

Guide to taxes for property transactions

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

- The **Transfer Fee (Devir Harçları)** which is payable to **Land Registry Office**
- The **Capital Gains Tax (Stopaj)** which is payable to the **Tax Office**
- The **VAT (KDV)** which is payable to the **Tax Office or to the Vendor**
- The **Stamp Duty (Pul Parası)** 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. The rates applicable are the rates in force at the time of transfer of title. However, the current rates are detailed in this Guide.

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**' (i.e. whether the transaction is of a commercial nature or for profit).
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 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.

Previously, the **Transfer Fee** was generally paid as a percentage of the **Assessed Value** of the property which is calculated by the Land Registry just before transfer of title takes place. The Land Registry assesses the property in the state it is in at the date of the assessment i.e. if there is a new construction on the property, this will be included in the assessment of the value of the property. However, under new regulations, the Land Registry requires sight of the Contract of Sale before transfer of title and will calculate the Transfer Fee on the higher of either the Assessed Value or the Contract price.

The **VAT** and **Capital Gains Tax** again used to be based on the Assessed Value of the property. However, under new regulations, the Tax Office now requires a copy of the Contract of Sale to be presented prior to transfer of title. It will then calculate the VAT and Capital Gains Tax based on either the Assessed Value or the Contract value, whichever is the highest.

Stamp Duty Stamp Duty is calculated on the contract price. New regulations since 2nd January 2008 require all Contracts of Sale for the purchase of immovable property in Northern Cyprus to be registered at the District Lands Office within 21 (twenty one) days of being signed and it is now compulsory for the Stamp Duty to be paid at the rate of 0.5% before registration can take place.

Further, in December 2007, the Electricity Board introduced a new regulation under which Purchasers can no longer apply for an electricity meter to be connected to their property unless they can prove that the Stamp Duty on their Contract of Sale has been paid.

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

- **TRANSFER FEE** - The Transfer Fee is 6%. However, every person has a once in a lifetime option to reduce this to 3% in respect of a plot up to 1 donum in size. If a Purchaser elects to use this option on the purchase, he or she will only pay 3%. If the plot is larger than 1 donum, then the 3% option may be used in respect of the first donum and the remainder of the plot will be subject to payment of the Transfer Fee at 6%. Once the 3% option right has been used, the Transfer Fee payable on all future purchases by that person will be 6%. On most property purchases, there is also a small local municipality tax which is 1% of the Transfer Fee amount.
- **VAT FOR PROPERTY TRANSACTIONS** - 5%. 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. Please see above for information on whether or not VAT is applicable to your purchase.
- **CAPITAL GAINS TAX** – As stated above, this is usually paid by the Vendor. The amount payable depends on whether the Vendor is a Professional Vendor or a private individual as defined under the section on VAT above. If the Vendor is a Professional Vendor, the rate will be 4.7% (with 4% payable by the Vendor on transfer of title and the balance of 0.7% payable by the Vendor with his year end accounts). If the Vendor is a private individual, the rate will be 2.8% unless they elect to use their once in a lifetime exemption from tax (see details below).
- **STAMP DUTY** – This is 0.5% of the Contract price provided this is paid within one month of the date of the Contract. Although, under the new Legislation this must in fact be paid before the Contract is registered which, therefore, reduces this to 21 days.

FREQUENTLY ASKED QUESTIONS

Vat for Property Transactions

Will I have to pay VAT on my property purchase?

In determining whether you will be liable to pay VAT on your property purchase, you need to establish the following:

- Whether the Vendor is a Professional Vendor as defined above
- Whether your Contract requires you to pay the VAT.

Capital Gains Tax

Will I have to pay Capital Gains Tax on my purchase?

Generally, no. Capital Gains Tax is usually paid by the Vendor, unless otherwise stipulated in your Contract.

Will I have to pay Capital Gains Tax on the sale of my property? If so, how much will this be?
This depends on whether you are a private individual or a professional Vendor (as defined above):

Every private individual has a once in a lifetime tax free sale option for a house and land not exceeding 1 donum (14,400 square feet or approximately 1338 square metres) provided that there are no trees recorded on the title deed. Should the land exceed 1 donum in size, the once in a lifetime tax free sale option may be used in connection with the property and the first 1 donum and so Capital Gains Tax will be payable upon the remainder of the land at 2.8%. Should the title deed refer to any trees, the once in a lifetime tax free sale option may be used in connection with the property situated upon the plot, but there may be Capital Gains Tax payable upon the value of the land at 2.8%.

On all subsequent sales, Capital Gains Tax will be payable at 2.8%, provided you do not sell more than 3 properties in one year, making you a professional Vendor.

For professional Vendors, there are no tax exemption rights. Capital Gains Tax is payable on every sale at a rate of 4.7%.

What if I sell my property before taking title? Will I still have to pay Capital Gains Tax?

If you are selling your property 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.

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