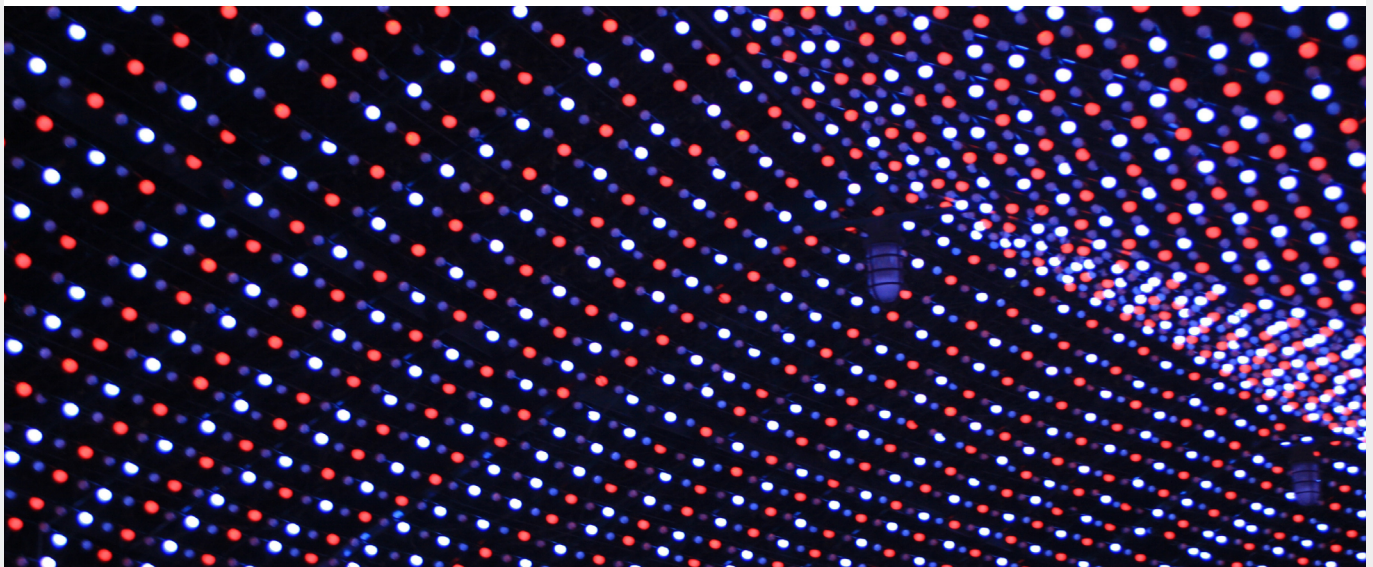


# Turkey introduces Digital Service Tax and other new taxes, makes significant changes to tax laws

*December 2019*



Dear Clients, Colleagues and Friends,

Turkey introduced three new taxes – the Digital Service Tax (“**DST**”), Accommodation Tax (“**AT**”) and Valuable Property Tax (“**VPT**”) with Law No. 7194 (the “**Law**”). Apart from the new taxes, the Law also brings several amendments to tax laws.

## 1. Digital Service Tax

Effective from 1 March 2020, the DST will be levied at a flat rate of 7.5% based on digital service providers’ Turkey-sourced revenues. This is designed as gross-basis taxation over the income resulting from the provision of the following services in Turkey:

- All types of digital advertising services
- Sale of any audio, video or digital content
- Digital services that enables digital content to be listened to, watched, played or recorded/downloaded
- Online platforms that allow users to interact with each other

Providers of digital services will be subject to the DST regardless of whether they are tax residents of Turkey, or whether such services are provided through their Permanent Establishments (“**PEs**”) in Turkey. Under the Law, only large-scale digital service provider companies with (a) annual worldwide revenue of EUR 750 million

or more during a given year, and (b) total taxable revenues from digital services obtained in Turkey in excess of TRY 20 million will be subject to digital service taxation.

## 2. Accommodation Tax

Another tax called Accommodation Tax will be collected on a monthly-basis from the tourism enterprises (e.g., hotels, motels, holiday villages, guesthouses) in Turkey. It will be in force as of 1 April 2020, and the flat rate of 2% (temporarily 1% until the end of 2020) will apply to all kinds of services (e.g., foods, beverages, pool services, sports) provided in such enterprises.

## 3. Valuable Property Tax

Effective from 1 April 2020, the residential real estate properties located within the borders of Turkey with a value exceeding TRY 5 million will be subject to a new tax called 'valuable property tax'. The value is determined by the General Directorate of the Land Registry.

The rates will be as follows:

- Properties valued between TRY 5 million and TRY 7.5 million will be taxed at a rate of 0.3% (three per thousand);
- Properties valued between TRY 7.5 million and TRY 10 million will be taxed at the rate of 0.6% (six per thousand); and
- Properties with a value exceeding TRY 10 million will be taxed at a rate of 1% (one per cent).

The tax will be paid by property owners every year in two equal instalments (i.e., in February and in August). Note that the property owners who (i) only own one property, and (ii) prove that they have no income are exempt from taxation. The absence of income does not need to be established by persons under 18 and dependents.

## 4. Amendments to tax laws

Our key takeaways from the latest amendments are as follows:

- In principle, salary payments made to employees are subject to gross-basis local income taxation through withholding i.e., via payroll accounting, at the level of the employer. The individual income tax must be withheld on a monthly-basis, and paid over to the relevant tax office by employers for the account of their employees. The Law increases the income tax rate for the highest income bracket to 40%, for individuals who earn more than TRY 500,000 in one calendar year – previously, the highest rate was 35%.
- Furthermore, it will now be a requirement for individuals with a salary income of more than TRY 500,000 to file an annual income tax return. This means that, subject to certain limitations, this new salary taxation scheme enables the deduction of several expense items from the gross income, e.g., insurance premium, education and health-related expenses covering the family, or certain donations.
- A banking and insurance transactions tax ("**BITT**") of 0.1% (one per thousand) has been applicable since May 2019 to foreign exchange sale transactions that are facilitated by banks and authorised establishments in Turkey. The Law increases the BITT rate from 0.1% to 0.2% (two per thousand).

The followings will continue to be taxable at the rate of zero per cent under the BITT regime:

- Transactions between banks and authorised establishments
- Sale of foreign currency to the Turkish Ministry of Treasury and Finance
- Sale of foreign currency to the borrowers of foreign currency-denominated loans by the lender banks or the intermediary banks facilitating the payment
- Certain restrictions are now imposed in relation to deductible expenses made for company cars in the year 2020 and onwards – there had been no restriction so far.
- An limited exemption is introduced for salary (income) taxation in respect of public transportation payments – this is a new exemption with a limit of TRY 10.

Please do not hesitate to contact us for any further information on this briefing.



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