Building a better working world

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Foreign tax relief of taxes paid in foreign countries

Turkish tax system differentiates taxpayers into two groups based on their tax residency status: full liable taxpayers and limited liable taxpayers. In accordance with the Article 3 of both Corporation Tax Code and Income Tax Code, full liable taxpayers are taxed over their income acquired worldwide and such application might result in double taxation in cases where the income acquired outside Turkey is already taxed in that foreign jurisdiction. In this context, in order to avoid double taxation, Turkish tax system allows taxpayers to deduct the taxes they paid in foreign countries from the corporation tax calculated in Turkey, within certain limits specified in relevant local legislation and provided that all conditions are met. Furthermore, Double Tax Treaties also include provisions regarding the avoidance of double taxation between contracting states. Considering that international agreements such as double tax treaties should prevail in case of a dispute between the provisions of such international agreements and local regulations according to the Article 90 of the Constitution of the Republic of Turkey; for the deduction/offsetting of the taxes paid in foreign countries in Turkey, whether there is a Double Tax Treaty is concluded with the relevant country or not should also be evaluated as well as potential Multilateral Instrument (“MLI”) effects on such treaty, in addition to ensuring that the criteria stated in local legislation are met.