

Guide to taxes for property transactions

There are four main taxes involved in any property sale and purchase transaction these taxes are:

- The **Stamp Duty (Pul Parası)** which is payable to the **Tax Office**
- The **Transfer Fee (Devir Harçları)** which is payable to **Land Registry Office**
- The **VAT (KDV)** which is payable to the **Tax Office or to the Vendor**
- The **Capital Gains Tax (Stopaj)** which is payable to the **Tax Office**

NB: Different taxes apply to gifts of property for no consideration between family members.

As a general rule, **Capital Gains Tax** is payable by the Vendor and the **Transfer Fee** and **Stamp Duty** are payable by the Purchaser, although this can always be varied by the parties by an express clause in the Contract of Sale. **VAT**, if applicable, is also usually payable by the Purchaser, but again this can be varied by the parties in the Contract of Sale. Please see below for information on whether or not VAT is applicable to your purchase. The taxes are payable at the rates in force at the time of payment or transfer of title, as applicable. The current rates are detailed in this Guide.

The percentages levied for each of the four types of tax are shown below:

STAMP DUTY

Current regulations require all Contracts of Sale for the purchase of immovable property in Northern Cyprus to be registered at the District Lands Office within 75 (seventy) days of being signed and it is compulsory for the Stamp Duty to be paid before registration can take place. Stamp duty is payable at the rate of 0.5% of the sale price stated in the Contract if paid within 1 (one) month of the date of the Contract. If the transaction is subject to VAT, stamp duty is also payable at the rate of 0.5% of the VAT amount. In addition, if there are any additional items stated in the Contract (such as maintenance fees or electric transformer contributions etc.), the Tax Office has discretion to charge stamp duty on these items. A stamped Contract of Sale is required to be produced to the electricity board in order for an electricity meter to be connected and is also required for applications for residency permits.

TRANSFER FEE

For citizens other than citizens of the TRNC and the Republic of Turkey, the Land Registry transfer fees are 12% of the sale price stated in the Contract of Sale or the Land Registry valuation, whichever is the higher.

When carrying out the valuation, the Land Registry assesses the property in the state it is in at the date of the assessment. For example, if, at the time of the transfer of title, there is a new construction on the property, which was not there when the Contract of Sale was signed, the value of the new construction will be included in the assessment of the value of the property.

Half of the Land Registry fees (i.e. 6% of the sale price or Land Registry valuation, whichever is the higher) will be paid on the registration of the Contract of Sale and the balance will be paid on transfer of title.

If you decide to sell the property without taking title, you will not need to pay the remaining half of the Land Registry transfer fees. However, the half which has already been paid at the time of the registration of the Contract of Sale will not be refunded.

On most property purchases, there is also a small local municipality tax which is 1% of the Transfer Fee amount.

For citizens of the TRNC, the Land Registry transfer fees are 6% of the sale price stated in the Contract of Sale or the Land Registry valuation (whichever is the higher). However, every person has a once in a lifetime option to reduce this to 3% in respect of a plot up to one donum in area. The Land Registry transfer fees are payable on transfer of title. On most property purchases, there is also a small local municipality tax which is 1% of the Transfer Fee amount.

For citizens of the Republic of Turkey, the Land Registry transfer fees are 6% of the sale price stated in the Contract of Sale or the Land Registry valuation (whichever is the highest) in respect of the first purchase, 9% of the sale price stated in the Contract of Sale or the Land Registry valuation (whichever is the highest) in respect of the second purchase and 12% in respect of the third purchase. From this, 3% of the sale price or Land Registry valuation, whichever is the highest, toward the Land Registry transfer fees will be paid on the registration of the Contract of Sale and the balance of the Land Registry transfer fees will be paid on transfer of title. On most property purchases, there is also a small local municipality tax which is 1% of the Transfer Fee amount.

VAT FOR PROPERTY TRANSACTIONS

The payment of **VAT** depends on two factors:

- **Whether or not the transaction is subject to VAT.**

This depends on whether the Vendor is deemed by the Tax Office to be a '**Professional Vendor**' (for example, if the Vendor has sold three properties in one year, the Vendor will be classed as a professional Vendor on the next sale. In addition, if the Tax Office deems that the sale is of a commercial nature or that the Vendor is in the business of buying and selling properties for profit, then the Tax Office can classify the Vendor as a professional vendor)

If the Vendor is deemed to be a Professional Vendor, the transaction will be subject to VAT.

If the Vendor is a private individual, and not a Professional Vendor, the transaction will not be subject to VAT.

'Vendor' in this context, means the person who has title to the property, not simply possession/Contractual ownership of the property. So, with re-sales for example where the person selling the property does not have title to the property, but is simply assigning his or her Contractual rights in the property to the new Purchaser, the fact that he or she is a private individual not a Professional Vendor is irrelevant. If the person who is registered on the title deeds as the owner is a Professional Vendor, VAT will usually be payable.

- **Terms of the Contract of Sale.**

If the transaction is subject to VAT, who will actually pay the VAT depends on the terms of the Contract of Sale.

If VAT is applicable, the rate is 5% for properties with an internal of less than 300m² and 10% for properties with an internal area of 300m² or more. VAT is usually paid by the Purchaser to the Vendor on the date on which possession of the property is delivered to the Purchaser in return for an official VAT invoice (known as a 'fatura' in Turkish) which is then produced to the Tax Office on transfer of title as proof that the VAT has been paid, although it is sometimes payable on transfer of title.

CAPITAL GAINS TAX

As stated above, this is usually paid by the Vendor, unless otherwise stipulated in the Contract.

Every private individual has a once in a lifetime tax free sale option for a house and land not exceeding one donum (14,400 square feet or approximately 1338 square metres).

However, in relation to non-citizens of the TRNC, this right can only be used in the event that the Vendor has been residing in the TRNC for a for a minimum of six months out of the one-year period immediately prior to the transfer of title taking place.

In addition, should the land exceed one donum in size, the once in a lifetime tax free sale option may only be used in connection with the property and the first one donum of the land and so Capital Gains Tax will be payable upon the remaining area of the land at 2.8%.

In situations where the once in a lifetime tax free sale option cannot be used (or has already been used in relation to a previous sale), Capital Gains Tax will be payable at 2.8% of the sale price or the Land Registry valuation, whichever is higher.

For professional Vendors, there are no tax exemption rights. Capital Gains Tax is payable on every sale at a rate of 4.7% of the Contract price or the Land Registry valuation, whichever is higher (with 4% payable by the Vendor on transfer of title and the balance of 0.7% payable by the Vendor with their year-end accounts).

If you are selling your property before taking title for more than you paid for it, you may have to contribute towards the Capital Gains Tax. If you have not taken title, the title deeds remain in the previous owner's name. Therefore, transfer will take place from the previous owner directly to the new Purchaser. If the price at which you are selling the property for is more than the price which you paid for the property, the previous owner will, probably, object to paying Capital Gains Tax on the new higher price because the previous owner did not actually receive this money. The previous owner may therefore agree to pay the Capital Gains Tax on the price which you paid for the property and request you to pay the Capital Gains Tax on the difference between the price you paid for the property and the price at which you are now selling the property for.

For more information, please contact us on the details below:

Email: info@nmplegal.com

Tel: 0090 392 816 0440

Fax: 0090 392 815 0702

Web: www.nmplegal.com

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