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# NEW TAX INCENTIVES INTRODUCED



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## NEW TAX INCENTIVES INTRODUCED<sup>1</sup>

On 8th of March 2017, Turkey introduced a new law (the Law) on the restructuring of certain public receivables and amending certain laws and Cabinet Decrees.

The new law allows the eligible taxpayers to benefit from a tax relief if they meet certain conditions. The Law also provides a VAT exemption for certain real property sales to stimulate the growth in the construction industry and increase the sales to especially foreigners.

### New Tax Relief for Eligible Individual and Corporate Income Taxpayers

The new tax relief basically aims to encourage the compliance level of taxpayers and allows them to benefit 5% tax deduction from their annual tax due. The tax relief is applicable for both individual income taxpayers who conduct commercial, agricultural and self-employment activities, and corporate income taxpayers.

However, the Law excludes corporate income tax payers operating in the finance and banking sectors, insurance, reinsurance and retirement companies and retirement investment funds. Accordingly, such companies and funds cannot benefit from a 5% corporate income tax relief as they file their annual corporate income tax returns.

The Law also restricts 5% tax relief with the amount of maximum TRY 1 Million (approx. Euro 250,000). In case deduction amount is higher than tax due in the declaration year, taxpayers have right to deduct the remaining amount from the taxes assessed within the one year period.

To be qualified for 5% tax relief, taxpayers must meet the following conditions:

- ◆ Tax payer submits his tax return and pays his due taxes within the statutory period in the year of tax declaration as well as in the two preceding years.
- ◆ Tax payer has not been subject to additional tax assessment by Turkish tax authorities

again in the year of tax declaration as well as in the two preceding years (Tax returns declared for correction or voluntary disclosure purposes are not regarded as violation of this condition).

- ◆ Tax payer does not have aged tax debt (including tax penalties) exceeding TRY 10 (approx. Euro 2.5).

On the other hand, even though they are eligible, tax payers cannot benefit from the 5% tax relief when they involved in tax fraud in the declaration year and as well as in the four preceding years.

Finally, the new tax relief is applicable for annual individual and corporate income tax returns to be submitted after January 2018.

### New VAT Exemption for Certain Real Property Sales

The construction industry plays a key role for economic growth of Turkey and Turkish government continuously support it with different incentives. In this regard, the Law introduces a VAT exemption for the first delivery of residential or business real estate properties to below persons:

- ◆ Turkish citizens residing abroad due to work or residency reasons for more than six months (except for those who reside abroad and are government officials or employees of companies headquartered in Turkey),
- ◆ Foreign individuals who are not resident in Turkey and
- ◆ Non-resident entities that do not have their legal or business seat in Turkey and not generate income in Turkey through a fixed place or permanent representative.

The single condition to benefit from VAT exemption applicable for the first delivery of residential or business real estate properties is that the price of real estate property is paid in foreign currency. However, if the acquired property is sold within one year following purchase date, exempted VAT will be payable along with the deferred interest.

<sup>1</sup> Burçin Gözlüklü, Managing Partner and Ramazan Biçer, Partner at Centrum Consulting. International Tax Review April Issue, 2017

