

Doing Business Guide

Turkey

2nd Edition

Bilgener Istanbul Sworn-in CPA Inc

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About This Booklet

This booklet has been produced by Bilgener Certified Public Accountancy Ltd to provide an introduction to foreign investors on the various aspects of doing business in Turkey.

Its main purpose is to provide a broad overview of the various things that should be taken into account by organisations considering setting up business in Turkey.

The information provided is not exhaustive and – as underlying legislation and regulations are subject to frequent changes – we recommend that anyone considering doing business in Turkey or looking to the area as an opportunity for expansion should seek professional advice before making any business or investment decision.

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While every effort has been made to ensure the accuracy of the information contained in this booklet, no responsibility is accepted for its accuracy or completeness.

Contents

Facts About Turkey	2
Turkish Economy	3
Operating Structures	4
Establishment Procedure and Registration Requirements	8
Mergers and Acquisitions	10
Employment Obligations	12
Statutory Requirements for Companies	16
Taxation	19
Government Incentives	28
Living in Turkey	39

Facts About Turkey

Turkey is situated in Anatolia and the Balkans, bordering the Black Sea between Bulgaria and Georgia, and bordering the Aegean and Mediterranean between Greece and Syria.

Turkey extends more than 1,600 km from west to east, but less than 800 km from north to south. The total land area is about 783,562 km², of which 756,816 km² are in Asia and 23,764 km² in Europe.

Anatolia is a large, roughly rectangular peninsula that bridges Europe and Asia. The Anatolian part of Turkey accounts for 97% of the country's area. It is also known as Asia Minor, Asiatic Turkey or the Anatolian Plateau. The European portion of Turkey, known as Thrace, encompasses 3% of the total area but is home to more than 10% of the total population. Thrace is separated from the Asian portion of Turkey by the Bosphorus, the Sea of Marmara and the Dardanelles.

The climate of coastal regions shows features of transition between a Mediterranean and Black Sea climate. Summers tend to be hot and dry, except on the Black Sea coast. While spring and autumn are warm and temperate, winters are cold – although snow is unusual, except in more inland areas.

At the end of 2014, the population of Turkey was estimated to be just over 75.9 million, with a roughly equal gender distribution and an annual population growth rate of 1.2%. People of working age (15–64 years) constitute almost 70% of the population.

The territory of Turkey is subdivided into 81 provinces for administrative purposes. The capital city of Turkey is Ankara, but Istanbul is the largest city, with a population of almost 14.4 million at the beginning of 2015.

The official language is Turkish, and the currency is the Turkish Lira (TRY).

The Republic of Turkey was established in 1923. Turkey is a unitary parliamentary republic in which power is divided between the legislative, the executive and judiciary. Turkey has enjoyed multi-party politics since 1946. Turkish parliament is the sole legislative body, with 550 members elected for each 4-year term. Executive power is exercised by the prime minister and the Council of Ministers, in accordance with the constitution and the law. The president is elected by public for a 5-years term. The prime minister, appointed by the president, nominates the other members of the cabinet, subject to approval by the president and a parliamentary vote of confidence.

The judiciary operates independently on behalf of the state. The legal system is largely based on continental European models.

Turkish Economy

The Turkish economy has shown remarkable performance, with steady growth over the years to become one of the world's most dynamically developing markets. The country already ranks 8th among EU countries, and according to GDP figures was the world's 18th largest economy in 2014.

Turkey's largely free-market economy is increasingly driven by its industry and service sectors, but a significant number of people still work in agriculture. The private sector is expanding rapidly; an improving regulatory environment and open-market policies support global trade and investment to sustain overall competitiveness. The banking sector has weathered financial turmoil relatively well with little government intervention. A privatisation programme has reduced state involvement in basic industry, banking, transport, and communication sectors, and middle-class entrepreneurs continue to add dynamism to the economy by expanding production beyond the traditional textiles and clothing sectors. The automotive, construction, and electronics industries are rising in importance and have surpassed textiles within Turkey's export mix.



Operating Structures

As a result of Turkish foreign investment legislation's principles of non-discrimination and equal treatment, international investors enjoy the same status as local ones. A company can be established with 100% foreign capital without any capital or management contribution from Turkish participants. The structuring and organisation of companies are subject to regulations set forth in the new Turkish Commercial Code, Law No. 6102 enacted in 2011.

All corporate forms are open to foreign investment; joint stock or limited liability companies are generally preferred by international inventors, along with branches and liaison offices.

Joint stock company

The company's stock capital is divided into shares and the liability of the shareholders is limited to the subscribed capital and paid by the shareholder. A joint stock company can be established for any economic purpose that is not prohibited by law.

There must be at least one shareholder (a real person or a legal entity) and a minimum capital of TRY 50,000 is mandatory. The initial capital in non-public joint stock companies with a registered capital system cannot be less than TRY 100,000; value per share in both cases cannot be less than TRY 0.01. At least 25% of the nominal value of the shares subscribed in cash must be paid before registration with the Trade Registry.

Articles of association should include the trade name, list of shareholders, address and business purpose, the amount of capital and the amount subscribed by each shareholder, the amount of share capital, the nominal value of each share, the mode and terms of payments, the mode of convening the general meetings, dates and times of meetings, and conditions concerning voting. Articles of association must be signed by the shareholders, approved by a notary.

A joint stock company is governed by a board of directors, who have legal authority to represent the company. This board can be constituted by one or more member, and board members no longer need to be shareholders. A legal entity can also be a board member, but must be represented by a real person. There are no restrictions on nationality or residence of board members.

Annual meetings must be held within 3 months of the end of the financial year and the board of directors calls the meeting. The quorum for an ordinary annual general meeting is 25% of shareholders, unless otherwise stated in the articles of association.

Joint stock companies with more than 250 shareholders, or who issue stocks and bonds that are quoted in the stock exchange, are subject to the provisions of the capital market.

Limited liability company

A limited liability company is established with at least one shareholder (a real person or a legal entity); the liability of shareholders is limited to the subscribed capital and paid by the

shareholder. The number of shareholders may not exceed 50. A limited liability company can be established for any economic purpose that is not prohibited by law.

A minimum capital of TRY 10,000 is mandatory and value per share cannot be less than TRY 25. All of the capital should be committed unconditionally by shareholders and at least 25% of the nominal value of the shares subscribed in cash must be paid before registration with the Trade Registry.

Articles of association should include the trade name, list of shareholders, address and business purpose of the firm, the amount of capital and the amount subscribed by each shareholder. Articles of association signed by the shareholders, approved by a notary.

A limited liability company is governed by managers. At least one member of the partners must have the right to legally represent the company. The legal entity can be a manager, but must be represented by a real person, who must be registered. The responsibilities of manager start with legal establishment of the company. There are no restrictions on nationality or residence of managers.

The annual partners' meeting must be held within 3 months of the end of the financial year.

A limited liability company cannot be opened to public. Comparisons with a joint stock company are shown in Table 1.

Branch

A foreign company is required to obtain permission from the Ministry of Commerce and Industry to establish a branch in Turkey. A branch of a foreign entity is not a separate entity. Therefore, a branch has the same articles of association as its parent company, indicating the scope of activity of the Turkish branch.

Every branch should use the name of the parent company and include the term 'branch'. The branch is represented by a representative or branch manager with full authority, who resides in Turkey either as a Turkish citizen or as a foreigner with the appropriate work and residency permits.

There is no minimum capital requirement for the establishment of a branch. While it must be funded by head office and is governed by the parent company's internal regulations, a branch can act with some autonomy in its external relations.

A branch is subject to corporate tax only for income generated in Turkey due to limited liability status. Furthermore, withholding tax is levied on after-tax branch profits remitted to headquarters.

Liaison office

Liaison offices are not allowed to carry on any commercial activities in Turkey. Their activities are limited to non-commercial activities, such as collecting information about investment opportunities in Turkey; preparing feasibility and market research studies within the Turkish

market; gathering information on the Turkish economy; and providing information about the parent company and its products.

Permission to establish a liaison office is required from the Foreign Investment Department under the Turkish Prime Ministry. Permits are granted for a period of up to 3 years, at the end of which extension applications can be made.

A liaison office is not subject to income tax because it is not permitted to generate any income from its activities. All the expenses generated by the liaison office must be paid abroad with foreign currency.

Table 1. Comparison of limited liability company and joint stock company.

	Limited liability company	Joint stock company
Liability of shareholders	Limited by share capital, except for tax liabilities	Limited by share capital
Dividends	Allowed	Allowed
Shareholders	Minimum 1 shareholder Real person or legal entity Maximum 50 shareholders	Minimum 1 shareholder Real person or legal entity
Management	Director(s) Foreigners allowed to be director	Board of minimum 1 member Foreigners allowed
Equity	Minimum total capital requirement = TRY 10,000 Minimum TRY 25 per partner regardless of tax residency status ≥25% of nominal value of shares subscribed in cash must be paid before registration	Minimum total capital requirement = TRY 50,000 Registered capital system Capital cannot be < TRY 100,000 Minimum TRY 0.01 per shareholder regardless of tax residency status ≥25% of nominal value of shares subscribed in cash must be paid before registration
Control	Partners assembly meeting	General assembly of shareholders meeting
Legal	Independent – considered as a Turkish company	Independent – considered as a Turkish company
Taxable status	Liability to taxation on worldwide income. Tax resident	Liability to taxation on worldwide income. Tax resident
Corporate income tax	Mainstream corporate income tax at 20%	Mainstream corporate income tax at 20%

Dividend withholding tax	Not applicable unless profits are distributed to individual and foreign corporate shareholders	Not applicable unless profits are distributed to individual and foreign corporate shareholders
Going public	Not allowed	Allowed
Transfer of shares inside/ outside Turkey	Allowed	Allowed
Availability of incentives	Yes	Yes
Revaluation of fixed assets	Inflation accounting	Inflation accounting
Inflation accounting	Applicable on non-monetary items in the case of certain conditions being realised simultaneously	Applicable on non-monetary items in the case of certain conditions being realised simultaneously
Billing	Billing in foreign currency to Turkish entities is not allowed Indexation of TRY amount on invoice to foreign currency is possible	Billing in foreign currency to Turkish entities is not allowed Indexation of TRY amount on invoice to foreign currency is possible
Foreign currency usage	Allowed	Allowed
Deposit account in Turkey/ abroad	Allowed	Allowed

Establishment Procedure and Registration Requirements

Establishment procedure

The establishment procedure is the same for setting up all forms of entities, but requirements vary according to settlement. From 2013 onwards, the company establishment procedure will be followed up via a new system called MERSIS – the steps for this are outlined below:

- Register online with the MERSIS system
- Check the appropriateness of the chosen company name and the title to use
- Draw up articles of association in accordance with MERSIS requirements and obtain a tracking number from the system
- Visit a the public notary with the MERSIS tracking number, to have the articles of association signed by shareholders and witnessed
- Prepare founders' declaration, signed by founders
- Make the capital contribution payment, if capital is contributed by shareholders at establishment
- Pay fee for protection of competition (0.04% of capital commitment)
- Apply to Trade Registry Office with MERSIS tracking number, along with all other relevant documents and statements
- If application is approved by Trade Registry Office, the company becomes a legal entity following its registration
- Prepare the signature declaration of the authorised persons under the company name and notarised by a public notary
- Get the legal books certified by a public notary
- Prepare invoices under the conditions required by law and print them by contracted printers.

Registration requirements

After 'legal entity' status is received, the company should:

- Register with the district tax office
- Register with the provincial social security office
- Obtain permits from municipal authorities to commence operations

Entities engaged in trade must also register with the Chamber of Commerce, and those engaged in production must register with the Chamber of Industry.

Registration with the tax office

Taxpayers are required to notify the tax office in the case of starting a legal entity, as well as if moving address, change of job, changing business or closing down.

The local tax office must be notified of the start of a legal entity within 10 days of its establishment. This is done by the commercial registry office, which sends a copy of the application documents to the relevant tax office. However, to ensure compliance, it may be wise for a company representative to advise the local tax office using a work commencement notification form.

In the case of changing or closing down a legal entity, the person authorised to represent the company must apply to the tax office within 1 month of the date when the change/closure takes place.

Registration with social security

The employer is required to provide a business declaration, prepared according to the template provided, to Social Security before any employees start work. This can also be done via the commercial registry office, which must notify Social Security within 10 days of receiving information about a company's establishment, mergers, relocation, transfer or other changes.

Permits from municipal authorities

According to municipal revenues law, the workplace cannot be opened and operated without first obtaining a permit to commence operations. Municipalities are authorised to grant operating licence and work permits to businesses within the boundaries of the municipality and neighbouring areas. Companies should apply to the local municipality for an operating licence and work permits, which will be issued once any necessary inspections have been carried out.

If the place of business is located outside the municipal boundaries, then the licence and permits should be sought from the governor and/or governorate.

Mergers and Acquisitions

Mergers

The absorption of one or more companies into another company where the transferred companies are deemed to be dissolved without liquidation is defined as a merger in Turkish Commercial Code. According to the Code companies can merge in two ways:

- i. When a company takes over another company, i.e. merge in a form of takeover
- ii. When companies come together to form a new company i.e. merge in a form of a new organisation.

Following a merger, the assets of the transferor company will be inherited either by the transferee company or by a new organisation, depending on the merger type.

Takeover merger

When both the transferor and transferee companies are tax residents and the transferee company incorporates all assets and liabilities of the transferor company into its balance sheet on a carryover basis, this type of takeover is recognised as a tax-free merger by Turkish corporate tax law.

The transferor company is subject to the usual taxation rules for profits up to date of the merger. Any profit gained from the merger itself is not subject to tax.

With the merger, the transferee company undertakes all known and unknown tax liabilities of the transferor company.

The transferor company's tax losses can be transferred to the transferee company, if the transferee company continues the business activities if the transferor company for at least 5 years following the date of the merger. However, tax losses that can be transferred to the transferee company are limited to the shareholders' equity of the transferor company as of the date of the merger.

A tax-free merger does not affect the tax liabilities of the transferee company.

New company merger

The assets of the transferor companies are deemed to have been transferred at market value to the new company, which leads to taxable capital gains. The new company is entitled to book the assets at their market value as their tax basis for depreciation purposes.

The tax losses of the transferor companies cannot be transferred to the new company; but transferor companies can offset their existing tax losses against the capital gains arising from the transfer of assets through merger.

Acquisitions

A foreign company can acquire a Turkish company by purchasing its assets or shares.

Acquisition of assets can only be done through a Turkish company or a Turkish branch of a foreign company. Transfer of the assets should be conducted at the fair value, and the transfer between related parties should be documented according to transfer pricing requirements. Assets can be depreciated by the purchased company. The sale of assets of an entity is subject to corporate tax on the gains realised from the sale of the assets. Losses arising from the sale of assets can be either deducted or carried forward. Transfer of the assets via asset purchase agreement is subject to value added tax (VAT). An asset purchase agreement is subject to stamp tax at 0.825% over the contact value.

An acquisition of the shares by the foreign company imposes no immediate income tax, but can be subject to tax if the shares are sold onto another company or an individual. If the shares of a company are held by an individual shareholder for more than 2 years, the capital gains is exempt from income tax and there is no VAT payable. If the shares are held by an individual shareholder for less than 2 years, the capital gains is subject to income tax at progressive rates of up to 35%; there is no VAT payable for joint stock companies, but there is for limited liability companies.

If the shares are held by a corporate shareholder, the capital gains will be booked as taxable income; the net income is subject to corporation tax at 20%, and no VAT is payable. Losses are available to offset income from the company's other activities.

The share transfer agreement is subject to stamp tax at 0.825% over the sale and purchase price.

Regarding gains realised from the sale of real estate property, 75% is exempted from corporate taxation if the real estate has been held for 2 years or more. The capital gains are retained in a special reserve account for a minimum of 5 years. Transfer of real estate property is exempt from VAT.

Taxation of share transfers is among the most complex issues in Turkish legislation. Specific cases must be assessed individually, taking account the following:

- **Share type:** Shares to be transferred could be limited liability company shares, joint stock company shares, or a published share certificate representing joint stock company shares
- **Holding period:** Taxation varies depending on how long the shares have been held. Double taxation treaties specify holding period limits that affect taxation for non-residents.

Employment Obligations

Turkish Labour Code, Act No. 4857, enacted in 2003, regulates the working conditions and work-related rights and obligations of employers and employees working under an employment contract. The Code forbids discrimination, including any that is based on language, race, sex, political opinion, philosophical belief or religion.

Employment contract

An employment contract is an agreement whereby one party (the employee) undertakes to perform work in subordination to the other party (the employer) in return for remuneration. The contract is not subject to any special form, unless specified by the Act. A written form is required for employment contracts, with a fixed duration of at least 1 year. Such written documents are exempt from stamp tax and other fees.

The parties are free to draw up the employment contract in a manner commensurate to their needs, without prejudice to the limitations brought up by legislation.

Employment contracts can be made for a definite (fixed-term) or indefinite (open-ended) period. In terms of the manner of working, these contracts may be concluded on a full-time or part-time basis, or with a trial (probation) period, or in various other forms.

If the parties have agreed to include a trial clause in the employment contract, the duration of the trial term cannot exceed 2 months, during which both parties are free to terminate the contract without observing the notice period/paying compensation. The employee's entitlement to wages and other rights for the days worked is reserved.

Termination of employment contract

Before terminating a continual employment contract made for an indefinite period, notice to the other party must be served by the terminating party. Table 2 shows the minimum duration of notification periods, which may be increased by contracts between the parties.

Table 2. Notification periods for termination of employment contracts.

Duration of service	Duration of notification period
0–6 months	2 weeks
6–18 months	4 weeks
18–36 months	6 weeks
>36 months	8 weeks

The party who does not abide by the rule to serve notice must pay compensation to cover the wages corresponding to the appropriate term of notice. The employer may terminate an employment contract by paying in advance the wages corresponding to the term of notice.

An employer who terminates the contract of an employee engaged for an indefinite period, who is employed in an entity with ≥ 30 workers and who meets a minimum seniority of

6 months, must have a valid reason for such termination, connected with the capacity or conduct of the employee or based on the operational requirements of the entity or service. The notice of termination must be served in writing, clearly specifying the reason(s). The worker must be given an opportunity to defend against allegations of poor conduct or performance. However, in cases of employee misconduct or malicious/immoral behaviour, the employer has the right to break the employment contract.

Any employee who considers that their employment contract was terminated without valid reason can lodge an appeal with the Labour Court within 1 month of receiving the notice of termination. The court must apply fast-hearing procedures and conclude the case within 2 months. If the decision is appealed, the Court of Cassation must issue its definitive verdict within 1 month.

If the court or arbitrator concludes that the termination is unjustified because no valid reason has been given or the alleged reason is invalid, the employer must re-engage the employee within 1 month or be liable to pay 4–8 months' wages by way of compensation (the appropriate amount to be paid can be designated in the court's verdict).

The employee can be paid up to 4 months' wages and other entitlements until the finalisation of the court's verdict. If advance notice pay or severance pay has already been paid to the reinstated employee, this is deducted from the compensation. If term of notice has not been given and advance notice pay has not been paid, wages corresponding to the term of notice can also be paid to the employee not re-engaged in work.

For re-engagement in work, the employee must make an application to the employer within 10 working days of the date of the final court verdict. If the employee does not apply within the given period of time, the termination will be deemed valid, in which case the employer will be held liable only for the legal consequences of that termination.

Wages

As a rule, wages can be paid in Turkish Lira at the business entity or can be deposited into a specially opened bank account. If the wage has been decided in terms of a foreign currency, it can be paid in Turkish Lira according to the exchange rate on the date of payment.

Wages are paid on a monthly basis at the latest; this can be reduced to 1 week by employment contract or by collective agreement. Upon expiration of the contract the employee's wages, together with any other benefit claims based on the employment contract and law, must be paid in full.

Wage payments made at the business entity or through a bank must be accompanied by a signed/stamped slip clearly indicating the date of payment, the pay period, the wage account, all supplements to basic wages (e.g. overtime earnings, payments for weekly rest days and national or general holidays) and all deductions (e.g. taxes, insurance contributions, reimbursement of advance payments, payments for alimony and sequestered deductions).

With the object of regulating the economic and social conditions of all employees working under an employment contract, either covered or uncovered by Turkish Labour Code, the

minimum wage will be determined at least every 2 years by the Ministry of Labour and Social Security through the Minimum Wage Fixing Board.

Working hours and overtime

The typical working week is ≤ 45 hours, divided equally across the days of the week unless otherwise agreed. Any working hours that exceed this limit count as overtime, which must be justified by national interest, the nature of the operation or the need to increase output. Overtime wages are remunerated at 1.5 times the normal hourly rate – or the employee can choose to take the equivalent time off in lieu (1.5 hours per extra hour worked) within 6 months.

If the contract specifies a working week of < 45 hours, overtime is remunerated at 1.25 times the normal hourly rate – or the employee can choose to take the equivalent time off in lieu (1.25 hours per extra hour worked) within 6 months.

The employee's consent is required for overtime work.

Annual paid leave

Employees engaged in seasonal or other occupations which, owing to their nature, last < 1 year do not qualify for annual paid leave. Employees who have completed ≥ 1 year of service, including the trial period, are entitled to paid annual leave (see Table 3). This right cannot be waived.

Table 3. Annual paid leave allowances according to length of service.

Years of work	Minimum paid annual leave
1–5 years	14 days
> 5 to < 15 years	20 days
≥ 15 years	26 days

Employees aged < 18 or > 50 years must have ≥ 20 days' annual leave; this can be increased by employment contracts and collective agreements.

Social security system

The social security system in Turkey was revised considerably in 2007, resulting in a more efficient system that streamlines the three insurance funds under the central control of the Social Security Institution, which has been fully operational since 2008. This institution is a public legal entity with administrative and fiscal autonomy, and is subject to the provisions of private law.

Social security premium payments

Social security premiums, as a percentage of an employee's gross earnings are payable by both employers and employees. Rates for employees working in specific sectors may vary depending on the risk category of the work performed.

Foreigners making social security contributions in their home country do not have to pay Turkish social security premiums if there is a reciprocal agreement between the two countries.

Unemployment insurance premium payments

Employees, employers and the state are required to make a compulsory contribution to the Unemployment Insurance Plan at the rates of 1%, 2% and 1%, respectively, of the employee's gross salary. Like the social security premium payments, unemployment insurance premiums must be paid by the employer monthly and can be deducted from taxable income. On the other hand, an employee's contributions are deductible from their income tax base.

A foreign individual who remains covered under the compulsory social security system of their home country that has a social security agreement in effect with Turkey is not liable for insurance payments to the Turkish social security. Proof of foreign cover must be filed with the local social security office. If the employee is not subject to a foreign social security, full contributions will generally be imposed. Unemployment insurance premiums are declared and paid to the Social Security Institution together with social security premium contributions.



Statutory Requirements for Companies

Accounting and auditing practices must be evaluated within the framework of the New Turkish Commercial Code (TCC). To ensure more effective auditing and public oversight system, the Public Oversight Accounting and Auditing Standards Authority (KGK) was established in accordance with Public Oversight Accounting and Auditing Standards Authority's Organisation and Responsibilities Decree Law No. 660 of 2 November 2011. Members of the management board were appointed on 14 December 2011 and the Authority started its operations as of 22 December 2011. Pursuant to the Decree Law, the Authority is the only body authorised to publish accounting and auditing standards in Turkey.

Accounting standards and statutory audit

According to the new TCC, companies are obliged to maintain statutory books and individual or consolidated financial statements in accordance with Turkish Accounting Standards and Turkish Financial Reporting Standards (TAS/TFRS), a direct translation of the International Financial Reporting Standards (IFRS).

However, the KGK has decided that for accounting periods beginning on or after 1 January 2013, the following companies must use TAS/TFRS to prepare individual or consolidated financial statements:

- Companies specified in Decree No. 660 as organisations of public interest
- Companies subject to statutory audit by the decision of the Council of Ministers within the framework of the new TCC, Article 397
- Companies listed in the second paragraph of the new TCC, Article 1534.

According to Law No. 6455 (amending the new TCC), all joint stock companies not covered by the above list, cooperatives under Law No. 4572, and their parent organisations that are not subject to audit will be audited. Supervisory rules and procedures of the audit regulations will be issued by the Ministry of Customs and Trade after consultation with the KGK. Pending more specific instructions from the KGK, other companies should continue to use the Uniform Chart of Accounts in accordance with Turkish tax laws.

Companies meeting at least two of the following criteria by the end of 2014 (alone or together with their affiliates and/or subsidiaries) are subject to statutory audit for 2015:

- Total assets \geq TRY 50 million
- Annual net sales \geq TRY 100 million
- Number of employees \geq 200.

In case of at least two of three criteria mentioned in above decision consecutively exceed their limits in two accounting period, and then the companies will be subject to statutory audit from the subsequent accounting period.

As to the determination of whether these criteria are met for current year, the financial statements for last 2 years shall be taken into account regarding total assets and annual net

sales revenue. Average number of employees for past 2 years shall be taken into account regarding the number of employees.

According to List No. I of the Article 397 Public Oversight Accounting and Auditing Standards Authority's Organization and Responsibilities Decree Law No. 660, the following companies are also subject to statutory audit:

- Companies under control of Capital Markets Board of Turkey regulations
- Companies under control of Banking Regulation and Supervision Agency regulations
- Insurance, reinsurance and pension companies that are regulated by the law of individual retirement savings and investment plan and law of insurance
- Institutions authorised by the Istanbul Gold Exchange and allowed to operate as a member; precious metals intermediary institutions; joint-stock companies engaged in the production or trade of precious metals
- Companies licensed for warehousing of agricultural products established as a joint-stock company according to legislation on licensed warehousing of agricultural products
- Companies established as a joint-stock company in accordance with provisions of the law of public malls
- Media companies that are owners of national terrestrial satellite and cable television.

Statutory books

Financial records in statutory books (see Table 4) must be kept in the Turkish language, although additional records may be kept in other languages.

TRY is used as the currency in statutory books, although records can be kept in foreign currency as long as the TRY equivalent is shown. It is not compulsory to show the TRY equivalent on documents issued to customers abroad.

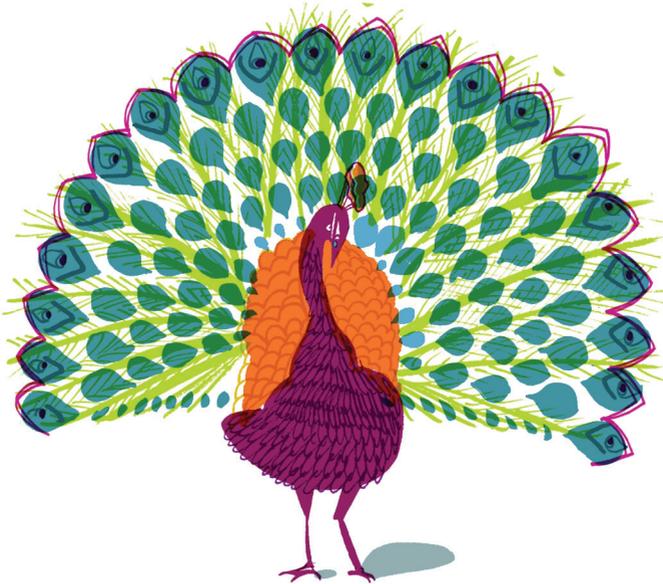
The Council of Ministers is authorised to decide whether to allow book-keeping with currencies other than TRY for establishments with $\geq 40\%$ of capital owned by bodies without a legal residence, headquarter or business place in Turkey and with a paid-up capital of US\$ ≥ 100 million or equivalent TRY at the related book certification date. Transactions in TRY are converted to foreign currency according to the buying rate announced by Central Bank of Turkey for the date of the relevant transaction.

Table 4. Statutory books required to be kept by joint stock and limited liability companies.

Joint stock company	Limited liability company
Journal Ledger	Journal Ledger
Inventory Ledger	Inventory Ledger
General Ledger	General Ledger
Share Book	Share Book
Board of Decision Book	Annual General Meeting Book
Annual General Meeting Book	

The opening and year-end closing of statutory books must be authenticated by a public notary.

Accounting records of statutory books such as the Journal Ledger, Inventory Ledger and General Ledger must be retained for 5 years following the relevant accounting period according to Turkish tax procedural law and for a period of 10 years in order to comply with the New Turkish Commercial Code and Social Security System.



Taxation

According to Turkish Corporate Tax Law No. 5520, the Turkish direct taxation system consists of two main taxes on income and earnings: income tax (for individuals) and corporate tax (for companies).

Income tax

Income tax is taken from the net total of income earned by any individual (real person) in a calendar year. An individual's income may consist of one or more income elements such as business profits, agricultural profits, salaries and wages, income from independent personal services, income from immovable property and rights (rental income), income from movable property (capital investment), or other income and earnings regardless of source.

A general residency criterion is employed in determining tax liability for individuals. This criterion requires that an individual whose place of residence is in Turkey must pay tax on their worldwide income (unlimited liability). Any person who remains in Turkey for >6 months in a calendar year is assumed to be a resident of Turkey. However, foreigners who stay in Turkey for ≥6 months for a specific job or business, or for particular purposes specified in the Income Tax Law, are not treated as resident and are not subject to unlimited tax liability. Non-residents are only liable to pay tax on income derived from sources in Turkey (limited liability).

Income tax is a progressive tax; rates vary from 15% to 35% (see Table 5).

Table 5. Income tax rates applicable to yearly gross earnings from 2015.

Income scales (TRY)	Tax rate
≤ 12,000 TRY	15%
From 12,000 TRY till 29,000 TRY is (For wages 12,000 TRY is 1,800 TRY)	20%
From 29,000 TRY till 106,000 TRY is (For wages 29,000 TRY is 5,200 TRY)	27%
> 106,000 TRY is (For wages 106,000 TRY is 25,990 TRY)	35%
> 66,000 TRY is (For other income 66,000 TRY is 15,190 TRY)*	35%

*106,000 TRY upper limit is applicable only for the taxation of wage income. For other sources of income, 2015 taxation upper limit is 66,000 TRY.

Corporate tax

Corporate tax is levied on the income and earnings of capital companies and similar foreign companies, cooperatives, public enterprises, and enterprises owned by foundations, societies and associations and joint ventures.

If the company's legal head office, or the place of effective management, is situated in Turkey, then the company is taxed on its worldwide income (unlimited tax liability). If the company's legal head office and place of effective management are abroad, then it is taxed only the income derived in Turkey (limited tax liability).

Determination of net taxable income

Net corporate income is defined as the difference between the net worth of assets owned at the beginning and at the end of the fiscal year.

In determining net business profit, expenses such as those listed below may be deducted from revenue:

- General expenses made for earning and maintaining business profit
- Food and boarding expenses provided for employees at the place of business or in its annexes
- Expenses for medical treatment and medicine
- Insurance and pension premiums
- Clothing expenses paid for employees
- Expenses for travel and lodging relevant to the business
- Expenses for vehicles that are part of the enterprise and used in the business
- Taxes in kind such as building, and consumption
- Stamp and municipal taxes and fees and charges related to the business
- Losses, damages, and indemnities paid based upon written agreements, juridical decrees, or by order of law
- Depreciations set aside according to the provisions of the Tax Procedure Law
- Payments to the unions
- Expenses related to the issuance of stocks and shares
- Initial organisation and establishment expenses
- Expenses incurred for general board meeting
- Expenses made for mergers dissolutions, and liquidations
- In case of insurance companies, technical reserves required for the insurance contracts still valid at date of inventory
- Profits shares accrued to active partners of partnerships in commendams limited by shares
- Profit shares accrued to partners by participation banks for participation accounts
- Research and development deductions calculated as 40% of new technology and know-how research expenses realised within business.

In determining net corporate income, deductions such as those listed below are not allowed:

- Interest paid or accrued on the basis of equity, interest or exchange differences

- Other costs paid or accrued on the basis of disguised capital
- Disguised earnings distributed by transfer pricing
- Any kind of reserves
- Corporate tax, fines, tax penalties
- Late payment penalties and interest
- Depreciation of leased or registered motor vehicles
- Other expenses not related to business activities.

Exceptions

The following earnings of corporations are exempted from corporate tax:

- a. Dividend income from other Turkish companies
- b. Dividend income from foreign subsidiaries or branches when certain conditions fulfilled (minimum 10 % of participation and holding minimum 1 year)
- c. 75% of the capital gains from disposal of share certificate and immovable properties that are held over 2 years
- d. Earnings of the following funds and companies that are established in Turkey:
 - Portfolio management earnings of investment funds/companies
 - Real estate investment funds/companies
 - Venture capital funds/companies
 - Pension funds
 - Housing financial funds and assets financing funds.
- e. Income from construction, restoration assembly and technical services completed abroad
- f. Income through selling companies rights or shares which are issued by A.S. companies over nominal prices
- g. 100% of research and development expenditures for new technology and information development.

Corporate tax return

Like income tax, corporate tax is assessed on the basis of annual tax returns. In principle, each taxpayer is required to file only one tax return – even if income was derived through various business places or branches, which may have their own accounting and allocated capital.

The corporate tax return is filed until the 25th evening of the fourth month of the year following the month in which the fiscal year ends, and the assessed taxes are paid until the end of that month. However, if a limited-liable taxpayer leaves the country for good, the corporate tax return must be submitted to the authorised tax office in the 15 days preceding their departure from Turkey. In such a case, declaration is made and taxes are paid at the same period.

Tax rates

Corporate income tax is applied at a 20% rate on the corporate earnings. Taxpayers pay provisional tax at the rate of corporate tax; these payments are deducted from corporate tax of current period. Any excess payment of advance corporate tax is refunded or used to offset from other tax liabilities.

Dividends

Dividends distributed to individuals and non-resident corporations which have interest in Turkish companies are subject to withholding tax at 15%. Non-resident shareholders can benefit from reduced withholding tax on dividends if they qualify to benefit from double taxation treaty provisions that prevail for a lower withholding tax than 15%. Dividend distributions to Turkish resident companies are not subject to withholding tax.

Tax losses

Tax losses (including foreign source losses, but subject to certain procedures) can be carried forward for 5 years as long as they have been shown in corporate tax returns separately for each year, but they are not carried back except in the case of liquidation.

Reimbursement of taxes paid abroad

Turkey has signed mutual agreements with 77 countries to generate a global network for double taxation relief. Generally, to qualify for tax relief, companies must fulfil their tax duties within the country where income and profit is gained; then, provided the necessary documentation is supplied, a refund can be issued.

Transfer pricing

Transfer pricing regulations are adopted from traditional transfer pricing methods described in the OECD Model Transfer Pricing Guideline. Transfer pricing rules apply when the transaction between related parties (both resident and non-resident) are not defined in accordance with arm's-length pricing. If profits arise from disguised profit distribution through transfer pricing, then the profit is subject to both corporate tax and dividend tax.

Different methods are defined in corporate tax law in line with the methods described in the OECD's transfer pricing guideline, such as comparable uncontrolled price, cost plus and resale price methods. Taxpayers are required to choose the most appropriate method to calculate transfer pricing based on arm's-length price. Adequate documentation to

demonstrate the chosen transfer pricing method must be provided to the tax office along with the annual corporate tax return.

Thin capitalisation

When the ratio of borrowings from shareholders or related parties to the shareholders exceeds three times the shareholder's equity of the borrower company at any time within the relevant year, the excess part of the borrowings will be considered as 'thin capital'. If the borrowing is taken from related party banks or financial institutions, then it is considered thin capital after the amount of borrowings exceeds six times the shareholder's equity.

The related party is defined as a person or business entity that has direct and indirect shareholding of $\geq 10\%$ of shares or vote/dividend rights. The amount of equity is determined at the beginning of the accounting period and considered as equity for thin capitalisation purposes.

Except for the foreign exchange differences, interest paid over an excess debt/equity ratio is considered as dividend distributed and will be subject to 15% dividend withholding tax. Related expenses, foreign exchange losses and interest payments exceeding the debt/equity ratio are considered as non-deductible expenses.

Value added tax (VAT)

The Turkish tax system levies VAT on the supply and importation of goods and services. Liability for VAT arises when a person or entity performs commercial, industrial, agricultural or independent professional activities within Turkey, or when goods or services are imported into Turkey.

The Turkish VAT system employs multiple rates, which the Council of Ministers is authorised to change within certain limits; the standard rate is set at 18%. Services mentioned in List No. I of are subject to 1% VAT; those mentioned in List No. II (e.g. basic food stuffs, health, textile, tourism, culture and education) are subject to 8% VAT.

Taxable base

The taxable base of a transaction is generally the total value of the consideration received; this does not include the VAT itself or any discounts, provided that they are at a reasonable rate with regard to commercial practice and are explicitly listed in all invoices or similar documents.

Reverse charge VAT

In the event that the taxpayer is not resident or has no place of business in Turkey, the Ministry of Finance is authorised to hold any one of the people involved in a taxable transaction responsible for the payment of tax – known as a 'reverse charge' VAT mechanism. This requires the calculation of VAT by resident companies on payments abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company or

customers on behalf of the non-resident company (foreign company); the local company treats this as input VAT and offsets it in the same month.

The credit mechanism of VAT

VAT is collected at every stage of the production and distribution process, from the initial sale by the producer to the final sale to the consumer. At each stage, the amount of tax payable is the difference between the total amount of tax charged on the invoices issued by the taxpayer and the total amount of tax charged on invoices issued to the taxpayer during the same period. Thus the VAT is initially computed by applying the appropriate rate of taxation to the taxable base for goods and services supplied by the taxpayer during a taxable period. This amount is then reduced by a credit for VAT previously paid on importation and on goods and services supplied to the taxpayer.

VAT refund

Input VAT shown on invoices and similar documents related to the transactions that are exempt – such as exportation of goods and services; exemption for vehicles, petroleum exploration and investments made under an investment incentive certificate; transit transportation; or diplomatic exemptions – are deducted from output VAT to be calculated on the transactions of the taxpayer that are subject to VAT.

In the absence of transactions subject to VAT, or if the output VAT is less than the input VAT, then the input VAT that cannot be deducted is refunded to those who perform such transactions, on the basis of principles to be determined by the Ministry of Finance.

Stamp tax

Stamp tax applies to a wide range of documents, including (but not limited to) contracts, agreements, notes payable, letters of credit and letters of guarantee, financial statements and payrolls.

Stamp duty is levied as a percentage of the value stated on the document. For 2015, stamp tax rates range from 0.189% to 0.948%. The Stamp Tax Law provides that each relevant party shall be responsible for payment of the total amount of stamp tax on the agreements. Each original document is separately subject to stamp tax.

Banking and insurance transactions tax

The subject of this tax is transactions and services produced by banks, bankers and insurance companies. Taxpayers are banks, insurance companies and bankers. Banks and insurance companies are exempt from VAT; instead, they are subject to banking and insurance transactions tax at a rate of 5%, which is due on the gains of such companies from their transactions for each month of the calendar year. Taxpayers declare their taxable transactions up to the evening of the 15th day of the following month.

Special consumption tax

Goods in the lists attached to the Special Consumption Tax Law are the subject of this tax, which is charged only once. Four main product groups that are subject to special consumption tax at different tax rates:

- List I is related to petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents. Taxpayers are manufacturers and importers of petroleum products
- List II is related to automobiles and other vehicles, motorcycles, planes, helicopters and yachts. Taxpayers are merchants of motor vehicles, exporters for using or sellers through auction
- List III is related to tobacco and tobacco products, alcoholic beverages and cola. Taxpayers are manufacturers, exporters or sellers through auction of tobacco, alcoholic beverages and cola
- List IV is related to luxury products. Taxpayers are manufacturers, exporters or sellers through auction of luxury products.

Custom duty

Goods imported from abroad are the subject of this tax. Taxable events are free circulation of goods, registration of customs declaration, and temporary importation in case of partial exemption. The taxpayer is principally the person who declares goods to the customs office. Customs duties are assessed on written declaration by the taxpayer and paid within 10 days of the customs declaration.

Resource Utilisation Support Fund (RUSF)

Even if it does not have the word 'tax' in its name, RUSF is a kind of tax taken from specific imports and foreign exchange or gold loans obtained from abroad.

The Council of Ministers Resolution no. 2012/4116, which has made amendments to various tax rates, was promulgated in the Official Gazette dated 1 January 2013. Article 11 introduces new RUSF rates for foreign exchange and gold loans obtained from abroad by entities other than banks and financing companies, narrowing the scope of exemption (see Table 6).

Table 6. RUSF tax rate according to maturity period.

Maturity period	Tax rate
<1 year	3%
1–2 years	1%
2–3 years	0.5%
>3 years	0%

On the other hand, no amendment has taken place with regard to the TRY denominated loans obtained from non-resident entities. Accordingly, RUSF at 3% is due on interest paid on all TRY denominated loans borrowed from non-resident parties (i.e. regardless of the maturity period of the loan).

Taxes on wealth

There are three types of taxes on wealth: property tax, inheritance and gift tax, and motor vehicle tax.

Property tax

Property tax is paid each year on the tax values of land and buildings. In the case of the sale of a property, a levy is paid on the sales value by both the buyer and the seller. Property tax returns are filed every 4 years and annual taxes are paid in two equal instalments – the first in March, April or May and the second in November.

Inheritance and gift tax

Items acquired as gifts or through inheritance are subject to a progressive tax rate, respectively, of the item's appraised value. Tax paid in a foreign country on inherited property is deducted from the taxable value of the asset. Inheritance and gift tax is payable in biannual instalments over a period of 3 years.

Motor vehicle tax

Taxpayers are real and legal persons who have motor vehicles that are registered to their own names in the traffic, municipality and docks register and the civilian air-vehicle register maintained by the Ministry of Transportation. The amount of motor vehicle tax for land transportation vehicles is determined according to their weight, age, cylinder capacity and the fuel used. Tax is assessed and accrued annually at the beginning of January. Motor vehicle tax is paid in two equal instalments, in January and July, every year.

Withholding tax

Under the Turkish tax system, certain taxes are collected through withholding by the payers in order to secure the collection of taxes:

- Income tax on salaries of employees
- Lease payments to individual landlords
- Independent professional service fee payments to resident individuals
- Royalty, licence and service fee payments to non-residents.

Companies are responsible for withholding such taxes on their payments and must declare them through their withholding tax returns.

Interest

Withholding tax rates to apply on the interest income of a non-resident company are:

- Interest on foreign loans obtained from foreign banks and other financial institutions = 0%
- Interest on foreign loans from non-financial institutions = 10%
- Interest on Turkish government papers = 0%
- Interest on foreign currency bank deposits = 18%
- Interest on TRY bank accounts = 15%
- Interest on repossession transactions = 15%.

Royalties and fees

Non-resident companies receiving licence, know-how and technical assistance payments are taxed through withholding taxes, which apply to fee payments at the following rates:

- Royalty and service payments to foreign licensors = 20%
- Rental fees to non-residents = 20%
- Technical service fees = 20%
- Other service fees = 20%
- Oil exploration services = 5%
- Financial leasing fees = 1%.

Social security tax

Salary payments are subject to withholding tax at a source of relevant progressive rates, which range from 15% to 35%. Social security premiums are calculated as a percentage of gross salary and are payable at premiums of 14% for the employee and 20.5% for the employer. There is also an unemployment contribution, with premiums of 1% for employee and 2% for the employer.

Government Incentives

Investment Incentives System

Introduced on 1 January 2012, the Turkey's investment incentives programme comprises five incentive schemes:

- i. General investment
- ii. Regional investment
- iii. Priority investment
- iv. Large-scale investment
- v. Strategic investment

Support measures

Figure 1 shows the six regions, and Table 7 summarises the support instruments, for the regional investment incentives scheme.

VAT exemption

In accordance with the measure, VAT is not paid for imported and/or domestically provided machinery and equipment within the scope of the investment encouragement certificate.

Customs duty exemption

Customs duty is not paid on machinery and equipment provided from abroad (imported) within the scope of the investment encouragement certificate.

Tax deduction

Tax deductions will be applied until the total value reaches the amount of investment contribution according to envisaged rate of contribution by government.

Social security premium support (employer's share)

The measure stipulates that for the additional employment created by the investment, the employer's share of social security premium on portions of labour wages equivalent to the legal minimum wage will be covered by the Ministry of Labour and Social Security.

Income tax withholding allowance

The measure stipulates that income tax for additional employment generated by the investment within the scope of the investment encouragement certificate will not be liable to withholding. The measure is applicable only for the investments to be made in Region 6 within the scope of an investment encouragement certificate.

Social security premium support (employee's share)

The measure stipulates that for the additional employment created by the investment, employee's share of social security premium on portions of labour wages equivalent to the legal minimum wage will be covered by the Ministry of Labour and Social Security. The measure is applicable only for the investments to be made in Region 6 within the scope of an investment encouragement certificate.

Interest support

This financial support instrument is provided for loans with a term of at least 1 year obtained within the frame of the investment encouragement certificate. The measure stipulates that a certain portion of the interest/profit share regarding the loan equivalent of up to 70% of the fixed investment amount registered in the certificate will be covered by the Ministry.

Land allocation

Refers to allocation of land to the investments with investment incentive certificates, if any, in that province in accordance with the rules and principles determined by the Ministry of Finance.

VAT refund

VAT collected on the building and construction expenses made within the frame of strategic investments with a fixed investment amount of TRY 500 million will be rebated.

Figure 1. Map of Turkey showing the six regions for the Regional Investment Incentives Scheme.



Table 7. Support instruments to be provided within the framework of various investment incentive schemes.

Support instruments	General	Regional	Priority	Large scale	Strategic
VAT exemption	x	x	x	x	x
Custom duty exemption	x	x	x	x	x
Tax reduction		x	x	x	x
Security premium support (employer's share)		x	x	x	x
Income tax withholding allowance*	x	x	x	x	x
Security premium support (employee's share)*		x	x	x	x
Interest payment support†		x	x		x
Land allocation		x	x	x	x
VAT refund‡					x

* Provided that the investment is made in Region 6.

† Provided that the investment is made in Region 3, 4, 5 or 6 within the framework of the Regional Investment Incentives Scheme.

‡ Provided that the investment is made within the framework of the Strategic Investment Incentives Scheme with a minimum fixed investment amount over TRY 500 million.

General Investment Incentives Scheme

Regardless of the region in which an investment is made, all projects that meet conditions of specific capacity and minimum fixed investment amount will be supported within the frame of the General Investment Incentives Scheme. The amount of minimum fixed investment is TRY 1 million in Regions 1 and 2, and TRY 500,000 in Regions 3, 4, 5 and 6.

Regional Investment Incentives Scheme

The sectors to be supported in each province are determined in accordance with the potential of each province, and the economies of scale and the intensity of investment support are differentiated in line with the development level of the regions.

The amount of minimum fixed investment is defined separately for each sector and each region, the lowest amount being TRY 1 million in Regions 1 and 2, and TRY 500,000 in the remaining Regions (see Table 8).

Table 8. Terms and rates of support within the Regional Investment Incentives Scheme.

Incentive instruments			Region					
			1	2	3	4	5	6
VAT exemption			Yes	Yes	Yes	Yes	Yes	Yes
Customs duty exemption			Yes	Yes	Yes	Yes	Yes	Yes
Tax reduction	Rate of contribution to investment (%)	Out of OIZ*	15	20	25	30	40	50
		Within OIZ*	20	25	30	40	50	55
Social security premium support (employer's share)	Support period	Out of OIZ*	2 years	3 years	5 years	6 years	7 years	10 years
		Within OIZ*	3 years	5 years	6 years	7 years	10 years	12 years
Land allocation			Yes	Yes	Yes	Yes	Yes	Yes
Interest support	Local loans				3 points	4 points	5 points	7 points
	Foreign exchange/FX denomination loans	N/A	N/A		1 point	1 point	2 points	2 points
Social security premium support (employer's share)			N/A	N/A	N/A	N/A	N/A	10 years
Income tax withholding allowance			N/A	N/A	N/A	N/A	N/A	10 years

*OIZ: Organised Industrial Zones.

Priority Investments Incentives Scheme

The following investment subjects have been designated as priority investments within the framework of Turkey's requirements. These investments are supported by the measures for Region 5 even if they are made in Regions 1, 2, 3 or 4.

- Tourism (e.g. cultural preservation and development, thermal spas)
- Mining
- Railroad and maritime transportation
- Defence industry
- Test facilities (e.g. wind tunnel) for automotive, space or defence industries
- Nursery, preschool, primary, middle and high school
- Manufacture of products and parts designed and developed as an outcome of R&D projects supported by the Ministry of Science, Industry and Technology, TUBITAK (for definition please see page 37) or KOSGEB
- International exhibition arenas with a minimum area of 50,000 m²
- Motorised land vehicles key industry investments with a minimum investment amount

of TRY 300 million, automotive engine manufacturing investments with a minimum amount of TRY 75 million and transmission components/parts and automotive electronics manufacturing investments with a minimum amount of TRY 20 million Large-Scale Investment Incentive Scheme

- Electricity generation from coal or waste heat recovery units
- Energy efficiency improvements to existing manufacturing facilities
- Liquefied natural gas (LNG) and underground gas storage (minimum investment of 50 million TL)
- Carbon fibre, or composite materials deriving from carbon fibre production
- Manufacture of 'technology-intensive' products according to OECD classification
- Exploration of mines in permitted fields for investors holding a mining licence and certificate

Table 9. Terms and rates of support within the Priority Investments Incentives Scheme

Incentive measures		Terms and rates of supports*
VAT exemption		Yes
Customs duty exemption		Yes
Tax deduction	Rate of contribution to investment (%)	40
	Tax deduction (%)	80
Social security premium support (employer's share)		7 years
Land allocation		Yes
Interest support	Local loans	5 points
	Foreign exchange/ FX denominated loans	2 points

*Supports of Region 5 for investments made in Regions 1–5; supports of Region 6 for investments made in Region 6.

Large-Scale Investment Incentive Scheme

Twelve investment categories (see Tables 10 and 11) are supported by the Large-Scale Investment Incentive Scheme.

Table 10. Investment categories supported by the Large-Scale Investment Incentive Scheme.

	Investment subject	Minimum fixed investment amount (million TRY)
1	Production of refined petroleum products	1000
2	Production of chemical products	200
3	Harbours and harbour services	200
4	a) Automotive OEM*	200
	b) Automotive supply industries	50
5	Production of railway and tram locomotives and/or railway and tram cars	50
6	Transit pipeline transportation services	
7	Electronics industry	
8	Production of medical, high-precision and optical equipment	
9	Production of pharmaceuticals	
10	Production of aircraft and spacecraft and/or related parts	
11	Production of machinery (including electrical machinery and equipment)	
12	Mining (including metal production)	

*OEM, original equipment manufacturer.

Table 11. Terms and rates of support provided within the Large-Scale Investment Incentive Scheme.

Incentive instruments			Region					
			1	2	3	4	5	6
VAT exemption			Yes	Yes	Yes	Yes	Yes	Yes
Customs duty exemption			Yes	Yes	Yes	Yes	Yes	Yes
Tax reduction	Rate of contribution to investment (%)	Out of OIZ*	25	30	35	40	50	60
		Within OIZ*	30	35	40	50	60	65
Social security premium support (employer's share)	Support period	Out of OIZ*	2 years	3 years	5 years	6 years	7 years	10 years
		Within OIZ*	3 years	5 years	6 years	7 years	10 years	12 years
Land allocation			Yes	Yes	Yes	Yes	Yes	Yes
Social security premium support (employer's share)			N/A	N/A	N/A	N/A	N/A	10 years
Income tax withholding allowance			N/A	N/A	N/A	N/A	N/A	10 years

*OIZ: Organised Industrial Zones.

The following categories of investment within the Regional and Large-Scale Investment Incentives Schemes will be supported by more favourable regional rates and terms of tax reduction and social security premium support (employer's share):

- Investments in Organised Industrial Zones
- Joint investments to be made by at least five companies operating in the same sector with the purpose of integrating these companies to this joint investment.

Strategic Investment Incentive Scheme

On the basis of the Input Supply Strategy, this scheme aims at supporting production of intermediate and final products with high import dependence with a view to reducing the current account deficit. It also targets encouraging high-tech and high-value-added investments with the potential to strengthen Turkey's international competitiveness.

Investments meeting the following criteria are supported within the framework of the Strategic Investment Incentive Scheme (see Table 101):

- Production of intermediate and final goods with high import dependence, of which >50% of these goods are supplied by imports
- Minimum investment of TRY 50 million
- Creation of $\geq 40\%$ value added (this condition is not applicable to investment in

production of refined petroleum or petrochemicals)

- Import amount of at least US\$ 50 million for goods to be produced in the last 1-year period (this condition is not applicable to goods with no domestic production).

Table 12. Terms and rates of supports provided within the Strategic Investment Incentives Scheme.

Incentive instruments		Region					
		1	2	3	4	5	6
VAT exemption		Yes					
Customs duty exemption		Yes					
Tax reduction	Rate of contribution to investment (%)	50					
Social security premium support	Support period	7 years					
(Employer's share)		(10 years for Region 6)					
Land allocation		Yes					
Interest payment support	Local loans	5 points					
	Foreign exchange /FX denomination loans	2 points					
Social security premium support (employee's share)		10 years (only for investments in Region 6)					
Income tax withholding allowance		10 years (only for investments in Region 6)					
VAT refund		Yes (only for investment of TRY ≥500 million)					

Incentives for R&D centres

If at least 50 personnel are employed in a research and development (R&D) centre, the law provides special incentives for R&D investment projects. The effects of these incentives will remain until 2024:

- 100% deduction of R&D expenditure from the tax base if the number of researchers exceeds 500; then, in addition to the 100% deduction, half of the R&D expenditure increase incurred in the operational year compared to the previous year will also be deducted
- Income withholding tax exemption for employees (effective until 31 December 2023)
- 50% of social security premium exemption for employers for a period of 5 years
- Stamp duty exemption for applicable documents
- Techno-initiative capital for new scientists, up to TRY 100,000

- Deduction from the tax base of certain funds granted by public bodies and international organisations.

Advantages in technology development zones

Technology development zones (TDZs) are areas designed to support R&D activities and attract investment in high-tech fields. The following tax exemptions are available for TDZs:

- Offices ready to rent, and infrastructure facilities provided
- Profits derived from software development and R&D activities are exempt from income and corporate taxes until 31 December 2023
- Deliveries of application software produced exclusively in TDZs are exempt from VAT until 31 December 2023
- Wages of researchers, along with software and R&D personnel employed in the TDZ, are exempt from personal income tax until 31 December 2023
- 50% of the employer's share of social security premiums will be paid by the government for 5 years until 31 December 2023.

Advantages of free zones

Free zones are special sites considered to be outside the customs area, although they are within the political borders of the country. These zones are designed to increase the number of export-focused investments. Legal and administrative regulations in the commercial, financial, and economic fields that are applicable within the customs area are either not implemented or partially implemented in the free zones. The advantages of free zones are:

- 100% exemption from customs duties and other assorted duties
- 100% exemption from corporate income tax for manufacturing companies
- 100% exemption from VAT and special consumption tax
- 100% exemption from income tax on employees' salaries (for companies that export ≥85% of the FOB (Free On Board) value of the goods they produce in the free zones)
- Goods can remain in free zones for an unlimited period
- Companies are free to transfer profits from free zones to abroad as well as to Turkey, without restrictions.

Advantages of organised industrial zones

Organised industrial zones (OIZs) are designed to allow companies to operate within an investor-friendly environment with ready-to-use infrastructure and social facilities. The existing infrastructure provided in OIZs includes roads, water, natural gas, electricity, communications and waste treatment. The advantages of OIZs are:

- No VAT for land acquisitions
- Exemption from real estate duty for 5 years starting from the construction of the plant
- Low water, natural gas, and telecommunication costs
- For unification and/or separation of plots, no tax to be paid
- Exemption from municipality tax for construction and usage of the plant
- Exemption from the municipality tax on solid waste if the OIZ does not benefit from the municipality service.

TUBITAK and TTGV

TUBITAK (Scientific and Technological Research Council of Turkey) and TTGV (Turkish Technology Development Foundation) both compensate or grant R&D-related expenses and capital loans for R&D projects. The following projects are eligible for TUBITAK incentives:

- Concept development
- Technological research
- Technical feasibility research
- Laboratory studies in the translation of a concept into a design
- Design and sketching studies
- Prototype production
- Construction of pilot facilities
- Test production
- Patent and licence studies
- Activities to resolve post-sale problems arising from product design.

Government support for small and medium-sized enterprises

SMEs are defined as companies employing <250 employees and earning TRY <25 million in revenue or turnover per year.

Incentives granted to SMEs include:

- Exemption from customs duties
- VAT exemption for imported and domestically purchased machinery and equipment
- Credit allocation from the budget
- Credit guarantee support.

In order to meet financial needs of SMEs, a TRY 1 billion fund was transferred to the Credit Guarantee Fund (KGF) by the Treasury to create credit capacity worth TRY 10 billion. The guarantee limit is TRY 1 million per SME and TRY 1.5 million for the relevant risk group. KGF covers up to 80% of the loan.

KOSGEB support to SMEs

The Small and Medium Sized Industry Development Organisation (KOSGEB) makes significant contributions to strengthening SMEs through various support instruments in financing, R&D, common facilities, market research, investment site, marketing, export and training.

State aid for exports

The main aims of this scheme are to encourage exports and to increase the competitiveness of companies in international markets. This specific package mainly covers R&D activities, market research, participation in exhibitions and international fairs, and expenditure for patents, trademarks and industrial design.

Living in Turkey

Obtaining work and residence permits

All foreigners wishing to work in Turkey are required to obtain a work permit issued by the Ministry of Social Security and Labour Affairs. Also, a work visa and residence permit must be obtained from the Ministry of International Affairs in order to work and reside in Turkey. Applications for work permits can be made inside or outside Turkey.

- **Application inside Turkey:** Foreigners in Turkey with residence permits valid for ≥ 6 months for any reason (except educational purposes) may apply for a work permit from the Ministry of Social Security and Labour Affairs during this period.
- **Application outside Turkey:** Foreigners residing outside Turkey should apply for the work permit at the relevant Turkish Consulate of their country of residence/citizenship before they start working in Turkey.

In both cases, after obtaining a work permit, foreigners should apply for the residence permit at the Foreigners Office of the Police Department within 1 month of their arrival in the country and before starting work.

The Next Step

Contact Bilgener Istanbul Sworn-in CPA Inc. to discuss your needs.

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