

VAT in Turkey

*Finding the right path to
improve your business*



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Preface

Preface

This booklet is intended to provide general information about Value Added Tax applications in Turkey. The booklet has been prepared based on the Turkish Value Added Tax Legislation applicable as of May 2006.

This publication is only a brief guide and therefore we recommend that proper professional advice is sought when dealing with a particular case. The tax professionals of Deloitte Turkey would be pleased to discuss in detail any matters in this publication with you.

1. Introduction

Value Added Tax (VAT) is a broadly based tax on consumer spending and is generally neutral in its effect on businesses. This is accomplished by allowing businesses to offset any VAT incurred on business expenditure against VAT collected from customers. Each business is required to account for the excess of VAT collected over VAT incurred on business expenses. Person unable to offset VAT incurred (generally the final consumer), will then ultimately bear the tax. A business that pays more tax than it collects may normally recover the excess. The recovery is normally by offset against a future liability rather than reclaim.

It is normally a requirement that any business making supplies in a country operating a VAT system must register as a VAT taxpayer with the tax authorities. However, some countries operate a registration turnover threshold so that businesses not to register for small turnovers.

Broadly, "Output Tax" is the VAT charged by a taxable person on sales (supplies) realized. "Input Tax" is the VAT incurred by a taxable person on purchases realized.

2. Taxable Transaction

2.1 General

Following transactions realized in Turkey are subject to VAT:

- a. Delivery of goods and services related to commercial, industrial, agricultural and professional activities.
- b. Importation of all types of goods and services.
- c. Delivery of goods and services related to other operations including mail, telephone, telegraph, radio, television, delivery of petroleum, gas and their by-products through pipelines, renting of immovable which are not registered to any business entities fix assets, copyrights, motor vehicles, machinery and equipment.
- d. Organization of and participation in all types of lotteries.
- e. Organization and presentation of concerts, sport activities and contests.
- f. Sales realized in auction places and Customs warehouses.

2.2 Delivery

Definition of "Delivery":

"Delivery of goods" is the transfer of possession by the seller or the person acting on behalf of the seller to the buyer or the person acting on behalf of the buyer.

"Delivery of services" is realized through rendering of the service. Transportation of the goods by the seller to the buyer also implies the delivery. Distribution of water, electricity and gas is treated as delivery. "Barter" is considered as an activity involving two separate deliveries.

2.3 Transactions Considered as Delivery

Transactions Considered as Delivery:

- a. Withdrawal of the taxable goods from the enterprise with the purposes of non-taxable transactions; handing over of the taxable goods to the staff as wage, bonus, premium or donation.
- b. Utilization and consumption of taxable goods for production of VAT-free goods.
- c. Transfer of ownership in a sale transaction in which the seller reserves the title of goods until the purchase price is fully paid.

2.4 Transactions Considered as Service

Transactions Considered as Service:

Utilization of a taxable service for free-of-charge by enterprise owner, staff and other people are considered as carrying out the service.

2.5 Transactions Realized in Turkey

Definition of "Transaction realized in Turkey":

In order for transactions to be subject to VAT in Turkey;

- a. Goods must be present in Turkey at the time of delivery.
- b. Services must be rendered or benefited in Turkey.

3. Tax Payer

3.1 General

The VAT payers for the above transactions are as follows:

- a. The party that delivers goods or services related to commercial, industrial, agricultural and professional activities.
- b. The party that imports all types of goods and services.
- c. The party required to complete customs formalities in case of transit transportation of goods.
- d. The related legal entity performing and delivering the services for mail, telephone, telegraph, radio and broadcasting.
- e. The party that rents immovable property copyrights motor vehicles, machinery and equipment.
- f. The party that organizes or participates in a lottery.
- g. The party that organizes horse races and other betting activities,
- h. The party that organizes or presents concerts, sports activities and contests
- i. The party that realizes deliveries in auction places and Customs warehouses.
- j. The parties voluntarily registered with the tax authorities, (Non-residents are not allowed to voluntary registration)
- k. The party that indicates VAT on invoice or other relevant documents by mistake.

3.2 Securing of VAT Collection

The Ministry of Finance has, in certain cases, the authority to make the other party involved in the transaction, liable for the payment of VAT (e.g. on behalf of a non-resident that performs activities subject to VAT) so as to assure the collection of VAT.

The cases are as follows:

- a. Receiving a service from an overseas (i.e. non-resident) supplier by a taxpayer company in Turkey (VAT liability through "Reverse Charge Mechanism").
- b. Unregistered inventory of a business entity determined in a legal stocktaking.

Obligations of the VAT payer start at the time the place of business is declared to the tax office. The parties who are involved in the activities subject to VAT are deemed to be taxpayers even if they do not register themselves.

4. Taxable Event

The taxable events for VAT purposes are as follows:

- a. Delivery of goods and services.
- b. Issuance of an invoice before the delivery of goods and services.
- c. Partial delivery of goods or services if the partial delivery is a common practice or it is agreed so between the parties.
- d. The delivery of goods to the buyer in case of sales on a consignment basis or through intermediaries.
- e. Starting the transportation of goods or their delivery to the transporter in case of sending goods to the buyer or person acting on behalf of the buyer.
- f. Accrual of water, electricity and gas consumption.
- g. Arising of the liability to pay customs duties (in the case of imports subject to customs duty) or the registration of import clearance document with the Customs Authority (in the case of imports, which are not subject to customs duty).
- h. Entering into or departing from the Customs zones of Turkey in case of ordinary and transit transportation business between Turkey and foreign countries carried out by non-residents (having no business place and legal center in Turkey).

5. Tax Base

5.1 Tax base for delivery of goods and services rendered:

The VAT base is generally the total value of the transactions. The value means the sum of the money, goods, or other benefits, services and values which can be represented by the money, paid or indebted by those who bought these goods and services or those who acted on behalf of them in return for these goods and services. If the parties agree on any benefit other than money, then the equivalent price on the market is the tax base of the transaction. Market value is the average price payable in the market for similar goods and services and is determined with reference to the Tax Procedural Code.

5.2 Tax base for imported goods:

The VAT base is the sum of the following items:

- The value of the imported goods which is base to the customs duty assessment, in case of duty base is not available the CIF value of the goods, in cases of the CIF value is unknown, the value which is determined by the customs administration.
- All kind of taxes, duties and fees paid in importation.
- Other costs and expenses incurred until the registration of the customs return and price and exchange differences computed upon the value of the goods.

5.3 Tax base for international transportation:

The Ministry of Finance is authorized to determine the tax base of the transportation and transit transportation made by those resident abroad between Turkey and foreign countries, according to the kilometer per ton or passenger by taking into account the similar activities in Turkey.

5.4 Special Types of Tax Bases

Special types of tax bases are as follows:

- Fee paid for participation to games or lotteries including Spor Toto (a type of soccer lottery) and National Lottery.
- Participation fee paid for horse races and other combined bet or fortune games and entry fee paid for the entrance the places that the activities performed.

- Entrance fee paid for participation to the show, concert, sportive activity, race and game organizations that are performed by professional artists and sportsmen.
- Final sale price realized in customs warehouses and auction halls.
- Tax base for the gold products, golden jewelry and gold coins is net remaining amount after deducting lump of unrefined gold.
- Ministry of Finance is authorized to determine special types of tax bases by considering the content of the business such as tickets for passenger transportation activity of the municipalities, phone cards, prepaid mobile cards and token sales.

5.5 Items included in the VAT base

Following items have to be included in VAT base.

- The transportation, loading and unloading expenses made by the seller till the delivery place shown by the customer.
- The packaging expenses, insurance, commission, and similar expense accruals, taxes, duties, fees and funds paid by the seller.
- Delay charge, price difference, interest, premium and similar revenues, all kind of benefits, services and values.

5.6 Items excluded from the VAT base

- Discounts in reasonable amounts, which are to be separately shown on the invoice or other relevant documents.
- Output VAT.

5.7 Determination of tax base for transaction in Foreign Currencies

In case the tax base is determined in terms of a foreign currency other than Turkish Lira, the foreign currency amount is to be converted to Turkish Lira by using the foreign exchange buying rate prevailing on the day of realization of the taxable event.

6. Registration and Records

6.1 General

There is no turnover threshold for VAT registration in Turkey. Any person or entity engaged in an activity within the scope of the VAT Law must notify the local tax office where his place of business is located. If there is more than one place of business, registration is performed by the tax office that is authorized with respect to individual or corporate income tax.

6.2 Group Registration

Group registration is not permitted in Turkey.

6.3 Late Registration Penalties

VAT registration to the tax office is automatic on the declaration of a place of business. Non-declaration is subject to a procedural non-compliance penalty.

6.4 Records

Taxpayers are obliged to keep records in order due to the enable calculation and control of VAT.

6.5 Invoices

The compulsory contents of a VAT invoice are as following chart;

	Yes/no answer
Identifying Number	Yes
Sequential Identifying number	Yes
Supplier's name & address	Yes
Supplier's VAT Number	Yes
Customer's name and address	Yes
Customer's VAT number	Yes
Time of Supply	If it is included in waybill
Date of Issue of invoice	Yes
Type of supply (e.g. sale/rental)	Yes
Description of the goods or services	Yes
Number of Goods	Yes
Charge made for each supply excluding VAT	Yes
Rate of VAT applicable to each supply	Yes
Total Charge excluding VAT	Yes
Each VAT rate charged	Yes
Amount of VAT charged at each rate	Yes
VAT due	Yes
Discount given if any	Yes
Tax office of customer and supplier	Yes
Waybill number	Yes
Date of Delivery of goods	Yes

In addition to above information VAT must be shown separately on invoices and similar documents for the purpose of the credit mechanism.

7. VAT Representative (Agent) and Registration

7.1 General

A foreign business with no establishment in Turkey but which sells goods located in Turkey must appoint a tax representative (agent) in order to register for VAT. It is not possible to register without the appointment of such a representative, i.e.; direct registration is not possible.

A foreign business with no establishment in Turkey but which performs services in the country may shift the liability for the VAT to its customer in Turkey (reverse charge mechanism). There is no registration threshold in Turkey.

7.2 Appointment

To appoint a representative, the foreign business must give a proxy to its chosen representative who is either a real person or a legal entity. The foreign business will be registered with the tax office for VAT and other Turkish taxes. The authorities have no right to veto the choice of representative provided that the representative is liable.

7.3 Obligations of a Tax Representative (Agent)

An appointed tax representative (agent):

- Is entitled to act on his principal's behalf for all purposes relating to VAT.
- Must ensure that his principal complies with the related tax regulations and discharges his obligations and liabilities relating to VAT.
- Is jointly and severally liable with his principal for any failure to do so.

7.4 Obligation to Keep Statutory Books

Once registered, the business is obliged to keep statutory books and the adequate accounts to justify the supplies declared on the VAT return. Statutory books must be kept for a period of five years for tax purposes. The Commercial Code requirement for maintenance of statutory books is ten years.

8. VAT Responsibility and Tax Shift (Reverse Charge) Mechanism

8.1 General

Those services purchased from non-resident entities by resident tax payers and benefited in Turkey are considered to be supplied in Turkey. This procedure is known as the "reverse charge mechanism" or "tax shift mechanism". Non-resident supplier of services in Turkey need not therefore register for VAT.

Consequently, the recipient of the services in Turkey has to calculate VAT at the standard rate of **18%** on the gross invoice amount (except for financial leasing transactions) and accounts for this amount as "VAT Payable". This amount is declared on "VAT Return No: 2" and at the same time recoverable as "VAT Deductible or input VAT" through declaration on the "VAT Return No: 1" in the same month.

The reverse charge, or tax shift, only applies to services and rental payments for intangible rights and royalties. For goods supplied in Turkey, the importing party is liable to pay VAT at the Customs.

8.2 VAT Withholding Mechanism

- According to the VAT General Communiqué no 91, those public entities which are financed through the General Public Budget or Annexed Public Budget, public companies, and banks or financial institutions are required to apply VAT withholding on VAT amount with respect of the purchased services.

Service transactions that must be subjected to VAT withholding mechanism are as follows:

Type Of Service	VAT withholding rate	
	Publicly quoted Companies	Public entities and Financial Institutions
Construction Services	1/3	1/3
Cleansing Services	2/3	1/2
Gardening Services	1/2	1/2
Security Services	1/2	1/2
Maintenance Services for Fixed Assets	N/A	1/3
Catering Services	1/2	1/3
Audit and Consultancy Services	N/A	1/2

- In the case of the toll-manufacturing and ready-made materials (textiles), only 1/3 of the VAT is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 2/3 of the VAT directly to the tax office.
- Purchasers of the copper or copper related materials and manpower from subcontractors are liable to withhold 90% of the VAT under VAT withholding mechanism.

8.3 Obligation of a Foreign Business to Register

An overseas company which has neither a legal and business center nor a representative and a business place in Turkey does not need to register for VAT since the receiving party in Turkey declares and pays the VAT on the basis of reverse charge mechanism.

9.0 VAT Returns

9.1 Frequency and Submission of VAT Returns

VAT returns are normally submitted on a monthly basis. Only suppliers of international and inter-city transportation services are allowed to submit VAT returns on a quarterly basis. VAT returns must be submitted till the end of the normal working hours of 20th and paid till the end of the 26th of the following month. VAT returns have to be filed and submitted every month even if there is no taxable transaction.

9.2 Payment of VAT

Payment of VAT is made in the following forms:

- a. Taxpayers who have to file and submit VAT returns make the full payment within 6 days from deadline of submission of the returns to tax office.
- b. VAT on imported goods is fully paid at the Customs together with the customs duties (if any).

9.3 Penalties and Late Payment Interest

Turkish tax authorities impose a procedural non-compliance penalty for the late submission of a VAT return. Late payment of VAT is subject to a monthly delay charge of 2.5 % (with effect from 21 April 2006).

10. VAT Rates and Exemptions

10.1 VAT Rates

The standard rate of VAT in Turkey is 18% (also applicable to services) with effect from 15 May 2001 (previously, the rate was 17%).

Lower VAT rates are as follows:

For the deliveries and services specified in List No. I1%

For agricultural products sold as raw materials, financial leasing transactions (except automobiles and planes), newspapers/periodicals, delivery of used (second-hand) vehicles (including cars, land vehicles, racing cars, golf cars, jeeps, motorized caravans, vehicles with electrical or gas motors), deliveries of houses with an area of up to 150 m², construction work performed for housing cooperatives, housing construction work (only for houses with an area of up to 150 m²) performed for Social Security Institutions and municipalities, fees for Transfer of Operation Rights (TOR) determined according to the TOR Agreement concluded within the scope of Law No. 3096 (usually for transfer of operation rights of power plants), funeral services, deliveries of bloods used for human health, deliveries of penetration asphalt (except cut-back asphalt), frozen animal sperms for artificial insemination, certificated fruit saplings.

For the deliveries and services specified in List No. II8%

For deliveries of basic foodstuffs, tickets for cinema, theatre, opera and ballet, education services provided by private universities, schools and day-centres for children licensed by the related Ministry, deliveries of books, deliveries of infant foods and vaccine, human medical products licensed for its selling with a recipe or permitted to be imported by Ministry of Health, plant protection products licensed for agricultural struggle by Ministry of Agriculture, veterinary products (except veterinary cosmetics) licensed by Ministry of Agriculture, textile products and raw materials of textile products including letter products such as bag, belt, shoes etc.

10.2 VAT Exempt Goods and Services (Exemptions Without Credit)

Input VAT cannot be offset against output VAT where the expenditure relates exempt supplies. Therefore, the input VAT charged on invoices is either expensed or treated as "cost of goods". The following transactions are exempt from VAT under this exemption without credit system:

10.2.1 Cultural and Educational Exemptions:

Deliveries and services of public entities which are financed through the General Public Budget or Annexed Public Budget (including municipalities, universities, professional unions and chambers, political parties, trade unions, retirement institutions, associations founded for public benefit, agricultural cooperatives and foundations which are exempted from tax by government) with regard to;

- Expanding, encouraging and improving science and technology, fine arts, agriculture
- Cultural and educational activities performed by running and managing the theatre, concert halls, libraries, exhibition halls, conference halls and sport facilities.

10.2.2 Socially Aimed Exemptions:

- Deliveries and services of above mentioned public entities regarding their activities in running and managing the hospitals, clinics, dispensaries, human blood and organ banks, botanic and zoological gardens, parks, veterinary bacteriological, serological and similar laboratories, dormitories for students and orphanages and homes for the elderly.
- Education services rendered free of charge providing that not exceeding 10% of their capacities of those universities, institutions of higher education and private schools in the relevant period.
- The deliveries and services rendered by the foreign countries to their diplomatic representatives and consulate in Turkey, to the foreign charity and aid organizations in Turkey and to the above mentioned public institutions.
- Services and deliveries provided to the restoration and restitution projects for the registered immovable properties under the Protection of the Cultural and Natural Assets Law.
- Rendering of license, permission, approval and similar services and deliveries of official papers issued for those services by professional associations in the character of a public organization in accordance with the purpose of their duties given by the legislations.

10.2.3 Military Exemptions:

- Deliveries and services of the military factory, shipyard and workshops in accordance with their foundation purposes.

10.2.4 Other Exemptions:

- Deliveries and services rendered by the tradesmen and similar small taxpayers whose income is exempt from income tax under the Income Tax Law.
- Deliveries made by farmers who are not subject to income tax on a real basis and by professionals whose income are exempt from income tax.
- Capital gains not subject to taxation under the article 81 of income tax law.
- Takeover and division of the companies under the Corporate Tax Law.
- Renting of immovable properties which are not included in the assets of the companies.
- Banking and insurance transactions carried out by banks, insurance companies and agencies (these transactions are subject to a different tax, namely the "Banking and Insurance Transaction Tax").
- Deliveries and services rendered by the Mint and Stamp print house and playing or arranging of the lottery and similar games by the National Lottery Administration.
- Delivery of mass gold, mass silver, precious jewelry (diamond, brilliant of a diamond, ruby, emerald, sapphire, chrysolite, pearl), cash, foreign currency, official stamps, stamp duty, negotiable instruments, motor vehicle stamps, share certificates, bonds, scrap metal, rubber, paper, glass and their churns (including masses produced using by scrap metal).
- Delivery of water for agricultural purposes, delivery of drinking water by village administrations to the residents of villages without any commercial purpose, land improvement services performed by public enterprises, agricultural cooperatives and farmers' unions.
- Services performed within Free Trade Zones.

- Transportation through pipelines of crude oil, gas and their by-products which are of foreign origin.
- Deliveries of land and business places by those economic enterprises formed for the purpose of establishment of organized industrial regions and small industrial zones.
- Deliveries of the houses by the house construction cooperatives to their members.
- Deliveries made by Property Management Companies established according to Law No.4743 to collect irrevocable debts.
- According to the Banks Law, the delivery of goods and rights to the Savings Deposit Insurance Fund (SDIF) and the delivery of them by the Savings Deposit Insurance Fund (including sales at auctions).
- News services provided by General Directorate of Press and Information.
- Warehousing and terminal services provided in bounded warehouse and customs areas for the goods to be imported or exported.
- Renting services provided in bounded warehouses and customs areas for storing purposes including free shops,
- The sales of immovable properties by the Treasury and General Directorate of Plant Office and the delivery of the right of access by the Treasury.
- Deliveries of immovable properties under the judgment of Article 8 of the Corporate Tax Law. Article 8 of the Corporate Tax Law states that the capital gains of full liable taxpayers derived from the sale of shares and immovable properties are exempt from corporate tax on condition that the shares and immovable properties are held for over two years and gains are added to the paid-up capital in two years beginning from the first day of the following year of the sale.
- Deliveries of goods and services rendered to those organizers of conferences to be held in Turkey within the framework of international agreements to which Turkey is a party and accommodation and any related services provided to foreign delegations have been exempted from VAT until 31.12.2005.
- According to the Technology Developing Zones Law no 4691; delivery of the goods and services rendered by the entrepreneurs operating in Technology Developing Zones are exempt from VAT providing that delivered goods or rendered services must be produced within the Technology Development Zones. Delivery of the goods and services are mainly related to production of system management, data management, business applications and application software used for application of internet, mobile and military systems and VAT exemption lasts till the end of income or corporate tax exemption.
- Specially produced vehicles, equipments and software for disabled persons.

10.3 Exemptions with Credit

Certain exempt goods and services carry an entitlement to deduct input VAT from VAT payable on non-exempt goods and services. Where the input VAT relating to exempt transactions is greater than the VAT calculated for the period, the balance is refunded. This rule applies to the following:

10.3.1 Exportation and export related services;

- Exportation and export related services rendered for the customers abroad and roaming services rendered in Turkey for the customers domiciled abroad in the framework of international roaming agreements by considering being reciprocal.

10.3.2 Exemptions in vehicles, valuable mine and oil explorations, national security expenditures and investments encouraged by state;

- The deliveries of the sea, air and railway transportation vehicles to the taxpayers whose activities are entirely or partly related to renting or running of these transportation vehicles; deliveries and services made for the construction and production of these vehicles and services made for the repair and the maintenance of these vehicles.
- Services rendered for the sea and air transportation vehicles at harbours and airports.
- Deliveries made and services rendered to those dealing with oil exploration activity within in the framework of the Petroleum Law and gold, silver and platinum exploration, mining and refining activities.
- Deliveries of machinery and equipment to the investors in the framework of an investment incentive certificate.

- Deliveries made and constructions contract business performed with regard to harbors and airports constructions, renovations and improvements.
- Delivery of planes, helicopters, vessels, submarines, tanks, armoured personnel carriers, rockets, missiles and similar vehicles, revolvers, military supplies, equipment and deliveries related to their R&D, production, software, fitting, spare parts, maintenance and renovation to the Ministry of Defence, Gendarme Commandership, Undersecretariat of Defence Industry, National Intelligence Organisation for the purpose of national defence and domestic security and also deliveries of goods and services to those who perform the above deliveries and services.

10.3.3 Exemptions in transportation;

- Transit transportation and transportation works between Turkey and foreign countries are exempt from VAT. The taxpayers with limited tax liability whose residence places, legal business centers are abroad can also benefit from this exemption on condition of reciprocation.

10.3.4 Diplomatic Exemptions;

Following deliveries and services are exempt from VAT:

- a. On condition of reciprocation; deliveries and services rendered to the diplomatic representatives of foreign countries.
- b. Deliveries and services rendered to the international institutions and to their members who are considered exempt from tax in accordance with international agreements.

10.4 Export / Import Transactions

10.4.1 Exportation of Goods and Services

Below listed transactions are exempted from VAT under the exportation exemption of VAT Law.

- a) Exportation of goods and roaming services
 - b) Finished product deliveries of manufacturing companies destined for exportation
- Exporters do not pay the value added tax of the goods which are delivered to them by manufacturers in order to be exported. This value added tax which is not collected by manufactures are declared by them in VAT return of related period but it is respited by tax offices. This respited tax is cancelled in case that these goods are exported in 3 months from the beginning of the month which follows the delivery date. The value added tax to be returned back to manufacturers can not exceed the amount computed according to the value of the exported goods. The value added taxes which are to be refunded to manufacturers are returned back after the exportation procedures are completed. If the export is not realized, the deferred VAT will be collected together with delay interest applicable to public receivables (the normal rate is currently 2.5% monthly).

10.4.2 Exportation performed and services rendered to the customers abroad;

For the deliveries to be considered as exportation following conditions have to be fulfilled:

- a. Delivery should be made to a customer abroad or to a buyer in free trade zones or to an authorized customs warehouse.
- b. The goods delivered should arrive in a foreign country or to a free trade zone by passing through the Turkish customs zones or put in a authorized customs warehouse to be sent to the customer abroad.

10.4.3 Exportation of Services

For the services to be considered as exportation following conditions have to be fulfilled;

- a. Services have to be rendered for the customers abroad (out of Turkey),
- b. Invoices and other documents must be issued in the name of the foreign customer,
- c. Fee for the services must be brought into Turkey as a foreign currency,
- d. Services must be benefited abroad. The term "customers abroad" means the buyers whose domiciles, workplaces, business centers are abroad or the subsidiaries of a Turkish Corporation founded in a foreign country.

10.4.4 Exemptions on Importation of Goods

There is no a low value threshold for VAT in Turkey. But under certain conditions imports are exempt from VAT. Those are as follows;

- a) Importation of goods and services which are exempted from VAT specified in VAT law.
- b) Importation of goods for which the rules of the Customs Law concerning the policies of transit and bonded warehouse regime, temporary warehousing and the rules of free trade zones are applied.
- c) Materials sent to Turkey to help victims of disaster.
- d) Inward processing enables exporters to import raw materials without paying VAT or customs duty (if any).
- e) Under the temporary exportation regime; machinery and equipment can be sent to abroad for repair purposes temporarily under a warranty contract. In this condition, there will be no import tax applicable at the import clearance stage under the re-importation procedures.
- f) Temporary importation regime allows the tax payers to import machinery and equipment into Turkey for a certain period of time without paying import taxes in the condition that temporary imported materials must be export cleared within the time period.

Additionally, importation of machinery and equipment which has customs duties exemption within the scope of an investment incentive certificate is exempted from customs duty and import VAT. Besides if the goods are transferred without any value (free of charge) it is possible to avoid VAT and customs duties within some conditions.

10.5 Taxation Option for Land and Property Transactions

The taxation option for land and property transactions is not applied in Turkey.

11. Option to Tax for Financial Services

The taxation option for financial services is not applied in Turkey.

12. Input Tax

12.1 The Credit Mechanism

Tax payers record VAT seen on the invoices or other relevant documents as input VAT in their accounting entries and deduct input VAT from VAT collections (output VAT) from delivery of goods or services monthly basis.

Under the credit mechanism, if output VAT exceeds input VAT in the related month, difference is paid to the tax office. In contrary, if input VAT exceeds output VAT the difference is carried forward in order to offset against future VAT collections.

There is no time limitation to refund deferred VAT from future VAT collections.

On the other hand, input VAT paid for the goods or services that are used for the productions of exempted sales (i.e. "exemption with credit" transactions listed in the articles 11, 13, 14 and 15 of VAT Law) can be refunded via offsetting against future VAT collections. However, tax payers have option to reclaim incurred VAT from tax authority in cash or offsetting against other payable taxes on the condition that these taxes cannot be refunded with credit method. In order to reclaim incurred VAT, bank guarantee or CPA report is required by the tax authority. (For the exempted sales list please see above section 10.3)

12.2 Recovery (Deferral of Input VAT Deduction)

The recovery of Input VAT is allowed until the end of the fiscal year provided that it is recorded in the statutory books. If the invoice and its input VAT is not recorded in the statutory books within the related financial year, under the periodicity rule, input VAT cannot be recovered in the following financial year.

12.3 Non-Deductible Input VAT

Businesses are not permitted to recover Input VAT incurred on a number of items including the following:

- Automobiles (except "rent-a-car" companies) (*)
- Perished (except those perished due to earthquake or flood), missing or stolen goods
- Non-deductible expenses according to Turkish Tax Regulations
- Sold items which are not subject to VAT or exempt from VAT

In principle, for Input VAT to be deducted, the VAT amount has to be shown separately on an invoice and such VAT must be recorded in the statutory books.

(*) VAT incurred on purchases of cars should be recorded as either an expense or cost.

12.4 Refunds of VAT to Non-Resident Businesses

For further information, please refer to Paragraph 15.01.

12.5 Partial Recovery

If the transactions which are subject to VAT and the transactions which are exempt from VAT without credit are realized together in the same period, then the input VAT to be recovered can be determined as follows:

$$\text{Recoverable Input VAT of the period} = \text{Total Input VAT of the Period} \times \frac{\text{Transactions Subject to VAT}}{\text{Total Transactions}}$$

The remaining input VAT, which could not be recovered, is directly expensed or treated as cost.

13. Tax Office Having the Authority of Assessment

VAT is assessed by the tax office in the area where the place of business is located. If there are many places of business existing in different areas, then the tax office to which the taxpayer submits his income or corporation tax returns has the authority to assess the VAT.

In case of delivery of immovable property, the tax office, which is located in the same area as the immovable property, has the authority to assess VAT.

VAT related to imported goods is assessed at the Customs.

14. Other Issues

14.1 Recovery of VAT on Bad Debts

If a VAT registered business charges VAT to a customer and this VAT is paid to the Turkish tax authorities, but the customer does not make the payment, such VAT cannot be deducted or reclaimed. However, the amount of VAT is expensed together with the amount of the receivable by providing an allowance (provision) for the doubtful receivable.

14.2 VAT - Free Areas

Delivery of goods and services in duty-free shops and transactions realized in Free Trade Zones of Turkey are exempt from VAT.

The locations and names of Free Trade Zones (FTZs) in Turkey are as follows:

- Antalya
- Mersin
- Aegean FTZ
- Istanbul Atatürk Airport FTZ
- Istanbul Thrace FTZ
- Trabzon
- Leather Producers' FTZ (in Istanbul)
- Mardin
- East Anatolia FTZ (in Erzurum)
- Istanbul Stock Exchange (ISE) International Securities Free Trading Zone
- Samsun
- Rize
- Leather Procedures' FTZ (in Izmir-Menemen)
- Zonguldak-Filyos
- Adana - Yumurtalik
- Kayseri
- Gaziantep
- European Free Zone (in Corlu)
- "Silk Road Valley" FTZ (in Sakarya/Kocaeli)
- Izmir Aliaga FTZ
- Tubitak- Marmara Research Center Technology FTZ (Kocaeli)
- Bursa FTZ (in Gemlik)
- Denizli FTZ
- Kocaeli FTZ
- Istanbul (Atakoy)
- "İpekyolu Vadisi" FTZ (Sakarya / Kocaeli)
- İzmir Aliağa FTZ
- Tübitak Marmara Research Center Technology FTZ (Kocaeli)
- Bursa FTZ (in process of construction)

FTZs are those areas specified by the Turkish Council of Ministers in order to achieve the following objectives:

- increasing export-oriented investment and production,
- accelerating the inflow of foreign capital and technology into Turkey,
- procuring the inputs of the Turkish economy in an economic fashion,
- increasing the utilization of external finance and trade possibilities.

These areas are within the political borders but considered outside the customs borders of Turkey. All types of deliveries of goods and services by companies located in FTZs are exempt from Turkish VAT. Exportation of goods is exempt from VAT under exemption with credit regime and Exportation of services is exempt from VAT under exemption without credit regime by the Turkish resident suppliers.

14.3 Sale of Immovable Property for Capital Increase

Sales of immovable property for the purpose of adding the resulting capital gain to its capital by a resident company is exempt from VAT.

The input VAT incurred but not recovered relating to above-mentioned immovable properties and production plants can be expensed by the selling party in the year in which the sale or contribution is realized.

14.4 Deliveries Under Privatization Program

Delivery and leasing of capital assets, which are under the privatization program, to the Turkish Privatization Administration and also delivery and leasing of such assets by the Turkish Privatization Administration are exempt from VAT.

15. VAT Refund to Non-resident Businesses

15.1 General

Non-resident individuals or entities have right to reclaim VAT cost incurred in Turkey for some transactions. These are refunding to non-resident travelers and refunding to some businesses.

15.2 Refunding to non-resident travelers

VAT cost incurred by non-resident travelers should be reclaimed in different ways.

- a) A refund may be claimed at the Customs:
In this case, the seller gives a check in the amount of the VAT to be refunded. The VAT amount can be refunded by a branch of the bank at the Customs upon submission of the check with the stamped invoice.
- b) A refund may be claimed after leaving Turkey:
In this case the customer is required to return a copy of the special invoice approved by the Customs, proving that the goods have been departed from Turkey, within one month. Then, the seller will be required to send the VAT refund within at most 10 days after receiving the special invoice.
- c) Cash return is possible while submitting the stamped invoice by the customer to the seller within one month after departing from Turkey.
- d) The seller can make an advance payment in the amount of VAT at the stage of selling the goods.
- e) An intermediary firm which has an "Authorization Certificate" given by the Ministry of Finance and an agreement with the seller can make the refund.

With effect from 1 March 1997, VAT is not to be charged on deliveries to non-resident real persons, provided that the seller has the "Exemption Certificate" given by the tax office.

15.3 Refunding to some businesses

Participants of fair, exhibition and transportation activities have right to reclaim incurred VAT which is paid for those activities.

Conditions for refund of incurred VAT are as follows:

- 1- Principle residence, work place, legal and actual business place of non-residents must not be in Turkey.
- 2- Non-residents must not have any activity that can be subjected to corporate tax, income tax and VAT.
- 3- The value of goods and services purchased in this scope must be at least 520 TRY. (approximately €250)
This limit will be increased each year.
- 4- Deliveries of goods and services rendered regarding transportation business consists supply of fuel, spare parts and maintenance and repair services. For the purposes of commercial activities at exhibitions and fairs, refunds are restricted to goods and services exclusively relating to the relevant activities.
- 5- Non-residents have to submit a document taken from their tax offices which shows their tax registrations. Information must be in the document is as follows:
 - a) Name of the non-resident person or company.
 - b) Name of the tax office that the non-resident is registered.
 - c) Description of the business activity of non-residents
 - d) Address of non-residents
- 6- Non-residents engaged in transportation activities must apply to the Istanbul Transportation Tax Office and those engaged in commercial activities at exhibitions and fairs must apply to the tax office that will be determined by the revenue officers of the city in which the exhibition or fair took place.
- 7- Application may be submitted on a monthly basis and refunds are made in cash or through banks.

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