CORPORATE TAX

Introduction

Corporate tax is levied on the income and earnings generated by corporations and similar business entities. Starting from October 1st, 2023, the standard corporate tax is levied at a flat rate of 25%. In terms of the companies in finance, insurance, capital markets, or electronic payments sectors, the applicable tax rate is 30%.

This article aims to provide a basic overview of corporate tax by selecting the most common topics applicable to all potential investors. Sector-specific regulations are intentionally left outside.

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Entities Liable for Corporate Tax

The following entities are subject to corporate tax;

a) Joint Stock Companies,
b) Limited Liability Companies,
c) Other types of Companies with Share Capital and Similar Foreign Companies,
d) Co-operative Companies,
e) Branch Offices of Foreign Entities,
f) Public Economic Enterprises,
g) Economic Enterprises owned by Foundations and Associations, and
h) Joint Ventures.

Sole proprietorships and partnerships formed by real persons are not subject to corporate tax. Profits earned by such set-ups are attributed to their individual partners and then taxed in the context of their personal income tax bills.

Territorial Scope of Liability

Taxable income and earnings of corporate taxpayers are determined based on where the principal place of business is located:

Full Taxpayer Status: A corporate taxpayer with its registered head office or actual business centre in Türkiye is qualified as a "resident" and subject to taxation on its global income. For example, foreign-owned subsidiaries established in Türkiye are regarded as full taxpayers.

Limited Taxpayer Status: If neither the registered head office nor the actual business centre is located in Türkiye, the corporate taxpayer is qualified as a "non-resident" and liable for corporate tax merely on the income generated in Türkiye. For instance, a non-resident company conducting business in Türkiye through a branch office, or a joint venture has limited tax liability.

Taxable Income

Basically, taxable income is the pecuniary difference in the net worth of assets between two successive fiscal years. Turkish companies often compute their taxable income first by making statutory adjustments mainly to eliminate capital items, then by adding non-deductible expenses over the net business income and deducting tax-exempt income together with losses to be carried forward.

Deductions

Net business income is computed by way of deducting the expenses associated with the operation of the business, from the gross revenue generated by the business. In general, all the ordinary and necessary expenses paid or incurred for generating and maintaining revenue may be deducted. Following are the major examples of deductible expenses;

a) Expenses related to incorporation and registration,
b) General Operating Expenses (e.g., employee salaries, pensions, interest),
c) Travel expenses (including meals and lodging),
d) Real Estate Tax, Stamp Duty, Municipal Taxes,
e) Royalty payments for the use of intellectual property, i.e., patents, trademarks, copyrights, know-how,
f) Research &Development (R&D) expenses,
g) Donations to government offices, municipalities, associations that pursue the public interest, foundations, and scientific R&D organizations (up to 5% of taxable income),

h) Sponsorship expenses for amateur and professional sport activities,
i) Losses incurred during the previous 5 years, and
j) Depreciation.

In terms of branch offices of foreign entities, expenses incurred by head offices can be deducted from the branch office's revenue, provided that such expenses are directly associated with the business activities of the branch office in Türkiye.

Participation Exemption

Participation exemption can simply be defined as the exemption of shareholders from taxation on dividends. The justification for a participation exemption is to eliminate double taxation of shareholders.

"... dividends received by a company from its participation are fully exempt from corporate tax, provided that both entities are resident in Türkiye."

According to Turkish law, dividends received by a company (e.g., holding company) from its participation (e.g., subsidiaries, partly-owned companies, etc.) are fully exempt from corporate tax, provided that both entities are resident in Türkiye.

On the other hand, dividends paid out by participations outside Türkiye are exempt from taxation, if the following conditions are met;

a) The Turkish company must own at least 10% of the paid-in capital of the foreign company for an uninterrupted period of at least 1 year as of the date of receiving the dividend,
b) The foreign company must be either a Joint Stock Company or a Limited Liability Company,
c) The foreign company must be subject to corporate tax at an effective rate of not less than 15%, and
d) Dividends must be transferred to Türkiye before the date of filing of the annual corporate tax return.

Dividends paid out by overseas branches of Türkiye-based companies are also in the scope of this exemption under the above conditions.

Capital Gains Exemption

Capital gains derived by resident and non-resident companies, including branch offices of foreign companies, are generally taxable as ordinary income.

Nevertheless, 75% of the capital gains, resulting from disposal of shares in domestic participations, are exempt from corporate tax.

Besides, 25% of the capital gains derived from sale of real estate are exempt from corporate tax, provided that the real estate subject to sale was included in the company's assets before July 15th, 2023. This exemption is no longer applicable for the real estate that has been acquired by the corporate taxpayer after the said date.

The company may enjoy the above exemptions if the following conditions are met;

a) The shares/real estate must be under possession for not less than 2 years.
b) Sales revenue must be collected until the end of the second calendar year following the year of the sale transaction.
c) Sales revenue must be maintained in a special reserve account for not less than 5 years.
d) Exempted revenue cannot be transferred to another account within 5 years [unless transferred to the capital account for capital injection purposes].
e) The company cannot be liquidated within 5 years.

However, companies whose ordinary business involves the trading of domestic participation or trading of real estate cannot enjoy this exemption.

Withholding Tax on Dividends

When dividends are distributed to shareholders, companies are required to make a withholding, at a rate of 10%, from the dividends. Dividends paid out to individual shareholders and overseas companies are within this scope. Dividends distributed to Türkiye-based companies, however, are not subject to withholding tax, as considered within the framework of the participation exemption.

Withholding Tax on Branch Profits

A withholding tax at a rate of 10% is levied on the profits generated by branch offices of foreign companies upon transfer of such profits to company headquarters. The withholding tax is imposed on the distributable (net) branch profits following the deduction of corporate tax.

Tax Returns

As in many jurisdictions, the accounting year starts on January 1st and ends on December 31st. Annual tax returns must be filed at the related tax office within the 4th month following the end of the respective accounting year.

In addition, corporate taxpayers are required to file provisional tax returns, through which the corporate tax is paid in advance, for actual quarterly profits generated within the accounting year. The tax rate applied in provisional returns is not different from the standard corporate tax rate, which is 25%.

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Quarterly payments are offset against the final tax declared on the annual tax return. In case the total amount of quarterly payments exceeds the annual tax, the excessive amount can be offset against other tax liabilities or refunded upon request within one year in the absence of such liabilities.

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