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### Turkish Government Proposes New Tax Amnesty

by **Randall Jackson**

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Summary by **taxanalysts**

The Turkish government on April 24 submitted a bill to the Grand National Assembly (parliament), proposing a tax amnesty that would allow taxpayers to declare offshore assets and pay a 2 percent tax.

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The Turkish government on April 24 submitted a bill to the Grand National Assembly (parliament), proposing a tax amnesty that would allow taxpayers to declare offshore assets and pay a 2 percent tax. Turkey's normal individual tax rates range from 15 percent to 35 percent.

The government hopes to tap into an estimated \$130 billion in untaxed assets hidden offshore by Turkish taxpayers. The larger hope is that through an influx of Turkish-owned capital, Turkey could rely more heavily on domestic money, rather than international assistance, to lift the economy. Prime Minister Recep Tayyip Erdogan has said he wants to accelerate economic growth to around 4 percent this year after hitting 2.2 percent last year. But with foreign direct investment falling by 23 percent in 2012, according to statistics from the Ministry of Economy, the government is eager to find new sources of revenue.

In addition to the low tax rate under the amnesty, tax authorities would not question taxpayers about the origin of the assets, and no tax investigations or reassessments would be launched. In return, taxpayers would have to declare all offshore assets by July 31 and transfer the assets to Turkish banks or brokerage houses by the end of the month in which the declaration is made. The 2 percent tax would be due by the end of the month following the month in which the declaration and transfer are made.

Selman Koç, tax manager at the Cerrahoglu Law Firm in Istanbul, told Tax Analysts that the proposed law includes "money, gold, foreign exchange, securities, and other capital

market instruments deposited abroad, or real estate assets located abroad as of April 22, 2013."

Koç said the goal is to bring those assets -- whether held by Turkish residents or by nonresident Turkish taxpayers -- into the official record. Once they have been declared, however, there is no restriction on retransferring the assets abroad.

Finance Minister Mehmet Simsek, speaking at a press conference in Istanbul on April 25, reiterated that there would be no tax investigations or retroactive tax assessments, saying the government "will not chase the money that will be repatriated."

But Koç pointed out that although the no-investigation/no-reassessment provision is part of the draft law, government officials could launch criminal investigations if there is a suspicion of money laundering. "This point is a gap in the draft tax amnesty law that needs to be taken into account," he said.

Further, the new proposal, which is no different from the previous amnesties, "has little chance of success, given the absence of a way, like FATCA in the case of the U.S., for the Turkish government to tax foreign assets," Koç said. (Model II Agreement to Implement FATCA )

The bill now must be approved by the parliament, where Erdogan's ruling Justice and Development Party holds a comfortable majority (about 60 percent). Koç said his firm expects the bill to pass within a "couple of weeks."

Turkey used previous tax amnesties to regularize about \$27 billion in assets in 2008 and 2009. Those amnesties allowed taxpayers to pay a 2 percent tax on assets held abroad and a 5 percent tax on undeclared assets in Turkey. The assets declared during the amnesties were about evenly split between offshore and domestic holdings. (Prior coverage ) But overall, the amnesties were not as successful as expected, Koç said.

Deputy Prime Minister Ali Babacan told the Anatolia news service on April 26 that the new amnesty would have a better chance of success because the Turkish economy is now in better overall shape. "Money held in Europe or tax havens is no longer safe," Babacan said. "Turkey stands in a very, very different position in 2013 with its reputation, the strength of the Turkish banking sector, and interest from money that will be brought to Turkey."

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## Tax Analysts Information

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Prior coverage of previous tax amnesties .

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