

## Taxation of income generated from stocks traded on the stock market

Nowadays we are going through an era in which the number of stock market investors has reached historical levels. Surely, the aim of investors in the stock market is to make income from their investments. This brings up the issue of taxation.

Income generated by individual investors from stock transactions made in Borsa İstanbul (BİST) is subject to withholding tax by the bank or intermediary institution. The withholding tax rate applicable is 10% on earnings generated from security investment trusts (MKYO) (no withholding is applied on those held for more than one year), and 0% on income generated from transactions of other stocks. Withholding tax is the final tax for such earnings.

On the other hand, it is also possible to trade in foreign exchanges through banks and brokers. Since there is no withholding tax on the income generated as a result of the purchase and sale transactions made in this way, it will be individual's liability to declare such income to Turkish tax office. In this case, even if the transactions are in foreign currency, the income must be determined in TL by calculating the TL value of the shares on the purchase and sale dates separately. It is also possible to make an inflation adjustment if the inflation (D-PPI index) between the buying and selling transactions exceeds 10%. It may be possible such income may be also taxable in the country that transactions are made, therefore it would be beneficial to examine both the tax rules of the relevant country and the provisions of the double taxation agreement before commencing to trade.

Investors may also receive dividend income due to the stocks they hold. Previously 15% withholding tax was applied on the dividends distributed to individual shareholders by companies which are resident in Turkey. As of December 22, 2021, the rate of this withholding has been reduced to 10%. However, please note that this taxation may not be a final tax. Half of the gross amount of dividend income is exempt from income tax. Hence, the remaining half will need to be declared if the declaration limit is exceeded along with the other taxable income. The entire withholding tax applied by the company during distribution of dividend can be credited from the income tax calculated on tax return. The declaration limit has been determined as TRY 70,000 for 2022 and **TRY 150,000** for 2023.

However, please note that there is no withholding tax applicable in Turkey on dividends distributed by companies which are resident abroad and also no exemptions are applied on such income. If dividends received from foreign entities exceeds declaration limit determined for such income, it should be declared to Turkish authorities through annual income tax return. The declaration limit applicable is TRY 3,800 for 2022 and **TRY 8,400** for 2023. When determining whether this limit is exceeded, similar income obtained from movable assets and not subject to withholding tax in Turkey should be considered together (for example, interest on deposits from foreign banks). It may be possible for companies which are resident abroad to withhold tax on their dividends in accordance with their local tax legislation, therefore, it would be beneficial to examine both the tax rules of the relevant country and the provisions of the double taxation agreement before commencing to trade.

Our explanations above mainly cover individual who are regarded as tax-resident in Turkey. Individuals who are considered as non-tax resident in Turkey are not required to declare the above-mentioned income in Turkey.

*Explanations in this article reflect the writer's personal view on the matter. EY and/or Kuzey YMM ve Bağımsız Denetim A.Ş. disclaim any responsibility in respect of the information and explanations in the article. Please be advised to first receive professional assistance from the related experts before initiating an application regarding a specific matter, since the legislation is changed frequently and is open to different interpretations.*