PERSONAL INCOME TAX IN TURKEY AND ITS ROLE IN THE FORMATION OF GENERAL BUDGET

Khaydarov Alisher Akram ugli
Master's student at The Banking and Finance
academy of the Republic of Uzbekistan
xaydarovalisher10@gmail.com
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Abstract

Data regarding information about Personal income tax system in Turkey is considered as a main part of this article. In the following paragraphs tax rates, types of taxable income and its sources are mentioned taking the role of personal income tax in the General budget revenues and economic growth into account.

Keywords: Personal income tax, individuals, income, tax rates, GDP, General budget, salary, earnings, wages

Personal income tax (PIT) is levied on the income of individuals. The term "individuals" refers to real persons. In the application of income tax, partnerships are not deemed to be separate entities and each partner is taxed individually on his/her share of profit. An individual's income may consist of one or more income elements listed below:

- Commercial earnings,
- Agricultural profits,
- Salaries and wages,
- Income from independent personal services,
- Income from immovable property and rights (rental income),
- Income from capital investment,
- Other income and earnings.

In general, residency criterion is applied in determining tax liability for individuals. This criterion requires that an individual who is domiciled in Turkey is liable to pay tax for his/her worldwide income (unlimited liability). Any person who resides in Turkey for more than six months in one calendar year is assumed to be a resident of Turkey. However; foreigners who stay in Turkey for six months or more by the reason of a specific job or business or for particular purposes which are specified in PIT Law are not treated as resident. Therefore, unlimited tax liability is not applicable to them.

Commercial earnings are defined as profit arising from commercial or industrial activities. Although this definition is very comprehensive and includes all types of commercial and industrial activities, the PIT Law excludes some activities from the contents of commercial earnings. Generally, activities performed by tradesmen and artisans who do not have permanent establishments are not assumed as commercial and industrial activities, and so they are exempt from income tax.

Income derived from agricultural activities is also subject to the PIT. The term "agricultural activity'' means any activity performed in land, sea, lakes and rivers in forms of cultivating, planting, breeding, fishing, hunting and etc. For tax purposes, persons who engaged in such activities are considered to be farmers.

Wages and salaries are defined as the benefits, provided in cash, in kind or in other ways that may be represented in terms of money, in compensation for services rendered, to those working subject to an employer and working at a certain work place.

Income resulting from all kinds of activities related to self-employment considered independent professional services income. "Independent professional service" is the execution of work, under the personal responsibility on own behalf and own account without being attached to an employer and based more particularly on personal effort, scientific and professional knowledge or specialisation rather than on capital, and having no commercial character. Independent professional services comprises services rendered by independent professionals such as lawyers, accountants, doctors, consultants and engineers. Income from independent professional services within a year as well as expenses paid are recorded on an independent professional service income book. In general, all expenses related to independent professional services can be deducted from revenues. However, the scope of those expenses is narrower than that specified for commercial and business activities.

Real property which includes land buildings, and permanent leasehold rights shall be defined as immovable property. Ships, boats, aircraft and other types of transportation vehicles are also regarded as immovable property in the application of the PIT Law.

The interest, dividend, rent and similar revenues derived from the capital composed of the values in monetary capital or in cash (income from business activities, agricultural activities and independent personal services are not considered income from capital investment).

In the determination of the income tax base, taxpayers shall be entitled to make the following deductions from the income:

- Insurance premiums such as life (50% of the premiums paid for life insurance shall be deducted), death, accident, illness, disability, maternity, birth and education, belonging to the taxpayer himself/herself and his/her spouse and children underage, provided that these premiums do not exceed 15% of the declared income and the total amount of minimum wage,

- Education and health expenditures related to the taxpayer himself/herself, his/her spouse and children underage, provided that they do not exceed 10% of the declared income and that these expenditures are made in Turkey and confirmed with documents to be received from real or legal persons subject to corporate income tax,
- All kinds of expenses made for the construction of schools, medical facilities, student hostels and child care centres with a capacity of at least 100 beds, orphanages, retirement homes, care and rehabilitation centres, prayer facilities subject to permission and control of local authority and facilities for religious education under the control of Presidency of Religious Affairs, youth centres and youth and scout camps of Ministry of Youth and Sports, or all kinds of donations and charities that are given to these institutions for the construction of such facilities, as well as all cash and real donations and charities rendered for the continuation of their activities,
- Whole production costs of foodstuff, cleaning, clothing and heating supplies donated to the charity and foundations operating in food banking to help the poor, within the procedures and principles set out by the Ministry of Treasury and Finance,
- 100% of the expenses, donations and charities made and given against receipt, in respect of activities which are realized by the institutions or supported by the Ministry of Culture and Tourism for the promotion, development and preservation of cultural, artistic and historical values.

Annual tax return is used for consolidation of earnings derived from various sources within a calendar year. The filing period for annual tax returns is 1-25 March of the year following the year to which they relate. On the other hand, special tax return is used by taxpayers subject to limited tax liability, to declare profits and earnings for which they are not obliged to file annual tax return and special tax return must be filed within 15 days from acquirement.

Turkey published Income Tax General Communiqué No. 324 in the Official Gazette on 30 December 2023, which provides updated individual income tax values for 2024. It entered into force on 1 January 2024. This includes the following tax brackets and rates for employment and non-employment income **[1]**:

Table 1

Tax brackets and rates for employment and non-employment income in Turkey for 2024

Employment income		**Non-employment income**	
Taxable income (TL)	**Tax rate**	**Taxable income (TL)**	**Tax rate**
1 to 110 000	15%	1 to 110 000	15%
110 000 to 230 000	20%	110 000 to 230 000	20%
230 000 to 870 000	27%	230 000 to 580 000	27%
870 000 to 3 000 000	35%	580 000 to 3 000 000	35%
3 000 000 +	40%	3 000 000 +	40%

Table 2

GDP, General Budget revenues and share of income tax in Budget revenues (Thousand Turkish Lira)

Years	**GDP**	**Tax income**	**Income Tax revenue**	**Ratio (%)**	**Corporate Tax revenue**	**Ratio (%)**	**VAT revenue**	**Ratio (%)**
2002	359 358 871	59 631 868	13 717 660	23.0	5 575 495	9.3	20 400 201	34.2
2003	468 015 146	84 316 169	17 063 761	20.2	8 645 345	10.3	27 031 099	32.1
2004	577 023 497	101 038 904	19 689 593	19.5	9 619 359	9.5	34 325 208	34.0
2005	673 702 943	119 250 807	22 817 530	19.1	11 401 986	9.6	38 280 429	32.1
2006	789 227 555	151 271 701	31 727 644	21.0	12 447 354	8.2	50 723 560	33.5
2007	880 460 879	171 098 466	38 061 543	22.2	15 718 474	9.2	55 461 123	32.4
2008	994 782	189 980	44 430	23.4	18 658	9.8	60 066	31.6

	858	827	339		195		230	
2009	999 191 848	196 313 308	46 018 360	23.4	20 701 805	10.5	60 169 248	30.6
2010	1 160 01 3 978	235 714 637	49 385 289	21.0	22 854 846	9.7	75 649 986	32.1
2011	1 394 47 7 166	284 490 017	59 885 000	21.0	29 233 725	10.3	95 550 463	33.6
2012	1 569 67 2 115	317 218 619	69 671 645	22.0	32 111 820	10.1	103 155 875	32.5
2013	1 809 71 3 087	367 517 727	78 726 008	21.4	31 434 581	8.6	123 878 363	33.7
2014	2 044 46 5 876	401 683 956	91 063 306	22.7	35 163 517	8.8	130 538 554	32.5
2015	2 338 64 7 494	465 229 389	105 395 3 30	22.7	37 009 625	8.0	153 844 174	33.1
2016	2 608 52 5 749	529 607 901	123 686 147	23.4	46 898 425	8.9	168 808 352	31.9
2017	3 110 65 0 155	626 082 415	143 962 939	23.0	57 868 208	9.2	206 679 678	33.0
2018	3 724 38 7 936	738 180 401	175 420 074	23.8	84 132 155	11.4	250 661 593	34.0
2019	4 317 80 9 824	820 148 186	207 849 896	25.3	87 528 217	10.7	2701528 10	32.9
2020	5 048 56 7 945	983 258 493	203 986 510	20.7	112 871 319	11.5	3240388 72	33.0
2021	7 256 14 1 737	1 395 7 25 545	285 606 384	20.5	190 150 638	13.6	533 684 455	38.2
2022	15 011 7 75 979	2 709 130 767	367 386 364	13.6	523 882 093	19.3	1 076 31 0 867	39.7
On average				**21.5**		**10.3**		**33.4**

Overall, what stands out from the table above **[2]** is that Turkish economy increased considerably in terms of GDP over 20 years from 2002 to 2022. At the same time there was a remarkable rise in the amount of total tax revenues over the period. Moreover, VAT, Income tax of individuals and corporate tax were the major contributors of General budget revenue. While the share of income tax in total tax revenues was 21.5 % on average during two decades, VAT and Corporate tax comprised of 33.4 % and 10.3 % of total income, respectively.

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