

INCOME TAX

Introduction

Income tax (or personal income tax) is levied on the income and earnings of real persons. Turkish Income Tax Law defines income as the net amount of the revenues and earnings acquired by an individual in a calendar year.

As partnerships do not have legal personality apart from their partners under Turkish law, the partners, instead of the partnership, are individually subject to income tax on their share of the profits.

Liability

Income taxpayers are divided into two sub-categories under the Turkish tax system: resident taxpayers and non-resident taxpayers.

The liability of **resident taxpayers** is unlimited, i.e. they have to pay tax on their income regardless of being derived in Türkiye or elsewhere.

The following persons are treated as resident taxpayers according to the Turkish Income Tax Law;

- a) Persons who permanently reside in Türkiye,
- b) Persons who stay in Türkiye for more than six months in a calendar year, and
- c) Turkish nationals who work abroad either for a governmental body of the Republic of Türkiye or a company headquarter of which is in Türkiye.

Non-resident taxpayers, on the other hand, are those persons who do not reside in Türkiye but engage in an income-generating activity or own a property within Türkiye.

The persons who have the following earnings and revenues, *inter alia*, are considered as non-resident taxpayers according to the Turkish Income Tax Law:

- a) (Commercial) Income generated through a permanent establishment or a permanent representative in Türkiye,
- b) Wages earned through providing services within Türkiye,
- c) Rental income from real property in Türkiye, etc.
- d) Foreigners who come to Türkiye for temporary engagements (businesspersons, scientists, journalists, etc.) or educational, medical, or touristic purposes will not be considered resident taxpayers even if they stay in Türkiye for six months or more in a calendar year. However, the revenues and earnings generated in Türkiye by such persons, unless they enjoy a specific exemption, are subject to income tax. (i.e., these persons are considered non-resident taxpayers).

As seen from the above examples, the liability of non-resident taxpayers is limited with their income generated in Türkiye only.

Taxable Income

The income of an individual, within the meaning of Turkish tax regulations, may be subject to income tax provided that it is derived from one or more of the following types of income:

- a) Commercial income,
- b) Agricultural income,
- c) Salaries and wages, (provided that certain conditions are met, the salaries of the liaison office employees are not subject to income tax.)
- d) Income from independent professional activities,
- e) Income from immovable property and rights (e.g. rent),
- f) Income obtained from capital investment (e.g. interest payments and dividends), and
- g) Other revenues and earnings. (e.g. income derived from the sales of patents).

Capital Gains

Gains obtained from the disposal of securities are among the capital gains in Income Tax Law. Accordingly, the gains obtained from the disposal of equities are subject to income tax. However, joint stock company shareholders may avail of a specific tax exemption within the context of Income Tax Law.

“... it is permissible to deduct various expenses from the gross income when calculating the taxable income of an individual.”

Namely, in case of gratuitous acquisition of the equity, the gains obtained from the disposal of this equity are not subject to income tax. Furthermore, if a joint stock company shareholder disposes of his/her equity issued by a resident company, after holding it for a minimum period of 2 years, the capital gains derived from such disposal will not be subject to income tax either. It should be noted that such exemption does not apply to capital gains made as a result of transferring the shares of limited liability companies. So, when a real person shareholder transfers the shares of a limited liability company, no matter how long such shares have been held, the capital gains made from such transfer are subject to income tax.

Deductions

Under Turkish Income Tax Law, it is permissible to deduct various expenses from the gross income when calculating the taxable income of an individual.

There are many expense items that can be deducted from the gross incomes of the individuals. In order to give a general idea to the reader, the below-mentioned deductibles are given here as examples:

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Business-related expenses of the individuals who engage in commercial activities (rental payments, utility costs, membership fees to professional chambers, etc.) can be deducted from their gross revenues.

Social security contributions and unemployment insurance premiums (the portions that must be paid by the employee according to law) can be deducted from the gross salary of the employee.

The educational and health expenses related to the taxpayer himself/herself, his/her spouse and minor children provided that these expenses don't exceed 10% of the declared income, certified with documents obtained from real or legal persons with income or corporate tax liability and made in Türkiye can be deducted from the gross income.

Donations to certain non-profit organizations, such as the Turkish Red Crescent or other similar organisations, are deductible from the gross income.

Income tax law recognizes the depreciation for the fixed assets as well.

Exemptions

A taxpayer may avail of certain exemptions on his/her revenues and earnings which don't exceed the exemption limits. These limits are adjusted by the Ministry of Treasury and Finance annually.

Tax Returns

Tax returns for income tax must be filed with the local tax office annually.

The tax return for the year is filed from March 1st to 25th in the following calendar year.

When the income of an individual solely consists of commercial earnings subject to small business taxation, the tax return for the year shall be filed until the last day of February in the following calendar year.

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Income Tax Rates

Turkish Income Tax Law uses a system where the revenues and earnings of the individuals are calculated on a cumulative basis. The cumulative income is taxed progressively, varying between 15% and 40%.

As seen on the tables below, whether the source of income is of an employment or non-employment nature has an effect on the income tax to be paid by the individual.

When the income is derived from an employment related activity, as of 2024, the below rates will apply:

EMPLOYMENT INCOME	RATE (%)
Up to 110.000 TRY	15
110.001 TRY – 230.000 TRY	20
230.001 TRY – 870.000 TRY	27
870.001 TRY – 3.000.000 TRY	35
Over 3.000.000 TRY	40

On the other hand, the below rates will apply as of 2023, when the income is derived from an activity other than employment:

NON-EMPLOYMENT INCOME	RATE (%)
Up to 110.000 TRY	15
110.001 TRY – 230.000 TRY	20
230.001 TRY – 580.000 TRY	27
580.001 TRY – 3.000.000 TRY	35
Over 3.000.00 TRY	40

Payment Details

Under current regulations, it is possible to pay the income tax in two instalments. The first instalment has to be paid until the end of March and the deadline for the second instalment is at the end of July in the following year. If the income in question consists of only the commercial earnings subject to small business taxation, the first instalment must be paid by the end of February, and the second instalment must be paid by the end of June.

Loss Carryforward

Individuals who engage in commercial activities are permitted, under Turkish Income Tax Law, to carry forward the losses for five years.

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