

## Income tax issues arising from the housing market

The price instability in the housing market in the recent period has led to many incidents with economic and judicial dimensions. We have tried to evaluate the current issues from income tax perspective.

During the sale of houses, if the houses are not acquired gratuitously and if they are disposed of within 5 years after the acquisition, the increase in value is subject to income tax. Considering that we are going through an inflationary period, we would like to remind that it is possible to make inflation adjustment on the cost value of the house during the calculation of the capital gain.

The following evaluations can be made regarding rental income by considering the events that are observed in the market recently:

- In the ordinary case, we are accustomed to the collection of rents for a monthly period, however in the inflationary period, we see that rental agreements can be made for biannual-annual payments. In terms of income tax practice, the income generated should be allocated to the corresponding calendar years where the amount related to the calendar in which income is generated should be declared through annual income tax return of that calendar year and the earnings corresponding to the following year will have to be declared when submitting the annual income tax return for following tax year.

- It is observed that the number of tenants who have difficulty in paying their rents is increasing. It is not necessary to declare uncollected rents and pay tax on these amounts to Turkish tax authority. Rental income should be included in the tax return of the year in which it is collected, however the year which it relates to should be specified in this declaration. It is also worth reminding that if the rent amount has been collected through a court decision, mediation agreement, etc., and interest has also been collected due to late payment; the interest amount will also need to be declared as income from movable assets.

- In some cases, payments can be made to tenants for the eviction of residences. If tenants are paid compensation for evacuating the dwelling through an agreement, it is possible to consider these amounts as expenses in calculation of rental income on the other hand, tenants who receive such a payment may be required to declare this income as "other income and profits" depending on the amount.

- It is understood that day-to-day renting of dwellings has become widespread. In the case of day-to-day rentals, the Revenue Administration characterizes the income obtained from such transactions as commercial income, not rental income. Therefore, many different duties arise in addition to the annual tax return filing.

In addition to the above cases, it is also possible to allocate residences to relatives or acquaintances free of charge. Although there are some exceptions, for such allocations,

an imputed rent amount calculated as 5% of the tax value of the residence will need to be declared to the tax office and income tax will need to be paid to authorities.

It is good to note that, nowadays it is important to comply with income tax regulations in a timely manner, considering that the Revenue Administration has started to follow the earnings from the properties sensitively.

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