VALUE-ADDED TAX

Introduction

Value-Added Tax (VAT), under Turkish tax regulations, is an indirect consumption tax that is levied on the supply and the importation of goods and services. From the producer to the end user, it is a tax that is triggered at each phase of production and distribution process.

VAT is a heavily relied upon tool for public finance in Türkiye (which is the case for many other countries across the globe).

Liability

"... the suppliers and the importers of the goods and services have to register themselves for VAT in the local tax offices."

The legal taxpayer of VAT is the supplier or the importer of the goods and services according to Turkish Value Added Tax Law. In principle, the suppliers and the importers of the goods and services have to register themselves for VAT in the local tax offices.

However, both the suppliers and the importers are able to set off the VAT incurred on their business expenses (input VAT) against the VAT they collect from their customers (output VAT). As a natural result, the final consumers who are unable to set off the VAT on the goods and services they purchase ultimately have to bear the economic burden.

Unlike many other jurisdictions such as Germany or the UK, VAT registration for groups where related companies or partnerships can register as a single taxable person is not possible under current Turkish regulations. That said, related companies, no matter how closely they are connected, are regarded as separate entities for VAT purposes and therefore must be registered separately.

Taxable Transactions

Delivery of goods and services within the context of commercial, industrial, agricultural or independent professional activities as well as importing goods and services into Türkiye trigger VAT.

Taxable Base

When calculating the VAT, the total value of the consideration excluding the VAT constitutes the taxable base of a transaction. In case where the consideration is not known, market value (the average price that is payable in the market for similar goods or services) is taken as the taxable base.

VAT Registration

Unlike many other jurisdictions such as the EU member states, Turkish tax regulations do not stipulate VAT registration turnover thresholds.

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Any real person or legal entity engaging in taxable transactions within Türkiye must register as a VAT taxpayer with the local tax office. For businesses that provide services but do not have a permanent establishment in Türkiye, reverse charge mechanism, which will be explained in further detail below, is applied.

When a commercial entity is established and registered with the local tax office for corporate and income tax purposes, the VAT registration is also automatically made.

Reverse Charge

In circumstances where the supplier of services (i.e. the taxpayer) does not have a domicile, workplace, head office, or principal place of business in Türkiye, the other party (recipient of the services) to the taxable transaction is held responsible for the payment of VAT.

The reverse charge is, on the other hand, a simplification measure in order to avoid the need for service suppliers to register in Türkiye. The VAT paid to the tax office by the Turkish customer on behalf of the foreign supplier is treated as input VAT and can be set off in the same month. That means the recipient of the services in Türkiye does not pay anything extra to or cannot reclaim anything from the tax office, i.e. there is neither benefit nor loss in the reverse charge mechanism. However, if the necessary steps are not properly taken, the recipient of the services will be fined as much as the full amount of the unaccounted VAT.

The reverse charge applies to services only as for the goods imported into Türkiye, and the importer is liable to pay the VAT at the Customs.

VAT Withholding

Certain public institutions (e.g. municipalities, universities or state-owned enterprises) or private entities (e.g. banks, financial institutions or listed companies) are obliged to withhold a portion of the VAT calculated in the invoices for certain goods and services (e.g. toll-manufacturing textile materials and consultancy, security or catering services) they purchase.

In that case, the purchaser of the goods or services that withhold a portion of the VAT is held responsible for paying such portion directly to the tax office on behalf of the supplier (who is the real taxpayer).

"The standard VAT rate is 20% ..."

VAT Rates

According to current Turkish VAT regulations, standard and reduced VAT rates apply to different baskets of goods and services.

The standard VAT rate is 20% and normally applies to all supplies of goods or services unless the regulations expressly grant a reduced rate or an exemption to certain goods and services.

Exemptions

There are two types of exemptions in Turkish VAT regulations: Partial exemptions and full exemptions.

In a **partial exemption** scenario, unlike full exemption, the input VAT that is paid by the purchaser of the goods or services can neither be deducted from the output VAT nor refunded. Such exemptions include:

a) goods delivered or services rendered by public institutions (municipalities, universities, etc.) for cultural, educational, health and other similar reasons,
b) goods delivered or services rendered in Free Trade Zones,
c) certain financial transactions, and
d) the delivery of unprocessed gold, scrap metal, plastic and other various items.

In that case, the input VAT paid on the invoices can only be accounted as expense or cost. As the purchaser of the goods or services cannot deduct the input VAT from the output VAT, the pricing of the taxpayer will normally include the input VAT that cannot be deducted. Hence, the end user will pay more for the goods or services purchased.

On the other hand, supply of goods and services with **full exemption** entitles the taxpayer to deduct the input VAT from the output VAT which is payable while purchasing goods and services. Furthermore, in a full exemption scenario, the taxpayer can be refunded when the input VAT exceeds its output VAT. Such exemptions include:

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a) Exportation of goods and services,
b) international transportation,
c) delivery of goods for petroleum exploration,
d) delivery of goods to the Directorate of Defence Industry,
e) delivery of goods to the investment incentive certificate holders, and
f) services rendered for vessels and aircrafts at harbours and airports.

In a full exemption scenario, as the input VAT paid on invoices can be fully deducted, the pricing of the taxpayer will only include the purchase price plus the profit, i.e. there will be no VAT burden on it.

VAT Recovery

When the input VAT of a business is higher than its output VAT, the difference can be recovered. However, unless specific exceptions apply, the difference cannot be refunded but carried forward in order to set it off against output VAT in the future.

Input VAT can only be recovered provided that it is charged on purchases of goods and services that are used for business purposes and accepted as deductible expense under Turkish tax regulations. Furthermore, expenses made in the previous fiscal years cannot be subject to VAT recovery.

No time limitations apply for recovering the deferred VAT from future output VAT.

VAT Refund

As explained in VAT Recovery above, when the input VAT of a business is higher than its output VAT, the difference between the input and output VATs cannot be refunded but carried forward in order to set it off against future output VAT.

However, there are exceptions where such excess or the whole input VAT in the absence of transactions subject to VAT may be refunded to the taxpayer. The exceptions include the VAT paid for delivery of goods and services that are subject to a reduced rate or fully exempt (such as exportation of goods and services, international transportation, etc.), diplomatic exemptions, etc.

The input VAT for the goods and services purchased by foreign companies when participating in fairs or exhibitions in Türkiye (subject to reciprocity) or fuel, repair and spare part expenses made by non-resident international transport companies may also be refunded.

Instead of making the refund in cash, the VAT refund can be credited against other tax liabilities of the taxpayer as well.

VAT Returns

Tax returns for VAT must be filed with the local tax office monthly. No annual VAT returns are submitted.

The tax returns are submitted through an electronical system on the 28th day of the calendar month in which the relevant taxable event takes place at the latest.

Payment Details

The VAT payment must be made within the period of filing the tax return. The payment may either be made directly in the local tax offices or through bank payment.

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