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## LUXURY RESIDENCE TAX IS AMENDED

### Executive Summary

Luxury residence tax was introduced in 7 December 2019. A new bill amending the existing tax has entered into effect in 20 February 2020. This guide aims to summarize the amended version of the tax.

- ❖ The residences whose value **exceed TRY 5m** (*approximately USD 820k<sup>1</sup>*) (“**Threshold**”) are subject to luxury residence tax. **The amendment introduced only the amount exceeding the Threshold to be taxed instead of the whole amount.** The building tax value will now be the only value taken into consideration in the Luxury Residence Tax instead of the appraisal value determined by the General Directorate of Land Registry, which was in the former bill.
- ❖ The owners of luxury residences will be required to pay **annually 0.3% to 1% of their residence’s value exceeding the Threshold** (rate depending on the value of the residence) in addition to the annual property tax which is set at 0.2% for residences located in metropolitan municipalities. Together with the amendment, **the rates below will apply progressively** to the amount exceeding the Threshold, instead of applying directly.
- ❖ The amendment also introduced additional exemptions to the tax including the sole residence of a person in Turkey and the residence with the lowest value of a person who owns multiple residences to be exempt from the Luxury Residence Tax.
- ❖ The Luxury Residence Tax will be **effective as of 2021**. The tax will have to be declared and the first instalment of the accrued tax will have to be paid in **February 2021**.

*We would be delighted to prepare a case specific individual assessment, compliance and action plan if you think you will be affected by the new Luxury Residence Tax. Please contact us at [info@consulturk.com.tr](mailto:info@consulturk.com.tr).*

### Which residences are subject to Luxury Residence Tax?

The residences located in Turkey whose value exceeds the Threshold are subject to Luxury Residence Tax.

### Who will pay the Luxury Residence Tax?

The Luxury Residence Tax is paid by the owners of the residence or the persons who are entitled to a usufruct right (*i.e. beneficial right*) on the

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<sup>1</sup> On the assumption that USD/TRY equals to 6.1.

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residence. If none of them are present, the person using the residence as its owner pays the Luxury Residence Tax.

The joint owners of the residence are responsible from the Luxury Residence Tax *pro rata* to their share in the residence. The total amount of the residence is taken into account when applying the tax rates below.

## How is the value of the residences subject to Luxury Residence Tax determined?

The **Building Tax Value** which is the tax base for the property tax determined by the Ministry of Treasury and Finance and the Ministry of Environment and Urban Planning according to the criteria in the relevant regulation is taken as base in the calculation of the Luxury Residence Tax.

Before the amendment, the appraisal value determined by the General Directorate of Land Registry was also taken into account but the amendment has limited it to the building tax value.

## What is the rate and tax base of the Luxury Residence Tax?

The Luxury Residence Tax rate depends on the value of the residence. Together with the amendment, **the rates below will apply progressively** to the amount exceeding the Threshold, instead of applying directly.

The fixed tax amounts below will accrue for the lower limit of the tax band. The tax rates below will apply to the amount above the lower limit of the tax band.

Residence Value	Fixed Tax Amount	Tax Rate (%)
TRY 5m to TRY 7.5m (including)		0.3
TRY 7.5m to TRY 10m (including)	TRY 7.5k for the first TRY 7.5m	0.6
Exceeding TRY 10m	TRY 22.5k for the first TRY 10m	1

**Example:** if the value of the residence is TRY 12m, only the value exceeding the Threshold (i.e. TRY 5m) will be taxed, which is TRY 7m. Although the value of the residence is TRY 12m, 1% tax rate will not be applied directly to the exceeding amount; the tax rates will apply progressively. Please see below for the calculation:

- 0.3% will apply to the first TRY 2.5m, which is TRY 7,500.
- 0.6% will apply to the following TRY 2.5m, which is TRY 15,000.
- 1% will apply to the remaining TRY 2m, which is TRY 20,000.

The total Luxury Residence Tax for the first year will be TRY 42,500.

The Threshold and the upper and lower limits of the tax bands above are increased each year by half of the reappraisal rate determined in the tax law.

The President is authorized to raise the increase rate until the full annual reappraisal rate (instead of half).

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## Which residences are exempt from the Luxury Residence Tax?

The residences below are exempt from the Luxury Residence Tax:

- residences owned by public institutions, municipalities, universities and Housing Development Administration of Turkey,
- sole residence of a person in Turkey and the residence with the lowest value of a person who owns multiple residences,
- residences owned by foreign states which are used as embassies or consulates or the residences of ambassadors provided that it is reciprocal by the foreign state and residences owned by international institutions and their representation offices in Turkey, and
- new residences built by residence contractors (excluding the ones which are rented to third parties or used for a similar commercial purpose).

*Please contact us at [info@consulturk.com.tr](mailto:info@consulturk.com.tr) for a case and company specific assessment, compliance and action plan on the new luxury residence tax.*

This guide has been prepared for general information purposes. It is not meant to serve as legal advice in any manner. It is only a brief outlook of the topic. It is not and does not aim to be comprehensive. It only provides information on certain significant points of the topic and should not be used without a specific legal advice for the relevant case.

This guide has been prepared as of 20 February 2020 therefore is based on the bill passed by the parliament and does not provide for any further legislation or practice changes after such date. CONSULTURK does not have any obligation or requirement to update this guide or its beneficiaries in any case.

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## When will the Luxury Residence Tax be declared and paid?

The Luxury Residence Tax will be **effective as of 2021**. The tax will have to be declared and the first instalment of the accrued tax will have to be paid in **February 2021**.

The Luxury Residence Tax liability starts as of the following year the Threshold is met. The Luxury Residence Tax is declared annually to the tax office where the residence is located **until February 20<sup>th</sup>** of the following year the Threshold is met.

*For example, if the 2020 value of the residence meets the Threshold, the owner of the residence will submit the first statement until 20 February 2021.*

The accrued Luxury Residence Tax is paid **in two equal instalments** until the end of **February** and **August** of each year. Each of the joint owners who are subject to Luxury Residence Tax will submit individual tax statements for their share in the residence.