 of the CIT Law, such as:

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- The CIT Law provides a participation exception for dividends derived by companies from Turkish (resident) participations (Art. 5/1-a) and from foreign participations (Art. 5/1-b). Dividends qualifying for the participation exception are fully exempt from corporate income tax,
- 75% of capital gains derived by corporate taxpayers from the disposal of shares owned for at least two years qualify for tax exception (Art. 5/1-e).

Exemptions on certain entities are regulated in Article 4 of the CIT Law, such as:

- Domestic, national and international exhibitions and fairs that are opened by the public administrations and establishments, with the permission of local authorities,
- Retirement and aid funds and social security institutions that are established under law.

2.5. Deduction of Losses

According to Article 9 of the CIT Law, the following losses can be deducted when determining the corporation tax base, by indicating each year's sum separately in the corporation tax return.

- The losses as indicated in the past years' tax returns – not exceed 5 years,
- The losses from the activities at abroad transferred for not more than 5 years, and excluding those related to the earnings that are exempted from corporation tax here in Turkey, can be deducted only if and when;
 - The tax base – including the loss – declared under the tax laws of the country in which the activities took place, has been reported by a duly authorized audit firm of such country, and
 - The original and a translated copy of that report have been submitted to the pertinent tax office in Turkey.

2.6. Corporate Tax Return

Similar to personal income tax, the corporate income tax is also assessed on the base declared through tax returns filled annually by taxpayers. Tax returns contain the results of related taxation period. In principle, every taxpayer is required to file single tax return, even if he has derived the income through different business places or branches and those places and branches have their own accounting and allocated capital.

The annual tax return is applicable for the reporting of net corporate profits realized in the course of one accounting period. The corporate tax return shall be submitted to the tax office, which the taxpayer is affiliated to, starting from the first day until the evening of the 25th day of the 4th month following the closing month of fiscal period. The corporate income tax must be paid by the end of the month that the tax return is submitted. Non-resident foreign corporations use special tax return for reporting certain profit and earnings. Special tax return must be given within 15 days from the obtainment of earnings and profit. (This procedure is called "Special Tax Return".)

Those who are obliged to make tax withholding are required to file a brief tax return to tax office associated with the place of payment or accrual of the payments which they have made

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during the month, or the profits and revenues on which they have caused accrual, as well as of the taxes which they have withheld from these, by the evening of the 23rd day of the following month and they should pay by the evening of the 26th day of this month. (This procedure is called "Withholding Tax Return".)

2.7.Tax Rates

CIT is applied at 20% rate on the corporate earnings.

Taxpayers (only for income from commercial activities and agriculture in limited tax liability cases) pay provisional tax at the rate of corporate income tax; these payments are deducted from corporate income tax of current period.

- ❖ In 2015, 8.19% of the General Budget Tax Revenues comes from CIT and the total amount of tax revenues derived from CIT is 33.388.007.000 TL (Turkish Lira).

C. TAXES ON GOODS AND SERVICES

Turkish taxation system comprises several indirect taxes, but the most important ones are value added tax and special consumption tax (also called excise duty).

1. VALUE ADDED TAX

(Law No. 3065, Official Gazette No. 18563 dated 02.11.1984)

In Turkey, the Value Added Tax (VAT) Law entered into force on January 1st, 1985. By the VAT Law, some indirect taxes on consumption were abolished.

Turkish taxation system levies value added tax on the supply and the importation of goods and services. Liability for VAT arises;

- (a) When a person or entity performs commercial, industrial, agricultural or independent professional activities within Turkey,
- (b) When goods or services are imported to Turkey.

VAT is levied at each stage of the production and the distribution process. However; liability for the tax levies on the person who supplies or imports goods or services, the real VAT burden is on the final consumer. This result is achieved by a tax-credit method where the computation of the VAT liability is based on the difference between the VAT liability of a person on his sales (output VAT) and the amount of VAT that he has already paid on his purchases (input VAT). The Turkish VAT system employs multiple rates and the Council of Ministers is authorized to change the VAT rates within certain limits.

1.1.VAT Taxpayers

VAT taxpayers are defined in the VAT Law as those engaged in taxable transactions, irrespective of their legal status or nature and their position with regard to other taxes.

The following people or entities are liable to VAT:

- Those supplying goods and services,

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- Those importing goods or services,
- Those required to complete customs formalities in case of transit of goods through Turkey,
- General Directorates of Postal Services (PT and Telecom) and radio and television corporations,
- Organizers of any kind of chance and gambling,
- Organizers of shows, concerts and sporting events with the participation of professional artists and professional sportsmen,
- Lessors of goods and rights stated in Article 70 of the PIT Law,
- Applicants for optional tax liability.

Goods and rights set out in Article 70 of the PIT Law including immovable property such as land, buildings, mines and rights which are in the nature of immovable property and other goods and rights such as all kinds of motor vehicles, machines and equipment, ships, literary, artistic and commercial copyrights, commercial or industrial know-how, patents, trademarks, licenses and similar intangible properties and rights.

1.2.VAT Responsibility and Reverse Charge VAT

In the event that the taxpayer is not resident or does not have a place of business, a legal head office or place of management in Turkey, or in other cases deemed necessary, the Ministry of Finance is authorized to hold anyone involved in a taxable transaction responsible for the payment of tax.

According to the VAT Law, there is a so-called reverse charge VAT mechanism, which requires the calculation of VAT by resident companies over payments to abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company or customers on behalf of the non-resident company (foreign company). On the other hand, the local company treats this VAT as input VAT and offsets it in the same month.

- Toll-manufacturing and ready-made materials (textiles) are subject to partial withholding: Only 50% of the calculated VAT is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 50% of calculated VAT to the tax office directly.
- Junk metal, waste paper, junk plastic material deliveries are exempt from VAT: In the case of the renouncement of the above mentioned exemption, the purchaser pays 50% of the calculated VAT to the seller. Therefore, the purchaser will be responsible for paying 50% of the calculated VAT to the tax office directly.

1.3.Taxable Base

The taxable base of a transaction is generally the total value of the consideration received, not including the VAT itself. The VAT Law deals with the taxable base under four headings, namely the taxable base on deliveries and services, on importation, on international transportation, and special types of taxable base.

In case a consideration does not exist, is unknown or is in a form other than money, the taxable base is the market value. Market value is the average price payable in the market for similar goods and services and is determined with reference to the Tax Procedure Law.

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1.4.Exclusions from the Taxable Base

The following elements are not included in the taxable base:

- a) Discounts, in amounts in compliance with customary commercial practices, in transactions of delivery and service shown on invoices and similar documents,
- b) The VAT calculated.

1.5.Tax Rates

1.5.1.Standard Rate

The standard rate of VAT on taxable transactions is set at 10% in the VAT Law, but this rate was increased to 18% as of 15 May 2001.

1.5.2.Special Rates

- For the deliveries and services mentioned in List No. I 1% (e.g. agricultural products such as raw cotton, dried hazelnuts),
- For the deliveries and services mentioned in List No. II 8% (e.g. basic food stuffs, books and similar publications).

1.6.The Credit Mechanism

VAT is collected at every stage of the production and distribution process from the initial sale by the producer to the final sale to the consumer. At each of these stages, the amount of tax payable is the difference between the total amount of tax charged on the invoices issued by the taxpayer and the total amount of tax charged on invoices issued to the taxpayer during the same period. Thus, the VAT is initially computed by applying the appropriate rate of taxation to the taxable base for goods and services supplied by the taxpayer during a taxable period. This amount is then reduced by a credit for VAT previously paid on importation and on goods and services supplied to the taxpayer.

1.7.Non-deductible VAT (Cost or Non-deductible Item or Capitalized)

In the following cases, VAT may not be credited from the VAT computed on taxable transactions.

- a) VAT on purchases of cars (which should be recorded as an expense or cost) except for businesses related with lease or operation of cars),
- b) Missing and stolen stocks,
- c) VAT on expenses accepted as non-deductible in determining income according to the PIT and the CIT Laws,
- d) Input VAT on exempt deliveries listed in Article 17 of the VAT Law [excluding Article (17/4-s)].

1.8.VAT Refund

VAT (input VAT) shown on invoices and similar documents related to the transactions which are exempt from the tax, such as:

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- Exportation of goods and services,
- Exemption in vehicles, precious metals and oil prospecting activities and national security expenditure and investments made under an investment incentive certificate (IIC),
- Transit transportation,
- Diplomatic exemption

are deducted from the VAT (output VAT) to be calculated on the transactions of the taxpayer which are subject to VAT.

In the absence of transactions subject to VAT, or if the output VAT is less than the input VAT, then the input VAT which cannot be deducted is refunded to those who perform such transactions, on the basis of principles to be determined by the Ministry of Finance.

- ❖ In 2015, 29.64% of the General Budget Tax Revenues comes from VAT (on imports and exports) and the total amount of tax revenues derived from VAT (on imports and exports) is 120.801.542.000 TL (Turkish Lira).

2. SPECIAL CONSUMPTION TAX

(Law No. 4760, Official Gazette No. 24783 dated 12.06.2002)

2.1.General Explanations

Special consumption tax (SCT) is levied only for once at one stage of consumption process of the goods within the scope of four lists annexed to the SCT Law No. 4760.

The goods subject to tax are indicated as tariff codes generating from Turkish Customs Tariff Nomenclature (TCTN). TCTN is in compliance with the Combined Nomenclature which is the international classification system for goods.

There are mainly four product groups that are subject to SCT at different tax amounts or rates.

- List (I) is related to petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents,
- List (II) is related to land, air and sea vehicles (cars and other vehicles, motorcycles, planes, helicopters, yachts etc.),
- List (III) is related to alcoholic beverages and cola soda pops, cigarettes and other tobacco products,
- List (IV) is related to other consumption goods (caviar, furs, mobile phones, white goods and other electrical household machines etc.).

2.2.Taxpayers of the SCT

Taxpayers vary by list and transaction as follows:

- For List (I), manufacturers including refineries or importers of the petroleum products,
- For List (II), traders of motor vehicles, importers for their use (not for selling) or sellers of untaxed vehicles through auction,
- For List III, manufacturers and importers of the goods or sellers of untaxed goods through auction,

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- For List IV, manufacturers and importers of the goods or sellers of untaxed goods through auction.

2.3. Taxation of the Goods in List (I) Annexed to the SCT Law

The List (I) annexed to the Law consists of two tables: Table (A) and Table (B).

Table (A) is composed of petrol, diesel, fuel oil, natural gas and LPG while solvents, thinner and mineral oils (lubricating oils) are within the scope of Table (B).

Coal and coke, and electricity are not within the scope of the Law.

2.3.1. Taxable Event for Goods in List (I)

For the goods laid down in List (I) taxable event does not occur at the time of importation but at the domestic delivery of the goods.

Delivery means the transfer to recipient or to those acting on behalf of him, the right of disposition of property by the owner or by those acting on behalf of him.

Importation means the entry of goods subject to excise duty into the customs territory of the Republic of Turkey.

On the other hand, at the stage of importation, guarantee is required for corresponding duty that becomes payable in Turkey.

2.3.2. Exemptions

Exemptions for the goods within List (I) are:

- Exportation exemption,
- Diplomatic exemptions,
- Supply of goods destined for export,
- Energy products delivered to the armed forces,
- Energy products used for petroleum exploration and production activities,
- Free of charge delivery of the goods which have been disposed according to the Customs Law to the public institutions in case of disasters, infectious diseases and similar circumstances,
- Exemption on diesel for the vehicles leaving Turkey for export.

2.3.3. Tax Amount

Tax shall be collected according to the amounts stated in List (I) annexed to the Law.

The specific excise duty amounts determined for goods in the List No: (I) can be defined with kilogram, liter, meter cube, standard meter cube, kilo calorie, their sub and over units and if necessary can be defined as containers, wraps or units considering their size.

The Council of Ministers is authorized to change the amounts within the limits indicated in the Law.

2.3.4. Declaration, Assessment and Payment of Duty

SCT is assessed and collected upon declaration of taxpayers

There are two taxation periods in a month. The first taxation period is the first 15 days of each

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month and the second taxation period is the remaining part of the month.

Tax return is submitted electronically to the tax office by the end of 10th day following the end of the taxation periods and the tax shall be paid within periods of submission of the return.

2.3.5. Deferment and Cancellation

The SCT of the good within the scope of List (I) delivered to the exporters for the purpose of exportation is assessed, accrued and then deferred by related tax office upon the request of taxpayers, provided that tax is not collected by these taxpayers from exporters.

Deferred tax is then cancelled when the goods have been exported within 3 months as of the first day of the month following the date of delivery to the exporter.

2.3.6. Tax Deduction

If any good subject to SCT within List (I) is used in manufacturing of other goods in the same list, tax paid shall be deducted from due tax.

2.4. Taxation of the Goods in List (II) Annexed to the SCT Law

Vehicles like haulers for half-trailers, cars and vehicles designed for transport of persons, vehicles designed for transport of goods, vehicles for special purposes, motorcycles, helicopters, planes, ships, yachts, vessels for entertainment and sport are within the scope of List (II) annexed to the Law. Components and part of these goods are not subject to special consumption tax.

For the purposes of taxation, vehicles are classified according to necessity of entry and registration. Land, air and sea vehicles are recorded and registered by traffic registration institutions, General Directorate of Civil Aviation and municipalities or port authorities respectively.

2.4.1. Taxable Event for Vehicles Subject to Entry and Registration

First acquisition is the taxable event for vehicles subject to entry and registration such as cars, buses, trucks, motorcycles, airplanes, helicopters, ships, yachts etc.

In terms of special consumption tax, first acquisition means, in respect of the vehicles which have not already been recorded and registered in Turkey, the importation, acquisition by auction, acquisition from the merchants of motor vehicles or being started to be used or capitalized by merchants of motor vehicles or registered in the name of them.

2.4.2. Taxable Event for Vehicles Not Subject to Entry and Registration

Taxable event occurs at the time of their delivery, importation or public auction.

Delivery means the transfer to recipient or to those acting on behalf of him, the right of disposition of property by the owner or by those acting on behalf of him.

Importation means the entry of goods subject to excise duty into the customs territory of the Republic of Turkey.

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2.4.3. Exemptions

Exemptions for the goods within List (II) are:

- Exportation exemption,
- Diplomatic exemption,
- Importation exemption (only for the goods which are free of customs duty),
- Exemption for the goods subject to regimes (transit, customs warehouse, inward processing, customs control, free zones and provisional warehousing) generating from the Customs Law No. 4458,
- Exemption on the first acquisition of certain motor vehicles by disabled persons,
- Exemption on the first acquisition of planes and helicopters by Turkish Aeronautical Association,
- Exemption on the first acquisition of all vehicles in List (II) by Headquarter of Prime Ministry,
- Exemption on the first acquisition of 8701.20, 87.04, 87.05 and 87.09 Combined Nomenclature (CN) coded vehicles within List (II) for the purpose of petroleum exploration.

2.4.4. Deferment and Cancellation

The excise duty of the vehicles delivered to the exporters for the purpose of exportation is assessed, accrued and then deferred by related tax office upon the request of taxpayers provided that the duty are not collected by these taxpayers from exporters.

Deferred duty is then cancelled when the vehicles have been exported within 3 months as of the first day of the month following the date of delivery to the exporter.

2.4.5. Tax Deduction

If any vehicle subject to SCT within List (II) is used in manufacturing of other vehicles in the same list, tax paid shall be deducted from due tax.

2.4.6. Rates

Tax shall be collected according to the proportional rates stated in List (II) annexed to the Law. The Council of Ministers is authorized to change the rates and/or amounts within the limits indicated in the Law.

2.4.7. Declaration, Assessment and Payment of Duty

SCT is assessed and collected upon declaration of taxpayers.

Tax return for the vehicles subject to entry and registration is submitted electronically to the tax office just before the end of first acquisition and tax is paid on the same day.

On the other hand, tax return for the vehicles not subject to entry and registration tax is submitted electronically to the tax office by the 15th day of the month following the end of the month. Tax is paid within the period of submission.

2.5. Taxation of the Goods in List (III) Annexed to the SCT Law

The List (III) annexed to the Law consists of two tables: Table (A) and Table (B).

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Table (A) is composed of cola soda pops and alcoholic beverages while cigarettes and other tobacco products are within the scope of Table (B).

2.5.1. Taxable Event for the Goods in List (III)

Taxable event occurs at the time of their delivery by their manufacturers, importation or sale at public auction before tax is applied.

Delivery means the transfer to recipient or to those acting on behalf of him, the right of disposition of property by the owner or by those acting on behalf of him.

Importation means the entry of goods subject to excise duty into the customs territory of the Republic of Turkey.

2.5.2. Exemptions

Exemptions for the goods within List (III) are:

- Exportation exemption,
- Diplomatic exemption,
- Importation exemption (only for the goods which are free of Customs Duty),
- Exemption for the goods subject to regimes (transit, customs warehouse, inward processing, customs control, free zones and provisional warehousing) generating from the Customs Law No. 4458.

2.5.3. Deferment and Cancellation

The excise duty of the vehicles delivered to the exporters for the purpose of exportation is assessed, accrued and then deferred by related tax office upon the request of taxpayers provided that the duty are not collected by these taxpayers from exporters.

Deferred duty is then cancelled when the vehicles have been exported within 3 months as of the first day of the month following the date of delivery to the exporter.

2.5.4. Tax Deduction

If any good subject to SCT within List (III) is used in manufacturing of other goods in the same list, tax paid shall be deducted from due tax.

2.5.5. Rate or Amount

Tax shall be collected according to the rates and/or amounts stated in List (III) annexed to the Law. The Council of Ministers is authorized to change the rates and/or amounts within the limits indicated in the Law.

Proportional taxation method is used in calculating SCT on cigarettes and other tobacco products. Nevertheless, tax on cigarettes and other tobacco products calculated on proportional basis cannot be less than the tax amount calculated according to minimum specific tax amounts.

Minimum specific tax amount is levied for each piece of cigarette in a packet and per gram of other tobacco products.

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Specific tax amount per one packet of cigarettes and per 50 gram of other tobacco products is finally calculated in order to determine total special consumption tax.

For alcoholic beverages, proportional taxation is the principal method but tax calculated cannot be less than the tax amount calculated according to minimum specific tax amounts. In practice, tax on beer is calculated by the application of both proportional and specific method taking account of alcohol degree in one liter of product, providing that the proportional calculation cannot be less than the tax amount calculated according to minimum specific tax amounts. SCT on other goods, except beer, is calculated solely on the basis of minimum tax amounts, because of the fact that the proportional rates are determined as zero (0).

Minimum specific tax amount levied on alcoholic beverages varies by goods such as considering the degree of alcohol in one liter of the product (beer or wine, etc), or liter of pure alcohol contained in the product (whisky, vodka etc.).

Tax on cola soda pops is calculated on proportional basis without any minimum specific tax amount.

2.5.6. Tax Base

Tax base for cigarettes and other tobacco products is retail selling price of these goods to final customers including VAT. Tax base for importation of cigarettes and tobacco products shall also be the retail selling price of these goods.

Tax base for alcoholic beverages, cola and soda pops is VAT tax base excluding SCT.

2.5.7. Declaration, Assessment and Payment of Duty

SCT is assessed and collected upon declaration of taxpayers.

Tax return is submitted electronically to the tax office until the 15th day of the month following the end of the taxation period and the tax shall be paid within period of submission of the tax return.

2.6. Taxation of the Goods in List (IV) Annexed to the SCT Law Scope

The List (IV) consists of goods such as caviar, cosmetics, fur, air conditioner, heater, white goods, mobile phone, television, camera, sound and image recorders, revolver etc.

2.6.1. Taxable Event for the Goods in List (IV)

Taxable event occurs at the time of their delivery by their manufacturers, importation or sale at public auction before tax is applied.

2.6.2. Exemptions

Exemptions for the goods within List (IV) are:

- Exportation exemption,
- 9302.00 ve 93.03 CN coded goods delivered to Ministry of Defence, Gendarmerie, Coast Guards, National Intelligence, Police and Customs Guards,
- Goods delivered to public institutions without any charge,
- Importation exemption, (only for the goods which are free of customs duty)

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- Exemption for the goods subject to regimes (transit, customs warehouse, inward processing, customs control, free zones and provisional warehousing) generating from the Customs Law No. 4458.

2.6.3. Deferment and Cancellation

The SCT of the good within the scope of List (IV) delivered to the exporters for the purpose of exportation is assessed, accrued and then deferred by related tax office upon the request of taxpayers, provided that tax is not collected by these taxpayers from exporters.

Deferred tax is then cancelled when the vehicles have been exported within 3 months as of the first day of the month following the date of delivery to the exporter.

2.6.4. Tax Deduction

If any good subject to SCT within List (IV) is used in manufacturing of other goods in the same list, tax paid shall be deducted from due tax.

2.6.5. Rate

The tax shall be collected according to the rates stated in List (IV) annexed to the Law. The Council of Ministers is authorized to change the rates and/or amounts within the limits indicated in the Law.

Taxation is proportional for the goods, all but one in List (IV): minimum tax determined is applied only for mobile phones. Tax on mobile phones calculated on proportional basis cannot be less than the tax amount calculated according to minimum tax amounts.

2.6.6. Tax Base

Tax base for the goods of List (IV) is VAT tax base excluding SCT.

2.6.7. Declaration, Assessment and Payment of Duty

SCT is assessed and collected upon declaration of taxpayers.

Tax return is submitted electronically to the tax office until the 15th day of the month following the end of the taxation period and the tax shall be paid within period of submission of the return.

- ❖ In 2015, 25.98% of the General Budget Tax Revenues comes from SCT and the total amount of tax revenues derived from SCT is 105.902.496.000 TL (Turkish Lira).

3. SPECIAL COMMUNICATION TAX

(Law No. 6802, Official Gazette No. 9362 dated 23.07.1956)

Telecommunication services are subject to special communication tax. This tax is not included in the VAT base.

Special communication tax rates are as follows:

- On mobile electronic communication services (including the sales for pre-paid lines) %25,
- The services regarding the transmission of radio and television broadcasts on satellite platforms and cable medium 15%,

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- The internet providing services by wired, wireless and mobile 5%,
- Electronic communication services not listed above 15%.

Tax payers are the operators who provide the electronic communication services.

The tax base for special communication tax is the same as the VAT base. Tax payers will declare the communication tax on the VAT returns and pay the accrued tax by the 15th day of the following month. Special communication tax is not deductible for income and corporate tax purposes.

- ❖ In 2015, 1.16% of the General Budget Tax Revenues comes from special communication tax and the total amount of tax revenues derived from special communication tax is 4.731.654.000 TL (Turkish Lira).

4. BANKING AND INSURANCE TRANSACTIONS TAX

(Law No. 6802, Official Gazette No. 9362 dated 23.07.1956)

The subject of the tax is transactions and services performed by banks, bankers and insurance companies.

Taxpayers are banks, bankers and insurance companies.

All transactions and services performed by banks and insurance companies are subject to banking and insurance transactions tax (BITT) regardless of the nature of the transaction. There will be the tax upon the money, which they collect under the name of interest, commission and expenditure because of the services they performed on behalf of them. Bankers' certain transactions and services performed and stated in the Law No. 6802 are the subject of the Tax. These are the bankers' transactions and services. Other transactions of bankers are subject to VAT.

The transactions of 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 or cost for recovery purposes.

The general BITT rate is 5% and some specific transactions are taxed at 1%. In addition, foreign exchange transactions are subject to 0 (zero) BITT according to the Council of Ministers Decision since 2008.

Taxation period in BITT is each month of the calendar year. Taxpayers declare their taxable transactions and pay their taxes by the evening of the 15th day of the following month.

- ❖ In 2015, 2.25% of the General Budget Tax Revenues comes from BITT and the total amount of tax revenues derived from BITT is 9.171.600.000 TL (Turkish Lira).

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D. TAXES ON PROPERTY

1. INHERITANCE AND GIFT TAX

(Law No. 7338, Official Gazette No. 10231 dated 15.06.1959)

Turkish citizens are subject to inheritance and gift tax on worldwide assets received. Resident foreigners are subject to inheritance and gift tax on worldwide assets received from Turkish citizens and on assets located in Turkey received from resident foreigners or nonresidents. Nonresident foreigners are subject to inheritance and gift tax on assets located only in Turkey. Items acquired as gift or through inheritance are subject to a progressive tax rate ranging from 10% to 30% and 1% to 10%, respectively, of the item's appraised value. Tax paid in a foreign country on inherited property is deducted from the taxable value of the asset.

Inheritance and Gift Tax is payable in biannual installments over a period of 3 years.

- ❖ In 2015, 0.10% of the General Budget Tax Revenues comes from inheritance and gift tax and the total amount of tax revenues derived from inheritance and gift tax is 435.253.000 TL (Turkish Lira).

2. PROPERTY TAX

(Law No. 1319, Official Gazette No. 13576 dated 11.08.1970)

The buildings and lands in Turkey are subject to property tax. The tax base for the property tax is the tax value of the building/land according to the Property Tax Law No. 1319. Property taxes are calculated annually by related municipality based on the tax values of land and buildings at rates varying from 0,1% to 0,3%.

These rates are increased by 100% within the frontiers of metropolitan municipality.

The taxpayer is the owner of the building/land, the owner of any usufruct over the building/land or if neither of these exists any person that uses the building/land is considered as its owner.

Property tax liability begins following budget year in the case of acquiring property/change in situation of property or end of exemption.

It is compulsory that a property tax declaration is submitted to the related municipality where the building and land is located in case there is a reason for modification of tax value.

Property tax is paid annually to local municipalities in two equal installments; the first is paid at any time during the period from March through May, and the second in November. Payment can be made at banks, by cheque, online and in cash.

3. MOTOR VEHICLE TAX

(Law No. 197, Official Gazette No. 11342 dated 23.02.1963)

Land motor vehicles registered to traffic bureaus or offices, also helicopters and airplanes registered to the Directorate General of Civil Aviation are subject to the Tax.

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Taxpayers are real and legal person who have motor vehicles that are registered to their own names in the traffic register and the civilian air-vehicle register maintained by the Ministry of Transportation, Maritime Affairs and Communications.

Tax is assessed and accrued annually in the beginning of January.

The motor vehicle taxes are paid in two equal installments, in January and July, every year.

Motor vehicles are classified into three categories in terms of motor vehicle tax:

- List 1 : cars, motorcycles and terrain vehicles etc.
- List 2 : minibuses, panel vans, motorized caravans, busses, trucks etc.
- List 3 : planes and helicopters

The amount of motor vehicle tax for land transportation vehicles is determined according to their age, type, number of seats, cylinder capacity, maximum gross weight and for planes and helicopters is determined according to their maximum takeoff weight.

- ❖ In 2015, 2.19% of the General Budget Tax Revenues comes from motor vehicle tax and the total amount of tax revenues derived from motor vehicle tax is 8.948.552.000 TL (Turkish Lira).

E. OTHER TAXES

1. STAMP TAX

(Law No. 488, Official Gazette No. 24783 dated 12.06.2012)

Stamp tax applies to a wide range of documents, including but not limited to, contracts, agreements, notes payable, letters of credit and letters of guarantee, financial statements and payrolls. Stamp tax is levied according to the type of documents at different tax rates or lump-sum amount listed in Annex I of the Stamp Tax Law.

Documents exempt from stamp tax are listed in Annex II of the same Law. The Law provides that each relevant party shall be responsible for payment of the total amount of stamp tax on the agreements. Each original document is separately subject to stamp tax.

- ❖ In 2015, 2.95% of the General Budget Tax Revenues comes from stamp tax and the total amount of tax revenues derived from stamp tax is 12.043.299.000 TL (Turkish Lira).

2. GAMBLING TAX

(Law No. 5602, Official Gazette No. 26469 dated 21.03.2007)

The subjects of the Tax are bettings, lotteries and other forms of gambling. Taxpayers are organizers of gambling activities and proportional taxation is applied in gambling tax. Taxation period in gambling tax is each month of the calendar year.

Taxpayers declare their taxable transactions and pay the accrued tax by the evening of the 20th day of the following month. Gambling tax is not deductible for income and corporate tax purposes.

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- ❖ In 2015, 0.20% of the General Budget Tax Revenues comes from gambling tax and the total amount of tax revenues derived from gambling tax is 842.177.000 TL (Turkish Lira).

3. CUSTOMS DUTY

(Law No. 4458, Official Gazette No. 23866 dated 04.11.1999)

Goods imported from abroad are the subject of customs duty. Taxable events are free circulation of goods, registration of customs declaration, and temporary importation in case of partial exemption.

Taxpayer is principally person who declare to the customs office. Customs duties are assessed on written declaration given by the taxpayer and paid within 10 days dating from notification.

- ❖ In 2015, 2.02% of the General Budget Tax Revenues comes from customs duty and the total amount of tax revenues derived from customs duty is 8.250.213.000 TL (Turkish Lira).

4. FEES

(Law No. 492, Official Gazette No. 11756 dated 17.07.1964)

There are different types of fees: Judgment Fees, Notary Fees, Tax Judgment Fees, Title Deed Fees, Consulate Fees, Ship and Harbor Fees, Permit of License and Certificate Fees, Traffic Fees, Passport, Visa and Ministry of Foreign Affairs Certification Fees. Mentioned fees are taken at different rates or fixed price.

- ❖ In 2015, 4.16% of the General Budget Tax Revenues comes from fees and the total amount of tax revenues derived from fees is 16.965.786.000 TL (Turkish Lira).

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