

## Real Property Tax after the Recent Amendments

### I. Introduction

Real property tax is dramatically increased for 2014 and therefore house, shop, market or landowners are at risk of paying high amount of real estate tax. The reason for such increase is that “land m<sup>2</sup> fees” are revaluated in 2014 and especially in Istanbul the real property tax is increased between 100-200 per cent and even 500-1.000 per cent in some provinces and districts in Turkey.

The abovementioned real estate tax increase affects around 23 million people namely almost every family in Turkey. It should be noted that it is not required to be a “land” owner to be affected from the increase. Even if an apartment owner shall pay higher tax as the real property value of an apartment is determined by adding land value to the building value. Therefore, increase land value shall increase the real property tax amount.

### II. Side Effects of the Higher Real Property Tax Value

In the event the real property tax obligation is increased for an apartment, this does not only affect the real property tax payment. This also means that owner of such an apartment shall pay higher “Contribution Share for Protection of Cultural Properties”<sup>1</sup>, and the owner shall declare a rental income equal to minimum 5 % of the real property tax value if the owner has a rental income. For instance, as per article 73 of the Income Tax Law numbered 193; if the real property tax value is increased to TL 800.000 for an apartment with an annual rental income of TL 24.000; the owner shall declare at least TL 40.000 (5 % of TL 800.000) annual rental income.

Additionally, high real property tax value is the reason for paying higher amounts of title deed fee if the concerned real estate is sold. This high amount of title deed fee shall be paid, even if the real sale amount is lower than the real property tax value. For example, the seller and

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<sup>1</sup> This is calculated over the real property tax amount (10 % of the real property tax amount).

buyer of an apartment valued at TL 1.5 million shall pay a title deed fee (20 per mille) calculated as taking TL 1.5 million as the basis, even if the actual sale price is TL 400.000. Therefore, the buyer and seller shall pay TL 30.000 title deed fee, whereas they could only pay TL 8.000 if the fees were calculated from the actual sale price. Furthermore, the seller is obliged to pay more value increment tax.

In the event of the landowner’s death, the inheritors are obliged to pay inheritance tax calculated over the real property tax value and therefore the higher real property tax value will cause the inheritors to pay more inheritance tax (Article 10 of the Inheritance and Gift Law numbered 7338).

### **III. Real Property Tax Rates**

Real property tax rates vary depending on the qualification (i.e. residence building, non-residence building, land, field) and location (i.e. whether or not within the metropolitan municipality) of the real property.

Below table shows the real property tax rates:

**Table 1 - Real Property Tax Rates in 2014 (per mille)**

<b>Type of the Real Property</b>	<b>Metropolitan Municipality</b>	<b>Other Provinces</b>
Residence	2	1
Non-Residence (bureau, market etc.)	4	2
Land	6	3
Field	2	1

As it is clearly indicated in the above table, real properties within the borders of metropolitan municipalities are subject to double real property tax. For example, owner of an apartment in Zonguldak, which is not a metropolitan municipality, valued at TL 200.000 shall pay TL 200

real property tax, whereas another owner of an apartment in Istanbul valued at the same price (i.e. TL 200.000) shall pay TL 400 real estate tax.

There is a postponed application regarding the above-mentioned tax rates for the cities, which have become metropolitan municipality as per Law numbered 6360 and dated 12.11.2012. Therefore, new metropolitan municipalities; Aydın, Balıkesir, Denizli, Şanlıurfa, Muğla, Balıkesir, Tekirdağ, Van, Manisa, Hatay, Kahramanmaraş, Malatya and Mardin will be subject 100 % increased real property tax as of 2015. The 100 % increased real property tax has become affective for the real properties located within provinces, which have already metropolitan municipalities (such as Alanya and Manavgat districts of Antalya) as of 30.03.2014.<sup>2</sup>

There are a considerable number of buildings in Turkey, which are completed however do not have condominium rights and still having land title deeds. Building tax shall be paid for such real properties. It should be noted that if a residence converted to a commercial place, then the relevant municipality shall be informed and real property tax related to commercial buildings should be paid. In the event the owner continues to pay residence real property tax, then even the buyer of such building will be responsible from the underpaid tax in the previous years.

#### **IV. Real Property Tax Payment Procedures**

Real property tax shall be paid in two equal instalments. The first instalment shall be paid in March-May and the second instalment shall be paid in November. A late payment fee of 1.40 % shall be imposed for each month the payment is not made.

According to article 5 of the Real Property Tax Law numbered 1319 dated 29.07.1970; if a newly built house is purchased then a ¼ “provisional exemption” is applied for 5 years concerning the real property tax. Namely, the real property’s ¼ of the real property tax amount shall be exempted for 5 years beginning from date of purchase.

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<sup>2</sup> Article 36/a of the Law numbered 6360.

In case an apartment is purchased in 2014, the buyer shall not pay the real property tax concerning 2014 and begin to pay the concerned tax beginning from 2015. However, the declaration to the related municipality shall be made until the end of 2014. On the other hand, the seller shall pay the whole amount of real property tax in 2014. This whole amount shall be paid even if the real property is sold in January. The seller shall also inform the related municipality that the real property is sold.

#### **V. Real Property Tax with “0” Rate**

Owners of real properties whose only income is generated from social security institutions<sup>3</sup>, their orphan and widows, house wife and unemployed people with no income, disabled people, veterans, orphan and widows of martyrs may get benefit from “0” (zero) rate real property tax.

The abovementioned people may get benefit from “0” rate real property tax provided that they have only one house which is under 200 m<sup>2</sup> (including usufruct rights). These people should submit their declaration forms with relevant documents suitable for their situations. Once the declaration is submitted to the municipality, there is no need to resubmit documents each year if there is no change in their situation.

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<sup>3</sup> These should be social security institutions established through legislation (e.g. SSK)