

GMS Flash Alert

2018-022 | January 31, 2018



Turkey – Modifications to Tax Thresholds, Exemption Amounts, Other Measures

There have been several recent developments in Turkey that affect individual taxpayers – including those on international assignment – and their employers. These include changes to the personal income tax brackets, the tax treatment of rental income and expenses tied to rental property, and filing/reporting obligations.

WHY THIS MATTERS

The updated rates will be used for taxation of all compensation items including base salary, as well as additional benefits and cash allowances through 2018 paid by employers.

With the merging of the withholding tax return and social security declaration, employers' payroll reporting processes will undergo modifications in line with the new rules and practices.

Additionally, individual taxpayers will need to factor in the new declared thresholds for purposes of their annual income tax returns. Moreover, taxpayers in proper compliance who fulfill certain conditions can benefit from a 5-percent tax reduction starting from the taxation period related to the 2017 tax year (i.e., calendar year) earnings that need to be reported via the annual income tax return, which is due by 26 March 2018.

Tax Rates and Thresholds

The annual adjustments are made each year before the new tax year starts and these changes will likely increase the actual tax burden on taxpayers compared with last year.

Tax Rates for Employment Income for 2018

Taxable Income Bracket (TRY)		Tax Rate
From	To	%
1	14,800	15
14,801	34,000	20
34,001	120,000	27
120,001	over	35

Tax Rates for Other Income Types for 2018

Taxable Income Bracket (TRY)		Tax Rate
From	To	%
1	14,800	15
14,801	34,000	20
34,001	80,000	27
80,001	over	35

Social Security

The adjustments increased the minimum and maximum bases applicable to employers' social security and payroll reporting, as well as the minimum wage reportable/payable to the employees in the 2018 tax year.

Social Security	Minimum Base	Maximum Base
01.01.2018 - 31.12.2018	TRY 2,029.50	TRY 15,221.40

Important Exemption Amounts for 2018 Tax Year

- TRY 4,400 of the rental income, under certain circumstances;
- TRY 12,000 TRY of the capital gain (excluding income generated by capital market instruments);
- Severance payments up to TRY 5,001.76;
- TRY 27,000 of the incidental gains;
- Daily meal payments up to TRY 16;
- Daily per diem allowance up to TRY 61.50.

Further Details: Important Changes That Will Be in Effect in 2018

- An amendment has been made to the lump-sum expense method, which lets individuals who pay taxes on their rental income deduct a certain percentage of their income from their rental income tax base. Taxpayers now will be able to deduct 15 percent of their rental income from their tax base, down from 25 percent. The change will be applicable on the income generated as of 1 January 2017 and may reduce the taxpayer's preference for the lump-sum method in relation to the real expense method, since, in fact, the real expense method has the potential of leading to a zero tax liability.¹
- The monthly withholding tax return and monthly social security declaration forms will be consolidated in one joint tax return starting from 1 July 2018 country-wide. The process is being tested in four cities as of 1 January 2018. The aim, with this change in process, is to provide a smoother reporting platform for employers which should result in operational simplicity in terms of establishing income tax paid via payroll on an individual basis – the previous application did not allow quick authentication per person and this led to delays for foreign tax credit purposes.²
- With an additional article inserted in the tax legislation as of 23 December 2017, taxpayers who fulfill their obligations on a timely basis as of 1 January 2015 will be eligible for a 5-percent reduction on their tax liabilities limited to the earnings generated on commercial, agricultural, as well as self-employment activities. In order to benefit from the treatment, taxpayers should fulfill the specified conditions, most notably being in full compliance in general (i.e., no tax debt) and not being subject to any penalty or sanctions in terms of income tax for the mentioned period. Employment income and rental income have been kept out of the scope of this regime.³
- Discussions on the tax treatment of Bitcoin-related income are ongoing. Even though as of now there is no provision on the nature of this cryptocurrency and its basis for purposes of taxation, the tendency is to consider the profits made from "off-board" trading and currency fluctuations as "capital gain," whereas the current legislation generally considers the continuous transactions leading to positive income as "commercial gain."

Additionally, there is still uncertainty over whether the Turkish Capital Markets Board will consider Bitcoin as a capital market instrument or simply as a commodity; we await further clarification on this in the near future.

FOOTNOTES:

1 For GELİR VERGİSİ GENEL TEBLİĞİ (SERİ NO: 300) (in Turkish), [click here](#).

2 For MUHTASAR VE PRİM HİZMET BEYANNAMESİ GENEL TEBLİĞİ (SIRA NO: 1)'NDE DEĞİŞİKLİK YAPILMASINA DAİR TEBLİĞ (SIRA NO: 3) (in Turkish), [click here](#).

3 For GELİR VERGİSİ GENEL TEBLİĞİ (SERİ NO: 301) (in Turkish), [click here](#).

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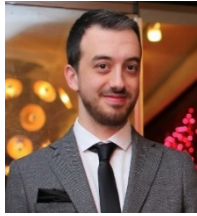
TRY 1 = EUR 0.214
TRY 1 = USD 0.266
TRY 1 = GBP 0.1875
TRY 1 = RUB 15.00

Contact us

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