



Turkey *

A General Tax Guide for Foreign Investors

2006 Edition

*connectedthinking

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TURKEY

A General Tax Guide for Foreign Investors

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This guide has been produced to assist those who consider investing in Turkey. Its aim is to provide a broad outline on general taxation system in Turkey. It reflects the current tax law or practices in Turkey as of April 2006.

This booklet is not intended for definitive advice, but merely as an explanatory guide. We would strongly recommend that readers seek professional advice before making any decisions. Furthermore, it should also be kept in mind that Turkish tax regulations are subject to frequent change. We would like to inform the readers that, on 31 January 2006, the Ministry of Finance published the draft of the new Corporate Income Tax Law (hereinafter referred to as “the draft law”) that will replace the current Corporate Income Tax Law numbered 5422. The draft law will introduce extensive amendments including regulating formerly ambiguous issues such as transfer pricing and thin capitalisation in line with worldwide applications; together with introducing new provisions such as controlled foreign company applications and anti-tax haven regulations. The planned amendments will be explained in detail in the related chapters of this booklet.

For further information, please contact the PricewaterhouseCoopers offices in Turkey.

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I. INCORPORATION OF COMPANIES OR BRANCHES IN TURKEY

1.1 Type of Legal Entity

Companies, which can be established or participated in by foreign investors, are designated as “companies” in the Turkish Commercial Code and “unincorporated partnerships” in the Turkish Code of Obligations including joint stock companies (AŞ), limited companies (LC) and branches. There is no approval/permission requirement from the Foreign Investment Directorate of the Turkish Treasury. No additional minimum capital requirement for foreign investors is regulated under Foreign Direct Investment Legislation. However, according to the local regulations, there is a minimum capital requirement for different types of companies, irrespective of whether the shareholders are foreigners or Turkish residents (please refer to the table in section 1.4).

Foreign companies may also have a presence in Turkey through liaison offices. However, liaison offices are prohibited from undertaking any kind of commercial activities and entering into partnership with other companies in Turkey. In fact, their function is limited to auxiliary and preparatory types of services.

1.2 Type of Activities

Limited companies (LC) cannot carry out banking and insurance activities, while joint stock companies (AŞ) can. Other than that, there is no restriction on the activities of joint stock or limited companies as long as they are in line with the company’s Articles of Association. Unless otherwise stated in the special legislation, there is no limitation with respect to the shareholding percentage of foreigners.

1.3 Establishment Process

A brief outline regarding the procedures and necessary documents for the establishment of a joint stock or a limited company is provided below:

- Preparation and notarisation of the Articles of Association in accordance with the Turkish Commercial Code.
- Registration of the company with the Trade Registry Office and announcement at the Trade Registry Gazette.

After the incorporation of the company, the following formalities will be carried out:

- Obtaining statutory books and documents and completing the notary authentication of such.
- Registration with the Tax Office.
- Registration with the Social Security Institution.
- In some specific cases, registration with other State offices and the municipality may be required.

1.4 Comparison of the Three Forms of Entities

Please find below a comparison table indicating the major differences between the three forms of entities from tax and legal perspectives.

	Branch	Limited Company (LC)	Joint Stock Company (A.S./SA)
LIABILITY OF SHAREHOLDERS	Liability limited with mother company's liability	Limited with the share capital except for tax liabilities	Limited with the share capital
DIVIDENDS	Repatriation of branch profit is allowed	Allowed	Allowed
SHAREHOLDERS	Not applicable	Two persons (min) /Fifty persons (max)	Five persons (min)
MANAGEMENT	Branch manager (no board)	Director(s)	Board of min. 3 members/ foreigners allowed
EQUITY	No minimum capital requirement	Min YTL25 per partner regardless of tax residency status Minimum total capital requirement is YTL5,000 (approximately US\$3,700 at the current foreign exchange rate)	Min Ykr.1 (i.e. YTL0.01) per shareholder regardless of tax residency status Minimum total capital
CONTROL	Power of attorney to branch manager	Partners assembly meeting	General assembly of the shareholders meeting
CORPORATE INCOME TAX	Mainstream corporate income tax at 30% (20% for 2006 and onwards)	Mainstream corporate income tax at 30% (20% for 2006 and onwards)	Mainstream corporate income tax at 30% (20% for 2006 and onwards)

DIVIDEND WITH-HOLDING TAX	Not applicable unless the profit is transferred to the parent company	Not applicable unless profits are distributed to individual and foreign corporate shareholders	Not applicable unless profits are distributed to individual and foreign corporate shareholders
INFLATION ACCOUNTING	Applicable on non-monetary items in the case of certain conditions being realised simultaneously	Applicable on non-monetary items in the case of certain conditions being realised simultaneously	Applicable on non-monetary items in the case of certain conditions being realised simultaneously
REVALUATION OF FIXED ASSETS	Inflation accounting	Inflation accounting	Inflation accounting
TAXABLE STATUS	Liability to taxation only over Turkish sourced income (non-resident for tax purposes) worldwide income.	Liability to taxation on worldwide income. (tax resident)	Liability to taxation on worldwide income. (tax resident)
BILLING	Billing in foreign currency to Turkish entities is not allowed Indexation of YTL amount on the invoice to foreign currency is possible	Billing in foreign currency to Turkish entities is not allowed Indexation of YTL amount on the invoice to foreign currency is possible	Billing in foreign currency to Turkish entities is not allowed Indexation of YTL amount on the invoice to foreign currency is possible
LEGAL	Part of a foreign entity	Independent (considered as a Turkish company)	Independent (considered as a Turkish company)
FOREIGN CURRENCY USAGE	Allowed	Allowed	Allowed
DEPOSIT ACCOUNT IN TURKEY/ABROAD	Allowed	Allowed	Allowed
AVAILABILITY OF INCENTIVES	Available, but difficult in practice	Yes	Yes
TRANSFER OF SHARES INSIDE/ OUTSIDE TURKEY	Not applicable	Allowed	Allowed

1.5 Cost of Establishment

During the incorporation stage of a company, 0.04% of the capital should be paid to the Competition Authority. This cost is not applicable during the establishment of a branch.

Notary charges, translation fees and registry charges will also be payable during the incorporation and registration of a company/branch. The amount of these costs vary based on some factors, such as the amount of the capital, number of signature authorities etc.

II. CORPORATE TAX SYSTEM IN TURKEY

2.1 Corporate Income Tax

The corporate income tax rate is 30%; however 20% is expected to be applicable for the year 2006 and onwards provided that the draft Corporate Income Tax Law is enacted. Dividend withholding tax at the rate of 10% is applicable to dividends distributed to individual and foreign corporate shareholders. Note that the Council of Ministers is authorised to amend this rate. Please also note that dividend distributions to resident entities and branches of non-resident entities are not subject to withholding tax.

For non-resident entities operating in Turkey (i.e. branches, permanent establishments) withholding tax will only be applicable on the portion of the branch profit that is transferred to the headquarters.

Set out below is a table calculating the corporate income tax liability of a company in Turkey. Please note that the legal reserves that must be set aside under the Turkish Commercial Code are ignored for the sake of simplicity.

	Current liability on income generated (10% WHT)*	Liability on income provided that the draft law is enforced (10% WHT)*
Taxable corporate income	100.0	100.0
Corporate income tax	30.0	20.0
* Dividend withholding tax base	70.0	80.0
Dividend withholding tax	7.0	8.0
Effective corporate tax	37.0	28.0

* Based on the assumption that 100% of the profit after corporation tax will be distributed to individual or foreign corporate shareholders.

The local dividend withholding tax rate is lower than or the same as the rates offered in the bilateral tax treaties except for a few situations. Thus, since the local legislation is generally in favour of taxpayers, local the withholding tax rate of 10% will also be applied to dividends distributed to residents of the treaty countries. The Council of Ministers is authorised to amend this rate.

In the event of dividend distribution by an international holding company in Turkey to its non-resident shareholders, the dividend withholding tax rate may be applied as 5%, upon certain conditions. Note that by virtue of this provision, an international holding company is defined as a joint stock company where 75% or more of total assets comprise of a participation of 25% or more of the capital of a limited or joint stock company (except from those whose core business is financial leasing or security investment), or legal and business centre located abroad. The shareholding requirement of 25% is expected to decrease to 10% once the draft law is enacted.

2.2 Advance Corporate Income Tax

Corporations are required to pay advance corporate income tax based on their quarterly profits at the rate of 30% (20% in the draft law). Advance corporate income taxes paid during the tax year are offset against the ultimate corporate income tax liability of the company, which is determined in the related year's corporate income tax return.

2.3 Legal Reserves

Under the Turkish Commercial Code, Turkish companies are required to set aside first and second level legal reserves out of their profits. Please note that a branch is not subject to the legal reserve requirements.

First level legal reserves

Joint stock and limited companies are required to set aside 5% of their net profits each year as a first level legal reserve. The ceiling on the first level legal reserves is 20% of the paid-up capital. The reserve requirement ends when the 20% of paid-up capital level has been reached.

Second level legal reserves

The second level reserves correspond to 10% of profits actually distributed after the deduction of the first level legal reserves and the minimum obligatory dividend payout (5% of the paid-up capital). Second level legal reserves amount to approximately 1/11 of the profit to be distributed. There is no ceiling for second legal reserves and they are accumulated every year.

According to the Turkish Commercial Code, if the legal reserves exceed 50% of the paid-up capital, they shall be used to cover losses, maintain business activities in the case of bad business conditions, prevent unemployment or offset the negative effects of unemployment.

2.4 Calculation of Corporate Income Tax Base

Deductible expenses

In principle, general expenses incurred for the generation and maintenance of commercial income are allowed as deductions for corporate income tax purposes. Deductible expenses, inter alia, include the following:

- Expenses incurred for the issuance of share certificates or corporate bonds
- Start-up costs (these costs are to be either expensed or capitalised at the discretion of the taxpayer)
- Merger & liquidation expenses
- Previous years' losses provided that they have not been carried forward for more than five years (on the condition that loss corresponding to each year is specified in the corporate income tax return)
- Donations made to governmental institutions or to associations and foundations that are granted tax exemption by the Council of Ministers, not exceeding 5% of the current year's profit
- All of the donations made for construction of dormitories, nursery schools, rest homes and rehabilitation centres
- All of the cultural and artistic donations made to governmental institutions or to associations and foundations that are granted tax exemption by the Council of Ministers (such donations are cited in detail in the legislation)
- All of the sponsorship payments for amateur sport activities and 50% of the sponsorship payments for professional sport activities.
- Losses incurred in foreign jurisdictions (subject to certain conditions)
- Depreciation of fixed assets
- Depreciation and expenses of company cars provided to employees (Please note that company cars are not subject to income tax as they are classified as fringe benefits to employees.)
- Meals provided on the premises of the company to the employees, without any limitations. However, YTL8.25 of luncheon vouchers per working day (subject to annual adjustment) granted to an employee for

- meals off the company premises is allowed as tax-deductible expenses
- Social security contributions
 - Compensation paid or losses incurred in line with contracts or court rulings, provided that they are related to the business
 - Travel and accommodation expenses related to and commensurate with the volume of business
 - Technical reserves for insurance and reinsurance companies
 - Research & development allowance, which is calculated as 40% of the research and development expenses of the corporations
 - Profit shares paid to those who extend interest-free loans, as well as shares of profits paid against profit and loss participation certificates and against profit and loss participation accounts by private finance houses
 - Real estate, stamp and municipality taxes, duties and fees that are relevant to the corporation
 - Fees paid by the employers to the Labour Unions
 - Contributions paid by the employers to the private pension system (subject to a ceiling)
 - Cost value of the foodstuff donated to the food banks

Please note that start-up costs are either expensed or capitalized, at the discretion of the taxpayer.

Non-deductible expenses

In general, non-deductible items are limited to those types of expenditures that either cannot be properly documented or that are regarded as abuses in respect to “business-related” or “business-promoting” criteria (e.g., excessive entertainment, representation and travel expenses). Needless to say, disallowable expenses increase the corporate income tax burden of companies since such expenses are not eligible for deduction from the corporate income tax base.

Disallowable expenses, inter alia, can be listed as follows:

- Interests and foreign exchange losses on capital and on loans that are regarded as thin capital
- Fines and penalties and other indemnities arising from the wrongdoings of the taxpayer
- Legal reserves
- Donations to foundations (that are granted a tax exemption by the Council of Ministers) or to government institutions exceeding 5% of corporate profit.

- Expenses recorded through severance pay provisions (Severance pay shall be accepted as tax deductible only when actual payments are made to employees.)
- That portion of expenses incurred that is considered being in violation of transfer pricing regulations.

2.5 Depreciation Methods

The fixed assets, which are acquired after 01.01.2004, are subject to depreciation over rates to be determined by the Ministry of Finance, based on their useful life. Note that rates announced differ from 2 % to 33 %.

The fixed assets acquired before 01.01.2004 continue to be depreciated over the former application, in which the maximum rate applicable is 20% per year.

Depreciation may be calculated by applying either the straight-line or declining-balance method, at the discretion of the taxpayer. All tangibles, except for land, and intangible assets are depreciable over a minimum of five years. Under the previous application, buildings are an exception and are depreciated at a rate of between 2% and 10% per year, over a minimum of 10 or 50 years depending on the type of building.

Generally, assets are considered to be placed in service when they are capitalised and ready for use.

The applicable rate for declining-balance method is twice the rate of straight-line method. However, maximum applicable rate for declining-balance method is 50 %. On the other hand the declining balance method cannot be used for some items. For example, goodwill is depreciated within 5 years in equal instalments and leasehold improvements are depreciated over the rental period at a flat rate.

2.6 Transaction Taxes

VAT

Deliveries of goods and services are subject to VAT at rates varying from 1% to 18%. The general rate applied is 18%. VAT payable on local purchases and on imports is regarded as “input VAT” and VAT calculated and collected on sales is considered as

“output VAT”. Input VAT is offset against output VAT in the VAT return filed at the related tax office by the 20th of the following month. If output VAT is in excess of input VAT, the excess amount is paid to the related tax office. On the contrary, if input VAT exceeds the output VAT, the balance is carried forward to the following months to be offset against future output VAT. With the exception of a few situations such as exportation and sales to an investment incentive holder there is no cash refund to recover excess input VAT.

There is also a so-called “reverse charge VAT mechanism”, which requires the calculation of VAT by resident companies on payments to abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company. The local company treats this VAT as input VAT and offsets it in the same month. This VAT does not create a tax burden for the Turkish and the non-resident company, except for its cash flow effect for the former, if there is no sufficient output VAT to offset there-from.

Special consumption tax

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

- Petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents
- Automobiles and other vehicles, motorcycles, planes, helicopters, yachts
- Tobacco and tobacco products, alcoholic beverages
- Luxury products

Unlike VAT, which is applied on each delivery, special consumption tax is charged only once.

Banking and insurance transactions tax (BITT)

Banks and insurance companies are exempt from VAT but are subject to BITT at a rate of 5%, which is due on the gains of such companies from their transactions. The purchase of goods and services by banks and insurance companies are subject to VAT but is considered as an expense or cost for recovery purposes.

2.7 Property Taxes

Buildings and lands owned in Turkey are subject to real estate tax at the following rates:

- Residences 0.1%
- Other buildings 0.2%
- Vacant land* 0.3%
- Land 0.1%

* Allocated for construction purposes

The rates are applied twice for property located in the metropolitan municipality areas.

2.8 Stamp Tax

Stamp tax applies to a wide range of documents, including but not limited to agreements, financial statements and payrolls. Stamp tax is levied as a percentage of the monetary value stated on the agreements at rates ranging from 0.15% to 0.75%. Please note that salary payments are subject to stamp duty at the rate of 0.6% over the gross amounts paid, whereas a lump sum stamp tax is calculated for financial statements.

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. Please note that the definition of "benefiting from the terms of the agreement" is considered to be 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. Note that each and every signed copy of the agreement is separately subject to stamp tax.

The stamp tax per document shall not exceed YTL878,400 (approximately US\$660,000 at the prevailing foreign exchange rate).

2.9 Withholding Tax

Under the Turkish tax system, certain taxes are collected through withholding by the payers in order to secure the collection of taxes. These include income tax on salaries of employees, lease payments to individual landlords, independent professional service fee payments to resident individuals; and royalty, license and service fee payments to non-residents. Companies in Turkey are responsible to withhold such taxes on their payments and declare them through their withholding tax returns (please refer to Appendix I for the applicable withholding rates pursuant to the article 94 of the Income Tax Law and article 24 of the Corporate Income Tax Law.)

However, please note that local withholding tax rates may be reduced based on the available bilateral tax treaty provisions.

2.10 Resource Utilisation Support Fund (RUSF)

RUSF is applied on importation on credit basis and loans obtained locally or from abroad (except for foreign loans with an average maturity of more than one year). The rate of RUSF changes between 0-15%. This fund is not applicable where there is an incentive certificate or in the case of re-export credits.

2.11 Environmental tax

Municipalities are authorised to collect an environmental tax as a contribution toward the financing of certain services, such as garbage collection. This tax is levied at scheduled fixed amounts that vary according to the location of the office for which the environmental services are being provided. For houses the environmental tax is levied according to the water consumption of the domiciles. The taxpayer is considered to be the occupant of the premises, whether as owner or tenant.

2.12 Effects of Bilateral Tax Treaties

Turkey currently has a bilateral tax treaty network with 61 countries. Please refer to the Appendix II for a list of the countries with which Turkey has bilateral tax treaties. The withholding tax rates on dividends, interests and royalties may decline depending on the existence of a treaty if the treaty foresees a lower rate than the local legislation.

2.12.1 Calculation of treaty benefit on dividends

Currently, the local dividend withholding tax rate is generally less than or the same as the treaty rate, with a few exceptions (for example the dividend withholding tax rate is 5% under the Turkish-Spanish tax treaty subject to certain conditions). In order to apply the lower withholding tax rate stipulated by the treaty, the dividends should be distributed either actually or on an account basis. The benefit provided by the tax treaty will vary based on the ratio of the foreign shareholding, the maximum withholding tax rate specified by the treaty and the amount of dividend distributed.

2.12.2 Elimination of double taxation

Under the provisions of Turkey's tax treaties, two methods are stipulated for the elimination of double taxation, namely the exemption method and the credit method. Fundamentally, the difference between the two methods is that the exemption method looks at income, while the credit method looks at the tax paid in the source country.

Under the principles of the exemption method, the country of residence does not tax the income, which according to a treaty may be taxed in the source country. In other words, income derived by a resident from a foreign country where it has already been subject to tax is exempted in the country of residence.

According to the principles of the credit method, credit is granted for the foreign taxes paid. However, the credit is generally limited to the amount of domestic tax that would be imposed on that foreign-source income if no credit for foreign tax were given.

In the absence of a tax treaty between the country of residence of the foreign shareholder and Turkey, the local law, which envisages a tax credit for foreign taxes paid in foreign countries under certain conditions, would apply. Please note that the

draft Corporate Income Tax Law also introduces new regulations with respect to taxes paid abroad. According to the draft, income taxes or corporate income taxes paid by the subsidiaries of resident joint stock companies abroad over their profit out of which dividends are distributed can be offset against the taxes payable in Turkey. The tax amount that may not be offset in the relevant year can be carried forward for three years, and the deduction can also be made in the advance corporate income tax periods.

2.12.3 Tax sparing

In some of Turkey's tax treaties, there is a tax sparing mechanism, which is included in the article pertaining to the elimination of double taxation.

The tax sparing credit is a special form of tax relief designed for foreign investors in tax treaties where Turkey grants tax incentives to encourage foreign investment.

The country of residence can give a credit against its own tax, for the tax that the company would have paid in Turkey if the latter had not granted investment incentives.

The purpose of the tax sparing relief is the prevention of taxation in the country of residence, of income generated in Turkey but not taxed therein, due to the incentive provided by the latter in order to encourage foreign investment.

Tax sparing obviously is not needed if the country of residence of the foreign investors is using the exemption method for the income concerned to eliminate double taxation.

III. INVESTMENT INCENTIVES

The Turkish government provides investment incentives – so-called State Aid – in order to eliminate the inter-regional economic imbalances, to facilitate a larger capital contribution by the public and the foreign investors to the capital build-up of the country and also to support activities that have a positive effect on employment. Generally speaking, state aid can be classified as either a tax or a non-tax incentive. The former consists of customs duties and fees exemption, VAT exemption, stamp taxes and fees exemption, whereas the latter includes provision of land and credit allocations from the Investment Incentives Fund.

3.1 General Requirements

The principal prerequisite for benefiting from state aid is to obtain an Investment Incentive Certificate, subsequently referred to as an IIC.

The IIC is a document which is granted to investors for their investments by the Undersecretariat of the Treasury, hereinafter referred as the Undersecretariat, and which provides for the utilisation of the benefits.

3.2 Regional Classifications

Classification of regions

Regions in Turkey are classified into the following priority groupings with regard to the legislation on subsidies:

- Developed regions consist of provinces of Istanbul and Kocaeli and in addition the municipal boundaries of Ankara, İzmir, Bursa, Adana and Antalya metropolises (not including their sub-provinces);
- Regions prioritised for development are the provinces of Adıyaman, Ağrı, Aksaray, Amasya, Ardahan, Artvin, Bartın, Batman, Bayburt, Bingöl, Bitlis, Çanakkale (including Bozcaada and Gökçeada), Çankırı, Çorum, Diyarbakır, Elazığ, Erzincan, Erzurum, Giresun, Gümüşhane, Hakkari, Iğdır, Kahramanmaraş, Karabük, Karaman, Kars, Kastamonu, Kırıkkale, Kırşehir, Kilis, Malatya, Mardin, Muş, Nevşehir, Niğde, Ordu, Osmaniye, Rize, Samsun, Siirt, Sinop, Sivas, Şanlıurfa, Şırnak, Tokat, Trabzon, Tunceli, Van, Yozgat and Zonguldak;
- Normal regions are those other than the above-mentioned.

Qualified investments

All investments eligible for state aid can be realised in Normal and Priority Regions and Organised Industrial Zones, as classified by the Ministry of Industry and Trade. However, in developed regions only special sectors can be granted investment incentives.

In addition to the above, investments to be realised in Free Trade Zones, which are considered as regions out of the customs border of the country with regard to the national customs and tax legislation, may also be granted an IIC on the condition that the investment falls into one of the categories below:

- Research and Development investments,
- Investments related to environmental protection,
- Priority technological investments which are determined by the High Commission of Science and Technology or TUBITAK (The Scientific and Technical Research Council of Turkey),
- Investments aiming to improve regional imbalances.

Note that state aid granted to investments to be realised in Free Trade Zones under an IIC is limited exclusively to credit allocation from the Investment Incentives Fund.

3.3 Minimum Investment Amount and Capital Requirement

In order to issue an IIC, the minimum fixed amount of investment, except in the case of small –and medium- sized corporations, shall be:

- Priority development regions: YTL 200,000
- Other regions: YTL 400,000

The minimum investment requirement is applied as 25% of the above amounts for IIC applications to be made by financial leasing companies.

The minimum equity ratio of 20% is generally required for the financing of the investment. However, there is no minimum equity ratio for investments relating to the construction of ships and yachts, the importation of planes and helicopters and build-operate-transfer types of investments, leasing investments of financial leasing companies, investments of public institutions and investments in the scope of Build-Operate or Build-Operate-Transfer model.

3.4 State Aid to be Granted

Customs duty and fund exemption

The import of machinery and equipment (excluding raw materials, intermediate and operating products) is exempt from Customs Duty and the Mass Housing Fund contribution, which is otherwise payable under the Decree on Import Regime. In order to benefit from this incentive, the said machinery and equipment should be included in the IIC.

Investment allowance

The former investment allowance application has been abolished as of April 2006 under a new law enacted by the Parliament and subject to the approval of the President. The amended provision introduces restrictions on the investment allowance rights carried from previous years. Accordingly, the investment allowance carried from previous years will only be utilised in the years 2006, 2007 and 2008.

The investment allowance application used to be a tax exemption granted to income or corporate taxpayers and can be briefly defined as a deduction of a certain proportion of the investment cost from the corporate income tax base. The tax exemption to be applied is equal to the investment allowance base multiplied by the granted investment allowance rate. According to this application the investment allowance right that could not be benefited from in the related year due to lack of sufficient profit could be indexed against inflation and carried forward without any time limit.

VAT exemption

In accordance with the VAT law, the sale of machinery and equipment to be used for production purposes to tax payers holding an IIC where the machinery and equipment concerned are included in the IIC concerned shall be exempt from VAT. This exemption also applies to the transfer of the IIC or machinery and equipment purchased under the IIC.

Further information on investment incentives may be obtained from the PwC booklet on this subject.

IV. FREE TRADE ZONES

The zones are primarily designed to encourage investment and production in order to increase export from Turkey, to encourage foreign investment and technology that is not primarily directed at the Turkish market, to provide cheaper and quicker income for the economy and benefit from foreign financing sources.

The areas within the free-zone boundaries are treated as extraterritorial for customs duty purposes. Goods moving between Turkey and the zones are treated for all purposes as exports or imports. However, operations within the zones are subject to the supervision of the zone management (and of the customs authorities) to whom regular activity reports must be submitted. Consequently, there is a requirement for zone users to maintain full accounting records (in Turkish) in respect of their activities. These accounting requirements extend to inventory records. Customs duty is levied on any unexplained inventory losses as though the goods had been imported into the country.

Turkish Labour Law applies within the free zones. The zone management is required to approve and, where appropriate, supervise employee training programs and employment policies. Employment contracts are mandatory for any employment period lasting for more than one month; copies of these contracts must be filed with the zone management. The social security system also applies to the zones. Moreover, foreigners working within the free zones require a work permit, a working visa and a residence permit in order to be eligible to work and reside in Turkey.

The right to operate in a free zone is conferred by an operating license obtained from the Undersecretariat of Foreign Trade, which reviews the application for conformity with the objectives and types of activity specified by the Economic Affairs Coordination Council. Priority is given to applications that increase export and export-oriented production and investment; employment and value added; make positive contributions to the balance of payments; bring new technologies; and will not enter into negative competition with Turkey's potential exports.

Tax advantages

Operations in the free zones qualify for investment, but not for export, incentives. The taxation advantages of operating in the zone are as follows.

- No VAT.
- No Corporate Tax for manufacturing income of production companies
- No customs duties on goods imported from abroad to the zone.

4.1 Personal and Corporate Income Tax Exemption

The earnings of taxpayers, who have obtained a license of operation prior to 06.02.2004, are exempt from Corporate Tax until the expiry date of the operating license. In the meanwhile, manufacturing firms that have obtained a manufacturing license are exempt from corporate tax on earnings related to the sale of their manufactured goods until the end of the financial year of full membership of Turkey to the European Union. Please note that manufacturing firms, which will also obtain operation licenses after 06.02.2004, are eligible to benefit from corporate tax exemptions. This exemption does not include withholding tax payments and profit distribution from FTZs which are subject to withholding tax.

Income tax exemption on the salaries for services carried out in FTZ will be applicable until 31.12.2008 for firms that obtained an operation license before 06.02.2004. Accordingly their employees' salaries for their services carried out in Free Zones are not taxable until 31.12.2008. However, if the expiry date of the FTZ Operation License of the company is before 31.12.2008, the expiry date of the Operation License will be taken into consideration in the determination of the expiry date of the income tax exemption on salaries.

Please keep in mind those FTZ operators who obtained their operating license after 06.02.2004 or renewed their licenses after 06.02.2004 shall not be able to benefit from an income tax exemption for their employees' salaries, even if they are operating in the manufacturing sector.

4.2 Tax, Fee and Duty Exemption

Operations in Free Zones are exempt from tax, duty and fee until 31.12.2008. However, the operation license should have been obtained before 06.02.2004 in order to benefit from this exemption.

Export financing

Eximbank provides various credits available for the financing of import and export orientated operations. Such credits are negotiated on an individual basis. The terms

and rates of these credits vary from case to case and the details related with these credits may be determined on request.

Further information on Free Trade Zones may be obtained from the PwC booklet on this subject.

V. LICENSE, KNOW-HOW AND TECHNICAL ASSISTANCE AGREEMENTS

There is no requirement for such agreements to be registered with any governmental body under the Foreign Investment Legislation.

5.1 Cost Allocation

Communiqué No.33 of the Corporate Income Tax Law provides explanations regarding the allocation of costs incurred by holding companies. In accordance with the said communiqué, only those allocated costs meeting the conditions stated below shall be allowed as deductible expenses for corporation tax purposes.

- Costs should be related to services actually benefited from by the Turkish company.
- The nature and type of services provided should be detailed on the invoice issued.
- If an invoice is issued for more than one service category, then the fee corresponding to each service type should be specified on the invoice.
- A fair cost allocation key should be used and applied consistently.

In respect of the conditions stated in Communiqué No.33, service fee payments to the parent company should be in return for services actually benefited from and services should be substantiated with verifying documents (i.e. type of service, period, and place of service). Fees for services included in the Service Agreement should be determined on an arm's length basis. Services rendered to the Turkish company as well as fees corresponding to each service type should be specified on the invoice. Additionally, details of such fees should be attached to the invoice.

However, in practice, the Ministry of Finance has always taken a negative approach towards cost allocation from the parent or sister company resident abroad. Nevertheless, it is believed that if there is a duly signed service agreement, the services concerned have been actually received that can be verified through proper documents and the terms and conditions of the agreement are in line with the fair market conditions, the associated service fee payments should be tax-deductible. We think that an audit report obtained from an independent auditor, which indicates that cost allocation has been performed fairly and in line with the provisions of the agreement, would be of assistance for substantiation purposes.

The draft law aims to eliminate these ambiguities regarding cost allocation. With the new law, while determining the taxable income of non- resident corporations

generated from their branches established in Turkey, the cost allocation of general administration expenses from the headquarters or from other foreign group companies or branches are allowed, subject to below conditions:

- The expenses concerned must be related to the generation and maintenance of income in Turkey; and,
- The portion of the costs to be allocated the Turkish branch must be calculated in line with the cost allocation keys determined in compliance with the arm's length principle.

5.2 Taxation of License, Know-how, and Technical Assistance Payments to Abroad

Taxation of license, royalty, and know-how payments differs from taxation of technical assistance and management services. This is due to the classification of such payments amongst different income types.

Income earned from license, know-how, and royalty is deemed as “income from intangibles” whereas income from technical assistance and management fees is considered as “income from independent professional services”.

License, know-how payments

The overseas company, to whom the payment is made, is considered as a “limited taxpayer” and is subject to taxation on income earned in Turkey through withholding.

Under Turkish tax legislation, the withholding tax rate on such payments is 22% (15% if the draft law is enforced). However, the bilateral tax treaties to which Turkey is a party provide tax advantages and generally reduce the withholding tax rate to 10% as those types of payments are considered as royalties.

Technical assistance and management service fees

Technical assistance and management service fees are treated as independent professional services (IPS) for the implementation of Turkish tax legislation and the bilateral tax treaties of Turkey.

Under local legislation, income derived by a non-resident company from IPS is subject to 22% withholding tax (15% if the draft law is enforced). However, the

bilateral tax treaty between Turkey and the country of residence of the foreign company may eliminate Turkey's taxation right on the income derived from IPS in Turkey.

Under the provisions of most of Turkey's bilateral tax treaties, in order for Turkey to tax IPS fees derived as such, the services must be rendered in Turkey and one of the conditions stated below must be present.

- The foreign company has a permanent establishment in Turkey through which the services or activities are performed; or
- The period of the services in Turkey exceeds an aggregate of 183 days in any continuous period of 12 months (in some treaties, in the calendar year concerned).

If Turkey gains the taxation right, 22% withholding tax on the gross service fee payments is applied in line with local regulations.

VAT on license, know-how, and technical assistance fee payments to abroad

Under Turkish VAT law, Turkish resident companies making payments to abroad are held responsible for the payment of VAT under the so-called "reverse charge mechanism".

VI. RELATED PARTY TRANSACTIONS

6.1 Thin Capitalisation

Thin capitalisation is a consideration in cases where loans are obtained from related parties, the loans are continuously used within the company and the ratio of the loans to the shareholders' equity is high in comparison to similar companies in the same sector.

Under the current legislation, according to article 16 of the Corporate Income Tax Law, if a loan fulfils the three conditions listed below, it may be classified as thin capital.

- a) Direct or indirect corporate relationship, or close and permanent economic relations with the lender, and
- b) Continuous use of the loan, and
- c) Ratio of the loan to the shareholders' equity is excessive in comparison with similar companies in the sector.

Conditions (b) and (c) are somewhat subjective and the ambiguity of the conditions gives rise to many different interpretations.

The general understanding of the Tax Supreme Court of the term "continuous use" of the loan is that it will be used for longer than one year. There is no specified debt to equity ratio given in the legislation; however, in principle, the higher the ratio, the higher the risk of thin capitalisation. Due to the difficulty in determining comparable debt/equity ratios of similar companies, there is some uncertainty as to what the ratio of the loan to the shareholders' equity should be. Generally, in evaluating debt/equity ratios the Tax Supreme Court tries to find an exact match of a company in the same sector.

Many different opinions exist in case law regarding this issue; however, the prevailing opinion is that thin capitalisation risk would be considered very high where this ratio exceeds 50% (1:2).

The outcome of a loan being deemed as thin capital would be that interest expenses incurred on the loan are treated as non-deductible expenses for corporate income tax purposes. Any foreign exchange losses occurring on such a loan may also be treated as non-deductible in determination of the taxable income by the tax authorities.

In the meantime please note that, the thin capitalisation issue has been re-arranged in the draft law, and international practices have been taken into consideration as much as possible. According to the draft law, if the ratio of the borrowings from shareholders or from persons related to the shareholders exceeds twice of the shareholders' equity of the borrower company at any time within the relevant year, the exceeding portion of the borrowing will be considered as thin capital.

Accordingly, under the new thin capitalisation regulations, the ratio of the loans received from related parties to shareholders' equity will be considered as two to one. Except for the loans received from credit institutions that provide loans only to related companies, half of the loans received from related banks and similar institutions are to be taken into account during thin capitalisation calculations. In other words, the loans received just from these institutions will not be considered as thin capital until the amount of the borrowing exceeds four times the shareholders' equity.

Based on the draft law, in addition to the interest paid or accrued, foreign exchange losses and other similar expenses calculated over the loans that are considered as thin capital are treated as non-deductible for corporate income tax purposes.

Draft law also regulates the borrowings which will not be considered within the scope of thin capitalisation. Accordingly these borrowings are:

- Loans received from third parties based on non-cash guarantees provided by the shareholders or persons related with the shareholders.
- Loans obtained by related parties from banks and other finance institutions or from capital markets that are wholly or partially on-lent with the same conditions.

In the scope of Income Tax Law and Corporate Income Tax Law, the interest paid or accrued and foreign exchange losses calculated on thin capital are re-classified at the end of the relevant fiscal year as distributed dividend from the perspective of the borrower and as dividend received from the perspective of the lender, and as repatriated profit for non-resident taxpayers. In order to prevent double taxation, previously applied taxation to the lender that received interest or derived exchange gains will be amended.

For a company that uses thin capital, there will be an additional tax assessment with a penalty for the interest, foreign exchange differences and for withholding tax over dividend distribution. In order to make adjustments in the lender company, the assessed taxes at the borrower company will be required to be finalised and paid.

6.2 Transfer Pricing

The basic transfer pricing rules of Turkey are similar to those of most other developed jurisdictions; however, there is no definitive legislation relating to this subject. The Turkish tax regulations do not contain detailed rules regarding transfer pricing and the explanations of the Ministry of Finance and court rulings do not provide specific guidelines.

According to article 17 of the Corporate Income Tax Law, if a company engages in buying, selling, manufacturing, construction transactions or services with its own shareholders, or with real or legal persons who are related to its shareholders, or with real or legal persons directly or indirectly related to or under the influence of the company by means of management, supervision or capital, where the prices or amounts are clearly higher or lower than those of a similar nature, or are free of charge, then the related earnings would, partially or entirely, be deemed as a disguised distribution.

In other words, the transactions between related parties must be carried out in accordance with "the arm's length principle".

There are considerable amendments in the draft law with respect to transfer pricing and OECD guidelines have been taken into consideration as the basis of transfer pricing applications. The basic aim of the new article is to assure that transactions between the related parties are carried out in line with the "arm's length" principle as in the previous law.

The methods prescribed by the new law for ensuring "arm's length" prices are the traditional transaction methods stipulated in the OECD transfer pricing guideline, which are;

- Comparable uncontrolled price method
- Cost plus method
- Resale price method

The arm's length prices between the related party transactions will be determined by applying one of the methods stated in the law which is most relevant to the company's transactions. It is possible to have a written agreement in advance from the Ministry of Finance regarding transfer pricing policies of a corporation, at the discretion of the taxpayer. If the conditions do not change, then the agreement will be valid for three years. The agreement will be binding and certain for both the tax administration and the taxpayer. It is stated that the procedures and detailed rules regarding transfer pricing will be set out by the Council of Ministers.

6.3 Treatment of Group Companies

Consolidation of the accounts of group companies for tax purposes is not allowed in Turkey since each company is regarded as a separate taxpayer.

VII. TECHNICAL INSOLVENCY AND CAPITAL ADEQUACY

7.1 Technical Insolvency

Article 324 of the Turkish Commercial Code states that where half of a company's capital is lost according to the latest financial statements, either as a result of operational losses, or for other financial reasons, then the board of directors should draw up an interim balance sheet using the market values of the assets as a basis. In a situation where the company has lost two thirds of the paid-up capital according to the interim financial statements prepared as such, then the board of directors is required to take action and notify the general assembly. The Commercial Code provides the following alternatives to the general assembly.

Alternatives set out in the Commercial Code

- The general assembly may decide to complete the missing portion of the capital by means of a cash injection.
- The general assembly may decide to satisfy the regulation with the remaining capital (i.e. decrease of capital) and to continue performing its activity.

Where the general assembly does not adopt a solution, by either adding capital, or continuing with the remaining one third of the capital, and if the assets of the company are not sufficient to cover the debts of the creditors, the board of directors must immediately inform the Commercial Court. The company may then be ruled to be in an insolvent position by the Commercial Court.

However, if it can be ascertained that the situation of the company could be improved, then the court may defer the adjudication of insolvency on application by the board of directors or by a creditor. In this situation, the court shall take the necessary measures for the protection of the assets of the company, such as drawing up of an inventory or the appointment of a trustee.

In other words, a company does not become insolvent automatically. The board of directors is required to take the necessary actions and if the choice is to apply to the court, the above process should be completed.

7.2 Reserve for Loss

According to the Turkish regulations, companies are only allowed to realise a capital increase after having improved their financial situation. In other words, before the capital increase the Company's equity should be at least equal to the paid-up capital in order to counterbalance the negative effect of the loss on the equity of the Company. For this purpose, shareholders can inject cash or convert their receivables from the company, if any, to a reserve account to cover losses. The company and shareholders do not need to conclude an agreement for this purpose. The amount concerned can then be transferred and be recorded in the balance sheet as part of the equity.

The reserve for losses;

- cannot be distributed to the shareholders,
- cannot be considered as a part of their share in the Company,
- may not be utilised during a capital increase (please note that once the debt/equity ratio is improved, these funds can be contributed into the capital).

It should also be mentioned that the previous year losses covered in this way would, according to tax legislation, still be eligible as a tax-deductible item.

7.3 Capital Adequacy and Borrowing Limits

The Turkish tax regulations do not provide predetermined debt to equity ratio. The exceptions to this general rule are thin capitalisation (only in case of related party loans) and technical insolvency risk referred to in the preceding paragraphs, which might be the case due to the financial burden created by excessive borrowing.

The losses incurred in the earlier years of operation do create dividend blocks since profit distribution cannot be realised before the deduction of prior years' losses from the profits generated in the subsequent years.

VIII. EXIT ROUTE - CAPITAL GAINS

8.1 Share Disposals

Please note that our explanations below do not relate to capital gains generated from trades made at Istanbul Stock Exchange (ISE). Effective from 1.1.2006 capital gains derived from trading of stocks, that are held less than one year at ISE is governed by a special tax regime, which brings 15% withholding to be applied by local intermediary banks and brokerage houses. This 15% withholding regime is only applicable for stocks purchased after 1.1.2006 and will be applicable until 31.12.2015. The 15% withholding is the final taxation for resident and non-resident individual investors as well as non-resident corporations which do not have a permanent establishment in Turkey and no further filing is required for such investors. For resident corporations and non-resident corporations having a permanent establishment in Turkey, 15% withholding is credited against their corporate tax liability.

Companies

Capital gains derived from the sale of shares in a local company by either a foreign company or a local company are, in principle, taxable. There is no separate capital gains taxation in Turkey.

Taxation of capital gains derived from the sale of shares between non-residents (individuals or corporations) differs based on the legal status of the company whose shares are held. In case of a joint stock company, the sale of shares between non-residents does not give rise to taxation in Turkey. There is no difference between a majority and a minority sale with respect to tax treatment. Sales of shareholding in a limited company by non-resident corporations are subject to tax in Turkey through the filing of a special tax return. However, foreign exchange gains are not included in the taxable income (except for those derived from continuous trading of securities).

The existence of a bilateral tax treaty between the country of residence of the non-resident shareholder and Turkey may generally result in the avoidance of payment of capital gains tax in Turkey on the condition that the holding period exceeds one year. In general, this is also true for the capital gains arising from the sale of shareholding in a limited company.

In principle, capital gains realised from a sale is included in the corporate income of the company and are subject to full taxation. However, there is a tax saving mechanism where the capital gains from the sale of the subsidiary shares derived by tax resident companies eligible for taxation are exempt from corporate income tax on the condition that the shares have been held for over two years and gains are added to the paid-up capital of the tax resident company. Please note that in the draft law, this exemption is limited to 75% of the capital gains generated as such.

Furthermore, if the conditions for inflation accounting are realised, the book values of non-monetary items are subject to adjustments based on the Wholesale Price Indices. Thus, during the disposals of shares, adjusted values against inflation should be taken into considerations. However shares held by foreign companies in a Turkish company are not eligible for inflation adjustment.

Individuals

Domestic and foreign individuals are not subject to income tax on capital gains arising from the sale of their shares of a joint stock company, provided that the shares have been held for at least two years. Note that securities other than shares (i.e. participations in limited companies) cannot benefit from this exemption. If shares of a joint stock company are sold within two years of acquisition, or the participation rights of a limited company are sold regardless of the holding period taxable income is determined after an adjustment for the effects of inflation.

The taxable income is the difference between the sale price and inflation-adjusted acquisition cost and expenses related to disposal. The Turkish lira acquisition cost of shares can be adjusted by using the indices announced by the State Institute of Statistics for every month that they have been held, excluding the month of sale. The YTL 12,500 (subject to annual adjustment; the current figure corresponds to US\$ 9,350 at the prevailing foreign exchange rate) of gains is exempt from tax. For resident individuals, the tax is paid through submission of an annual income tax return. Non-resident individuals are required to file a special tax return and pay the associated tax for capital gains within 15 days (30 days according to the draft law) following the transaction.

Please note that foreign exchange gains are not included in the taxable income of non-resident individuals.

8.2 Asset Disposals (companies only)

The proceeds of asset disposals are taxable as a part of the commercial income of the seller company. On the other hand the seller company may also benefit from the corporate tax exemption cited in section 8.1 provided that the real estate has been held for more than two years. Please note that the seller is also exempt from VAT and stamp tax under the said tax exemption.

IX. MERGER & DEMERGER

9.1 Merger & Take-Over

As a general rule, transfer of assets from one entity to another should be realised at fair market value and capital gains arising from the sale should be incorporated to the corporate income of the company selling the assets. There is no separate capital gains taxation in Turkey. The same principle is followed in the case of a merger.

Merger transactions take place at market and/or net realisable value and tax is payable on the resulting uplift over book values. Taxation arises as the hidden reserves of the dissolving company are realised. Additionally, any brought forward losses in both of the merging companies are lost.

However, there is one specific exception to this principle defined as a “take-over” in the Corporate Income Tax Law. Take-over is defined as the transfer of the balance sheet of the company (assets and liabilities over their book values) as of the take-over date to another company. The main requirement for a take-over is that the location of the two companies’ legal or business domiciles must be in Turkey and that the legal status of both companies must be same. Please note that no taxation arises for the capital gains since the assets of the dissolving entity are transferred to the acquiring entity at book value.

The losses of the dissolving entity that are subject to a take-over will be deductible by the acquiring entity, providing that;

- The losses that are carried forward for at most five years are separately indicated in the corporate income tax return on a yearly basis,
- Both companies are operating in the same industry,
- The corporate income tax returns of the dissolving entity relating to the past five years have been filed on time,
- The total loss to be deducted shall not exceed the total assets of the dissolving company at the take-over date.

Please note that the draft law regulates the provisions regarding mergers and take-overs to a great extent so as to introduce serious measures to harden the conditions for utilising the carried forward losses of the dissolving entities due to mergers and spin-offs. Accordingly, the amount of carried forward losses of the dissolving

company to be offset in the merged company is limited to the equity as of the date of the merger, instead of the total assets as in the former application. In addition, the amount of carried forward losses to be offset in spin-off transactions cannot exceed the part of the equity of the demerged company that is transferred and it must be proportionate to the transferred assets.

In the case of taxable mergers, any profit arising from the merger operation is subject to corporate income tax at a rate of 30% (20% if the draft law is enacted). In addition, assets including inventories and goodwill, if any, transferred to the other parties would be subject to VAT. Note that the absorbing company cannot use “carried forward VAT” and losses of the dissolving company.

In the event of a “take-over”, only the taxable profit derived by the dissolved company until the take-over date will be subject to corporate tax. No taxation will arise due to the take-over. Note that merger transactions are also exempted from VAT, stamp tax and any other fees except for the 0.04% Competition Authority Contribution applied on the amount of the capital increase.

9.2 Demerger & Share Swaps

Demerger as a whole is defined as dissolving without liquidation, whereby all assets, payables and receivables are transferred to two or more resident corporations over their book value, in return for participation shares to be provided to the shareholders of the dissolving entity. Please note that demerger as a whole is not defined in the Commercial Code yet, thus this type of demergers cannot be carried out at present.

In partial demerger, the production and service facilities of the companies together with their related tangible and intangible assets, properties and participation shares are transferred to other existing or newly established companies over their book values without liquidation of the former company. The acquiring entity gives its own shares to the demerged company or its shareholders in return for the above assets, which are contributed as capital in kind to the acquiring company. Note that in order to realise tax-free demergers, the transferee company must be resident in Turkey, whereas the transferor may be either resident or a non-resident (i.e. a branch established in Turkey).

Share swap is defined as the acquisition of the shares of another entity, taking over the majority of the shares and the company management, in return for participation shares of the first entity.

Under the relevant provisions and subject to certain conditions being met, income arising directly from the demerger itself shall not be taxable. No VAT will be calculated over transfer of assets in demergers. Demerger transactions are exempt from any transaction taxes and fees, including stamp tax and banking and insurance transactions tax as well.

X. LIQUIDATION

Any profits arising from the liquidation (i.e. from the sale of the company's assets) are taxed as if they had been earned in the ordinary course of business. The company enters into the liquidation period from the date the liquidation process is started. The period until the end of the calendar year in which the liquidation process is started, and subsequent calendar years until the finalisation of the process, is considered as the liquidation tax period. Instead of tax years, the company files tax returns based on its liquidation and pays taxes, if any. At the end of the liquidation process, final profit or losses is calculated. Any loss over the period of the liquidation of a company may be carried back over the number of years within the period of liquidation, and overpaid taxes can be reclaimed.

For liquidation process, one liquidation officer is assigned by the court and held responsible for carrying out the liquidation operations. The liquidation officer requests an inspection from the tax office within a month following the end of the liquidation process.

In the draft bill, provisions that will apply in the event of abandonment of liquidation are regulated. The timeline for submission of a liquidation declaration has been extended from 15 days to 30 days.

XI. FILING REQUIREMENTS & PAYMENT OF TAXES

11.1 Tax Year

Corporate income tax is generally assessed on a calendar year basis. However, companies may adopt any 12-month fiscal period appropriate to their business, subject to the approval of the Ministry of Finance.

11.2 Corporate Income Tax

A corporate income tax return is due to be filed by the 15th (25th in the draft law) day of the fourth month after the end of the accounting year (i.e., in case the calendar year is taken as an accounting year, the return is due by April 15 of the following year). The corporate income tax is payable by the end of the month in which tax return is due to be filed (i.e. by the end of April for companies using calendar year as fiscal year).

The balance sheet and income statement for the relevant period must also be filed together with the corporate income tax return.

11.3 Dividend Withholding Tax

The dividend withholding tax return is due to be filed by the 20th day of the month following the dividend distribution. The tax is payable on the 26th day of the following month.

11.4 VAT

The tax period for VAT purposes is one month. Taxpayers or the ones who are responsible for the payment of the value added tax under the reverse charge mechanism must file their tax returns with the local tax office by the 20th of the following month. The VAT is payable on the 26th day of the following month.

11.5 Advance Corporate Income Tax

An advance corporate income tax return must be filed by the 10th of the second month following the quarterly period and is payable on the 17th of the same term. The advance taxes paid during the year are offset against the ultimate corporate income tax liability of companies determined in the related year's corporate income tax return.

11.6 Withholding Tax

A withholding tax return is due to be filed by the 20th day of the following month and the tax is payable on the 26th of the same term. Should the number of employees be less than 10, then the return can be filed quarterly by submitting a petition to the tax office to file quarterly tax returns.

11.7 Social Security Premium Notifications

Social security premium notifications are due to be filed by the end of the following month to the Social Security Institution. The premiums withheld from the salaries of the employees are also payable within the same period.

XII. LEGAL BOOKS & GENERAL ACCOUNTING PRINCIPLES

12.1 Legal Books and Records

Corporations including non-resident corporations having branches in Turkey are required to keep legal books based on the Uniform Chart of Accounts, which requires the use of accounting codes assigned for each account. The legal books must be taken as a base for the issuance of financial statements.

The Tax Procedural Law requires the maintenance of the following legal books, which must be authenticated by a public notary before the commencement of the accounting year.

- Journal ledger
- General ledger
- Inventory ledger

The legal books and the accounting records must be kept in Turkish and in Turkish currency terms. Computerised or dual language records are allowed provided that the requirements of the Uniform Chart of Accounts and the Tax Procedural Law are complied with.

Companies fulfilling certain conditions (i.e. the company must have a minimum paid-up capital equivalent of US\$100 million and at least 40% of its shares must be held by non-residents) may be allowed by the Council of Ministers to maintain their legal books in the functional foreign currency terms, instead of Turkish currency.

Effective from 01.01.2005, the legal currency unit of Turkey is YTL (New Turkish Lira) and YKr (New Kuruş).

The statute of limitations imposed by the tax legislation and the Turkish Commercial Code is five years and 10 years, respectively. Accordingly, the legal books must be retained for at least five years for tax purposes.

12.2 Recognition of Income and Expense - Accruals

Accrual basis accounting is generally applicable for corporate income tax purposes. In principle, liabilities are to be recorded when the invoices pertaining to goods or services are received. However, an exception to the general rule exists for service

charges at the year-end, the amounts of which are known in advance (electricity, water bills etc.).

Capital Markets Board regulations, applicable for public companies, also require all revenues and expenses to be accrued in the related accounting period.

12.3 Foreign Currency Transactions

The Turkish Tax Procedural Law requires maintenance of legal books in Turkish lira terms. Accordingly, all foreign currency transactions are translated into local currency at the prevailing foreign exchange rate at the transaction date (i.e. invoice date). Assets and liabilities denominated in foreign currency are re-valued at the year-end based on the exchange rates announced by the Ministry of Finance. Foreign exchange gains or losses emanating from the valuation are posted to the related accounts and they are, in principle, taken into account in determination of the tax base.

12.4 Bad Debts

Under the Turkish Tax Procedural Law, receivables shall be treated only as bad debts, and provisions shall be made for such if the receivables have been taken to the court or if legal proceedings have been commenced.

In the existence of one of the two conditions stated above, provisions set aside for such receivables can be legally expensed. However, such receivables must still be shown on the balance sheet as “doubtful receivables”. The amount of provisions shall not be higher than the actual receivables. In case of receivables with a guarantee, the provision will not include the guaranteed amount.

In case receivables are collected after setting aside provisions, then the amount collected will be recorded as income. If as a result of the court action or legal proceedings, it is decided that such receivables shall not be collected, then the provision account is closed and the related receivables are written off.

12.5 Bad Debts Written Off

Receivables that shall not be collected based on a court ruling, or on a convincing document/certificate verifying that the receivables are not collectible, shall be recorded as an expense at their book value.

12.6 Inventory Valuation

The inventories are valued at their cost value, however they are adjusted against the effects of inflation using the Wholesale Price Indices if the inflation adjustment conditions are realised. Under the regulations of the Tax Procedural Law, for goods produced the cost value includes direct and indirect production costs. It is optional to allocate general administration expenses into the cost of goods produced.

The inventory may be valued by using the following valuation methods:

- Actual or moving weighted average
- FIFO

12.7 Inflation Accounting

Inflation accounting system has been introduced in Turkey as at the beginning of the year 2004. In the event of the cumulative inflation exceeding 100% in the last three years and if the annual inflation at the end of the current tax period exceeds 10%, the inflation adjustment would be made. The inflation adjustment is not applicable if both of these conditions are not realised simultaneously. Inflation Accounting can be defined to recalculate the financial amounts of the non-monetary items by multiplying them with the adjustment rate in order to show their real values at the time when the financial statements are structured.

In the fiscal year 2005, the Ministry of Finance announced with a circular that inflationary accounting in effect as of 2004 would not be applied for the first quarter of the fiscal year 2005 since the conditions for inflation adjustment applications had not been realised. Inflation adjustment rules have not been applied since then due to the same reasons.

12.8 Loss Carryovers

Losses can be carried forward for up to five years, but they cannot be carried back.

XIII. TAXATION OF EMPLOYEES IN TURKEY

In accordance with the Turkish tax regulations, all employees working under a resident employer are included into the local payroll. The employer withholds taxes, funds and other duties on income at source and the employees receive the net amount after such deductions, as explained below.

13.1 Employment Income Tax

Taxable income includes all amounts whether in cash or in kind arising from employment in Turkey. Employment income earned is currently taxed at the following rates, according to the income bracket:

Lower Bracket		Upper Bracket	Tax On Lower	Tax Rate (%)
0	-	6,600	0	15
6,600	-	15,000	990	20
15,000	-	30,000	2,670	25
30,000	-	78,000	6,420	30
78,000	-		20,820	35

In the meanwhile, there is a new law enacted as of April 2006, which is subject to the approval of the President at the date of publishing of this guide, which amends the income tax brackets as the following:

Lower Bracket		Upper Bracket	Tax On Lower	Tax Rate (%)
0	-	7,000	0	15
7,000	-	18,000	1,050	20
18,000	-	30,000/40,000	3,250	27
40,000	-		9,190	35

Income tax withheld from the salaries of the employees is to be declared through withholding tax return by the 20th of the following month and should be paid on the 26th of the same term. However, in case of employment of less than 10 employees, a quarterly withholding tax return may be filed by submitting a petition to the tax office to file quarterly tax returns.

13.2 Social Security Contributions

All employees must belong to a social security scheme, which includes insurance for work-related accident and illness, sickness, pregnancy, disability, old age and death. Contributions as a percentage of gross salary are payable by individual employees and employers. Employee contributions are deductible in determining taxable income. Currently, office-based employees pay 14% and employers pay 19.5 % up to an upper earnings level of YTL3,451.50 (subject to annual adjustment) per month. That portion of the salary exceeding the upper limit is not subject to social security contributions. Social security contributions are declared and paid by the employer.

13.3 Unemployment Fund

Unemployment insurance premiums will be imposed on the employee and the employer at 1% and 2% respectively with an upper limit of YTL3,451.50 (subject to annual adjustment). Additionally, the government will also be required to contribute 1% on behalf of the employee. Under this practice, employees whose employment contracts are terminated will be entitled to unemployment benefit subject to certain conditions being met.

13.4 Stamp Tax on Payroll

A stamp tax of 0.6% applies on the gross amount of salary.

XIV. EXPATRIATE TAXATION IN TURKEY

Under the provisions of the Turkish income tax law, liability to Turkish individual taxation is based on the status of residency. Resident individuals are deemed as full taxpayers and are taxed on their worldwide income. Non-residents, on the other hand, are classified as limited liable taxpayers and are subject to Turkish tax only on their Turkish source earnings. In accordance with the local income tax rules, an individual will be deemed resident if his/her legal residence is in Turkey, or if (s)he stays in Turkey for more than six months in a calendar year. There is no special tax regime for expatriates.

Further information on expatriate taxation may be obtained from the PwC booklet on this subject.

APPENDIX I

a) Applicable withholding tax rates pursuant to article 94 of the Income Tax Law

Type of payment	Relevant paragraph	Withholding tax rate (%)
Salary payments	1	15-40
Copyright and similar payments listed in article 18	2/a	17
Payments to self-employed other than those listed in article 18	2/b	22
Progress payments made for construction work spanning more than one calendar year	3	5
Payments made to persons with limited tax liability on account of the sale of copyright and patent rights	4	25
Rent payments	5/a	22
Rent payments to foundations and associations for the leasing of their real estate	5/b	22
Rent payments made to cooperatives against the leasing of their real estate	5/c	22
Earnings obtained from portfolio management of type (A) investment funds and securities investment partnerships, earnings of risk capital investment funds and partnerships, earnings of real estate investment funds or partnerships.	6/a-i	0
Earnings from portfolio management of type (B) investment funds and securities investment partnerships.	6/a-ii	10
Dividends listed in subparagraphs 1, 2 and 3 of the second paragraph of article 75 distributed from resident corporations to resident real persons, to persons who are not liable to or exempt from to personal income and corporate income taxes (capitalization of profit will not be considered as profit distribution).	6/b-i	10
Dividends listed in Subparagraphs 1, 2 and 3 of the second	6/b-ii	10

paragraph of article 75 distributed from resident corporations to non-resident real and legal persons (except those who generate earnings through an office or a permanent representative in Turkey), and to non-resident entities who are exempt from to personal income and corporate income taxes (capitalization of profit will not be considered as profit distribution).

The amounts transferred to the headquarters over the earnings that are stated in article 75/2-4 of the Income Tax Law.	6/b-iii	10
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Income from government bonds and treasury bills.	7/a, b, c	0
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Interest income derived from bearer bonds and bonds payable to order	7/d, e, f	10
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Interest income from deposit accounts

- Interest income derived from foreign currency time deposits with a maturity date of

1) Up to 1 year (up to 360 days for financial institutions)	8/a-aa	24
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2) 1 year and over (360 days for financial institutions)	8/a-ab	18
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- Interest income derived from bearer deposit accounts

1) Demand deposits and callable accounts	8/b-ba	18
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2) Time deposits of up to 3 months (including 3 months)	8/b-bb	18
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3) Time deposits of up to 6 months (including 6 months)	8/b-bc	16
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4) Time deposits of up to 1 year	8/b-bd	12
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5) Time deposits of 1 year and over	8/b-be	7
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- Interest income from accounts payable to order

1) Demand deposits and callable accounts	8/c-ca	18
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2) Time deposits of up to 3 months (including 3 months)	8/c-cb	18
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3) Time deposits of up to 6 months (including 6 months)	8/c-cc	16
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4) Time deposits of up to 1 year	8/c-cd	12
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5) Time deposits of 1 year and over	8/c-ce	7
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- Others

1) The interest paid on the monies lent on the stock exchange money market among brokerage houses established according to Banks Law and Capital Markets Law No: 2499	8d-da	18
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2) Others	8/d-db	0
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Dividends paid to those extending interest-free loans	9/a	0
Dividends paid against income sharing certificates,	9/b	18
Dividends paid by private finance institutions on income sharing accounts with a maturity of		
– 30 and 90 days	9/c-ca	18
– 180 days	9/c-cb	16
– 360 days	9/c-cc	12
– Over 360 days	9/c-cd	7
From payments made to persons, excluding Main Dealers, selling tickets issued by the National Lotteries Administration and similar tickets issued by other persons, in the name of commission, premium etc	10/a	20
From payments made to door to door vendors selling goods, without an employment contract, of real and legal persons in the name of commission, premium etc	10/b	20
From payments made for agricultural products or services purchased from farmers for;		
• animals or their products and for products of hunting or fishing		
1) For purchases registered with the commercial stock market	11/a-i	1
2) For purchases of the non-registered	11/a-ii	2
• other agricultural products,		
1) For purchases registered with the commercial stock market	11/b-i	2
2) For purchases of the non-registered	11/b-ii	4
• services performed within the scope of agricultural activities,		
1) services to the Forest Directorate or to the related qualifying institutions on the forestation, maintenance of forests and similar services	11/c-i	2
2) payments for other services,	11/c-ii	4

• Payments made to farmers, for direct incentive and alternative crops	11/d	0
Commissions paid to PTT agents on account of this activity,	12	20

From payments made for the purchase of goods or services to merchants who benefit from tradesmen exemptions

• Payments for the purchase towels, socks, bed sheets, carpets and other handcrafted goods, and all kinds of souvenirs, rush mats, baskets, mobs, doormats, brushes, artificial flowers and similar goods or for service payment during the production of these goods	13/a	2
• Commission payments on the sale of negotiable instruments and stamps	13/b	20
• Payments for other purchase of goods	13/c	5
• Payments for other receipt of services (excluding those stated above, this provision shall apply to cases where the costs of service and good cannot be determined separately)	13/d	10

Repo Income	14	22
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By the retirement and aid funds having legal status, retirement and insurance companies,

– Payments made to those who leave the system without making any contribution for a period of 10 years,	15/a	15
– Payments made to those who leave the private pension system prior to obtaining the right to retire in spite of making contribution for a period of 10 years and payments made to those who make contributions for a period of 10 years and leave the system due to the compulsory reasons such death, disability or liquidation.	15/b	10
– Payments made to those who obtain the right to retire or those who leave the private pension system due to the compulsory reasons such death, disability or liquidation.	15/c	5

Over the investment allowance amounts benefited based on the pre-amendment regulations of Income Tax Law	Temp.Art. 61	19.8
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b) Applicable withholding rates pursuant to article 24 of the Corporate Income Tax Law (*)

Type of payment	Relevant paragraph	Withholding tax rate (%)
Salary payments	1	25
Payments to self employed		
a) Over earnings derived from petroleum exploration activities	2/a	5
b) Other	2/b	22
Income from immovable property		
a) Income from immovable property on activities performed under the Leasing Law	3/a	1
b) Others	3/b	22
Over the earnings stated in paragraph 1 article 30 of the Income Tax Law of limited liability corporate taxpayers not having a permanent establishment and permanent representative in Turkey	4	0
Over the interest income stated in the article 75 paragraph 2 and subparagraph 5 of the Income Tax Law;		
a) Interest income from government bonds	5/a	0
b) Interest income from treasury bills	5/b	0
c) Interest income derived from other bonds issued by Mass Housing, Civic Collaboration, and Privatization Authorities	5/c	0
d) Interest income derived from bearer bonds	5/d	10
e) Interest income derived from bonds payable to order	5/e	10
f) Others	5/f	10
Interest income from deposit accounts		
a) Interest income derived from foreign currency time deposits with a maturity date of		
aa) Up to 1 year (up to 360 days for financial institutions)	6/a-aa	24
ab) 1 year and over (360 days for financial institutions)	6/a-ab	18
b) Interest income derived from bearer deposit accounts		
ba) Demand deposits and callable accounts	6/b-ba	18
bb) Time deposits of up to 3 months (including 3 months)	6/b-bb	18
bc) Time deposits of up to 6 months (including 6 months)	6/b-bc	16
bd) Time deposits of up to 1 year	6/b-bd	12
be) Time deposits of 1 year and over	6/b-be	7

c) Interest income from accounts payable to order		
ca) Demand deposits and callable accounts	6/c-ca	18
cb) Time deposits of up to 3 months (including 3 months)	6/c-cb	18
cc) Time deposits of up to 6 months (including 6 months)	6/c-cc	16
cd) Time deposits of up to 1 year	6/c-cd	12
ce) Time deposits of 1 year and over	6/c-ce	7
d) Others		
da) Interests paid for the money in the stock exchange money market among the banks and the intermediary institutions, which are established according to the Capital Market Law	6/da	18
db) Other than those cited in (da)	6/db	0
a) Dividends paid to those extending interest-free loans	7/a	0
b) Dividends paid in return of Profit and Loss Partnership Document	7/b	18
c) Dividends paid by private finance institutions on income sharing accounts with a maturity of		
ca) 30 and 90 days	7/c-ca	18
cb) 180 days	7/c-cb	16
cc) 360 days	7/c-cc	12
cd) Over 360 days	7/c-cd	7
Interest on receivables;		
a) Interest on loans payable to foreign states, international institutions, or foreign banks and corporations	8/a	0
b) Others	8/b	10
Interest income from marketable securities listed in article 75/10 of the Income Tax Law	9	12
Payments received from the sale, transfer or assignment of royalty, patent rights, copyrights, and other similar intangible rights	10	25
Interest income from marketable securities stated in article 75/14 of the Income Tax Law	11	22

(*) In the draft Corporate Income Tax Law, a flat rate of 15% is defined for withholding tax, while the Council of Ministers is granted the authority to decrease the withholding tax rate to 0% and to increase it to the corporate income tax rate.

APPENDIX II

List of the countries with which Turkey has a bilateral tax treaty and relevant rates stated therein

	Dividends (1) (2)	Interest (2) (3)	Royalties	Technical Assistance Fees (4) (5)
Non-treaty countries	10	10	22	22
1 Albania	5-15 (6)	10	10	22 (7)
2 Algeria	12	10	10	22
3 Austria	25-35 (8)	15	10	10-22 (9)
4 Azerbaijan	12	10	10	22
5 Bangladesh	10	10	10	22
6 Belarus	10-15 (10)	10 (11)	10	22
7 Belgium	15-20 (12)	15	10	22
8 Bulgaria	10-15 (13)	10	10	22(7)
9 China, P.R.	10	10	10	22
10 Croatia	10	10	10	22(7)
11 Czech Republic	10	10	10	22
12 Denmark	15-20 (14)	15	10	22
13 Egypt	5-15 (6)	10	10	22
14 Estonia	10	10	5-10(24)	22
15 Finland	15-20 (14)	15	10	22
16 France	15-20 (15)	15	10	22
17 Germany	15-20 (15)	15	10	22
18 Greece	15	12	10	22
19 Hungary	10-15 (13)	10	10	22
20 India	15	10-15 (16)	15	15(42)
21 Indonesia	10-15 (17)	10	10	22
22 Iran	15-20 (14)	10	10	22(7)
23 Israel	10	10 (18)	10	22
24 Italy	15	15	10	22
25 Japan	10-15 (19)(20)	10-15 (21)	10	15
26 Jordan	10-15 (19)	10	12	22 (7)
27 Kazakhstan	10	10 (22)	10 (22)	22 (7)
28 Korea, Rep. of	15-20 (14)	10-15 (23)	10	22
29 Kuwait	10	10	10	22 (7)
30 Kyrgyzstan	10	10	10	22
31 Latvia	10	10	5-10 (24)	22
32 Lithuania	10	10	5-10 (24)	22
33 Luxemburg	10-20 (41)	10-15(23)	10	22
34 Macedonia	5-10 (6)	10	10	22 (7)

35	Malaysia	10-15 (25)	15	10	22 -
36	Moldova	10-15 (26)	10	10	22 (7)
37	Mongolia	10	10	10	22 (7)
38	The Netherlands	15-20 (27)	10-15(23)	10	22
39	Northern Cyprus	15-20 (14)	10	10	5-22(43)
40	Norway	25-30 (28)	15	10	22
41	Pakistan	10-15 (29)	10	10	22
42	Poland	10-15 (19)	10	10	22
43	Romania	15	10	10	22
44	Russia	10	10	10	22 (7)
45	Saudi Arabia (30)	—	—	—	—
46	Singapore	10-15 (31)	7.5-10 (32)	10	22
47	Slovakia	5-10 (33)	10	10	22 (7)
48	Slovenia	10	10	10	22 (7)
49	Spain	5-15(38)	10-15 (39)	10	22
50	Sudan	10	10	10	22 (7)
51	Sweden	15-20 (14)	15	10	22
52	Syria	10	10	10-15(44)	22(7)
53	Tajikistan	10	10	10	22 (7)
54	Thailand	10-15(13)	10-15(16)	15	22
55	Tunisia	12-15 (34)	10	10	22 (7)
56	Turkmenistan	10	10	10	22
57	Ukraine	10-15(19)	10	10	22(7)
58	United Arab Emirates	10-12 (35)	10	10	22(7)
59	United Kingdom	15-20 (36)	15	10	22
60	United States	15-20 (37)	10-15(21)	5-10(24)	22
61	Uzbekistan	10	10	10	22

Notes:

The numbers in parentheses above refer to the notes below.

1. Dividend taxation refers to the corporate withholding tax.
2. Reduced to local rate by Turkish law if it is lower than the treaty rate.
3. Generally, tax withheld from interest is 10% (11% including fund levy). In certain circumstances, such as bank credits and loans from abroad, the rate is nil.
4. Technical assistance fees are considered as independent professional service income. If a bilateral tax treaty exists, they are taxed only in certain circumstances in Turkey. If the tax is applied—except for Austria and Northern Cyprus—the rate is 22%, including the levy.
5. In certain circumstances, individuals who are not considered as seconded under technical assistance contracts and who establish residence (over 180 days) may be subject to normal income tax withholding on salaries (25%–55%). For entities that employ labour under such contracts, which is not considered as falling under the classification of independent professional services, the changes made under the contract are subject to 27.5% withholding tax.
6. 5% if the recipient company owns at least 25% of the shares of the payor company; otherwise 15%.
7. Taxed only if there is a fixed place of business; there is no 183-day rule.
8. 25% if recipient company owns at least 25% of the payer company; otherwise 35%.
9. 10% if the services are not rendered in Turkey.
10. 10% if the recipient company holds at least 25% of the payer company; otherwise 15%.
11. If the interest is paid to the Central Bank of Belarus, the interest obtained will be exempt from withholding tax.
12. By an amending protocol, 10% if the recipient is a company and the dividend is not subject to tax in Belgium. Otherwise, 20%, or 15% if the recipient is a company and owns at least 10% of the payor company.
13. 10% if the recipient company owns at least 25% of the payer company; otherwise 15%.
14. 15% if recipient company owns at least 25% of the payer company; otherwise 20%.
15. 15% if recipient company owns at least 10% of the payer company.
16. 10% if the interest is paid to a bank or financial institution; otherwise 15%.
17. 10% if the recipient company holds at least 25% of the payer company; otherwise 15%.
18. If the interest is paid to the Central Bank of Israel, the interest obtained will be exempt from withholding tax.
19. 10% if the recipient company owns at least 25% of the payer company; otherwise 15%.
20. If the Turkish tax on the income is less than 40%, the rates are 15% and 20% respectively.

21. 10% if the recipient is a financial institution (bank or insurance company); otherwise 15%.
22. If Kazakhstan accepts a lower rate in her bilateral tax treaties with any OECD countries concluded after her treaty with Turkey, this lower rate will be applied.
23. 10% if debt matures in more than two years; otherwise 15%.
24. 5% if the royalty fees are paid in return for industrial, commercial and scientific equipment. Otherwise 10% will apply.
25. 0% if undistributed dividends are not taxed in Malaysia. 10% if the recipient company holds at least 25% of the payer company; otherwise 15%
26. 10% if the recipient company holds at least 25% of the payer company; otherwise 15%.
27. If the recipient company owns at least 25% of the payer company, 15% or, by an amending protocol, 10% if the recipient is a company and the dividend is not subject to tax in the Netherlands.
28. 25% in Turkey; 20% in Norway if the recipient company owns at least 25% of the payer company; otherwise 30% and 25% respectively
29. 10% if the recipient owns at least 25% of the payer company and if the payer company engages in industrial activities; otherwise 15%.
30. Agreement covers income derived from air transport between Turkey and Saudi Arabia.
31. 10% if the recipient company holds at least 25% of the payer company; otherwise 15%.
32. 7.5% if the interest recipient is a financial institution; otherwise 10%
33. 5% if the recipient company holds at least 25% of the payer company; otherwise 10%.
34. 12% if the recipient owns at least 25% of the payer company; otherwise 15%.
35. 10% if the recipient company holds at least 25% of the voting rights in the payer company, otherwise 12%. Note that if the recipient is a state institute of United Arab Emirates the applicable rate would be 5%.
36. 15% if the recipient company holds at least 25% of the voting rights in the payer company, otherwise 20%.
37. 15% if the recipient company owns at least 10% of the voting rights in the payer company, otherwise 20%.
38. 5% if the recipient company owns at least 25% of the shares of the payer company, otherwise 15%.
39. 10% of the gross amount of such interest, if the interest is derived from a loan of whatever kind granted by a bank or if the interest is paid in connection with the sale on credit of merchandise or equipment to an enterprise of a Contracting State (i.e. Spain or Turkey); otherwise 15%.
41. For Turkey; 10% if recipient company owns at least 25% of the payer company; otherwise 20%, for Luxemburg; 5% if the recipient company owns at least 25% of the payer company; otherwise 20%.
42. Royalties and fees for technical services, the tax so charged shall not exceed 15% of the gross amount of the royalties or fees for technical services; the tax rate for technical assistance is mentioned in article 12, not the article 14.

43. If a resident of a Contracting State performing independent professional services is present in the other Contracting State for less than 183 days, then the other Contracting State may tax the earnings that this person secures from his independent professional services but the tax shall not be more than 5% of the gross amount.
44. 15% in case of patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, 10% for the use or right to use any copyright of the literary, artistic or scientific work including cinematograph films and recordings for radio and television.

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