INTERNATIONAL TAX SERVICES

JANUARY 26, 2004

ITS in the News

Turkish Parliament Ratified New Tax Laws

by Mustafa Camlica

The Turkish Parliament has ratified new laws concerning legislative tax amendments that were included in the 2003 urgent action plan. (For prior coverage, see Tax Notes Int'l, 13 Jan. 2003, p. 130.) The tax reform is intended to broaden the tax base by reducing the size of the unrecorded economy, to lower the tax burden on low-income residents, and to conform the tax system with OECD and EU norms.

The most important tax changes for 2004 are presented below.

Law 5035

The Parliament ratified Law 5035, which will soon be published in the official gazette. Practices introduced below will come into force on the date of publication.

With the promulgation of Law 5035, the following temporary articles of the income and corporate tax laws will also be applicable in 2004:

- Temporary article 55, which excludes from declaration income that is taxed by withholding during the payment, repo gains, deposit interest gains, dividend income derived from mutual funds, and dividend income derived from private financial institutions.

- Temporary article 59, which exempts until 2006 interest gains derived from government bonds and treasury bills and the gains derived from trading those instruments.

- Temporary article 28, which allows a corporate tax exemption for the gains from real estate sales and participation shares for resident companies, provided the gains are added to the company's capital. The article also exempts gains formed when the tourism facilities of corporations that own production and tourism investment or operating certificates, and all or a part of the immovable properties belonging to those facilities, are contributed as capital in kind to a share capital company to be established, a joint stock company to be set up for the purpose of realizing an investment supported by investment incentive certificate, or a joint stock company to be established with the participation of foreign capital.

Deliveries of software produced by companies that operate in technology development areas are exempt from VAT during the period they are exempt from income and corporate tax. The software must be related to the company's systems management, data management, business applications, Internet, and mobile control systems.

With a new article added to the Law of Technology Development Regions, income of management companies of technology regions and income derived from software and

* This article originally appeared in the January 12, 2004 issue of *Tax Notes International* on page 163.

research and development activities of other personal income and corporate tax liables operating in those regions are exempted from corporate tax until 31 December 2013. Also, salaries of researchers and software and R&D personnel are exempted from all tax until 31 December 2013.

Law 5035 sets the corporate tax rate on earnings derived in 2004 at 33 percent. This rate will also be applied on the calculation of prepaid tax returns submitted to the tax offices every three months.

The basis for calculation of motor vehicles tax has changed from weight and age to engine size and age. The age measurements are 1-3 years, 4-6 years, 7-11 years, 12-15 years, and 16 years and over. Additional motor vehicles tax and vehicle tax collected from taxpayers in 2003 according to Laws 4837 and 4962 will be credited from motor vehicle taxes that will accrue for 2004.

Law 5035 makes permanent the stamp tax exemption that was granted for papers related to foreign activities until the end of 2003.

Notes receivables in foreign currency and consumer copies of contracts made for consumer credits are exempted from stamp tax.

The special transaction tax, which was created for the compensation of earthquake expenses of the government in 1999, was continued until 2003 with temporary articles added to the law. Under Law 5035 the special transaction tax applied on flight tickets and bank deposits is abrogated, the special transaction tax applied on tax returns is taken in the context of the stamp tax, and the special transaction tax applied on mobile telephone fees is taken in the context of the special communication tax.

Personal income and corporate tax returns may be declared until the 15th day of March and April, respectively, and paid until the last day of those months. Withholding tax returns and VAT returns may be declared until the 20th day of the following month and may be paid until the 26th day of the same month.

The invoice issuing period after the date of delivery of goods or rendering of services is shortened from 10 days to 7 days.

Income Withholding Rates

The 2004 withholding rates on gains and income found in article 94 of the Income Tax Law and article 24 of the Corporate Tax Law are:

- zero percent on interest income derived from government bonds;
- zero percent on interest income derived from treasury bills;
- 24 percent on interest income derived from foreign exchange deposit accounts up to one-year maturity;
- 18 percent on interest income derived from foreign exchange deposit accounts for one-year maturity and longer;
- 18 percent on interest income derived from cash deposit accounts;
- 18 percent on interest income derived from deposit accounts up to three-months maturity;
- 16 percent on interest income derived from deposit accounts up to six-months maturity;
- 12 percent on interest income derived from deposit accounts up to one-year maturity;
- 7 percent deposit accounts for one-year maturity and longer;
- 22 percent on payments made for independent personal services; and
- 22 percent on rent payments to real persons.

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