



**GUIDEBOOK FOR THE RENTAL INCOME DECLARATION FOR FOREIGNERS WHO  
DOES NOT HAVE A PLACE OF RESIDENCE IN TURKEY AND TURKISH CITIZENS  
WHO LIVE ABROAD**

**2008**

**FREE OF CHARGE**

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**THE PRESIDENCY OF REVENUE ADMINISTRATION**  
**Department of Taxpayer Services**  
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## **INTRODUCTION**

The Presidency of Revenue Administration has studies about nonresident taxable people in accordance with taxpayer focused service principle and Turkish Tax Legislation.

As a result of these studies, "The Guidebook for The Rental Income Declaration Of Nonresident Taxable Person in Turkey" is prepared in order to inform them.

Nonresident taxable people can obtain detailed information about the scope of rental income in Turkey, legal basis, acquisition time of rental income, declaration time and location of rental income, exceptions and equivalent rental value and results of non-filing.

We hope that this guide book will be helpful for nonresident taxable people in Turkey about rental income declaration.

**THE RENTAL INCOME DECLARATION OF NONRESIDENT TAXABLE PERSON  
IN TURKEY**  
**(Foreigners who does not have a place of residence in Turkey and Turkish  
citizens who live abroad)**

**The Legal Basis of the Taxation of Rental Income Obtained by the Nonresident Taxable People in Turkey**

The nonresident individuals are subject to limited liability only from their income obtained in Turkey.

In this context, a foreigner who spends less than a continuous period of six months in Turkey during a calendar year and whose customary home is not in Turkey is regarded as nonresident taxable person with limited liability.

Income obtained in Turkey means that related immovable property is in Turkey and these property and rights are in use and evaluated in Turkey.

**Tax Liability of Nonresident Taxable People in Turkey Obtaining Rental Income**

Rental income obtained from the lease of property and rights mentioned above as commercial property and house by owner, possessor, owner of the usufruct and easement and leaseholders in Turkey are subject to real property tax.

The rental income obtained from these property and rights is subject to tax and called "Real Property Tax".

**What is the Rental Income?**

The income obtained from lease of the properties and rights ( land, building, rights, etc.) which are stated in the Article 70 of the Income Tax Law are subject to income tax as "Real Property Tax". On the other hand, properties and rights which are in use of business or agricultural establishment, income obtained from them is calculated according to provisions of determination business or agricultural income.

On the other hand, for a nonresident taxpayer income obtained from operating his/her house as a pension or apart hotel is subject to business income and it is required to be a taxpayer and to give income declaration to tax offices according to the provisions of business income.

The taxation conditions of rental income obtained from the lease of these property and rights is explained in following articles from 70th Article of Law.

## **What is the Acquisition Time of Rental Income ?**

The rental income of the current year or the previous years obtained by taxpayers either in cash or in-kind is regarded as the income gained in current year.

For example; if the rental income of the 2004, 2005 and 2006 is collected in 2007, the income will be regarded as the income of 2007.

The rental income of the forthcoming years received in advance will be regarded as the rental income of each related year and will be declared in related year.

For example; if the rental income of the 2007, 2008 and 2009 is collected in 2007, the rental income of each year will be declared in related year.

In terms of foreign currency rental payments, gross income is calculated according to the exchange rate announced by The Central Bank of Republic of Turkey on collection date. If there is no current price at the market, it is converted in to the New Turkish Liras (YTL) according to the rate determined by Ministry of Finance.

In the case of rental payment collected in-kind, payments are converted according to the equivalent value in the Tax Procedure Law.

## **The Conditions for Rental Income Declaration of Nonresident Taxable People in Turkey**

The nonresident individuals are subject to limited liability only from their income obtained in Turkey.

In this context, taxpayers who have only rental income from immovable properties in Turkey submit immovable property tax declaration only if that obtained income in a calendar year is above the exception amount.

## **Time and Place of Rental Income Declaration**

The declaration related to the rental income obtained in a calendar year is submitted to the authorized Tax Office of immovable property location until the 25th March of following year.

## **Rental Income Exceptions and Conditions**

The amount stated in Law for rental income obtained from lease as a house in a calendar year is exempted from tax.

The exception amount for 2007 is 2.300 YTL.

This exception is not valid for nonresident people in Turkey in the following conditions:

In the case of non-filing or understated filing by taxpayer despite his rental income over the exceptional amount.

In the case of annual declaration obligation for earnings from commercial, agricultural and professional activities in Turkey.

## **Equivalent Rental Value Principle**

The amount of rental income from property and rights can not be under the equivalent rental value. In the event of beneficial occupation of property and rights, equivalent rental value is accepted as rental income value.

Equivalent rental value for lands and buildings is determined by authorities or courts, if not the value is 5% of the tax value determined according to the Tax Procedure Law.

Equivalent rental value for other property and rights is 10 % of cost value of them, if it is unknown 10 % of value determined according to provisions applicable to evaluation of wealth in the Tax Procedure Law.

## **Inapplicable Circumstances for Equivalent Rental Value**

Equivalent Rental Value is not applicable in the following conditions:

Beneficial occupation for safe keeping purpose of void property.

Assignment of building to lineal ancestors, descendants or brother/sisters ( if there is more than one house assigned to them, equivalent rental value for only one of them is not calculated. For married brother/sister equivalent rental value for only one of partners is not calculated.)

Residence of property owner with his/her relatives in the same house or flat.

Lease of property to general and annexed budget administrations, special provincial administrations, municipalities and other public body and organizations.

## **Applicable Circumstances for Equivalent Rental Value**

Equivalent rental value is applied in the case of low or no value for rental income. According to this principle; the rental income under the equivalent rental value or obtained from beneficial occupation is subject to equivalent rental value.

## **Calculation of Equivalent Rental Value**

Equivalent rental value for lands and buildings is determined by authorities or courts.

If this is not the case and no estimation or determination for building or land is stated; equivalent rental value is 5 % of real estate tax value.

For instance, a nonresident person lease his property with 100.000 YTL real estate tax value to his friend without charge; although there is no rental income, at least  $(100.000 * 5 \%) = 5.000$  YTL rental income is to be declared as equivalent rental value.

## **Payment Time and Place**

The income tax is paid in two installments. The first installment in the month of March, and the second one in July will be paid.

The calculated tax can be paid to tax offices or authorized banks' branches .

Results of Non-filing or Understated Filing

In the case of non-filing or understated filing by taxpayer, the exception stated in Law is not valid.

If the rental income is not declared, the taxpayer is subject to penalty twice as much first degree irregularity and the income is appraised by assessment committee.

The income tax and penalty is calculated on the appraised value. Also it is required overdue interest for each delayed month.

The accrued tax, penalty and overdue interest is to be paid in a month after the due date of assessment.

Otherwise, late payment charge is calculated for each month (late payment of charge for fraction of months is calculated for each day of month) and collected by enforcement.

In the case of non-filing or understated filing by taxpayer, it is possible to declare the rental income according to the "penitence and rectification" clauses of Tax Procedure Law. Rental income exception is valid for taxpayers who declare rental income through penitence and tax penalty according to Tax Procedure Law is not applied. Penitence interest is applied for these taxpayers.

### **The Deductible Expenses from Rental Income**

There are two different methods about the expenses that can be deducted from rental income in order to determine the net income of real property income ;

- Lump-sum expenditure basis
- Actual expenditure basis.

The choice made between lump-sum and actual expenditure basis is applied to all immovable properties.

Only one of the expenditure basis can be applied for all immovable properties.

### **The Deductible Expenses in the Actual Expenditure Basis**

In the case of selecting actual expenditure basis following expenses are deductible from gross rental income;

- Lighting, heating, water and elevator expenses for rented property paid by lessor,
- Management charges related to administration of rented property and measured according to importance of property,
- Insurance expenses of rented property and rights,
- Interest of debts related to rented property and rights and 5% of acquisition value of a rented house for five years beginning from the date of acquisition. ( This deduction is applied only for rental income of rented house, non-deductible part is not evaluated as expenditure surplus. This deduction is not valid for houses acquired before 2001.)
- Real estate tax, fees, special assesments paid for rented property and right, participation rate paid to municipalities by lessor,

- Amortization for rented property and rights,
- Repair expenses of the rented property made by lessor,
- Maintenance expenses of rented property and rights,
- Rents and other actual expenses paid by subletter,
- Rent of the house accommodated by lessor who rents their own properties ( except for rents paid by nonresident taxable person in other countries)
- Cost of damages and compensations paid for rented property and rights based on contract, act or judgment.

However, the amount of the expenses which correspond to exception is not deductible. Deductible expense that correspond to taxable revenue is calculated by using following formula.

$$\frac{\text{Taxable Income} \times \text{Total Cost}}{\text{Total Income}}$$

Also, taxpayers who prefer the actual cost basis are suppose to keep all the documents about expenses for 5 years and submit them in case of tax office demand.

### **Allowance for Expenses in Lump-sum Expenditure Basis**

% 25 of rental income after deducting the exceptional amount from total rental income is deductible as allowance for expenses by taxpayers who preferred the lump-sum expenditure basis (except for the ones rented their rights).

However, after the preference for lump-sum expenditure basis, actual expenditure basis can not be chosen for 2 years.

### **Exception Applied to Rental Income**

If there is more than one owner of a house, the exception fort the taxation of rental income is applied individually for each owner as 2.300 YTL.

If the inheritance is not shared by the heirs each heir can benefit individually from this exception.

In the case of rental income from more than one house, the exception is applied only once to the total rental income.

## THE TAX SCHEDULE FOR THE YEAR 2007

Up to the amount of 7.500 YTL	%15
1.125 YTL for 7.500 YTL of 19.000 YTL, over	%20
3.425 YTL. for 19.000 YTL. of 43.000 YTL, over	%27
9.905 YTL. for 43.000 YTL of over amount exceeding 43.000 YTL, over	%35

### FROM THE POINT OF VIEW IN TERMS OF DOUBLE TAXATION TREATIES

Real property rental income, is handled in sixth article, entitled "Obtained Income from Immovable Property", of double taxation treaties executed by Turkey and right of taxation is left to country in which immovable property located.

In this case, taxation right of rental income obtained from immovable property in Turkey by individuals domiciled in contracting nation is left within the framework of procedures and principles stated in Turkish internal legislation and there is no any definitive clause for Turkish internal legislation.

### EXAMPLES:

**EXAMPLE 1:** A German citizen has gained 10.000 Euro as rental income from his villa in Fethiye in 2007.

He preferred the lump-sum expenditure basis and he has no other income to declare in Turkey. On the date of collection, buying rate for Euro announced by The Central Bank of Republic of Turkey is accepted as 1.81 YTL.

Income tax for rental income of taxpayer is calculated as :

The Total Gross Revenue (10.000 x 1,81).....	18.100-YTL.
The Tax-exempt Amount.....	2.300- YTL.
The Balance (18.100-2.300 ).....	15.800- YTL.
25% Lump-sum Expenditure (15.800 x %25).....	3.950- YTL.
Taxable Income (15.800 – 3.950).....	11.850- YTL.
The Calculated Income Tax*.....	1.995- YTL.
The Income tax payable .....	1.995-YTL.

(\* ) The Calculated Income Tax will be found out according to the rates of the tax schedule for the year 2007.

**EXAMPLE 2:** Oliver Kahn has gained 15.000 Euro as rental income from his house in Alanya in 2007. On the date of collection, buying rate for Euro announced by The Central Bank of Republic of Turkey is accepted as 1.80 YTL.

He preferred the lump-sum expenditure basis and he has no other income to declare in Turkey. His total actual expenses for this house is 3.000 Euro. On the date of expenses, buying rate for Euro announced by The Central Bank of Republic of Turkey is accepted as 1.80 YTL.

(In the actual expenditure basis, expenses correspond to tax-exempt amount is not deductible from total income, only expenses correspond to taxable income is deductible. Therefore it is essential to calculate the amount of expenses that correspond to taxable income. The expense that correspond to taxable income is calculated according to the following formula.)

Total Income : 15.000 EUR x 1,80 YTL = 27.000 YTL  
 Taxable Income : 27.000 YTL - 2.300 YTL = 24.700 YTL.  
 Total Expense : 3.000 EUR X 1,80 YTL = 5.400 YTL

**Taxable Income x Total Cost**  
**Total Income**

$$\frac{24.700 \text{ YTL} \times 5.400 \text{ YTL}}{27.000 \text{ YTL}} = 4.940 \text{ YTL}$$

Income tax for rental income of taxpayer is calculated as :

The Total Gross Revenue (15.000x 1,80).....	27.000- YTL.
The Tax-exempt Amount.....	2.300- YTL.
The Balance (27.000-2.300).....	24.700- YTL.
The Deductible Actual Expense .....	4.940- YTL.
Taxable Income (24.700-4.940).....	19.760- YTL.
The Calculated Income Tax* .....	3.630,20-YTL.
The Income tax payable.....	3.630,20- YTL.

(\* ) The Calculated Income Tax will be found out according to the rates of the tax schedule for the year 2007.