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GLOBAL INDIRECT TAX

Turkey

Country VAT/GST Essentials

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TAX



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Scope and Rates

What supplies are liable to VAT?

All goods and services that are supplied/rendered in Turkey within the scope of commercial, industrial, agricultural, and professional activities are subject to value-added tax (VAT). The importations of goods and services into Turkey are also subject to VAT. A transaction is deemed to be carried out in Turkey if the goods are in Turkey at the time of delivery and if services are rendered and enjoyed in Turkey.

What is the standard rate of VAT?

The standard rate of VAT is 18 percent.

Are there any reduced rates, zero rates, or exemptions?

Yes. There are two reduced VAT rates, which are 8 percent and 1 percent.

The goods and services subject to the reduced rate of 8 percent are mentioned in List II attached to VAT Law, including:

- foodstuffs
- textile products
- overnight services/accommodation performed in the hotels, motels, holiday villages, and similar accommodation facilities.

The goods and services subject to the reduced rate of 1 percent are mentioned in List I attached to VAT Law, including:

- certain agricultural products
- there is no actual zero rate in Turkish VAT Law. However, some transactions are exempt from VAT with credit, including:
 - export of goods and services
 - international transportation
 - roaming services rendered in Turkey for customers outside Turkey in line with the international roaming agreements, with the conditions of reciprocity
 - delivery of machinery and equipment to those who have an investment incentive certificate and who are VAT taxpayers
 - services rendered at harbors and airports for vessels and aircraft.

There are also exemptions without credit, including:

- deliveries made by the government and other related organizations for cultural, educational, health, and similar purposes
- services rendered in Free Trade Zones
- banking and insurance transactions (note: these services are subject to a separate Banking and Insurance Transactions Tax.).

Registration

Who is required to register for Turkish VAT?

Turkish Entities

There is no separate VAT registration mechanism in Turkey. The registration for tax in Turkey covers all tax aspects including VAT, corporate tax, withholding tax, etc.

Those who engage in commercial, industrial, agricultural or independent professional activities in Turkey are required to register for tax purposes in Turkey. As the registration for tax is an outcome of commencing business activity in Turkey, the registration should be completed before engaging into any commercial/business activity.

Non-Turkish Entities

The same rules apply to non-Turkish entities. Foreign entities can be registered for tax purposes through a company (subsidiary), a branch, or a permanent establishment in Turkey.

If the foreign entities are not tax registered in Turkey, the Turkish purchaser is liable to account for VAT on behalf of the foreign company (reverse charge mechanism). The reverse charge mechanism is applied in the case where the recipient of payment (that is service provider) is not tax registered entity in Turkey. The reverse charge mechanism is not applicable for the delivery of the goods; the importer will be liable to pay import VAT. Note that only tax registered companies can import goods into Turkey.

Are there penalties for not registering or late registration?

In case of not registering or late registration, the following penalties are applicable:

- tax loss penalty: the tax loss penalty is computed as one times the amount of tax
- late payment charge (interest): the current late payment charge is 1.40 percent per month
- irregularity penalty: it is imposed if the procedures of Turkish Tax Procedural Law are not complied with. This is a lump-sum amount that changes per year.

Are there any simplifications that could avoid the need for an overseas company to register for VAT?

Not applicable

VAT Grouping

Is VAT grouping possible?

No. There is no VAT grouping in Turkey.

Can an overseas company be included in a VAT group?

Not applicable.

Returns

How frequently are VAT returns submitted?

The taxation period for VAT purposes is one month and a VAT return should be filed by the 24th day of the month following the end of the taxation period and the tax should be paid on 26th day of the same month. The VAT return should be filed for each month even if no deliveries subject to VAT have been made.

If the taxpayer does not have residence, a work place or a business place in Turkey, the local purchaser of the goods party to whom delivery is made, or the service recipient will be liable for the payment of VAT (such as reverse charge VAT). In this context, there is so called VAT Return 2 by which reverse charge VAT is declared to the relevant tax office by the 24th day of the following month and paid on 26th day of the same month.

Taxpayers can submit their VAT returns electronically.

Are there any other returns that need to be submitted?

VAT on importation is declared in the customs entry declaration. If this form is not used, import VAT must be reported in a special return.

VAT Recovery

Can I recover VAT if I am not registered?

There is no separate VAT registration mechanism in Turkey. Registration for tax covers all tax aspects, including VAT, corporate tax, withholding tax, etc.

The VAT system works as a tax credit mechanism. It means that the input VAT paid for purchases is offset against the output VAT generated through sales. The offset is made in the monthly VAT return. If input VAT exceeds the output VAT, the balance is not refunded (unless there is a special delivery which enables a VAT refund, such as export exemption) but carried forward to the following months to be offset against future output VAT. There is no time limitation for such VAT carry forwards.

In principle a foreign company which is not registered for tax in Turkey cannot recover or refund any input VAT paid in Turkey. One must be tax registered (either as a company, a branch or a permanent establishment PE) to be entitled to recover VAT paid in Turkey. In such a case, VAT credit mechanism shall apply.

It should however be noted that VAT paid by non-resident companies on some goods and services purchased in relation with their transportation activities as well as participation in fairs, open-air markets, and exhibitions in Turkey shall be refunded on condition of reciprocity.

Does your country apply reciprocity rules for reclaims submitted by non-established businesses?

Turkey has signed reciprocity agreements with the following EU Member States: Romania, Slovenia, and Slovakia. Reciprocity agreement was also concluded with Switzerland. It should be noted that the application of reciprocity is not connected to the existence of a written agreement.

In principle companies established in countries which have not implemented the reciprocity rules and grant refund to Turkish entrepreneurs can recover the Turkish VAT incurred on the above-mentioned items.

Are there any items that you cannot recover VAT on?

According to the Turkish VAT Law, the following input VAT is not deductible:

- VAT paid on expenses not deductible for income and corporate tax purposes
- VAT incurred on expenses related to a supply of goods and services exempt from VAT ("partial exemption") and not subject to VAT
- VAT paid on acquisition of company cars, except cars which are used by those who engaged in wholly or partially car rental business or operation of such cars
- VAT paid on the goods which were lost, except for those arising from earthquake, flood or fire.

International Supplies of Goods and Services

How are exports of goods and services treated?

Goods

An export delivery is exempt from VAT if the following conditions are met:

- the delivery must be made either to a foreign customer, a buyer in a Free Trade Zone (which is considered as non-Turkish customs territory), or an authorized customs warehouse operator
- the goods delivered must leave Turkish customs territory and reach a foreign country, a Free Trade Zone, or must be stated in authorized customs warehouse for further delivery to a foreign customer.

Services

In order to benefit from the export exemption for a supply of services, the following conditions should be met:

- the services must be performed for a non-resident customer
- invoices and other documents must be issued in the name of the foreign customer
- services must be utilized/enjoyed abroad.

How are goods dealt with on importation?

The importation of goods into Turkey is subject to VAT. Only registered taxpayers can import the goods into Turkey and act as an importer. The importer is liable for VAT, customs duties and Special Consumption Tax (if applicable). In a regular importation, the importer must have acquired the title of the goods.

How are services which are brought in from abroad treated for VAT purposes?

According to the Turkish VAT law, the transaction is deemed to be performed in Turkey and it is subject to VAT, if the services are rendered or enjoyed in Turkey.

The VAT is payable through a reverse charge mechanism, if services purchased from a foreign supplier are performed in Turkey or if the services rendered abroad are enjoyed in Turkey. The reverse charge VAT mechanism is applied in the cases where the recipient of the payment (that is service provider) is not a tax registered entity in Turkey. In such a case, the Turkish purchaser is liable to account for VAT on behalf of the foreign supplier and also entitled to recover the VAT payable on the purchase.

Invoices

What do I have to show on a tax invoice?

The minimum requirements to be stated on an invoice are as follows:

- date of issue
- serial and sequence number of the invoice
- legal name, trade name (if exists), address, tax office, and tax registration number of the issuer of the invoice
- legal name, trade name (if exists), address, tax office, and tax registration number of the receiver of the invoice
- type of the good or services, quantity, unit price, and total value
- date and number of the dispatch note (applicable if the invoice corresponds to a sale of goods or equipments which have to be documented with a dispatch note)
- VAT as a separate item for the purpose of a VAT credit mechanism.

Can I issue invoices electronically?

Yes in some cases.

Is it possible to operate self-billing?

No.

Transfers of Business

Is there a relief from VAT for the sale of a business as a going concern?

The sale of business as an asset transfer is generally subject to VAT. The purchaser is entitled to recover the VAT through the VAT credit mechanism in a monthly VAT return.

The sale of business division or corporate division carried out in line with the Turkish Corporate Tax Law is exempt from VAT.

In addition, the transfer of immovable property is exempt from VAT if the relevant real estate has been held at least for two whole years.

Options to Tax

Are there any options to tax transactions?

According to the Article 18 of Turkish VAT Law, taxpayers can waive exemptions by applying to the relevant tax office with a petition provided that they fulfill the conditions and procedures stated in the relevant article.

Note that it is not possible to waive certain exemptions stated explicitly in the relevant article.

However this is rarely applied in practice.

Head Office and Branch Transactions

How are transactions between head office and branch treated?

There is no specific provision related to the transaction between head office and branch.

The goods sent by a foreign head office to a branch in Turkey are treated as importation of the goods and branch will be liable account VAT on importation and entitled to recover the VAT paid on importation through a VAT credit mechanism in monthly VAT return. The title of the goods is transferred to the branch in a regular importation.

As far as services are concerned VAT is payable by the branch based on the reverse charge mechanism, if the services are rendered in Turkey or if the services are utilized/enjoyed in Turkey.

According to the Turkish Corporate Tax Law, the allocation of general administration expenses from a headquarter or branches outside Turkey to a Turkish branch/permanent establishment are deductible, if the following conditions are met:

- the expenses in question must relate to a generation and continuation of income in Turkey; and
- the allocated costs must be calculated in line with the cost allocation keys determined in accordance with the arm's length principle.

If the abovementioned conditions are not satisfied, expenses allocated to Turkish branch/permanent establishment are non-deductible for the corporate tax purposes and any potential VAT on these expenses is also non-deductible or unrecoverable.

Bad Debt

Am I able to claim relief for bad debts?

According to the Turkish Tax Legislation, there is no direct relief for bad debts. In this respect, VAT on the bad debts cannot be directly reclaimed.

On the other hand, a taxpayer is allowed to set aside tax-deductible provisions for bad debts based on conditions stated in Turkish Tax Procedural Law. Hence, if the conditions to set aside provision are met, provisions for bad debt (including receivable arising from VAT) can be expensed.

Anti-Avoidance

Is there a general anti-avoidance provision under VAT law?

There is no general anti-avoidance provision under Turkish VAT Law. On the other hand, Turkish Tax Procedural Code adopts the substance over the form principle. Within this context, the true nature (that is substance) of the event giving rise to tax and any transaction relevant to that event is the basis for taxation. This is also applicable to VAT.

Penalty Regime

What is the penalty and interest regime like?

Taxpayers who act contrary to the provisions of tax laws are penalized with the tax loss, irregularity penalty and other penalties.

Tax loss penalty: the tax loss penalty is computed as one times the amount of tax concerned.

Irregularity penalty: it is imposed if the procedures of Turkish Tax Procedural Law are not complied with. This is a lump-sum amount that changes per year.

Late payment charge (interest): the current late payment charge is 1.40 percent per month.

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Designed by Evalueserve.

Publication name: Turkey – Country VAT/GST Essentials

Publication number: 111202

Publication date: January 2012