



PRIMETAX GUIDE: TAXATION OF SALARY INCOME FROM ABROAD

INTRODUCTION

The development of computer technologies and the widespread use of the internet have accelerated the ease of data transfer, making remote work more accessible. Particularly, the COVID-19 pandemic marked a pivotal global shift towards remote work. As companies adjusted to the pandemic by adopting remote work to sustain their operations, the effectiveness of this model became evident. Consequently, despite the decline in the pandemic's impact, remote work practices have persisted as a permanent solution for businesses, and receiving income from abroad in exchange for work has become more common. This shift has raised concerns about the taxation of foreign income.

This transformation has opened up opportunities not only for local employers but also for international employers. Türkiye's professionals, specialized in various fields, have started earning income from foreign employers by providing remote services. This development presents significant advantages for both individuals and economies.

Taxing payments made by foreign companies to their employees in Türkiye has become an increasingly important issue. Specifically, with the widespread adoption of remote work driven by the COVID-19 pandemic, many Turkish citizens have begun to earn income from foreign employers while working remotely from Türkiye.

The key issue concerns whether this foreign income will be taxed in Türkiye.

Tax Residency

Under the Turkish Income Tax Law, there are two types of income tax liability: full and limited. Resident individuals are taxed on their worldwide income, while non-resident individuals are taxed only on income earned within Türkiye. Non-resident individuals are defined as individuals who do not reside in Türkiye.

Article 4 of the Income Tax Law outlines the definition of residency in Türkiye. Individuals who reside in Türkiye for more than six months in a calendar year or those who do not reside in Türkiye but have lived in Türkiye for more than six months are considered residents under this provision. Non-resident individuals typically do not have a residence in Türkiye or live in Türkiye for fewer than six months in a calendar year. Non-residents are taxed only on income earned within Türkiye.

Individuals who are considered residents and are taxed on all their income, both from within Türkiye and abroad, include:

- Individuals who have settled in Türkiye.
- Turkish citizens who are employed by government offices or institutions, or by organisations or businesses headquartered in Türkiye, and who live abroad due to the work of these offices, institutions, organisations, or businesses. (However, individuals who are already liable for income tax or similar taxes in the country where they are located due to their earnings are not separately taxed on those earnings in Türkiye.)

Definition of Salary/Wage

According to Article 61 of the Income Tax Law, salary and wages are defined as money or goods given as compensation to employees concerning a specific place of business, as well as any benefits that can be expressed in monetary terms. There is no distinction between salary and wages in Türkiye, and “wages” refers to both. Whether the compensation is paid as cash, indemnity, allowances, overtime, advances, bonuses, premiums, or as a percentage of profit unrelated to a partnership, the nature of the payment remains unchanged.

For individuals with limited tax liability, wage income is considered to have been earned in Türkiye if:

- The employment service is performed in Türkiye or
- The services are deemed to be provided in Türkiye.

If the salary expenses are recorded by a Turkish entity, an employment service will be considered to have been provided in Türkiye. According to the aforementioned article, whether the salary is paid for past or future services does not affect its classification as salary.

Taxation of Salary Income from a Foreign Employer

Under Article 7/3-a of the Income Tax Law, if an individual resides in Türkiye and earns a salary, the income is considered to be earned in Türkiye. It is thus subject to income tax, even if the employer is abroad.

In addition, double tax treaties take precedence over domestic regulations. According to these agreements, Türkiye has the right to tax the income earned by individuals residing in Türkiye and providing services to foreign employers. This is generally specified in the "Dependent Services" article of double tax treaties.

Under Turkish income tax law, cash and non-cash benefits (such as rent paid by the employer directly to the landlord) are treated as part of the salary. Employees must report these benefits on their personal income tax returns if they are not processed through the Turkish payroll system, and no salary withholding taxes are applied.

Türkiye operates a progressive tax system in which tax rates remain the same, but tax brackets are adjusted annually.

Exemption for Foreign-Sourced Salaries

According to Article 23/14 of the Income Tax Law, salaries paid in foreign currency by a non-resident company from its revenues earned outside of Türkiye are exempt from income tax under specific conditions:

- A non-resident company must employ the employee.
- The individual must be in an employment relationship, and the salary must be paid as wages.
- The salaries paid must be derived from revenues earned outside of Türkiye.
- The salary must be paid in foreign currency.

Summary

Under Article 23/14 of the Income Tax Law, individuals residing in Türkiye and receiving salaries from foreign companies may be eligible for an income tax exemption, provided certain conditions are met. While Türkiye retains the right to tax such income, these salaries are exempt from taxation in Türkiye if the specified conditions are met. To qualify for the exemption, the employee must reside in Türkiye, and the employer must not have a workplace or representative in Türkiye.
