

Judicial Development of Accounting in Turkish Republic of Northern Cyprus(*)

Emel apkiner Tosun

*Eastern Mediterranean University,
Turkish Republic of Northern Cyprus*

Ayhan Tecel

*Eastern Mediterranean University,
Turkish Republic of Northern Cyprus*

Güzide Atai

*Eastern Mediterranean University,
Turkish Republic of Northern Cyprus*

Abstract

In Turkish Republic of Northern Cyprus legal development of accounting shows parallelism with history of Cyprus. Legal arrangements go back to British period. The accounting system in Cyprus is British accounting system. This accounting system is practiced by merchants as in government offices. After all it is possible to study the details of accounting as Republic of Cyprus and today in 3 different periods. In this study there is detailed information about how the regulations and legislation on accounting which was being practiced mostly between 1983 and 2012 has developed. For this purpose required literature searched and study turn into much more comprehensive literature research with comments and suggestions of analysts.

While in many countries accounting and auditing was legalized since 18th century, in Cyprus it entered into company law in British Period in Cyprus in 1949. Parallel with this, the rules of arrangement and approval of the accounts by

(*) *Bu bildiri, 19-22 Haziran 2013 tarihlerinde İstanbul'da organize edilen III. Balkanlar ve Ortadoęu Ülkeleri Muhasebe ve Muhasebe Tarihi Konferansı'nda sunulmuştur.*

accounters authorized by ministry of finance which firstly rendered to tax Office, transmitted from British Period to Turkish Republic Period and stated in Article 49 of personal income tax act 13/1976 which was legalized by publishing it in 28/12/1961 dated newspaper. Such rules stated in article 29 of corporate income tax, Act 41/1976) and stated in Article 60 of income tax law, Act 24/1982. In addition to this, although the rule making power was given to Minister of Finance to arrange the basis and procedures of certification of “Free Accountant and Auditors” in Article 62(2) of the act mentioned before, any arrangements hasn’t been made until today. So basis and procedures of this authority is up to choice. Namely, it is left to populism and politics to decide.

Legislations which will be practiced as a result of legal arrangements which was done in time is being tried to finalize and they focused on much more tight control in every act. As a result of increase in auditing quality of legislation some regulations could have been made and creation of new business opportunities due to the increase of demand to this profession may be effective to minimize the unemployment in a good way.

Key words: Turkish Republic of Northern Cyprus, Accounting, Legislation, Auditor.

Jel Classification: M41, M49.

Brief Definition of Accounting

People provide their needs from productions of businesses directly or indirectly. Businesses are economical units established for the purpose of providing added value by producing goods and services. People and businesses who are involved in economic activities want to use their sources in the most productive way. To make this purpose real, businesses must benefit from the calculation techniques. Calculation techniques are more complicated and advanced in businesses rather than people working sole. In this connection, all the techniques that conducive to determine, to monitor and conducive to interpret the economic and financial activities of businesses is accounting field’s occupation.

Significantly localizing, collecting, recording, classifying, and reporting of completely or partially financial worthy business transaction and data in term of cash and analyzing the results called as accounting. And other definition is “accounting is a cycle count which records some figures belongs to value and quantity. Accounting is a science which provides the recordings

of all economical activities embarked by one or more people and teaches the rules.” in spite of all of these different definitions, generally we can define the accounting as a science which records, classifies the transactions and provides to report and interpret them.

We can sum up all the basic needs of accounting records which provides necessary datum for the sciences of economics, revenue, business, law and statistics:

a) To localize and provide the control of current situation of assets of the business.

b) To monitor the persons and businesses or institution which are working with that business and to provide their recognition

c) To provide discovery of the financial statements and the results of end of period

d) To submit evaluation and comments of session results to business owners and other concerning people.

At the present time it is inevitable to don't benefit from the accounting for the businesses or persons who works on taking, selling, producing goods and services and incurring debt and lending due to sustain these all neatly. Unfortunately in our country accounting is preferred because it is law but in other country it is preferred by businesses own willingness.

Valid acts made some regulations on Tax Procedural Law “Vergi Usul Yasası” and Company Law “Şirketler Yasası” related to accounting for protection of rights of stockholders and the third person and also for contribution to solution of disagreements on condition of detecting basis of tax, recording all assets and service procedures under one discipline and reporting them. Moreover on 1st July 1996 additional legislation brought into action with the Value Added Tax Law “KDV Yasası” about how to record the receipts, bills, records, documents and declarations to the ledger.

With intention to perform the accounting through the international standards and for its universality found it necessary to use the Uniform Accounting System “Tek Düzen Muhasebe Planı Sistemi” in respect of sectors. As a consequence computer programs on accounting developed by benefitting

the technological resources. It doesn't mean that if anyone memorizes all the programs s/he will be an accountant (muhasip). These kinds of persons are only bookkeepers. But because of not having separate definitions these people can say they are accountant.

While in many countries accounting and auditing was legalized since 18th century, in Cyprus it entered into company law in British Period in Cyprus in 1949. Parallel with this, the rules of arrangement and approval of the accounts by accounters authorized by ministry of finance which firstly rendered to tax Office, transmitted from British Period to Turkish Republic Period and stated in Article 49 of personal income tax act 13/1976 which was legalized by publishing it in 28/12/1961 dated newspaper. Such rules stated in article 29 of corporate income tax, Act 41/1976) and stated in Article 60 of income tax law, Act 24/1982. In addition to this, although the rule making power was given to Minister of Finance to arrange the basis and procedures of certification of "Free Accountant and Auditors" in Article 62(2) of the act mentioned before, any arrangements hasn't been made until today. So basis and procedures of this authority is up to choice. Namely, it is left to populism and politics to decide.

Tax History of Cyprus

As everybody knows, taxes are one of the most important issues at the present. For centuries taxes occupies the agenda of all of the states in the world. Main reason is to fulfill the increasing services of defense, social and cultural services and other main reason is its important role in development of countries socio-economy.

Considering the historical development of taxes I decided to give historical information to people who thought that the tax application started after the 20th July 1974 Peace Operation. My purpose is to give information about taxes which are applied today starting from the Ottoman Empire in the parallel of democratization and socio-economic developments especially after the 2nd world war.

Historical periods of tax applications in Cyprus are as written below.

- a- Ottoman Empire Period (1571 - 1878)
- b- British Colonial Period (1878 - 1960)
- c- Republic of Cyprus (1960 - 1963)
- d- Administration of Turkish Cypriot Period of Turkish Republic of Northern Cyprus..... (1967 – since today)

After occupying Cyprus, Ottoman Empire firstly stated the population, domain and income of the country. Thus, after this arrangements Ottoman Empire abate the obligation of taxes applied anyhow and the obligation to work without salary two days of every week. In spite of this, the taxes according to Ottoman Empire’s regulations which was seen fair started to be applied. The taxes collected from various resources of empire were collected according to principles of “şeri (canon law)” and “örfi (customary law)”.

Principal taxes applied by Ottoman Empire in Cyprus Since 1878, the year Cyprus rented to British Colony, specified below in brief.

a- Same taxes called as “Aşar” and “Öşür” which collected on income of products of the soil.

b- Taxes known as “Ağnam” which was collected out of the amount of animals like sheep, goat, cow and camel.

c- “Cizye” poll tax for non-Muslims in the empire collected except from the women, children and disabled people to secure their assets.

d- Tax called as “Mukassafat” is the tax which was collected on income of institutions and on the income of other assets.

Taxes of “Aşar” and “Öşür” collected on income of the entire domain and assets used by society on the ground that these were all belonged to the government and these taxes collected by tax farming. One – tenth of the income was being collected. Some of Conquest was given to non-Muslims. Government was also collecting taxes from non-Muslims. Amount of taxes were referring to the square measure and the received product and taxes were collecting same as with Muslims. Amount of the tax were differing between one – tenth of product and half of the product.

The tax of “Ağnam” was being collecting out of the number of eatable animals like sheep, goat, cow and camel.

The tax called as “Cizye” was collecting from non-Muslims to not serve in the army and collecting for their assets security according their salaries and classification.

The tax called “Müsakkafat” was collected from institutions for their immovable properties.

And in addition to the taxes of Islamic law “şeri vergiler” Custom taxes (Gümrük Vergisi) and Marketing Taxes (Pazar Vergisi) were being collected. According to the historical resources various collected products as tax known as “Aşar” and “Ağnam” stocked in the storehouses in Girne and shipped to Turkey.

According to the historical resources we can see that Provincial Treasurer (Defterdar) of Ottoman Empire kept the record of annual budget and we can also see that after for years from the conquest there were income surplus which was being added to the governments’ budget every year.

Since 1878 after coming under the rule of British colonies “şeri vergiler” Islamic Law Taxes were abolished but “örfi vergiler” Customary Taxes and other costs remained in force quite a long time. After the “Vergi Kadastro Kanunu” (Revenue Survey Law) which was started by British Colony in 1880 to search the revenue resources of Cyprus led to other new revenue laws. The system and base of these tax applications were arranged according to the British Royal Treasury. Same regulations were also applied in the other British Colonial Administrations.

Main tax laws which were brought into force by British Colony specified below;

<u>Name of Law</u>	<u>Year</u>	
a- Motor Vehicle Tax Law	1921	(Motorlu Araçlar Kanunu)
b- Stamp Tax Law	1923	(Pul Vergisi Kanunu)
c- Immovable Property Tax Law	1932	(Gayrimenkul Mal Vergisi Kanunu)

d- Taxation Law	1933	(Vergi Tahsilat Kanunu)
e- Income Tax Law	1941	(Gelir Vergisi Kanunu)
f- Inheritance Tax Laws	1942	(Veraset Vergisi Kanunu)
g- Customs Duty Laws	1949	(Gümrük ve Rusumat Kanunu)

Except these taxes, various taxes and fee regulations added to the Tax Law of Colonial Administration.

With the Proclamation of Republic of Cyprus on 16th August 1960 art. 87(f) of Constitution of Republic of Cyprus became effective and with this article Turkish and Cypriot Greek Congregation Assemblies entitled to collect taxes from their own congregants. In addition, according to the said Constitution's article 88(3), when Congregation Assembly (Türk Cemaat Meclisi) approved this article it became a rule for Cyprus Tax Administration to perform the taxation, accrual and collection of revenue from natural and legal person. The article 91 of the same Constitution obliged to arrange a budget which will arrange each two Congregation Assemblies' separate annual incomes.

Hence, each Congregation Assemblies regulated their own Revenue Law referring to various rights and authorities regulated in Constitution and put into action. Taxes of people who weren't member of the Congregates and collection of other taxes and fees were under authority of Republic of Cyprus and Republic's Budget constituted.

Each Congregation Assemblies gave their duties on tax collection to the Republic of Cyprus Revenue Administration with commission due to not having enough logistics and personnel to constitute Tax Administrations in the first years of Republic.

Main Tax Acts which were put into action between the years 16th August 1960 and 21st December 1963 by Chamber of Deputies (Temsilciler Meclisi) who established the Parliament of Republic of Cyprus specified below;

<u>Name of Law</u>	<u>Act No</u>	<u>Enforcement Date</u>
a- Turkish Congregate Assembly Personal Taxes Act (Took the place of Article 323 Law of Revenue Tax Law)	13/1961	28.12.1961
b- Elen Congregate Act levies personal Taxes from members of Elen Congregate (Took the place of Article 323, Law of Revenue Tax Law)	18/1962	01.11.1962
c- Law for Revenue Taxes of Foreign People (Took the place of Article 323, Law of Revenue Tax Law)	58/1961	1961
d- Inheritance Tax Laws (Took place of Article 319, Inheritance Tax Law)	67/1962	20.10.1962
e- 1962 numbered Taxation Act (Took place of Article 329, Taxation Law)	1962	
f- Immovable Property Tax Law (cities) (Took place of Article 322, Immovable Property Tax Law)	89/1962	1962
g- Stamp Law (Took place of Article 328, Stamp Law)	19/1963	28.03.1963
h- Law of Documents (Special Tax) (Took place of Article 318 Law of Documents)	57/1961	1961
l- Turkish Congregate Assembly Stamp Act (Put into action for the first time)	1961

Acts which were valid while the British Colony Administration weren't arranged again and they were still valid referring to the related acts.

Especially in 1963-1966 Turkish Cypriots who were struggling to survive against Greek Community had no economic activity. Since 1967 Temporary Turkish Administration (Geçici Türk Yönetimi) which was organized by Turkish Congregation Assembly's Executive Committee which

was organized under the Constitution of Republic of Cyprus started to put the legal arrangements into action to fulfill Turkish Cypriot's needs and for more systematic economical arrangements. According to Assembly of Turkish Cypriot's Temporary Administration's (Kıbrıs Geçici Türk Meclisi) decisions various arrangements will be performed over the areas which were under control of Turkish Administration. Act of 13/1961 Turkish Congregate Assembly's Personal Taxes (Şahsi Vergiler) (Income Tax) and Act of 1/1967 Taxation Law brought into action to make the money sent from Turkey an additional pecuniary resource (Ek Maddi Kaynak).

In pursuance of said Executive Committee's decision, personnel of Republic of Cyprus Tax Administration and a few personnel of "Kitabet Kadrosu (literary composition staffs)" were gathered and grouped 10 personnel and created Tax Office of Turkish Administration of Cyprus (Kıbrıs Türk Yönetimi Vergi Dairesi). Firstly this office was in Lefkoşa and then branches opened in Mağusa and in Turkish Area of Limasol. Branch in Mağusa was dealing with the taxes of Larnaka and the branch of Limasol was dealing with the taxes of Baf. This organization was in effect until 20th July 1974 Peace Operation within bounds.

It is obvious that it wasn't possible to expect any improvement on tax regulations while Turkish Community was incapacitated for socio-economic opportunities because of being immigrant in ghettos.

Following 3-4 years after Peace Operation generally passed with immigration of Turkish Cypriots to the north from south and rehabilitation of immigrants brought from Turkey and passed with relieving them. In this period Tax Offices' personnel took charge in other offices and it was hard to improve the tax matter as well. During this period, especially they worked on finding resources left from Greeks and worked on constituting "KİT" State Economic Enterprises (Kamu İktisadi Teşekkülü). Tax Office officers who worked as mujahid/warrior in this period could return to tax office in 1976.

Especially since 1979 they started to work on planned economy for independent Government Mentality. In this purpose basic factors of public revenue sources became a current issue and accordingly fact of tax law

became a current issue as well. Concordantly application of many tax laws and systems came up. First Anglo-Saxon Thematic Tax Arrangement was started in 1982 with 24/1982 numbered Income Tax Act. Acts brought into action in 1974 and 1982 specified below.

<u>Name of Law</u>	<u>Act No</u>	<u>Enforcement Date</u>
a- Stamp Tax Law (Sole law since British Colonial Period used by Republic of Cyprus and TRNC as well)	19/1963	28.03.1963
b- Motor Vehicle Registration and Traffic Law	21/1974	14.11.1974
c- Motor Vehicles Law (Temporary)	24/1975	11.10.1975
d- Company Law Tax	41/1976	30.12.1976
e- Tax Procedural Law (Vergi Usul Yasası)	21/1977	28.05.1977
f- Procedural Law of Public Claim's Collection (Kamu Alacaklarının Tahsili Kanunu)	48/1977	15.11.1977
g- Income tax Law	24/1982	08.07.1982

After 1982 many new law arrangements and changes had been done to improve tax laws. However any comprehensive arrangements weren't brought into action in last decade.

Tax Law and arrangements became important after 1980s and it is a branch science. Therefore, International Tax Law should be followed and changes should be done on time especially in this period that accordance with USA is a current issue. In addition, along with these arrangements being performed, they should be careful to create advantages enough to compete with the economy of Greek Republic of North Cyprus and other neighbor countries. It will be advantageous to arrange and perform these arrangements by persons who have confidence, accounting knowledge and who have economical vision. And doubtless accounting occupation needs periodic

education and if the Tax Administration can be independent this issue will be much more successful.

Tax Act Summaries of Turkish Republic of Northern Cyprus

A - Revenue Tax Act (24/1982)

1 - Statues of Obligants and Taxable Persons

a - Statues of obligants divided into two as inhabitants and non-inhabitants.

b - During a taxation period, TRNC inhabitant's revenues acquired from up country or abroad and revenue types specified in clause 2 are subjected to Revenue Tax.

c - People who lived in TRNC for 183 days or more in this taxation period they are accepted as inhabitant.

d - Non-inhabitant's incomes are subjected to Revenue Act which was only acquired in TRNC and incomes from capital are subjected to.

e - Persons who came here for a temporary duty to TRNC will be levied over their revenue acquired in TRNC even if they live more than 183 days

f - If foreigners perform obligations specified in Law about work permit, tax and other regulations they are allowed to work in TRNC.

2 - Reducible Expenses

During the determination of taxable net profit, in case of documentation of the revenues below and documentation of revenues to exclusively produce income and the revenues on conditions to be proportionate to specialty and extensity of the work may reduce from the revenue.

a - Interests paid for purchase of goods and services about work;

b - Rentals for rented workplace and taxes for immovable properties;

c - Subscription fees paid to occupational institution and public institutions;

d - Expenses for maintenance, reparation, modification and evolution of movable and immovable properties.

e - Expenses for all kinds of vehicles, machine tools, material and property;

f - Business travelling expenses depending on certain procedures

g - Amount not exceeding %50 of expenses of usage and amortization of saloon cars depending on qualification of work (investment allowance right wasn't given for this kind of vehicles.)

h - Payments to the social security funds by employers (%19) and employees (%13) which are not exceeding the specified rates.

i - Premium payments made for life insurance agencies, retirement funds and approved social security funds which don't exceed the fund's amount made for social security in effect in accordance with the Act of Insurance Services.

j - Amortization expenses detected in the regulations in effect for the fixtures and other economic assets.

k -Worthless claims and provisions detected based upon Tax Procedural Law.

l - %50 investment allowance over the cost value of economic assets firstly used or operated in TRNC and economic assets purchased, manufactured and constructed depending on certain procedurals;

m - Advertizing and announcement expenses. However advertizing expenses obtained in abroad can't exceed %10 of gross annual earnings and in case of damage, expenses can't be transferred to further years. In case of damages in the new established institutions they are entitled to transfer their damages to the following year for once.

n - Costs of economic assets like machine tools, furnishings and fixtures etc. which are not exceeding gross minimum price at the beginning of the year that its value purchased.

o - Representation and hospitality expenses. This discount, on the conditions not to exceed %4 of gross revenue of institutions (in other conditions %2) which are working on producing goods and services and exportation of them and on the conditions not to transfer the revenues to other following years in case of any damage;

p - Reward expenses and donations to the government, public institutions, sports federations and registered sport clubs and donations to the foundations and charities approved by Commission of Ministers on the purpose of promoting education, health, culture, sportive and scientific studies. (under the condition that not exceeding %10 of net profit and not to transfer the expenses because of any damage)

q - All the expenses with the purpose of supporting the studies on education, health, culture, art and science resultant of sponsorship of sport federations, can be set-off to the same year.

r - Interest expenses of previous year which was paid for the money owed to construct a social house-dwelling or buying a plot of land by people who doesn't have any dwelling. This expense doesn't exceed the half of the minimum payment.

s - Interests paid for the money due to receive share certificate from the registered companies in TRNC. However this profit can't be more than the income provided from this investment.

t - If any obligant rents his or her dwelling because of the change of his or her duty and rents another dwelling, if the rent that he receives is less than the rent he pay he receives discount as much as the net rental he receives and if the if the net rental he receives is more than the rental he pays he receives a discount as much as the rental he pay.

3 - Expenses that Discount Isn't Accepted on Them

It is not acceptable to reduce the expenses below from the revenue to detect the net profit and tax basis.

a - Costs of purchase of services and goods which are not legally approved.

b - Expenses that weren't spent especially to obtain revenue;

c - Money received from the company for individual purposes and other economic assets;

d - Paid revenue tax, company tax and all kind of fines and the interests of default interest, compensation paid because of any negligence and

interests of personal debts;

e - Rentals paid for the dwelling of the employer and for the travelling expenses between the dwelling and the company

f - Expenses made except natural disasters, forced destruction of the company and quitting the company by court decision or expenses for changing the company;

g - Expenses made to purchase economic assets except property and expenses to receive extensions and patent, copyright and other same rights;

h - Contingency reserve, provisions saved for the any purpose individual or general and provisions for doubtful trade receivables.

i - Amount of money should be paid without performing the regulations specified in the regulations in effect due to any debt to the persons or institutions which are not in TRNC.

j - Rewarding expenses, donations to the institutions which are not approved by Council of Ministers as a charity institution.

k - Any damage or expense pledged to compensate to the entitled person under insurance and compensation contract.

4 - Net Profit and Calculation of Profit

It is the difference between expenses depending on legal documents to obtain revenue from the institutions revenue subjected to taxation. Contrast will be damage to the institution. “Matrah / basis” is the amount which calculated by descending of damage from the net profit and addition of the not accepted expenses.

5 - Deduction of the Tax Paid in Abroad

a - Countries which have agreement of prevention of double taxation will benefit from this contract in case of any taxation process due to any transition of tax income, earned in abroad, to the accounts in TRNC.

b - Taxation of incomes in TRNC which earned in the countries that doesn't have agreement of double taxation will carry to an account out of the tax applied in TRNC.

6 - Procedures of Tax Assessment

Assessment and recognition procedures, which are related to taxation referring to Tax Procedural Law with Company Law and Revenue Tax Law, are performed by branches of Revenue and Tax Office according to the one of three principles or more than one of them known as (a) statement (b) additional (c) ex officio.

TRNC Tax Law's taxation principle is "statement" and people who doesn't respect to this principle they will be subjected to Additional Assessment procedure.

7 - Revenue Tax Calculation Methods

a - Revenue Tax Obligants are taxed according to the procedures of tax cut or according to the lump sum basis according to their economic activities, statues or revenue category.

b - Movable or immovable capital incomes and all kinds of revenues earned by non-inhabitants in TRNC are subjected to deductions of withholding as a certain tax. Except inhabitants' profits.

c - Fees except the revenues specified above are subjected to deductions of withholding over key money, unloading of immovable goods, money from transfer of tenancy right, incomes over immovable property sales, imported goods c.i.f cost and rentals of immovable properties, undistributed profits of companies and taxation of Casinos subjected to procedures in effect. These deducted taxes will be deducted from obligants accountabilities.

d - In TRNC there is not Capital Gains Tax regulations so incomes related to capital tax are subjected to Revenue Tax Law.

8 - Revenue Tax Rates

Revenue Tax Rates regulated according to the proportional basic which increases related to the tax assessment.

9 - Tax Withholding Procedures

1 - Procedures Subjected to Tax Withholding

As in every country to ease the payment of taxes and to provide source to budget there is a tax withholding procedures.

Tax withholdings made with this procedure gathered under the rules specified below;

a - Tax withholdings on account (for example; deducted from imports, sales of agricultural products, profits, transfer of pecuniary rights and incomes of Casinos.)

b - Tax withholdings as certain tax liability. (For example; payment to the real persons and legal persons in TRNC for immovable property rentals, cost of intangible rights and services performed in TRNC.)

c - Interest incomes and immovable property sales incomes are also subjected to tax withholding procedures

Company's tax withholdings will be deducted from their accountabilities at the end of the year but if the tax is not too much deduction will not be performed.

2-Tax Exceptions

Incomes below are exempted from the tax.

a - Affiliate earnings obtained due to their affiliations to the capital of a corporation established and registered in TRNC;

b - Anticipated investment allowance on Revenue Tax;

c - %20 earnings from the exportation of goods and services from TRNC in conditions of being dependent to some basis and procedures;

d - Corporations invested for charities, dormitories, nursing homes exclusively on education and health their incomes from these kinds of activities will be taxed as %10 for Company Tax for five years period.

e - %10 incomes of Corporations which makes investment in the development priority regions are subjected to Company Tax. However instead of %15 tax cut over undistributed corporate profit, the income related to taxation period of the corporation is counted according to the rate in effect

with the paid capital amount in same period.

3- Reducable Expenses

In addition to expenses detected on Revenue Tax Act, expenses below also can be reduced from the revenue while detecting profit of company;

a - Exportation costs of share certificates and bills of exchanges including taxes, dues and fees;

b - Establishment costs. If these costs are activated these costs are recognized as an expense in 5 years being subjected to tax regulations in effect;

c - Fair costs can be approved by Revenue and Tax Office with the costs of integration and liquidation and dissolution which were done for General Meeting;

d - Insurance technical reserves and life insurance reserves depending on some basis and procedures.

4- Unaccepted Discounts

In addition to the expenses that discount wasn't accepted on them according to the Revenue Tax Act, discounts below are not accepted:

a - Interests counted or paid over proprietary capital;

b - Interests counted or paid over hidden capital,

c - Hidden incomes distributed to companies with share capital;

d - All kinds of reserve funds saved by any means and under any name;

e - Interests, commissions etc. given to branches except the ones in TRNC and to the corporate office;

5- Company Tax Rates And Tax Burden

a - Company Tax Rate Assessment is %10. After reducing Company Tax from the Net Profit, % 15 taxes will be cut back over the undistributed corporate profit. This tax cut consists of certain tax liability of unregistered corporations and consists of nonresidents who obtained profit. For residents

in TRNC, this tax cut is deducted from the tax which will be paid as a result of the taxation of who received profit.

b - Profits, received due to the affiliation to other corporations' capital, are excepted from Corporation Tax and subjected to the tax cut specified above;

c - Foreign Transportation Company's incomes', received in TRNC, taxation rate is detected as zero rate with regard of the Council of Ministers decision.

B) Value Added Tax (VAT) Act (47/1992)

Value Added Tax (KDV) is in effect since 01.07.1996

1 - Value Added Tax Liability

VAT liable is the corporations in the natural and legal entity statues which deliver goods and services subjected to the tax specified below. These people's legal statues and identities, citizenship in TRNC is doesn't has importance for tax liability and also it doesn't have importance if they have registered company in TRNC. Liable collect VAT that should be paid because of delivery of goods and services payments, from the natural and legal entities who takes goods and services from the liable.

2 - Taxable Transactions

All kinds of goods and service deliveries as part of commercial, industrial, agricultural activities and independent businesses activities are subjected to VAT

3 - Taxation Period and Taxable Event

"Value Added Tax" taxation period is the one month of each calendar year. After reducing VAT total which collected within the taxation period or reducing the VAT that should be paid liable paid their liabilities on VAT by means of giving written statement until 20th day of the month follows the period about Companies and at the sole proprietorship until the 25th day of

the month.

4 - Exemptions

Delivery of goods and services below are exempted from VAT:

- a - Exportation of goods and services;
- b - Transportation works between TRNC and other countries;
- c - Services rendered to the marine and air transportation vehicles at harbor and air port;
- d - Goods and services delivered to the corporations which have tax exemption according to the international agreements and deliveries to foreign diplomatic representatives in TRNC and their diplomatic members;
- e - Importation of goods and services exempted from taxation;
- f - Good and services performed by transit, transportation, customs warehouse and free trade areas;
- g - Importations within the temporary importation regulations;
- h - Importation of goods which will be done solely with purpose of establishment by the corporations declared as “Charity” by TRNC Security Forces Support Foundation and Council of Ministers.
- i - Importation of the organs and parts attached to body and tools and equipments for the persons whose disability is approved by Health Committee;
- j - Goods and services offered by the corporations, with the purpose of science, culture, education, health, and sport, which approved as “Charity” and “Social Purpose Corporation” by the Public Institutions and Council of Ministers;
- k - Goods and services, except the ones specified above, with the purpose of renovation and promotions and with the purpose of spreading science, art and sport in compliance with the establishment purpose of corporations declared as “Charity” by Council of Ministers;
- l - Goods and Service deliveries in compliance with the purposes of Military Corporations;
- m - Personal Companies’, Unlimited or Commandite Corporations’ transaction of changing into Equity Company;

n - Transactions as part of Bank and Insurance Transactions with the delivery of bar gold, foreign currency, money, tax stamp, share certificate and bill of exchange;

o - Services related to delivery of water with agricultural purpose and rehabilitation of plants and animals and agricultural protection services performed by Public Institutions and Farmer and Water Associations;

p - Sales of personal goods by the judicial sale;

q - Services provided during the mutual betting and chance games regulated according to the regulations in effect;

5 - VAT Counting Methods

VAT liable is taxed according to the procedures stated below;

a - Real Procedure (Accounting Record Method)

b - Lump Sum Basis (This tax is collected with the appreciation method from the small business owners and from the persons whose account keeping is impossible)

6 - VAT Rates

VAT Rates consist of the 5 rates stated below. General Tax Rate is %10. Reduced Rates are %0, %5. Raised Rates are %16 and %20.

C - Tax Procedural Act (27/1977)

1 - Purpose

Purpose of Act is to arrange the procedures of public receivables deduction, assessment and collecting phase related to all kinds of tax and fees in budget except Customs Taxes, to arrange the fines to the liable who doesn't perform his/her liability, to arrange appeal rights and procedures performed against taxes and penalties, to arrange the economic assets assessment rules, amortization basis and principles and arranging counting procedures.

2 - Objection Rights To Taxes

Tax liable subjected to tax assessment according to the Tax Act, should give notice to the related office within 15 days since the date of notification given them in return of Tax Notice.

Objections except error of fact can't be performed to the assessment transactions related to notice.

Registered Corporations Under Especial Statues and Tax Exemptions with Liabilities

D - International Corporatons Act (38/2005)

1 - Aim

Aim of this Law is to contribute to the services sector directly and to the general economy indirectly; and aim is to create added value, income and resource in the sustainable activities with the activities of international business corporations. With this Law, international businesses and working procedures are regulated according to the European Union. With this law "off-shore company law" is abolished.

2 - Affiliation

To the said companies foreign natural and legal entities can affiliate.

3 - Registration

These corporations are registered as Local Corporation according to the Corporation Law in effect and according to the international corporation law they can do their all activities intended to abroad.

4 - Promotion of Representative and Director

For the international corporation in TRNC an advocate working dependent to bar association and a accountant should be representative and one TRNC citizen should be in the directorship of the corporation.

5. Auditing with Capital and Accounting Records

Corporation's tax assessment is counted according to the local corporation regulations in effect and %1 Company Law is deducted and recognized. All kinds of taxes which will be paid with the capital amount are paid with the currencies except Turkish Liras. It is required by law to pay in the May of the year follows taxation period.

Bookkeeping

Bookkeeping in the context of a business is simply the recording of financial transactions. Transactions include purchases, sales, receipts and payments by an individual or organization. Many individuals mistakenly consider bookkeeping and accounting to be the same thing. This confusion is understandable because the accounting process includes the bookkeeping function, but is just one part of the accounting process. The accountant creates reports from the recorded financial transactions recorded by the bookkeeper and files forms with government agencies. There are some common methods of bookkeeping such as the single-entry bookkeeping system and the double-entry bookkeeping system. But while these systems may be seen as "real" bookkeeping, any process that involves the recording of financial transactions is a bookkeeping process.

Bookkeeping is usually performed by a bookkeeper. A **bookkeeper** (or book-keeper), also known as an accounting clerk or accounting technician, is a person who records the day-to-day financial transactions of an organization. A bookkeeper is usually responsible for writing the "daybooks". The daybooks consist of purchases, sales, receipts, and payments. The bookkeeper is responsible for ensuring all transactions are recorded in the correct day book, suppliers ledger, customer ledger and general ledger.

The bookkeeper brings the books to the trial balance stage. An accountant may prepare the income statement and balance sheet using the trial balance and ledgers prepared by the bookkeeper.

The bookkeeping process primarily records the financial effects of transactions only. The variation between manual and any electronic

accounting system stems from the latency between the recording of the financial transaction and its posting in the relevant account. This delay, although absent in electronic accounting systems due to instantaneous posting into relevant accounts, is a basic characteristic of manual systems, thus giving rise to primary books of accounts such as Cash Book, Bank Book, Purchase Book, and Sales Book for manually recording the immediate effect of the financial transaction.

In the normal course of business, a document is produced each time a transaction occurs. Sales and purchases usually have invoices or receipts. Deposit slips are produced when lodgements (deposits) are made to a bank account. Cheques are written to pay money out of the account. Bookkeeping involves, first of all, recording the details of all of these source documents into multi-column journals (also known as a books of first entry or daybooks). For example, all credit sales are recorded in the sales journal, all cash payments are recorded in the cash payments journal. Each column in a journal normally corresponds to an account. In the single entry system, each transaction is recorded only once. Most individuals who balance their cheque-book each month are using such a system, and most personal finance software follows this approach.

After a certain period, typically a month, the columns in each journal are each totaled to give a summary for the period. Using the rules of double entry, these journal summaries are then transferred to their respective accounts in the ledger, or book of accounts. For example the entries in the Sales Journal are taken and a debit entry is made in each customer's account (showing that the customer now owes us money) and a credit entry might be made in the account for "Sale of class 2 widgets" (showing that this activity has generated revenue for us). This process of transferring summaries or individual transactions to the ledger is called posting. Once the posting process is complete, accounts kept using the "T" format undergo balancing, which is simply a process to arrive at the balance of the account.

As a partial check that the posting process was done correctly, a working document called an unadjusted trial balance is created. In its simplest

form, this is a three column list. The first column contains the names of those accounts in the ledger which have a non-zero balance. If an account has a debit balance, the balance amount is copied into column two (the debit column). If an account has a credit balance, the amount is copied into column three (the credit column). The debit column is then totalled and then the credit column is totalled. The two totals must agree – this agreement is not by chance – because under the double-entry rules, whenever there is a posting, the debits of the posting equal the credits of the posting. If the two totals do not agree, an error has been made either in the journals or during the posting process. The error must be located and rectified and the totals of debit column and credit column recalculated to check for agreement before any further processing can take place.

Once the accounts balance, the accountant makes a number of adjustments and changes the balance amounts of some of the accounts. These adjustments must still obey the double-entry rule. For example, the “inventory” account asset account might be changed to bring them into line with the actual numbers counted during a stock take. At the same time, the expense account associated with usage of inventory is adjusted by an equal and opposite amount. Other adjustments such as posting depreciation and prepayments are also done at this time. This results in a listing called the adjusted trial balance. It is the accounts in this list and their corresponding debit or credit balances that are used to prepare the financial statements.

Finally financial statements are drawn from the trial balance, which may include:

- the income statement, also known as the statement of financial results, profit and loss account, or P&L
- the balance sheet, also known as the statement of financial position
- the cash flow statement
- the statement of retained earnings, also known as the statement of total recognised gains and losses or statement of changes in equity
- Entry systems

- Two common bookkeeping systems used by businesses and other organizations are the single-entry bookkeeping system and the double-entry bookkeeping system. Single-entry bookkeeping uses only income and expense accounts, recorded primarily in a revenue and expense journal. Single-entry bookkeeping is adequate for many small businesses. Double-entry bookkeeping requires posting (recording) each transaction twice, using debits and credits.

Double-entry system

Main article: double-entry bookkeeping system

A double-entry bookkeeping system is a set of rules for recording financial information in a financial accounting system in which every transaction or event changes at least two different nominal ledger accounts.

Daybooks

A daybook is a descriptive and chronological (diary-like) record of day-to-day financial transactions also called a book of original entry. The daybook's details must be entered formally into journals to enable posting to ledgers. Daybooks include:

- Sales daybook, for recording all the sales invoices.
- Sales credits daybook, for recording all the sales credit notes.
- Purchases daybook, for recording all the purchase invoices.
- Purchases credits daybook, for recording all the purchase credit notes.
- Cash daybook, usually known as the cash book, for recording all money received as well as money paid out. It may be split into two daybooks: receipts daybook for money received in, and payments daybook for money paid out.
- General Journal daybook, for recording journals.

Petty cash book

A petty cash book is a record of small value purchases before they are later transferred to the ledger and final accounts, it is maintained by a petty

or junior cashier. This type of cash book usually uses the imprest system: a certain amount of money is provided to the petty cashier by the senior cashier. This money is to cater for minor expenditures (hospitality, minor stationery, casual postage and so on) and is reimbursed periodically on satisfactory explanation of how it was spent.

Journals

Journals are recorded in the general journal daybook. A journal is a formal and chronological record of financial transactions before their values are accounted for in the general ledger as debits and credits. A company can maintain one journal for all transactions, or keep several journals based on similar activity (i.e. sales, cash receipts, revenue, etc.) making transactions easier to summarize and reference later. For every debit journal entry recorded there must be an equivalent credit journal entry to maintain a balanced accounting equation.^[3]

Ledgers

A ledger is a record of accounts. These accounts are recorded separately showing their beginning/ending balance. A journal lists financial transactions in chronological order without showing their balance but showing how much is going to be charged in each account. A ledger takes each financial transactions from the journal and records them into the corresponding account for every transaction listed. The ledger also sums up the total of every account which is transferred into the balance sheet and income statement. There are 3 different kinds of ledgers that deal with book-keeping. Ledgers include:

- Sales ledger, which deals mostly with the accounts receivable account. This ledger consists of the financial transactions made by customers to the business.
- Purchase ledger is a ledger that goes hand and hand with the Accounts Payable account. This is the purchasing transaction a company does.
- General ledger representing the original 5 main accounts: assets, liabilities, equity, income, and expenses

Explanations on accounting policies

1-If the financial statements of a company are prepared by taking the going concern, consistency and the cut-off concepts into consideration, these concepts do not need to be disclosed. But if there is a deviation from these concepts then they should be disclosed in the footnotes together with the reasons.

2-The concepts of prudence, substance over form and materiality should lead the selection and application of accounting policies.

3-All of the important accounting policies included in the financial statements should be explained clearly.

4-The explanations relating to the accounting policies applied constitute an integrity with the financial statements. Explanations concerning the accounting policies are fundamental principles for the completeness and accuracy of financial statements. Such explanations should be provided to the accounting department by the management of the company.

5-Erroneous and fictitious transactions in the balance sheet, income statement and other statements cannot be corrected through the disclosure of accounting policies or footnotes. Corrections can only be made in accordance with the accounting policies applied and they are reflected in the financial statements.

6-Financial statements should have comparative figures.

7-If there has been a change in the financial policies which may have or already has a significant effect on either the current periods' or the following periods' statements then the effects along with their reasons should be disclosed in the financial statements.

Principles of financial statements

Principles of financial statements express the rules to be applied during the course of preparing the basic financial statements.

For issues not covered in this communique, priority should be given to accounting standards which will be issued later; otherwise in compliance with the accounting concepts, the principles applied for such a company

in its sector or principles determined by the international standards will be applicable respectively.

In case the fundamental concepts and principles used in the preparation of financial statements differ from the Turkish Commercial Code and other relevant legislations, companies are required to make necessary adjustment to information in accordance with the regulations in question.

Such arrangements cannot change the unity of the financial statements prepared in the framework of principles mentioned in this section.

Financial statements include the following tables:

1. Balance sheet
2. Income statement
3. Cost of sales table
4. Sources and application of funds
5. Cash flow table
6. Profit distribution table
7. Statement of changes in shareholders' equity.

Balance sheet and income statement tables along with their footnotes and appendices constitute the basic financial statements, whereas the others form the supplementary financial statements.

Conclusion

When we looking depending on the results of the existing tax laws, accounting schemes are procedures, documents and

Practices are began to take the final in many years. The accounting and auditing deficiencies that have not yet adopted the law in our country remains weak. When completed all of these deficiencies in our country believe that a decent system.

References

- Law courts in TRNC
- Göksel Saydam (Tax law in TRNC 1.Edition)
- Halil Öksüz (Financial Advisor)
- Socio Economic History of Cyprus 1726-1750(Ali Efdal Özkul
- REVENUE TAX ACT (24/1982)
- Value Added Tax in TRNC- ACT (47/1992)
- Tax Procedural Act (27/1977)
- International Corporations Act (38/2005)
- Wegandt Kieso, Kimmel (2003). Financial Accounting. Susan Elbe.p.6
- Haber Jerrfry (2004). Accounting Demystified. New York: AMACOM. p.15
- Marsden Stephen (2008).Australian Master Bookkeepers Guide.

Table 1

DISCOUNTS AND EXEMPTIONS FOR 2012 REVENUE TAX OBLIGANTS		
	DISCOUNT CATAGORIES	AMOUNTS BELONGS TO 2012
1	INDIVIDUAL DISCOUNT	14.844,00
2	ESPECIAL DISCOUNT (OVER NET PROFIT)	
	A- Employee and lump sum taxation B- Except persons above	17%** 10%
3	SPOUSE DISCOUNT	
	A- For the spouse living together B- Subsistence to the divorced spouse.	1.187,52 593,76
4	CHILDREN DISCOUNT	
	A) i) Uneducated under age of 16 ii) Child in primary education iii) Unmarried girl who doesn't have income (no limit of age) B) i) Child having education in TRNC younger than 20 ii) Soldiers except reserve officer iii) Children in abroad for secondary school education younger than 18 iv) Disabled Children	890,64 1.187,52
	C) for the child doing high education who are not younger than 18 and not older than 27 (In TRNC or abroad)	1.632,84

	D) Discount rates will be paid to the obligants who have 3 children or more; i- for the third child ii- for the every child after third one in case of separate incomes of spouses children discounts are calculated equally between the spouses.	15% 5%
5	DISABILITY AND ELDERLINESS A- i) To whom lost at least %50 of capacity to work ii) To whom lost at least %100 of capacity to work B- Obligants over 65 years old	2.226,60 4.453,20 742,20
6	SOCIAL SECURITY EXPENSES i) Employer Contributions ii) Obligant Contributions (Retirement funds approved with Social Insurance and Prudential Services)	19% 13%
7	OTHER TAXES i) Municipality Employment Tax ii) Life Insurance Contributions	As the amount paid in first year. Restricted with the social security contribution.
With the 39/2010 numbered Revenue Tax Act since 01.09.2010 especial discount rates were reduced to %10 for salaried and %0 for self employed. But then these regulations cancelled and continued to use the regulations used before.		
This table used in 2010 and 2011		