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**ANALISI DELLA TASSAZIONE IMMOBILI
IN TURCHIA**

**ANALYSIS OF REAL ESTATE TAXATION
IN TURKEY**

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ABSTRACT

Turkey is a new republic in consideration of the structure of its regime in last 100 years, located between two most populous continents, Europa and Asia, despite the real estate tax has been existing almost for three millennia. As the country had had initially some problems in structuring new taxation system, this fact had affected real estate taxation system as well by creating controversy throughout all history of this new republican country. In Turkey, the real estate tax takes part of direct taxes just as in the rest of the world therefore it has a role of importance for Turkey. In the developed countries such as European Union countries and United States of America, instead, the amount collected of real estate tax is not much crucial because these countries had focused on being more productive by investing and attracting all factors which would affect development index. For Turkey the situation is more different as the country has had corruptions and lack of industrial and service productivity. For this reason, the importance of real estate tax in direct taxes might be conceived. The amount compared to OECD or European Union is clearly higher. This thesis elaborates on the analysis of Real Estate Taxation System in Turkey. Starting from the classifications and history in Turkey the differences among laws would be observed in the same system. Especially, some cases creating controversy on laws and articles have solutions issued by local governments. As mentioned above, to understand properly the shares of real estate tax in the economic structure, the tax basis and rates is indispensable. Afterwards, the exemptions are being processed in which cases should be applied or invalidated. The real estate taxes could not be defined only in a topic, are grouped into two categories; building tax and land tax. Both of them have common or different characteristics which have been variable based on the articles and laws. These concepts define that both of them would have subjects to be taxed. Last, by taking into account all definitions, laws and characteristics, the suggestions, possible scenarios and the cases experienced are evaluated based on classifications such as regional differences throughout country and context of inheritance and transfer tax.

ABSTRACT

La Turchia è una nuova repubblica in considerazione della struttura del suo regime negli ultimi 100 anni, situata tra i due continenti più popolosi, Europa e Asia, nonostante la tassa immobiliare sia esistita da quasi tre millenni. Poiché inizialmente il paese aveva dei problemi nel strutturare un nuovo sistema fiscale, ciò aveva influenzato anche il sistema fiscale immobiliare creando polemiche in tutta la storia di questo nuovo paese repubblicano. In Turchia, la tassa immobiliare fa parte di imposte dirette proprio come nel resto del mondo, quindi ha un ruolo molto importante per la Turchia. Nei paesi sviluppati come i paesi dell'Unione Europea e gli Stati Uniti, invece, la quantità riscossa della tassa immobiliare non è molto cruciale perché questi paesi si sono concentrati sull'essere più produttivi investendo e attirando tutti i fattori che influenzerebbero l'indice di sviluppo. Per la Turchia la situazione è più diversa in quanto il paese ha subito corruzioni e mancanza di produttività industriale e dei servizi. Perciò potrebbe essere concepita l'importanza della tassa immobiliare nelle imposte dirette. La quantità riscossa in Turchia rispetto all'OCSE o all'Unione Europea è chiaramente più elevata. Questa tesi si focalizza sull'analisi del sistema di tassazione degli immobili in Turchia. A partire dalle classificazioni e dalla storia in Turchia, le differenze tra le leggi sarebbero state osservate nello stesso sistema. In particolare, alcuni casi che creano controversie su leggi e articoli hanno soluzioni emesse dai governi locali. Come accennato in precedenza, al fine di comprendere correttamente le quote della tassa immobiliare nella struttura economica, la base imponibile e le aliquote sono indispensabili. Successivamente, vengono elaborate le esenzioni in cui i casi devono essere applicati o invalidati. Le tasse immobiliari non potevano essere definite solo in un argomento, sono raggruppate in due categorie; tassa di costruzione e tassa fondiaria. Entrambi hanno caratteristiche comuni o diverse che sono state variabili in base agli articoli e alle leggi. Questi concetti definiscono che entrambi avrebbero soggetti da tassare. Infine, prendendo in considerazione tutte le definizioni, le leggi e le caratteristiche, i suggerimenti, i possibili scenari e i casi vissuti vengono valutati sulla base di classificazioni quali differenze regionali in ciascun paese e contesto di successione e imposta di trasferimento.

CHAPTER I

In this chapter, the definition and the classification of the tax, basic concepts and the reason why it was 'born' are being mentioned. The thesis deeply analyses real estate concepts and therefore it focuses on the real estate taxation in Turkey and the benchmarking among EU countries and Turkey.

1. THE CLASSIFICATION OF TAXES

There are a lot of reasons why the taxes should be collected but the reasons could be variable in every different era. The most common taxes are obviously direct and indirect ones; on the basis of tax assessment, and of the financial resources.

1.1 Indirect and Direct Classification of Taxes

Recently, direct and indirect classification are the most important types of tax classifications and since the establishment of taxation they are oldest ones as well. It is identified whether the tax is paid by taxpayer or not, and the tax incident is transferred or not.

Indirect taxes change the relative taxes affecting the general price level. The principal characteristic of indirect taxes is that they could be reflected. Thus, excise taxes would be classified as an indirect tax through the price mechanism.

In Turkey, indirect taxes consist of;

- Value-added tax
- Special consumption tax
- Banking and insurance transaction
- Stamp duty
- Customs duty

Direct taxes on the taxation of income and wealth do not affect the general price and relative price by being not reflected. Direct taxes are based on the ability-to-pay principle. This principle is an economic term that states that those who have more resources or earn a higher income should pay more taxes. The ability to pay taxes is a way to redistribute the wealth of a nation. Direct taxes cannot be passed onto a different person or entity; the individual or organization upon which the tax is levied is responsible for the fulfilment of the full tax payment.

The direct tax is the opposite of an indirect tax, where the tax is levied on one entity, such as a seller, and paid by another, such as a sales tax paid by the buyer in a retail setting. Both taxes are equally important to the revenue generated by a government and, therefore, to the economy. Direct taxes existing in Turkey consist of;

- Income tax
- Corporate tax
- Real estate tax
- Inheritance and transfer tax
- Motor vehicles tax

1.2 Classification on the Basis of Tax Assessment

There are two ways of classification on the basis of tax assessment; These are classified as specific duties and ad valorem duties. This classification attributes to the tax assessment or the type of calculation of tax liability. The characteristics of the ad valorem duties is that the thing to be taxed is on basis of the tax assessment.

Ad valorem duties;

- Income tax
- Corporate tax
- Expenditure tax and custom tax

Specific duties, instead, are calculated on basis of capacity, height, etc. They consist of:

- Motor vehicles tax
- Fixed fees

However, nowadays, the range of application for specific duties in Turkey has been reduced. There are some reasons why the range has been reduced. First of all, specific duties could

not be adapted to taxes such as income tax, corporate tax or value-added tax. It is thought that specific duties would be insufficient to follow price movements.

1.3 Classification on the Basis of Taxpayer's Statute

The tax classification of the taxpayer according to the personal situation is in two ways; Subjective and objective taxes.

Subjective taxes, in other words personal taxes, taxpayer's statute is taken into account. In objective ones, instead, the statute of the taxpayer's statute is not taken into account. To be more specific, the objective taxes do not depend on marital status or parental status or total income.

Income and inheritance taxes address to objective taxes. On the other hand, goods and services taxes address to subjective taxes.

1.4 Classification on the Basis of Financial Resources

The classification on the basis of financial resources takes place in three ways; Income taxes, expenditure taxes and wealth taxes.

i. Income taxes divide into two different groups; individual and corporate income taxes.

In the individual one, Residency criterion is the key point for the taxes. Residents in Turkey are liable at tax on their worldwide income and they are considered as "full tax liable". Non-residents are only subject to taxes on their revenues gained in Turkey and they are considered as "limited tax liable". Residents are individuals with legal permanent residence and those who reside in Turkey for more than six months during one year.

In the corporate one, If the legal headquarters or effective management of corporations are located in Turkey, they are subject to taxes derived from world-wide business. They are also called as resident companies. (Investment Office, 2019)

ii. Expenditure taxes consist of value added tax, special consumption tax, banking and insurance transaction tax and stamp duty.

iii. Wealth taxes, instead, is the wide topic of the wealth concept, which includes specifically the real estate taxes

2. WEALTH TAXES

Wealth is an important indicator in determining the ability to pay taxes. Another fact determining the tax would be the wealth. Wealth is usually created in the form of assets and real estate. The tax liability of the person is determined according to the size and excess of the asset. The tax debt of the person who has a lot of wealth is more than the person who has less wealth. The tax power to be paid by an individual is calculated on the basis of his / her assets and income within a year. The demand for wealth stems from the need to create a future assurance. While unexpended earnings appear as assets, wealth is also considered as a tax issue. It is useful to list the taxes that constitute the Turkish Tax System without switching to wealth taxes.

2.1 General Wealth Taxes

Taxes are collected on wealth components at a sitting. Wealth components could not be separated from each other, so all of these wealth is charged at one time. Taxes such as inheritance and transfer tax are the taxes collected on the exchange of property.

i. Inheritance and transfer tax is classified under the general wealth tax. Inheritance tax is a tax that is taken from the portion of the inheritance of the inherited assets. The inheritance tax is also applied to the lifelong transfers as the death transfers are taxed due to inheritance tax.

Inheritance and transfer taxes mainly tax the components of wealth obtained in an unrequited way. A person will pay inheritance tax if he / she has some wealth elements through inheritance, donation or inheritance tax or possesses wealth elements in some other ways. Inheritance taxes could be applied in two ways as estate tax and purpary. In the first one, the wealth left by the deceased is taxed without considering the shares of the heirs, and in the second one, the tax is taken from the inheritance shares, not from the whole estate. Of these, it can be applied to the mixed application of the land or inheritance taxation method. Transfer tax is a type of wealth tax which has been created in order to prevent all kind of unrequited wealth transfers by existing persons. This taxes all transfers among natural person or legal identity. In this way, by avoiding tax evasion by using the gaps of inheritance tax, all kinds of unrequited transfers outside the inheritance will be taxed. In Turkey, in accordance with the law no 7338 '08.06.1959' Inheritance and Transfer Tax Act is applied. It is updated with certain exemptions and exceptions by making changes to date.

2.2 Private Wealth Taxes

In the private wealth tax, the tax is levied separately from the components of wealth. Real estate tax and motor vehicle tax take part of the privated wealth tax. In private wealth taxes, the tax is continuous so that it is collected every year. When the taxes on wealth stock are mentioned, special wealth taxes are generally a tax due to accumulation of wealth.

i. Real estate tax, is a special wealth tax on building owned by real or legal persons and land. Wealth taxes are composed of subjective taxes but real estate tax is an objective tax applied in almost every country as well as income tax. Due to this characteristics, it is still argumentative whether it should be entirely included in the wealth taxes. A significant

portion of the wealth tax incomes is composed of real estate tax income. Real estate tax is a special tax usually collected by municipalities. The building is divided into land and land tax. It is possible to observe that building, land and land taxes are applied under the same law as well as by separate laws. (Akkilic, 2019)

3. THE CONCEPT OF REAL ESTATE TAX

It is the tax paid for property, land and buildings. Property tax is divided into two types. These are divided into two as building and land tax. Although property tax is divided into two, there are many issues that are identified.

3.1. History of Real Estate Tax

The real estate tax has historically been an important source of government revenue. The tax primarily funds local services such as city water and sewer systems, roads, sanitation, education, and fire and police protection. As the quality and quantity of local services has increased, the funds required to support these services has also risen.

The types of Real Estate Tax always differs from each other throughout the centuries since its birth. For this reason, every civilization in every single territory has been legislating different laws regarding Real Estate Tax.

The first ever tax records, dating from about six thousand years B.C., were in the form of soil tablets which were found in city-state of Lagash. It was such that each month one particular area of city was taxed, which allowed to make such arduous task less difficult. In Ancient Egypt the taxes had been collected against the value of grain, cattle, oil, beer and also land. By that time only one person out of 100 were literate. Some of these people were tax assessors. They kept records about owners of land along with its size. They collected annual data by calculating cattle and checking the crop yields. If the taxpayer was not able

to pay the tax, he was brought before the court. Tax assessors were highly respected people due to their ability and skills. (Carlson, 2013)

When it starts to find out the cases in Europe, especially, in England of the 11th century the taxes on land had been paid by peasants who rented that land from its owner. The more productive the land was the higher the rent was. During the 1170s, William the Conqueror established an early form of land taxation. It was common that cities kept records of the owner of the property. Each parcel was measured and estimated. Later, after 1215, King John was limited in his power to raise revenue, so from this point taxes could be collected only with permission of his barons. After 1290 normal people started to pay this type of tax based on the location of the property. In 16th century even the King's own land had been also taxed. The King's power of taxation became even weaker especially after 1689 when the new law was introduced meaning that he could not tax without Parliament's permission. (Henderson, 2017)

The reason for the justification of real estate taxes is based on the solvency theory or the utility theory view. Owning immovable property until the beginning of the 19th century was considered as a sign of taxpayer power and the taxation of these assets was advocated based on the principle of power. However, starting from the mid-19th century, the fact that real estate tax is advocated on the basis of the power principle, such as the rapid development of financial markets, the loss of relative importance of buildings and land among other wealth elements, the lack of a close relationship between the income and the amount of immovable property principle.

3.2 Real Estate Taxes in European Union

This title focuses on the cases in European Union where real estate taxes differ from each other in the EU countries.

i. Tax Reform and the European Union

Over the last 10 years France, Denmark, Germany, the Netherlands, Belgium, the United Kingdom and the Republic of Ireland have either completed or are in the process of completing substantial reforms to their taxation systems. Other countries have undertaken more minor reforms. Even some emerging democracies are reviewing and reforming their relatively new taxation systems in light of changes elsewhere. No individual tax exists in isolation, and all are affected by larger fiscal, economic and political developments. The reform of one tax will often have consequential effects on others, and property taxation in all its forms is no exception.

One impetus to tax reform in Europe is the European Union (EU). Fifteen of the countries in our study are members, and many other countries are in various stages of being considered for membership. Many countries are taking this opportunity to reform and improve their tax administration systems and to make their taxation rates competitive with those of other member states. Tax harmonization is not one of the declared aims of the EU, although it may be a natural consequence of many EU policies.

The main incentive for tax reform in Europe is coming from the states themselves. In one of the first signs of the problems caused by traditional national taxation systems, the Ministry of Finance in the Netherlands noted in the early 1990s that not only were businesses locating in the most tax-favorable areas but they also were buying goods and services from other countries where tax rates and other costs were lower. The close proximity of the Netherlands to Germany, France, Belgium and Luxembourg, as well as the good transport links between the countries, exacerbated the situation.

The introduction of the Single European Market has opened internal markets to foreign competition with the removal of trade barriers and the abolition of customs duties between

member states. Business competitiveness now depends primarily on efficiency and the amount of taxation imposed by the national government, rather than on state aid and trade policies.

ii. Approaches to Local Taxation

The Taxpayer

The majority of property taxes are payable by the owner. Of the 51 taxes we studied, 29 identified the owner as the taxpayer and 12 are paid by the occupier; the remaining 10 are sales-based taxes. The occupier figure was distorted because the United Kingdom accounted for 50 percent of this figure, due to differences in the implementation of its local taxes. In the Netherlands both parties can be taxed at different amounts. For sales-related taxes the results were less clear, with the taxpayer being the seller in half the cases and the purchaser in the other half.

Sources of Valuation Information

Many countries have some form of computerized cadastral system to record property-related information, and as part of the assessment process different levels of government usually exchange information. The nature and implementation of such systems vary considerably, from a series of different registers administered at various levels of government to a single register administered nationally.

The rights of the taxpayer to centrally held information also differ among countries. Some provide no rights to any information, while others provide notice whenever a new valuation or alteration is made. In some cases, valuation and comparable evidence may be made available at the request of the taxpayer.

Bases of Valuation

Three alternative approaches for the valuation bases are used most frequently. The Capital Value Approach is normally based on the open market value of the property at a specified baseline date, which may be a current date such as the start of the tax year. Sweden designates a date two years before the tax year. This approach has the advantage of giving valuation authorities more time to consider all the evidence available before arriving at their final valuations. The open market value is usually defined on the basis of a property's best and/or highest value.

The Rental Value Approach is based on the open market rental value at a specified date. England, Wales, Scotland and the Republic of Ireland specify a baseline date some time before the new values come into effect, as in Sweden. The open market rental value may be restricted by assumptions as to changes of use and alterations. The rationale is that the tax is levied on the occupier and the amount of tax is based on the current use of the property, not its potential value.

Properties not normally bought and sold in the market require alternative approaches to valuation. For example, the use of a revenue (or accounts) approach has been adopted in England and Wales for many types of leisure-related property, and its use is expected to increase. The cost approach, related to the cost of construction, also is widely accepted in England and Wales and in other European countries.

The Overall or Unit Approach relates to a property's size. The tax is levied at a prescribed rate per square meters or per unit, which may vary depending on the predominant use of the property. These rates may be loosely based on rental or capital values, but are more often an arbitrary rate fixed by the appropriate taxation authority. In 1997 the Netherlands moved away from such a system in favor of a market-related capital value approach. Many new democracies have adopted the unit approach due to a lack of property information, a limited and restricted property market, and insufficient resources to enable the development of alternative systems. It is anticipated that many of these countries will move to a value-based system when resources and circumstances permit.

A number of other approaches are used under special circumstances. One is the capital value banding approach adopted for the valuation of residential property for the Council Tax in England, Wales and Scotland. In this approach property is ascribed to various value bands rather than valuing each individual property precisely. Another example is the local business tax, which includes the value of the property plus in the case of France a percentage of salaries and in the case of Spain and Switzerland the business profits.

iii. Revaluation of the Tax Base

One of the key factors in examining European property tax systems is whether the valuations on which the tax is charged are up-to-date. Our research identified a very mixed picture: some countries have not revalued their tax bases for many years and others undertake revaluations regularly, every four or five years (see Table 1). Many countries have either no provision for regular revaluations or have postponed revaluations so often that their tax base bears little resemblance to current market values.

iv. Indexation

Many countries have attempted to overcome the problems associated with infrequent revaluations by some form of indexation. Those countries performing annual revaluations may implement them through actual annual revaluations, indexation of an earlier revaluation or self-assessment declarations by the taxpayer. While annual indexation between regular revaluations every few years may ensure a relatively accurate tax base, its use becomes more questionable when the base has not been updated for 10 or 20 years. The position is made far worse in countries where the property market is changing rapidly, especially in major cities and towns. Any adopted index needs to be closely related to the property market in that location and to the specific property type. In most cases, however, the index is a single figure applied across the entire country and for all types of property.

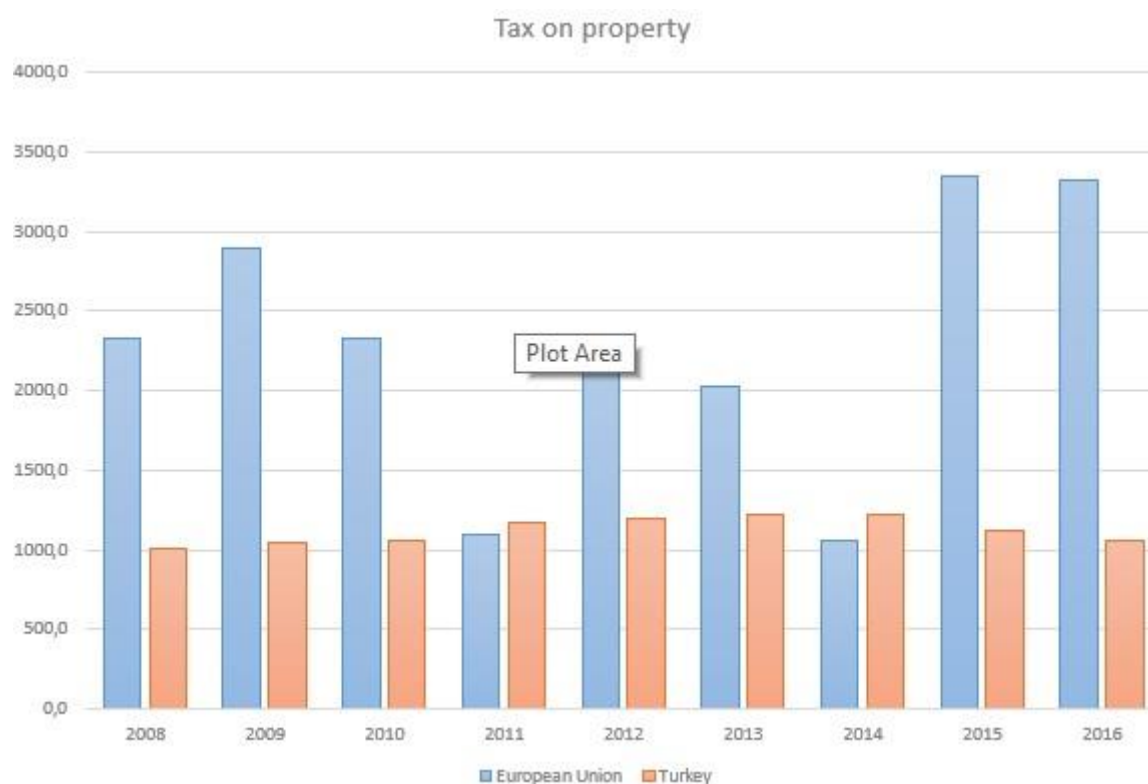


Table 1. Tax on property between Turkey and Europe over the past decade, <https://data.oecd.org/tax/tax-on-property.html>

v. Exemptions and Reliefs

Exemptions can be considered from two viewpoints: the nature of the property or the nature of the taxpayer. In addition, some countries have introduced arrangements that place a ceiling on the amount of tax payable. Some common features relating to the types of properties for which some form of relief may be granted are:

- land owned by the state and used for the provision of public services, such as schools, hospitals, cemeteries etc., if usually exempt or excluded from the tax legislation;
- land and property used for religious purposes;
- historic land and buildings;
- agricultural land.

Relief to taxpayers takes many forms and can include:

relief to persons of retirement age;

relief to disabled persons;

relief of a percentage of the tax for certain owner-occupiers or remittance of an initial amount of the tax.

Calculating the Amount of Tax

The simplest systems for calculating tax payments adopt a given tax per square meter occupied. Once the area of the property is agreed, it is a relatively simple matter to apply a given tax rate to that area. In some countries, the assessed value must be multiplied by an index or co-efficient and then by a locally determined rate that can vary depending on the size of the authority levying the charge. In France, the situation is even worse for the business tax, where a series of limitations have to be calculated to ascertain whether a ceiling or cap applies to the taxable amount.

vi. Appeal Systems

Most countries have a system by which the taxpayer may challenge the tax assessment or valuation, although that action generally does not postpone the payment of the tax. In some cases the first step is an informal approach to the authority, which may be able to resolve the dispute without the need for more formal action. Where a formal approach is adopted, the appeal may be dealt with as part of the general tax appeal process through the normal tax tribunals and courts, or it may be handled outside the normal tax system, often in courts and tribunals established for the purpose.

vii. Tax Collection and Payment

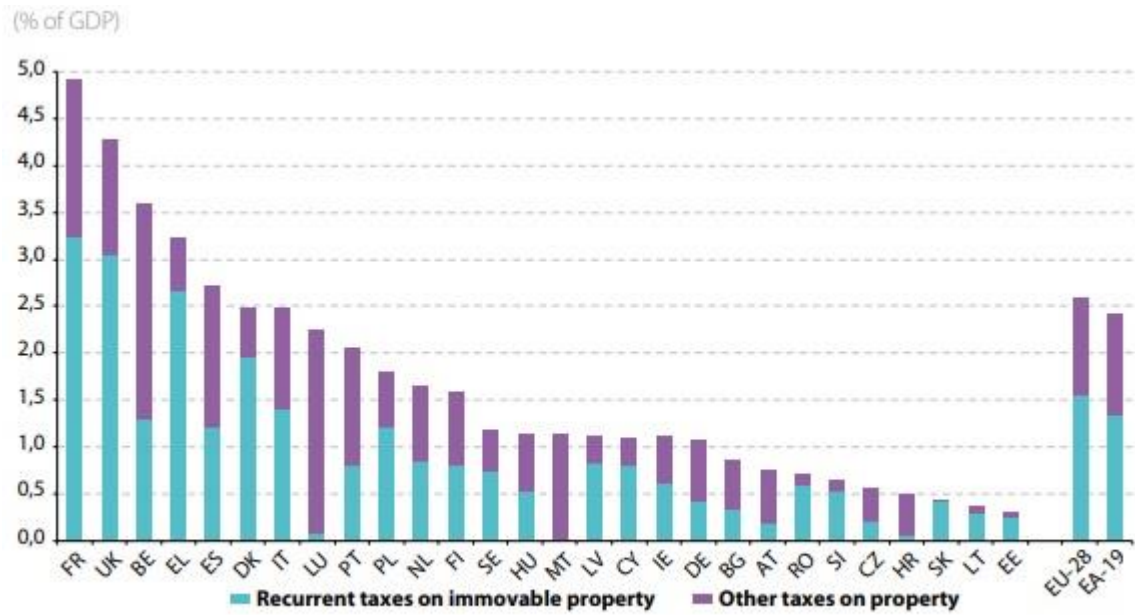
In many countries taxes are collected by the national tax authority, often as part of the income tax process. This method has the advantage of being linked with national exemptions and benefits; the resulting tax is usually payable over the whole tax year. Under the second common method, the tax is paid directly to the relevant taxing authority, sometimes in installments.

viii. Conclusion

European countries are constantly reviewing their tax systems and adopting the best features of other systems. This presents special challenges to a survey such as ours, but also enhances its potential impact by allowing comparative analysis to influence new legislation. One very important conclusion at this early stage of the research project is the importance of keeping the tax base up-to-date. This not only simplifies the entire valuation and collection process but also ensures a tax base that is more acceptable and understandable to taxpayers. During this year we propose to widen our research and complete data collection on other European countries. In addition, we will attempt to compare the amounts of revenue raised by each type of taxation and analyze them within the context of each country's local government and finance system. (Brown & Hepworth, 200)

Real estate taxes cover recurrent taxes on immovable property that typically are paid annually and are linked to some measure of the value of the real estate, and other real estate taxes that include taxes on real estate transfers and transactions. Such taxes represented 2.6 % of GDP in 2017 and 6.6 % of total tax revenue. Indeed, their share of total revenue has increased quite substantially (1 pp) since the low point of 5.6 % in 2009.

In the EU generally it is recurrent real estate taxes that dominate, accounting for 1.6 % of GDP and 59.9 % of all property taxes in 2017 (Graph shows the composition of property taxes for the Member States ordered by the amount of recurrent property taxes as a percentage of GDP).



Source: DG Taxation and Customs Union, based on Eurostat data.

Recurrent taxes on real-estate property have attracted increasing attention from policymakers because in many countries where they are low they offer a potential source for increasing revenue, while at the same time they are considered to be the least detrimental to economic growth given the immobility of the tax base. (European Union and Customs, 2019)

CHAPTER II

This chapter chronologically includes the development of real estate tax concept in Turkey. Starting from early republican period until now the chronological change on real estate taxation is mentioned.

1. REAL ESTATE TAX LAW IN REPUBLICAN ERA IN TURKEY

The Land Tax No. 1833 and the Building Tax No. 1837, which were in force between 1931 and 1970, are wealth taxes. The income of wealth taxes obtained between 1965 and 1971 was around 10% in general tax revenues and was above the average of OECD in the period.

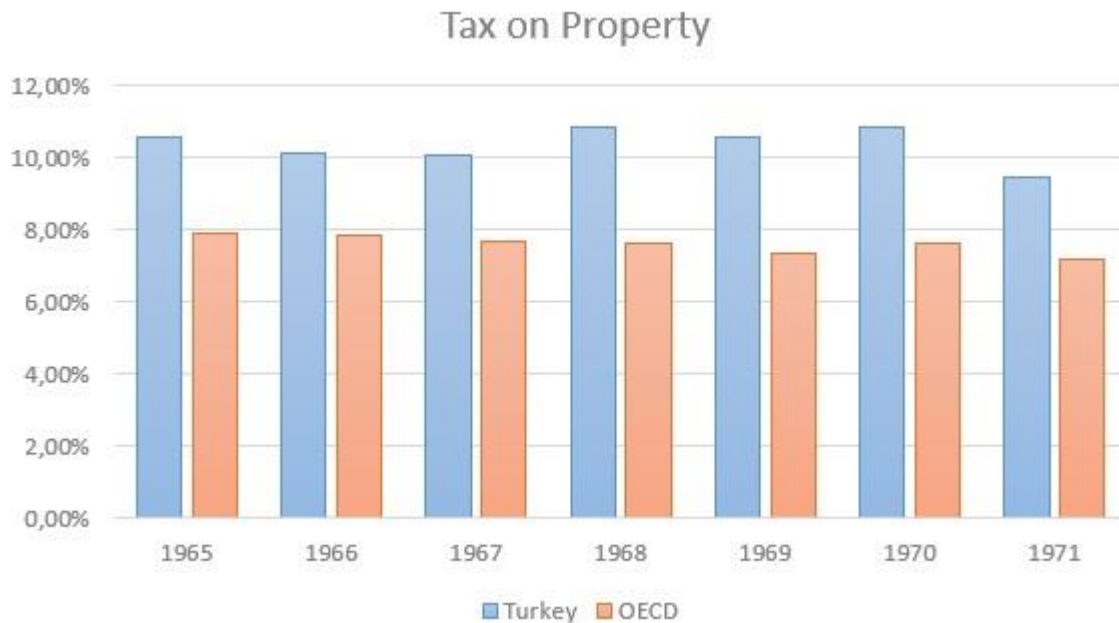


Table 2. Tax property between Turkey and OECD between 1965-1971, <https://data.oecd.org/tax/tax-on-property.html>

Land Tax No. 1833 and Building Tax No. 1837 which had been adopted in 1931, and Real Estate Tax no. 1319, adopted in 1970, have an importance in the Republican Era.

1.1 Land Tax Law No. 1833

The Land Tax No. 1833 entered into force in 1931 and started to be applied. Subject of tax, as stated in the Article 1, is defined as “all lands located within the boundaries of Republic of Turkey”. A property without building is admitted as a land. The Article 7 of the given law states that if the owner of the land has a right to benefit, he/she would be owner.

Permanent exceptions to land tax are regulated in Article 2. For instance, in the Article 2/1 of the law, article nursery, fruit orchards, sample fields and farms, sports fields, free public parks, playgrounds and playgrounds belonging to the State and the institutions and municipalities which are managed with the added or special budgets and the associations serving the public interest could be given. The use of the exemption of the lands mentioned in this article is conditional on the fact that it is not intended to be profitable, not leased and specific to the development of agriculture. The use of the exemption of the lands mentioned

in this article is conditional on the fact that there is no purpose of earning, not leasing and specific to the development of agriculture.

Temporary exemptions in land tax are regulated in the article 3 of the law. For example, in the article 3/2 of the law, fruit and fig orchards to be brought back to the body are exempted from tax for eight years. If it is not possible to determine the value of the purchase and sale of the land, 10 times the rent value to be obtained constitutes the land value. Based on this approach, the rates of 10 ‰ for the property and of 15‰ for the land have been applied. According to the article, the place where the land is located in two equal instalments has been collected in the tax office of the private administration.

1.2 Building Tax No. 1837

In the articles 1 and 2 of Building Tax; all of the constructions located within borders of Turkey on land or water would be taxed and the provision for a mobile building construction would be same. Exemption and continuity exemptions for temporary periods are applied in the building tax as in the land tax. Permanent exceptions, instead, had been legislated in the Article 3 of the law.

In the Article 3/4, provided that the hospital, sanatorium, orphanage and hospice buildings are free they have been permanently exempted provided that they are not rented. Temporary exemptions in building tax are regulated in article 4 of the law. For example, in article 4 of the law, the buildings possessing the licence of tourism establishment in accordance with the provisions of the Law on Promotion of Tourism Industry No. 6086, are exempt from building tax for 5 years. Net income has been taken as the base of the building tax assessment and a lump discount of 20% has been admitted from the gross income estimated

to commissions in return for attrition. Gross income is the annual rent that the building will bring if it is rented. The building tax is charged as in the land tax. The rate of building tax is regulated in the Article 10. In accordance with the Article 9, tax rate equals to 12% of net income.

1.3 Real Estate Tax Law No. 1319

The share of wealth taxes in general tax revenues has decreased until now. While it was 9.14% in 1971, it decreased to 5.42% in 1980 and continued to decline in the following years. In the OECD average, the parity has been between 7% and 5% since 1970.

The ratio of wealth taxes in other tax revenues in the world has shown same decline in Turkey. However, the decrease in Turkey is more distinct compared to decrease of OECD average. Real estate tax, which takes part of wealth taxes, has lost its importance until today as it has become an ordinary tax

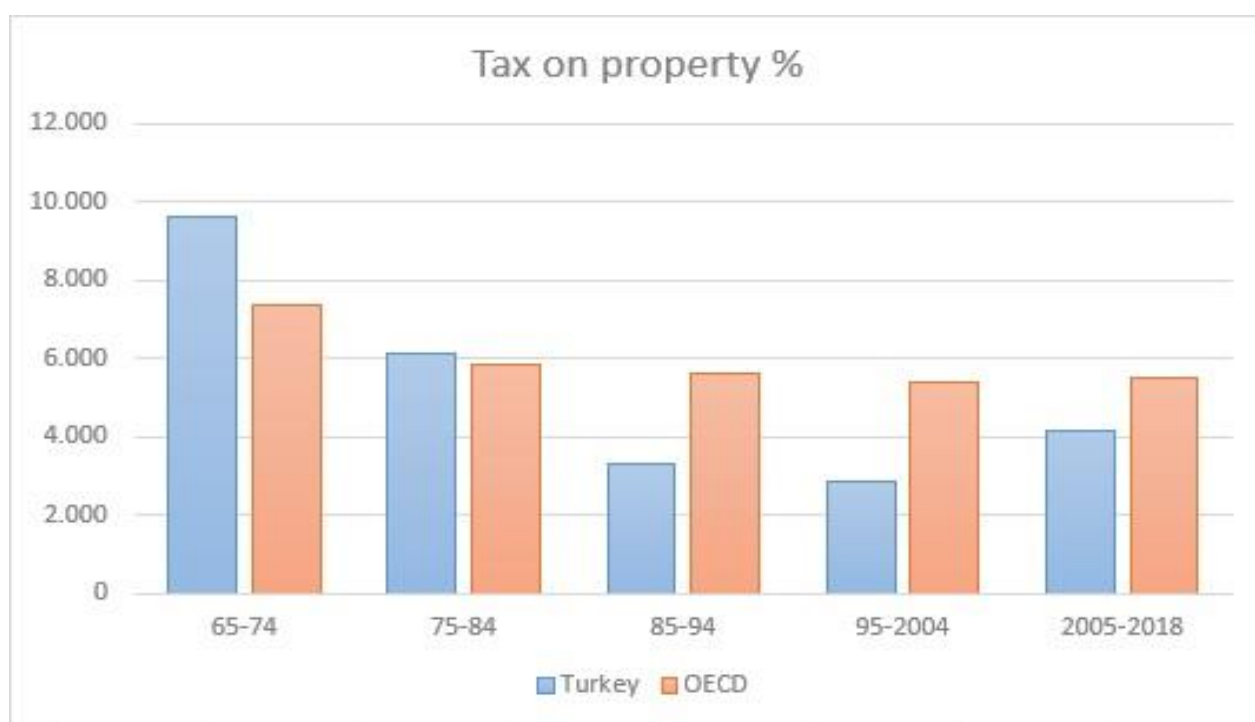


Table 3. Tax property between Turkey and OECD between 1965-2018, <https://data.oecd.org/tax/tax-on-property.html>

The Land Tax Law No. 1833 and the Building Tax Law No. 1837, which came into force as in 1931 and taxed the land and building separately in the Republican period, remained in force until 1970 and had been replaced by the Real Estate Tax Law No. 1319.

The new property tax consists of three parts. In the first part, the building tax, in the second part the land tax, in the third part the building and land tax are regulated jointly. In the first two sections, taxpayers, exemptions and exceptions, tax base and proportions and tax assessment and accrual are regulated. (Arslan, 2012)

2. THE SUBJECT OF REAL ESTATE TAX

The subject matter of the tax is the economic value or wealth which constitutes the source of the tax directly or indirectly. In short, everything taxed is the subject of tax. Thus, the subject of the tax could include goods, services, income, expenses, capital, savings, consumption, treatment, tangible and intangible assets, wealth, acts, events and so on. (Ekodialog)

The subject of the tax includes the general budget taxes, duties and special provincial administrations and municipalities. Real estate tax consists of immovable such as buildings, land and property. The subject of real estate tax is group into two categories; building and land taxes.

The taxpayer is defined in the Article 8/1 of Tax Procedure Law. According to the Article, the taxpayer is a natural or legal person who is liable to pay the tax debt in his / her share.

According to the Articles 3 and 13, the taxpayer, if he/she has beneficial owner of building, land or property, is owner but if not, is possessor.

2.1 Subject of Building Tax

Real Estate Tax Law is divided into three parts within itself, the building in the first part. The subject of the building tax in the first part is regulated in the first section entitled “Taxpayer”.

According to Article 1 of Real Estate Tax Law, the subject of Building Tax involves the buildings located within the borders of Turkey. Building concept concerns real estate tax as well as The Development Planning Law No. 3194. The Development Planning Law explained the concept of building which is important for the building and then defined the building. According to the article 5 of the Development Planning Law; buildings are fixed ‘facilities’ which are located on land and water, permanently or temporarily, by being formal and private underground and above ground construction including their changes and modifications. Each wall, balcony and roof of the building is a stand-alone structure. Based on this idea, it is evident that the building is formed by the construction of each connected structure. (GIB GOV)

In the real estate, tax, a general definition is made for the building. In the Article 2 of Real Estate Tax Law, the building encompasses all fixed constructions on land and water regardless of which material is used. By take into account this article defining which buildings should be taxed; it does not matter whether the building is made of reinforced concrete, masonry, wood, steel or any other material. The important is that the building should be fixed construction. Fixed construction, for a continuous purpose of construction means it is convenient to use. In the article 2/3 of Real Estate Tax Law, floating pools, tents and mobile houses in transport vehicles are not considered buildings, while dock, pier, tunnel transport lines on land or water such as infrastructure facilities are considered as buildings. The article 2/2 of Real Estate Tax Law evaluates the components of building in the Tax Procedure Law in the same time by not separating from the building. In the case that there would be components of building it becomes a subject of the tax. A basic structure is not considered a building and the foundation cannot be separated from the building in any dwelling by being the supplementary of the construction. (Bulutogul)

In the decision of the 9th Chamber of the Council of State in 1991 which evaluates whether the one who had constructed a building on the public land, should be taxpayer or not, even though he is supposed to pay rent due to occupation, 9th Chamber of the Council of State determined that the ownership of the building is not registered on behalf of a real or legal person on the deed and there

is no usufruct right holder on the building but the owner of the building saves the building as the owner, the rent is related to the land owned by the Treasury and decided that the building is obliged to give the building tax. (General Communique of Real Estate Tax, 1991)

The owner of the land where the buildings are constructed illegally such as occupation and the tenant are evaluated differently. In the first case, the owner of the land is subject to real estate tax, instead, in the second case, the tenant is subject to real estate tax like the owner. However, ownership on the land belonging to someone else such as slums to build and inhabitants are required to pay property tax. (Kizilok, 2013)

Subjects of Building Tax split into 3 different subjects; owner, beneficial owner and possessor. In the case that both owner and beneficial owner at the same time has a building, the taxpayer would be beneficial owner. In deciding who would be taxpayer, the priority is to beneficial owner before than owner. If there is no beneficial owner, the owner become taxpayer. In conclusion, in the case that neither owner nor beneficial owner exists, the possessor would be taxpayer.

The Article 3/2 of Tax Procedure Law regulated how to apply joint ownership and co-ownership. If the building is on joint ownership, owner should be taxpayer in proportion to share. Every shareholder pays individually the portion of building tax by declaring their share.

In the co-ownership, the owners are liable for the tax. None of the owners by oneself could dispose on the whole or a certain part of the building but they would save only together. The status of the heirs is actually an example of co-ownership. (Kizilot)

The law regarding the liability of tax has been regulated. The beginning and end of the building tax in the Article 9 of Real Estate Tax Law. For starting of the tax liability there are 3 different periods. Occasions in which change the tax value such as fusion of all shares of building only for one subject, and new construction of a building. Secondly, date of rating which is operated every four year and deadline date of exemption. To execute the exemption of building tax the building should be annihilated. For instance, in Turkey, the buildings of a state university could take advantage of exemption conceded by the State. Thus, the state universities are not supposed to pay any tax for the building possessed. This resolution has been clinched by the Articles 4, 9, 14 and 19 of Real Estate Tax Law.

2.2 The Subject of Land Tax

Land is defined in tax law as a part of the earth which is generally surrounded by natural means such as mountains, footpaths or artificial signs such as fences, walls, trees and roads. The ponds, springs and the things planted in the land are also considered as land. The property is considered as a part of the land. However, the difference between property and land; In the Article 12/2 of Real Estate Tax Law, property; where the land is parcelled by a municipality within the boundaries of the same municipality.

In short, the property is a piece of land suitable for construction with a development plan and technical infrastructure meanwhile land is not reconstructed and unable to construct any structure. (What is property?, 2013)

The most remarkable case is regarding the fact that the unparcelled land located within or outside the municipality borders could be considered as land. The Real Estate Tax Law turned over the authority to the Council of Ministers with the Article 12/3. In 1983, the Council of Ministers with the Resolution No. 83/6122 "Unparcelled Land To be Considered as Property" determined that the unparcelled land that is located in the areas separated by the zoning plan and settlement area within the boundaries of the municipality and adjacent areas, or not separated as the zoning plan and the settlement area, and between the areas that are actually inhabited and benefiting from municipal services is considered as land. However, the same resolution fixed upon that the land mentioned above would not be considered as property if it is used in agricultural activities. (Resolution No. 83/6122 "Unparcelled Land To Be Considered As Property", 1983)

According to the Article 13 of Real Estate Tax Law, land tax is paid by owner of building and beneficial owner. Otherwise, it is paid by possessor in case neither owner nor beneficial owner exists.

Land tax liability of the property, where the building is constructed, expires from the calendar year following the year the construction is completed meanwhile the building tax liability starts from the beginning of the calendar year following the construction year. The reason for this situation is that the value of the property, where the building is constructed, is also included in the tax value of the building. However, the situation is more different for slums. According to the decision of the 9th

Chamber of the Council of State in 1976, land tax on slum lands carries on but there is no obligation to pay building tax.

In case of fire, earthquake or flood, the Article 4 of Real Estate Tax Law excludes the payment of land tax for 2 years meanwhile the liability proceeds.

3. REAL ESTATE TAX BASE AND RATE

A tax base is the value of an asset that is used when determining the gain or loss when the asset is sold. Generally, it equals the asset purchase price minus any accumulated depreciation.

It is important to note that a taxpayer's tax basis in a given asset may include several other adjusting factors such as accumulated depreciation deductions claimed during the time of ownership or the value of deferred capital gains from 1031 exchanges executing during the acquisition of the asset. (Tax Basis, 2019)

The basis is defined as the economic or technical amount to which the tax rate is applied to calculate the tax liability. In order to make a tax assessment, the tax issue should be expressed as an economic value or a numerical measure. In income tax, the net amount of earnings and earnings generated in a calendar year is an economic value. Likewise, the tax on property is the fair value of the base, building or land. (Emlak Terimleri, 2014)

3.1 Building Tax Base and Rate

As mentioned in the title “Subject of Building Tax”, those who own a building through joint ownership are charged in proportion to their shares. On the other hand, Co-ownership enables the owners to be responsible successively for the tax. The building tax base is the tax value determined according to the Real Estate Tax Law of a building. The rate of building tax is calculated as 1‰ in residential buildings and 2‰ in other buildings such as commercial buildings.

These rates are applied 100 percent incrementally within the boundaries of big city municipalities and adjacent areas. The Council of Ministers is authorized to reduce or triple tax rates by half.

In the Article 29 of Real Estate Tax Law, how to evaluate for next years from the beginning of the liability of the tax value has been regulated. According to the Article, the tax value should be calculated by increasing the revaluation rate determined for the same year in accordance with the provisions of the Tax Procedure Law by one-half as of the year following the beginning of the year but the Council of Ministers was authorized to reduce this appraisal measure to zero or to increase the revaluation rate by the obtained authorization of Article 29. For instance, the Council of Ministers had been authorized to administer entire revaluation rate in 2014. (Building Tax, 2019)

The augment of tariffs, which has been begun to be carried out in 1970, with the fact that tax collections in tax offices made the taxpayers more disproportionate than the bulk ones, and the difficulties in collecting led to the adoption of a single rate tariff in the first year of implementation in 1972. The augment of tariffs are not applied for the building tax. Instead, residential and workplace distinctions are made instead and separate rates are applied for normal municipalities and metropolitan municipalities. The tariffs are amounted as 7‰ for “50k<”, 8‰ for “100k<”, 9‰ for “150k<” and 10‰ for “150k>” between 1970-72. (Mutluer, 1973)

Additional property tax for buildings, land and lands located within the boundaries of metropolitan municipalities and adjacent areas; As in the real estate tax, it should be calculated by taking into account the ratio of 2 per thousand in dwellings, 4 per thousand in other buildings, 2 per thousand in lands and 6 per thousand in lands. However, according to the provisional article 19 added to the Real Estate Tax Law by Law No. 4736, the additional real estate tax of the buildings, land and lands

located within the borders of Adapazari Metropolitan Municipality and adjacent areas will be calculated by applying normal rates instead of incremental rates.

Additional real estate taxes for buildings not included in the scope of the exemptions from the real estates located outside the boundaries of the metropolitan municipalities and declared to the district and sub-municipalities within the metropolitan municipal boundaries and adjacent areas; As in the calculation of real estate tax, it will be calculated by applying the ratio of 1 per thousand in houses, 2‰ in other buildings, 3‰ in lands and 1‰ in lands.

The calculated additional property tax shall not be notified to the taxpayers and shall be deemed accrued without further processing.

On the other hand, Real Estate Tax Law Article 8 of issued pursuant to the authorization given by the Council of Ministers of the second paragraph 12.19.2002 date and 2002/4998 numbered Council of Ministers Decision (4) and is the only residence within the borders of Turkey, consisting of months they receive from social security institutions established by law exclusively revenue The building tax rate of the single dwelling of the widows and orphans and veterans of the spouses and martyrs who do not receive monthly income from the said institutions and those who do not have a registered residence on them, has been reduced to zero for 2003.

Therefore, the additional property tax of these dwellings owned by the taxpayers who benefit from the discounted (zero) building tax rate will be calculated at the zero rate and therefore no additional property tax will be paid for these dwellings. (Revenue Administration, s.d.)

3.2 Land Tax Base and Rate

In the article 8 of Land Tax Law, the tax base of the land tax is the value of the land and the land determined and to be determined according to the provisions of this law and the methods of destruction and special modification. Instead, in the article 9 of Land Tax Law, the rates had been determined as it valued 10‰ for land and large plots of land and 5‰ for irrelevant plots. (Land Tax Law, 1931)

In the provinces of the metropolitan municipality, the appraisal commission's decisions regarding the land and lands are examined within fifteen days from the date of notification to the central commission and the values determined as a result of the review are returned to the relevant commission. If different values are determined by the Central Commission, these values are taken into consideration by re-appreciation by the relevant commissions. These commissions fulfil their duties every four years. In the discretionary transactions made every four years, the liability starts again as of the calendar year following the date of the discretionary transaction. (Kizilot)

The rate in land tax has observed significant changes as it was in the early years of Real Estate Tax Law just as in building tax. For lands the increasing rate has been implementing, instead, for properties the singles rate has been implementing. As a tax value, the purchase price has been taken into account as well as yield strengths and the gradual increasing rate has been applied.

Tariffs had been determined between 1970-72 as 2‰ for “50k<”, 3‰ for “75k<”, 4‰ for “100k” and 1% for “425k<”. (Mutluer, 1973).

However, after 1972 the rates had experienced a change and had been simplified as below.

Typology of real estate	Tax base	Municipal Borders and Adjacent Areas (by ‰)	Metropolitan Municipality Borders and Adjacent Areas (by ‰)
Land	Tax value	1	2
Property	Tax value	3	6

Table 4. The Article 18 of Real Estate Tax Law No. 1319 <https://www.gib.gov.tr/index.php?id=1028>

As illustrated on the Table 4, the values are variable based on the typology of municipal areas. The differences among borders or boundaries of areas could exactly affect the rates by ‰. Also, in this case, the Council of Ministers is authorized to reduce or triple the tax rates by half.

4. EXEMPTIONS OF REAL ESTATE TAX

A tax exemption is a tool that reduces or eliminates liability to property tax. In a few unusual situations, property may be exempt from assessment, in which case it is not included on the assessment roll. But more commonly, property is assessable but exempt from property tax in whole or in part. Exemptions from property tax operate in a number of different ways. Exemptions may be whole or partial; that is, they may exempt all or only part of a property from taxes, or they may provide relief from all or only some property taxes. In all cases, specified criteria such as ownership, use, location, or property type, must be met before an exemption applies. In some cases, the discretion to grant or deny an exemption lies with the taxing jurisdiction. (BC Assessment, 2014)

4.1 Exemptions of Building Tax

Real estate tax is paid for the properties located within the boundaries of Turkey. Real estate taxes are paid in two separate instalments each year. Real estate tax payments for land, property and buildings based on wealth are made in March and November regularly. In accordance with the Law No. 1319, the application of second instalment has been forced into. For taxpayers with rent income, real estate tax is applied by increasing approximately 12%, which is half of the revaluation. Tax rates are applied as one thousandth in land and dwelling, 2‰ in other buildings and 3‰ in land. The metropolitan municipality borders and contiguous areas are also applied 100 percent incremental. (Emlak Kulisi, 2019)

Article 100 of Law No. 3239 and Article 4/j of Real Estate Tax Law No. 1319 were amended and paragraph (u) was added to this article.

i. With the amendment made in the Article 4/j, it is stated that some buildings belonging to the General Directorate of State Airports Authority and their components will be exempted

permanently from Building Tax and the former exemption clause mentioned in the paragraph is preserved.

Docks, piers, breakwaters and their components, railways and bridges, ramps and tunnels, underground and aboveground passages, platforms, maintenance facilities, pier and station buildings and passenger halls, traction and material depots, railways, General Directorate of State Airports Authority terminal buildings, technical blocks, hangars, warehouses of systems in airports and airports; laboratory and maintenance facilities of electrical and mechanical systems, runway taxiway and apron area, heat and energy power plants, pressure booster facilities, navigation aids on airfields and squares as well as flight routes, air ground and ground communication systems and the above mentioned system and will be permanently exempt from Building Tax on condition that they are not rented out.

ii. With the subparagraph (u) added to the article, buildings outside the boundaries of municipal and adjacent areas are permanently exempt from Building Tax. However, this exemption shall not apply to the buildings used in commercial, industrial and touristic activities and the buildings used for resting purposes at certain times. In the implementation of this provision; summer or winter holiday homes that are not used as permanent residence by taxpayers will not benefit from the permanent exemption. Exemption will be applied to vineyard houses and plateau houses which are not intended for recreation purposes and are used in agricultural activities.

On the other hand, from the buildings located outside the boundaries of the municipality and adjacent areas, trades exempted from income tax and those used as lump sums by taxpayers subject to income tax shall be permanently exempted from the building tax.

If the buildings which are not exempted under this paragraph because they do not fall under the scope of paragraph (u), meet the requirements of the other paragraphs of the Article 4, they shall be exempted from the building tax according to the provisions of the mentioned paragraphs. In this respect, it is necessary to take into account the provisions of paragraph (u) and other provisions of Article 4 together.

The provisions of paragraph (u) added to Article 4 of the Real Estate Tax Law has been effective as of 1.1.1986 and has been applied for 1986 and subsequent periods. (Verginet, s.d.)

In case of permanent exemption, the renting of the building is also important. Real Estate Tax Law regulated, in case of renting, the situation of those who could not exploit the exemption and the buildings which it does not matter to rent. Examples of buildings that could not benefit from exemption if they are rented; Army houses, military casinos and canteens, and buildings of associations beneficial to their outbuildings or public interests.

Besides, the exemptions which have not been regulated, are existing. The first one has been regulated by the Law of Protection of Cultural and Natural Assets No. 2863. In the Article 21 of the given Law; The immovable cultural assets which are defined and registered as “Cultural Assets to be Protected” and the archaeological sites and natural sites since they should be uncontaminated are severely prohibited on the land registry. The parcels which are immovable cultural and natural assets are exempted from all kinds of taxes, duties and fees. As the Ministry of Finance requested a limited tax application because this exemption has not been included on the Real Estate Tax Law. However, the Council of State determined that it should have been exempt. The decree dated 15.11.1985 of the Council of State states that the immovable cultural and natural assets, mentioned in the Article 21/2863, should be exempt from real estate tax, and it is not possible to apply limited tax for these assets. (GIB GOV)

These exemptions are applied meanwhile Real Estate Tax Law does not regulate because the object has been determined by the Council of State. Mostly, the exemptions concentrate on the beneficial of non-profit organizations in Turkey.

Beside, the buildings constructed within the scope of the Investment Incentive Certificate are temporarily exempted from the building tax for a period of five years starting from the budget year following the date of construction and with the new articles it has been determined that the land acquired or allocated for the investments made within the scope of the Investment Incentive Certificate is temporarily exempted from land tax during the Investment Incentive Certificate. (GIB GOV, 2017)

4.2 Exemptions of Land Tax

With the subparagraph (g) added to the Article 14 of the Real Estate Tax Law, land outside the boundaries of the municipality and adjacent areas is permanently exempted from the Land Tax. However, this exemption shall not be applied to those used in commercial, industrial and touristic activities from the land, land and unparcelled land to be considered as land.

However, the property and land used by the taxpayers who are subject to Income Tax in the lump-sum procedure and the artisans exempted from the Income Tax as the workplace would be evaluated within the scope of the permanent exemption.

On the other hand, if the land and land which are not exempted under this paragraph because they do not fall within the scope of paragraph (g), meet the conditions stated in the other paragraphs of Article 14, it is necessary to apply exemption based on the provisions of the mentioned paragraphs. For this reason, paragraph (g) and other provisions of Article 14 should be taken into consideration together.

The provisions of paragraph (g) added to Article 4 of the Real Estate Tax Law has been effective as of 1.1.1986 and has been applied for 1986 and subsequent periods.

Instead, the case for temporary exemption might be different. It includes land afforested and acquired for the organized industrial zone. For instance, woods, orchards, vineyards and orchards conditions and exemptions times are determined by Ministry of Finance by consulting Ministry of Food, Agriculture and Livestock and the law or decree would be forced into through the Council of Ministers. The land afforested to be re-forested by human labour outside the state forests for 50 years would be exempt from land tax.

In order to benefit temporarily from the exemption, it should be notified to the relevant municipality within the calendar year that when the land is allocated. The exemptions start from the calendar year following the year in which the land is allocated. In the case that the notification is not submitted within the calendar year, the exemption could be activated just next year as long as the notification would be submitted.

There are some cases affecting the situation of Land Tax such as exceptions for land tax. A tax of 10k TL (Turkish Lira) of the total tax value of the land of taxpayers within the boundaries of a municipality and the adjacent area of this municipality is exempt from Land Tax. This exception covers land but it is not applicable for properties. The Council of Ministers is authorized to increase the tax value of 10k TL up to three times. To fulfil the given exception, the case that the taxpayer and spouses and children owning land value should be taken into account collectively.

This exception shall be made separately for the number of shares of taxpayers. The spouses who are liable to pay real estate tax could benefit in half the exemption promised. Also, Land values of the taxpayer and spouses and children would be considered collectively. The 3rd paragraph of the exemption clarifies that the same exemption would be applied by accounting for the number of shares of taxpayers separately in the land. (Bulutoglu, 2000)

4.3. Real Estate Tax Levy and Accrual

The Article 11 of the Real Estate Tax Law states that building tax is levied annually in January and February of the calendar year following the year in which the discretionary procedures are normally carried out by the municipality once every four years. Because of circumstances changing tax value regulated in the Articles 33/1 and 33/7, In January of the year following the calendar year in which the reasons that change the tax value occur, the related municipality shall perform the levy. If the reason for changing the tax value has occurred within the last three months of the year and the notification has been given in the following year, the tax shall be levied on the date of notification. If the notification is sent by mail, the tax will be levied within seven days of the last day of notification.

Based on the Article 33/8; In the case that there would be an appreciation or depreciation of 25% constantly on values of building or lands in any town, village or city for any reason if the appreciation would occur, it is levied in January and February of the year following the calendar year in which appreciation transactions are made.

The taxes levied in this manner shall be deemed to have been accrued on the date of settlement and shall be notified to the taxpayer in a letter. In the following years, the building tax calculated over the increased tax value of half of the revaluation rate is considered to have accrued for that year as of the beginning of each calendar year. In case there is more than one municipality within the boundaries of a province or district, the municipality to be authorized to charge the building tax of the building located outside the boundaries of the municipality and adjacent areas shall be determined by the relevant governorship.

4.4 Payment Period

Based on the Article 30 of the Real Estate Tax, real estate tax payment is paid in two equal instalments. The payment of the first instalment is in March, April or May and the payment of the second instalment is in November. The Ministry of Finance in Turkey is authorised to modify or update the payment time according to the characteristics of the regions. Taxes on buildings, land and properties, whose savings have been restricted in accordance with laws or other public regulation legislation, are collected at a rate of 10% meanwhile the restriction continues. The Regulation on Buildings, Property and Land Restricted to Saving states what kind of restrictions are ongoing. As facilities and schools, mosques, roads, squares, parking, green fields, children's playground, marketplace, state, slaughterhouse and similar public services have been reserved to the public structures in the City Development Plans, the saving of the properties on which a construction is not allowed and buildings that are not allowed to make major changes and additions is considered to be restricted. (GIB GOV)

If the restriction is removed, starting from the calendar year following the date of removal, the payment of real estate tax is made over the entire tax value. In case of the sale, expropriation or transfer of the buildings, properties and lands which are restricted by savings, and transfer and transfer by donation, the 90% of deferred tax for the years within the lapse of time would be collected. The transferor and the transferee would be responsible for the payment of the unpaid real

estate tax of the transferred building and land for the year in which the transfer has been made for previous years. The taxpayer has the right to recourse to the taxpayer that the transferor has to pay.

The Regulation on Restrictions is getting prepared by the Ministry of Finance to consult the Ministries of National Education, of Environment and Urban Planning and of Interior by asking for their opinions. As a consequence of the technological innovations, in the municipalities that have started to utilise E-Municipality system where the notifications could be made interactively. The payment methods for taxes are variable such as by credit card. (Emlak Kulisi, 2015)

In Turkey, almost all of municipalities actively are using online system in which the necessary payments are made and the users could check their missing payments and chronology of payments saved on the database. With this service, taxpayer-based information can be obtained on whether there is a tax liability that arises due to continuous and discontinuous obligations and which is due or not due due to non-payment.

CHAPTER III

1. POSSIBLE SCENARIOS AND SUGGESTIONS ON REAL ESTATE TAX

The range on tax revenues is evident between developed, developing and undeveloped countries since the variables of collecting taxes are different. Mostly, in the tax system of developed countries, the incomes are more superlative than taxes on expense. Thus, the incomes are excessively obtained in the developed countries where the corporation income taxes are collected.

This is relevant to the fact that a developed country has more prosperity. The taxation system plays an important role to determine which country would be more developed. The taxation system might deal with the weight of direct and indirect taxes. As the bureaucracy level is better and also is more complex in the developed countries, local authorities are more powerful in managing the tax system in these countries. Not only biggest authorities, also local authorities are important to manage some cases such as exemption, exception and subjects etc. This chapter valorises some comparisons, scenarios and evaluation. Starting from the classification of direct and indirect taxes, mentioned at 1st chapter, this chapter has an assessment of comparisons among EU countries and Turkey. By concentrating on exemptions and rates in the context of Real Estate Taxation it touches on possible scenarios.

1.1 Real Estate Taxation with Regard to Classification of Direct and Indirect Tax

The states and countries in the world have different characteristics in the context of economical, juridical and political and therefore they have been battling for economic reasons. With the end of WWII, the gap has been getting intensified between developed and undeveloped countries. Development index of a country depends on income per capita, demographics, social services, finance, etc. In the taxation there are a lot of classifications.

One of the principal ones is the direct and indirect classification. Indirect taxes relatively affect the price level taxes changing prices. Indirect taxes have important characteristics such as reflectivity. Taxation through the price mechanism ensures that taxes on expenditures are included in this group.

Direct taxes are generally used in taxing income and wealth which does not affect the general price level not changing the relative prices and do not have a characteristic of reflectivity meanwhile the tax is levied on the income and wealth declared by the taxpayer himself/herself, and the collection is fulfilled by the same taxpayer.

Based on the index of development of countries when the indirect tax implementation was widespread as a result of industrialization and augment of income per capita the proportion and importance of indirect taxes has been going up so far. Among the developed countries, the high level of direct and indirect taxation, which is important for tax justice, is observed only in Germany. However, even in Germany, the share of direct taxes in tax revenues is over.

The fact that indirect taxes in developed countries are lower than direct taxes in tax incomes eventually shows the importance of direct taxes. Real estate tax is determined and collected by the important powers granted to local authorities in the selected countries and the wealth taxes, which also include the real estate tax, are around 10% in the tax revenues. (Gurbuz, 2015)

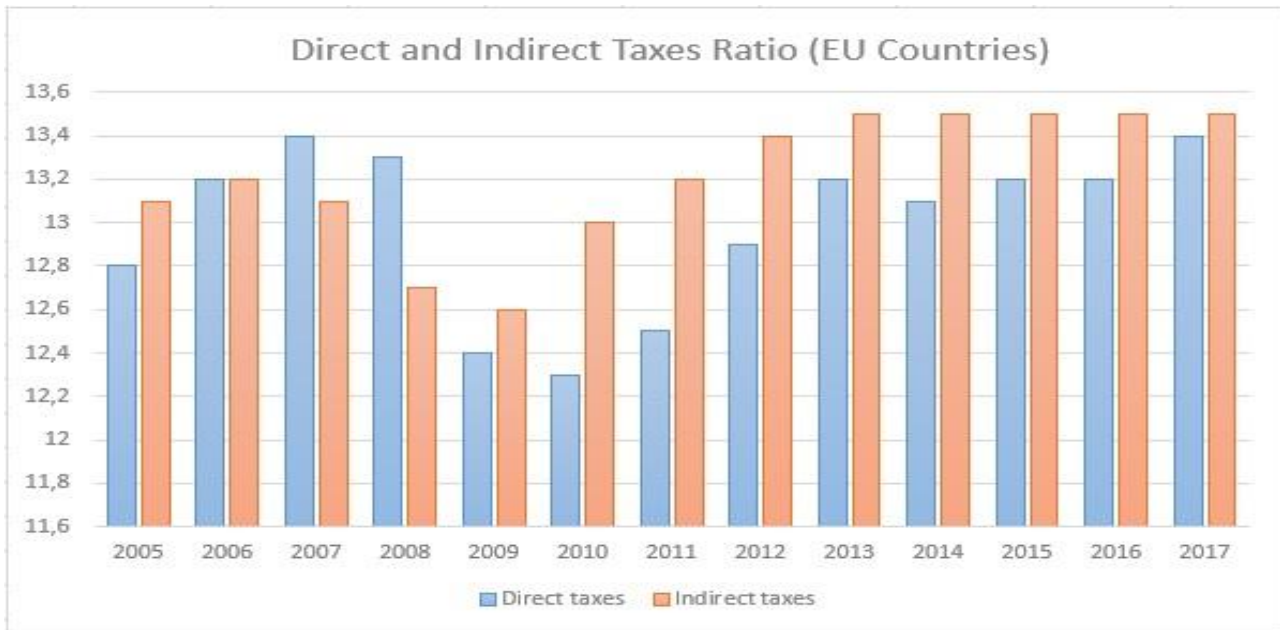


Table 5. Distribution of the total tax burden in the EU-28 member states (% of GDP, mean 2005–2014).

Source: Eurostat

On the Table 5, the proportional data regarding the direct and indirect taxes in EU countries, starting from 2005 till 2017. Only after getting an economic stability the data for EU countries has been improving. As the participation of ex-socialist countries such as Poland, Slovakia and Estonia had been admitted to European Union the average values of EU were not so convincing in the context of stability. However, the economical improvement has been reinforced in these ex-socialist countries. The reason why between 2007 and 2009 the values were not convincing is that the other ex-socialist countries (Romania, Bulgaria and Croatia), where economically and politically there was no rest, had become members of European Union. Also, they initially had affected negatively on the average values of direct and indirect taxes in the European Union. Afterward, all European countries have experienced the economic crisis, which has been burst in 2008, but the improvement has been observing for all European Union countries. Consequently, they had started to produce on service, working and agriculture, their indirect taxes have been increasing meanwhile the direct taxes have been observed decreased.

A cross-country comparison reveals that the eastern European states generate a relatively high share of total revenues through taxes on consumption, while in the northern and central European states, revenues come predominantly from labour taxes. Some European countries, such as Germany, France, Austria, and Belgium, impose relatively high burden on the factor labour, compared with the EU-28 average, and register the large share of social security contributions. Denmark is a special case as social security revenues there only amount to 1.6% of GDP. (Desisleva, 2017)

As a whole, the average ratio of public spending to GDP is high and varies between 45% and 50%. The most apparent increase in government spending is observed since 2008 due to the financial and economic crisis. The EU countries and especially those of EU-152 traditionally have a strong social protection which entails higher amounts of government expenditure and respective tax burden. It is evident that proxies for economic development like GDP per capita, the industrial sector, and civil liberties have a positive impact on the tax revenues. (Desisleva, 2017)

Instead, while finding out the case in Turkey, Turkey is still one of developing countries in the world. Economically and politically, it has not reached at the level of developed countries yet. Taxation system is so determining also for the development index to define whether a country is developed or not. Considering the fact that Turkey has a big population and is a market Turkey's index on direct and indirect tax remains so dull compared to similar countries which have almost same characteristics such as population and market potential. According to financial resources, Turkey takes part of the group where the biggest 20 economies are classified meanwhile, for example, Latvia, Czech Republic and Slovakia are not ranked in the given group. However, Turkey falls behind these given countries in share of indirect and indirect taxes in tax revenues despite its economical potential. Another problem is that Turkey falls behind the average of OECD.

Real estate tax, instead, takes part of wealth taxes which are based on buildings and lands possessed by real or legal persons. It has the characteristics mentioned above in the definition of direct taxes. In short, real estate tax is grouped into direct taxes as a structure and obviously has a fairer structure in terms of tax justice than indirect taxes.

The number of tax payers of real estate in Turkey is composed of about 23 million people. Real estate tax in Turkey has such a significant number of taxpayers, the share of wealth taxes which real estate tax is included in tax revenues comes up to 4.64%. The share of taxes on goods and services, which consist of indirect taxes, is approximately 47% according to updated data. However, the gap between direct and indirect tax is more evident in Turkish Taxation System. (Kizilot)

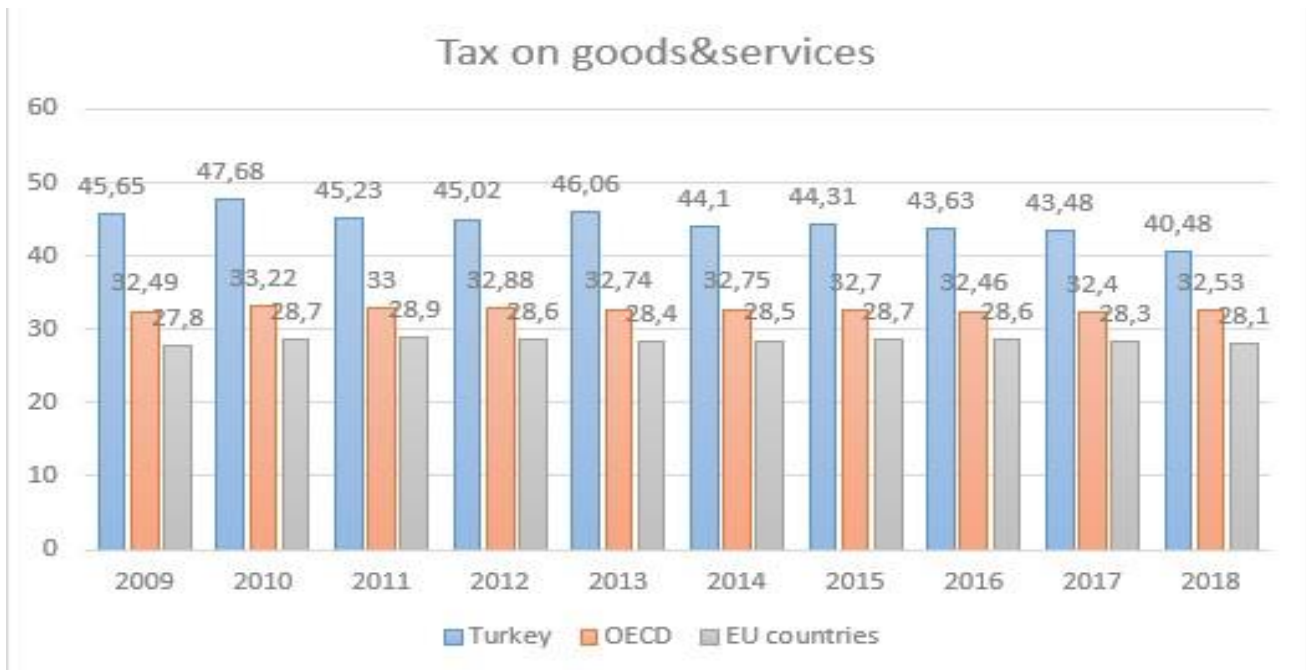


Table 6. Tax on Goods and Services(2009-2018), Source: OECD Databank, <https://data.oecd.org/tax/tax-on-goods-and-services.htm>

Real estate tax plays an important role to put the taxation system in order as the proportioning of direct and indirect taxes has not been regulated properly. Thus, the structure and number of taxpayers are so crucial for Turkish Tax System.

Unfortunately, Turkey does not have a huge number of direct taxes because it is not country which does not incentive the production and the investment regarding the production therefore indirect taxes are comparatively more common than direct taxes. The real estate tax, which is grouped into the direct taxes, should be increased by eliminating the deficiencies faced in legal regulations and its share in tax revenues should not be low compared to direct taxes.

1.2 Real Estate Taxation with Regard to Classification of Regional Differences in Turkey

The level and amount of the investments would be different in every single region in Turkey. This fact has been affecting the index of development among the 7 different regions in Turkey. The economic growth relatively differs from each other. Instead, economic growth; it is defined as the increase in products that will meet human needs in a country or region. In short, economic growth refers to both the growth in the scale of economic activities and the growth of national income per capita. (Egilmez, 2012)

Economic development; economic growth that leads to a positive transformation in the whole social and institutional state structure, including the changes in the value judgments of the economy, worldview and consumption and behaviour patterns, in other words, the level of prosperity. Based on both definitions, economic growth and economic development are linked. On the other hand, if an economy does not grow, income and prosperity do not increase because they are directly proportional and complete each other. In an economy that does not increase income and prosperity, it is not possible to increase living standards and to increase the quality of education.

Turkey's economic growth has gained momentum with the 2000s and economic growth has led to the acceleration in economic development. However, differences between cities and regions in growth and development in Turkey, have been creating problems since the establishment of cities and regions. (AIK, 2012)

Especially, some metropolitan cities have been growing excessively compared to others. For instance, when we find out the Istanbul's case, approximately 20% of Turkey's population of nearly half live in Istanbul and exports are carried out from Istanbul. About one-third of manufacturing industry establishments and more than half of the parcels produced in organized industrial zones in the country are located in Istanbul. Not only historical reasons, also geographic reason plays an important role.

Real estate tax in Turkey, based on building and land taxes, is distinguished by typology of municipalities. In Turkey, there are two types of municipality; ordinary and metropolitan ones. For example, a metropolitan city, Ankara, ordinary municipality, Elazig, are imposed to the same building and land tax rate. On the development ranking, the difference between these two municipalities is huge. (Gurbuz, 2015)

1.3 Real Estate Taxation with Regard to Law of Inheritance and Transfer Tax

Individuals receiving Turkish property through inheritance are subject to taxes in Turkey. Inheritance tax is levied on the inheritance of each beneficiary at progressive rates. The rates vary depending on the taxable inheritance and on the relationship between the donor and recipient. Spouse and children of the deceased are allowed to predict around 170k TL each from the taxable base. In case there is no children in this case spouse is allowed to be predicted around 340k TL from the taxable base. The main laws concerning inheritance are the Turkish Civil Code, Law on Code of International Private and Procedure Law, and the Code of Civil Procedure. If the estate of the deceased includes immovable properties in Turkey, then Turkish Law is applied, where movable assets are subject to the deceased's national law. In some situations, the foreigner's national law would state that the applicable law for inheritance issues is Turkish law, otherwise known as renvoi. In such cases, Turkish law is always applicable. Religion or nationality has no effect on jurisdictions relative to inheritance issues; however, if a citizen of a country with which Turkey does not have reciprocity inherits real estate in Turkey, then the property is devolved and the real estate would be obtained.

The taxpayer of inheritance and inheritance tax is the person or persons who have inherited the immovable by means of inheritance or without prejudice. (Inheritance Tax in Turkey)

The subject who has been transferred to the immovable property without inheritance or without an obligation shall become the owner of the immovable after completing the applications within the scope of Law of Inheritance and Transfer Tax in accordance with the provisions of Law of Inheritance and Transfer Tax.

In the inheritance and transfer tax, the value of the inherited economic elements becomes the basis of Law of Inheritance and Transfer Tax and the valuation for this value is realized in two different phases. First of all, the taxpayers declare the assets that are transferred for consideration in the preliminary evaluation. This evaluation is based on the measurements in the Law of Inheritance and Transfer Tax. The Court of Peace and Court of First Instance are the principal courts which hear lawsuits on inheritance issues. The length of time to complete the procedures could not be estimated, since it depends on the complexity of the case and the caseload of the court. (Guide, 2019)

In the case that the values for the immovables that are transferred within the scope of Law of Inheritance of Transfer Tax are higher than the value which is the basis of the real estate tax for the year in which the property is transferred, the values in the declaration of the inheritance and transfer tax are taken into account as basis, the values in the inheritance and transfer tax return are the values that are the basis of the real estate tax declaration. If it is low, the assessment has to be made at the value that is the basis of the real estate tax.

According to the real estate tax compatible with the Law of Inheritance and Transfer Tax, the valuation clause is compared with the declared value and a dual system is applied and a regulation is made in order to prefer the higher value to the administration. In this case, by not implementing the real estate tax valuation that may favour the taxpayer, it invalidates the Article 10/B of Law of Inheritance and Transfer “All real estates are assessed based on Real Estate Tax Law regardless of being an commercial enterprise” and the application for the valuation made by the statute prevents the article of the law. If a Turkish citizen owns property abroad and begins a lawsuit in the Republic of Turkey, the applicable law in inheritance issues is Turkish law. If the citizen begins a lawsuit in another country, the law of conflicts of that country decides the applicable law.

In the decision of the 7th Chamber of the Council of State with the date, 12.04.2005; In determining the value to be taken as the basis for the final taxation of inheritance and inheritance tax, the same Council of State has validated this decision and in accordance with the Article 268 of the Tax Procedure Law, it is clearly stated that the valuation will be important from the evaluation of the declaration according to Article 29 of the Real Estate Tax Law.

Real Estate Taxation with Regard to Exemptions

Although the structure of the real estate tax keeps its stability due to the fact that it takes part of the wealth tax, it has been significantly weakened almost for 50 years period and has not been entirely adapted to the concept of modern taxation with the changes applied within 50 years. Thus, exemptions play an important role for efficient taxation. Exemptions regulated in the Real Estate Tax Law are applied permanently and temporarily but these regulations would not be idoneous for the countries considered developed. The reason why the Real Estate Tax Law is not idoneous is that there are different and ambiguous articles and laws that would create a big confusion.

Real Estate Tax exemptions in Turkey seem so overbroad and is not been applied on basis of income and household limitation. The best suggestion might be that regulations in terms of reduced tax rate, should be made regarding the income limit and number of residents. In order to apply the reduced tax rate, the residence requirement is not required in the residence. For this reason, those who keep the single dwelling that does not exceed 200 m² in size, leave it to the use of someone else, who rents it or give it to someone else for free, could benefit from the reduced tax rate as well provided that they meet other conditions. It is not important that the rental income of the rented house is more than the rent paid for the rented house. (Gurbuz, 2015)

CONCLUSION

Turkey does not constantly evaluate its tax systems all in all and so far, no government has undertaken any responsibility to appropriate better characteristics of new reforms regarding the real estate tax in the world. As the country suffers from lack of productivity and corruptions, and could not maintain economic stability, it misses opportunities to enhance eventual impact by permitting comparative analysis to affect new legislation. Despite the fact that this makes the defects of all entire system and collection system simpler, the most important feature is that this ensures the real estate tax base that is more acceptable. Since the foundation of this new republic many relative laws and decrees have been issued but this fact creates also ambiguity to apply. Apart from ambiguity which has been created by laws and decrees, the real estate tax takes part of direct taxes. Thus, the governments throughout all republican eras, have not established a better tax system because not only single or some tax system reforms would be efficient, all tax system should be renovated. As a first step, all tax system ought to pace up with the new reforms emerging in European Union countries where the political ethics are mostly respected and almost all members could offer better social services favouring their citizens. In the case that all system would be regulated properly, every single tax system such as real estate tax system in progress of time might be well-structured. Certainly, to regulate well-structured tax system would not be sufficient to Turkey. The biggest advantage of developed countries such as European Union countries or United States of America is that these countries are focused on productivity and economic stability. After they yield from their sectors which are producing and serving, they could work on how to structure their tax system even if to manage all variables would be such complex.

The distribution of direct and indirect taxes in tax revenues indicates remarkable differences between developed and developing countries. Based on IMF data which rank top 20 economies in the world, Turkey has been ranked on 17th position. However, compared to the countries involved in the top 20 economies, its ranking lagged back as other countries on the list where direct and indirect taxes in tax revenues are obviously higher. Not only European Union average, Turkey's conditions lagged back from OECD average as well. The weight of indirect taxes should be increased by making the necessary regulations in the Turkish Tax System, where direct taxes have a remarkable share. Real estate tax, which is an important direct tax, should also take its share from these necessary regulations.

Turkey had appropriated a unitary state system as state system meanwhile some countries such as USA, Germany or Spain have appropriated federal state system through states and municipalities governed by states. For instance, Turkey and Italy, though they have unitary state system, have decentralised the government of local municipalities by allowing broad authority but the broad authority is not complete by being centralised.

The broad authority to municipalities by federal states should be revised based on the rate of building and land tax with "6 regions" applications made by the developmental index in Turkey by accounting for reduced tax rate applications implemented correctly for building. With these regulations, Turkey might improve the application of real estate tax by arranging number of residents and income limitations in terms of reduced tax rates

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