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Editor's Note: Please be advised that the Tax Alert below is a corrected version of the Global Withholding Tax Reporter (GWTR) Tax Alert 2004/15, which was published initially on February 17, 2004. The initial version of this Alert reported erroneously that Turkey had reduced the statutory withholding rate on interest from 12% to 10% as of January 1, 2003. The revised version of this Tax Alert, published on February 25, 2004, reported that the rate remained at 12% (i.e., never reduced to 10%). Both of the aforementioned Tax Alerts contained incorrect information regarding the reduction in the withholding tax rate applicable to interest. The correct version is reflected below noting that the withholding rate on interest reduced to 10% effective from January 1, 2004.

We apologize for any inconvenience this error may have caused.

TURKEY (REVISED): 10% "FUND SURTAX" ABOLISHED AS OF JANUARY 1, 2004

Until December 31, 2003, a 10% "fund surtax" ("Gelir Vergisi ve Kurumlar Vergisi szerinden Alinan Fon Payi") was deducted from income subject to corporate or shareholder level taxes. In short, a tax equal to 10% of the tax being imposed (i.e.,

corporate or investor level tax on Turkish source income) reduced the net amount of income payable to the beneficial owner. Withholding tax is traditionally not imposed at the shareholder level with respect to dividend income but is imposed on certain interest income. Note that the elimination of the 10% “fund surtax” increases the amount of after-tax profits payable to beneficial owners in the form of dividends.

From January 1, 2004, the corporate income tax rate increased from 30% to 33%. Please see below the combined effect of the elimination of the 10% “fund surtax” and the increased corporation tax rate on Turkish dividends:

Corporate Level Taxation	(From April 24, 2003)	(From Jan. 1, 2004)
Pre-tax profits	100	100
Less: corporation tax	(30)	(33)
Less: 10% “fund surtax” on tax	(3.0)	N/A
Profit after corporation tax (basis for company level withholding tax)	67	67
Less: 10% withholding tax	(6.7)	(6.7)
Less: 10% “fund surtax” on w/h tax	(.67)	N/A
Net dividend (reported as Gross Dividend) paid to shareholder	59.63	60.30

Please be reminded that there is no shareholder-level withholding tax imposed on dividends from Turkish companies.

The statutory withholding tax rate for interest paid to non-residents reduced from 12% to 10% on January 1, 2004 pursuant to Decree 2003/6577, dated December 10, 2003. The Decree was published in the Official Gazette on December 30, 2003 and numbered 25332.

Please note that during the calendar year 2003, the 10% withholding tax rate was increased by the 10% “fund surtax,” which resulted in an 11% effective tax rate. From January 1, 2004, however, only the 10% statutory rate is imposed due to the elimination of 10% “fund surtax.” Most treaties with Turkey provide for interest withholding tax rates in excess of 10%, although some treaties provide for lower rates. We apologize for any inconvenience caused by the delay in updating the GWTR with this information.

Please be advised that the changes to the Turkey Chapter, in the GWTR, are in

process.

If you have any questions about this Tax Alert, please contact:

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