

Amendments to the taxation of wages

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Law No. 7194, enacted after being published in the Official Gazette in December, contains many tax regulations some of them introducing amendments to the taxation of wages. Through these amendments, the legislator hopes to generate more tax revenue, increase the number of taxpayers submitting a tax return annually and reduce unregistered transactions.

Currently, employees pay income tax at rates ranging from 15% to 35% depending on their income level, however a new tax bracket is added and the highest tax rate is set at 40%. Under the existing situation, the vast majority of employees were not required to submit annual returns for wage income.

In the Turkish tax system, wages are generally taxed through withholding, however with the amendment, employees whose wages are taxed in the 40% tax bracket will also need to declare their wage income with an annual income tax return. However, there is no declaration requirement for the employees who are deemed to be non-tax residents.

The annual income tax return for the income acquired in 2020 will be submitted in March 2021, but it will be useful for employees to collect and keep their payroll and expense documents as of January 2020. Documents related to declared income and expenses should be kept for 5 years. It would be useful if human resources teams identify the employees covered by the new implementation in their companies and inform them about the changes.

On the other hand, it will be useful to update the payroll systems to implement the new tax tariff and to test whether they work correctly before the withholding tax returns are prepared. Additionally, if the wage is paid in net according to the employment contracts with employees, the 2020 budget may need to be revised as the cost of the 5% increase in the tax rate will remain on the employer.

Income tax returns can be submitted by visiting tax offices or electronically via e-government or through the website of the Revenue Administration. Employees with a wage income taxed from the top tranche and therefore have an obligation to submit a tax return will have to include these revenues in the same return if they have income that is subject to declaration other than wage. Therefore, in this case, it should be considered that the non-wage income included in the tax return will be taxed at the highest rate and more money should be allocated for tax payment.

If there are expenses to be deducted on the tax return, it may be possible to get tax refund at the end of the declaration process. In case a tax refund arises, the refunds will not be paid to the people themselves. Therefore, there is also a requirement to apply to the tax office for a refund.

Although the first tax returns will be submitted in March 2021, there is still much work to be done by the New Year both for employers and for employees covered. In order to avoid any problems, loss of rights or criminal sanctions as of the first year of the implementation, planning the actions to be taken is essential.

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