

Doing Business in Turkey

A Guide for Investors

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*An Independent Member of **BKR International***

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Preface

This publication is written to provide foreign companies and executives with a quick overview of the business environment, forms of business entities, taxation, and audit and accounting practices in Turkey.

It sets down a broad summary of the prominent features of the topics discussed. It is not intended to provide an exhaustive study of the Turkish business environment and, as rules and regulations may change frequently, companies planning to do business in Turkey are advised to obtain current and detailed information from experienced professionals before taking any decision.

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1. General Information

1.1. Geography

Turkey is located at a point where the two continents Europe and Asia meet. Most of the lands of the country are in Southwest Asia. Including its lakes, the lands of Turkey cover an area of some 814,578 square kilometers, out of which 24,378 square kilometers are in Europe and 790,200 square kilometers are in Asia. Further, it is surrounded by the Black Sea on the north, the Aegean Sea on the west, and the Mediterranean Sea along the south coasts. Turkey has a roughly rectangular shape; its land borders are 2573 kilometers and its coastlines are 8,333 kilometers long. Turkey has borders in the east with Georgia, Armenia and Iran, in the south with Iraq and Syria, and in the west with Greece and Bulgaria. Turkey shares the Black Sea, with Georgia, Russia, Ukraine, Moldavia, Romania and Bulgaria. Istanbul the metropolitan and historical city is the only gateway for vessels to Russia and other countries that have shores to the Black Sea.

The importance of Turkey's geographical location cannot be overstressed. It is a unique bridge linking the West with the dynamic and developing markets of Central Asia and the Middle East. Over the last few years, Turkish businesses have been investing in the new Central Asian Republics, which has resulted in well-established relations and excellent air transport links with these countries.

Turkey's geographical location is situated in a place where climatic conditions are quite temperate. However, the climate of Turkey varies widely from east to west and from north to south. The northeastern and northern regions have very cold and foggy winters and mild summers, very rainy springs and autumns. The southeastern, the Mediterranean and the Aegean regions (south) have mild winters and hot and dry summers. The regions located on the inland Anatolian plateau experience to have extremely hot summers and cold winters with limited rain.

1.2 History

The lands of Turkey, historically known as "ANATOLIA" where the eastern and western civilizations meet, have been the base for the most ancient civilizations of the world, the Hatties were the oldest known people of Anatolia; they attained a high level of civilization in 2500 BC. The Hittites, who entered Anatolia via the Caucasus Mountain, integrated with the Hatties and established the first social and political organization in Anatolia. The Luwians, Urartians, Phrygians, Lydians, Carrions, Lucians, Ionians, and Byzantines all established their great civilizations in Anatolia. The Turks Anatolia's final owners created three states in the area until now. The Seljuks of Oghuz Turks were the first who entered Anatolia and established a powerful empire in western Asia in 990 AC. In 1071 the Seljuk Emperor Alparslan reached the frontiers of Eastern Anatolia after defeating the Byzantine emperor, Romanus IV Diogenes at Malazgirt. The Anatolian Seljuk State was based in Konya and had a flowering civilization. The State ended in 1243 after being defeated by the Mongols. Following the defeat, Seljuk State broke up into several principalities. Of the principalities, the Ottomans reunited the other principalities and eventually reestablished the unity of Anatolia.

The Ottoman Turks founded one of the largest and longest-lived empires of history and reached the height of its glory culture and civilization in the sixteenth and seventeenth centuries. The successive brilliant rulers were Mehmet II, the Conqueror of Istanbul; Süleyman I, known as 'the Magnificent' worldwide and Murad IV, the Conqueror of Baghdad and Yerevan. The Ottoman Empire went into a gradual decline commencing from the end of the seventeenth century and joined the 1st World War in 1914 following the defeat forced to sign the Serves Treaty in 1920, which brought forth the partition of the empire. Under the leadership of Mustafa Kemal Atatürk, the Turkish War of Independence started on May 19th, 1919. The Turkish Grand National Assembly abolished the Sultanate on November 1st, 1922, ending the over six centuries of rule of the Ottoman Empire.

The Lausanne Peace Treaty was signed in 1923, which certified and legalized the victory of the Turkish Independence War. The "Republic of Turkey" was founded and announced on October 29th, 1923. The revolutionary reforms that Atatürk put into force during his presidential period of fifteen years were aimed at transforming

the country into a constitutional democracy. The Republic of Turkey implemented worldwide most common principles of law, as the basis for the Republican Covenant under which all citizens are equal and free. This ensures social unity by refusing any discrimination based on race and language and imposes secularism that guarantees freedom of religion and belief. Constitutional Democracy enables citizens to express their thoughts freely and independently and participate in a healthy political process. The experience gained over 89 years proves that the Turkish people have taken these principles seriously to reach the modern civilization level.

1.3 Population

Turkey has a population of approximately 84 million inhabitants. The population is younger than in other European countries. Approximately 55 % of the population is below the age of 35 according to national statistics of the Turkish Statistical Agency, TURKSTAT. The GDP of Turkey is about 720,1 Billion USD. (2020) the average GDP per capita is \$ 8.536. Almost 23,2 % of the population is in rural areas. Turkey's largest city is Istanbul with approximately 14 million inhabitants. The capital, Ankara, has about 5 million inhabitants. The other major cities are İzmir, Konya, Adana, Bursa, Gaziantep, Diyarbakır and Antalya.

1.4 Language

The official language of Turkey is Turkish, which is spoken throughout the country. The oldest written records of Turkish are found in stone monuments in Mongolia, in Orhun, Yenisey and Talas regions that are backdated to the years 725, 732 and 735 AC, respectively. The Turkish language is spread over a large geographical area in Europe and Asia. The Turkish spoken in Turkey represents the language group coming from the southwest branch of the Uralic-Altai language family. In Turkey, among the foreign languages, English is spoken widely. Other commonly spoken foreign languages are German, French and Italian. There are many high schools and universities within the major cities conducting education in a foreign language.

1.5. Political System

The Republic of Turkey is a democratic country and has chosen the "Constitutional Democracy" as a political system. The 1982 Constitution is the third comprehensive change since the foundation of the Republic of Turkey. The Constitution states that unconditional and unrestricted sovereignty belongs to the nation. Under the Constitution, every Turkish citizen has equal rights. Discrimination among citizens, based on language, religion, belief, race, color, sex, political opinion, or similar reasons, is prohibited. No privilege could be granted to any individual, family, group or class. The citizens exercise their sovereignty directly through elections, and indirectly through the authorized in compliance with the principles stated in the Constitution. Turkey was a parliamentary representative democracy. A presidential system was adopted by referendum in 2017; the new system came into effect with the presidential election in 2018 and gives the President complete control of the executive, including the power to issue decrees, appoint his cabinet, draw up the budget, dissolve parliament by calling early elections, and make appointments to the bureaucracy and the courts. Turkey's constitution governs the legal framework of the country. It sets out the main principles of government and establishes Turkey as a unitary centralized state.

Legislative Power

The legislative power is vested to the Turkish Grand National Assembly (TGNA) which performs this function on behalf of the Turkish nation. TGNA is comprised of 550 members who are elected for a five years term of service. The legislative power of TGNA members cannot be delegated. The president ratifies legislation and makes regulations about the functioning of the administration.

Executive Power

Executive power and functions are vested to and exercised by the President. The President represents the Republic of Turkey and the unity of the Turkish Nation. The President has the chief executive power and is elected by citizens, time for a five years term. The President selects the ministers and forms the Council of Ministers

who remains in power. The establishment and the duties of the Administrations are regulated by law and are based upon a centralized as well as local government concept. Central Administration means powers and authorities are held centrally, and all administrative services are performed by agencies or organizations that are attached to the Central Administration or such services are performed in the provinces by Local Administrations. Local Administration is the system established to meet the common needs of the people living in a specific region and managed by elected communities of that area. The elected officers of Local Administrations deal with local administrative, social, scientific, technical and cultural matters. Local Administrations are authorized by the Central Administration to introduce rules and financial obligations on matters relating to that region. There are three types of Local Administrations operating in Turkey, Municipalities, Provincial Local Administrations and Village Administrations. Municipalities are the most important one among these.

Municipalities

All municipalities are public (national) entities. Municipalities must be set up in all provincial and district centers. Municipalities are required to meet the common needs of the regional inhabitants. Municipal Administration comprises an Assembly, a Council, and a Mayor. The Municipal Assembly is elected by popular vote and its size vary considering the population. Municipal elections are held every five years. Municipal Assembly members are elected by the proportional representation system. However, candidates from political parties are only elected if the party receives at least 10 percent of the total number of votes. Municipalities are required to hold at least three regular meetings each year. The Municipal Assembly approves the annual budget of the municipality, projects related to public works, and city planning and determines taxes, rates, duties, fees and tariffs. The Municipal Council consists of the mayor, the directors of the municipal departments and the members elected by the Municipal Assembly among its own members. The Mayor is the chief executive and representative of the municipality. The Mayor is elected for five years term with simple majority vote.

Provincial Local Administrations

Provincial Local Administrations consist of the Governor, Provincial Local Assembly and the Standing Provincial Council. The Governor appointed by the Council of Ministers represents Central Administration and entitled as the head of the Provincial Local Administration. The Governor usually acts in line with the decisions made by the Provincial Local Assembly. The Provincial Local Assembly is the most authoritative body, consists of members elected for five years term. The members of the Provincial Local Assembly are elected by the proportional representation system, provided that their parties receive at least 10 percent of the votes. Each district forms an electoral zone for elections. The Provincial Local Assembly approves the budget and makes decisions regarding the functions of Provincial Local Administration. The Standing Provincial Council composed of four members elected for one year by the Provincial Local Assembly from its own elected members. The Standing Provincial Council reports to Governor and Provincial Local Assembly about the efficiency of organizations and fiscal issues.

Villages

The Village Administration has obligatory and optional duties. Obligatory duties include the health protection, strengthening the social relations, maintenance of order and security, waste removal, public works and cultural affairs. Villagers who refuse to take part in the performance of these duties are penalized. The basic body of the Village Administration is the Village Assembly. The Village Assembly composed of villagers over twenty-one years of age. The Village Assembly decides whether some optional duties should be made obligatory, elects for five years term the Village Headman (Muhtar) and the Council of Elders. The Village Headman represents the Central Administration and supervises the implementation of the village projects and services. The Council of Elders consists of four to six permanent and four to six reserve members, depending to the village population. The Religious Leader (İmam) and the village schoolteacher are the natural Council members. The Council of Elders makes recommendations about how to conduct village affairs and determines things to be done.

Judicial Power

Judicial power is vested to independent courts functioning on behalf of the Turkish Nation, which are formally independent from the legislative and executive powers. The legislative and executive powers are limited and balanced with the judicial power as a result of supremacy of law principle. The legislative procedures and activities, and the procedures of execution are dependent on judicial control. Judges are independent in discharging their duties and rule on the basis of the provisions of the Constitution, the laws, jurisprudence and their personal convictions. No organ, office, authority or individual may attempt to intimidate, instructor order, make suggestions or recommendations or send notices to any judge concerning how they should exercise their powers in the courts. The legislative and executive organs and the administration must comply with the rulings of the courts, and they may not change or delay the application of these rulings. The Constitution also stipulates that as general rule court hearings are open to the public and a statement of justification for the verdict should be attached to the courts resolution. The trials of minors should be in accordance with the special clauses. Criminal, Military and Administrative Courts exercise the Judicial Power. These Courts render their verdicts in the first instance, and the superior courts examine the verdict for the last and final ruling. The superior courts are: the Constitutional Court, The Court of Appeals, the Council of State, the Military Tribunal of Appeals, the Supreme Military Administrative Court, the Court of Jurisdictional Dispute, the Court of Accounts and the Supreme Council of Judges and Public Prosecutors.

The Political Parties

The political parties are indivisible and indispensable part of Turkish political life. The Constitution and the Political Parties Law regulate the formation, activities, supervision and dissolution of political parties. All citizens who are over eighteen years of age, except for civil servants and members of the Armed Forces, may form and become members of political parties provided that they conform with and meet the related procedures. Prior permission for the formation of a political party is not

required. The parties can function freely in accordance with the provisions of the related laws and the Constitution.

The Constitution requires that the internal workings and decisions of political parties must conform to democratic precepts. The Constitutional Court may only make the financial audit of political parties. The closure of any political party is only possible upon the ruling of the Constitutional Court to this effect. The organization of a political party consists of its central organs, its provincial and country organizations and the party group in TGNA. All political parties must establish their headquarters in Ankara and formation requires the signatures of at least thirty Turkish citizens who are eligible for election to TGNA. The highest authority within the political party is its own general convention. The central organization of the political party consists of the general convention, the leader of the party, its central decision-making and executive board, its disciplinary board and its caucus. These principles are the basic binding legal regulations for the legislative, executive and judicial organs, the individual persons and for the organizations. Further, there is a Constitutional Court whose decisions bind the legislative, executive and judicial organs, the government and all the real and juristic persons, and these decisions constitute the source of legality for the governmental procedures.

Turkey is not homogeneous but rather a heterogeneous mixture of different cultural groups. This mixture includes groups from Central Asia, the Middle East, Europe and Africa. Turkish Democracy is of such high quality that it hinders any discrimination among these cultural groups and individuals.

2. Business Environment

2.1 Economy

Before 1980, the Turkish economy was a partially closed economy. Economic policy was to substitute imported goods with locally produced goods to meet domestic demand. The general intention was to manufacture goods locally instead of importing. The local industries were protected effectively by customs duties and other taxes.

In 1980 Turkey ceased this policy and started to follow a liberalized, export-oriented economic policies. There were rapid changes in the economic and social structure of the country. Deregulation of interest rates, foreign exchange, stocks and securities, and the establishment of organized money markets, the liberalization of capital movements, and the reforms in the banking sector, were some of the main changes. Following these measures, protectionist economic policies were abandoned, and a comprehensive economic stabilization and liberalization program was implemented. The adopted industrialization model concentrated on exports, global competition, and market mechanisms. The aim behind the restructuring was to foster higher degree of integration with the world, improve growth rate, reduce inflation and improve balance of payments.

Turkish Capital Market played particularly important role in the development of the economy. The Capital Market Law became effective in 1981. The objective of the law was to encourage widespread participation of people in the economic development by investing their savings in securities. The Capital Market Board was established within the following year to regulate and supervise the Turkish Capital Markets. Istanbul Stock Exchange (ISE) commenced activities in 1986. Due to foreign investment tax concessions and liberalization, foreign funds inflow to the capital markets affects rapid expansion of the Turkish Economy. The foreign exchange and the foreign trade policies were reorganized aiming to open the economy to the foreign markets and to sustain industrialization based on exports. Equity portfolios held by foreign investors are 70 percent of the total publicly held portion of the market capitalization. Policies were developed to follow a realistic exchange rate

policy for the Turkish Lira. The foreign exchange regulations were liberalized to a great extent and the privatization implementations were started in 1984. Privatization Law (No. 4046) enacted in 1994 to overcome the problems experienced since 1984. The Law formed extensive legal framework for the privatization. Between the years 1986 and as of 30 June 2012, the total privatization implementations reached to 43.3 billion US dollars. From 2013 to 2017 the total privatization value was around 120 billion US Dollars.

Due to global pandemic conditions, Turkish economy has started to slow down after 2020. Government incentives and dynamic labor force help recovery from global health crisis in Turkey and ongoing high economic growth rates show a huge potential for new start-ups.

Inflation has been Turkey's important economic problem for a long time. With the committed measures taken by the current government, inflation has moved to a decreasing trend. However, after 2016 inflation rate has started to increase again. In 2022, consumer price index has reached % 80,21 in August 2022 (highest level since 1998). The current government determined the inflation target as % 65 by the end of 2022.

The inflation rates for years 2015-2019 have been presented below:

Table 1: Inflation (2015-2021)

Years	Consumer Price Index (%)
2015	7,67
2016	7,77
2017	11,14
2018	16,33
2019	15,18
2020	12,28
2021	19,60

2.2 Foreign Investment

Considering the contribution that it can make to the development of a country; the encouragement of the foreign investments has been one of the primary economic policies of the Turkish Governments during last fifty years. Radical economic reforms

achieved in 1994 with the Customs Union decision and the encouragement of the foreign investments policy aimed to integrate Turkish economy to the world economy over the EU. The Foreign Investment Law guarantees the transfer of, dividends, capital gains, fees and royalties. The law also permits the transfer of paid up capital freely in case of liquidation. The bilateral and multilateral investment protection agreements have been signed and these agreements provide additional security and flexibility to the foreign investors. Further, qualified labor force with high productivity, great infrastructure facilities, huge domestic market and the advantage of being geographically close to rapidly expanding markets made Turkey attractive and beneficial for foreign investors. Foreign investors have already made sizeable investments in various sectors such as agribusiness, food, textiles, machinery, automotives, chemicals, electronics, cement, tourism, finance and banking.

In Turkey, foreign investment may be either as indirect portfolio investment or direct investment. Portfolio investment is not subject to formal permission in Turkey. Using banks or brokerages foreign investors may purchase or dispose the corporate securities. All types of portfolio income such as dividends, interest, sale proceeds may be transferred out to any country through banks freely. Foreign direct investment should be either a joint-stock company, a limited liability company or branch office and it is permitted in almost all sectors of the economy with a few exceptions e.g. education. The various incentives and grants to the investors for the purpose of facilitating larger investments and capital contributions by the local and foreign investors and eliminating the regional imbalances. The current incentive applications are parallel with the Turkey's commitments under WTO and Customs Union agreements; hence, it does not breach the international liabilities and commitments of Turkey. Both foreign investors and local investors are subject to same incentive applications without any discrimination.

To make the environment more investor friendly Turkey had enacted and adopted various domestic and international regulations and new modern codes to meet the needs of international investors.

At the international level, Turkey has signed the major multilateral treaties related to arbitration. Turkey has also entered into bilateral agreements with many

states, most of them focusing on regulating the investment conditions between the two countries.

The incentives granted to the inventors under current regime can be classified as follows.

- Investment incentives
- Export Incentives
- Free Trade Zones
- Technology Parks
- Research and Development Incentives

In order to qualify for the above incentives, except for investment allowance, the investor should obtain Investment License from the General Directorate of Foreign Investment before commencing the investment. Obtaining investment incentive certificate is an easy procedure. An investment must meet a minimum equity ratio of minimum value of TL 3.000.000 (\$ 165.000) for the first and second investment regions and 1.500.000 TL (\$ 65.000) for other regions. Investment may be realized either by establishing a new company or by purchasing shares of existing company. There is no limitation for the foreign ownership, % 100 ownership is permitted. The cash funds brought as share capital may be kept in foreign exchange deposit accounts in banks. Foreign investment in the form of Capital-in-kind and intangibles are also permitted.

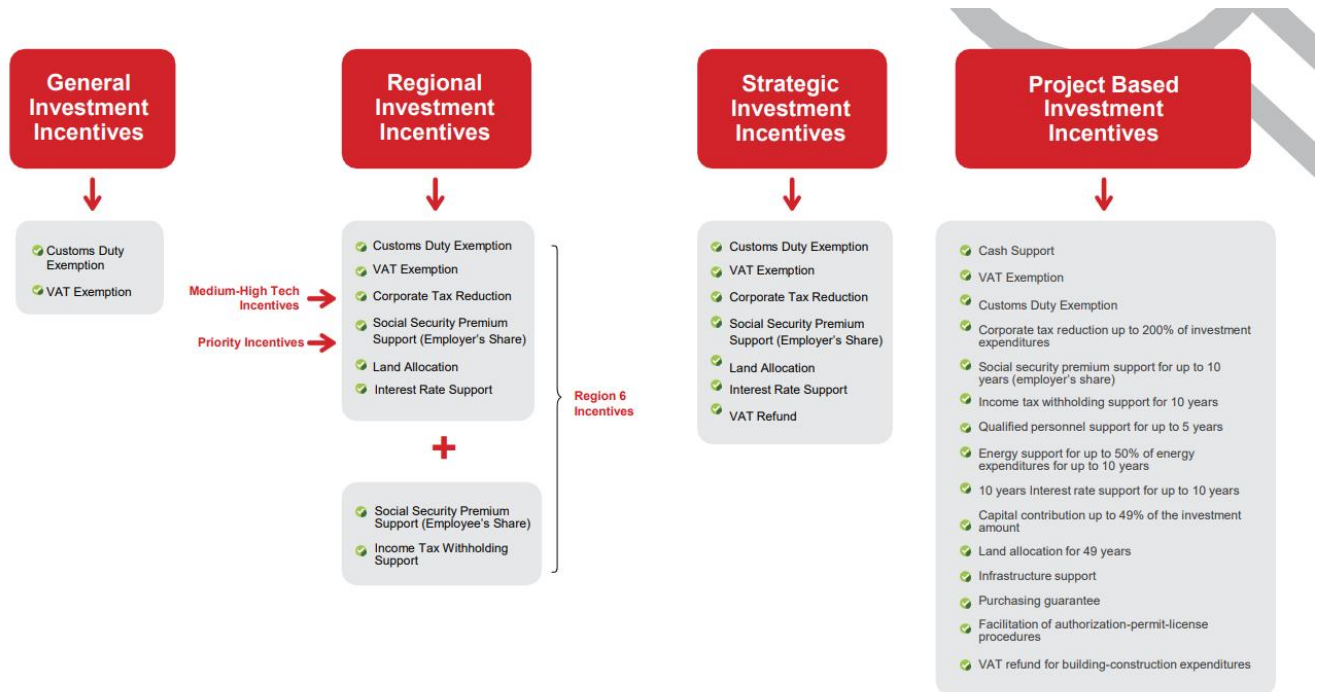
2.3 Investment Incentives

Turkey's new investment incentive system, launched in April, 2012, became effective by the "Council of Minister's Decree No. 2012/3305 on Government Subsidies for Investments" of June 15, 2012. The Regulation No. 2012/1 defines procedures and principles for the implementation of the Decree. The classification of regions and the scope of strategic investments have been changed by a regulation after 20/08/2020 The new investment incentives program, which will be effective from the after 20/08/2020, comprises 4 different schemes:

2.3.1. General Investment Incentive Scheme:

Regardless of in which Region an investment is made all projects which meet conditions of specific capacity and the following minimum fixed investment amount will be supported within the frame of the General Investment Incentives Scheme. Investment subjects which are excluded from the investment incentives program may not benefit from this scheme. The amount of minimum fixed investment is 3 million TL in Region 1 and 2 and 1.500.000 TL in Regions 3, 4, 5 and 6. Classification of investment incentives is shown below.

TABLE 2: INCENTIVES PROVIDED BY GOVERNMENT



*Building and construction expenditures are eligible to receive 18% VAT refund for investments projects realized until the end of 2024. This incentive is available only for manufacturing investments.

2.3.2. Regional Investment Incentive Scheme:

This scheme aims to minimise regional differences and reduce inequality among cities and regions as well as boosting export and production infrastructure of less developed regions. The sectors to be supported in each province are determined in accordance with potentials of the provinces and the economies of scale and the intensity of the supports 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 3 million TL in Regions 1 and 2, and 1.5 million TL in the remaining Regions. The terms and rates of supports within the Regional Investment Incentives Scheme are summarized in the Table 2 below:

TABLE:3 REGIONAL INCENTIVES

Regional Investment Incentives Support Measures

Incentive Measures		Region							
		I	II	III	IV	V	VI		
VAT Exemption		AVAILABLE							
Customs Duty Exemption		AVAILABLE							
Corporate Tax Reduction**	Tax Reduction Rate (%)	50	55	60	70	80	90		
	Reduced Tax Rate (%)	11	9.9	8.8	6.6	4.4	2.2		
Investment Contribution Rate (%)	Outside OIZ*	15	20	25	30	40	50		
	In OIZ*	20	25	30	40	50	55		
Social Security Premium Support (Employer's Share)	Support Period	Outside OIZ*	2 years	3 years	5 years	6 years	7 years	10 years	
		In OIZ*	3 years	5 years	6 years	7 years	10 years	12 years	
		Support Upper Limit (%)	Outside OIZ*	10	15	20	25	35	No limit
			In OIZ*	15	20	25	35	No limit	No limit
Land Allocation		AVAILABLE							
Interest Rate Support	TRY Denominated Loans (points)	NA	NA	3 points	4 points	5 points	7 points		
	FX Loans (points)			1 point	1 point	2 points	2 points		
Social Security Premium Support (Employee's Share)		NA	NA	NA	NA	NA	10 years		
Income Tax Withholding Support		NA	NA	NA	NA	NA	10 years		

Source: Presidency of the Republic of Türkiye, Investment Office
OIZ: Organized Industrial Zones

Specific types of investments mentioned under the Article 17 of the Council of Ministers Decree numbered 2012/3305 are considered as “priority investments”. The regional investments that are classified as privileged investments may benefit from the incentives provided to Region V even if they are located in Regions I, II, III and IV. If the investment is located in Region VI, then the incentives for this region will be benefited.

2.3.3. Priority Investment Incentive Scheme:

This scheme covers some specific industries such as automotive, defence investments, producing new material by using research and development systems and education investments.

Specific types of investments mentioned under the Article 17 of the Council of Ministers Decree numbered 2012/3305 are considered as “priority investments”. The regional investments that are classified as privileged investments may benefit from the incentives provided to Region V even if they are located in Regions I, II, III and IV. If the investment is located in Region VI, then the incentives for this region will be benefited.

The following investment subjects have been designated as priority investments within the framework of our country’s requirements and these investments are supported by measures of Region 5 even if they are made in Regions 1, 2, 3 and 4.

- Tourism investments in Cultural and Touristic Preservation and Development Regions and thermal tourism investments,
- Mining investments,
- Railroad, maritime, airway transportation investments,
- Defense industry investments,
- Technology intensified products’ test facilities according to OECD classification,
- Nursery, Preschool, Primary, Middle and High School investments,
- Investments made to manufacture the products and parts designed and developed as an outcome of the R&D Projects supported by the Ministry of Science, Industry and Technology, TUBITAK and KOSGEB,
- Motorized land vehicles key industry investments with a minimum investment amount of 300 million TL, automotive engine manufacturing investments with a minimum amount of 75 million TL and transmission components/parts and automotive electronics manufacturing investments,
- Investments made to generate electricity from coal,
- Investments made to generate electricity through waste heat recovery in a facility,
- Energy efficiency investments made in existing manufacturing facilities,

- Liquefied natural gas (LNG) investments and underground gas storage investments with a minimum amount of 50 million TL,
- Investments of carbon fiber or the composite materials made from carbon fiber provided that along with carbon fiber production.
- Investments made to manufacture high-technology products classified according to OECD technology intensive definition,
- Investments made to explore mines in the permitted fields for the investors holding Mining License and Certificate
- Environment certificated investments
- Software and information technology investments at special free trade zones.

The terms and rates of supports provided within the Scheme are summarized in the Table below:

Table 4: Priority Investments Incentive Scheme Measures

INCENTIVE MEASURES			REGIONS					
			I	II	III	IV	V	VI
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 (Employee's Share)			N/A	N/A	N/A	N/A	N/A	10 years
Income Tax Withholding Support			N/A	N/A	N/A	N/A	N/A	10 years

OIZ: Organized Industrial Zones

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

- ✓ Investments in Organized Industrial Zones

- ✓ Joint investments to be made by at least 5 companies operating in the same sector with the purpose of integrating these companies to this joint investment

2.3.4. Strategic Investment Incentive Scheme:

Regardless of the region, more advantageous supports are offered to these investments compared to those offered by the Regional and Large-Scale Investment Incentive Schemes.

The Goals:

- ✓ Based on the “Input Supply Strategy”, this scheme aims at supporting production of the intermediate and final products with high import dependence to reduce the current account deficit.
- ✓ It also targets encouraging high-tech and high value-added investments with a potential of strengthening Turkey’s international competitiveness.

Investments meeting the criteria below are supported within the frame of the Strategic Investment Incentive Scheme:

- ✓ to be made for production of intermediate and final goods with high import dependence of which more than 50% of these goods are supplied by imports,
- ✓ to have a minimum investment amount of 50 Million TL,
- ✓ to create minimum 40% value added (This condition is not applicable to refined petroleum production investments and petrochemicals production investments),
- ✓ to have an import amount of at least \$50 Million for goods to be produced in the last one-year period (This condition is not applicable to goods with no domestic production)

Table 5: Strategic Investments Incentive Scheme Measures

INCENTIVE MEASURES		REGIONS					
		I	II	III	IV	V	VI
VAT Exemption		YES					
Customs Duty Exemption		YES					
Tax Reduction	Rate of Contribution to Investment (%)	90					
Social Security Premium Support (Employer’s Share)	Support Period	7 Years (10 years for 6th region)					
Land Allocation		YES					
Interest Support	Local Loans	5 points					
	Foreign Exchange denominated loans	2 points					

Social Security Premium Support (Employee's Share)	10 years (only for investments in the Region 6)
Income Tax Withholding Support	10 years (only for investments in the Region 6)
VAT Refund	YES (only for the expenditures of building for investments over 500 million TL)

After 21/08/2020 the scope has been changed and investment on gold mining facilities has been removed from the strategic investment list.

The support measures to be provided within the frame of those schemes are summarized in the table below:

Table 6: Investment Incentive Schemes Summary

Support Measures	General Investment Incentive Scheme	Regional Investment Incentive Scheme	Strategic Investment Incentive Scheme
VAT Exemption	✓	✓	✓
Customs Duty Exemption	✓	✓	✓
Tax Reduction		✓	✓
Social Security Premium Support (Employer's Share)		✓	✓
Income Tax Withholding Support *	✓	✓	✓
Social Security Premium Support (Employee's Share) *		✓	✓
Interest Support **		✓	✓
Land Allocation		✓	✓
VAT Refund			✓

* Provided that the investment is made in the Region 6.

** Provided that the investment is made in the Regions 3, 4, 5 or 6 within the frame of the Regional Investment Incentive Scheme

Resource: Ministry of Industry and Technology

The new Investment Incentive Program that is vital for Turkey's 2023 vision as well as for the production and export-oriented growth strategy aims to:

- steer savings into high value-added investments,
- boost production and employment,

- encourage large scale and strategic investments with high R&D content for increased international competitiveness,
- increase foreign direct investments,
- reduce regional development disparities,
- promote investments for clustering and environment protection,
- in line with the objectives set in development plans and annual programs.

Supports provided by this new Investment Incentive Program will be available for all investments with an incentive certificate granted after January 1, 2012. Investors must apply officially to receive the supports provided within the scope of the Investment Incentives Program. Before applying officially, in line with certain principles and procedures, they can consult the Ministry of Trade, Directorate of Incentive Implementation and Foreign Investment to seek information on the scheme their projects fit in or investors can determine their scheme by studying the incentives communiqué.

Regional incentive scheme needs to classify different regimes according to their development level. The classification of regions has changed after 20/08/2020 and the following table shows classification of provinces for the implementation purpose of the Investment Incentives Program:

Table 7: Provinces of Investment Incentives Program

Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
Ankara	Aydın	Adana	Afyonkarahisar	Bayburt	Adıyaman
Antalya	Balıkesir	Burdur	Aksaray	Çankırı	Ağrı
Bursa	Bilecik	Düzce	Amasya	Erzurum	Ardahan
Eskişehir	Bolu	Gaziantep	Artvin	Giresun	Batman
İstanbul	Çanakkale (Except Bozcaada and Gökçeada)	Karaman	Bartın	Gümüşhane	Bingöl
İzmir	Denizli	Kırkkale	Çorum	Kahramanmaraş	Bitlis
Kocaeli	Edirne	Kütahya	Elâzığ	Kilis	Diyarbakır
Muğla	Isparta	Mersin	Erzincan	Niğde	Hakkâri
Tekirdağ	Karabük	Samsun	Hatay	Ordu	İğdır
	Kayseri	Trabzon	Kastamonu	Osmaniye	Kars
	Kırklareli	Rize	Kırşehir	Sinop	Mardin
	Konya	Uşak	Malatya	Tokat	Muş
	Manisa	Zonguldak	Nevşehir	Tunceli	Siirt
	Sakarya		Sivas	Yozgat	Şanlıurfa
	Yalova				Şırnak

					Van
					Bozcaada and Gökçeada

According to table7, region 6 is the less developed region and has an advantage from investment incentives perspective. There are also sub-regions which will benefit from investment incentives. Investments are supported through 4 different incentive schemes and 9 different incentive instruments designed within the scope of the new program. Contributions provided to investors through incentive instruments depend on the characteristics of the investment and applicable schemes. This chapter elaborates on the scope of incentive instruments to clarify the details of such contributions. 9 different incentive instruments for investors are listed below.

Value Added Tax (VAT) Incentives:

To support production process, investment machinery and equipment import will be VAT exempt within the scope of the incentive certificate. This exemption is applied not only to investors but also exporter firms. General VAT rate is 18% in Turkey, but some specific products such as food have reduced VAT rates.

Custom Duty Exemption:

Importing machinery and equipment for investment is also exempt from custom duties within the scope of incentive certificate. This exemption is imposed for machinery and equipment which is imported from third countries. Otherwise importing from European Trade area is already subject to Customs Union regulations and there is already no custom duties within the EU since Turkey is a member of Customs Union.

Corporate Tax Deduction:

Reduced income or corporate tax rates will be imposed on the investor's income under the incentive scheme according to the characteristic of the investment until the amount calculated on the basis of government's contribution rate, determined by the same scheme and corresponding to a certain percentage of the fixed investment amount, is reached.

Social Security Contribution (Employer Share):

This incentive facilitates that for any additional employment created by an investment with an incentive certificate under Regional, Large Scale and Strategic Investment Incentive Schemes, the amount corresponding to the employer's share of the social security premium on legal minimum wage, paid by the investor, is covered by the Turkish government. For an investor to benefit from this support, the project should be concluded, and a completion visa should be granted.

Income Tax Support:

As a labor incentive, reduced income tax rates are applied to employees who work at region 6. This incentive aims to support skilled labor force in less developed regions of Turkey.

Social Security Contribution (Employee Share):

Under Regional, Large Scale and Strategic Investment Incentive Schemes, the amount corresponding to the employer's share of the social security premium on legal minimum wage, paid by the labor, is covered by the Turkish government.

Interest Rate Support:

Interest rate support, is a financial support instrument, provided for the loans with a term of at least one 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 at most 70% of the fixed investment amount registered in the certificate will be covered by Turkish government.

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 Treasury and Finance.

VAT Refund:

VAT collected on the building & construction expenses and VAT tax burden on exporters made within the frame of strategic investments with a fixed investment and export operations will be rebated.

2.4 Free Trade Zones

Until 06.02.2004 the companies operating in Free trade Zones were exempt from income and corporate tax with an amendment made to these laws most of the exemption were levied. The existing practice is as follows.

- The incomes of the companies those were or will be established after 06.02.2004 are subject to corporate tax. Tax wise there is no difference between the companies established in Turkey and the companies established in free trade zones.
- The income of the companies those are producing in free trade Zones will be exempted from corporate and income taxes until Turkey become a full member of European Union. The incomes of the employees who are working in these production facilities or companies are also exempted from income tax. The sales of goods produced by these companies are also exempted from VAT.
- Individuals who have dividend income from the companies in Free trade Zones will declare this income and pay income taxes. The 15 % withholding tax that was paid when the dividend was distributed will be net off and the remaining part will be paid.
- No social security premium is paid over the salaries of the employees in Free Trade Zones.
- According to the Law of Free Trade Zones these regions are subject to customs. In other words there is no difference between a free trade zone and a foreign country with respect to import and export regime. The goods sold to free trade zones from Turkey are considered as exports and goods bought from

these regions from Turkey are considered as imports. Exports to Free Trade Zones are exempt from VAT. The VAT is refundable for these exports.

In general tax practices in Free Trade Zones are complicated. It is recommended to take advice from a tax expert before operations.

2.5. Technology Park Exemption

TECHNOPARKS are generally being established at university campuses or organized industrial areas.

Tax incentives are as following:

Income and Corporate Tax Incentive:

The income, due to the software development and research and development activities of Income and Corporate Taxpayers, operating in these zones, are exempted from income and corporation tax. The income, due to activities, which rather than software and research and development activities, such as interest, foreign exchange income, rent, income from fixed asset, are subject to tax.

In the case of the taxpayers who operate in these zones, have another activities in another location, outside the techno park, could not be benefited from the above mentioned tax incentives due to its operations outside techno parks, even if it is related with the software, and research and development.

Exemption for the Salary of the Researchers, Software Developers and Research and Development Staff who has been recruited at Techno Park:

The salaries of researchers, software developer and research and development staff who works in these regions are exempted from all kinds of taxes.

Although the people have the same qualifications with the above-mentioned personnel if their title is not match with the ones mentioned in the law, they would not be exempted. Other personnel, who work at techno parks, rather than the above-mentioned stuff, are not covered with the tax exemption.

VAT Exemption

The companies at Technology Development Zones are exempted from VAT for the products such as System Management, Database Management, and Business Applications, Soft wares related with Sectoral, Internet, Mobile and Military Order Control Applications. Exemption only covers the products, software, program and licenses, which are produced at these zones. The products which are produced outside Techno parks are not subject to exemption.

Due to the Sale invoices are without VAT, The VAT amounts, which paid during the production process for the purchases, are recorded as an expense.

2.6. Research and Development Incentive

The expenditure, related with the research and development in order to develop new technology and information within the company, is %100 deductible from the income tax or corporation tax base.

In order to be taking advantage of the Research and Development incentive, expenditure must be made for the purpose of Research and Development activity. Following activities are regarded under Research and Development.

- 1- Having latest technical information or data which will help the development science and technology.
- 2- Research and development for the new production techniques and process.
- 3- Development of new process or production of new techniques to make innovation on products, materials, means of production, applications, and systems.
- 4- Searching for new technologies/techniques in order to decrease the cost, increase the quality, the standard and the performance of a product.
- 5- Software developments which are innovative and creative.

The activities, in order to make some changes on an appearance of a product by using the recent technology, are not being taken in to consideration under Research and Development activities. Secondly, market research, quality control, research for the social sciences, research for the mine reserves and drill appearance changes, foundation and establishment expenses are not covered under this incentive as well.

Expenses under Research and Development

Basically, Research and Development expenses are made of the following group of expenses. However, the expenses must be related with the above mentioned activities.

- *Expenses for Raw Materials*
- *Personnel Expenses*
- *General Expenses*
- *Expenses for Outsource Services*
- *Tax and Funds*
- *Amortization and Depreciation*
- *Financial Expenses*

The Distribution of Profit Due to Research and Development Activities

In the case of distribution of profits which have not been included in corporation tax base due to the Research and Development incentive, %15 withholding tax will be calculated for the both real persons and the limited taxpayers.

2.7. Protection of Intellectual Property Rights

Turkey fully harmonized its legislation on intellectual property rights, prior to its customs union with EU countries. Turkey has enacted important laws on protection of trademarks, industrial designs, patents/utility models and geographic indications. The Turkish Patent Institute has been established for the purpose of registration and protection of such industrial property rights. The main system concerning the protection of industrial rights is based on the registration, which is similar to that of the European Union and the other countries that are party to Paris Convention.

2.8. Foreign Trade

Following the Second World War, the world economy and the international trade volume continuously developed as a result of liberalization and privatization policies adopted by countries. Since then world's production increased about 2 % each year and the world trade experienced growth rate of 6.2 % between 1990 and 1995.

Under these developments, the industrialized countries regressed the import taxes to around 3% today that were about 40% in 1950's. Liberalization, privatization and globalization policies gained importance in other regions of the world also. Turkey reduced import taxes to the levels applied by the EU member states and signed the "Customs Union Agreement" with EU in 1996. Accordingly, all protections in the trade of manufacturing goods with EU countries were abolished and the EU Mutual Customs Tariff started to be applied in trade with other countries. In 2019 exports reached an amount of 180,8 billion US dollars and imports reached the amount of 210,3 Billion US dollars and the foreign trade deficit is 29,5 billion US dollars.

2003 was the first year of implementation of new economic program. Due to the foreign exchange policies, exports slightly increased to 180,8 billion USD in 2019.

Table 8: Foreign Trade Statistics (1000 TL)

Year	EXPORT	IMPORT	BALANCE
2013	161.481	260.823	-99.342
2014	166.505	251.142	-84.638
2015	150.982	213.619	-62.637
2016	149.247	202.189	-52.942
2017	164.495	238.715	-74.221
2018	177.169	231.152	-53.984
2019	180.833	210.345	-29.512
2020	169.637	219.517	-49.879
2021	104.944	126.111	-21.166

Exports are encouraged in various ways in Turkey. In recent years, monetary incentives have been replaced by incentives at the production and investment phases. Within this framework, exporters are provided with credit, guarantees and insurance support through the Turkish Eximbank. Bureaucratic formalities in exports have been reduced and simplified. The ratio of exports to imports was about 50% in 1990s and increased to 77.8% during 1994. This ratio is 86 % in 2019.

2.9. Export Regulation

There are no restrictions over the exports of goods, except for the ones that arise mainly from the quota restrictions applied against Turkey by the country for which the goods are intended for shipment.

Exports are exempt from the VAT, duties and transaction taxes. The exception to this general rule is the payment of Support and Price-Stabilization Fund mainly over some agricultural goods. Goods manufactured in Turkey have a duty-free access to the EU.

2.10. Import Regulation

There are no import restrictions over goods imported to Turkey, with the exception of some restrictions of very minor character. Those are certain goods for which permission from relevant ministries shall be required, such as films, videos. Similarly, under secretariat of Foreign Trade lists goods that require exclusive permission.

For goods that are imported to Turkey from countries other than European Union, customs duties and charges are applicable in conformity with the provisions of customs union. Regardless of origin of goods, whether from an EU or non-EU country, VAT at a rate % 18 (% 1 or % 8 for certain basic goods) over CIF value, including other duties and funds, is collected. Investments goods- only the machinery and equipment- are exempt from VAT and custom duties, provided that an investment certificate is obtained from the Ministry of Treasury and Finance.

2.11. Customs Union

The customs union between Turkey and European Union has been in effect since the beginning of 1996. Customs union is of great importance to Turkey since EU is the most important trading partner of Turkey.

In accordance with the framework of the Customs Union, Turkey applies same Customs regulation with the EU. Today, except for agricultural goods customs and duties charges along with any sort of quantitative restrictions over EU goods, does not prevail. Agriculture, being treated under a different category for current circumstances, is of much difference in terms of pricing and subsidy structure as practiced in Turkey and EU today.

Turkey has harmonized its trade policies and legislation and adopted the EU's Common External Tariff and accessory regulations in its foreign trade.

2.12. Turkey's Economic Integration with the European Free Trade Area

Turkey is an official candidate for full member of the EU. Turkish market economy is developing gradually despite global crises' impact and limited financial support of the EU. Turkey shows significant progress about satisfying Copenhagen economic criteria of accession.

After Eurozone crisis, satisfying economic criteria is more important for candidate countries since EU economic governance is changing. Though Turkish public debt and budget deficit are under Maastricht convergence criteria level, Turkey has some fragilities such as high external debt of private sector and huge current account deficit.

The Customs Union Agreement of Turkey with the EU represents a huge opportunity for foreign investors looking for a relatively low-cost export base European market. It is possible for companies located in Turkey to make duty free trade with EU countries, thanks to the Customs Union agreement. Turkish trade policies, legislation, customs tariffs and acquis have been harmonizing with EU regulations.

3. Labor Relations and Conditions

The new Labor Law took effect in June 2003, which governs relationships between employers and employees.

The provisions of this law shall not apply for the business types and business relations given below:

1. Sea and air transport business,
2. Workplaces or enterprises carrying out agricultural and forestry works and employing 50 or less employees,
3. Building works related with agriculture within the limits of family economy,
4. Houses and businesses where handicrafts are produced by members of the family and 3rd degree relatives without participation of external persons,
5. Household work,
6. Apprentices (the provisions of occupational health and safety regulations are reserved),
7. Sportsmen,

8. Rehabilitated persons,
9. Working places employing three employees and conforming to the description in Section 2 of Law No. 507 on Craftsmen and Tradesmen.

Employment depends on contracts. There are mainly three types of work contracts, Temporary / Permanent Work contracts, refers to work, which, owing to its nature, lasts not longer than thirty working days, and “permanent work” to employment of longer duration. Temporary work is evaluated mainly under the Code of Obligations rather than the Labor Act. Definite / Indefinite Period The term of employment contracts can either be definite or indefinite. On expiry, employment contracts for a definite period may not be renewed more than once unless there is a fundamental reason. Otherwise, the contract for a definite period will be accepted as a contract for an indefinite period from the beginning. Part-time / Work upon Call Part-time contracts, and work upon call contracts; which is a specific type of part-time contracts; can be signed between the employers and employees, within the scope the Turkish Individual Labor Act. Discrimination among employees on grounds of race, nationality, religion, and sex is forbidden.

The legal working hours in a week is 45 hours. Overtime should not exceed 3 hours a day or 270 hours in a year. Overtime is not allowed in underground works. Overtime pay for normal days is based on hourly wages rate plus 50 % premium and for Sundays and public holidays the premium is 100 %.

Employees Termination Indemnity

Those employees who have completed one year of service are entitled to have "Employees Termination Indemnity", which is equal to one-month salary or thirty days wages for each year of service starting from the date of employment. However, the government fixes a ceiling for each year of service if the salary exceeds the ceiling; the ceiling amount is taken as the basis for indemnity calculation.

As a rule, employee is not entitled to receive indemnity if the employment contract is terminated by the employee, except for the reason of military service or unethical behavior of the employer. Women who resign within one year following her marriage are also entitled to their service award.

Annual Vacation

Those employees who have completed one year of service are entitled to have paid annual leave (vacation) with in the minimum period limits determined by law considering length of employment years.

Table 9: Annual Vacation Days

Length of services Holiday Period (days)	Length of Employment Paid Annual Vacation (Working Days)
1 to 5 years (incl.)	14
5 to 15 years	20
15 years (incl.) and over	26

For the employees under the age of 18 and above the age of 50, annual vacation days will not be less than 20 days, irrespective of the length of employment. If an employment contract is terminated, the employee is paid for unused vacation days.

Notification indemnity if employer terminates the employment contract prior to contract period and without giving notice within notice period limits employer must pay to employee an amount, which is equal to the salary/wages that would be received in the notice period.

Maternity Leave

Female employees may, upon their request, be granted unpaid leave for a period of up to 6 months following the 16-week maternity leave period. This period shall not be considered in the calculation of paid annual vacation.

In addition, until the child reaches the age of one, the female employee is entitled to

One and a half hours per a day for feeding.

Table 10: Length of Employment Notice Period

Notice Period	Length of Service
2 weeks	Less than 6 months
4 weeks	6-18 months
6 weeks	18 months-3 years
8 weeks	More than 3 years

Social Security System

Turkish social security system is based upon three institutions all regulated by Social Security Institution. These are the Social Security Institution, the Pension Fund and the Bag-Kur. These three institutions merged into one in 2008 and it is called as Social Security Institution. Private sector employees are covered within the Social Security Law. The employers and the employees pay social security premiums. The premiums, calculated as a percentage of gross salary, are paid within an upper and lower limit. Upper and lower limits are updated periodically for inflation.

Social Security premium payments covering sickness, disability and retirement schemes. Currently, office-based employees pay 14% and employers pay 20.5 % over an upper earnings level of TRY 37.530 (subject to annual adjustment) per month for white collar and general/blue collar workers. The Social Security Institution will determine risk premium rate in addition to the above rates depending on the nature of the work conducted by the employees as per the application of incentives.

Social security contribution declarations are due to be filed by the 23rd day of the following month and they are payable as of the end of the same term (i.e. social security contributions related to the January salaries is declared as of February 23rd and paid as of end of February).

Insurance premium ratios are as following,

Table 11: Social Security Contributions

	Employer's Share (%)	Employee's Share (%)	Total (%)
Normal Employees	20, 5	14	34, 5
Veterans	18	6	24
Expatriates	8, 5	5	13, 5

In addition to above given rates, in total % 3 unemployment insurance is paid, % 2 of is paid by the employer and the rest % 1 is paid by the employee.

The distribution of the premium rates to the risks covered is as follows,

	Employer's Share (%)	Employee's Share (%)
- Occupational accidents	1, 5-7	-
And vocational diseases insurance		
- Illness insurance	6	5
- Maternity insurance	1	-
- Disability, old age	11	9
And death insurance		
- Depending to the employment contracts bonus, premiums on sales or profit may be possible.		

In companies where more than 50 workers are employed, employers are required to employ disabled persons, victims and terror sufferers in their workplaces whose terms of employment are determined by their professional capacity, physical and psychological condition. The quota of such employees is fixed as 6%, no less than one half of which should be disabled person. The distribution of such employees is determined by the Council of Ministers each year in January. Employees employed under contracts for an indefinite or definite period are taken as a base for the determination of the number of employees to be employed in this context.

Employment of Foreigners

Foreigners who intent to stay in Turkey more than three months are required to apply for a residence permit from security authorities within fifteen days following their arrival. The principles relating to the employment of expatriates in Turkey have been regulated through the law concerning the Work Permit issued to Expatriates, which was put into effect in September 2003. The new law has eliminated the scattered and the multi-faceted structure through unifying the provisions relating to the employment of foreigners under a single law. The most important facility introduced by the new law is the issuance of all work permits from a single authority.

A foreign person needs a work permit to work in Turkey. Applications for a work permit may be submitted to the representatives of the Turkish Republic abroad or directly to the Ministry of Labor in Turkey.

The new Law envisages the issuance of work permits to 'key personnel' to be employed in 'direct foreign investments with special priority' by the Ministry of

Labor immediately without evaluating the competencies of the employee for the specific position.

The key personnel refer to shareholders, chairman of the board, board members, general manager(s), and assistant general managers and other at similar positions in the companies classified as 'foreign direct investments with special priority'.

Foreigners that are resident and working in Turkey are considered as limited liability taxpayers. Foreigners are taxed only on the income they earn in Turkey; their total earnings are not subject to taxation. Taxation of foreigner's salaries/wages is like the full liability taxpayers.

4. Business Entities

The following are the principal forms of business entities through which businesses are undertaken in Turkey:

- Individuals
- Partnerships
- Limited Liability Companies
- Joint Stock Corporations
- Other Forms of Business Organizations
 - Joint Venture
 - Business Association
 - Consortium

4.1 Individuals

Individuals are the sole traders who may form their businesses freely. They are liable for their debts and obligations without any limitation. The Turkish Commercial Law recognizes two main types of business entities "Partnerships" and "Corporations".

4.2 Partnerships

Partnerships are the businesses formed by two or more individuals. All partners have unlimited liability for the debts and obligations of the business. There is no minimum capital requirement for partnerships. The types of these partnerships are collective and commandite. Business partnerships, which are established for a specific reason for a certain period, are also subject to corporate tax.

4.3 Corporations

Corporations established by foreign joint venture partners with or without a Turkish partner are treated as Turkish corporations and are entitled to all rights available to Turkish companies under the Turkish Commercial Code.

Foreign investors can establish a corporation in either of these two forms:

- Limited Liability Company (Limited Şirket - Ltd. Şti)
- Joint Stock Company (Anonim Şirket - A.Ş)

4.3.1 Limited Liability Company

Limited Liability Company is a separate legal entity and shareholders have limited liability. Limited Liability Company can be formed by one or more individuals, but partners should not be more than 50 individuals. Although Limited Liability Company's enjoys some benefits there are some disadvantages such as:

1. Minimum limit of share capital must be 10.000 TL (\$ 600).
2. Shares are not freely transferable need approval from the other partners at least 75 % of majority votes.
3. Limited Liability Companies are also prohibited from engaging in banking, insurance businesses, private financial institutions, leasing, factoring, holding companies and operating foreign currency Exchange offices.

4.3.2 Joint Stock Company

Joint Stock Company is also a legal entity by law. Joint Stock Company has its own trade name and predetermined amount of capital divided into shares.

Minimum capital of Company must be 50.000 TL (Approximately 2.800 US\$). Shareholders have limited liability to their capital. Joint Stock Companies can be formed by one or more Shareholders who might be real persons or legal entities. The Joint Stock Companies have shares of equal value, which are transferable freely subject to the approval of the Board of Directors and if it is not restricted by the Articles of the Association. The shares may be issued in either as registered shares or bearer shares.

4.3.3 The Differences between Limited Company and Joint Stock Company

If shares of Joint Stock Companies are sold after two years the date which they are purchased, income from the sale of shares is not subject to tax. However, in Limited Companies, even if the shares are sold after two years the, income is subject to tax.

Joint Stock Companies' shares can be purchased and sold independently whereas Limited Company's shares can only be sold through notary approval. Also, the transaction must be registered to the Trade Registry.

In Joint Stock Companies, General Assembly must have a meeting with a representative from the Ministry of Trade, once a year. In Limited Companies, it is not an obligatory rule. Both Joint Stock Companies and Limited Companies, if the shareholders do not want to sell their shares, no one can force them to do so. On the other hand, if a shareholder wants to sell his share, other shareholders have priority for purchasing of shares. In Article of Association of Joint Stock Companies, all kinds of limits can be placed.

In the Article of Association of Joint Stock Companies, protective terms for the rights of minority shares could be set up. In a Joint Stock Company, Board of Directors represents the company. However, a Circular of Signature is issued, which determines the authorized people for signing on behalf of the company. Any limitations could be placed on Circular of Signature in terms of authorization of the people according to decisions of the Board of Directors.

4.4 Other Forms of Business Organizations

4.4.1. Liaison Offices and Branches

Foreign companies may also operate through liaison offices or branches in Turkey if they are established in accordance with the relevant legislation. The income generated in Turkey is subject to taxation in the same manner as of a resident company.

4.4.2. Establishment of a Company

It is now possible to establish a company just in one day when applied to the related Trade Registry Office with the required documents. The company gets its 'legal entity' upon establishment. The pre-establishment permits to be taken from The Ministry of Treasury and Finance and Ministry of Industry and Trade, required by the previous legislation has been abolished. However, banks, private finance institutions, insurance companies, leasing companies, factoring companies, communication companies, holding companies, companies operating foreign currency Exchange offices are subject to the regulations of the related authorities. Companies dealing with public warehousing publicly held companies subject to the capital market law, companies that are founders and operators of free zones are still subject to permit the Ministry of Industry and Trade.

4.4.3. The New Turkish Commercial Code

The new Turkish Commercial Code is effective from July 1st, 2012 and changed the system completely. Establishment of Company, Accounting, Audit and Reporting Standards are brought into consonance with International standards.

5. Finance

5.1 Currency and Foreign Exchange

Protection of the value of Turkish Currency Law 1567 provides general framework for Turkish Currency. The detailed exchange control regulations are set out by the Council of Ministers resolutions. Most recent resolution that became effective in 1989 has removed several exchange restrictions. Current provisions are as follows:

Currency

The unit of currency is Turkish Lira (TL). Turkish Central Bank determines official policy interest rates and free market conditions determine exchange rates. Turkey's Central Bank does not control exchange rate fluctuations directly. However, policy interest rate and open market operations are important tools for monetary policy. Residents in Turkey and non-residents are free to transfer Turkish Lira abroad through banks or authorized private financial institutions. Travelers are free to take out of the country Turkish Lira amounts not exceeding equivalent of 10.000 Euro with them. Import documents may be settled with Turkish Lira payments without any restriction.

Foreign Exchange

Residents and non-residents are free to hold, purchase, and open bank deposit accounts in foreign currencies. Travelers are free to take out of the country maximum 10.000 Euro or equivalent foreign currency with them. Except those related to imports, exports and invisible transactions any transfers exceeding 50,000 US \$ or equivalent foreign currency must be notified to Turkish Central Bank by the Banks and/or the authorized private financial institutions who have carried out such transaction within 30 days. There is not any obligation to bring collections related to export of goods to country for the exporters, furthermore, usage of these collections is free.

5.2 Banking

After 1990 Turkish banks have invested heavily in online electronic banking systems this caused rapid development of banking services. Majority of Turkish Banks have countrywide electronic networks and numbers of them offer direct access terminals to their major clients. The rapid growth of consumer banking has drawn Turkish Banks emphasis on the service quality because individual and retail banking became the most rapidly developing sectors. Regulations' relating to establishment and administration of State-Owned Banks and Private Banks differs from each other. Some State-Owned Banks are established by issuing special laws and some are formed following the Council of Ministers resolution. The Private Banks established in compliance with the provisions stated in the Banks Law and the Turkish Commercial Code. During 2005 the new Bank Law became effective, which aims at achieving a legal framework conducive to international standards, so that depositor rights are protected and enables banking system to have contestable structure with international money markets. Many rules relating to the establishment and supervision of banks, the requirements relating to the qualifications of bank owners and directors which have been changed by considering international applications.

5.3 Financial System

Turkish finance system is principally built up on universal banking system. Besides banks other areas of the Turkish financial system are Insurance, Leasing, Factoring and Stock Exchange. Private Financial Institutions (Islamic Banks) commenced activities in Turkey during 1984. The Private Financial Institutions, other than their own equity capital, collect domestic and foreign funds by means of private accounts, profit/loss sharing accounts, and channel these into the economy.

5.4 Corporate Finance

5.4.1 Credit and Loans

According to the Law Regarding the Protection of the Value of Turkish Currency (numbered 1567) and the Decree on the Protection of the Value of Turkish Currency (numbered 32) as well as the relevant circulars of the Ministry of Treasury and Finance, residents of Turkey are free to obtain credit from outside of the country, and to make use of credit through banks. However, agreements concerning all forms of credit that are obtained from abroad with terms longer than one year must be sent to the Ministry of Treasury and Finance following the signing date of the agreement or recording or registration the debt log maintained by the Ministry of Treasury and Finance. The Ministry of Treasury and Finance is entitled to track credit obtained from abroad by individuals and legal entities, to prohibit, restrict and to cease the repayment of loans that should have been registered in the debt log but not exist.

5.4.2 Corporate Bonds

The Turkish Companies in recent years with the stabilization of the markets started to issue corporate bonds. The issuing Companies most preferred by investors are real estate development or construction companies with existing portfolios. Local companies tend to prefer corporate bond issuances as opposed to a term facility for many reasons, such as the less complex legal documentation concerning their representations, warranties, and covenants; the less stringent events of default; and the quicker implementations of the deal. Issuances of corporate bond are available only for those local companies that can get an acceptable rating from a rating agency.

5.4.3 Shareholder Loans

Other than bank type financing, companies often use financing from their own shareholders, shareholder loans. There are many reasons for this common practice; including, but not limited to, the credibility and cost efficiency problems for regular financing in Turkey; transactional swiftness compared with capital increase; availability of interest returns. Hence, shareholders loans are limited with the three times of the total shareholders' equity of the company according to The Corporate

Tax Law, and the Companies who have thin capitalization can not borrow from their shareholders according to Turkish Commercial Code.

5.4.4 Public Offerings

The main purpose of public offering is to obtain financing. Through public offerings, joint stock companies can achieve liquidity inexpensively. If a joint stock company conducts a public offering through a capital increase, the company will have a larger amount of capital without imposing any further expenses to the existing shareholders.

6. Accounting and Auditing Requirements

6.1 Accounting Principles and Requirements

Turkish accounting system is based on Generally Accepted Accounting Principles (GAAP) which is used in Turkey for tax-driven accounting. For a long time, from 1994 to 2005 GAAP was the single accounting standard for both taxation and capital markets. After 2005, International Financial Reporting Standards (IFRS) were accepted by Capital Markets Board of Turkey. According to the New Turkish Commercial Code (6102), some companies need to prepare separate and consolidated financial statements as per Turkish Accounting Standards (IFRS driven) and these companies will be audited for annual periods beginning on or after 01 January 2013.

According to the new Turkish Commercial Code (TCC) the regulatory body of accounting and auditing has changed and Public Oversight, Accounting and Auditing Standards Agency (POAASA) This Agency will govern both audit profession and establish accounting and auditing standards. All the auditing licenses for individual auditors and for audit companies will be issued by this Agency.

Individual persons or certain staff entities in an auditing business must have license as an Independent Accountants, Financial Consultants and Sworn-in Financial Auditor. Sworn-in Financial Auditors (YMM) is mainly tax related professionals who may carry out audits for taxation purposes.

6.2 Audit Requirements

The new Turkish Commercial Code requires limited and joint stock companies to appoint SMMs or YMMs or Audit companies as auditors. They are obliged to have their books audited according to International Financial Reporting Standards (IFRS). POAASA will set the rules for auditing and The Boars of Ministers will determine the companies to be audited. The companies, which are under the Capital Market Board regulations must present audited financial statements each year. The Capital Market Board lists Independent Auditing Firms who are entitled to carry out such independent audits. All financial statements presented to Capital Market Board,

required to-be prepared in form of Capital Market Board standards. However, regardless of some of alterations which are run by Ministry of Finance. Capital Market Board is monitoring the activities of the aforementioned companies and determines activity principles, notifications, and record system, shares and bonds standards.

Capital Market Board requires the audit of these companies in respect to IFRS. The companies whose shares are trading at Capital Market are required to be audited twice in a financial year and present an Independent Audit Report. During the year, a limited audit report is presented at the end of June and the second report at the end of December.

IAS or the newly named IFRS has been applied for the companies, subjected to Capital Market Board and quoted to Stock Exchange Market, since 01.01.2005. Through the application of the IFRS, related companies' statements and reporting standards is parallel to international standards. With the New Turkish Commercial Code come into force whole corporations must apply International Accounting and Reporting Standarts. Certain restrictions will be applied.

The entities which will be subject to audit are specified by the Cabinet Decree published in the Official Gazette on 23/01/2013. According to this Decree, entities providing at least two of the following criteria at the two consecutive accounting periods are subject to audit (after 24/06/2022):

- Balance sheet total: 30 million Turkish Liras
- Annual net turnover: 40 million Turkish Liras
- Employee headcount: 125

In addition to these criteria, public interest entities including (but not limited to) following companies are subject to audit:

- Publicly held companies,
- Banks,
- Insurance reinsurance and pension companies,
- Factoring companies,
- Financing companies,
- Financial lease companies,
- Asset management companies.

Companies that meet the criteria of statutory audit in the future, shall keep using tax driven accounting and prepare IFRS driven financial statements.

In such a case, IFRS driven financial statements may be the basis for the profit distribution. Currently, it is under debate which financial statements (tax driven or IFRS driven) will be considered for profit distribution. However, currently companies are free to choose the one of two different profit calculation methods that will be distributed by the company.

7. Taxation

The Ministry of Treasury and Finance holds the authority for an implication of tax laws, control and collecting of taxes. The Ministry of Treasury and Finance publishes communications to clarify some of the issues regularly. On the other hand, companies and associations still have the right to request further clarifications about specific situations. Turkish tax system is based on unified, centralized income taxation which is supported by indirect taxes such as VAT and Excise taxes. Although income taxation is essential in Turkish tax regime, the share of indirect taxes is higher than the share of direct taxes.

According to OECD Revenue Statistics (2021); relative to the OECD average, the tax structure in Turkey is characterized by:

- Substantially higher revenues from goods & services taxes (excluding VAT/GST), and higher revenues from social security contributions.
- A lower proportion of revenues from taxes on personal income, profits & gains; taxes on corporate income & gains; and property taxes.

Table 12 shows the structure of Turkish tax revenues from 2015 to 2021.

Table 12: Tax Structure of Turkey (2015-2021)

YEARS	Income Tax (as a share of total tax revenues)	Corporate Tax (as a share of total tax revenues)	Value Added Tax (as a share of total tax revenues)
2015	22,7	8	33,1
2016	23,4	8,9	31,9
2017	23	9,2	33
2018	23,8	11,4	34
2019	25,3	10,7	32,9
2020	20,7	11,5	33
2021	20,5	13,6	38,2

Resource: Turkish Revenue Administration Statistics

7.1. Tax Procedures Code

Tax Procedures Code contains and regulates all the procedures concerning tax liabilities, various forms of taxation, prescription period and bookkeeping, and

methods that apply during the valuation of assets, liabilities, and payables. Some of the issues included within the Tax Procedures Code are as follows:

7.1.2. Legal Books and Documents

Under the Tax Procedures Code all the legal entities such as traders and artists, trading companies, public institutions, associations and foundations, merchants and farmers are required to maintain the following books:

- Journal
- General Ledger
- Inventory Register
- Stamp Tax Register

In addition to regulatory books, due to the nature of their business some businesses are required to maintain additional books, such as banking records, insurance tax register.

Under Tax Procedures Code, financial books must be maintained in the Turkish language and must be certified by the Turkish notary. The Journal entries must be completed within 10 days following the date of transaction (in some cases 45 days). Records should be maintained on computer or manually on fiscal year basis. Fiscal year of businesses in Turkey commences on 1st January and ends on 31st December. Financial records must be maintained in such a way that each transaction can be traced. All expenditures, recorded must be supported by required documents such as invoices, expense vouchers, independent professional service receipts, etc. Financial books and supporting documents must be retained (for a possible tax inspection purposes) for a period of five years from the date of their most recent entry.

For tax base calculation at the end of each fiscal year, all economical assets of the business are evaluated. Evaluations are based on the nature of the economical assets and accordingly are stated with cost (book value), market value, purchasing value, current value, opportunity value or tax value.

Generally, fixed assets, inventories and agricultural goods are stated with cost, goods having decrease in cost value may be stated with market value; marketable securities are stated with purchase value, foreign currencies are valued with exchange

rates determined by the state authorities; receivables and payables are stated with book values, establishment and formation expenditures are stated with book value. In specific situations, some other evaluation methods may be applied. At year-end evaluations economical assets should be physically measured, weighted or counted.

7.1.3. Depreciation

The Tax Procedures Code rather liberal provisions with respect to depreciation. According to the definition, all fixed assets are subject to depreciation, which are in use by the company for more than one year to give true and fair view of the financial statements. (land is not subject to depreciation.)

The depreciation rate on fixed assets is usually determined by Ministry of Finance base on useful life of fixed assets on a straight-line method. For cars, partial depreciation is calculated by taking the month in which the purchase was made as a complete month. Partial depreciation is provided on a full year basis irrespective of which month of the asset was acquired. Taxpayers are required to calculate depreciation for cars in the year of acquisition on a partial basis unless they are engaged in the business of leasing such vehicles or the vehicles are otherwise related to their commercial operation.

On the other hand, declining method is also available. According to this method, the depreciation rate is higher in the start and decreases as the value of the asset decreases due to useful life of the asset.

The depreciation rate and depreciation period are fixed and are not subject to change. Redecoration and Renovation of rented property are depreciated according to period of rent. If the period of rent is unknown, the expenses should be depreciated for a life of five year.

7.1.4. Valuation of Assets and Liabilities

The Tax Procedures Code defines the general methods (cost of acquisition, carrying value, etc.) by that a firm's assets and liabilities are to be valued. Accordingly, inventory and fixed assets are valued at cost while payables and receivables denominated in Turkish lira should be valued at their carrying value. Assets and liabilities denominated in foreign currency should be translated using the

exchange rate announced by the Ministry of Finance and cash should be appraised at nominal value. For the valuation of the Turkish or foreign securities, purchase value is used.

7.1.5. Deductibility of Expenses

In principle, further to the article 6 of Corporate Tax Law and article 40/1 of Income Tax Law, general expenses incurred for the generation and maintenance of commercial income are allowed as deductions for corporate income tax purposes. According to the article, for expenditures to be tax deductible, the following conditions should be fulfilled.

- The expenses should be directly related with the generation and maintenance of commercial income of the proposed companies.
- The expense items should be legally allowed.

According to the Tax Procedural Law provisions, such expenses should be properly substantiated with documents such as invoice, payment slips, list of the attendees, etc.

Such expenses can be deducted for corporate tax purposes if the below conditions are met:

- Expenses are reasonable and there is a clear casual connection between expense and the income generating activity that is invested in
- Expenses can be properly documented based on the procedures explained under Tax Procedural Law
- Expenses relate to actual costs incurred on behalf of, or actual services provided to, the business
- Expenses do commensurate with the services provided and benefits derived by the business

7.1.6. The Saving Period for the Legal Books and Documents of the Company

The Tax Procedure Code requires a period of 5 years; starting from the beginning of following year, to save the legal books and the documents of the

company. During this period the tax authority might conduct a legal inspection on books and documents of the company. In the case of finding a tax base difference as a result of the inspection, additional tax and one-time penalty are calculated, as much as the interest is calculated for every month.

On the other hand, Turkish Trade Law requires keeping the legal books and documents for a period of 10 years.

The tax law comprises from the following taxes:

- Income Tax
- Corporate Tax
- Value Added Tax (VAT)
- Excise Tax
- Tax Procedures Code
- Private Communication Tax
- Real Estate Tax
- Inheritance Tax
- Motor Vehicle Tax
- Expenditures Tax
- Stamp Tax
- Municipality Income Law

7.2. Income Tax

7.2.1. Subject

Income Tax is a tax paid by taxpayers upon the domestic and foreign earnings, commercial and agricultural incomes, wages and salaries income, independent professional services income, real estate properties income, dividend and interest income and all other income after deducting tax exemption allowances. Residents and foreigners who stayed in Turkey more than 6 months are subject to income tax with full liability. However, people who have low income within announced exemption limits are not liable for income tax and they do not have to file tax declaration.

The taxpayers are legally obliged to submit 'Income Tax Declaration' on all their income. Wages and salaries are covered by withholding tax and accordingly are not required to be declared.

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According to Turkish Income Tax Law (Code:193), there are seven sources for income which is listed below.

- Income from commercial activities
- Income from agriculture
- Income from professional services
- Labor income (wages and salaries)
- Income from movable properties (interest and dividends)
- Income from immovable assets and rights (rental income)
- Other income and earnings.

Each income component has different tax deductions and exemptions. After individual assessment of income tax components, gross income will be subject to income tax. To calculate total tax base, limit of declaration for each component is considered separately.

The Turkish Personal Income Tax Code recognizes two types of tax status: Resident and non-resident. Resident taxpayers are liable to Turkish taxation on their worldwide income, whereas the non-resident taxpayers are only taxed on their income sourced in Turkey.

For the purposes of “Turkish residency”, individuals are deemed to have Turkish residency if they:

- Have permanent residence in Turkey
- Stay in Turkey for more than six months in a calendar year. (Temporarily departures are not considered as interruption)

Residency is the place where an individual has settled with the intention of living at that place permanently. However, Article 5 of the Income Tax Law sets exceptions to the individuals (including expatriates) who are considered non-resident individuals because they do not have a residence in Turkey, but live in Turkey more than six months within a calendar year, but still will not be considered resident in Turkey if their presence in Turkey is based on a well-defined and temporary job, duty, education, medical treatment, vacation, or other reasons to stay in the country without the intention of residing. In other words, individuals that meet this exception will be taxed as non-resident individuals. Double tax treaties must also be considered for taxation of foreign individuals.

7.2.2. Tax Rate

The rate of income tax will not be differentiated according to the type of income apart from the employment income; but it is applied at progressive rates, currently from 15% to 40%. Tax returns must be filed from 1st of March to 25th of March in the following year. Income tax is payable in two equal installments in March and July.

The table below shows the different tax brackets for the year (2022), which are applied to an individual's sources of income.

Table 13- Tax Brackets

Taxable Income in TL	Tax Rate
Up to 32.000	%15
32.000 – 70.000	%20
70.000 – 250.000	%27
250.000 – 880.000	%35
880.000 and upwards	%40

Gross minimum wage is 5.500,35-TL in 2022. Minimum wage is exempt from income tax due to an amendment that is imposed after 2022. An example for calculation of gross minimum wage to net wage is shown on table 5.

Table 14- Calculation of Minimum Wage

(01.06.2022 - 31.12.2022)	
MINIMUM WAGE	6.471,00-TL
SOCIAL SECURITY CONT. (EMPLOYEE) % 14	-905,94-TL
UNEMPLOYMENT INSURANCE % 1	-64,71-TL
INCOME TAX BASE	0
INCOME TAX %15	0
STAMP TAX % 07,59	0
NET MINIMUM WAGE	5.500,35
SOCIAL SECURITY CONT. (EMPLOYER, % 20,5)	1.326,56
UNEMPLOYMENT INSURANCE % 2	129,42
TOTAL COST FOR EMPLOYER	7.926,98

7.2.3. Declaration and Payment

Taxpayers should file the 'Income Tax Declarations' at the end of March following the fiscal year end. Accrued taxes are paid in three equal installments. Tax rate varies between 15%-40% depending on the income. In every 3 months, except last quarter, 15% of the estimated profit is paid as Provisional Tax. This amount will be deducted from total taxation of the year.

7.3. Corporate Tax

In Turkey, the corporate income tax rate levied on business profits is 23% for 2022 earnings. Corporate tax rate was 25% for 2021 profits. For banks and financial institutions, corporate tax rate is still 25% in 2022. In every 3 months, except last quarter, 23 % of the estimated profit is paid as Provisional Corporate Tax. This amount of tax will be deducted from the total taxation of the year. As per Turkish Tax Legislation, dividend withholding tax rate of 10% is applicable on profit repatriation (either paid in cash or accrued in accounts of the payer as payables to the recipient) to individual and foreign corporate shareholders.

Main principles applied in calculating the taxable income of a company would be “accrual” and “cut-off” principles and these principles are similar with the calculation of individual income tax. The main difference between the calculation of income tax and corporate tax is that deduction of expenses from corporate tax base is possible for company related expenses. Accrued expenses and losses corresponding

to an accounting period are deducted from the accrued income and accounting profit of the company will be calculated. Following that, non-taxable income is deducted, and non-deductible expenses are added to that amount whilst exemptions and carry forward losses are deducted to reach the corporate tax base of that period.

As per the article 9 of the Corporate Income Tax Law, losses can be carried forward for up to five years. Loss carry back is not allowed. Resident companies may deduct the losses incurred in business activities performed abroad via branch if the foreign losses are approved by auditors authorized under the laws of the relevant jurisdiction. Foreign losses may not be deducted if income arising from the foreign activity would have been exempt from the corporate tax in Turkey.

The previous years' tax losses can be deducted from the corporate tax base of the proposed companies by indicating each year's tax loss separately in the corporation tax return.

- The losses as indicated in the past years' tax returns should not exceed five years.
- Submission of the corporation tax returns of the past five years on time is required.

The companies that have statutory domicile and place of management outside but established in Turkey as branch are subject to tax on their income derived in Turkey. In addition, non-resident companies are liable for withholding tax on the payments abroad such as professional services, technical assistance, royalties, and rentals. Turkish resident companies with statutory domicile and place of management in Turkey, tax is payable on worldwide income.

Financial institutions in Turkey must comply with **Common Reporting Standard (CRS)**, which is a global standard for the exchange of financial account information to combat offshore tax evasion and improve tax compliance around the globe. CRS is based on multilateral Convention on Mutual Administrative Assistance in Tax Matters and as a part of this initiative Turkey commits to exchange information and prepares country-by-country reports.

7.3.1. Thin Capitalization

To reduce debt financing in firms Turkish Corporate Tax Law covers **thin capitalization** regulations. Where the ratio of the borrowings obtained directly or indirectly from shareholders or persons related to shareholders exceeds 3 (three) times of the shareholders equity at any time during the year, the exceeding portion of the borrowing will be considered as thin capital. In this debt / equity test, the shareholders equity is measured as of the beginning of the year.

When **thin capitalization** rules are applied, the interest, foreign exchange losses and other similar expenses related to the related party debt (exceeding 3 times of the equity) will be treated as disallowable expense. Furthermore, in the case where the loan is regarded as thin capital, the related interest payments will be further re-characterized as “deemed profit distribution” to the related party and subjected to dividend withholding tax.

Borrowings obtained from 3rd parties are not within the scope of thin capitalization rules (except for loans obtained from 3rd parties in return for the cash collateral provided by the shareholders or related parties).

7.3.2. Transfer Pricing

International and domestic operations of companies are also subject to transfer pricing. Turkish **transfer pricing rules** are in line with OECD transfer pricing guidelines and the OECD Model Tax Convention. Under the arm’s length principle, related parties must set the transfer prices for purchase and sale of goods and services as if they would have been agreed between unrelated parties.

Related party defines as direct or indirect attachment in the management or control, shareholder/ownership relations, transactions with foreign entities which are based in tax heavens or in jurisdictions that provide harmful tax regimes.

Transfer pricing methods for determination of arm’s length transfer prices are:

- a) Comparable uncontrolled price method (CUP),
- b) Cost plus method,

- c) Resale price method,
- d) Other appropriate methods determined by taxpayers considering the nature of the transaction.

Documentation requirements For Transfer Pricing

Turkish taxpayers should keep the documentary evidence within the company in case of any request by tax authorities Annual transfer pricing form (as an attachment to the annual corporate tax return) and annual transfer pricing report are compulsory for transfer pricing documentation.

Advance certainty

The prices applied and methods used for determination of the arm's length prices could be agreed with the Ministry of Treasury and Finance in form of an approval/agreement request in advance.

Agreements concluded with Turkish Tax Authorities in this respect will be valid for a three-year period given that the conditions represented in the request do not change.

Tax Outcome of Transfer Pricing

The amount which is deemed as distributed in a disguised manner via transfer pricing are regarded as non-deductible for corporate income tax purposes. Profits from such transactions are dividends distributed and be subject to dividend withholding tax. Dividend withholding tax calculated will also be non-deductible.

7.3.3. Controlled Foreign Company

Corporation Tax law of Article 7 explains **controlled foreign company (CFC)** which is a corporate entity that is registered and conducts business in a different jurisdiction or country than the residency of the controlling owners. Even these CFC entities do not distribute profit, their profit is assumed to be distributed to Turkish company which has at least %50 percent share of foreign entity.

7.4. Value Added Tax (VAT)

VAT was introduced in Turkey with Law no. 3065 and like practices in the other European Union member states. Companies must calculate VAT on its sales, which is an important tax revenue for the government. Companies will pay VAT (input) to its suppliers on the invoices of suppliers, which will be deducted from calculated (output) VAT. If output VAT is greater than input VAT, the balance is payable to tax office. If input is greater than output, then the balance is carried forward as input VAT to the following period. Payable VAT occurs if output VAT is greater than the input VAT. The carried forward input VAT will be carried on the balance sheet to be offset against output VAT generated on the sales. The carried forward VAT cannot be claimed as tax refund from the Tax Office.

7.4.1. Subject

Following transactions are the subject of VAT.

- Delivery of goods and services from commercial, industrial or agricultural activities and professional services.
- Goods and services imported from abroad.
- Deliveries of goods and services caused by other activities.

7.4.2. Exemptions

Because of economic, social, defensive and cultural reasons some transactions have exemption from VAT. As we mentioned on incentives section of this report, there are many VAT exemptions for some specific sectors and investors. Some of these exemptions are listed below.

- Export exemption,
- Vehicles, Crude Oil Exploration, and Incentive Certificated Investments,
- Transit shipping,
- Diplomatic exemption
- Import exemption for production
- Other exemptions for social and defense purposes

Exemption for Exportation

- The goods and services delivered to a customer outside the Turkey's jurisdiction.
- VAT paid, at the time of the sale to non-resident and is recovered as soon as goods are cleared from the Turkish Customs.
- Other situations, such as if manufacturer delivers goods to exporter VAT are refunded providing that the goods are exported within 3 months of the sale.

Diplomatic Exemption

Good and Services taken by the employees of the foreign embassies are exempted from the VAT on the condition of reciprocity. Goods and services that have covered under these tax exemptions are dependent on the international agreements.

Exemption of Import

Following deliveries and services have exemption from VAT.

- Import of goods temporarily for a production process.
- Transit goods, free zone, Bonded warehouse, temporarily depots, and Customs zone services.
- Some goods, imported are exempted from VAT.

7.4.3. VAT Rate

Goods and Services are subject to VAT at rates from 1%, 8% and 18 %. The general rate is 18%. The VAT rate on leasing assets is 1%. VAT is charged on imports at normal rates.

7.4.4. VAT Deduction

VAT on the supply of the goods and services can be written off against the VAT on the purchase of goods and services if the course of the activity is the same. Any VAT left behind due to the write off can be taken forward to the next financial period but will not be refunded.

Passenger vehicles (except car-rental activities), damaged, lost goods, disallowable expenses, goods are not subject to tax or exempted from tax deduction is not applicable.

7.4.5. VAT Declaration and Payment

VAT is calculated and controlled on monthly basis. VAT on transactions is declared until 24 and paid until 26 th of the following month. VAT on import goods is paid to customs at the time of import.

7.5. Excise Tax

Law number 4760 redesigns indirect taxes imposed on consumption. This law simplifies taxes on consumption. Secondhand sales are not subjected to this tax. General rule is to collect a sales tax on the first purchase of a good. Diplomatic exemption is valid for this tax. Exemption and tax deduction will be applied for exports of the goods which are subject to Excise Tax. Vehicles imported or purchased for defense purposes, vehicles sold for disabled persons, goods delivered for oil extraction and production are also exempted from Excise Tax. This Law is on effect from August the first 2002. The Excise Tax has become one of the significant source of income among total tax revenue of Turkey.

There are mainly 4 different product groups that are subject to special consumption tax at different tax rates:

List I : Petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents

List II : Automobiles and other vehicles, motorcycles, planes, helicopters, yachts

List III: Tobacco and tobacco products, alcoholic beverages

List IV: Luxury products

Unlike VAT, which is applied on each delivery, special consumption tax is charged only once. According to the Excise Tax Law, the following in the lists attached to this law hereby shall be subject to Excise Tax for once.

List I: The importers of the goods set out in the list No (I), or the delivery of such goods by the producers including refineries,

List II: Initial acquisition of the goods set out in the list No (II), subject to recording and registration,

List III: Importation of the goods set out in the list No (II) and that are not subject to recording and registration, as well as the goods indicated in the lists (III) and (IV) and delivery of such goods by its producers and constructors,

List IV: Sale of goods set out in the Lists (I) , (III) and (IV) , and those from the list No (II) that are not subject recording or registration by way of auction prior to imposition of special consumption tax.

7.6. Other Taxes

There is no tax liability in import and export, and selling and buying of valuable mines, stones, diamonds, and belongings. For international transportation, banking, insurance, services invest to abroad and other invisible transactions, money transfers, foreign currency allocations and transfers is done by bank and private finance institutions in respect to codes of Central Banks. Incomes of purchased or owned real estate properties of non-residents are freely transferred by banks and private finance corporations.

7.6.1. Property Taxes

Property taxes are paid each year on the tax values of land and building at rates varying from 0.1% to 0.3%. In the case of the sale of property, 2 % property tax is accrued and paid on the sales value separately by both the buyer and the seller. The rate is 0 % if the property is contributed as capital-in-kind.

7.6.2. Inheritance Tax

Items acquired as gifts are subject taxes between 10% and 30%. The goods, money or real estate owned by a transition is subject to transition tax. The inherited estate was subject to inheritance tax but with a recent change in the law they are exempted.

7.6.3. Motor Vehicle Tax

Owners of vehicles pay vehicle tax in two equal installments every year according to production year of the car and the size of engine.

7.6.4. Bank and Insurance Transactions Tax

The transactions of licensed banks and insurance companies are generally exempt from the VAT, but are subjected to the Banking and Insurance Transactions Tax (BITT) at a rate of 5%, for foreign exchange transactions and non-physical gold transactions are subject to rate of 0,2 % which is due on the gains of such transactions. The purchase of goods and services by banks and insurance companies are subjected to the VAT, but this is considered an expense or cost item. Therefore, it is not recoverable (i.e., for VAT purposes, by offsetting against the output VAT) in the hands of these corporations.

7.6.5. Stamp Tax

According to the stamp duty regulations, for the agreements signed in Turkey, taxable event occurs when the documents are signed. In the case of agreements signed abroad, it may be claimed that no stamp tax arises until the agreement is brought into Turkey to be submitted to the official departments or until the terms of the document are benefited from in Turkey. Definition of "benefiting from the terms of the agreement" is very broad under stamp tax regulations and if the agreement is exercised and the outcome is reflected in the legal books, the provisions of this agreement are deemed to be benefited from in Turkey. Likewise, the usage of this document to prove or support any rights, obligations or actions might be understood as being within the scope of "benefiting from the provisions of the agreement". Stamp tax is payable by the parties who sign a document. Parties to a taxable document are jointly responsible for the payment of stamp tax. On the other hand, stamp tax arising from documents signed between official departments and real persons/legal entities are paid by the real persons/legal entities. Each signed copy of the agreement is separately subject to stamp tax.

Loan agreements and related documents are within the scope of stamp duty but exempted under certain conditions. Loan agreements signed with banks (both resident banks and non-resident banks) and financial institutions and guarantees, collaterals and pledges related to them will be exempt from stamp duty. Stamp tax is a deductible expense for corporate tax purposes.

7.6.6. Private Communication Tax

All kinds of the communication services, such as set up, transfer, communications, connections and ect., of mobile telephone and other telecom operators and internet providers etc., are subject to the Private Communication Tax at 7,5 %. The taxpayers are the consumers, but the telecom companies declare and pay these taxes. The tax base is the same with the VAT tax base and is declared 15th day of each month and paid.

7.7. Double Taxation Treaties

Turkey has a broad double tax treaty network that allows for the avoidance of double taxation. Individuals and companies that produce income both in Turkey and in the other signatory country benefit from reduced tax rates and withholding taxes. Turkey has signed tax treaties with the following countries to prevent double taxation on income, which has already been taxed.

LIST OF COUNTRIES WITH WHICH TURKEY HAS SIGNED AVOIDANCE OF DOUBLE TAXATION

	Country	Date Signature	Official Gazette	Date Entry Force	Date Implémentation
1	Austria	03.11.1970	01.08.1973 – 14612	24.09.1973	01.01.1974
	Revised	28.03.2008	26.06.2009 27270	01.10.2009	01.1.2010
2	Norway	16.12.1971	21.12.1975 – 15445	30.01.1976	01.01.1977
	Revised	15.01.2010	28.05.2011 27947	15.6.2011	01.1.2012
3	South Korea	24.12.1983	02.10.1985 - 18886	25.03.1986	01.01.1987
4	Jordan	06.06.1985	15.07.1986 - 19165	03.12.1986	01.01.1987
5	Saudi Arabia (*)	09.11.2007	03.02.2009- 27130	01.04.2009	01.01.2010
6	Tunisia	02.10.1986	30.09.1987 - 19590	28.12.1987	01.01.1988
7	Romania	01.07.1986	21.08.1988 - 19906	15.09.1988	01.01.1989
8	Holland	27.03.1986	22.08.1988 - 19907	30.09.1988	01.01.1989
9	Pakistan	14.11.1985	26.08.1988 - 19911	08.08.1988	01.01.1989
10	Great Britain	19.02.1986	19.10.1988 - 19964	25.10.1988	01.01.1989
11	Finland	09.05.1986	30.11.1988 - 20005	30.12.1988	01.01.1989
12	Turk. Rep. N. Cyprus	22.12.1987	26.12.1988 - 20031	30.12.1988	01.01.1989

13	France	18.02.1987	10.04.1989 - 20135	01.07.1989	01.01.1990
14	Germany (cancelled)	16.04.1985	09.07.1986 - 19159	31.12.1989	01.01.1990
	Germany (new)	19.09.2011	24.01.2012-28183	01.08.2012	01.01.2011
15	Sweden	21.01.1988	30.09.1990 - 20651	18.11.1990	01.01.1991
16	Belgium	02.06.1987	15.09.1991 - 20992	08.10.1991	01.01.1992
17	Denmark	30.05.1991	23.05.1993 - 21589	20.06.1993	01.01.1991
18	Italy	27.07.1990	09.09.1993 - 21693	01.12.1993	01.01.1994
19	Japan	08.03.1993	13.11.1994 - 22110	28.12.1994	01.01.1995
20	U.A.E.	29.01.1993	27.12.1994 - 22154	26.12.1994	01.01.1995
21	Hungary	10.03.1993	25.12.1994 - 22152	09.11.1995	01.01.1993
22	Kazakhstan	15.08.1995	08.11.1996 - 22811	18.11.1996	01.01.1997
23	Macedonia	16.06.1995	07.10.1996 - 22780	28.11.1996	01.01.1997
24	Albania	04.04.1994	05.10.1996 - 22778	26.12.1996	01.01.1997
25	Algeria	02.08.1994	30.12.1996 - 22863	30.12.1996	01.01.1997
26	Mongolia	12.09.1995	30.12.1996 - 22863	30.12.1996	01.01.1997
27	China	23.05.1995	30.12.1996 - 22863	30.12.1996	01.01.1997
28	India	31.01.1995	30.12.1996 - 22863	30.12.1996	01.01.1994
29	Malaysia	27.09.1994	30.12.1996 - 22863	31.12.1996	01.01.1997
30	Egypt	25.12.1993	30.12.1996 - 22863	31.12.1996	01.01.1997
31	Poland	03.11.1993	30.12.1996 - 22863	01.04.1997	01.01.1998
32	Turkmenistan	17.08.1995	13.06.1997 - 23018	24.06.1997	01.01.1998
33	Azerbaijan	09.02.1994	27.06.1997 - 23032	01.09.1997	01.01.1998
34	Bulgaria	07.07.1994	15.09.1997 - 23111	17.09.1997	01.01.1998
35	Uzbekistan	08.05.1996	07.09.1997 - 23103	30.09.1997	01.01.1997
36	USA	26.03.1996	31.12.1997 - 23217	19.12.1997	01.01.1998
37	Belarus	24.07.1996	22.04.1998 - 23321	29.04.1998	01.01.1999
38	Ukraine	27.11.1996	22.04.1998 - 23321	29.04.1998	01.01.1999
39	Israel	14.03.1996	24.05.1998 - 23351	27.05.1998	01.01.1999
40	Kuwait	06.10.1997	28.11.1999 - 23890	13.12.1999	01.01.1997
41	Russia	15.12.1997	17.12.1999 - 23909	31.12.1999	01.01.2000
42	Slovakia	02.04.1997	03.10.1999 - 23835	02.12.1999	01.01.2000
43	Indonesia	25.02.2000	15.02.2000-24045	18.05.2000	01.01.2001
44	Lithuania	24.11.1998	10.05.2000-24045	17.05.2000	01.01.2001
45	Croatia	22.09.1997	10.05.2000-24045	18.05.2000	01.01.2001
46	Moldavia	25.06.1998	25.07.200-24120	28.07.2000	01.01.2001
47	Singapore	09.07.1999	18.07.2001-24466	27.08.2001	01.01.2002
48	Kyrgyzstan	01.07.1999	12.12.2001-24611	20.12.2001	01.01.2002
49	Tajikistan	06.05.1996	24.12.2001-24620	26.12.2001	01.01.2002

50	Sudan	26.08.2001	17.09.2003 - 25232	31.01.2005	01.01.2006
51	Czech Republic	12.11.1999	15.12.2003 - 25317	16.12.2003	01.01.2004
52	Spain	05.07.2002	18.12.2003 - 25320	18.12.2003	01.01.2004
53	Bangladesh	31.10.1999	15.12.2003 - 25317	23.12.2003	01.01.2004
54	Latvia	03.06.1999	22.12.2003 - 25324	23.12.2003	01.01.2004
55	Slovenia	19.04.2001	23.12.2003 - 25325	23.12.2003	01.01.2004
56	Greece	02.12.2003	02.03.2004 - 25390	05.03.2004	01.01.2005
57	Syria	06.01.2004	28.06.2004 - 25506	21.08.2004	01.01.2005
58	Thailand	11.04.2002	08.01.2005 - 25694	13.01.2005	01.01.2006
59	Luxemburg	09.06.2003	08.01.2005 - 25694	18.01.2005	01.01.2006
60	Estonia	25.08.2003	04.07.2004 - 25512	21.02.2005	01.01.2006
61	Iran	17.06.2002	09.10.2003 - 25254	27.02.2005	01.01.2006
62	Morocco	07/04/2004	22.06.2005 - 25853	18/07/2006	01/01/2007
63	Lebanon	12/05/2004	17.08.2006 - 26262	21/08/2006	01/01/2007
64	Republic of South Africa	03/03/2005	20.11.2006 - 26352	06/12/2006	01/01/2007
65	Portugal	11/05/2005	15.12.2006 - 26377	18/12/2006	01/01/2007
66	Serbia	12/10/2005	08/08/2007 - 26607	10/08/2007	01/01/2008
67	Ethiopia	02/03/2005	09/08/2007 - 26608	14/08/2007	01/01/2008
68	Bahrain	14/11/2005	21.08.2007 - 26620	02/09/2007	01/01/2008
69	Qatar	25/12/2001	05.02.2008 - 26778	11/02/2008	01/01/2009
70	Bosnia Herzegovina	16/02/2005	08.04.2007 - 26487	18/09/2008	01/01/2009
71	Saudi Arabia*	09/11/2007	03.02.2009 - 27130	01/04/2009	01/01/2010
72	Georgia	21/11/2007	10.02.2010 - 27489	15/02/2010	01/01/2011
73	Oman	31/05/2006	13.03.2010 - 27520	15/03/2010	01/01/2011
74	Yemen	26/10/2005	13.03.2010 - 27520	15/03/2010	01/01/2011
75	Ireland	24/10/2008	10.08.2010 - 27668	18/08/2010	01/01/2011
76	New Zeland	22/04/2010	04.07.2011 - 27984	28/07/2011	01/01/2011
77	Canada	14/07/2009	29.04.2011 - 27919	04/05/2011	01/01/2012

(*) This agreement covers exclusively the activities of air transport enterprises

The agreement with Germany is not valid anymore new agreement is pending for the approval of TGNA.

8. Foreign Investment Regulation

8.1 Foreign Direct Investment Law

ACT Law No. 4875

Date of Endorsement:05.06.2003

Objective and scope

Article 1

The objective of this Law is to regulate the principles to encourage foreign direct investments; to protect the rights of foreign investors; to define investment and investor in line with international standards; to establish a notification-based system for foreign direct investments rather than screening and approval; and to increase foreign direct investments through established policies. This Law establishes the treatment to be applied to foreign direct investments.

Definitions

Article 2

The terms used in this Law shall have the following meanings:

a. Foreign investor:

1. Real persons who possess foreign nationality and Turkish nationals resident abroad, and
2. Foreign legal entities established under the laws of foreign countries and international institutions, who make foreign direct investment in Turkey.

b. Foreign direct investment:

1. Establishing a new company or branch of a foreign company by foreign investor,
2. Share acquisitions of a company established in Turkey (any percentage of shares acquired outside the stock exchange or 10 percent or more of the shares or voting power of a company acquired through the stock exchange) by means of, but not limited to the following economic assets:
 - i. Assets acquired from abroad by the foreign investor:

- Capital in cash in the form of convertible currency bought and sold by the Central Bank of the Republic of Turkey,
 - Stocks and bonds of foreign companies (excluding government bonds),
 - Machinery and equipment,
 - Industrial and intellectual property rights;
- ii. Assets acquired from Turkey by foreign investor:

- Reinvested earnings, revenues, financial claims, or any other investment-related rights of financial value,
 - Commercial rights for the exploration and extraction of natural resources.
- c)The Undersecretariat: The Undersecretariat of Treasury.

Principles concerning foreign direct investments

Article 3

a) Freedom to Invest and National Treatment

Unless stipulated by international agreements and other special laws:

1. Foreign investors are free to make foreign direct investments in Turkey,
2. Foreign investors shall be subject to equal treatment with domestic investors.

b) Expropriation and Nationalisation

Foreign direct investments shall not be expropriated or nationalised, except for public interest and upon compensation in accordance with due process of law.

c) Transfers

Foreign investors can freely transfer abroad: net profits, dividends, proceeds from the sale or liquidation of all or any part of an investment, compensation payments, amounts arising from license, management and similar agreements, and reimbursements and interest payments arising from foreign loans through banks or special financial institutions.

d) Access to Real Estate

[Annuled]

e) Dispute Settlement

For the settlement of disputes arising from investment agreements subject to private law and investment disputes arising from public service concessions contracts and conditions which are concluded with foreign investors, foreign investors can apply either to the authorised local courts, or to national or international arbitration or other means of dispute settlement, provided that the conditions in the related regulations are fulfilled and the parties agree thereon.

f) Valuation of Non-Cash Capital

Non-cash capital is valued within the regulations of Turkish Commercial Law. In case that stocks and bonds of companies established abroad are used as foreign capital share of foreign investors, the values determined by the relevant authorities in the home country, or by the experts designated by the courts of the home country, or any other international institutions performing valuations will be accepted.

g) Employment of Expatriates

Work permits are issued by the Ministry of Labour and Social Security for foreign personnel to be employed in the companies, branches and entities established within the scope of this Law.

In accordance with the Article 23 of the Law on Work Permits for Foreigners No. 4817 dated 27 February 2003, the definition of the key personnel within the scope of the Regulation the companies and the entities with foreign capital which shall be in the context of the Regulation, and other special procedures and principles concerning the work permits of the key personnel will be determined in a Regulation to be prepared jointly by the Undersecretariat of Treasury and the Ministry of Labour and Social Security, Provisions stipulated in Article 14, paragraph 1, sub-paragraph (b) of Law No. 4817 will not be applicable to those personnel to be employed within the context of this Regulation. The conditions under which the provisions stipulated in paragraph 1 of Article 13 of Law No. 4817 are to be applied to key foreign personnel employed will be specified in the Regulation.

h) Liaison Offices

The Undersecretariat is authorised to permit foreign companies established under the laws of foreign countries to open liaison offices, provided that they do not engage in commercial activities in Turkey.

Determination of policies and data collection

Article 4

Considering the objectives of the development plans and annual programs, the general economic status of the country, trends in international investments and the opinions of the relevant public institutions and private sector professional organisations, the Undersecretariat is authorised to determine the general framework of policies concerning foreign direct investments, and for this purpose to participate in the activities of other organisations. The consent of the Undersecretariat shall be taken before any amendment or enactment of a regulation related with foreign direct investments. For the purpose of establishing and developing an information system related to foreign direct investments, the Undersecretariat is authorised to request statistical information concerning the investments from all public establishments and institutions and private sector professional organisations. Foreign investors shall

submit the statistical information on their investments according to the procedures and principles to be determined by a regulation to be enacted by the Undersecretariat. Such information cannot be used as evidence other than for statistical purposes.

Other provisions

Article 5

a) Existing Companies with Foreign Capital

The companies with foreign capital established pursuant to Law No. 6224 dated 18 January 1954 shall be subject to this Law, reserving their granted rights.

b) Regulations

The implementing principles for this Law will be determined in a regulation to be prepared by the Undersecretariat within one month following the publication of the Law.

c) Repealed Provisions

The Law for Encouragement of Foreign Capital No. 6224 dated 18 January 1954 is repealed.

The references made to Law No. 6224 in the legislation are considered as referring to the related provisions of this Law.

d) Any amendments concerning the articles of this Law can only be done by means of amending or appending provisions to this Law.

PROVISIONAL ARTICLE 1

The provisions of the decrees, communiqués and circulars in effect, which are in conformity with this Law, shall remain in force until new regulations for the implementation of this Law take effect.

Effectiveness

Article 6

This Law shall come into force on the date of its publication.

Enforcement

Article 7

The provisions of this Law shall be enforced by the Council of Ministers.

8.2. Directive for Implementation of Foreign Direct Investment Law

From Ministry of State:

Objective and Scope

Article 1 – The objective of this Directive is to designate the procedures and principles of the issues that lay within Foreign Direct Investment (FDI) Law no. 4875 dated 5 June 2003.

Basis

Article 2 – This Directive is prepared as based upon Article 5, Paragraph (b) of FDI Law no. 4875.

Definitions

Article 3 – With regard to the implementation of this Directive;

Under secretariat means, the under secretariat of Treasury,

General Directorate means, the General Directorate of Foreign Investment,
Law means, Foreign Direct Investment (FDI) Law no. 4875, dated 5 June 2003.

Statistical Data to be provided from Authorities and Institutions

Article 4 - The Under secretariat provides FDI data through Data Sharing Protocols it will set up primarily with Central Bank of Turkey, Capital Market Board, Ministry of Industry and Commerce, Ministry of Finance, TOBB, Trade Registry Offices and other related public authorities and institutions and occupational organizations and NGOs deemed as public institutions, or through other procedures.

Within this framework, the related Trade Registry Offices will send to the undersecretariat;

- a) One copy of the “Company or Branch Office Establishment Declaration and Petition Form” to be filled by related persons,
- b) One copy of the amendment in articles of association of these companies, subject to registry and announcement,
- c) One copy of the “Register of Shareholders” or “Register of Attendants” of these companies submitted to the Trade Registry Offices.

Data to be Requested from Companies and or Branch Offices

Article 5 - a) Companies and branch offices subject to the provisions of the Law will submit to the General Directorate;

- 1) Information on their capitals and operations by means of the “FDI Form for Operations” given as Annex I of the Directive, on annual basis every year until end of May,
- 2) Information on the payments made to their share accounts by means of the “FDI Capital Data Form” given as Annex II of the Directive, within 1 month following each payment,
- 3) Information on share transfers made by domestic or foreign shareholders among each other or made to any domestic or foreign investor outside the company, by means of the “FDI Share Transfer Data Form” given as Annex III of the Directive, within 1 month following the share transfer,

b) Local invested companies, which are not subject to the provisions of the Law, submit the “FDI Share Transfer Data Form” given as Annex III of the Directive, to the General Directorate within 1 month following the share transfer;

- 1) In case a foreign investor participates in the company, or
- 2) In case the company becomes subject to the provisions of the Law due to the participation of a foreign investor from outside the company during the capital increase accomplished by the company.

Establishment of Liaison Offices

Article 6 – The Under secretariat is authorized to grant permits and extend such permits to companies established in accordance with laws of foreign countries to open liaison offices in Turkey, provided that they do not carry out commercial activities in Turkey.

Applications for establishment and extension will be finalized within 5 days following the application, provided that the necessary information / documents are complete and proper.

Applications of foreign companies to open liaison offices so as to operate in sectors subject to special legislation, such as money and capital markets, insurance, etc., will be assessed by authorities and institutions authorized by the related special legislation.

Application Documents

Article 7 – The following documents have to be submitted to the under secretariat for establishing a liaison office in Turkey:

- a) The original copy of “Certificate of Business Activity” approved by the related Turkish Consulate or as per the Den Haag International Law Conference Treaty on Abolishment of the Requirement for Endorsement of Official Documents,
- b) Operational report or balance sheet and income statement of the main company,
- c) Original power of attorney issued to the name of the person who will carry out the operation of the liaison office,

- d) Original power of attorney in case another attorney will carry out the establishment transactions of the liaison office.

Provisions Regarding Liaison Office Operations

Article 8 – The following provisions govern to the operations of liaison office:

- a) Liaison offices, after receiving their opening permit, send a copy of the tax office registration record to the General Directorate within 1 month latest. Liaison offices have to notify the General Directorate of any change of address within 1 month latest.
- b) Liaison offices send the “Data Form for Liaison Office Activities” given as Annex IV of the Directive to the under secretariat, every year until end of May, to cover the activities of previous years. Documents certifying that the previous years’ expenses of the office have been covered by foreign currency transferred from abroad have to be enclosed as well.
- c) Liaison offices are granted operation permits of 3 years at most. For extensions, successive extensions of maximum 3 years may be granted each time by taking into consideration the activities of previous years and plans and objectives for the future.
- d) In the event a liaison office terminates its activities, the “termination of business examination note” to be received from the related tax office has to be submitted to the General Directorate. Liaison offices cannot claim any money transfer except the residue arising due to termination or liquidation.
- e) The Under secretariat will cancel the opening permits of liaison offices ascertained to have violated the legislation and will notify related authorities thereof.

Company Types

Article 9 – The companies, which can be established by or participated in foreign investors are “companies” defined in the Turkish Commercial Code and “unincorporated partnerships” defined in Turkish Code of Obligations.

Partnerships established through agreements under names such as ordinary partnerships, consortiums, business partnerships, joint ventures that do not conform to the explicit features of the company types defined in the Turkish Commercial Code are deemed unincorporated partnerships for the purposes of this Law.

Turkish Citizens Residing Abroad

Article 10 – Turkish Citizens certifying that they are residing abroad by means of work and residence permits are regarded foreign investors with regard to the implementation of this Law.

Changes in Data Forms

Article 11 – The General Directorate is authorized to make any changes in the data forms annexed to this Directive.

Provisional Article 1 –The General Directorate is authorized to deal with the Investment Permits issued in accordance with Foreign Investment Encouragement Law No: 6224 and Foreign Investment Framework Resolution that was put into effect by Council of Ministers’ Decree No: 95/6990 on 7 June 1995 and the Directive concerning this Decree, until the investments involved are finalized and provided that the acquired rights are uphold.

Effectiveness

Article 12 – This Directive will become effective on the date of its publication

Enforcement

Article 13 – The provisions of this Directive will be enforced by the Ministry of State to which the under secretariat of Treasury is associated.

9. Key Questions Regarding Turkey's New Foreign Direct Investments Law

1 - Why has Turkey introduced a new Foreign Direct Investment Law now?

The new Law is an integral part of a broader national reform program that is laying the foundation for sustainable growth and development, driven by private investments in a transparent marketplace fully open to the world and supported by a smaller but more effective State. To ensure that Turkey's bold fiscal adjustment and ambitious structural reforms translate into substantial investments, the Government of Turkey is focusing on improving the investment climate as one of the main pillars of its economic program. In addition to the introduction of a more investor-friendly new Law, the Government of Turkey has established by decree an inter-governmental Coordination Committee for the Improvement of the Investment Climate (YOIKK), composed of high-level representatives of relevant ministries, the private sector and NGOs to help remove remaining bureaucratic obstacles to investment. The Government of Turkey also intends to set up a well-funded new Investment Promotion Agency simultaneously able to work inside government and draw on private sector knowledge and market skills, to carry out a multi-year strategy to promote investment in Turkey.

2 - What is 'new' about the Foreign Direct Investment Law?

Key features of the new Foreign Direct Investment Law include:

- Freedom to invest by dropping all former FDI-related screening, approval, share transfer and minimum capital requirements;
- Reassurance of existing guarantees to foreign investors of their rights in one transparent and stable document;
- Upgrading to accepted international standards for definitions of 'foreign investor' (broadened to include Turkish national residents abroad and international organizations) and 'foreign direct investment' (broadened to include all possible types of assets); and
- A policy shift from ex-ante control to a promotion and facilitation approach with minimal ex-post monitoring to continuously improve an investor-friendly climate for growth and development.

3 - What rights do foreign investors have under the new Law?

The new Law guarantees national treatment and comprehensive investor rights.

All companies established with a foreign capital contribution and under the rules of the Turkish Commercial Code (existing and newly established foreign companies) are regarded as a Turkish company. Therefore equal treatment both in rights and

responsibilities as stated in the Constitution and other laws is applicable to all such companies (including national treatment, a guarantee against expropriation without compensation, transfer of proceeds, access to real estate and to expatriate personnel, and international arbitration or any other means of dispute settlement).

4 - Will investors be exempted from permits formerly granted by GDFI?

Yes, previous pre-permits issued by the under secretariat of Treasury's General Directorate of Foreign Investment (GDFI) are abolished. However, all foreign companies established or to be established in Turkey are still responsible for obtaining those local licenses required for a comparable Turkish company.

5 - Which permits formerly granted by GDFI will not be issued from now on?

- Company and Branch establishment Pre-Permits
- Foreign partner participation Pre-Permits
- Investment Permits
- Permits regarding changes in field of activity of foreign companies
- Permits regarding capital increase or sale of shares of foreign companies
- Indirect participation Permits
- Registrations of license, know-how, technical assistance and similar agreements

6 - What is new for establishing a company in Turkey for foreign investors?

Entry conditions are the same as for comparable local Turkish companies.

- There is no minimum amount of capital required. It is no longer obligatory to bring a minimum of \$50,000 in share capital.
- Any form of company included in the Turkish Commercial Code is acceptable. It is no longer obligatory to establish either a limited liability company or joint stock company.

7- Do foreign investors have access to real estate in Turkey?

Companies having a legal entity with foreign capital in Turkey have the same rights to own or use land as domestic investors. The new Law reassures these rights. However, the principle of reciprocity is still valid for foreign real persons.

8 - Is there a new regulation for liaison offices?

No, there are no additional requirements. The establishment procedure of liaison offices has not changed.

9 - Is there a new regulation for establishment of branches of foreign companies?

Yes, pre-permits issued by General Directorate of Foreign Investment are abolished. These branches can be established under rules of Turkish Commercial Code with the permit of Ministry of Industry and Trade.

10 - What will happen to foreign companies established in Turkey under the provisions of the previous Law No. 6224?

All companies with foreign capital established under Law No. 6224 (dated 18 January 1954) are subject to the new Law, with their previously-granted rights grandfathered. Therefore they will no longer require any approvals from GDFI, though they will now have to send yearly information forms (just like newly-established foreign companies) based on procedures to be determined by new regulations

10. Documents Required For The Establishment Procedures of Joint Stock and Limited Liability Companies

- A-** Petition and form for company establishment notification, the exemplar of which is given in Annex 4 of this Communiqué, duly filled in and signed by persons authorized to represent the company,
- B-** Notarized articles of association; one original and 2 copies,
- C-** Notarized signatures of persons authorized to represent the company together with the company trade name,
- D-** Letter of Commitment in accordance with Article 29 of the Trade Registry Regulation,
- E-** Bank receipt of the deposit paid to the Consumers' Fund account, amounting to one thousandth of the company capital,
- F-** For joint stock companies specified in Article 5 of this Communiqué, the original letter of permit of the Ministry,
- G-** Certified copies of the ID certificates of the real person founders, and their residence certificates.

In addition to the ones listed above, the following documents have to be attached to the petition where necessary:

- For joint stock companies that is obligated to establish with paid-up capital owing to the relevant special legislation and for companies that are obligated by their articles of association for payment of capital at the establishment stage; receipt from the bank or the private finance institution certifying the capital payment.
- In case the company being established is to operate in fair and exposition business; documents certifying that the shareholders and officials who are authorized to represent the company although not being shareholders, have not gone bankrupt, have not applied for insolvency agreement or been convicted of infamous crimes such as embezzlement, peculation, extortion, bribery, theft, swindling, forgery, abuse of confidence, fraudulent bankruptcy, with the exception of negligent offenses.
- In case the company is being established by way of a change in kind; expert report of the assessment made to ascertain the equity capital of the company and the related court decision for expert assignment.

- In case the company that changes kind is a collective or a commandite partnership; letter from the tax office that the shareholders of the company are free from any tax debts.
- In case there are any rights and movable and immovable assets to be put in as capital for a company to be established; expert report of the assessment made to ascertain the value of these and the related court decision for expert assignment.
- In case there are any securities put in as capital for a company to be established; expert report of the assessment made to ascertain these and the related court decision for expert assignment or Sworn Financial Auditor (YMM) report.
- In case stocks of companies established overseas are being put in as capital by foreign shareholders; the original copy of the document issued by the institutions authorized for value assessment in accordance with the laws of the country of origin or experts assigned by the courts of the country of origin or by international rating companies, approved by the related Turkish Consulate or approved in accordance with the provisions of the Convention on the Abolishing the Requirement of Legalization for Foreign Official Documents Approval Obligation, prepared on the basis of the Hague Conference on International Private Law and its Turkish translation.
- In case there are any real persons of foreign citizenship among the founders of the company, the Xerox copy of his/her passport to be presented together with the passport itself or its notarized copy. In case the foreign shareholder(s) is a legal entity; the original copy of Certificate of Business Activity issued by the chamber of industry and/or commerce the company is registered at or by the authorized courts, approved by the related Turkish Consulate or approved in accordance with the provisions of the Convention on the Abolishing the Requirement of Legalization for Foreign Official Documents Approval Obligation, prepared on the basis of the Hague Conference on International Private Law and its notarized translation.
- In case the capital in kind is an immovable asset; letter from the land registry office that there is no restriction on the subject immovable; as for vehicles, letter from the related traffic office that there is no limitation for property transfer.
- In case there are any municipalities or such other local administrations or unions established by such among the founders of the company to be established, a copy of the related Council of Ministers' decree permitting their participation.

- Since Turkish citizens residing abroad are deemed as foreign investors in accordance with the Foreign Direct Investment Law No: 4875, in case these persons apply at the Trade Registry Offices for investing within the framework of the law, work and residence permits of these citizens.

Registry outline from the related chamber to accompany the reports prepared by occupational members licensed in accordance with Law No: 3568.