



**DOING BUSINESS
IN TURKEY.COM**
We Know Turkey

The Guide

2019



Foreword

Welcome to Doing Business in Turkey Guide.

Although we live in a global world, doing business in a foreign country has always been a challenging process. Every country has its own cultural and legal factors that make this process more complicated. Especially Turkey, a bridge between continents and the first stop of global entrepreneurs who are looking to open up to the world, too has its own unique business culture and laws created during its history.

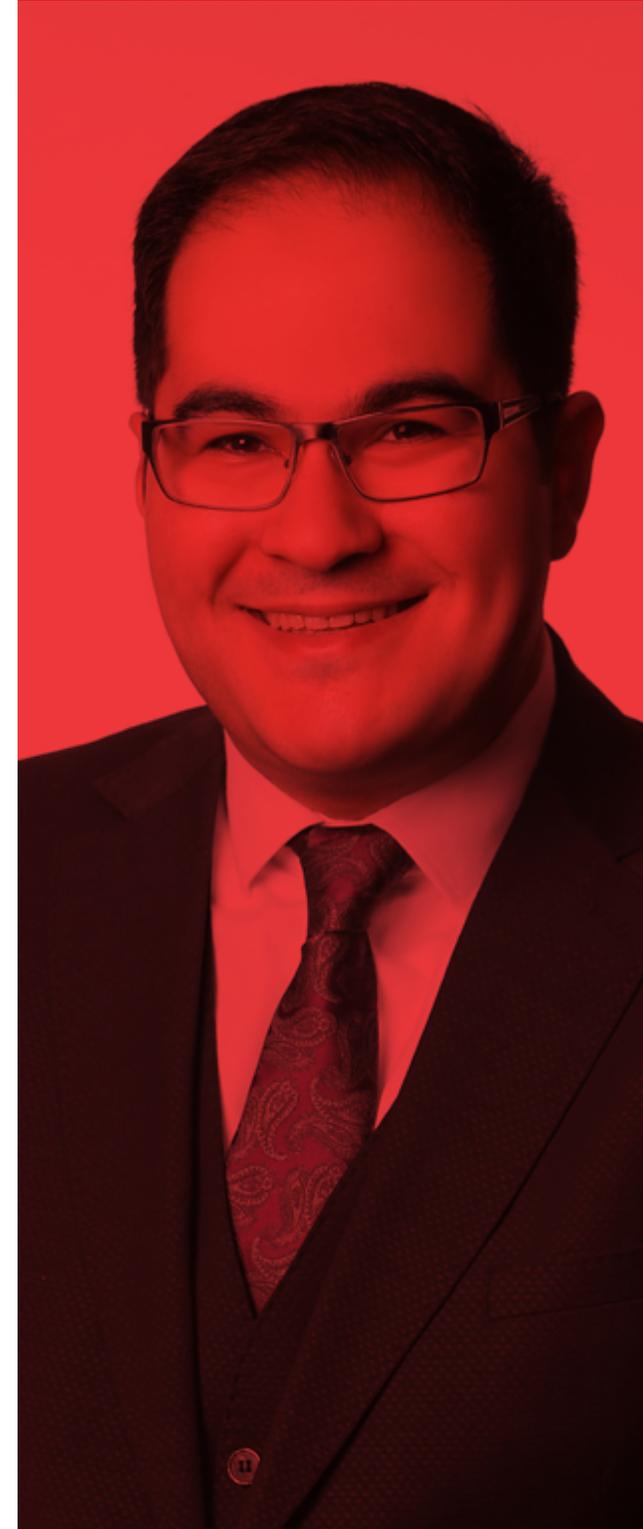
In this context, our main objective is helping global entrepreneurs to have smooth business experience in Turkey in the light of the experience that we gained in our group firms serving comprehensive corporate services to global entrepreneurs since 1995 and with the view of “To be a reliable partner in fulfilling the needs of the global entrepreneurs in most qualified way”.

We are delighted to share this Doing Business in Turkey Guide with you, which we believe is one of the instruments that can be used to achieve this objective. Our hope is that The Guide we prepared will help global entrepreneurs who are planning to do business or already doing business in Turkey.



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Companies



Business Structures

A. Types of Legal Entity

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

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

Joint Stock Company

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

There must be at least one shareholder (a real person or a legal entity) and a minimum capital of TRY 50.000 is mandatory. The initial capital in non-public joint stock compa-

nies with a registered capital system cannot be less than TRY 100.000; value per share in both cases cannot be less than TRY 0,01. At least 25% of the nominal value of the shares subscribed in cash must be paid before registration with the Trade Registry.

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

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

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

Some joint stock companies are subject to special permission from the Ministry of Customs and Trade in establishment process.

Limited Liability Company

A limited liability company is established with at least one shareholder (a real person or a legal entity); the liability of shareholders is limited to the subscribed capital and paid by the shareholder. The number of shareholders may not exceed 50. A limited liability company can be established for any economic purpose that is not prohibited by law.

A minimum capital of TRY 10.000 is mandatory and value per share cannot be less than 25 TRY. All of the capital should be committed unconditionally by shareholders.

Articles of association should include the trade name, list of shareholders, address and business purpose of the company, the amount of capital and the amount subscribed by each shareholder. Articles of association must be signed by the shareholders in the presence of trade registry officer.

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

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

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

| | Limited liability company | Joint stock company |
|---|---|---|
| Equity | Minimum total capital requirement = TRY 10.000,00 Minimum TRY 25 per share regardless of tax residency status. | Minimum total capital requirement = TRY 50.000,00 Minimum TRY 0,01 per share regardless of tax residency status ≥25% of nominal value of shares subscribed in cash must be paid before registration |
| Control | Partners assembly meeting | General assembly of shareholders meeting |
| Legal | Independent – considered as a Turkish company | Independent – considered as a Turkish company |
| Taxable status | Liability to taxation on worldwide income. Tax resident | Liability to taxation on worldwide income. Tax resident |
| Corporate income tax | Mainstream corporate income tax at 22% | Mainstream corporate income tax at 22% |
| Dividend withholding tax | Not applicable unless profits are distributed to individual and foreign corporate shareholders | Not applicable unless profits are distributed to individual and foreign corporate shareholders |
| Listing on stock exchange | Not allowed | Allowed |
| Transfer of shares inside/outside Turkey | Allowed | Allowed |
| Availability of incentives | Yes | Yes |
| Revaluation of fixed assets | Inflation accounting | Inflation accounting |
| Inflation accounting | Applicable on non-monetary items in the case of certain conditions being realized simultaneously | Applicable on non-monetary items in the case of certain conditions being realized simultaneously |
| Billing | Billing in foreign currency to Turkish entities is not allowed Indexation of TRY amount on invoice to foreign currency is possible | Billing in foreign currency to Turkish entities is not allowed Indexation of TRY amount on invoice to foreign currency is possible |
| Foreign currency usage | Allowed | Allowed |
| Deposit account in Turkey/abroad | Allowed | Allowed |

Branch

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

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

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

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

Liaison Office

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

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

A liaison office is not subject to income tax because it is not permitted to generate any income from its activities. All the expenses generated by the liaison office must be paid abroad with foreign currency. There is withholding tax exemption for employees of liaison office if salaries are paid in foreign currency or foreign currency indexed to Turkish Lira.

B. Company Establishment Procedure and Registration Requirements

Company Establishment Procedure

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

- Register online with the MERSIS system
- Check the appropriateness of the chosen company name and the title to use
- Draw up articles of association in accordance with MERSIS requirements and obtain a tracking number from the system
- Visit a public notary or trade registry offices with the MERSIS tracking number, to have the articles of association signed by shareholders and witnessed
- Prepare founders' declaration, signed by founders
- Make the capital contribution payment, if capital is contributed by shareholders at establishment (Valid for only Joint Stock Companies beginning from 2018)
- Pay fee for protection of competition (0,04% of capital commitment)
- Apply to Trade Registry Office with MERSIS tracking number, along with all other relevant documents and statements
- If application is approved by Trade Registry Office, the company becomes a legal entity following its registration
- Prepare the signature circular of the authorized persons under the company name and notarised by a public notary or Turkish Consulates.
- Get the legal books certified by a public notary
- Prepare invoices under the conditions required by law and print them by contracted printers.

Registration Requirements

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

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

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

Registration with the Tax Office

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

Relevant tax office's officer will visit the company's registered office address to make an inspection. The company's general director (or someone who is authorized with a POA) must be physically present in the office and sign the inspection document.

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

Registration with Social Security

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

Permits from Municipal Authorities

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

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

C. Mergers & Acquisitions

Turkish market's high reputation and steady growth over the years drive an increase in M&A activities in Turkey. There were approximately 300 deals which total amount is bigger than 10 Billion \$ in 2017. This number exceeds 8 Billion \$ in the first half of 2018.

Mergers

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

When a company takes over another company that's called "merge in a form of takeover", When companies come together to form a new company, that's called "merge in a form of a new organization".

As a result of merger, the assets of the transferor company will be inherited by either transferee company or a new organization depends on the merger type.

- **In the case of merge in a form of takeover**

When both the transferor and transferee companies are tax residents and the transferee company incorporates all assets and liabilities of Transferor Company into its balance sheet on carryover basis, this type of takeover recognized as a tax free merger by Turkish Corporate Tax Law.

Transferor Company is subject to usual taxation rules for profits up to date of the merger. Any profit gained from the merger itself is not subject to tax. Transferee Company undertakes all known and unknown tax liabilities of the transferor company with the merger.

Tax loses of the transferor company can be transferred to the transferee company, if the transferee company continues the business activities of the transferor company minimum for five years following the date of the merger. But, tax losses that can be transferred to the transferee company

are limited to the shareholders equity of Transferor Company as of the date of the merger.

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

- **In the case of merge in a form of a new company**

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

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

Acquisitions

Foreign company can acquire Turkish company by acquiring either the assets or shares of the chosen company.

Acquisition of assets can be only done through a Turkish company or a Turkish branch of a foreign company. Transfer of the assets should be conducted at the fair value and the transfer between related parties should be documented according to transfer pricing requirements. Assets can be depreciated by purchased company. The sale of assets of an entity is subject to corporate tax on the gains realized from the sale of the assets. Losses arising from the sale of assets can be either deducted or carry forward.

Transfer of the assets via asset purchase agreement is subject to VAT. As-

set purchase agreement is subject to stamp tax duty at 0.948% over the contact value.

An acquisition of the shares by the foreign company has no immediate income tax but in case of selling the shares to another company or an individual can be a subject to tax.

If the shares of a company are held by an individual shareholder for more than two years; the capital gain is exempt from income tax and there is no value added tax (VAT) payable. If the shares are held by an individual shareholder for less than two years, the capital gain is subject to income tax at progressive rates of up to 35% and there is no VAT payable for Joint Stock Companies but there is VAT payable for Limited Liability Company.

If the shares are held by a corporate shareholder, the capital gain will be booked as taxable income and the net income is subject to corporation tax at 22% and no VAT is payable. Losses are available to off-set income from other activities of the company.

The share transfer agreement is subject to stamp tax at 0.948% over the sale and purchase price.

% 50 of the gains realized from the sale of real estate property can be exempted from corporation tax in case of the real estate has been held for at least two years and gains are retained in a special reserve account in the Balance Sheet for at least five years. And in the case transfer of real estate property is exempt from VAT.

An acquisition of the shares by the foreign company has no immediate

income tax but in case of selling the shares to another company or an individual can be a subject to tax.

Taxation of share transfer has many determinants:

It is related with;

Share Type: Shares to be transferred could be limited liability company share or joint stock company share or share certificate published representing joint stock company shares.

Holding Period: Taxation will be different according to holding period of shares for the owner. There are special holding period limits affecting taxation for non-residents also in Double Taxation Treaties.

This issue is one of the most complex issues in our legislation. Therefore, cases for this have to be examined specifically.

Accounting and Statutory Books

Financial records in statutory books (see Table 2) must be kept in the Turkish language, although additional records may be kept in other languages. Companies must use the Uniform Chart of Accounts in accordance with Turkish tax laws.

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

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

Table 2. Statutory books required to be kept by joint stock and limited liability companies.

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

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

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

Corporate Tax System

A. Taxation of Company Income and Capital Gains

The Turkish direct taxation system consists of two main taxes on income and earnings: income tax (for individuals) and corporate tax (for companies).

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

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

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

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

Corporate income tax is applied at a 22% rate on the corporate earnings. Taxpayers pay provisional tax at the rate of corporate tax; these payments are deducted from corporate tax of current period. Any excess payment of advance corporate tax is refunded or used to offset from other tax liabilities.

B. Determination of Net Taxable Income

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

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

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

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

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

Exemptions

The following earnings of corporations are exempted from corporate tax:

- a) Dividend income from other Turkish companies
- b) Dividend income from foreign subsidiaries or branches when certain conditions fulfilled (minimum 10 % of participation and holding minimum 1 year)
- c) 50% of the capital gains from disposal of share certificate and immovable properties that are held over 2 years
- d) Earnings of the following funds and companies that are established in Turkey:
 - Portfolio management earnings of investment funds/companies
 - Real estate investment funds/companies
 - Venture capital funds/companies
 - Pension funds
 - Housing financial funds and assets financing funds.
- e) Income from construction, restoration assembly and technical services completed abroad
- f) Income through selling companies rights or shares which are issued by A.S. companies over nominal prices
- g) 100% of research and development expenditures for new technology and information development.

C. Transfer Pricing

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

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

D. Some Important Regulations

Tax losses

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

Reimbursement of taxes paid abroad

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

Thin capitalization

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

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

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

E. Other Taxes

Value added tax (VAT)

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

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

- Taxable base

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

- Reverse charge VAT

In the event that the taxpayer is not resident or has no place of business in Turkey, the Ministry of Finance is authorized to hold any one of the people involved in a taxable transaction responsible for the payment of tax – known as a ‘reverse charge’ VAT mechanism. This requires the calculation of VAT by resident companies on payments abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company or customers on behalf of the non-resident company (foreign company); the local company treats this as input VAT and offsets it in the same month.

- The credit mechanism of VAT

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

the taxpayer.

- VAT refund

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

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

Stamp tax

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

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

Stamp tax upper limit has been set as 2.642.810 TRY per document for 2019.

Banking and insurance transactions tax

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

Special consumption tax

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

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

Resource Utilization Support Fund (RUSF)

It does not even have the word “tax” in the name, RUSF is a kind of tax that is taken from specific imports and foreign exchange and gold loans obtained from abroad.

Some goods imported under deferred letter of credit, acceptance credits and cash against goods subject to RUSF at a rate of 6%. However, according to Council of Ministers Resolution no. 2015/7511 which published in the Official Gazette on 10.04.2015, RUSF rate decreased to 0% for some specific goods even they are imported under deferred letter of credit, acceptance credits and cash against goods.

Council of Ministers Resolution no. 2012/4116 which has made amendments to various tax rates was promulgated in the Official Gazette dated 01 January 2013.

As per the Article 11 of the above mentioned resolution, Resource Utilization Support Fund (“RUSF”) rates for foreign exchange and gold loans obtained from abroad by entities other than banks and financing companies have been rearranged.

As such, the scope of the RUSF exemption on the foreign exchange and gold loans obtained from non-resident entities has been narrowed.

| Maturity Period | Tax rate |
|----------------------------|-----------------|
| < 1 year | 3% |
| Between 1 year to 2 years | 1% |
| Between 2 years to 3 years | 0,5% |
| > 3 years | 0% |

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

Taxes on wealth

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

- **Property tax**

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

- **Inheritance and gift tax**

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

- **Motor vehicle tax**

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

Withholding tax

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

- a) Income tax on salaries of employees
 - b) Lease payments to individual landlords
 - c) Independent professional service fee payments to resident individuals
 - d) Royalty, licence and service fee payments to non-residents.
- Companies are responsible for withholding such taxes on their payments and must declare them through their withholding tax returns.

- Interest

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

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

- Royalties and fees

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

- a) Royalty and service payments to foreign licensors = 20%
- b) Rental fees to non-residents = 20%
- c) Technical service fees = 20%
- d) Other service fees = 20%
- e) Oil exploration services = 5%
- f) Financial leasing fees = 1%.

Social security tax

Salary payments are subject to withholding tax at a source of relevant progressive rates, which range from 15% to 37,5%. Social security premiums are calculated as a percentage of gross salary and are payable at premiums of 14% for the employee and 20,% for the employer. There is also an unemployment contribution, with premiums of 1% for employee and 2% for the employer. Employer share may decreased to 15,5% with 5% discount if accrued taxes paid in time.

F. Double Taxation Agreements

Turkey has signed mutual agreements with 77 countries to generate a global network for double taxation relief. This broad double taxation agreement network attracts foreign investment into Turkey.

G. Custom Duties

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

- a) List No. I; agricultural products.
- b) List No. II; industrial products.
- c) List No. III; processed agricultural products.
- d) List No. IV; fish and other fisheries.
- e) List No. V; some industrial raw materials or intermediate goods (some chemicals, micro-electronics, etc.) that are not produced in the EU, within the scope of the Suspension List which is in effect in the EU.
- f) List No. VI: Out of those goods covered in this list, for only the items identified in the relevant column of items, no customs duty is applied, provided that they would be used in civil aircraft, and the provisions of the customs legislation for the eventual use are applied.

Imported goods are also subject to VAT.

- a) VAT List No. I are applied 1%,
- b) VAT List No. II are applied 8% of VAT.
- c) Goods that are not included in these lists are generally subject to 18% of VAT.

Some goods imported under deferred letter of credit, acceptance credits and cash against goods subject to RUSF at a rate of 6%.

Financial Reportings and Audit Requirements

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

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

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

a) Companies specified in Decree No. 660 as organizations of public interest

b) Companies subject to statutory audit by the decision of the Council of Ministers within the framework of the new TCC, Article 397

c) Companies listed in the second paragraph of the new TCC, Article 1534.

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

Companies meeting at least two of the following criteria by the end of 2016 (alone or together with their affiliates and/or subsidiaries) are subject to statutory audit for 2018:

- a) Total assets \geq TRY 35 million
- b) Annual net sales \geq TRY 70 million
- c) Number of employees \geq 175.

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

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

According to the List No. 1 of the Article 397 Public Oversight Accounting and Auditing Standards Authority's Organization and Responsibilities Decree Law No. 660, the following companies are also subject to statutory audit:

- a) Companies under control of Capital Markets Board of Turkey regulations
- b) Companies under control of Banking Regulation and Supervision Agency regulations
- c) Insurance, reinsurance and pension companies that are regulated by the law of individual retirement savings and investment plan and law of insurance
- d) Institutions authorized by the Istanbul Gold Exchange and allowed to operate as a member; precious metals intermediary institutions; joint-stock companies engaged in the production or trade of precious metals
- e) Companies licensed for warehousing of agricultural products established as a joint-stock company according to legislation on licensed

warehousing of agricultural products

f) Companies established as a joint-stock company in accordance with provisions of the law of public malls

g) Media companies that are owners of national terrestrial satellite and cable television.

Employment Obligations and Taxation of Employees

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

Employment contract

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

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

Employment contracts can be made for a definite (fixed-term) or indefinite (open-ended) period.

In terms of the manner of working, these contracts may be concluded on a full-time or part-time basis, or with a trial (probation) period, or in various other forms.

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

Termination of employment contract

Before terminating a continual employment contract made for an indefinite period, notice to the other party must be served by the terminating party. Table 3 shows the minimum duration of notification periods, which may be increased by contracts between the parties.

Table 3. Notification periods for termination of employment contracts.

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

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

In addition to notice payment, employers are liable to pay severance payment in case employer terminates the employment contract. One month gross wage must be paid to employees per one working year as a severance payment in this case.

An employer who terminates the contract of an employee engaged for an indefinite period, who is employed in an entity with ≥ 30 workers and who meets a minimum seniority of 6 months, must have a valid reason for such termination, connected with the capacity or conduct of the employee or based on the operational requirements of the entity or service. The notice of termination must be served in writing, clearly specifying the reason(s). The worker must be given an opportunity to defend against allegations of poor conduct or performance. However, in cases of employee misconduct or malicious/immoral behavior, the employer has the right to break the employment contract.

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

If the court or arbitrator concludes that the termination is unjustified be-

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

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

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

Wages

As a rule, wages can be paid in Turkish Lira at the business entity (only if total number of employees is less than 5) or can be deposited into a specially opened bank account. If the wage has been decided in terms of a foreign currency, it can be paid in Turkish Lira according to the exchange rate on the date of payment.

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

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

With the object of regulating the economic and social conditions of all employees working under an employment contract, either covered or uncovered by Turkish Labor Code, the minimum wage will be determined at least every 2 years by the Ministry of Labor and Social Security through the Minimum Wage Fixing Board.

Working hours and overtime

The typical working week is ≤ 45 hours, divided equally across the days of the week unless otherwise agreed (6 days * 7,5 hours). Any working hours that exceed this limit count as overtime, which must be justified by national interest, the nature of the operation or the need to increase output. Overtime wages are remunerated at 1.5 times the normal hourly rate – or the employee can choose to take the equivalent time off in lieu (1.5 hours per extra hour worked) within 6 months. Overtime wages must be remunerated at 2 times the normal hourly rate in case employee works in national holidays announced by government authorities.

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

The maximum overtime hours cannot exceed 270 hours in a year. In addition, following employees are not allowed to do overtime:

- a) Employees who are under 18 years of age,
- b) Employees who are pregnant, just gave a birth,
- c) Employees who are working with definite term employment contract,
- d) Employees who are proving they are lack of sanitary conditions.

The employee's consent is required for overtime work.

Annual paid leave

Employees engaged in seasonal or other occupations which, owing to their nature, last <1 year do not qualify for annual paid leave. Employees who have completed ≥ 1 year of service, including the trial period, are entitled to paid annual leave (see Table 4). This right cannot be waived.

Table 4. Annual paid leave allowances according to length of service.

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

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

Social security system

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

Social security premium payments

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

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

Unemployment insurance premium payments

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

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

Social security tax

Salary payments are subject to withholding tax at a source of relevant progressive rates, which range from 15% to 37,5%. Social security premiums are calculated as a percentage of gross salary and are payable at premiums of 14% for the employee and 20.5% for the employer. There is also an unemployment contribution, with premiums of 1% for employee and 2% for the employer. Employer share may be decreased to 15,5% with 5% discount if accrued taxes are paid on time.

Income tax for wages and salaries

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

Table 5. Income tax rates applicable to yearly gross earnings from 2019.

| Income scales | Tax rate |
|---|----------|
| ≤ 18.000 TRY | 15% |
| From 18.000 TRY till 40.000 TRY is (For wages 18.000 TRY is 2.700 TRY) | 20% |
| From 40.000 TRY till 148.000 TRY is (For wages 40.000 TRY is 7.100 TRY) | 27% |
| > 148.000 TRY is (For 148.000 TRY is 36.260 TRY) | 35% |

Foreign Employees

Employers must meet certain criteria in order to employ a foreign employee. Some of these criteria are as follows;

a) Legal entity must employ at least 5 local employees to employ 1 foreign employee.

b) Legal entity's paid capital must be > 100.000 TRY or gross sales must be > 800.000 TRY or last year's export sales must be > 250.000 USD.

c) First two criteria will not be considered in the application of work permits for foreigners who will be employed by state owned foreign airline company representative offices, companies which operate in education business and normal home services.

In addition to above criteria, the Ministry of Labor, Social Services and Family determines minimum wages to be paid to foreign employees (see Table 6).

Table 6. Minimum wages to be paid to foreign employees.

| Occupation | Minimum Wage Amount |
|---|---------------------|
| Senior executives, pilots, engineers and architects requesting preliminary permit | > 6,5 times NMW |
| Branch or unit managers, engineers and architects | > 4 times NMW |
| Teachers, psychologists, physiotherapist, musician, artist and persons work in jobs require expertise and proficiency | > 3 times NMW |
| Maids, salesman, marketing staffs and others | > 1,5 times NMW |
| Masseurs and masseuses, SPA therapists and occupations require expertise in tourism business | > 2 times NMW |

Grants and Incentives

Investment Incentives System

The new investment incentives program, which will be effective from the 1st January 2012 comprises 5 different schemes:

- 1- General Investment Incentive Scheme
- 2- Regional Investment Incentive Scheme
- 3- Priority Investment Incentive Scheme
- 4- Large Scale Investment Incentive Scheme
- 5- Strategic Investment Incentive Scheme

The Support Measures

VAT Exemption:

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

Customs Duty Exemption:

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

Tax Deduction:

Calculation of income or corporate tax with reduced rates until the total value reaches to the amount of contribution to the investment according to envisaged rate of contribution.

Social Security Premium Support (Employer's Share):

The measure stipulates that for the additional employment created by the investment, employer's share of social security premium on portions of labor wages corresponding to amount of legal minimum wage will be covered by the Ministry.

Income Tax Withholding Allowance:

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

Social Security Premium Support (Employee's Share):

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

Interest Support:

Interest 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 the Ministry.

Land Allocation:

Refers to allocation of land to the investments with Investment Incentive Certificates, if any in that province in accordance with the rules and principles determined by the Ministry of Finance.

VAT Refund:

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

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



| Support instruments | General | Regional | Priority | Large scale | Strategic |
|--|---------|----------|----------|-------------|-----------|
| VAT exemption | ✓ | ✓ | ✓ | ✓ | ✓ |
| Custom duty exemption | ✓ | ✓ | ✓ | ✓ | ✓ |
| Tax reduction | | ✓ | ✓ | ✓ | ✓ |
| Security premium support (employer's share) | | ✓ | ✓ | ✓ | ✓ |
| Income tax withholding allowance ¹ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Security premium support (employee's share) ¹ | | ✓ | ✓ | ✓ | ✓ |
| Interest payment support ² | | ✓ | ✓ | | ✓ |
| Land allocation ³ | | ✓ | ✓ | ✓ | ✓ |
| VAT refund ³ | | | | | ✓ |

¹ Provided that the investment is made in Region 6.

² Provided that the investment is made in Region 3, 4, 5 or 6 within the framework of the Regional Investment Incentives Scheme.

³ Provided that the investment is made within the framework of the Strategic Investment Incentives Scheme with a minimum fixed investment amount over TRY 500 million.

General Investment Incentives Scheme

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

Regional Investment Incentives Scheme

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

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

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

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

*OIZ: Organized Industrial Zones.

Priority Investments Incentives Scheme

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 and maritime transportation investments,
- Defense industry investments,
- Test facilities, wind tunnel and similar investments made for automotive, space or defense industries,
- 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,
- International fairground investments with a minimum covered area of 50.000 m2,
- 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 with a minimum amount of 20 million TL,
- Investments for power generation where mines stated in the 4-b group according to 3213 Mining Law.
- 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

| INCENTIVE MEASURES | | Terms and Rates of Supports * |
|--|--|-------------------------------|
| VAT Exemption | | YES |
| Customs Duty Exemption | | YES |
| Tax Deduction | Rate of Contribution to Investment (%) | 40 |
| | Tax Deduction (%) | |
| Social Security Premium Support (Employer's Share) | | 7 years |
| Land Allocation | | YES |
| Interest Support | Local Loans | 5 points |
| | Foreign Exchange/ FX denominated loans | 2 points |

* Supports of Region 5 for the Investments that are made in Regions 1-5

* Supports of Region 6 for the Investments that are made in Region 6

Large-Scale Investment Incentive Scheme

Twelve investment categories (see Tables 9 and 10) are supported by the measures of the Large Scale Investment Incentive Scheme.

Table 9. Investment categories supported by the Large-Scale Investment Incentive Scheme.

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

Table 10. Terms and rates of support provided within the Large-Scale Investment Incentive Scheme.

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

OIZ: Organized Industrial Zones.

The following categories of investment within the Regional and Large-Scale Investment Incentives Schemes will be supported by more favorable 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 five companies operating in the same sector with the purpose of integrating these companies to this joint investment.

Strategic Investment Incentive Scheme

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

Investments meeting the following criteria are supported within the framework of the Strategic Investment Incentive Scheme (see Table 11):

- Production of intermediate and final goods with high import dependence, of which >50% of these goods are supplied by imports
- Minimum investment of TRY 50 million
- Creation of $\geq 40\%$ value added (this condition is not applicable to investment in production of refined petroleum or petrochemicals)
- Import amount of at least US\$ 50 million for goods to be produced in the last 1-year period (this condition is not applicable to goods with no domestic production).

Table 11. Terms and rates of supports provided within the Strategic Investment Incentives Scheme.

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

Incentives for R&D and Design Centers

If at least 15 personnel are employed in a research and development (R&D) center and 10 personnel are employed in design center, the law provides special incentives projects. However, required number of personnel has been determined as 30 employees in the production of motor vehicles, aircraft, spacecraft and related machinery. The effects of these incentives will remain until 2024:

100% deduction of R&D expenditure from the tax base if the number of researchers exceeds 500; then, in addition to the 100% deduction, half of the R&D expenditure increase incurred in the operational year compared to the previous year will also be deducted

- Income withholding tax exemption for employees (effective until 31 December 2023)
- 50% of social security premium exemption for employers (effective until 31 December 2023)
- Stamp duty exemption for applicable documents
- Custom duty exemption for imported products will be used in these centres
- Techno-initiative capital for new scientists, up to TRY 500,000
- Deduction from the tax base of certain funds granted by public bodies and international organizations.

Advantages in technology development zones

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

Offices ready to rent, and infrastructure facilities provided

- Profits derived from software development and R&D activities are exempt from income and corporate taxes until 31 December 2023
- Deliveries of application software produced exclusively in TDZs are exempt from VAT until 31 December 2023
- Wages of researchers, along with software and R&D personnel employed in the TDZ, are exempt from personal income tax until 31 December 2023
- 50% of the employer's share of social security premiums will be paid by the government until 31 December 2024.

Advantages of free zones

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

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

Advantages of organized industrial zones

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

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

TUBITAK and TTGV

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

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

Government support for small and medium-sized enterprises

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

Incentives granted to SMEs include:

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

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

KOSGEB support to SMEs

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

State aid for exports

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

Banking and Finance

Turkey has very advance banking system which is already adapted to globally recognized regulations. Monetary and exchange rate policies have been managed independently by the Central Bank of the Republic of Turkey which is founded on 3 October 1931.

Basically, there are 3 different kinds of banks in Turkey. Conventional deposit banks, development or investment banks and participation (Islamic) banks.

Banks are allowed to give different kinds of loans to individuals and legal entities both in local and foreign currencies. However, according to recent regulations, the government put some limits to both legal entities and real persons in case of using foreign currency loans.

There are many different types of financing methods apart from banks such as leasing and factoring.

There is no any prohibition to transfer profit to shareholders' residence countries.

Individuals



Taxation of Individuals

Income tax is taken from the net total of income earned by any individual (real person) in a calendar year. According to Turkish Income Tax Law, the source of income defined in 7 categories:

- a) Income from commercial activities,
- b) Income from agricultural activities,
- c) Income from employment services (wages & salaries),
- d) Income from self employment,
- e) Income from immovable properties (rent income),
- f) Income from capital investments (interest, dividend and etc.),
- g) Other income and earnings (capital gains and gains from appreciation).

A general residency criterion is employed in determining tax liability for individuals. This criterion requires that an individual whose place of residence is in Turkey must pay tax on their worldwide income (unlimited liability). On the other hand limited taxpayers are taxed on their Turkish source income.

Unlimited liability tax payers are the ones who are;

- a) Resident in Turkey or,
- b) Living in Turkey more than 183 days in one calendar year or,

c) Living in foreign countries but assigned by government authorities or companies which their headquarter in Turkey.

However, foreigners who stay in Turkey for ≥ 6 months for a specific job or business, or for particular purposes specified in the Income Tax Law, are not treated as resident and are not subject to unlimited tax liability. Non-residents are only liable to pay tax on income derived from sources in Turkey (limited liability).

Table 12. Income tax rates applicable to yearly gross earnings from 2019.

| Income scales | Tax rate |
|---|----------|
| ≤ 18.000 TRY | 15% |
| From 18.000 TRY till 40.000 TRY is (For 18.000 TRY is 2.700 TRY) | 20% |
| From 40.000 TRY till 98.000 TRY is (For 40.000 TRY is 7.100 TRY) | 27% |
| >98.000 TRY (For 98.000 TRY is 22.760 TRY) | 35% |

Work Permits

Foreigners do work permit applications to the Republic of Turkey representative in the country of which they are permanent resident or a citizen. The documents submitted to representative offices must be delivered to the ministry within maximum 10 days by employers. Foreigners who had already at least 6 months residence permit can do application directly to the ministry.

There are 3 types of work permits:

1. Temporary Work Permit

Temporary work permits can be taken only by employers on behalf of employees. Validity area can be extended or limited by the ministry in terms of city and geographical area.

After one year of legal working period, work permits can be extended for maximum two years in case working for same employer with same occupation.

After three years of legal working period, work permits can be extended for maximum three years with same occupation but this time with any employers.

Work permits can be given to spouses and dependent children in case they are legally reside continuously for five years.

2. Permanent Work Permit

Permanent work permits can be given to foreigners who are legally resided continuously for eight years or who have six years legal working period in total. Foreigners can prove their eight years of residency by gaining a document taken from security offices. Period of study is not taken in consideration of in assessment of applications. However, period of study is taken in consideration for those who came as wife and children of work permit holder.

3. Independent Work Permit

Independent work permits can be given to foreigners who are legally resident continuously for five years. In addition, their works must be value added in terms of economic development and employment creation.

Buying Property

The Turkish property market is growing very rapidly. Foreign investors are one of the significant reasons of this growth. Foreign individuals are allowed to buy properties in Turkey and procedures are quite easy. A foreign individual can buy a property within one day if the property's title deed is ready to sell.

Foreigners must have following documents in addition to documents required by local citizens:

- Potential tax number which is taken from tax office,
- Translated copy of valid passport.

Points should be considered by foreign individuals who are planning to buy a property in Turkey:

- Detailed check should be done in directorate of land registry offices if there is any hypothec, confiscation or restrictions on properties.
- Work with expert and trustable companies.
- Foreigners are not obliged to get residence permit in order to buy a property.
- The Republic of Turkey's courts are always open to foreigners in any case of a conflict.

- Be sure that the property you are planning to buy is not within the boundary of a military district. Foreigners are not allowed to buy a property which is within the boundaries of "special security area". You can check the situation of the property from directorate of land registry offices.

Increment value of the property subjects to income tax if it is sold within 5 years after the acquisition date.

Opening a Bank Account

Foreigners can open a bank account in Turkey. Although each bank has slightly different procedure for opening a bank account, generally following documents will be asked from individuals:

For a foreign individual who is resident in Turkey:

- Residence or work permit or temporary protection ID,
- Address document (utility bill, rent contract or ID register copy).

For a foreign individual who is not resident in Turkey:

- Potential tax number taken from tax office,
- Valid passport,
- Translated copy of an official document shows the address (utility bill or rent contract).

Getting Turkish Citizenship

Investment limits have been lowered 1st October by revised The Citizenship Act of Turkey. This program allows foreign people to acquire Turkish Citizenship by investment. Main aim of this program is to boost Turkish economy with cash flow. Basically, there are six different types of investment options available at the moment:

- Minimum 500.000 \$ cash deposit in a Turkish Bank. Invested amount must be kept at least three years.
- Minimum 250.000 \$ real estate investment. Invested property must not be sold within the next three years.
- Minimum 500.000 \$ government bond investment. Invested bonds must not be sold within the next three years.
- Provide employment for at least 50 people.
- Minimum 500.000 \$ real estate investment fund or venture capital investment fund share. Invested shares must not be sold within the next three years.
- Minimum 500.000 \$ fixed capital investment.

Most of above investments must be attested by the relevant ministries.

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