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TURKEY CUTS INCOME TAX RATE, AMENDS SOCIAL SECURITY CONTRIBUTIONS

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In this *Flash International Executive Alert* we highlight the income tax schedules for 2005 as they appear in Statute 5281, which was passed by Turkey's Parliament on 30 December 2004. Statute 5281 was published in the Official Gazette on 31 December 2004.

The number of income brackets has been reduced from six to five and the brackets have also been changed. Another important change is that the highest marginal income tax rate has been reduced to 35 percent from 40 percent for wage and salary income, while the highest marginal rate on income from other sources has been reduced to 40 percent from 45 percent. The new schedules go into effect with respect to income secured on or after 1 January 2005. [TRY 1 = USD 0.76]

Tax Schedule for Income Other than Wage and Salary Earnings

Income	Tax	
Up to TRY 6,600		20%
Up to TRY 15,000	TRY 1,320 for the first TRY 6,600. On the excess:	25%
Up to TRY 30,000	TRY 3,420 for the first TRY 15,000. On the excess:	30%
Up to TRY 78,000	TRY 7,920 for the first TRY 30,000. On the excess:	35%
Over TRY 78,000	TRY 24,720 for the first TRY 78,000. On the excess:	40%

Source: KPMG Yetkin Yeminli Mali Müşavirlik AŞ.

Tax Schedule for Wage and Salary Earnings

By law, wage and salary earnings are taxed at rates five points less than the rates applicable to the same brackets for other forms of income. On this basis, the income tax schedule for wage and salary earnings in 2005 will be as shown in the table on the following page.

Income	Tax	
Up to TRY 6,600		15%
Up to TRY 15,000	TRY 1,320 for the first TRY 6,600. On the excess:	20%
Up to TRY 30,000	TRY 3,420 for the first TRY 15,000. On the excess:	25%
Up to TRY 78,000	TRY 7,920 for the first TRY 30,000. On the excess:	30%
Over TRY 78,000	TRY 24,720 for the first TRY 78,000. On the excess:	35%

Source: KPMG Yetkin Yeminli Mali Müşavirlik AŞ.

Severance Pay Ceilings Applicable in 2005

Severance pay obligation ceilings payable, for each year of employment, in case of termination of a contract (by an employer) are as follows:

1 JANUARY 2005 THROUGH 30 JUNE 2005

TRY 1,648.90

1 JULY 2005 THROUGH 31 DECEMBER 2005

TRY 1,727.15

Child and Family Assistance in 2005

1 JANUARY 2005 – 30 JUNE 2005

1 JULY 2005 – 31 DECEMBER 2005

Child assistance

(per child, monthly)

TRY 10.03

TRY 10.40

Family assistance (monthly)

TRY 50.25

TRY 52.00

Sums paid as child assistance (for not more than two children) are exempt from income tax up to and including the above-indicated limits. Sums paid as family assistance, on the other hand, are not exempt from income tax.

Minimum / Maximum Base for Calculation of Compulsory Social Security Contributions

	Minimum Base	Maximum Base
Per day	TRY 16.29	TRY 105.89
Per month	TRY 488.70	TRY 3,176.55

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