

How to do business in Turkey?

Investors' guide



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Message of the president



Ömer Cihad Vardan

President

Foreign Economic Relations Board
of Turkey (DEİK)

It is my great pleasure to introduce this “Investors’ Guide”, written in collaboration with Deloitte. With this guide it is intended to introduce Turkey to the global business community and to provide key information about the current economic outlook, investment climate, and general business framework of our country.

The global business community is facing a new Turkey, new in the sense that the country has been undergoing a structural transformation for the last 3 decades. The results of this transformation have been significant and promising; Turkey became the 17th largest economy in the World and 6th largest economy in Europe. Turkey has the largest free market economy and is the biggest industrial power among countries situated between Italy and China.

As a country which is well integrated into the European market by way of the customs union, Turkish companies possess a high level of expertise and competitive power in production, export and investment related activities. They have also accessed and established their presence in other rising economic regions, such as the Middle East, Gulf Countries, Africa, CIS and the Asia-Pacific. With its transcontinental position, Turkey is an ideal investment destination between Asia, the center of global growth, and the Euro Zone, the largest single market.

With its growth performance, Turkey is one of the growth engines of the newly emerging multi-polar global system. Istanbul is not only the business center of the region, it is the center of global diplomacy, a major transport hub, as well as a busy cultural and tourism destination. It is also rapidly building its technological and financial infrastructure in order to become a global financial center.

Having such a transcontinental position in the global market place, more and more multinational companies are establishing their headquarters in Istanbul, not only because of Turkey’s huge domestic market, but also for the purpose of easy access to the region. More than 30,000 foreign enterprises operate in Turkey to capitalize on the many opportunities the country offers. Thanks to the economic stability and the government’s business friendly policies, the volume of global investment in Turkey since 2003 has reached \$110 billion.

With its young and active population, rising income levels, growing global influence, transport facilities, consolidated democratic system, dynamic free market economy, and strong growth potential, Turkey offers abundant business opportunities for global firms in many diverse sectors. Turkey achieved a much better investment climate in recent years, as a result of effective economic and social policies, internal political and macroeconomic stability, growth-friendly monetary and fiscal policies, a new commercial code, new incentive program, and a solid financial system. Turkey can rightly be described as a rising star, in a rapidly shifting global environment and in a turbulent part of the world.

Turkey is a manufacturing country, a major producer of a diverse range of industrial products. Turkey exports to more than 200 countries and has a foreign trade volume exceeding 400 billion dollars. Two thirds of Turkish exports go to the advanced industrial countries of the European Union, North America, and the OECD. Turkey is one of the major trading partners of the European Union. While Turkey ranks 7th in the EU's top import and 5th in its export markets, the Union is Turkey's number one trading partner. Since 1972, Turkish contractors have undertaken more than 7,371 projects in 103 countries, with a total value of some \$274.1 billion.

Briefly, Turkey, as an emerging power having a foothold in many different regions, is stronger, more competitive, and enjoys a broader global outreach than many other nations.

We welcome foreign investors and promise them a vital and dynamic environment in which they can look forward to sharing the opportunities of rapid growth. Companies already well-entrenched in Turkey will be able to reap the rewards, while late-comers will have missed the opportunities mentioned.

From its establishment till today, Foreign Economic Relations Board (DEİK) has been a trail-blazer in establishing new links between the Turkish business community and its global counterparts. DEİK plays the leading role as an intermediary between the Turkish private sector and global business community. DEİK, with its 119 business councils; local, regional and global network; its professional team, and its close ties with the public sector, is ready to support and guide your business initiatives in Turkey.

I sincerely hope that this investors' guide will be instrumental in encouraging business people to take advantage of the enormous opportunities presented in the Turkish market.

On this occasion, I would like to warmly thank Deloitte for its cooperation and role in preparing this valuable investors' guide.

Foreword



Güler Hülya Yılmaz

Tax Partner
Deloitte Turkey

Once again it is a great pleasure for Deloitte Turkey to cooperate with the Foreign Economic Relations Board of Turkey ("DEİK") to contribute to the development of Turkey's economic, commercial, industrial and financial relations with foreign countries and investors as well as international business organizations and communities. Since its formation, DEİK has been playing a very important role in achieving the integration of Turkey's economy into the global economy. This integration requires development of business relations with foreign countries and attraction of new foreign direct investments into Turkey as well as maintaining the investments in Turkey. In this respect, DEİK acts as a very strong intermediary between the public and private sectors through its close relations with both sides.

We observe and experience that the Turkish economy has shown remarkable performance with its steady growth over the last decade. A sound macroeconomic strategy in combination with prudent fiscal policies and major structural reforms has integrated the Turkish economy into the globalized world, while transforming the country into one of the major recipients of foreign direct investment in its region. The structural reforms within the framework of Turkey's EU accession process, have paved the way for comprehensive changes in a number of areas. The main objectives of these efforts were to increase the role of the private sector in the Turkish economy, to enhance the efficiency and resiliency of the financial sector. As these reforms have strengthened the macroeconomic fundamentals of the country, the economy grew with an average annual GDP growth rate of about 5% over the past decade. According to the OECD, annual GDP growth rate of Turkey is expected to be around 3.2% for the period between 2014-2018 (over the OECD average growth rate same period).

Given the high rate of growth and stability for the last decade as well as the ambitious targets set by the Government, Turkey offers tremendous opportunities for foreign investors. Three major opportunities available for foreign investors planning to invest in Turkey: **1) stable and continuous growth of the Turkish economy** with the goal of becoming one of the top 10 economies in the world, **2) its strategic location** with strong historic and cultural links that would allow investors to access to the whole Middle East market, **3) favorable demographic distribution of the population** with a very high ratio of young people, leading to a tremendous potential for demand.

We closely observe that Turkey is also getting more and more in line with the global business standards as a result of the economic liberalization policies of the 1980's followed by harmonization of tax, investment and business related legislation with the global applications through the enactment of the new Customs Law in 1999, new Law for Foreign Direct Investment in 2003 as well as the New Corporate Income Tax Law in 2006, the **new Turkish Commercial Code** which entered into force on 1 July 2012 and the **new Capital Market Law** which entered into force on 30 December 2012. The New Corporation Tax Law is important since it has introduced rules governing "**Disguised Profit Distribution through Transfer Pricing**" for transactions between related parties in line with the Transfer Pricing Guidelines of the Organization for Economic Cooperation and Development (OECD) as well as those rules governing "**Controlled Foreign Companies**". Finally, the official publication of the new Turkish Commercial Code has introduced the use of Turkish accounting standards in line with the international financial reporting standards (IFRS), audit requirements and a number of new rules about the establishment, organization and legal operations of different types of legal entities, rights and obligations of shareholders as well as mergers, de-mergers, conversions, liquidations. Another new legislative development parallel to the new Turkish Commercial Code has been the enactment of the new Code of Obligations which entered into force as of 1 July 2012. All these legislative developments in Turkey in accordance with the global standards are important for foreign investors. It is more and more important for all foreign investors in today's global economic environment which has recently faced a crisis of unknown depth and duration, to very carefully take into consideration and analyze the prevailing tax and business related regulations when making their investment decisions to assess the inherent risks and opportunities in initiating, maintaining, developing, restructuring and ceasing their operations in a particular country.

Once again it is a great pleasure and honor for Deloitte Turkey to closely cooperate with DEİK for preparation of this investment guide in an attempt to provide foreign investors with a concise tax and business guide to help them with their investment decisions.

We strongly believe that with the guidance of DEİK as a pioneering organization serving for Turkey's integration into the global economic environment, Turkey will gain more and more importance as an emerging and fast developing country and thus will undertake more and more critical roles that it already deserves in the global arena.

We hope that the Guide will provide potential and existing investors with an overview of what is possible when structuring an investment in Turkey and which factors must be considered when deciding whether to acquire an existing Turkish company.

The information provided in this Guide is not exhaustive and unless otherwise indicated, is based on the relevant legislation and conditions existing in **June 2014**. Investors are advised to consult with professionals, such as independent and certified accountants and consultants as well as legal counsels before making their investment decisions and/or taking any formal action. Professionals of Deloitte Turkey would be pleased to provide any support needed in this respect.

Yours sincerely,

1. Turkey in general

1.1 Geography, political and economic background

The Republic of Turkey covers about 814,578 km², at the junction between Europe and the Middle East. Turkey is composed of seven geographical regions: Marmara Region, Black Sea Region, Mediterranean Region, Eastern Anatolia Region, Southeastern Anatolia Region, Aegean Region and Central Anatolian Region. Turkey has coastline of about 8,000 kilometers. The Anatolian Land is surrounded by the Black Sea in the North, the Aegean and Marmara Sea in the West and the Mediterranean Sea in the South. The capital city is Ankara, which is located in the Central Anatolian Region. Turkey's neighbours are: Greece, Bulgaria, Georgia, Azerbaijan, Armenia, Iran, Iraq and Syria. Turkey's geographical coordinates puts its time scale two hours ahead of "Greenwich Mean Time" (GMT) and the table below shows the time differences between Turkey and the major world cities.

Table 1: City Hours Ahead or Behind Turkey

Berlin	-1
Paris	-1
Rome	-1
London	-2
New York	-7
Los Angeles	-10
Singapore	+6
Tokyo	+7
Sydney	+8

The official language is Turkish, therefore all the official documents which are to be submitted to the government authorities must be in Turkish. English is used as an international language in trade and business circles. Turkish culture and economy has strong ties with both the Western and Eastern countries. Therefore, Turkey's relations with both sides are very strong and well established.

Turkey has been a parliamentary democracy since 1923 and is a secular republican parliamentary democracy based on division of power between various ruling bodies.

Its unicameral parliament, The Grand National Assembly of Turkey (TBMM) which includes 550 seats representing the 81 Turkish provinces is the legislative body. The legal framework of the Republic is based on the 1982 Constitution. The Prime Minister is elected by direct elections for a term of 4 years, while the members of the Parliament are elected for a 4-year period. The Republic of Turkey has a tripartite legal system. Civilian and military jurisdiction is separated.

The main executive body is the Council of Ministers consisting of a Prime Minister and twenty five ministers. Independent Courts have the judicial power. Turkey is a secular state. The freedom of worship for all religions is protected under the Constitution.

1.2 Current political administration and government structure

The current President of the Republic of Turkey is Recep Tayyip Erdoğan who was elected in August 2014. The current Prime Minister is Ahmet Davutoğlu. The next general election will be held in June 2015.

1.3 Currency

The domestic currency is the Turkish Lira (TL).

1.4 Population

By the end of 2013, Turkey's population is about 76.6 million. Approximately 91.3% of Turkey's population lives in cities while 8.7% lives in suburbs and the process of urbanization is expected to continue for the foreseeable future.

About 1/3 of the population is concentrated in Marmara region. The most populated cities of Turkey are İstanbul (about 14.1 million), Ankara (about 5 million) and İzmir (about 4 million)¹.

The population growth rate, which has decreased sharply, has grown at a compound annual growth rate of 1.3% since 2007. The demographers project the population to increase to 80-85 million in the next 20 years, while Germany's population, which is the most populous country in EU, is expected decrease from 81.8 million (January 2012) to around 80 million by the year 2020.

1.5 E-Government in Turkey

E-government project in Turkey is coordinated by the Prime Ministry of Turkey and a Public Committee. After Turkey signed the e-Europe project which was discussed in European Union Leaders Conference held in mid-2001, the Prime Ministry of Turkey gave a start to the project.

MERNIS is one of the big steps of the e-government project which identifies every citizen with an identity number, which eases most operations in social life and state-related operations. This step has been effective from November 1, 2006. During the transition period between 1 November 2006 and 1 January 2007, both the identity number and the tax number were used together by the citizens. Since the beginning of 2007 only identity number is required for a citizen to identify himself/herself e.g. in tax offices, university applications, bank operations and within a short time frame the identity number will be used in all state related operations.

Not only does this project decrease the red tape spent in bureaucratic transactions causing loss of time and money, but it also provides security for citizens and the State. Turkey finalized the infrastructure of the main e-government portal through which all public services could be accessed and utilized in the beginning of 2010.

1.6 International relations

The Republic of Turkey attaches great importance in establishing strong and lasting regional and international ties based on mutual understanding and cooperation. Turkey actively participates in a wide range of leading regional and international organizations such as the United Nations, the North Atlantic Treaty Organization (NATO), Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO), Economic Cooperation Organization (ECO), Organization for the Islamic Conference (OIC), Black Sea Economic Cooperation (BSEC), International Bank of Reconstruction and Development (IBRD), International Monetary Fund (IMF), the Group of Twenty Finance Ministers and Central Bank Governors (G20 Developing Nations), and Asian Development Bank.

Turkey is in the EU Customs Union since 1996 and an EU accession country since October 2005. In Helsinki European Council Summit in December 10-11, 1999, Turkey was officially recognized without any precondition as a candidate state to EU on an equal level with other candidate states. The Accession Partnership for Turkey was prepared within the framework of Turkey's ability to fulfill the Copenhagen political criteria. In December 2002, EU declared that if Turkey fulfills the Copenhagen political criteria, it would open accession negotiations with Turkey by December 2004. At the European Council on December 16-17 2004, the Council decided to open accession negotiations on October 3, 2005. The negotiations are open-ended and are not expected to finish before ten years. Turkey and the European Union have launched a dialogue on visa liberalisation and signed the Readmission Agreement on December 16, 2013.

¹ TurkStat

1.7 Turkey's Free Trade Agreements (FTAs)

FTAs play an important role in developing foreign trade and increasing competition power of the exporters of the FTA partner countries and increase the mutual investment. FTAs reduce barriers to exports and create more stable and transparent trading environment because goods traded benefit from the preferences stipulated in the agreements on the basis of the rules of origin.

Legal structure of Turkey's free trade agreements and autonomous preferential regimes are based on the Customs Union between Turkey and EU, in which all the existing customs duties, other duties and measures having equivalent effect are eliminated and also in which a common customs tariff is implemented to the third countries. In this context, Turkey has harmonized its commercial policy with the EU's Common Commercial Policy. However, it does not mean that Turkey should adopt the identical content of the FTAs signed by EU. Therefore, while conducting an agreement, Turkey takes its own priorities regarding industrial and commercial policy into consideration. The most important part of the trade policy of Turkey applied towards third countries is the preferential trade regime, together with the Common Customs Tariff.

Turkey has concluded FTAs with 30 countries so far. 11 of the FTAs were repealed because these countries joined the EU. Turkey is part of 17 FTAs in force. These are EFTA, Macedonia, Bosnia-Herzegovina, Albania, Israel, Palestine, Morocco, Tunisia, Egypt, Syria, Georgia, Serbia, Montenegro, Chile, Jordan, South Korea and Mauritius. After the internal ratification procedures are completed, the agreements with Lebanon and Kosovo will also be in effect.

The 14 countries/country blocs that Turkey has started FTA negotiations are Ukraine, Colombia, Ecuador, Malaysia, Moldova, Democratic Republic of Congo, Ghana, Cameroon, Seychelles, Gulf Cooperation Council, Libya, MERCOSUR, Faroe Islands and Peru. The 12 countries/country blocs Turkey has launched initiatives to start negotiations are the USA, Canada, Japan, Thailand, India, Indonesia, Vietnam, Central American Countries, other ACP Countries, Algeria, Mexico and South Africa.

Between 2000-2012 Turkey's total exports increased by 446%, while exports to Turkey's FTA partners increased by 551% in the same period. Export to FTA partners, which was around 2.2 billion dollars in 2000, reached 14.5 billion dollars in 2012. For the same period, Turkey's total imports increased by 340%, but imports from FTA partners has increased by 280%. Imports from FTA partners, around 2.8 billion dollars in 2000, reached 10.7 billion dollars in 2012.

Turkey's FTA partners have a share of 9.5% in Turkey's export markets and a share of 4.5% in its imports, which constitute a trade surplus of 3.9 billion dollars. There are 7 FTA partners in Turkey's top 40 export destinations (Egypt, Israel, Switzerland, Georgia, Morocco, Lebanon and Tunisia). Turkey's FTA exports to Jordan, Egypt and EFTA countries increased in 2012.



2. Turkish economy

2.1 Main economic indicators

Its diversified economy, proximity to Europe, Middle East, North Africa and Eurasia, integration with European markets, young and vibrant workforce, crisis-experienced businessmen and economy management make Turkey one of the most powerful economies in the region.

Being the commercial center of Southeastern Europe, Middle East and Eurasia, Turkey is becoming an increasingly important economic and diplomatic country in the region. Between 2001 and 2008, before the effects of the financial crisis started, Turkey's GDP had increased by 277% amounting to US \$ 742 billion. Turkey's GDP reached US \$ 820 billion in 2013 and Turkey ranked 17th in terms of GDP Purchasing Power Parity (PPP) in the world².

The Turkish economy has grown steadily since 2001. After the 2001 financial crisis, Turkey made important structural reforms which have led to improving of the financial system. Therefore, Turkey has relatively been less affected by the global crisis. Also previous crisis experience of Turkish businessmen and economy officials make Turkey more resilient to the global financial crisis today. As a result of this, Turkey was the only country in 2009, who received two points upgrade in the credit rating. After a 4.8% decrease in GDP, Turkey grew 9.2% in 2010. Average growth rate between 2010 and 2013 was 6%³. On May 16, 2013, Moody's upgraded Turkey's government bond ratings to Baa3 stable outlook from Ba1.

Despite the recent political and economic developments, both Moody's and Standard & Poor's changed the credit rating outlook from stable to negative. However, affirmed Turkey's ratings at their current levels Baa3 and BB+ respectively.

Table 2: Main Economic Indicators

	2009	2010	2011	2012	2013
GDP (billion \$/in current prices)	617	732	774	786	820
GDP Growth Rate (%)	-4.8	9.2	8.8	2.1	4.0
GDP per Capita (Nom.\$)	8,561	10,003	10,428	10,459	10,782
FDI Total Net (billion \$)	8.6	9	16.2	13.2	12.8
Unemployment (%)	14.0	11.9	9.8	9.2	9.7
Consumer Price Inflation (%)	6.5	6.4	10.5	6.2	7.4
Export (billion \$)	102.1	113.8	134.9	152.4	151.8
Import (billion \$)	140.9	185.5	240.8	236.5	251.6
External Debt (billion \$)	269.1	291.8	303.8	338.3	388.2

Source: TurkStat, Central Bank of Turkey, Treasury of Turkey

2.2. International Trade

Table 3: International Trade

Indicator	2007	2008	2009	2010	2011	2012	2013
Export (Million \$)	107,271	132,027	102,142	113,883	134,906	152,461	151,806
Import (Million \$)	170,062	201,963	140,928	185,544	240,841	236,545	251,650
Volume (Million \$)	277,333	333,990	243,070	299,427	375,747	389,006	403,456
Balance (Million \$)	-62,791	-69,936	-38,786	-71,661	-105,935	-84,084	-99,844

Source: TurkStat

² TurkStat, IMF

³ TurkStat

Between 2001 and 2008, foreign trade had increased by 359% and exports have increased by 321%. After having a record high level of foreign trade with US \$ 334 billion in 2008, because of global economic crisis it declined to US \$ 243 billion in 2009. But it bounced back to US \$ 299.4 billion in 2010 and has increased with a compound annual growth rate of 10% between 2010 - 2013 and reached US \$ 403.4 billion in 2013⁴.

Table 4: Main Exports (Thousand \$-2013)

Vehicles other than railway	17,001,311
Boilers, machineries and mechanical appliances, parts thereof	12,993,227
Iron and steel	9,921,394
Electrical machinery and equipment, parts thereof	9,546,024
Knitted and crocheted goods and articles thereof	9,247,988
Precious stones, precious metals, pearls and articles thereof	6,978,476
Mineral fuels, minerals oils and product of their distillation	6,724,823
Articles of iron and steel	6,149,485
Non knitted and crocheted goods and articles thereof	5,714,958
Plastic and articles thereof	5,609,294
Fruits	3,969,195
Furniture	2,831,002
Salt, sulphur, earths and stones, plastering materials, lime and cement	2,746,964
Rubber and articles thereof	2,482,206
Aluminium and articles thereof	2,363,732
Old clothing and other textile articles, rags	2,191,583
Carpets, mats matting and tapestries	2,188,014
Cotton, cotton yarn and cotton textiles	1,928,711
Preparations of vegetables, fruits	1,800,187
Metallic ores, slag and ash	1,774,240
Other	37,643,822
Total	151,806,635

Source: TurkStat

Automotive, machinery, iron and steel, textile and clothing are the major export items, while oil and natural gas, machinery, automotive, and chemicals are the major import items.

In 2013, Turkey mainly exported to Germany, Iraq, United Kingdom, Russia, Italy, and France whereas it mainly imported from Russia, China, Germany, Italy, and the United States.

Table 5: Main Imports (Thousand \$-2013)

Mineral fuels, minerals oils and product of their distillation	55,917,155
Boilers, machineries and mechanical appliances, parts thereof	30,155,104
Iron and steel	18,690,888
Electrical machinery and equipment, parts thereof	17,758,617
Vehicles other than railway or tramway rolling-stock, parts thereof	16,808,327
Precious stones, precious metals, pearls and articles thereof	16,225,736
Plastic and articles thereof	13,881,166
Organic chemicals	5,314,064
Optical, photographic, cinematographic, measuring checking, precision	4,557,695
Pharmaceutical products	4,151,044
Copper and articles thereof	3,709,858
Aluminium and articles thereof	3,236,691
Paper and paperboard, articles of paper pulp of paper or of paperboard	3,091,824
Rubber and articles thereof	3,062,451
Cotton, cotton yarn and cotton textiles	2,989,182
Articles of iron and steel	2,757,736
Aircraft and parts thereof	2,371,909
Man-made fibres (discontinuous)	2,175,298
Miscellaneous chemical products	2,123,678
Man-made filament	2,089,808
Other	40,581,933
Total	251,650,164

Source: TurkStat

Table 6: Principal Destinations of Exports
(Thousand \$-2013)

Germany	13,706,034
Iraq	11,952,995
United Kingdom	8,772,951
Russia	6,965,120
Italy	6,717,606
France	6,377,906
USA	5,636,015
UAE	4,966,063
Spain	4,334,932
Iran	4,192,647
China	3,600,931
Netherlands	3,538,221
Egypt	3,200,728
Saudi Arabia	3,191,517
Azerbaijan	2,960,333
Libya	2,753,218
Israel	2,649,770
Romania	2,616,742
Belgium	2,574,007
Ukraine	2,189,556

Source: TurkStat

Table 7: Principal Origins of Imports
(Thousand \$-2013)

Russia	25,064,214
China	24,685,881
Germany	24,181,568
Italy	12,884,895
USA	12,596,178
Iran	10,383,143
Switzerland	9,647,289
France	8,079,820
Spain	6,417,722
India	6,367,788
United Kingdom	6,270,869
South Korea	6,088,466
UAE	5,384,468
Ukraine	4,516,333
Greece	4,206,020
Belgium	3,843,375
Romania	3,592,568
Japan	3,453,189
Netherlands	3,362,322
Poland	3,184,407

Source: TurkStat

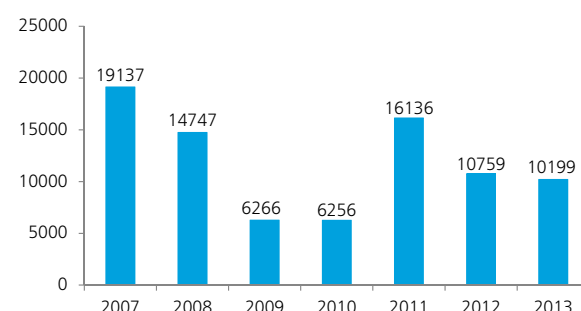
2.3 Foreign Direct Investments

In the last six years in particular, Turkey has started to draw increasing amounts of foreign capital thanks to a rapid recovery from the 2001 crisis, large privatization projects, prolonged stability coinciding with the excessive liquidity in international markets and the beginning of EU accession process. According to UNCTAD's survey, 10% of the investment promotion agencies selected Turkey as one of the most promising sources of FDI for 2013- 2015. Turkey also ranked 51st out of 189 economies in Ease of Doing Business Rank of the World Bank (2014) and 57th out of 145 economies in Forbes Doing Business Index (Values Calculated December 2013).

Being the world's 17th and Europe's 6th largest economy (GDP PPP), Turkey has recently been home to numerous significant investments by attracting more than US \$ 100 billion for the last 7 years.

In 2003 when the new investment law was ratified, there were about 6,500 foreign companies operating in Turkey.

Graph 1: Foreign Direct Capital Inflows
(million \$)



Source: Central Bank of Turkey

By 2013, foreign capital firms in Turkey have exceeded 37,000⁵.

The cumulative sector breakdown of foreign capital financed companies between 1954-2013 shows that 33.7% of these companies operate in wholesale and retail sectors, 16.2% of them operate in real estate, renting and business activities sectors and 14.3% of them operate in manufacturing sector.

⁵ Turkish Ministry of Economy, Foreign Direct Investments Bulletin March 2014.

Table 8: Foreign Direct Capital Inflows by Origin of Countries (million \$)

		2011	2012	2013
European Countries		12,587	7,925	6,399
	Germany	665	491	1,846
	Austria	2,418	1,519	659
	France	999	86	222
	Netherlands	1,425	1,381	1,013
	UK	905	2,044	297
	Italy	111	154	145
	Other EU Countries	4,971	1,628	1,096
	Other European Countries (excl. EU)	1,093	622	1,121
Africa		-	-	221
US		1,403	439	344
Canada		20	32	16
Central and South America and Caribbean		62	20	1
Asia		2,055	2,337	3,215
	Gulf Countries	195	940	1,194
	Other Near and Middle East	1,359	653	1,380
	Other Asian Countries	497	744	641
Other		9	6	3
Total		16,136	10,759	10,199

Source: Central Bank of Turkey, Turkish Ministry of Economy

Table 9: Foreign Direct Capital Inflows According to Sectors (million \$)

Sectors	2011	2012	2013
Agriculture, Hunting, Forestry and Aquaculture	32	43	49
Mining	146	213	251
Manufacturing Industry	3,596	4,342	2,010
Food, Beverage and Tobacco	649	2,201	342
Textile	148	376	59
Chemicals	348	579	264
Machinery	76	32	5
Automotive	93	121	75
Other	2,282	1,033	1,265
Electricity, Gas, Water	4,295	924	2,552
Construction	301	1,428	210
Wholesale and Retail	709	221	356
Hotels and Restaurants	122	16	57
Transportation, Telecommunication & Logistics	222	130	295
Financial Intermediary Institutions	5,883	2,084	3,734
Real Estate	300	173	130
Other Healthcare, Community, Social and Personal Services	530	1,185	555
Total	16,136	10,759	10,199

Source: Central Bank of Turkey, Turkish Ministry of Economy

Construction (9.1%), transport, storage and communications (9.3%), hotels and restaurants (5.3%), other community, social and personal service activities (5.1%), mining and quarrying activities (1.8%), agriculture, hunting, fishing and forestry (1.5%) and electricity, gas and water supply (2.6%) constitute other sectors.

The Turkish companies have become important investors abroad and have recently accomplished significant projects and have bought world's leading brands including "Godiva", "Razi", "Trader Media East", "United Biscuits", and "Grundig". Moreover, the Turkish contractors have undertaken 374 projects abroad accounting for US \$ 31.3 billion in 2013. Accordingly, 38 Turkish contractors partake among the world's largest 250 contractors ranking in 2013⁶.

Outbound investment department provides consultancy to Turkish investors who make an outbound investment, under the regulations prescribed by "General Directorate of Incentive Practices and Foreign Capital" and agreements concerning the reciprocal promotion and protection of investments. Department provides information and consultancy about:

- Legal assurances provided to Turkish outbound investors specified in the agreements
- Arbitration mechanisms Turkish outbound investors may apply for, in case they have any problems in the country of investment
- Investment environment in foreign countries
- Insurances Turkish outbound investors may benefit against the potential non-commercial risks

Table 10: Turkish Outflow Investments (million \$)

Year	Investment
2007	2,275
2008	2,604
2009	2,040
2010	1,823
2011	2,542
2012	4,334
2013	3,226

Source: Central Bank of Turkey

⁶ ENR The Top 250 International Contractors

2.4 Public-Private Partnership (PPP)

Public-Private Partnership (“PPP”) has become an increasingly popular way of procuring and maintaining public sector infrastructure globally in sectors such as transportation, infrastructure, healthcare, public utilities, energy and education.

PPPs enable the public sector to benefit from the expertise and efficiency that the private sector can bring to the delivery of certain services and help in sharing the financial burden as borrowing is incurred by the private sector vehicle implementing the project.

The Turkish Government has changed its investment financing strategy in recent years to utilize the benefits of PPPs. Instead of utilizing public borrowing for funding investments, private finance is encouraged, especially through public private partnerships and privatizations in utilities.

Earlier variations of the PPP model, known as Build-Operate-Transfer and Build-Own-Operate, were used extensively in Turkey to deliver public infrastructure such as airports, seaports and electricity generation. Further progress in the utilization of the PPP model is expected in these sectors and new PPPs are also on the way for the construction and operation of schools, prisons, railways, water treatment and waste management facilities. These investments and initiatives are expected to pick up speed after the local and presidential elections in 2014.

The most widespread use of the PPP model in Turkey has been the PPP Programme of the Turkish Ministry of Health (MOH). Healthcare spending and provision of healthcare services have been rising fast in Turkey as the government focused on sharply improving the previously outdated and inadequate state sector provision. As a supplement to the increased level of direct state spending over the past ten years, the PPP programme was launched in 2009 and now comprises more than 40 planned projects with total fixed investment values ranging from TL 300 to 2,500 million. MOH seeks to replace smaller hospitals with integrated health campuses to be built and operated through a Private Finance Initiative (PFI) scheme.

The PPP process in the health sector encountered initial obstacles, both legal objections and financing difficulties, but MOH has completed the tendering process of 16 healthcare PPPs up to now and has signed the Project Agreements for most of them. MOH is planning to continue with the tendering of new hospitals and its PPP Programme covering approximately 40 health campuses with a total bed capacity of 30,000, as well as administrative buildings and laboratories amounting to more than Euro 10 billion in investments.

Recent developments

A new Law (Law No. 6428) was passed by the Turkish Parliament in March 2013. The new law specifically addresses certain legal challenges encountered by healthcare PPP projects under previous legislation, in order to facilitate their implementation.

The new law addresses the concerns of the Council of State on the allocation of Treasury-owned land, free-of-charge, for services that are not directly related to the healthcare facilities. The new law includes a provision nullifying existing tender terms relating to allocation of land for commercial purposes. It also contains a provision applicable to future healthcare PPP projects for Treasury-owned land to be allocated, free-of-charge, to the Project company to build commercial as well as healthcare facilities.

The new law also addresses the Constitutional Court's views and outlines the tendering process, the implementation agreements (including parties' rights and obligations in case of termination), payments to be made to project companies, the transfer of the facilities to the government at the end of the operation period, and the equity and collateral requirements.

A Treasury debt assumption mechanism has also been introduced by recent legislative changes. All foreign financing of projects with a total investment value of more than TL 500 million (about Euro 170 million at current exchange rates) is now guaranteed through Treasury debt assumption mechanisms. Moreover, there are VAT exemptions available until 31 December 2023 according to Provisional Article 29 of the Turkish VAT Law.

Taking the MOH as a model, the Ministry of National Education of Turkey has also launched a PPP program. As in healthcare, the government has been investing heavily in education and believes there could be financing and operational benefits from using the PPP model for the new education campuses it is planning. Campuses are planned to be built on green field sites, so that they also have additional functionalities such as sport centres, playgrounds and convention centres. At least 30 such projects are expected to be the subject of PPP tenders.

2.5 Privatization in Turkey

Turkey has positioned itself as an attractive and promising investment environment and has become one of the fastest growing economies in the world by implementing free trade principles and offering dynamic capital markets. Privatization has been one of the most essential tools of the free market economy and has been in the agenda of Turkey since 1984.

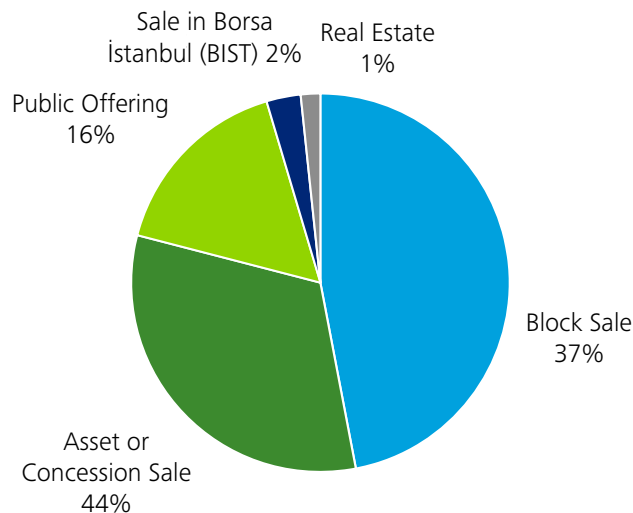
Privatization in Turkey aimed to minimize the state involvement in economic activities and helped in relieving the financial burden on the State Economic Enterprises (SEE). It also helped in the development of capital markets and enhanced the use of resources in new investments; i.e. in infrastructure.

Turkey has employed a wide spectrum of privatization methods taking into account the nature of the establishment to be privatized; direct sale, sale via public offering through Borsa Istanbul, granting concessions, transfer of ownership or operating rights and BOTs. Please see Graph 2 below for the breakdown of privatization methods used.

Under the Privatization Law (Law No. 4046), privatization process is carried out by the Privatization High Council and Privatization Administration. The Privatization High Council is the ultimate decision-making body for the privatization in Turkey; headed by the Prime Minister. The Privatization Administration is the executive body for the privatization process.

Since 1985, state shares in 270 companies, 22 incomplete plants, 8 toll motorways, 2 bridges, 120 establishments, 1439 real estate, lottery games license rights, vehicle inspection centers and 6 ports have been taken into the privatization portfolio. Afterwards, 25 companies, and 4 real estate were excluded from the portfolio for various reasons. The Privatization Administration sold stake or assets in 204 companies; state ownership is totally ceased in 194 companies.

Graph 2: Privatization Methods Used

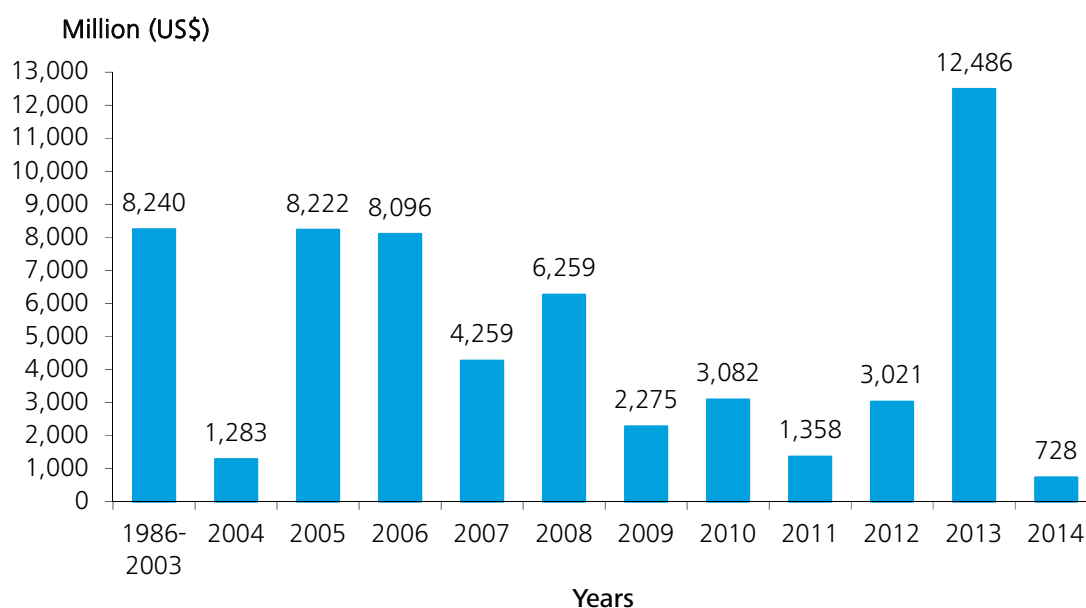


Source: Privatization Administration

State has completely withdrawn from cement, animal feed production, dairy products, forest products, civil handling, catering services and petroleum distribution sectors. More than 50% of the state shares were privatized in tourism, iron and steel, textile, sea freight and meat processing sectors. State has withdrawn from most of the ports and petroleum refinery sector.

The total proceeds from the privatization implementations is recorded as USD 59.3 billion since 1985; USD 52 billion collected as of March 2014. The dividend income received from the entities within the privatization program has been USD 4.7 billion and other income USD 10.6 billion, therefore the total proceeds collected has been USD 58.2 billion. Please see Graph 3 for the privatization proceeds on an annual basis.

Graph 3: Privatization Proceeds



Source: Privatization Administration

3. Industrial and service outlook

3.1 Transportation and defense

Transportation

Turkey enjoys a privileged position at the crossroads between Europe, Caucasus, Middle East and Central Asia. As a result of being a regional logistics base, Turkey's transportation sector partakes among principal sectors in terms of economic growth and employment.

With the influence of economical development and the EU accession period, the modernization of transportation sector already started through privatizations and foreign direct investments. New airports have been built; capacity of ports are increased; construction of many dual carriageways are ongoing; high-speed train network has commenced and many privatizations have been realized mostly through build-operate-transfer (BOT) contracts. Moreover, Transportation Master Plan Strategy Report has been prepared for the Turkish Ministry of Transport, Maritime Affairs and Communications, which encompasses numerous project proposals on infrastructure, traffic and management of transport modes.

Table 11: Turkish Transportation Sector Statistics - Railways

Railways	2008	2009	2010	2011	2012
Length of railway (km)	11,005	11,405	11,940	12,000	12,008
Passenger train kilometer	23,339	23,698	21,274	22,209	17,319
Freight traffic (thousand tons)	23,491	21,813	24,355	25,421	25,666

Source: TurkStat

Table 12: Turkish Transportation Sector Statistics - Roads

Road	2008	2009	2010	2011	2012	2013
Length of motorway (km)	1,922	2,036	2,080	2,119	2,127	2,127
Length of state road (km)	31,311	31,271	31,395	31,372	31,375	31,341
Length of provincial road (km)	30,712	30,948	31,390	31,558	31,880	32,155
Number of road motor vehicles (thousand)	13,765	14,316	15,095	16,089	17,033	17,939
Freight transportation and the circulation on the state roads, provincial roads and motorways (Tonne/km) (million)	181,935	176,455	190,365	203,072	216,123	
Passenger transportation and the circulation on the state roads, provincial roads and motorways (Passenger/km) (million)	206,098	212,464	226,913	242,265	258,874	

Source: TurkStat

Table 13: Turkish Transportation Sector Statistics - Air

Air	2008	2009	2010	2011	2012	2013
Number of aircrafts	270	297	332	349	370	-
Seat capacity	43 524	47,972	57,899	61,695	65,208	-
Freight carried domestic lines (ton)	424,555	484,833	554,71	617,835	633,076	744,028
Freight carried international lines (ton)	1,219,459	1,241,512	1,466,366	1,631,639	1,616,057	1,851,289
Domestic air traffic (unit)	385,764	419,422	497,862	579,488	600,818	682,685
International air traffic (unit)	356,001	369,047	421,549	462,881	492,229	541,110
Number of passengers domestic lines	35,832,776	41 226 959	50,575,426	58,258,324	64,721,316	76,148,526
Number of passengers international lines	43,605,513	44 281 549	52,224,966	59,362,145	65,630,304	73,281.895

Source: TurkStat, DHMI

Table 14: Turkish Transportation Sector Statistics - Sea

Sea	2008	2009	2010	2011	2012
Loading freight (thousand tons)	92,168	92,076	102,494	103,033	114,176
Unloading freight (thousand tons)	171,688	159,347	182,018	195,933	216,524
Transit freight (thousand tons)	50,752	58,012	64,122	64,379	56,724

Source: Ministry of Transport, Maritime Affairs and Communications

In order to realize a nostalgic dream, the revival of the historical Silk Road as a part of international transportation is on the agenda. Turkey has a primary role as a natural bridge within the Silk Road project, which links the Asian economies with high shares in world trade and Europe, due to its strategic geographic location, its proximity to the international transport routes, its renovated transport infrastructure and strong road fleet. Road transportation is the main means of freight and passenger transportation⁷. It constitutes 77.9% of the freight transportation and 90.5% of the passenger transportation Turkey has the largest and newest transportation fleet in Europe with 1,400 road transportation companies and 45,000 vehicles.

The Turkish Government aims to modernize existing roads and launch new projects. The estimated cost for the modernization and construction of the roads (until 2023) is TL 166 billion. As a part of the Silk Road project, construction of Black Sea Ring Highway, which has a total length of 7,140 kilometers and crosses the borders of 12 Black Sea Economic Cooperation (BSEC) member countries, is on the agenda. To ease traffic jam in Istanbul, construction of a third Bosphorus Bridge and an underwater tunnel for motor vehicles, Euroasia Tunnel, are in progress based on BOT models.

⁷ Ministry of Transport, Maritime Affairs and Communication, Karayolu Report

Turkey has targeted to become a center for railway freight through implementation of the Strait Rail Tube Crossing and Commuter Railway Upgrading (MARMARAY) Project, which will connect Turkey to the Trans-European Network. The total length of the Project is approximately 76 km and total amount is estimated as US \$ 3 billion. The tunnel, passes beneath the Bosphorus, which constitutes 14 km of the Marmaray project was completed in 2013 and train services started. Once the project is wholly completed, Turkey will become an essential center for railway freight among Europe, Central Asia and the Middle East. 23.5 billion US dollars is allocated for railways by 2023.

Turkey also has a leading role in Kars-Tbilisi-Baku Railway Project, which is an alternative route within the contemporary Silk Road. Known as the 'Iron Silk Road', Kars-Tbilisi-Baku Railway Project creates an alternative route to the existing West-East corridor through Iran. The total length of the project is 180 kilometers. 76 kilometers will pass through Turkey, 29 kilometers will pass through Georgia and the rest will pass through Azerbaijan.

Domestic and international flights are operated by state-owned company, Turkish Airlines (THY) as well as some private airlines.

There are 70 airports in Turkey:

- 52 airports are being operated, 38 of them are open to both domestic and international flights, and 14 of them are open only to domestic flights.
- Rest of the airports are only open to protocol and military, private use and to the use of Turkish Aviation Association.

Istanbul-Izmit, Izmir, Adana-Mersin and Samsun are the major ports for domestic and international freight and passenger transportation. In order to increase quality and productivity, ports of Bandırma, Derince, Iskenderun, and Izmir will be privatized.

The tender of Istanbul New Airport, planned to be the largest airport project of the world, was completed on 3rd of May, 2013 by Build-Operate-Transfer Model. Consortium of 5 private companies won the tender. It is planned to be opened at the beginning of 2017 with 25 years of operational period. The cost of the project is expected to be approximately € 10 billion. Once the project is completed, 150 million passenger capacity, 4 connected terminals, 6 runways, 16 taxiways will be achieved.

Ship construction is also a significant sector in Turkey and is on the 5th place in the world by ship construction orders and super yacht construction.

Defense

Turkish defense sector has been developing very fast in the last decade. Turkey spends US \$ 3-4 billion annually in arms procurement. The proportion of defense systems produced locally was 25% in 2003 and reached 54% at the end of 2013. On the other hand, annual Turkish defense export reached to the level of US \$ 1.4 billion in 2013.

Turkey has traditionally made modest efforts to become self-sufficient in basic defense industrial activities. Starting in the second half of the 1970s these capabilities were expanded through several vital investments, particularly into the defense electronics and aerospace fields. In 1985, a government entity charged with coordinating and financing the development of the defense industry was established under Secretariat for Defense Industries (SSM). Since its establishment in 1985 the SSM has been entrusted with the responsibility of a fairly large number of defense industry projects, valued over US \$ 30 billion.

But the imbalance between the local production and the imports led Turkey to the pursuit of a stable local defense industry infrastructure. In May 2004, SSM decided to cancel three major projects, including the multi-billion dollar attack and tactical reconnaissance (ATAK) helicopter programme, and instead introduced a new procurement model to boost ailing local industry. The initial goal was to increase the proportion of defense systems produced locally to 50% by the end of 2010, which was successfully achieved. SSM expects that export of defense products will catch the import of them by 2014. SSM targets US \$ 2 billion worth of defense exports by 2014 and US \$ 25 billion by 2023⁸.

⁸ Turkish Defence and Aerospace Industry Exporters Association

The prime mover on the aerospace side of Turkey's defense industry is TAI (TUSAS Aerospace Industries). It has been co-producing the needed airplanes and helicopters by the Turkish Air Force. Another Turkish company ASELSAN has established itself as the leading electronic systems house in Turkey as well as having a major capability in radars and optronic systems. ROKETSAN is one of the few companies in Europe with the capability to design, develop and manufacture artillery rocket systems (ARS). FNSS Savunma Sistemleri is the largest manufacturer of tracked armored fighting vehicles (AFVs) in Turkey. Another company Otokar has developed and placed in production a complete range of 4x4 and 6x6 light armored tactical vehicles. Makina ve Kimya Endüstrisi Kurumu (MKEK) is the main manufacturer of ammunition, small arms and other weapons in Turkey and is also a major subcontractor to other Turkish defense contractors. Turkish Land Forces Command (TLFC) has extensive facilities involved not only in the upgrading of AFV and artillery systems but also in production. It has upgraded over 4,000 tanks and the center has developed and put into production specialized versions including ambulances, command post and engineer squad vehicles. The main repository of naval shipbuilding and repair experience remains resident within state-owned hands at Naval Shipyard. The navy's other major surface acquisition is the locally designed and built 12 MILGEM corvette ships. The first of the 12 MILGEMs, which is a corvette class warship, has joined the Turkish Navy in 2011 and the second in 2013.

After the completion of MILGEM project, Turkey will become one of the ten countries which can produce its warship itself.

Also, a private company Yonca Onuk designed and built most of the fast patrol craft in service with the Coast Guard.

Besides Turkish companies, there are many foreign companies that work for Turkish defense industry. Imtech, RMK Marine Shipyard, German Minehunter Consortium of Abeking & Rasmussen and Lurssen Werft and Dearsan Shipbuilding and Repair Company are some of them. Beneath the surface, the Gölcük shipyard has experience in working under the license of Germany's Howaldtswerke-Deutsche Werft (HDW) in constructing submarines.

Turkish defense industry is expected to continue its growth in the future due to Turkey's geographic and strategic position. At the same time, with the new legislations and incentives for the local defense industry to grow, Turkey's export and import in the sector is projected to be more balanced in the future as well.

3.2 Automotive

According to the International Organization of Motor Vehicle Manufacturers (OICA), Turkey is the 17th largest automotive manufacturer in the world and 6th in Europe. Also Turkey is Europe's largest light commercial vehicle manufacturer and 2nd largest bus manufacturer. The Turkish automotive sector includes production of trucks, buses, trailers, midi and mini buses and passenger cars with a capacity of 1.6 million vehicles. Except for 2009 and 2012, the automotive manufacturing numbers are in a steady rise in recent years.

Domestic production in Turkish automotive sector started in 1967. Over the years, industry imported foreign models and produced them for domestic market under the protection of high tariffs. As Customs Union came into effect in 1996, tariff protection for the industry ended. After this point, many global brands such as Honda, Toyota and Hyundai joined the already existing brands like Renault, Ford, Fiat in the Turkish automotive industry. Today, there are 17 manufacturers and 4,000 component makers in Turkey. The Turkish automotive industry employs over 400,000 people.

Automotive sector exports 70% of its production and 90% of the exports goes to Europe. Transportation vehicles and components industry is the leading sector in Turkish exports. It was US \$ 18.3 billion in 2011, US \$ 19 billion in 2012 (12.5% of the Turkish export) and US \$ 21 billion in 2013 (14% of the Turkish export).

Table 15: Automotive Production (Amount)

	2009	2010	2011	2012	2013
Automobiles	510,931	603,394	639,734	577,296	633,604
Commercial Vehicles	358,674	491,163	549,397	495,682	491,930
Tractor	17,762	40,178	62,250	42,255	40,509
Total	884,466	1,124,982	1,253,392	1,115,233	1,166,043

Source: Automotive Manufacturers' Association (OSD); The Turkish Association of Agricultural Machinery And Equipment Manufacturers

Table 16: Automotive Exports

	2009	2010	2011	2012	2013
Production	884,466	1,124,892	1,253,392	1,115,233	1,166,043
Export	637,855	763,67	801,112	745,354	843,467
Export/Production (%)	72	68	64	67	72

Source: Automotive Manufacturers' Association (OSD)

3.3 Financial services

Turkish banking sector mostly dominates the Turkish financial system. 85.8% of the financial system's assets are held by the banking sector. By the end of 2010, volume of the financial sector assets were as large as 103.6% of the Turkish GDP. Major reforms were carried out in the finance and banking sectors between 1999 and 2002. "The Banking Sector Restructuring Program" was initiated in May 2001 with the aim of modifying the banking sector into a sound and competitive structure consistent with sustainable growth.

Banking legislation has been adjusted in accordance with the relevant international regulations and the European Union banking directives. Also in line with the previous principles and the BASEL (Banking Supervision and Auditing) Committee principles, a banking law was issued in 2005 to regulate the sector. With the new structure of the banking system and improvements in the Turkish economy, Turkish banking sector had significant growth in the bank's balance sheets and changes in their structure.

There are 49 banks, 11,986 branches and 214,263 employees in Turkish banking system as of the end of 2013. Number of branches and employees have increased every year since 2004. Even in 2008 when the global financial crisis got deeper and many European and American banks got smaller, 277 new branches opened and 1,551 new employees hired.

In 2013, the net profit arose by 4.9% in TL terms, whereas it decreased by 12.6% in US \$ terms reaching US \$ 11.6 billion. Total loans reached US \$ 492.3 billion with a 9.8% increase from 2012 to 2013, which was nearly 60.5% of the total assets. Whereas, deposits grew 2% to US \$ 444.5 billion. Also total assets grew 5.3%.

Table 17: Indicators of the Banking Sector and National Income

Main Indicators of the Turkish banking sector and national income											
Billion US \$	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Loans	47.4	74.0	116.2	156.1	246.0	242.2	263.7	343.0	363.5	448.4	492.3
Deposits	111.2	142.5	186.8	219.2	307.2	299.1	345.6	402.4	370.3	435.6	444.5
Total Assets	178.7	228.4	302.0	356.2	500.7	482.2	560.0	656.5	648.1	773.3	814.4
GDP	305.0	390.3	481.4	526.4	648.7	742.0	616.7	731.6	773.9	786.3	820.0

Source: Banks Association of Turkey (BAT), BRSA, Turkstat, IMF

Although global financial crisis affected Turkish banking sector, it had some advantages in comparison to other countries. These are:

- There is no toxic product
- Turkish banking sector is conventional, wide spread, mainly constituted from deposits and have a wide spread of customer net
- Weight of the individual loans is not much in the GDP
- Turkish banking sector started very late to the mortgage system and the interest rates are fixed
- Due to some politic and financial developments Turkish banking sector pushed on the brakes starting from the beginning of 2007
- Turkish banking sector has crisis experience

3.4 Consumer Business

Turkey is a major market for consumer products with 76.6 million population. Textile and clothing, agriculture, white goods, furniture, cosmetics and jewelry are the prominent sectors in consumer products.

Turkey is a major textile and clothing producer country in the world with over 40,000 producers and 3 million workers. Cotton clothing, knitted clothing, woven clothing and accessories as well as home textile products constitute main products in the sector. Thanks to strong leather sector of Turkey, footwear industry is a well-developed industry as well. The industry focuses on Europe, Middle East and Eurasia regions. Turkey is one of the world's leading manufacturer of floor-coverings including hand-woven and machine-made rugs and mats. Also Turkey has a high quality cotton yarn.

In recent years textile and clothing sectors faced fierce competition from far eastern countries. Especially, lifting of the quotas in 2005 affected the exports as well as the domestic market. The industry is moving towards higher quality production and spend great deal of energy on branding. In order to achieve the move towards more sophisticated products, companies benefit from the government's design and technology incentives. As a result of this effort and the changing conditions of the sector after the world financial crisis, the sector's exports increased 12.4% in 2010 after a 16.5% fall in 2009. The sector's exports also increased by 7.9% in 2013 relative to 2012⁹.

Agriculture and food industry is one of the leading sectors of Turkey with rich resources, huge potential of fish products and livestock. Edible nuts, frozen fruits and vegetables, confectionery products, poultry, dairy products, oil and vast variety of fresh vegetables and fruits are produced in Turkey and are exported to numerous countries. Also, Turkey is the world leader in the production of dried figs, hazelnuts, sultanas/raisins and dried apricots.

The sector has over 25 thousand enterprises, with an average five hectares farm size. With 6.5 million workers the sector employs 25% of Turkey's total workforce. This ratio was over 35% one decade ago. Although Turkey has relatively small enterprises and land per enterprise, due to its favorable ecological conditions, large food importer neighbouring countries and a large domestic population with rising income, the sector is expected to grow in the future.

⁹ International Trade Center

Turkey is Europe's second largest producer of white goods with production of refrigerators, washing machines and other household appliances. In addition to establishing production units in the Eastern Europe, Eurasia and Asia like Russia, Romania and China, some of the Turkish white goods and electronic appliances producers also bought world's leading brands. Over 2 million people work in the sector and in 2013 production was 21.9 million pieces where 6.8 million of them were sold in the domestic market. There are over 50 producers and over 500 hundred white goods parts suppliers in the sector.

The main producer brands in the sector are: Arçelik, Beko, Altus and Aygaz under Arçelik group; Profilo, Bosch and Siemens under BSH-Profilo Group, Vestel under Vestel Group; Ariston and Indesit under Indesit Group. With the high priority given to innovation in the sector, world's fastest washing machines and dishwashers have been developed in Turkey. The sector exports most of its production.

Turkey Furniture sector is a very important sector in Turkey with its huge export potential. Metal office furniture, wooden furniture, seats for automobiles and seats convertible into beds constitute the major items of production and export in the sector. There are approximately 30 thousand companies in furniture production business which export to over 200 countries in the world. Also 32 thousand companies are in furniture retail business¹⁰. The sector employs over 500 thousand people. The industry had US \$ 2.2 billion export in 2013.

There are nine furniture companies in the top 500 industrial establishments of Turkey. These companies are: Doğa, Çilek Mobilya, Ceha Büro Mobilyaları, Gürkan Ofis Mobilyaları, Tosunoğulları Mobilyaları, Kilim Mobilya, Merinos Halı, Grammer Koltuk Sistemleri and Yataş Yatak ve Yorgan Sanayi.

Around 3,250 companies operate in the cosmetics sector with 14,000 employees (registered in the Ministry of Health system). Shampoos, depilatories, products for bath, lip and eye make-up products, deodorants, perfumes and baby care products are major items in the sector. The sector has a trade volume (import + export) of US \$ 1.8 billion, 62% of which are exports¹¹. Turkey partakes among world's leading laurel and olive oil soap producers. Many successful brands were created by the soap producers in recent years. They achieved high volume of exports. Some of these companies are Evyap, Eczacıbaşı, Canan Kozmetik, Kopas Kozmetik, Kurtsan İlaçları, Hunca Kozmetik, Aromel Kozmetik, Hobi Kozmetik, Kosan Kozmetik, Dünder Kozmetik, Erkul Kozmetik and Rosense Kozmetik. Also many international companies produce different cosmetic products in Turkey.

Given its cultural heritage of jewelry, Turkey ranks among world's top three gold jewelry producers and exporters with the country's powerful modern and classical techniques in the sector. The gold production capacity is 400 tons per year. The sector employs 250 thousand people. There are 5 thousand producers and 35 thousand jewelry stores active in the market¹². İstanbul Gold Exchange was formed in 1995. Currently it has 122 members. Also İstanbul Gold Refinery started its production in 2002.

Table 18: Consumer Product Exports

Consumer Product Exports \$* (Thousand)						
	2008	2009	2010	2011	2012	2013
Furniture	1,387,015	1,198,146	1,414,961	1,658,391	1,899,017	2,238,101
Cosmetics	448,339	418,251	492,057	558,727	621,234	706,341
White Goods	3,621,683	3,238,255	3,651,790	4,240,352	4,421,217	4,621,804
Jewellery	1,660,986	1,155,763	1,529,811	1,949,815	2,675,819	3,411,335
Ready to Wear Clothing	13,154,792	11,222,803	12,381,644	13,512,766	13,863,851	14,973,727

Source: International Trade Center

* Furniture (GTIP: 94919494); Cosmetics (GTIP: 3301-3307); Jewellery (GTIP: 7113); Ready to Wear (GTIP: 61-62); White Goods (GTIP: 8409, 8415, 8416, 8418, 8422, 8450)

¹⁰ MUSIAD

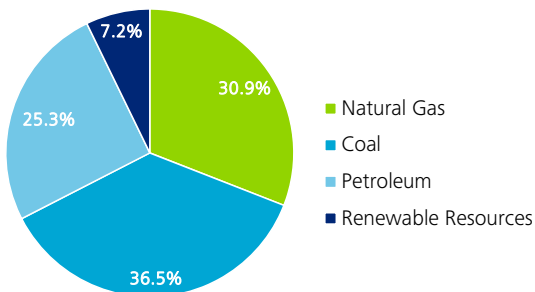
¹¹ Ministry of Economy Cosmetics Industry Report

¹² Ministry of Economy Gold Jewellery Industry Report

3.5 Energy & Resources

Turkey is an important energy consumer as well as an important hub for energy supplies transportation. Turkey's primary energy consumption was 120.9 million TEP in 2012. In the past 10 years, Turkey had the fastest primary energy demand growth among the OECD members. Turkey was also the second in demand increase for natural gas and electricity in the world after China. Between 2012 and 2020, primary consumption is expected to rise 4% annually (average annual increase expectation for the world is 1,5%). Total US \$ 130 billion of investment is needed in the energy field by 2020 to meet Turkey's energy needs.

Graph 4: Energy Consumption in Turkey According to Resources (2012) (%)



Source: Turkish Ministry of Energy and Natural Resources

Except coal (mostly lignite), currently Turkey has very limited mineral resources. Turkey imports almost all of its crude oil (89%), natural gas (98.6%) and coal (92%) needs (2012). TPAO (The Turkish Petroleum Corporation) has invested US \$ 500 million in exploration of Black Sea region where 10 billion barrels of potential reserves thought to be lying. With this goal TPAO has established partnerships with Petrobas, Exxonmobil and Chevron. Although Turkey mostly imports oil and natural gas, the country is becoming a hub for energy supplies.

There are currently two existing and one planned major oil pipeline in Turkey. Existing ones are Baku-Tbilisi-Ceyhan (BTC) and Iraq-Turkey crude oil pipelines which bring oil from Azerbaijan and Iraq. BTC's capacity is 1 million barrels per day (bpd). With some technical changes it will first reach to 1.2 million bpd and eventually to 1.6 million bpd. Capacity of the Iraq - Turkey pipeline is 1.6 million bpd. Also Trans - Anatolian pipeline project is planned to carry Russian and Kazakh oil from north of Turkey to the south. From Ceyhan, a port in the south of Turkey where the oil Trans-Anatolian pipeline ends, the oil will be shipped to other parts of the world. Tüpraş refinery is in Ceyhan and the crude oil is refined at Tüpraş; the refined products are sold both domestically and internationally. Ceyhan region on the Mediterranean coast has become a focal point of the international crude oil trade. Couple new projects to build other refineries in Turkey are planned as well.

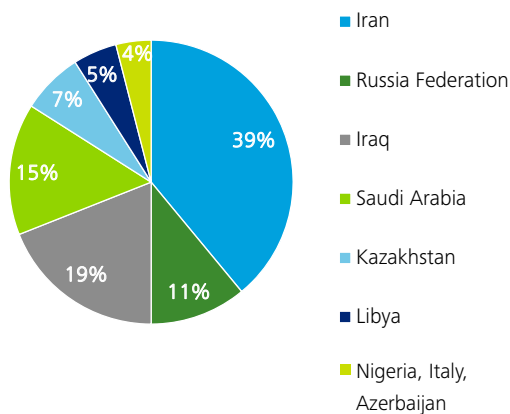
The natural gas pipelines' length increased from 4,510 km to 12,290 km between 2002 - 2012. By the end of 2012, 72 cities had natural gas grid in Turkey. There are two Russian- Turkish natural gas pipelines (West and Black sea), one Azerbaijani-Turkish natural gas pipeline (Baku-Tbilisi-Erzurum) and one Iranian-Turkish natural gas pipeline transmitting natural gas to Turkey.

Total 43.1 billion cm³ natural gas imported from these pipelines in LNG form was from Algeria and Nigeria in 2012. Already one fourth of Azeri natural gas goes to Greece. Also Nabucco gas pipeline agreement was signed in 2009, which will connect Central Asian natural gas to Central Europe through Turkey. Turkey is building a link to the Egyptian - Jordan - Syria - Lebanon gas pipeline. The link will be connected to the Turkish natural gas network. Talks for building a pipeline connecting Qatar natural gas to Turkey is continuing. Another under sea pipeline is planned to be built between Ceyhan and Israel. The gas from the pipeline will be transferred to India from Red Sea by ship.

Energy Market Regulatory Authority ("EMRA") is the main authority in energy market and provides independent regulation and supervision to the electricity, natural gas, petroleum and LPG markets. All market activities are conducted under licenses issued by EMRA.

Turkey imports 84% of the oil from four countries, namely Iran, Russian Federation, Saudi Arabia and Iraq.

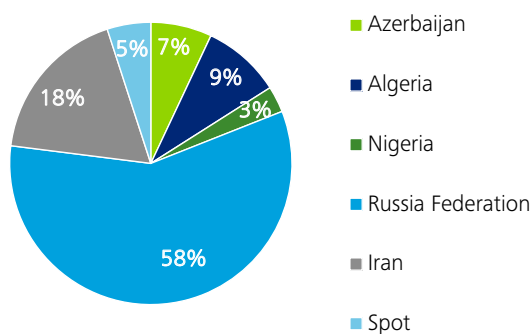
Graph 5: Turkey's Main Resources of Oil (2012)



Source: Energy Market Regulatory Authority

Turkey makes natural gas import from five countries; Russian Federation, Iran, Algeria, Azerbaijan, and Nigeria.

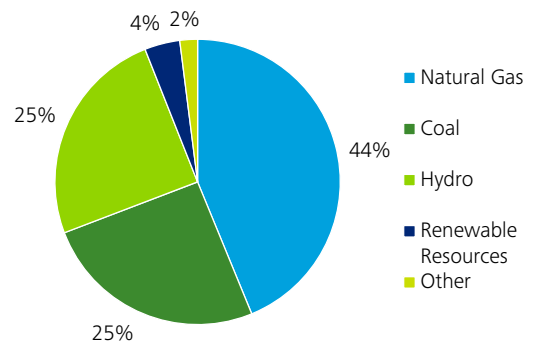
Graph 6: Natural Gas Import 2012



Source: Energy Market Regulatory Authority

Turkey's demand for electricity is growing fastest after China in the world. Between 2002 and 2008 compound annual growth rate in electricity demand was 7% reaching 198 billion kWh. However, with the effects of the global crisis, iron, steel, cement and textile industries' production slowed down and the commercial use of electricity decreased. As a result, the electricity consumption in 2009 was 194 billion kWh. As the effects of the global crisis started to decrease, electricity consumption increased to 242.3 billion kWh in 2012. In 2013, the consumption has reached 245.5 billion kWh with a 1.3% increase compared to 2012.

Graph 7: Main Resources in Electricity Production (2013)



Source: Ministry of Energy and Natural Resources

Turkey's installed electricity production capacity reached 64,044 MW at the end of 2013 with the addition of 6,984.6 MW in 2013¹³.

Electricity demand is expected to increase approximately with an annual average growth rate of 5.5% to reach 357.4 Twh in the base scenario by 2020¹⁴.

Turkey is privatizing its electric distribution and production facilities. The Turkish Electricity Distribution Company (TEDAS) is a government company which distributed and sold electricity in 20 regions and to approximately 30 million customers. To attract foreign investment and have efficiency in both production and distribution, government had reorganized the company into smaller companies and privatized all of the regional companies of TEDAŞ.

Nuclear energy is another field that Turkey wants to develop. Currently, there is no nuclear power plant in Turkey. But the government targets to supply at least 5% of the country's electricity production from nuclear energy by 2020. In order to achieve this target, there are projects underway with different countries. An agreement was signed with Russians to build a nuclear power plant in Akkuyu and "NGS Elektrik Üretim A.Ş." was established in December 2010 in order to realize the agreement. The second project is Sinop nuclear power plant which is planned to be built according to the agreement between Turkey and Japan.

In recent years government changed the laws and regulatory framework for energy industry. The industry has been modeled according to the European Union's regulatory framework and industry structure. As "Kyoto Agreement" was signed by Turkey in 2008, Turkey needs to increase the renewable energy production in the coming years. With the changes in regulatory framework, government increased buying guarantees for renewable energy. As a result of this new initiative, many international and local companies have started to invest in this field. Some of these companies are General Electric, BP, Petrobas and Spain's Iberdrola. In addition, an electricity interconnection net is planned to be built between Turkey, Syria, Egypt, Iraq, Jordan, Lebanon and Libya.

3.6 Life Science and Health Care

Turkey has been going through a comprehensive healthcare restructuring thanks to liberalizations and attempts to develop and scale up its healthcare services by continuously improving quality. Due to its quality of medical care, geographical advantage and affordable prices, Turkish medical groups are rapidly becoming providers of healthcare services for international patients especially from Russian Federation, Europe, Balkan countries, Middle East and Central Asia.

Annual healthcare spending in Turkey was approximately US \$ 42 billion in Turkey (as of end of November 2013)¹⁵. As private investors entered the healthcare market at the beginning of 1990s, the private sector investments doubled compared to public sector within the last decade. There are 541 private, 832 public, 65 university and 45 other type of hospitals.

Table 19: Number of Doctors in Turkey (2006-2012)

Year	Total
2006	104,475
2007	108,402
2008	113,151
2009	118,641
2010	123,447
2011	126,029
2012	129,772

Source: Turkish Ministry of Health (MOH)

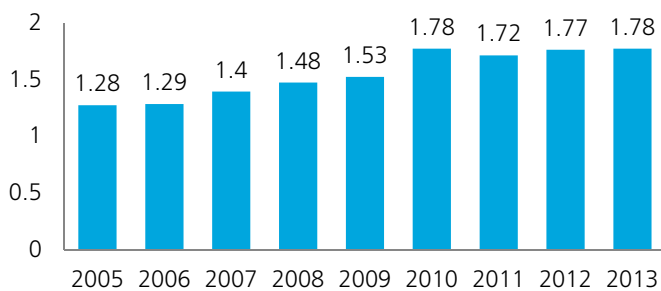
Table 20: Classification of Doctors (2012)

Ministry of Health Hospitals	Medical Schools	Private	Other	Total
73,663	26,997	27,436	1,676	129,772

Source: Turkish Ministry of Health (MOH)

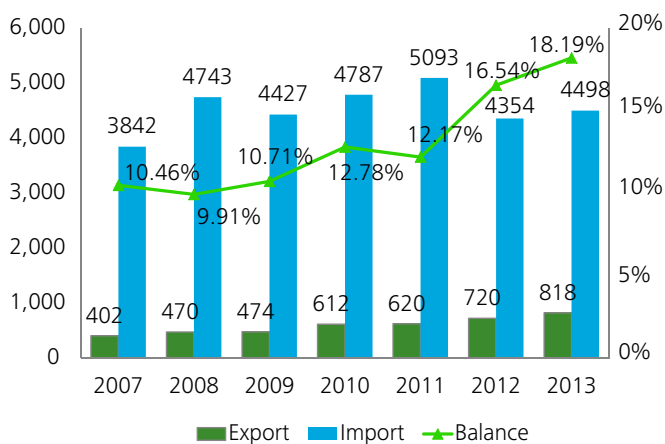
¹⁵ AIFD (Association of Research based Pharmaceuticals Companies)

Graph 8: Pharmaceutical Market Development (Billion Units)



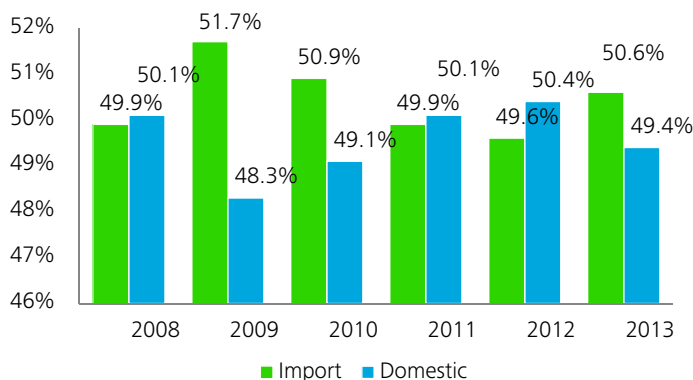
Source: Pharmaceutical Manufacturers' Association of Turkey

Graph 9: Foreign Trade of Turkish Pharmaceutical Sector (million USD)



Source: Pharmaceutical Manufacturers' Association of Turkey

Graph 10: Pharmaceuticals Market - Import vs. Domestic Share



Source: Pharmaceutical Manufacturers' Association of Turkey

Close to 60 internationally competitive medical faculties train thousands of Turkish and foreign medical students. High certification standards in these schools for physicians ensure successful medical results in a wide variety of specialties. Oncology (medical and surgery), organ transplantation, neurosurgery, cardiology and cardiovascular surgery, orthopedics and traumatology, obstetrics and gynecology, ophthalmology, plastic surgery and dental services are major fields in which Turkish healthcare service providers have expertise.

Moreover, as Pharmaceutical Research and Manufacturers of America (PhRMA) mentioned, **Turkey is a country that could develop into a globally competitive powerhouse in pharmaceutical research, manufacturing and exports, due to its human resources, geographic proximity to major markets and rapidly evolving domestic pharmaceutical market.**

There are approximately 300 entities operating in Turkey. There are 77 production facilities in Turkey, 17 of which belong to multinational companies. The number of manufacturing companies is 71, 15 of which are multinationals and the rest are domestic companies according to Pharmaceuticals Manufacturers Association of Turkey. Bayer from Germany, GlaxoSmithKline from the United Kingdom, Amgen (Mustafa Nevzat), Baxter and Pfizer from the United States, Roche and Novartis from Switzerland, Sanofi-Aventis from France have manufacturing operations in Turkey. Bilim ilaç, Nobel ilaç, Sanovel, Koçak Farma, Ali Raif ilaç are the leading pharmaceuticals manufacturers with domestic capital. Turkish prescribed pharmaceutical market has reached US \$ 8.1 billion and 1.78 billion units by volume in 2013, which positions **Turkey as the 6th largest pharmaceutical market in Europe.**

3.7 Construction

Construction is an important sector in Turkey with 4.4% share in the GDP (2013). Also construction materials sectors such as cement, iron, steel, glass, ceramics etc. are very well developed and deeply rooted within the sector. Turkish construction firms are not only active in the country, but many of them are engaged in different projects especially in Middle East, Central Asia, Balkans and North Africa. According to "Engineering News Record" magazine 38 Turkish firms were ranked among the top 250 international contractors in the world in 2013. Turkish contracting firms abroad generated US \$ 31.3 billion revenue in 2013.

The construction sector had grown steadily between 1980 and 1988. With the liberalization of the economy and the increase in interest rates, the investment costs increased after 1988. As a result of higher costs and lower demand, the sector's growth slowed. Construction sector had grown 22.4% during the period of 1993 and 2003, which was lower than the general Turkish economy's growth rate: 26.1%. Investment from the government and the financial sector was low during this period due to high interest rates.

By 2004 the growth rate for the sector started to rise again. The growth continued in 2006 and between 2006 and 2013 (except 2009, the year of crisis), sector's growth rate has been higher than GDP growth rate.

Table 21: Construction Sector's Share in GDP

Yearly Change in the Construction Sector (GDP and the Construction Sector's Share in GDP)			
Year	Construction Sector's Share in GDP (%)	Sector's Growth Rate (%)	GDP Growth Rate (%)
2006	4.7	24.9	6.9
2007	4.9	14.4	4.7
2008	4.7	8.9	0.7
2009	3.8	-18.1	-4.8
2010	4.2	24.9	9.2
2011	4.5	26.5	8.8
2012	4.4	7.6	2.1
2013	4.4	10.9	4.0

Source: TURKSTAT

Immovable Property market is a significant part of Turkish economy as well as the construction sector. Turkey is an emerging market with a very young population. Demand for housing is very high and there is great potential in immovable property market for local investors as well as global investors. International Finance Corporation estimates that Turkey needs 7 million residences until 2015.

During the last 4 years, global investment in Turkish immovable property market was around 10 billion dollars. Leading global immovable property development companies such as Trumps Towers, Emaar Properties, Corio, Multi Corporation of Netherland, Redevco, Acteeum invested in Turkey. In 2013, foreign direct investment to Turkish construction sector was US \$ 210 million after a peak of US \$ 1.4 billion in 2012. On the other hand, immovable property sales to foreigners were around US \$ 2 billion in 2009 and increased to US \$ 3 billion in 2013.

Housing Development Administration of Turkey ("TOKI") is the public authority which provides housing for low and middle income groups. It is the biggest player in the sector and it works under a special law frame. Between 2003 and April of 2014, TOKI housing projects reached a total of 615,682 units, 90,403 units of which are constructed as part of the Urban Renewal Program. As part of 2023 goals, TOKI plans to reach a total of 1 million housing.

Turkish construction materials sector is amongst the top three largest sectors in Turkey's exports and it constituted 14% of all exports in 2013 with approximately US \$ 22 billion export value. The sector is not only serving to Turkey, but it is providing materials to the surrounding geographies of Turkey as well. Turkey was the number one cement exporter in Europe and the second largest in the world in 2012. Turkey also ranked 8th in steel production as well as exports in the world in 2012 with an annual average growth rate of 5.8% in the last five years.

3.8 Telecommunication and Information Technology (IT)

Turk Telekom owns the national infrastructure and was the government monopoly on fixed line services before 2005. 55% of it was privatized to Saudi Oger in the same year, another 15% was privatized to small shareholders in May 2008 and the rest belongs to the State. With the privatization of Turk Telekom, telecom sector has been in a significant change. There were 18.2 million subscribers by the end of 2007. It has been falling each year and reached to 13.5 million fixed lines by the end of 2013¹⁶.

By the end of 2003, Turk Telekom's monopoly on fixed line voice transmission and infrastructure has ended, however, the company still dominates the market. In 2013, TTNNet had 6.3 million broadband subscribers and its mobile brand AVEA had 14.5 million subscribers¹⁷.

There are three GSM operators in Turkey. Turkcell is the largest GSM operator with 35.2 million subscribers by the end of 2013. Vodafone has 19.9 million subscribers and AVEA has 14.5 million subscribers by the end of 2013. In 2013, there were about 69.6 million active mobile phone subscribers in Turkey¹⁸.

As of July 2009 Turkcell, Avea and Vodafone launched 3G services and announced their infrastructure partners for 3G services and network; Vodafone selected Huawei Technologies, Turkcell named Alcatel Lucent Technologies and Avea contracted with Ericsson, Huawei and ZTE. At the end of 2013, there were 49.3 million 3G subscribers¹⁹.

¹⁶ TUIK

¹⁷ Turk Telecom Annual Report

^{18 - 19} BTK

Turkey has a large market for IT and it is expected to grow in a fast pace. 47.2% of the households in Turkey have access to internet connection from their homes. 86% of the xDSL market belongs to Turk Telekom's internet division TNet²⁰ and the rest belongs to other companies, which use Turk Telekom's land/fixed lines to reach the end users. Yet most of these companies provide service thru their own infrastructure (other than the land lines). There were 5.8 million broadband internet users at the end of 2008. It increased to 32.6 million at the end of 2013.

Major players of the software market in Turkey are Milsoft, Havelsan, Meteksan, Logo Business Solutions, Ayesas, Likom, Gantek Technology, Koc System, Oracle, and Microsoft.

Major export markets for Turkish technology and telecom companies are UK, Germany, France, Spain, Italy, the Netherlands, Iraq, Switzerland, Turkmenistan, Libya, USA, Israel and Azerbaijan.

Table 22: Information Technology and Communication Technology Market 2012-2013 (\$ billion)

	Information Technology Market	Communications Technology Market	Total (billion USD)
2012	9.08	21.77	30.83
2013	9.97	24.34	34.32

Source: TUBISAD - Deloitte 2013 Information Technologies and Communication Technologies Report

²⁰ BTK

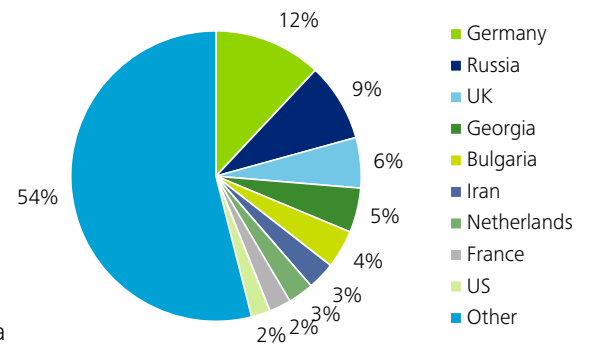
3.9 Tourism

Turkey is one of the most preferred tourism destinations in the world. Besides its abundant archeological and historical sites, hunt tourism, winter sports, faith tourism, thermal resorts, congress and fair tourism, and medical tourism attract more and more foreign visitors every year. According to the UN World Tourism Organization, Turkey ranks 6th in terms of tourist arrivals in 2012. Turkey had 33.8 million visitors and US \$ 25.3 billion receipts in 2013.

The Turkey Tourism Strategy 2023 shows ambitious targets of the Turkish government to be amongst the top 5 most preferred destinations in the world by 2023 by attracting 50 million tourists per year. The strategy also includes constituting nine cultural and tourism zones, 10 tourism cities, 11 cruise ports, nine marinas and one airport. The Strategy presupposes establishment of seven tourism development corridors which are Thrace Culture Corridor, the Silk Road Corridor, Faith Tourism Corridor, Olive Corridor, Western Black Sea Corridor, Plateau Corridor and Winter Corridor.

Antalya, a coastal province in the Mediterranean Region receives approximately one third of all the foreign tourists visiting Turkey, while İstanbul and towns in the Aegean region constitute other leading destinations for foreign visitors, who are mainly from the European Union countries. **İstanbul was the 6th most visited city in the world with 11.6 million international visitors in 2013, according to Master Card Global Destination Index 2013.**

Graph 11: Tourists by Country of Origin



Source: Ministry of Culture and Tourism, TurkStat

Table 23: Tourism Arrivals and Revenues

Year	Tourist Arrivals	Annual Change (%)	Tourism Revenues million \$	Annual Change (%)
2003	13,701,419	17.9%	10,141	25.4%
2004	17,202,996	25.6%	13,061	28.8%
2005	20,522,621	19.3%	15,725	20.4%
2006	19,275,948	-6.1%	13,918	-11.5%
2007	23,017,081	19.4%	15,936	14.5%
2008	26,431,124	14.8%	19,612	23.1%
2009	27,347,977	3.5%	19,063	-2.8%
2010	28,510,852	4.3%	19,110	0.2%
2011	31,324,528	9.9%	22,222	16.3%
2012	31,342,464	0.1%	22,410	0.8%
2013	33,827,474	7.9%	25,322	12.9%

Source: Ministry of Culture and Tourism, TurkStat. Indicates the number of foreign tourists and revenue from foreign tourists.

Tourism is one of the most advantageous sectors for foreign investments, as Turkish Government aims to diversify the tourism sector by providing several incentives for the investors in the sector. Turkey, one of the world's leading countries in terms of geothermal resources, strives to improve health tourism by building new facilities in the fields of medical and thermal tourism, spa-wellness, and tourism for handicapped and elderly people. Turkish Government also aims to improve winter tourism by allocating new areas for new winter sports facilities. Congress and fair tourism is another priority in the tourism strategy. İstanbul, Ankara, Antalya, İzmir, Konya, Bursa and Mersin have been considered as the leading provinces for congress and fair tourism.

Moreover, several projects regarding sports tourism are on the agenda where new golf courses are being recently constructed especially in one of the most important tourism cities, Antalya. İstanbul was the European Capital of Culture during 2010 which promoted the city worldwide and brought in numerous investment projects as well.

The growth and spread of Turkish Airlines' destinations supports the development of Turkish tourism (243 cities as of the end of 2013). Turkish Airlines had US \$ 9.8 billion revenue and carried 48.2 million passengers by the end of 2013, which represents a 19% increase in revenue and 23% increase in the number of passengers compared to 2012²¹.

²¹ Turkish Airlines Annual Report

4. Incentives and financing

4.1 Types of Incentives Available

The purpose of the general investment incentive program is to; encourage, support and orient investments, in line with international commitments, in conformity with the objectives of Development Plans and Annual Programs, in order to reduce regional disparities within the country, create new employment opportunities, while taking advantage of advanced and appropriate technologies with greater added value and to realize international competitiveness and environmental protection.

A set of incentives specifically designed to encourage investments is available in Turkey. Mainly, these incentives can be classified as follows:

- a) Investment incentives
- b) Export - oriented incentives
- c) Other tax/non-tax incentives

4.2 Investment Incentives

4.2.1 State Aids

Implementation of the incentives regime varies depending on the location, scale, importance and subject of the incentive. Available incentives and incentive regimes are shown in the table below.

In order to qualify for state incentives, it is necessary to obtain an investment incentive certificate before the investment is initiated. There are 4 different types of incentive regime and different rules apply to each one. They are as follows:

- 1. General Incentive Regime
- 2. Regional Incentive Regime
- 3. Large Scale Investments
- 4. Strategic Investments

Table 24: Investment Incentives Available By Type of Investments

Incentive	General Scheme	Regional Investments	Large Scale Investments	Strategic Investments
Customs Duty Exemption	√	√	√	√
VAT Exemption	√	√	√	√
Income Tax Reduction	-	√	√	√
Social Security Premium Support (Employer's share)	- (1)	√	√	√
Social Security Premium Support (Employee's share) ⁽²⁾	-	√	√	√
Payroll Tax (Income withholding Tax) Support ⁽²⁾	√	√	√	√
Land Allocation	-	√	√	√
Interest Rate Support ⁽³⁾	-	√	-	√
VAT Refund ⁽⁴⁾	-	-	-	√

¹ Available only for ship construction investments of shipyards.

² Available provided that the investment is made in Region 6.

³ Available provided that the investment is made in Region 3,4,5,6.

⁴ Available for strategic investments with a minimum fixed investment amount of TL 500 Million.

i- Incentive Regimes

1-) General Incentive Regime:

The investments which are not in scope of large, strategic and regional investment incentive regimes and which are not listed in areas or subjects that will not benefit from any incentive can qualify for general incentive regime regardless of in which region the investment is made if it meets the other requirements such as fixed investment amount and production capacity. Generally fixed investment amount should at least be;

- TL 1,000,000 for the investments made in Region 1 and 2
- TL 500,000 for the investments made in Region 3, 4, 5 and 6.

Investments that cannot benefit from the incentives are listed in Section I of the Annex 4 of the Decree governing application of investment incentives (Decree No.2012/3305 announced in the Official Gazette dated 19 June 2012). Floor production, unginned cotton processing, natural gas fired power plants (excluding those to which licenses have been granted by Energy Market Regulation Authority before June 19, 2012), polyclinics, movie theatres, construction services and residential construction are examples of such investments stated in Section I of Annex 4.

Investments that can benefit from the incentives subject to the conditions are determined in Section II of the Annex 4 of the Decree. For example, sheep and goat breeding can benefit from the general incentive regime if the number of sheep and goat per period is at least 1,000. The amount of fixed investment should at least be TL 10 million for sport facilities to qualify for general incentive regime.

For the investments to be realized through financial leasing companies, the total amount of machinery and equipment subject to financial leasing for each financial leasing company should be at least TL 200,000.

All investments over minimum fixed investment amount stated above may benefit from customs duty exemption and VAT exemption regardless of the location of the investment. According to this incentive regime, payroll tax support is only applicable in Region 6 and social security premium support is only applicable for ship building investments.

2-) Regional Incentive Regime:

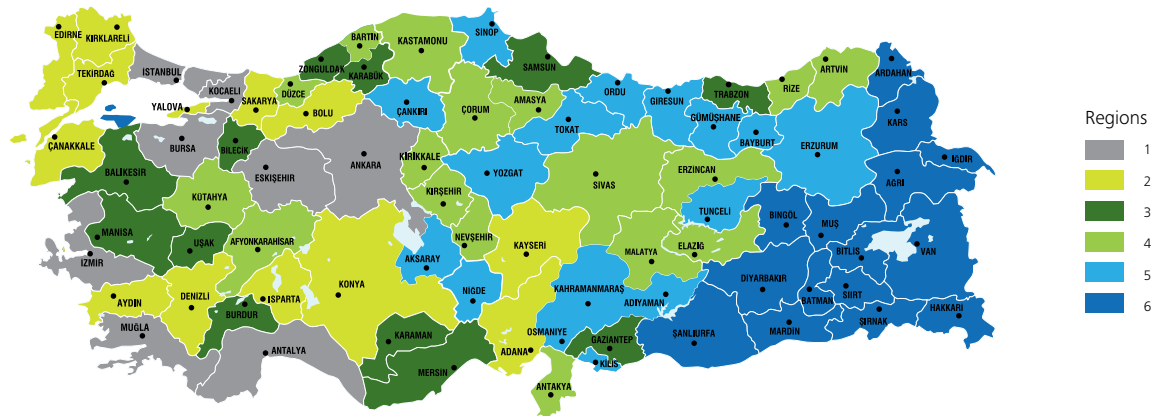
a) General Application:

The Council of Ministers determined specific sectors on a regional basis to be supported by the Treasury within the framework of the investment incentive regime. The list and map below show the Socio – Economic Development of Turkey in which provinces have been grouped into six regions with respect to their development level.

Table 25: Provinces per Regions

Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
ANKARA	ADANA	BALIKESİR	AFYON	ADIYAMAN	BOZCAADA and GÖKÇEADA
ANTALYA	AYDIN	BİLECİK	AMASYA	AKSARAY	AĞRI
BURSA	BOLU	BURDUR	ARTVİN	BAYBURT	ARDAHAN
ESKİŞEHİR	ÇANAKKALE (Except Bozcaada and Gökçeada Districts)	GAZİANTEP	BARTIN	ÇANKIRI	BATMAN
İSTANBUL	DENİZLİ	KARABÜK	ÇORUM	ERZURUM	BİNGÖL
İZMİR	EDİRNE	KARAMAN	DÜZCE	GİRESUN	BİTLİS
KOCAELİ	ISPARTA	MANİSA	ELAZIĞ	GÜMÜŞHANE	DİYARBAKIR
MUĞLA	KAYSERİ	MERSİN	ERZİNCAN	KAHRAMAN MARAŞ	HAKKARİ
	KIRKLARELİ	SAMSUN	HATAY	KİLİS	IĞDIR
	KONYA	TRABZON	KASTAMONU	NİĞDE	KARS
	SAKARYA	UŞAK	KIRIKKALE	ORDU	MARDİN
	TEKİRDAĞ	ZONGULDAK	KIRŞEHİR	OSMANİYE	MUŞ
	YALOVA		KÜTAHYA	SİNOP	SİİRT
			MALATYA	TOKAT	ŞANLIURFA
			NEVŞEHİR	TUNCELİ	ŞIRNAK
			RİZE	YOZGAT	VAN
			SİVAS		

Graph 12: Socio-Economic Development Map



Source: New Incentive System, State aids in Investments, April 6 2012, Ministry of Economics

Types of investments which will benefit from incentives in these six regions have also been identified by the Council of Ministers through Decree No. 2012/3305 dated 19 June 2012. A small part of the list is presented below.

Supported Sectors According to Regions (With US 97 National Business and Product Classification Codes)
(Only a small part of the list is provided to give an idea)

Table 26: Supported Sectors According to Regions

			Minimum Investment Amounts and Capacities					
Sector Code	US-97 Code of The Sector	Sectors Eligible for Regional Support Measures	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
7	1911	Tanning and processing of leather (only investments to be realized in Istanbul Leather specialized zone OIZ and Tuzla OIZ)	TL 1 Million	-	-	-	-	-
14	2423	Pharmaceuticals/production of chemical and herbal raw products used in medicine and pharmacy	TL 4 Million	TL 3 Million	TL 2 Million	TL 1 Million	TL 1 Million	TL 500 Thousands
31	2929	Industrial mould	TL 4 Million	TL 3 Million	TL 2 Million	TL 1 Million	TL 1 Million	TL 500 Thousands
32	30	Office, accounting and data processing equipment manufacturing	TL 4 Million	TL 3 Million	TL 2 Million	TL 1 Million	TL 1 Million	TL 500 Thousands
35	33	Medical instruments, high precision and optical instrument manufacture	TL 1 Million	TL 1 Million	TL 500 Thousands	TL 500 Thousands	TL 500 Thousands	TL 500 Thousands
42	5510.3.01	Dormitories	100 students	100 students	100 students	100 students	100 students	TL 500 Thousands

Investments in Region 1 and 2 can benefit from customs duty exemption, VAT exemption, corporation tax reduction, social security premium support (employer's share) and land allocation support. In addition to these incentives, investments in Region 3, 4 and 5 can also benefit from interest support. Investments in Region 6 can benefit from all these incentives plus payroll tax support.

b) Priority Investments:

Priority investments benefit from the incentives applicable to Region 5, even if the investment is made in the first 4 regions except for investments that are made in Region 6, i.e. the investments made in Region 6 benefit from incentives applicable to this region. These investments are;

- Investments on transportation of goods and passengers by seaway
- Railway investments (for intercity transportation of goods and passengers and for inner city transportation of goods)
- Test facilities, wind tunnels and similar investments (for automotive, space and defense industries)
- Qualified touristic accommodation investments made in Cultural and Touristic Preservation and Development Regions
- International fairground investments with minimum covered area of 50,000 square meters. (excluding the area allocated to accommodation places and shopping centers)
- **Investments on production of bio-technologic and oncologic pharmaceuticals, and blood products** (provided that the investment project is approved by the Ministry of Health and investment amount is at least TL 20,000,000.)
- **Investments on defense, aviation and space** (provided that the investment project is approved by the Undersecretariat of Defense Industry and investment amount is at least TL 20,000,000.)
- **Mining investments** (extraction and processing)
- **Education investments** (preschool, primary school, middle school and high school) made by private sector

- **Investments on manufacture of products and components developed as a result of the R&D projects** supported by "Ministry of Science, Industry and Technology", "The Scientific and Technological Research Council of Turkey" and "Small and Medium Enterprises Development Organization".
- Investments in motor vehicles of key industries with a minimum amount of TL 300 million, motor investments of at least TL 75 million, at least TL 20 million investments of motor components, drivetrains or driveline components and of automotive electronics. (Decree of Council of Ministers dated 2013/4288 entered into force as of 15.02.2013 and apply retrospectively as from 19.06.2012)
- Electricity producing investments, carried out with mining rights and permissions given by the Ministry of Energy and Natural Resources, using as input minerals listed in Mining Law number 3213, Article 2 Group 4-b. (Decree of Council of Ministers dated 2013/4288 entered in force as of 15.02.2013 and apply retrospectively as from 19.06.2012)

c) Investments benefiting from level upgrade:

Provided that the investment is made in scope of regional and large investment incentive regimes and any of the conditions listed below is covered, tax reduction and social security support (employer's share) incentives are applied as if the investment is made in one level less developed region in terms of rates and periods.

- Investment is made in organized industrial zones (OIZ)
- Investment is made by a company whose at least 5 shareholders are in the same sector that the investment is made and the investment should provide integration in the joint activity area

If an investment qualifying for level upgrade is made in Region 6, social security support (employer's share) incentive is applied with additional 2 years and reduction incentive is applied with additional 5 points contribution rate to investment.

3-) Large Scale Investments Incentive Regime:

Large-scale investment projects in relation to 12 specific sectors which exceed minimum investment amounts and approved by the authorities can also benefit from the incentives. The sectors and minimum investment amounts for these particular sectors are presented in the table 27 below:

Table 27: Minimum Investment Amounts per Sector

No	Sector / Subject of Investment	Minimum Investment Amount (TL - Million)
1	Production of refined oil products	1,000
2	Production of chemical materials and products	200
3	Investment on seaport and seaport services	200
4	Investment on production of motor vehicles: a) Investment on main industry b) Investment on supplier industry	200 50
5	Investment on production of railway and tramway locomotives and wagons	50
6	Investment on transportation by transit pipelines	
7	Investment on electronic industry	
8	Investment on production of medical equipments and sensitive optic equipments	
9	Investment on production of pharmaceuticals	
10	Investment on production of aviation and space vehicles and/or equipments	
11	Investment on production of machineries (including electric-powered machines and vehicles)	
12	Investment on production of metal	

A large scale investment can benefit from customs duty exemption, VAT exemption, income tax reduction, social security support (employer's share) and land allocation regardless of the location of the investment. Large scale investment in Region 6 can also benefit from social security support (employee's share) and payroll tax support.

4-) Strategic Investments Incentive Regime:

Investments which are aimed to reduce import dependency can also benefit from the incentives if all of the requirements listed below are covered.

- a) Minimum fixed investment amount should be over TL 50 million (including the share of the energy investments (except gas-fired power plants) whose exclusive purpose is to provide energy for investments aimed to reduce import dependency, which is commensurate with the installed capacity of those investments)
- b) Domestic production capacity of the goods to be produced by the investment should be less than import of such goods
- c) Value-added provided by the investment should at least be 40%. (This condition is not required for refinery investments and petrochemical investments)
- d) Last year's import value of the goods targeted to be produced with new investment should be over \$50 million (This condition is not required if such goods are not produced in Turkey)
- e) Investment should be found appropriate and approved by the Council
- f) Investment should not be in scope of Annex 4/Section I of the Decree (List of the non-supported investments)

A strategic investment can benefit from customs duty exemption, VAT exemption, income tax reduction, social security support (employer's share), land allocation and interest support regardless of the location of the investment. A strategic investment in Region 6 can also benefit from social security support (employee's share) and payroll tax support. In addition to these incentives, strategic investments can also benefit from VAT refund for input VAT paid for construction of a strategic investment over TL 500,000,000 regardless of the location of the investment.

ii- Explanations of the Available Incentives

1-) Customs Duty Exemption: Machinery and equipment which are imported from foreign countries for investment and approved within the framework of Investment Incentive Certificate are exempt from Customs Duties and fund payments. Second hand used assets, raw materials, intermediate goods, operation supplies and construction materials should not qualify for this exemption.

2-) VAT Exemption: Machinery and equipment imported or locally purchased within the scope of an investment incentive certificate benefit from VAT exemption. Thus, taxpayers importing the machinery and equipment will not pay VAT at the custom. In addition, taxable persons in Turkey supplying machinery and equipment within the scope of the incentive certificate are eligible for getting VAT refund for the input tax.

3-) Income Tax Reduction: Earnings derived from investments based on an investment incentive related to regional, large scale and strategic investments as explained above can generally be subject to reduced corporate tax rates until the investment contribution amount is reached except for the following investments:

- Investments in companies operating in the finance and insurance sector
- Investments in the form of joint ventures
- Construction commitment work
- Investments in Build-Operate Model (Law No. 4283)
- Investments in Build-Operate-Transfer Model (Law No. 3996)
- Investments made based on mining lease ("redevance") agreements

Table 28: Contribution Rate to Investment and Tax Reduction Rate -1

	For Regional Investments		For Large Scale Investments	
Regions	Contribution Rate to Investment (%)	Tax Reduction Rate (%)	Contribution Rate to Investment (%)	Tax Reduction Rate (%)
1	10	30	20	30
2	15	40	25	40
3	20	50	30	50
4	25	60	35	60
5	30	70	40	70
6	35	90	45	90

For investments that start before 01.01.2014 (within the scope of investment incentive certificate issued according to the decree No. 2012/3305.)

Table 29: Contribution Rate to Investment and Tax Reduction Rate -2

	For Regional Investments		For Large Scale Investments	
Regions	Contribution Rate to Investment (%)	Tax Reduction Rate (%)	Contribution Rate to Investment (%)	Tax Reduction Rate (%)
1	15	50	25	50
2	20	55	30	55
3	25	60	35	60
4	30	70	40	70
5	40	80	50	80
6	50	90	60	90

The contribution amount is the total corporate income tax incentive amount which will not be collected from the tax payers and is calculated as a specific percentage (i.e., contribution to investment ratio) of the total investment amount. The reduced corporate income tax rate is only applicable to income earned from these investments. Income from other activities is subject to the regular corporate tax rate of 20%.

Both the contribution to investment ratio and the corporate income tax rate reducing ratio are determined based on the level of socio-economic development and the location of the investment and application of both rates change depending on the starting date of investment. Please find the "Contribution to Investment Ratios" and "Reduced Corporate Income Tax Rate" in the tables on this page (according to Article 15 of Decree No 2012/3305 governing the application of investment incentives).

Tax reduction rate is 90% and contribution to investment rate is 50% for strategic investments no matter in which region the investment is made. Expenditures on land, replacements and other assets that are not depreciable, and royalty payments are not qualified for tax reduction incentive.

Example of tax reduction implementation:

An investor obtains an investment incentive certificate and commences a large scale investment in 2013 in Region 4. Qualified investment expenditures are worth TL 50,000,000. Because the contribution rate for large scale investments in Region 4 is 40%, total contribution will be equal to TL 20,000,000. Reduction rate in Region 4 for large scale investments is 70%, thus applicable tax rate applied to income derived from the investment will be equal to $(20\% - 20\% \times 70\% = 6\%)$. This rate will be applied to investment income until the tax advantage derived from the taxes not collected is equal to TL 20,000,000. Thus when total income from the investment reaches $20,000,000 / (0.20 - 0.06) = \text{TL } 142,857,143$ reduced tax rate implementation will be stopped.

Table 30: Example of Tax Reduction Incentive Calculation

Years	Income From Investment	Cumulative Income	Tax Liability Before Reduction	Tax Liability After Reduction	Annual Contribution	Cumulative Contribution	Remaining Contribution
Year 1	20,000,000	20,000,000	4,000,000	1,200,000	2,800,000	2,800,000	17,200,000
Year 2	24,000,000	44,000,000	4,800,000	1,440,000	3,360,000	6,160,000	13,840,000
Year 3	30,000,000	74,000,000	6,000,000	1,800,000	4,200,000	10,360,000	9,640,000
Year 4	36,000,000	110,000,000	7,200,000	2,160,000	5,040,000	15,400,000	4,600,000
Year 5	42,000,000	152,000,000	8,400,000	3,800,000	4,600,000	20,000,000	0

The table above shows the calculation of the tax reduction incentive.

Tax Reduction in Investment Period:

According to Article 15 of Decree No. 2012/3305, investors may be allowed to apply reduced tax rate for the earnings derived from other activities during the investment period as a set-off against the total contribution amount of the investment, with some limitations. The first limitation is that tax relief in a year cannot exceed investment expenditures made in that year. The second limitation is that amount of tax relief in the whole investment period cannot exceed specified portion of the total tax relief. The rates are illustrated in the table below.

Percentage of total tax relief that can be benefited in the investment period:

The table below should be understood this way: If after the completion of the investment the total tax relief would be equal to TL 1,000,000 a taxpayer can benefit TL 800,000 of tax relief before the investment becomes operational for the investments made in region 6. TL 200,000, (rest of the total tax relief) may be benefited after the investment becomes operational, assuming that the amount of investment expenditures is not exceeded.

Table 31: Tax Relief Benefited in the Investment Period

Regions	Regional Investments (%)	Large Investments (%)	Strategic Investments (%)
1	-	-	50
2	10	10	50
3	20	20	50
4	30	30	50
5	50	50	50
6	80	80	80

4-) Support for Social Security Insurance

Premium Employer's share: For large-scale investments, strategic investments and investments supported within the framework of regional incentives, Ministry of Economy supports the employer's share of social security premium of every new employee hired after the investment becomes operational for fully new investments and every additional employee hired above the average number of employees for the last 6 months before the beginning date of the investment for other investments, provided that additional number of employees are in line with the projected numbers determined in the investment incentive certificate.

For workers who are paid more than the minimum wage, Treasury will only support the employer's portion of the social security contribution up to the minimum wage level.

The period of the time where the employer's portion of social security contribution is supported is presented in the table above.

The limitation of social security premium employer's share support with regard to the fixed investment amount has been abolished for investments that are made in region 6.

For strategic investments the limitation of social security premium employer's share support will apply as 15% of the fixed investment amount for investments that are made in regions 1, 2, 3, 4, 5 whereas no limitation will apply for investments that are made in region 6.

Table 32: Number of Years for Which The Employer's Portion of Social Security Contribution is Supported

Regions	For investments started until 31 December 2014	For investments starting from 1 January 2015
1	2 years	-
2	3 years	-
3	5 years	3 years
4	6 years	5 years
5	7 years	6 years
6	10 years	7 years

For strategic investments, social security premium employer's share is supported 10 years in **Region 6** and 7 years in other regions.

Table 33: Ratio of Social Security Contribution Support (Employer's Share)

	Regional Application	Large Scale Investments
Regions	Social Security Contribution Support/ Contribution to Investment Ratio (%)	Social Security Contribution Support/ Contribution to Investment Ratio (%)
1	10	3
2	15	5
3	20	8
4	25	10
5	35	11

5-) Land Allocation: For large scale investments, strategic investments and for investments benefiting from regional supports, investment land can be allocated under the procedures and basis determined by the Ministry of Finance.

6-) Interest Rate Support: The Ministry of Economy also provides support for the first five years with respect to the interest on loans that have a maturity longer than one year and are borrowed for the purpose of financing the investments within the framework of investment certificates based on regional, strategic, R&D and environmental support. The support is applicable to the interest or dividend to be paid up to a maximum of 70% of the fixed investment amount.

The rates of interest support and maximum support amounts to be applied are presented in the table below.

Table 34: Interest Rate Supports By Regions

Region 3		Region 4		Region 5		Region 6		R&D, Strategic and Environmental Investments	
TL loans	Foreign Currency Loans	TL loans	Foreign Currency Loans	TL loans	Foreign Currency Loans	TL loans	Foreign Currency Loans	TL loans	Foreign Currency Loans
3 points	1 point	4 points	1 point	5 points	2 points	7 points	2 points	5 points	2 points
Maximum support is TL 500,000		Maximum support is TL 600,000		Maximum support is TL 700,000		Maximum support is TL 900,000		(*)	
(*) Interest rate support provided to R&D and Environmental Investments is limited to TL 500,000. Interest rate support for Strategic Investments is limited to lower of 5% of the fixed investment amount or TL 50,000,000.									

Investments through financial leasing may also benefit from loan interest rate support. There is no loan interest rate support for investments in used machinery and equipment.

7- VAT Refund: Input VAT, not reimbursed in a taxable year, paid for construction of a strategic investment with certificate whose projected fixed investment amount is above TL 500,000,000 can be refunded next year upon request of the taxpayer. If the investment is not completed, refunded taxes are taken back with penalty and interest.

8- Support for Payroll Tax (Income withholding Tax): State forgoes payroll tax on salaries of every new employee hired after the investment becomes fully or partially operational, where investment within the scope of the investment incentive certificate in Region 6 creates additional employment. According to the Decree, income withholding tax shall not be collected on salaries of the additional employees for a period of ten years, provided that additional number of employees shall not exceed the projected number determined in the investment incentive certificate. Amount of support for each employee is limited to the amount of tax that would be calculated on minimum wage.

9- Social Security Premium Support (Employee's share): Ministry of Economy supports the employee's share of social security premium of every new employee hired after the completion of the investment if the investment supported within the framework of large scale, strategic or regional incentive is made in Region 6, provided that additional number of employees shall not exceed the projected number determined in the investment incentive certificate. Investors can benefit from the support for ten years and the amount of support is limited to the amount of the social security premium that would be calculated on minimum wage.

4.2.2 Research and Development (R&D) Incentives

R&D Expenditures Allowance

According to Corporate Income Tax Law, companies that conduct R&D activities which are approved by the Scientific and Technological Research Council of Turkey ("Tübitak"), universities and entities specialized in the subject of the research as "R&D activities" and have the following characteristics, can benefit from an allowance equal to 100% of the R&D expenditures in addition to deduction of the expenditure itself.

- a) Searching for new technical information aimed at development of science and technology and/ or for the purpose of elimination of uncertainties in certain scientific and technical areas
- b) Searching for development of new production methods, processes and operations
- c) Development of new products, materials, equipment, operations and systems via new methods as well as production of new techniques and prototypes by studies on designs and technical drawings
- d) Searching for new technology that will result in cost reduction, quality improvements, and increase in performance level
- e) Development of new and original software

R&D expenditures allowance which cannot be used due to insufficient corporate income, can be carried forward to be used in the following years.

In order to benefit from the R&D expenditures allowance and the other incentives provided through R&D Law (Law No: 5746), the conditions indicated in the R&D Law and the relevant legislation must be satisfied. Accordingly, there must be an R&D center in which **at least 30 full - time R&D employees** are employed. Prior to 1 July 2014, the minimum number required was 50.

Withholding Tax Reduction on Salaries of R&D Center Employees

Except for the public sector employees, 80% of salaries of R&D center employees are exempt from income withholding tax applied on salaries. This exemption rate is applied as 90% for those R&D Center employees with doctorate (Ph.D.) degrees.

Support for Social Security Insurance Premium Employer's Share

Except for the public sector employees, Ministry of Finance provides support for the half of the employer's share of social security premium of every R&D employee for a period of five years.

Stamp Tax Exemption

All agreements to be concluded related to R&D activities and transactions are exempted from stamp tax.

Techno-Entrepreneurship Capital Support

Entrepreneurs having a business plan to convert their technology and innovation focused business ideas into a new business which will create value and new employment may be supported with a donation of up to TL 100,000 by the Central Public Authority provided that they employ either a final year university/master degree/Ph. D. student, or a university/master degree/Ph. D. graduate who have graduated not longer than 5 years ago.

Tax Exemptions Provided for Operations in Technology Development Zones

According to Technology Development Zones Law (Law No. 4691), Technology Development Zones (TDZ) may be formed by private sector companies within Turkey together with universities or high technology institutes exclusively for the purpose of carrying out Research and Development activities (including production of software) aimed at promoting technology development activities in Turkey.

TDZ is to be operated by an Operating Company. Operating Company must be established in the form of a corporation. At least one of the founding shareholders of the Operating Company has to be a university, a high technology institute or a state R&D institute. Legal entities with domestic or foreign capital may participate in the Operating Company either as founding or participating shareholders.

The following tax exemptions are available through TDZ Law²²:

- a) Provisional Corporation Tax Exemption for the Operating Company:** Profits derived by a TDZ Operating Company from operation in TDZ in accordance with Law No. 4691 are exempted from income and corporate income tax until 31 December 2023.
- b) Stamp Tax Exemption for the Operating Company:** The Operating Company is exempt from stamp tax on those agreements to be prepared for the purpose of application of Law No. 4691.
- c) Provisional Income Tax Exemption for Individuals/Entities Operating in TDZ:** Individuals or entities that carry out R&D and software development activities within a TDZ are also exempt from income and corporate income taxes on their income derived from such activities until 31 December 2023.
- d) Provisional Tax Exemption for the Salaried R&D Personnel Employed in TDZ:** Salaries of the personnel employed in TDZ to carry out R&D and software development activities are exempt from all kinds of taxes until 31 December 2023.
- e) Provisional VAT Exemption:** Deliveries of software (for system management, data management, internet, mobile and military command control applications etc.) developed as a result of the activities performed in TDZs are also exempt from VAT until 31 December 2023.

²² The exemptions indicated in a), c) and d) are also applicable to the Tübitak Marmara Research Center Technology FTZ Operator, income/ corporate income tax payers operating in this FTZ and the salaried personnel working in this FTZ as software developer or researcher engaged in R&D activities.

4.2.3. Supports for Small and Medium Size Enterprises (SMEs)

SMEs are those companies that employ less than 250 employees and have net sales revenue which is less than TL 40 million per year. There are various supports provided by “KOSGEB” (the Small and Medium Sized Industry Development Organization) for the new entrepreneurs and business enterprises that qualify as SME. These supports include the following:

- General supports (some of them include; support for trade fairs, support for employing qualified personnel, consultancy support, training support, energy efficiency support, test, analysis and calibration support, audit support)
- SME Project Support
- Support for research and development, innovations, and industrial intellectual property rights
- Entrepreneurship development support
- Cooperation and collaboration support
- Thematic project support



4.3 Export-Oriented Incentives

Tax Exemptions for Operations in Turkish Free Trade Zones

Turkish Free Trade Zones (FTZs) are the areas specified by the Council of Ministers within the political borders of Turkey but considered outside the customs borders, where all types of industrial, commercial and certain types of service activities are encouraged through certain tax exemptions and incentives with the following objectives:

- Increasing export-oriented investment and production,
- Accelerating the inflow of foreign capital and technology,
- Procuring the inputs of the economy in an economic and orderly fashion,
- Increasing the utilization of external finance and trade possibilities.

The Council of Ministers of Turkey is authorized to specify and determine the location and boundaries of FTZs in Turkey.

There are 19 FTZs that are currently operating in Turkey based on the relevant legislation in effect as of January 2013.

It is possible both for individuals and legal persons to operate in FTZs regardless of their residency status. In all cases, in order to operate in FTZs, it is compulsory to obtain an "Operation License" from the General Directorate of Free Trade Zones (GDFTZ) governed by Ministry of Economy.

If the application is accepted by the GDFTZ, an Operation License is granted for an appropriate period usually varying between 10-30 years (up to 99 years for very special projects) taking into consideration the request of the applicant, the type of activity to be conducted, the amount of the investment and other issues as applicable for each FTZ.

Table 35: Turkish Free Trade Zones:

	Name/Location	Operator	Year of starting operations
1	Mersin	MESBAŞ	1987
2	Antalya	ASBAŞ	1987
3	Aegean FTZ	ESBAŞ	1990
4	İstanbul Atatürk Airport FTZ	İSBI	1990
5	Trabzon	TRANSBAŞ	1992
6	İstanbul Leather and Industry FTZ	DESBAŞ	1995
7	Mardin	MASBAŞ	1995
8	İzmir Menemen Leather FTZ	İDESBAŞ	1998
9	Rize	RISBAŞ	1998
10	Samsun	SASBAŞ	1998
11	İstanbul Thrace FTZ	ISBAŞ	1998
12	Kayseri	KAYSER	1998
13	European FTZ	Avrupa Serbest Bölgesi Kurucu ve İşletici A.Ş.	1999
14	Gaziantep	GASBAŞ	1999
15	Adana -Yumurtalık	TAYSEB	1999
16	Bursa	BUSEB	2001
17	Denizli	DENSER	2001
18	Kocaeli	KOSBAŞ	2001
19	Tübitak Marmara Center Technology Research	TUBITAK	2002

Important changes have been made in FTZ Legislation through Law No. 5084 with effect from 6 February 2004. The most important change is that income and corporate income tax exemptions in Turkish FTZs have been abolished with effect from 6 February 2004. However, those users already operating in Turkish FTZs based on a valid operation license obtained prior to 6 February 2004 shall still continue to benefit from income and corporate income tax exemptions within the limit of the operation period specified in their operation licenses.

The exemption from income withholding tax on the salaries of personnel employed in Turkish FTZs and the exemption from levies and duties, which were available until 31 December 2008, are no longer available starting from 2009.

However, income withholding tax exemption on salaries will continue to be available starting from 1 January 2009 only for those companies that are engaged in manufacturing within Turkish FTZs provided that certain conditions are satisfied as per FTZ General Communiqué No.1 about application of income withholding tax exemption on salaries. The major condition required is that the manufacturing company must export at least 85% of the total FOB value of the products manufactured within the Turkish FTZ. This exemption shall be provisionally applicable until the end of the year in which Turkey becomes full member of the European Union (EU).

The income tax exemption mentioned above does not cover withholding tax to be imposed on dividends to be distributed. Accordingly, dividends to be distributed by companies established and operating in Turkish FTZs to their shareholders shall be subject to 15% dividend withholding tax.

From among those users that obtained an operation license for production activities on 6 February 2004 or thereafter; only those earnings of such users which are generated from the sales of goods that are produced within Turkish FTZs shall be exempt from corporate income tax until the end of the year in which Turkey becomes full member of the European Union (EU). Earnings from commercial activities other than manufacturing shall be subject to 20% corporation tax.

Transfer of Profits/Liquidation Proceeds from FTZs:

It is free to transfer profits, sale and liquidation proceeds obtained in FTZs to the other parts of Turkey as well as abroad. The only restriction is that the export of capital in kind from Turkey is subject to the permission of the Undersecretariat of Treasury.

Current Advantages of Operating in FTZs:

- a) Exemption from customs duties
- b) Exemption from corporation tax for manufacturing companies
- c) Exemption from VAT and Special Consumption Tax (SCT)
- d) Exemption from income tax on employee's salary (available only for companies that export at least 85% of the FOB value of the goods that they produce in FTZ)
- e) Possibility to keep/store goods within FTZ for an unlimited period
- f) Free transfer of profits from FTZs to abroad as well as to Turkey without restrictions

Trading with Turkey:

Goods that are sent to a FTZ from Turkey are treated according to the Foreign Trade Regime and considered exported from Turkey. Similarly, goods forwarded to Turkey from FTZs are subject to the Turkish Foreign Trade Regime and considered as imported under this Regime. Effectively, the Foreign Trade Regime does not apply to transactions between FTZ and other countries, nor does it apply to the transactions among the FTZs. Goods and services may freely be sent from FTZs to destinations outside Turkey.

Compulsory Contribution ("special levy") To Be Made In Case of Trading:

A compulsory contribution is required to be made by the FTZ users to the Special Account in the Central Bank of Turkey at a rate of

- a) 0.1% of the CIF value of the goods imported into Turkish FTZs from foreign countries (FTZ users who are not manufacturers and obtained operation license after 6 February 2004 are not subject to this contribution payment as of 1 May 2007)
- b) 0.9% of the FOB value of the goods exported from Turkish FTZs to Turkey (FTZ users who are not manufacturers and obtained operation license after 6 February 2004 are not subject to this contribution payment as of 1 May 2007)

Foreign exchange gains to be derived from collections of receivables from customers as well as income derived from additional charges made to customers for their late payments shall benefit from income/corporate income tax exemption, provided that they are related to the FTZ activities within the scope of the operation license (applicable for those who still hold a valid operation license obtained before 6 February 2004).

Tax Exemption Under "Inward Processing Regime" (IPR)

Purchase of raw materials, spare parts and packing materials to be used in manufacturing of products which will be exported within the framework of an inward processing certificate or inward processing permission are exempt from customs duties. Agreements, documents, declarations (including customs declarations) to be used with respect to transactions within the framework of inward processing permission are exempt from stamp tax and duties.

State Aids Supporting Export Activities (Non-tax Incentives)

- Support for R&D activities
- Employment supports
- Support for technical consultancy services
- International fair participation supports
- Services trade for saving foreign exchange supports
- Support for the activities for the environment protection
- Support for participation in specialized international fairs organized in Turkey and abroad
- Marketing research support
- Support for opening and operation of shops in foreign countries and promotion of such activities
- Training supports
- Supports for export refund in agricultural products
- Supports for development/promotion of Turkish trademarks in foreign countries
- Support for export financing through Turkish Eximbank Loans
- Support through insurance programs of Turkish Eximbank

4.4 Other Tax/Non-Tax Incentives

1) Corporate Income Tax Holiday for Private Education Enterprises and Operations of Rehabilitation Centers

There is a five-year corporate income tax holiday for earnings derived by private education enterprises (pre-school, primary and secondary schools) and rehabilitation centers operated by tax-exempt foundations and associations established for public benefits. The tax holiday starts from the first operation year.

2) Support of Sports Activities Through Sponsorship

Sponsorship expenses are deductible from corporate income tax base depending on the sports activities being carried out on an amateur or professional basis: 100% for amateur sports activities, 50% for professional sports activities.

3) Cultural Investment Incentives

Cultural Investments Incentive Law (Law No. 5225) provides employment, energy and immovable property allocation support in order to promote cultural investments and protect cultural inheritances. The Ministry of Culture and Tourism is authorized to allocate immovable property for the investors for a fixed period.

- **Reduction in income withholding tax on salaries:** 50% of the income withholding tax of employees that work during the investment stage is waived (for a maximum period of 3 years). During the stage of operation, this reduction rate is applied as 25% for a maximum period of 7 years).
- **Support for Employer's Share of Social Security Premium:** Similar to reduction in income withholding tax, 50% and 25% of the employer's share of social security premium contribution (for employees who work for the construction/repair/ operation of the immovables used for cultural activities as well as documentation, archiving and protection of cultural assets) during the investment and operation stages, respectively are financed for a maximum period of 3 years and 7 years, respectively.
- **Energy Support:** There is also energy support (20% of electricity and natural gas consumption are financed by the Treasury for a period of 5 years) for these types of investments.

4) Deductible Expenses and Donations for Cultural Values and Natural Resources

Expenses and donations incurred for the activities related to protection, development, maintenance of Turkish Cultural Values and Inheritance with respect to the Law on Protection of Cultural Values and Natural Resources (Law No. 2863) is deductible from the corporate income tax base. In addition, there is a VAT exemption on restoration, restitution and building surveying projects within the scope of Law No. 2863 on Protection of Cultural Values and Natural Resources.

5) Exemptions for Ships Registered in the International Ship Registry of Turkey (ISRT)

The exemptions for ships registered in the International Ship Registry of Turkey (ISRT) are as follows:

- Income/Corporate income tax exemption on income from operation and transfer of ships.
- Agreements to be concluded for purchase/sale, mortgage registration, and freight as well as loan agreements related to such ships are exempt from stamp taxes, duties and banking and insurance transaction tax.
- Wages and remuneration paid to the employees working in ships and yachts which are registered with the ISRT are exempt from income tax and any kind of duties.

6) Loan Interest Supports

As mentioned in Chapter 4.2.1 "State Aids", there are loan interest supports for investments within the framework of investment incentive certificates based on regional, strategic, R&D and environmental support. Amount of support and requirements for obtaining the support can be seen in detail in the mentioned chapter.

7) Resource Utilization Support Fund ("RUSF") -Levy on Foreign Loans

External foreign currency denominated loans obtained by residents of Turkey for the below periods on the average are subject to a levy (a compulsory contribution to "Resource Utilization Support Fund" – RUSF) on the principal amount on the borrowing date:

Table 36: Resource Utilization Support Fund – Levy on Foreign Loans

Foreign currency and gold denominated loans obtained by residents of Turkey, other than banks and financing companies, from abroad (except fiduciary transactions)	RUSF Rate
Average maturity up to 1 year	3%
Average maturity between 1 year (including 1 year) and 2 years	1%
Average maturity between 2 years (including 2 year) and 3 years	0.5%
Average maturity up to 3 years (including 3 years) and above	0%

However, external foreign currency loans obtained by banks and finance companies, are not subject to RUSF even if they are used for a period of less than one year.

There is an exemption from RUSF, provided that external foreign currency loans with a maturity of longer than 2 years are obtained within the scope of an investment incentive certificate. Imports realized within the framework of investment incentive certificate are also exempt from RUSF.

Additionally, RUSF is applied at the rate of 0% currently on those loans granted in Turkey in terms of Turkish Lira or foreign currency for the purpose of export financing as well as the foreign loans obtained by residents of Turkey for export financing purposes (including those loans granted for financing of foreign currency generating activities within the scope of export incentive certificate, inward processing permission certificate or tax and duty exemption certificate).

8) Financial Leasing

Effective for agreements concluded on or after July 1, 2003, the tax treatment of financial leases was changed in Turkey in line with the International Financial Reporting Standards (IFRS). The changes which reflect the IFRS treatment of leases are summarized below:

Table 37: Tax Treatment of Financial Leasing

Subject	Tax Treatment Prior to 1 July 2003	Tax Treatment After 1 July 2003
Depreciation	Leasing company is eligible to depreciate	Lessee is eligible to depreciate.
Tax accounting for lease payments	<ul style="list-style-type: none"> Leasing company treats all the lease amount as taxable income. Lessee treats all the lease payments as corporate income tax deductible item 	<ul style="list-style-type: none"> Leasing company should differentiate between the interest income and principal. Only the interest income is taxable. Lessee should differentiate between the interest and principal. Only the interest is corporate income tax deductible

The new regime is applicable to all lease agreements (i.e. operational lease and financial lease) irrespective of the status of their parties. In this context, a leasing transaction between a lessor who is not registered as a financial leasing company under the relevant legislation and a lessee will be treated as financial leasing for tax purposes if the lease agreement satisfies any of the following:

- The lessor transfers ownership to the lessee by the end of the lease term,
- The lease agreement contains a bargain purchase option,
- The lease term covers more than 80% of the economic life of the leased assets,
- The present value of the minimum lease payments at the inception of the lease is greater than or equal to 90% of the fair value of the lease asset.

In addition, lease agreements of immovable assets can be considered as financial leasing if the lessee acquires the asset or the asset is transferred to the lessee at the end of the renting period.

The following specialized types of leases shall not be treated as lease agreements for tax purposes:

- a) Lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights
- b) Licensing agreements for such items as motion picture films, video recording, plays, manuscripts, patents and copyrights

9) Sale and Lease Back:

Capital gains derived from sale of immovable assets to registered financial leasing company are excluded from corporate income base, provided that the same asset is leased back after the sale and rebought from the leasing company at the end of the lease period. Capital gain derived from sale of immovables to the lessee by the leasing company at the end of the lease period is also exempt from corporate tax.

The sale of the immovable assets to the financial leasing company, the leasing of such assets by the leasing company to the lessee and the transfer of the assets by the leasing company to the lessee are exempt from VAT provided that the immovable assets are purchased by leasing company to be leased back to the lessee and transferred to the lessee at the end of the lease period.

Financial leasing agreements and documents relating to the transfer and amendment of these agreements and their guarantees are exempt from stamp tax and duties as per Article 30 of Law No. 3226 governing financial leasing.

10) Export Financing²³

Türk Eximbank is a state-owned bank acting as the Turkish government's major export incentive instrument in Turkey's sustainable export strategy. As Turkey's official export credit agency, Türk Eximbank has been mandated to support foreign trade and Turkish contractors/investors operating overseas.

Türk Eximbank's main objectives are promoting Turkey's exports through diversification of exported goods and services by increasing the share of Turkish exporters in international trade, finding new markets for traditional and non-traditional export goods and providing exporters and overseas contractors with support to increase their competitiveness and to ensure a risk-free environment in international markets. As a means of aiding export development, Türk Eximbank offers specialized financial services through a variety of credit, insurance and guarantee programs.

Türk Eximbank supports exporters, export-oriented manufacturers, overseas investors and companies engaged in foreign currency generating services with short-, medium- and long-term cash and non-cash credit programs. Moreover, export receivables are discounted in order to increase export volume and to ease access into new and target markets through the promotion of sales on deferred payment conditions.

Türk Eximbank's main sources of funds are direct funding from the Treasury through capital increases and transfers from extra-budgetary funds as well as through borrowing from commercial banks and international financial markets.

²³ Source: www.eximbank.gov.tr

5. Business regulations and requirements

5.1 Foreign Investment Rules

Foreign Investment Directorate (FID), established in 1986, affiliated to the Ministry of Economy, is authorized to:

- guide and assist foreign investors in exploring investment opportunities in Turkey,
- negotiate bilateral investment protection and promotion agreements.

In 1987, Turkey signed and ratified the Convention on ICSID (International Center for Settlement of Investment Disputes) and MIGA (Multinational Investment Guarantee Agency).

The objective of **the Foreign Direct Investment (“FDI”) Law launched on 17 June 2003**, is to regulate the principles to encourage foreign direct investments; to protect the rights of foreign investors; to define investment and investor in line with international standards; to establish a notification-based system for foreign direct investments rather than screening and approval; and to increase foreign direct investments through established policies.

Foreign Direct Investment (“FDI”) Law is based on a policy that shifts from ex-ante control to a promotion and facilitation approach with minimal ex-post monitoring to continuously improve an investor-friendly climate for growth and development. Turkish Foreign Investment Regulations encourage real persons and legal entities resident abroad to invest in Turkey, to engage in commercial activities, to participate in partnerships, to purchase shares, to open branch offices and to establish liaison offices.

As a result of application of the FDI Law, all permits granted by the General Directorate of Foreign Investment were abolished. Accordingly, all the procedures for establishing a company with foreign capital are now the same as local companies. Foreign investors are entitled to establish or participate in any of the company types designated by the Turkish Commercial Code and the Code of Obligations.

Thus, foreign investors have the same rights as the Turkish nationals have. The national treatment principle is applicable by all means. With respect to this principle, no additional approvals and authorizations are required for the establishment of the foreign companies, branches and participation in the existing companies. However establishment of liaison offices is subject to the approval of the Ministry of Economy.

The foreign investors are no longer required to bring a minimum capital of USD 50,000 since this obligation was abolished as a result of the introduction of the current Foreign Direct Investment Law. Foreign investors are now required to bring those capital amounts which are required by the Turkish Commercial Code. As per the Turkish Commercial Code, limited liability companies require a minimum capital amount of TL 10,000 and joint stock companies (corporations) require a minimum capital of TL 50,000 for the purpose of establishment.

Any form of company as defined and included in the current Turkish Commercial Code (TCC) is acceptable.

All rights, exemptions and privileges granted to domestic investors and business are available under the same conditions to foreign investors and businesses working in the same field.

Companies having a legal entity with foreign capital in Turkey have the same rights to own or use land as domestic investors. The FDI Law reassures these rights. However, there are certain rules and limitations for foreign individuals to acquire immovable property in Turkey as per Article 35 of the Title Deed Law.

General Principles of Foreign Direct Investments under the Foreign Direct Investment (FDI) Law

1) Purpose and Scope of FDI Law: The objective of the FDI Law is to encourage foreign direct investments; to protect the rights of foreign investors; to define investment and investor in line with international standards; to transform the current screening and approval system into a notification based system for foreign direct investments; and thus regulate the principles to increase foreign direct investments through established policies.

2) Freedom to invest and national treatment: Unless there are no international agreements or special legal provisions to the contrary;

- a) Foreign investors are free to make direct investments in Turkey,
- b) Foreign and Turkish investors are subject to equal treatment.

3) Expropriation and Nationalization: Foreign direct investments shall not be expropriated or nationalized except for expropriating or nationalizing ensures a public interest and compensation is paid.

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

Accordingly, it is no longer necessary to register royalty, cost sharing, management service and similar types of agreements with the Foreign Investment Directorate.

5) Acquisition of Immovable Property by Foreign Investors:

According to the FDI Law, Foreign investors may freely acquire immovable property or have limited rights on real estate through a legal entity incorporated under the Turkish Commercial Code (However, this provision has been cancelled by Constitutional Court Decision dated 11.03.2008 and No. E: 2003/71, K: 2008/79 with effect from 16 October 2008).

According to Article 35 of the Title Deed Law, foreign real persons who are citizens of the countries that have been announced by the Council of Ministers, are entitled to acquire immovable property in Turkey. However, the total size of land that can be acquired in Turkey by a foreign real person cannot exceed 30 hectare (i.e. 30,000 sqm). There is also a limitation up to 10% of the total surface area of the relevant district per each foreign real person.

According to Article 36 of the Title Deed Law, the companies in Turkey established by foreign investors are entitled to acquire real estate to carry out their activities set forth under their Articles of Incorporation. However, the real estate acquisitions by companies in Turkey with foreign investors at the military zones, security zones and strategic zones are subject to the permission of the Turkish General Staff.

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

7) Assessment of Capital in-kind To Be Contributed By Foreign Investors:

Capital in-kind is valued according to the regulations of the Turkish Commercial Code. However, in case the shares of a company resident abroad are contributed as capital in-kind by foreign investors into a Company in Turkey, the values to be determined by the Courts or other relevant authorities in the home country of the foreign investor or international institutions performing valuations will be acceptable.

8) Employment of Foreign Personnel: Work permits for foreign personnel to be employed in companies, branch offices and organizations to be established within the scope of the FDI Law are granted by the Ministry of Labor and Social Security.

9) Liaison Offices: The Ministry of Economy Incentive Administration and Foreign Investment Directorate may grant permission to foreign legal entities in order to open a liaison office in Turkey provided that they are not engaged in any commercial activities in Turkey.

Please refer to Section 9.8 (Liaison Offices) for further information regarding establishment and tax status of liaison offices.

5.2 Foreign Trade

After the economic liberalization program was adopted in 1980s, Turkey decided to liberalize its import and export regulations, which has led to a dramatic increase in foreign trade. The most significant phenomenon in Turkey's foreign trade policy is the Customs Union established between the EU and Turkey as of 1 January 1996. This development initiated the period needed for the legal infrastructural consistency of foreign trade strategy with the EU's norms, and thus both import and export regimes have been made consistent with the regulations of the EU.

General Principles of Turkish Customs and Foreign Trade Regulations

Turkish Customs Code is generally in line with the Customs rules of the EU. The relevant authorities that have regulated foreign trade until June 8, 2011 are the Undersecretariat for Foreign Trade (UFT) whose duty was to regulate all aspects of foreign trade and the Undersecretariat for Customs who was responsible for the implementation of foreign trade regulations at the Customs borders.

The UFT and its responsibilities have been transferred to the Ministry of Economy and the Undersecretariat for Customs and its responsibilities have been transferred to the Ministry of Customs and Commerce on June 8th, 2011.

Turkish Customs Tariff: Customs duties are levied at the time of importation on the Customs duty base which is determined based on the customs valuation principles and according to the Customs Tariff Position Numbers.

Determination of Customs Duty Base: Customs duty base is determined in accordance with the principles of Agreement on Implementation of Article VII of the GATT.

Determination of VAT Base for Imported

Goods: The VAT base is the sum of the following items:

- The value of the imported goods which is base to the customs duty assessment, in case of duty base is not available, the CIF value of the goods, in cases where the CIF value is unknown, the value which is to be determined by the Customs Administration.
- All kinds of taxes, duties and fees paid in importation.
- Other costs and expenses incurred until the registration of the customs return as well as any price and exchange differences to be computed upon the value of the goods.

Major Customs Regimes Applied:

- Release for free circulation regime
- Bonded Warehouse Regime
- Inward Processing Regime
- Outward Processing Regime
- Temporary Importation Regime
- Processing Under Customs Control Regime
- Transit Regime
- Export Regime

Customs Duty Penalties: There are 2 types of penalties which are defined in the Customs Legislation;

- Penalties to be charged on operations that result in tax (customs duty) loss
- Fines relating to irregularities (procedural non-compliance)

Fines shall be applicable regardless of whether the action of the taxpayer is deliberate or not.

Imports

Importing into Turkey remains subject to various regulations and laws governed by the import regime decree. These laws and regulations define a system of import tariffs, modified by special agreements between nations and customs tax exemption and/or allowances provided for some products. In accordance with the rules of the Turkish import regime, imports can be classified into three groups:

1) Imports which are subject to permission:

Permission may be required from different authorities such as the Ministry of Agriculture and Rural Affairs, Ministry of Health, Ministry of Defense, Ministry of Environment and Forestry, Turkish Atomic Agency etc. Furthermore, some goods can only be imported by authorized institutions, such as weapons (to be imported by the Army), paper used to print banknotes (to be imported by the Central Bank of Turkey) etc.

2) Imports which are prohibited: The import of certain items (such as all kinds of soil used for agricultural purposes, gambling machines, hashish) is completely prohibited.

3) Goods which can be freely imported:

Most goods can be freely imported subject to the payment of customs duties and certain funds (if any) at the varying rates. With the exception of imports subject to permission, all imports may be realized through the intermediation of any bank authorized to operate a foreign exchange position.

Documentation for Imports: Turkey is in the Customs Union since 1 January 1996. The import documentation procedures are generally in line with the European Union System. The original copy of the invoice must accompany the goods to be imported. Import permission (if required) is to be presented to the Customs for the purpose of Customs clearance of the goods.

All the documents and information must be kept for a period of 5 years for the purposes of control by the Customs Authorities.

Import Duties: As a result of the Customs Union between Turkey and EU with effect from 1 January 1996; Turkey eliminated all customs duties applied to imports of industrial products from the EU and started to apply Community's Common Customs Tariff for imports from the third countries.

Customs duty exemption is provided within the framework of an investment incentive certificate. Customs duty relief is also available to the companies in Turkey which import goods that will be used in manufacturing of the goods to be exported.

Value Added Tax (VAT) is levied on imports at the applicable rates (1%, 8%, 18%). The VAT paid on goods imported is recoverable as "input VAT" against the output VAT calculated on sales of goods and services.

Effective from 1 August 2002, the standard VAT rate of 18% has started to be applied instead of the higher VAT rates. The difference between the standard VAT rate and higher rates (26% and 40% which were applicable prior to 1 August 2002) is now compensated through "**Special Consumption Tax**" (SCT) which started to be applied with effect from 1 August 2002.

Imports under Incentives: Imports of machinery and equipment within the framework of an investment incentive certificate are regulated by the Incentive Legislation and such imports benefit from VAT and customs duty exemptions.

Conditions Required To Qualify as "Importer": Every real or legal person that has tax registration number can qualify as an importer. However, according to the Customs legislation, importers must submit an information file that includes registration certificate from the Chamber of Commerce or Industry, copy of Trade Registry Gazette, list of authorized signatures and power of attorney to the related Customs Administration.

Exports

Export procedures have been relaxed by an export regime intended to increase Turkey's export volume. All goods can be freely exported, except for those subject to license by the Ministry of Economy. Such exports include rice, oilseeds, vegetable oils, animal feed, fertilizers, and live animals. Certain items require the approval of other Ministries, and there are a few items that are forbidden to export.

Rules Governing the Protection of Turkish Currency in the case of exports prior to 8 February 2008:

Foreign currency revenues for the goods exported for commercial purposes used to have been brought into Turkey by exporters within 180 days. There were certain exceptions to this general

rule. If 70% of the foreign exchange from exports were brought into Turkey and sold to a bank for conversion to Turkish Lira within 90 days from the export transaction, then the exporter was able to freely use the remaining 30%; he had the option to either bring it to Turkey or use it outside Turkey.

Rules governing the Protection of Turkish Currency with effect from 8 February 2008:

Exporters are free whether to bring to Turkey the foreign currency revenues with respect to the goods exported for commercial purposes (this new rule is effective starting from 8 February 2008).

Conditions Required Qualifying As "Exporter":

Every legal person, real person or joint-venture that has a tax registration number and is a member of related Exporters' Association can be an exporter. In addition, according to the Customs legislation, exporters must submit an information file that includes registration certificate for the Chamber of Commerce or Industry, copy of Trade Registry Gazette, list of authorized signatures and power of attorney to the related Customs Administration.

5.3 Registration and Licensing

The following formalities apply to the establishment of all business entities:

- Registration of trademarks is to be made in accordance with the regulation governing protection of trademarks.
- Registration of trade name is to be made with the Ministry of Customs and Commerce.
- All trading entities are required to register with the Chamber of Commerce or Chamber of Industry in the location of their operations.
- Permits to start operations must be obtained from the municipal authorities.
- Registration with the provincial office of the Ministry of Labor and Social Security is required.
- Real estate contributed as capital (if any) must be registered with the Title Deed Office.

Prior to establishment, registration with the local tax office is required.

5.4 Price Controls and Competition Law

In general, Turkey has no price controls. However, the government does set prices for some items. Furthermore, prices of pharmaceutical products are under the control of the Ministry of Health.

Turkish Legislation prohibits unfair competition through the relevant rules of the Code of Obligations, the Turkish Commercial Code and specific laws enacted exclusively for the purpose of protection of competition, namely "Anti-Dumping Law" and "Law related to Protection of Competition".

Mergers and take-over of companies are subject to the permission of the Competition Board with effect from 1 January 2011 as per Competition Board Communiqué No. 2010/4.

According to Article 7 of Competition Board Communiqué No. 2010/4 (amended through Communiqué No. 2012/3), the circumstances which require permission are as follows (with effect from 1 February 2013):

- a) If the total sales revenues of the parties realizing the transaction exceeds TL 100 Million **and** the individual sales revenues realized in Turkey by at least the two parties of the transaction exceeds TL 30 Million, separately **or**,
- b) If in the case of transfer of assets or business, the value of asset / business subject to transfer exceeds TL 30 Million; or in the case of merger transactions, the sales volume realized in Turkey by at least one of the parties to the transaction exceeds TL 30 Million **and** the global sales volume of at least one of the other parties exceeds TL 500 Million.

The limits specified above for the purpose of obtaining permission are subject to change every two years through the **Competition Protection Council (Competition Board)**.

The turnover-based notification threshold introduced through Communiqué No. 2010/4 helps eliminate the uncertainties of the market share based threshold in the previous application which was effective until the end of 2010 and thus provides legal certainty. In the case of absence of "affected markets", authorization of the Competition Board will not be required even if the thresholds are exceeded (except for joint ventures). "Affected market" refers to the relevant product markets that may be affected by the merger transaction which are subject to notification where;

- a) two or more of the parties are commercially active in the same product market (i.e. there is horizontal relationship) or
- b) at least one of the parties is commercially active in the downstream or upstream market of any product market in which another party operates (i.e. vertical relationship). Detailed analysis would be required for the purpose of obtaining the permission.

In case of failure to apply to the Competition Protection Council (Competition Board) within the required period for notifications of mergers or take-over or failure to obtain the permission for the merger/takeover transaction, penalties shall be applied.

5.5 Exchange Controls

Relevant Legislation

Monetary transfers from Turkey are regulated by Law No. 1567 governing the Protection of the Value of Turkish Currency and Decree on Protection of the Value of Turkish Currency which includes further regulations with respect to transfers of foreign currency and capital, loan transactions and monetary transfers for various transactions.

Inward Direct Investment

Companies and individuals can freely invest in Turkey without any restriction on the amount or form of the investment. The most widespread investment vehicle is the Turkish subsidiary company. There are no local shareholding or directorship requirements. Foreign investors may also invest in the shares of any local companies through portfolio investment.

However, the rules governing the “capital advance” payments have recently been changed. Turkish Central Bank has issued the Circular numbered 2013/YB-7 which removed the term “capital advance” from the legislation on the payment of foreign capital. According to the new regulation, Turkish banks no longer accept payments from non-resident shareholders under the classification of “capital advance”. Practically, these payments will be required to be classified either as a subscribed “capital payment” or “capital increase payment”. The concerning funds shall not be released by banks until actually registered as capital.

Repatriation of Funds

The regulations relating to the remittance of foreign capital and dividends out of the country are set out in Law No. 1567 governing the Protection of the Value of the Turkish Currency. According to these regulations, foreign investors have the same rights and obligations as Turkish investors. The regulations also guarantee the transfer of profits, fees and royalties and the repatriation of capital in the case of a liquidation or sale.

There are no restrictions on the remittance of dividends, interest, and royalties to foreign countries based on the Foreign Direct Investment (FDI) Law. However, on certain types of income payable to non-residents, income tax or corporate income tax is to be withheld at source.

a) Dividends:

Foreign investors/shareholders that hold a certain portion of the share capital of a company resident in Turkey can receive their dividends through banks without any restriction. At the request of the foreign investor company, transfer of such profits is made, and the General Directorate of Incentives Implementation and Foreign Investment (GDIIFI) is to be informed of the details of the transaction.

Following the completion of its accounting period, a company may transfer abroad dividends that were declared at the annual general meeting of its shareholders provided that the dividend withholding tax is properly calculated, declared and paid to tax office. According to the Directive governing the application of the Foreign Direct Investment (FDI) Law, companies with foreign capital are required to fill in annually a form whereby they are required to report to the GDIIFI the following information by the end of May of the following year:

- Information about the company
- Information about the capital structure (percentage of shares by shareholders)
- Information about foreign shareholders
- Information about dividend transfers (amount transferred in terms of both TL and its USD equivalent, the country to which transfer was made, date of transfer)
- Information about payments of license, know-how, technical assistance and franchise fees
- Information about foreign trade (import/export)
- Information about production volume
- Information about the investments realized in the year concerned

Based on the FDI Law, companies with foreign capital are only required to provide information as to the transfers realized abroad through a form (Annex 1 attached to the Directive governing the application of the FDI Law).

b) Interim Dividend Distributions:

Before the new Turkish Commercial Code takes effect, only the public companies which are listed in the İstanbul Stock Exchange ("Borsa İstanbul") were allowed to distribute interim dividends. Interim dividend distribution has become possible for non-public joint stock companies, limited liability companies and partnership limited by shares as per the New Turkish Commercial Code (Law No. 6102). The Communiqué Regarding the Application of Interim Dividend Distributions was published in the Official Gazette dated 9 August 2012.

According to the mentioned Communiqué, companies may distribute interim dividends provided that they declare profits based on their 3, 6 and 9 month interim financial statements to be prepared in the fiscal period and that a General Assembly decision to distribute interim dividend is taken.

Interim Dividend Distribution is subject to certain limits. The amount of the distributable advance dividend shall be attained after the deduction of the following items from the interim business profit;

- All the losses, if any, recorded in the previous fiscal years,
- Taxes, funds and financial provisions,
- Reserves to be allocated in accordance with the laws and articles of association,
- Amounts to be allocated for the owners of privileged shares, dividend certificates and for the others participating in the profit, if any.

Interim dividend amount may not exceed half of the amount calculated in this way.

According to Section 15.6.6 of Corporate Income Tax Law General Communiqué No. 1, interim dividend distributions are subject to dividend withholding tax depending on the taxation status of the shareholder receiving the interim dividend at the time the payment is made cash or on account. If interim dividend amount distributed during advance corporate tax quarters exceeds the final distributable dividend amount at the end of the year, the exceeding portions will be settled from the legal reserves (if any). In case the amount of legal reserves is not enough to offset the distributed interim dividend, the overpaid amounts shall be paid back to the company by the shareholders. Interim dividends received by shareholders shall be deemed to have been derived as dividend income as of the day on which the interim dividend is offset against the final distributable profit of the year.

In case of interim dividend distribution, transfer pricing rules shall not be applied. However, if the fiscal year in which interim dividend was distributed, results in a loss or, the profit of the fiscal year is less than the interim dividend distributed in advance, then the transfer pricing rules shall be applied.

c) Management, License, Know-How, Technical Assistance Fees, Royalties and Franchising Agreements:

All management fees and royalties can be transferred by companies resident in Turkey in terms of the foreign currency of the recipient country.

If the payments are based on annual turnover or on similar allocation basis, an agreement should be concluded between the foreign investor (the beneficiary/licensor) and the company in Turkey (the user of the license/licensee). Based on the FDI Law, there is no longer an obligation for such agreements to be registered with and approved by the GDIIFI. However, the conditions of these agreements between related parties must be in accordance with the arm's length principles as per Turkish Transfer Pricing Rules.

d) Cost Sharing Agreements:

Costs incurred by headquarters located abroad may be allocated to Turkish branches (to the extent that the charges are relevant to the income generating activities of the Turkish branch and calculated through distribution keys to be determined in accordance with the arm's length principles). Please refer to Section "10.11. Cost Sharing/ Cost Allocations" for further details.

e) Earnings of Foreign Employees (Expatriates):

Foreigners employed in Turkey are allowed to transfer their wages in foreign currency after the deduction of relevant taxes.

f) Other Monetary Transfers:

In general, any amount of foreign currency may be transferred out of the country regardless of the underlying reason for the transfer. However, transfers of US\$50,000 or more are to be reported by the transferring bank to the Central Bank of Turkey within 30 days from the date of transfer.

g) Utilization of Dividends:

Dividends not distributed and kept as extraordinary reserves may be added to the share capital. Addition of extraordinary reserves to share capital is not regarded as dividend distribution and therefore it is not subject to dividend withholding tax.

Transfers of Shares in a Turkish Company with Foreign Capital

Share transfers from foreign shareholders to domestic shareholders or other persons or entities resident in Turkey no longer require permission from the GDIIFI. The sales value of the shares can be determined by the parties. In case of share transfers between related parties, the value must be determined in accordance with the arm's length principles.

Information on share transfers made between current domestic or foreign shareholders or to any domestic or foreign investor outside the company is to be submitted via "FDI Share Transfer Data Form" to the GDIIFI within one month following the realization of the share transfer.

Additionally, companies with domestic share capital are also required to inform the GDIIFI within one month from the date of share transfer through submission of the form related to share transfers (Annex III of the Directive) in case;

- a) a foreign shareholder participates in the capital of the company, or
- b) share capital increase in the company is financed through participation of a foreign shareholder.

Based on the rules of the FDI Law, share transfers in companies with foreign shareholders and foreign capital do not require any permission from the GDIIFI.

Outward Direct Investment (Capital Transfers)

The Treasury allows Turkish residents to realize outward direct investments through transfers of capital in cash via banks or in terms of capital in-kind in accordance with the Customs Legislation (the permission requirement for capital transfers of more than USD 5,000,000 is abolished with effect from 30 December 2006).

5.6 Accounting Principles and Statutory Books

As per the Turkish Tax Procedures Code, all resident companies and Turkish branches of foreign entities are required to keep statutory books based on the Uniform Chart of Accounts and in accordance with the accounting principles explained in Accounting System Application Communiqués ("Turkish GAAP"). Statutory books must be kept for a period of 5 years. There are initiatives for harmonization with the International Financial Reporting Standards (IFRS) through the Capital Market Law as well as the New Turkish Commercial Code (NTCC). NTCC has recently brought independent audit obligation to certain categories of companies who were not in scope of independent audit before.

5.7 Independent Audit Requirement

The council of Ministers' Decree regarding determination of the companies subject to independent audit in accordance with Articles 397-398 of the new Turkish Commercial Code, was published in the Official Gazette dated 23 January 2013 and entered into force as of 1 January 2013.

As per Article 3 of the Decree, companies whose solo or consolidated financial statements together with affiliated companies, meet at least two of the following conditions are subject to the independent audit with effect from 1 January 2013:

- a) companies with total assets equal to or higher than **TL 150 Million** (reduced to **TL 75 Million** by Decree No. 2014/5973 to be effective from 1 January 2014)
- b) companies with annual net sales revenues equal to or higher than **TL 200 Million** (reduced to **TL 150 Million** by Decree No. 2014/5973 to be effective from 1 January 2014)
- c) companies with total employees equal to or higher than **500** (reduced to **250** by Decree No. 2014/5973 to be effective from 1 January 2014)

In order to determine whether these criteria are met for the year 2014, the financial statements for the years 2012 and 2013 shall be taken into account regarding total assets and annual net sales revenues; and the average number of employees for the years 2012 and 2013 shall be taken into account regarding the number of employees.

Additionally, the companies listed in Annex I of the Decree (such as the companies which are already subject to the audit requirements of the Capital Market Board or the Banking Regulation and Supervision Agency) are automatically subject to the independent audit requirement as per the new Turkish Commercial Code, whereas the companies listed in Annex II (such as the license holding companies operating under the regulations of the Energy Market Regulatory Authority and companies subject to the Capital Market Board regulations) shall be subject to the independent audit requirement provided that they meet the criteria specifically determined in Annex II.

Based on the relevant rules in the new Turkish Commercial Code, an independent auditor shall be selected by the authorized body of the Company which is subject to independent audit. It should be noted that the financial statements and the annual report of the Board of Directors shall be deemed to be null and void in case such statements and reports are not audited in accordance with such requirement.

Please also refer to Section 7.2.6. (New Rules About Joint Stock Companies under the new Turkish Commercial Code) for more information.

6. E- Transformation



6.1 E-invoice

E-invoice applications are the electronic documents which are issued to provide a safe and healthy circulation of the forms between the parties. E-invoice process is the process of sending and receiving the documents between the parties which are registered at the Revenue Administration. Sent and received E-invoice documents are kept and represented in electronic form. E-invoice documents sent and received via the Revenue Administration are XML documents in the UBL-TR format with the fiscal stamp, which is an electronic certificate used in accordance with regulations to be made under the Tax Procedure Code, legal persons or other organizations, institutions and businesses to ensure the integrity of the data of the resource and to guarantee the content, created with the aim of fulfilling the functions necessary to ensure confidentiality and the use of E-invoice system.

Detailed rules with regard to E-invoice applications are explained in Turkish Tax Procedure Code (TPC) General Communiqués No. 397, 416, 421, 424, 433 and Circular No. 58. Three alternative applications for E-invoice have been offered by the Turkish Revenue Administration:

- 1) E-invoice portal
- 2) E-invoice integration
- 3) Special Integration

The starting date of the E-invoice application was postponed to April 1, 2014. However, if the taxpayers preferred to issue E-invoice before this date, the recipients were obliged to accept this E-invoice.

6.2 E-ledger

The procedures and principles of the E-ledger application are regulated through E-ledger General Communiqués No. 1 and 2. The applications must be completed in order to be able to start using E-ledger application until 1 September 2014. However, the date to start keeping e-ledger is regulated through Tax Procedure Code Circular No. 67 as follows:

Table 38: Date to Start Keeping e-Ledger

Timing for the application of the taxpayer	Date to start keeping e-ledger
Those taxpayers who apply for e-ledger application <u>in December 2014</u>	1 January 2015
Those taxpayers who apply for e-ledger application <u>before 1 December 2014</u>	1 December 2014 (at the latest)
Those taxpayers who have special accounting period (they must file their application before 1 December 2014)	Within December 2014 (at the latest)

It should be noted that E-ledger application is not only applicable to those who are obligated to do so pursuant to provisions of aforementioned Communiqués. In case of need, taxpayers who do not meet the requirements can also use e-ledger application with their own request. The ledgers that can be kept in the electronic environment are only journal and general ledgers.

Those who received permission according to the Electronic Ledger General Communiqué No.1 will start preparing and keeping their electronic ledgers on a monthly basis in accordance with the formats and standards announced on the web page www.edeften.gov.tr and e-ledger must be signed with the fiscal stamp by the end of the following 3rd month of the relevant month's e-ledger. Taxpayers who keep their ledger as E-ledger are not allowed to keep them in paper environment.

Moreover, it will be possible to switch E-ledger application in the accounting period or the calendar year.

6.3 E-archiving

According to Tax Procedure Code, invoice is a document prepared in paper environment at least two copies, one of which (the original) is given to the customer, the other one is kept in paper environment in accordance with the preservation and submission provisions of the same Code by the taxpayers.

The E-invoice issued in electronic environment in accordance with the provisions of the Tax Procedure Code General Communiqué No. 433, which is sent to the recipient as paper or electronically is the original copy, the electronic version that is kept by the sender is the second copy. The taxpayers who receive permission for E-archiving from the Revenue Administration can keep their E-invoices in the electronic environment.

Taxpayers who are allowed to benefit from E-archiving application within the scope of the aforementioned Communiqué are obligated to:

- Prepare, deliver, preserve, and submit when required the invoices as E-invoices which are issued to taxpayers who are listed to the E-invoice application,
- Prepare invoices within the scope of E-archiving application to taxpayers who are not listed to the E-invoice application, send these invoices in the paper environment, and keep the second copy of these invoices in the electronic environment and submit these when required,
- Prepare invoices within the scope of E-archiving application to non-taxpayers, send these invoices in paper or electronic environment as requested by their customers, keep the second copy of these invoices in the electronic environment and submit these when required.

6.4 Record Keeping Requirements and Procedures

The obligation for specific taxpayer groups to prepare, keep and submit some records in electronic environment has been introduced with the Tax Procedure Code General Communiqué No. 431. The aforementioned Communiqué will be in effect starting from 1 January 2015.

The entities listed below are obligated to prepare records within the scope of the aforementioned Communiqué and keep these records and submit when required:

- Those who are Special Consumption Tax (SCT) taxpayers according to the Table 1 of SCT Code and those who are not SCT taxpayers however engaged in the activities listed below:
 - Those having either one of the franchise, transportation, distributor, storage (including sea vehicles), mineral oil, free user, bunker fuel delivery, transmission, refinery or processing licenses according to the Petroleum Market Law (Law No. 5015).
 - Those having either one of the Compressed Natural Gas (CNG), storing, wholesale, distribution, transmission, importation or exportation licenses in accordance with the Natural Gas Market Law (Law No.4646).
 - Those having either one of the distributor, storing, transportation or autogas franchising licenses according to the Liquefied Petroleum Gas Market Law (Law No.5307).

- Regarding the products listed in the Table (III)/B of the Special Consumption Tax Law;

- Legal and real persons that have Tobacco Trading Authorization Form received from Tobacco and Alcohol Market Regulatory Authority (TAMRA)
- Legal and real persons that have Production and Operation Licence received from the TAMRA
- Legal and real persons marketing and delivering the products of the legal and real persons who have Production and Operations Licence received from the TAMRA

The records that are compulsory to keep are listed below:

- Sales records
- Purchase records
- Beginning and end of period inventory records
- Import records
- Export records
- Production records
- Other records (Information regarding customs tariff position numbers)

7. Major highlights of the New Turkish Commercial Code

The New Turkish Commercial Code (the "NTCC") (Law No. 6102) entered into force on **1 July 2012**.

The NTCC can be considered as a comprehensive reform for Turkish business environment, which have significant effects on auditing, commercial books, trade registry, unfair competition, agency and Company Law.

The NTCC consists of six main chapters governing:

- Enterprise Law
- Company Law
- Securities Law
- Transportation Law
- Maritime Commercial Law
- Insurance Law

7.1. Enterprise Law

Public Oversight Accounting and Auditing Standards Authority, Financial Statements and Commercial Books:

While preparing their financial statements (including the consolidated financial statements), the Turkish enterprises that are subject to independent audit (as explained below), banks and insurance and reinsurance companies should follow the Turkish Accounting Standards, which are announced by the Public Oversight Accounting and Auditing Standards Authority. Such standards are determined pursuant to the International Financial Reporting Standards. The Public Oversight Accounting and Auditing Standards Authority is further entitled to make exceptions and exclusions to these standards on a market basis or as per the size of an enterprise. If an enterprise fails to prepare its financial statements pursuant to the Turkish Accounting Standards, a monetary fine in the amount of TL 4,000 shall be imposed.

Commercial books and other records of enterprises must be kept in Turkish language and must go through opening and closing notarization procedures. Closing notarization is to be made within one to six months as specified in the secondary legislation of the NTCC following the fiscal year-end, depending on the type of the commercial book. Commercial books must be kept for a period of 10 years together with other supporting legal documents that constitute the basis of accounting entries in the commercial/statutory books.

The NTCC provides the opportunity for companies to keep commercial books either physically or in electronic environment including microchips, CDs etc.

Electronic Commercial Registry

Another important change introduced by the NTCC is that entries of trade registry shall be kept in electronic environment by the Chambers of Industry and Commerce or Chambers of Commerce.

Electronic registry will provide the public with true information on the records of the enterprises and the companies. The State and related Chamber shall be jointly responsible for the losses occurring from the inappropriate trade registry records.

A National Trade Registry Information Center will be established in electronic environment to provide access to the information of the merchants and companies in Turkey for the sake of serving Information Society.

Use of Secured Electronic Signature

Parallel to the technological developments, it will be possible to conduct communication in electronic environment with secured electronic signature under certain conditions as specified in the NTCC.

Obligation to have a website

According to Article 1524 of the NTCC, all companies that are subject to independent audit are required to have a website in which certain contents must be announced and kept online for at least 6 months. If such website is not established within three months starting from the entry into force of the NTCC, the members of Board of Directors in the case of joint stock companies and managers in the case of limited liability companies will be subject to a monetary fine corresponding to 300 days of imprisonment.

Trade Name

The rules regarding the trade name provide third parties with true information about the legal situation of the enterprise. In accordance with the NTCC, every merchant is required to make the commercial transactions with its trade name and to sign the documents related to its enterprise, under such trade name. The registered trade name must be written on a place of the commercial enterprise where it can be seen and be readable. Additionally, the registry number, trade name, the principle place of the enterprise must be included in all the documents of the merchant related to the enterprise. Companies are obliged to use their web-site/internet address with trade name, capital and trade registry number on company documents.

Unfair Competition

Identification and types of Unfair Competition and protection against unfair competition are exclusively covered in the NTCC.

Following acts are defined as “unfair competition”:

- Sales and advertisement practices against good faith, misleading, untrue methods of marketing and sales
- Procuring a person to invade or dissolve his contract
- Benefiting from business products of another merchant in an inequitable manner
- Illegal acquisition and disclosure of other's production and trade secrets
- Failure to comply with the requirements particularly invading certain rules enforced for a certain branch of profession
- Utilizing inequitable general terms and conditions

Agency Contract

Agency contract is one of the most widely used type of contract and Turkish enterprises are mostly the agents rather than mandators. Due to this reason, the NTCC has adopted new rules regarding this type of contract.

One of the most important changes in the NTCC is that an agreement signed by an unauthorized agent will not be in the responsibility of mandate unless he states that he is bound by the contract. In this case, unauthorized agent will be responsible to fulfill the agreement. It will also be possible for agents to file lawsuits on behalf of the mandator against the other party of the agreement. Vice versa will be also applicable and the agent may be sued. The decisions of the Courts against the mandators filed in Turkey shall not be applicable to the agents.

During the agency contract period, if a region or a client list is exclusively assigned to an agent, agent will be entitled to have fee/commission for the commercial transactions realized in the region or mentioned clients without its effort.

NTCC provides the agent's right of fee, even if the agency contract has been terminated. The agent has the right to claim for fee for the transactions started before the termination of the contract. The parties to an agency contract cannot change the rules in NTCC to the disadvantage of the agent.

The agent is entitled to have an additional fee known as "Portfolio Fee" upon the termination of agency contract for the portfolio the agent created and transferred to the mandator which shall balance the enrichment of the mandator due to the clients acquired by the agent and the loss faced by the agent because of the termination of the contract without the fault of the agent.

The mandator may request a written contract with the agent for prohibition of competition upon the termination of agency contract which will cover maximum 2 years period and limited to region/client list and commercial items of the agency contract. The mandator must make a payment to the agent for limitation of competition.

7.2. Company Law

Company Law is the most significantly amended and developed part of the NTCC. The major subjects governed under this part are summarized very briefly below.

7.2.1. In General

Corporate Governance

One of the most important concepts of the NTCC is "corporate governance" aiming to increase the company's ability to make right decisions at the right time.

Corporate governance has four main properties:

- Transparency
- Fairness
- Accountability
- Responsibility

Transparency aims to provide information and enlighten the shareholders and all other parties. Most important tools of transparency are internet, electronic transfers and company web sites. According to the NTCC, companies subject to independent auditing must have a web site as a mechanism to provide transparency.

Accordingly, such companies must allocate a part which will include below information about the company on their web-site:

- a) Legal Announcements which must be made by Company.
- b) Documents, information and explanations necessary for shareholders to protect their rights.
- c) Board of Directors' ("BoD") or Manager's resolutions about use of preemptive, change, buy, leaving fee rights.
- d) Audit reports, announcement of shareholders, undertakings about shares, postponement of bankruptcy, General Assembly (GA) or BoD resolutions for acquisition of company's own shares.

e) Necessary information and documents for merger, split, conversion, capital increase and decrease, resolutions; reports about issuance of securities, annual reports, the benefits provided to the BoDs or managers.

g) Other necessary information.

Fairness is equality led to a wider environment including employees, creditors, clients, stakeholders and all public.

Accountability means the transparency and professionalism of management, accurateness, fairness and justifiableness of resolutions.

Responsibility means full dedication and accomplishment of duties in a professional way.

Capital stock companies will be classified in scale:

The classification will be made by the Ministry of Customs and Commerce through a communiqué to be issued in the future. However, in any case;

- Banks,
- Investment banks,
- Insurance companies,
- Retirement funds and other similar corporations

shall be considered as "Large Scale" companies.

Types of assets that can be used in capital increase:

Domain rights, domain names, intellectual property rights, signs may also be contributed to the capital of the company in accordance with the NTCC.

"Ultra Vires" principle has been abandoned:

According to Article 137 of the abrogated TCC, companies were not allowed to deal with the activities which are not stated in their Articles of Association.

Based on the previous TCC, any transaction that falls outside the scope of the business activities specified in the Articles of Association ("ultra vires" transactions) used to be deemed as invalid. This rule has been abandoned through the NTCC in line with the First Company Law Directive of the EU.

7.2.2 Mergers

Merger transactions are governed by **Articles 136-158 of the NTCC** and the Trade Registry Regulation, according to which a capital stock company may merge with a capital stock company, cooperatives or registered general partnerships ("kollektif şirket") and limited partnerships ("komandit şirket") provided that the company is in the position of the transferee (in the case of mergers with registered general partnerships and limited partnerships). Whereas, based on the previous TCC, only merger of the same type of companies was possible.

On the other hand, sole proprietorships may only merge with sole proprietorships, capital stock companies and cooperatives provided that sole proprietorship is the transferor (in the case of merger with companies and cooperatives).

Steps of Merger

- Merger contract is made in written form, signed by the authorized signatures of both parties and approved by the General Assembly (GA)'s or shareholders.
- Interim financial statements of the parties must be prepared.
- Both parties must present the merger contract, merger report, audit report, financial statements of the last three years to shareholders, dividend right certificate holders, marketable security holders of the company, stakeholders within 30 days prior to General Assembly. Necessary information must be also published in the web sites of the parties.
- As soon as the merger resolutions are made by both parties, management of both parties apply to Turkish Trade Registry for registration and announcement.

- Transferee and transferor may give the right to have new shares in the new company or sale of new company shares to the existing shareholders in the merger contract.
- Transferee must also apply for the registration of the capital increase if necessary for the merger.
- Transferor's legal personality is terminated by the registration of the Merger in the Trade Registry.
- A company under liquidation may also participate in the merger process as transferor unless the liquidation profit is distributed (Article 138 of the NTCC).
- A company which has lost half of the total of its capital and legal reserves due to losses may merge with another company whose shareholders' equity is enough to compensate this loss (Article 139 of the NTCC).

Under certain circumstances, a facilitated method of merger can be applied which eliminates the preparation, examination and GA approval of merger report under the following conditions:

- If transferee company has all the voting rights of the transferor company,
- If a company, a real person or group of people contractually bound have all the voting rights of both transferee and transferor,
- If the transferee has the 90% of all voting rights and the minority shareholders are offered to have shares from the new company with no additional payment or to sell the shares for the market price.

The creditors and employees may ask for their receivables to be guaranteed within 3 months from the date of merger's registration at the Trade Registry.

7.2.3. Split (demerger)

Split (demerger) transactions are governed by **Articles 159-179** of the NTCC. The NTCC regulates split transactions in a more mature and completed way.

Capital stock companies and cooperatives can only be split into capital stock companies and cooperatives. Accordingly, a limited liability company can be split into limited liability companies; a joint stock company can be split into joint stock companies.

There are two kinds of split:

i. Full Split: In this kind of split, assets of a company are divided into sections and transferred to other companies which leads to termination of the legal personality of the company and trade name is deleted from the Turkish Trade Registry.

ii. Partial Split: Assets of a company are divided into sections and some of them are transferred to other companies. The legal personality of the company still continues.

General Steps of Split

- Split contract and split plan is made in written form, signed by the authorized signatures and approved by the GA or shareholders.
- Interim financial statements of the parties must be prepared.
- Parties attending the Split must present the split contract, split report, audit report, financial statements of the last three years to shareholders in the headquarters of the company (for companies open to public, presentation of such documents is to be made in the places to be found appropriate by the Capital Market Board) 60 days before the General Assembly decision.

- As soon as the resolutions are made by both parties, management of both parties apply to Turkish Trade Registry for registration and announcement.
- Transferee and transferor may give the right to have new shares in the new company or sale of new company shares to the existing shareholders in the split contract.
- Transferee must also apply for the registration of the capital increase or decrease if necessary for the split.

The creditors may ask for their receivables to be guaranteed within 3 months from the date of registration of the split transaction in the Trade Registry.

Second degree liability of the other companies in the split process for payables

If the transferee company who is transferred payables from the transferor as a result of split transaction, is unable to make payments, other companies (either transferee or transferors) have second degree liability for paying such payables severally which means the payable should be requested from the real owner of the debt first. It can be requested from the second-degree liability owners provided that;

- The debt is unsecured and
- The first degree liability company is either bankrupt, or in pre-bankrupt period, or insolvent, or with headquarters moved to foreign country making legal pursuit impossible in Turkey, or with changed/moved headquarters in the foreign country making legal pursuit very difficult.

Liability of the Shareholders

The liability of the shareholders who were liable for the debts of the company dissolved as a result of the split, prior to the split process, shall still continue after the date of split.

7.2.4. Change of Legal Status (Conversion)

According to NTCC a capital stock company may be converted into another type of capital stock company or a cooperative, a limited partnership may be converted into a capital stock company, a cooperative or a registered partnership.

Conversion process is governed by **Articles 180-190 of the NTCC**. The process is very much like the merger process.

7.2.5. Group of Companies

One of the most important changes introduced by the NTCC is the "Group of Companies" and "Controlling Company" concepts. As per Article 195 of the NTCC, if a company directly or indirectly;

- a) controls the majority of voting rights,
- b) is entitled to vote on the appointment of a sufficient number of members to establish a majority in the management body,
- c) has the capacity to exercise majority voting rights on its own or with other shareholders arising out of a contractual relationship entered into with the same; or
- d) controls another corporation via a contract or in any other manner, it qualifies as a "Controlling Company" ("Hakim Şirket") whereas the other company is "dependent company" ("Bağlı Şirket").

If the principal place of business of one of these companies is located in Turkey, these companies form a "Group".

Mutual Participation

According to Article 197 of the NTCC, if two companies participate at least 25% of each other's capital, they are stated to be as "mutually participating". If both of them are controlling each other, they are both the "Controlling" and "Dependent" companies, at the same time.

While the NTCC governs that a controlling company and a dependent company constitute a "group", the Article 105 of New Trade Registry Regulation dated 27 January 2013 defines a "group" as one controlling company and at least two dependent companies.

Reporting Requirements of Group of Companies

The Board of Directors of the "Dependent" Company must prepare a report within the first three months of the year regarding the transactions with the Controlling Company. It should state the advantages and disadvantages of relations with other "Dependent" Companies and the "Controlling" Company.

This report will be presented to the General Assembly for the purpose of shareholders' right to be informed about the "Controlling" Company.

Illegal Use of Controlling Rights by the "Controlling Company"

The NTCC imposes special liability on the controlling companies. According to Article 202 of the NTCC, the Controlling Company cannot force the "Dependent" Company to transfer business, assets, funds, personnel, payables and receivables; to decrease or transfer profit, to limit assets, to undertake for providing guarantee and covenants, to limit the new asset investments without a justifiable reason unless the "Controlling" Company compensates for the loss in the same year.

Purchasing Right of the "Controlling" Company

Article 208 of the NTCC provides for granting the squeeze-out right to the shareholder who controls directly or indirectly, at least 90% of the share capital and having at least 90% of the voting rights in a company (i.e. the "Controlling Company"). Accordingly; if the "Controlling Company" has more than 90% of the shares and voting rights of a Capital Stock Company and minority shareholders are blocking the company's operation, not acting in principles of "Good Faith", are creating significant problems and acting in a careless manner, the Controlling Company may then apply to the Court for purchase of the shares of the Minority Shareholders based on the market price or the value to be assessed as fair market value by the Court.

7.2.6. New Rules About Joint Stock Companies (Corporations) under the NTCC

Abandonment of "Gradual Foundation"

Rules of the abrogated TCC related to the foundation of joint stock companies enabled "gradual foundation", which means that the founders, undertaking a certain part of the capital, may make announcements in order to raise capital. The NTCC renounces the method of gradual foundation and replaces this method with the method of public offer. In this new alternative, the company shall transform a certain part of the capital into shares and execute the public offer of these shares within a period of 2 months from the foundation of the Company. Through this method, even closely held (not listed) companies may benefit from the advantages of capital markets.

Joint Stock Company With One Shareholder

Under the abrogated rules of the TCC, at least five shareholders used to be required to establish a joint stock company (please refer to Chapter 9, below). However, Article 338/1 of the NTCC introduces the possibility of establishment of Joint Stock Company with sole shareholder. In case of transfer of shares to a sole shareholder, the Board of Directors is bound to register this fact with the Commercial Registry within 7 days from the transfer. Otherwise, the Board of Directors shall be liable for the damages borne by third parties because of this transfer.

On the other hand, the Company cannot buy all of its own shares to make itself the only owner.

Registered Share Capital System

Article 332 of NTCC regulates the “registered capital system” for joint stock companies, which are not open to public. This gives the opportunity to benefit from the flexibilities of capital increase system to companies above a certain scale which are not ready/do not desire to open to public. The start-up capital for companies adopting the registered share capital system is TL 100,000.

Limitations About Capital in Kind

The NTCC makes it possible to put every kind of assets as capital in kind including intangible assets like a website, which should have the following properties:

- i. The intangible assets must be transferable,
- ii. Their value must be determined in TL,
- iii. There should not be any restrictions over the assets,
- iv. They should not be under legal pursuit

Receivables which are not yet due cannot be accepted as capital.

In order to assure the registrations of assets in the name of the company as capital in kind, related Trade Registry Officer has been held liable for submission of a declaration to related Title Deed Registry or other registries.

Rules about Board of Directors (BoD)

- BoD may be composed of one person in contradiction to the abrogated TCC stating the minimum number of BoD members as three.
- “Legal person” shareholders are now allowed to be a member of BoD by means of assignment of a real person representative. This should be registered in the related Trade Registry and published in the Trade Registry Gazette.
- NTCC also allows public legal persons to become board members through their representatives.
- In case there is clause in the Articles of Association, groups of shareholders and minority shareholders may have the right to be represented in the BoD. However, the number of BoD members selected within this context cannot exceed half of the total number of BoD members.

The following new rules are aimed to bring more professionalism and transparency to the boards of company management:

- The shareholding obligation of BoD members has been annulled.
- Management authority may be delegated to a person who is not a member of BoD provided that at least one BoD member has also the right to represent the company.
- BoD meetings may be held in electronic environment. Quorum rates are the same as physical meetings.

Non-transferable Duties and Powers of the BoD (Article 375 of the NTCC)

- Company's corporate management and the power to give orders for high level management
- Determination of the management organization of the company
- Design of accounting, financial audit and financial planning systems
- Assignment and dismissal of managers and other authorized personnel
- High level audit and supervision of managers in compliance with the relevant legislation
- Keeping of book of shares, book of BoD Resolutions, book of GA Resolutions, preparation of annual activity report, preparation of "Corporate Governance" Report, preparation and realization of General Assembly, Running of General Assembly Resolutions
- Notifying the related Court in case of loss of 2/3 of the total of Capital and Legal Reserves

Quorum

According to Article 390 of the NTCC, resolutions of the BoD are made based on the majority of the BoD members.

Insurance Against the Damages Caused by Directors

Banks, financial institutions, financial leasing companies, factoring companies, capital market institutions and companies open to public are obliged to have a "Liability Insurance " against losses occurring from the mismanagement of BoD members. This is optional for other companies.

Committee for Early Inspection and Management of the Risks

According to Article 378 of the NTCC, listed joint stock companies whose shares are registered with the Stock Exchange are required to form a "Committee for Early Inspection and Management of the Risks" in order to detect risks in an early stage. The logic of this rule is to secure the existence and development of the company by involving experts in the management of the company.

Invalidity of the BoD Resolutions

Article 391 of the NTCC states that BoD resolutions against the "Equal Treatment Between Shareholders" principle, which breaks the basic rights of shareholders and unauthorized resolutions are invalid.

General Assembly

Article 407 of the NTCC states that all executive members and at least one member of the BoD are obliged to attend the General Assembly.

General Assembly can be held either in electronic environment or physically or a hybrid of both, which will be an important advantage for foreigners. To benefit from this advantage, company must have a specially designed website allowing to make proposals, state opinions, discuss about the matters and voting will be possible and secure these transactions with secured electronic signature.

Non-transferable Rights & Duties of the General Assembly

The following rights and duties cannot be transferred by the General Assembly

- Change of Articles of incorporation
- Selection of BoD members, determinations of duty period, salaries and their release
- Assignment and dismissal of auditors (excluding legal exceptions)
- Resolutions about financial statements, annual report of BoD, distribution or retaining of profit
- Termination of the company (excluding legal exceptions)
- Sales of a significant amount of Company assets

For companies with one shareholder, all resolutions must be made in written form so as to be valid.

Quorum in General Assembly

- In case there is no Article in Law or Articles of Incorporation, resolutions making amendments in the Articles of Incorporation are made by the majority of the voting rights in a general assembly where half of the company's capital is represented. If the meeting quorum is not met in the first meeting, a second one is scheduled within one month at the latest where 1/3 of capital representation will be enough. The mentioned ratios cannot be changed by the Articles of incorporation.
- Resolutions regarding compensation of losses which brings additional monetary burden for shareholders and movement of company headquarters must be made with full majority - 100% of the shareholders.
- Change of commercial activity, creation of privileged shares, limitation of transfer of registered shares needs 75% of the capital representation.
- 25% capital representation is required in order to increase capital, increase the maximum amount of capital and also for the purpose of realizing merger, split and conversion of legal status in the case of companies open to public.

Registered shareholders who voted against the change of commercial activity and creation of privileged shares are not subject to limitation of transfer of shares for six months following the announcement of such resolution in the Turkish Trade Registry Gazette.

Acquisition or Pledge of Company's Own Shares

According to the abrogated TCC, a company was not able to acquire or accept as pledge its own shares except some situations. This rule is changed with the NTCC. According to Article 379 of the NTCC, companies can acquire or accept as pledge their own shares up to a maximum limit of 10% of the capital. It is also applicable in case a third party acquires or accepts as pledge in his name but on company's account.

In order to acquire or pledge the Company's own shares,

- i. The General Assembly must delegate authority to the Board of Directors.
- ii. In case of a high risk of close and significant amount of loss, the company may buy its own shares without the authorization of BoD.

Loan Extension to Shareholders Have Been Prohibited

Article 358 of the NTCC restricts the loan extension to shareholders by the company to ensure the securitization of company assets. Accordingly, a shareholder cannot borrow/use money from the Company unless having fulfilled the obligation regarding the capital stock.

Interim Dividend Distributions

Public companies which are listed in Borsa İstanbul (Istanbul Stock Exchange) are already allowed to distribute interim dividends according to the existing relevant provisions of the Turkish Capital Market Law. Interim dividend distribution is also regulated under the new Turkish Corporation Tax Law. Interim dividend distribution in the case of companies which are not subject to the requirements of the Turkish Capital Market Board is governed by Article 509 of the NTCC which entered into force on 1 July 2012. Article 509 of the NTCC authorizes the Ministry of Industry and Commerce to issue a Communiqué for regulation of advance dividend distribution for other companies. The Communiqué was announced in the Official Gazette dated 9 August 2012. Please refer to Chapter 5 / Section 5.5 above.

Loss Compensation by The Shareholders (Technical Bankruptcy)

According to Article 376 of the NTCC, if half of the capital and legal reserves is lost due to accumulated losses, the BoD must inform the General Assembly and issue a report including precautions.

In case 2/3 of the total of capital and legal reserves is lost due to accumulated losses of the company, the General Assembly should make a decision either to compensate the loss or to continue with the loss. Otherwise, the company will legally be deemed to be terminated.

If signs are detected which shows that assets of the company are not adequate to afford the liabilities of the company, the BoD prepares the interim financials of the company according to continuity ("going concern") principle of the enterprise and sales price which will be audited by the auditor in seven days. The auditor presents a report to the BoD including his/her suggestions together with the suggestions of the Committee for Early Inspection and Management of the Risks.

Capital Increases of Joint Stock Companies

The NTCC makes new changes in capital increase procedures of joint stock companies which are summarized below:

- According to Article 456/1, as long as the capital subscription is not paid in cash, capital increase will not be allowed except capital increases by means of addition of Internal Resources. However, immaterial amounts of unpaid capital will not be an obstacle for capital increase.
- In the Basic Capital System, capital increase is resolved by the General Assembly whereas in Registered Capital System, Board of Directors makes the resolution.
- Capital increase resolution must be registered within 3 months after the resolution date. Otherwise the General Assembly or BoD resolution will not be valid.
- In order for the capital increase to be registered, a report documenting the satisfaction of requirements must be obtained.
- Conditional capital increase will be possible provided that the increase amount must not pass half of the Capital. Conditional capital increase provides the opportunity to change loan debentures with stock shares.

Shareholders' Rights

The NTCC includes regulations strengthening the position of the shareholders as summarized below:

- Representation rights of shareholders have been more effective.
- Every shareholder may request the audit of any specific event in the General Assembly even if this item is not included in the Agenda.
- Minority shareholders have been provided the right of liquidation request of the company on just cause, making a lawsuit for dismissal request of the auditor on just cause, right of requesting the print of shareholder certificates

- Shareholders have the right to leave the company shareholding in case of merger, right of proposal in conditional capital increase, right to make a lawsuit for annulment of merger, split and conversion.
- Minority shareholders representing 10% of the capital (5% of the capital in companies open to public) may request the BoD to make a call for the General Assembly in written form.

Fund Raising from Public for Capital Increase or Establishment of A Company

Fund raising from public for capital increase or company establishment purposes is subject to a permission from the Capital Market Board. Any acts against this regulation constitute a crime.

Limitation of Pre-emptive Right

According to the NTCC, preemptive rights of shareholders can only be limited or eliminated on just causes by the General Assembly.

Auditors

There are two kinds of audit defined in the NTCC:

- Special Purpose Audit
- Independent Audit

i. Special Purpose Audit

Every shareholder has the right to ask the General Assembly for auditing of a specific event related with the company. If it is accepted, the company itself or the shareholders may ask the Court to assign an auditor to make this specific study. If it is not accepted by the GA, then shareholders representing at least 10% of capital (20% if open to public) or shareholder who own the shares representing nominal value of at least one million Turkish Lira may apply to the Court for assignment of such auditor. After the report is prepared, it is declared to the Company by the Court.

ii. Independent Audit

As a consequence of Corporate Governance Principles, the NTCC has made a regulation (provided that Articles of Capital Market Board Law are reserved) eliminating the internal auditor position which are actually occupied by anyone regardless of profession and specialization. Instead, audit companies, certified public accountants and sworn financial accountants have been given the authority to audit capital stock companies as an independent party.

Professionals cannot be assigned as auditors if;

- He/she is a shareholder of the company
- He/she is an employee/manager of the company or was an employee/manager within three years time prior to the assignment as Auditor
- He/she is legal representative/ representative/ board member/manager/director/owner/more than 20% shareholding of a legal person, capital stock company or commercial enterprise directly or indirectly related with the Company
- He/she is a relative of the Company's board member/manager to the third degree or bound by marriage
- He/she is working for an entity having more than 20% shareholding in the Company
- He/she contributes to bookkeeping or preparation of financial statements
- He/she is working for someone who is prohibited to be the auditor of the Company due to the above mentioned reasons
- 30% of his/her income from auditing has been earned from the Company or from another company holding at least 20% of the shares of the Company for the last five years and it is expected to continue in the current year.

If an auditor assigned by an independent audit company has issued independent audit report for seven consequent years, he/she is exchanged for a period of two years.

The auditor cannot provide any service other than tax consultancy/tax audit.

The auditor will audit the company's financial statements including balance sheet, income statement, cash flow, shareholders' equity table, footnotes to the financial statements and annual activity report prepared by the BoD and report prepared by the Committee for Early Inspection and Management of Hazards, in accordance with Turkish Accounting Standards and Turkish Audit Standards.

Consequently, he/she will prepare an audit report and state his/her opinion which may be unqualified, qualified, disclaimer and adverse.

- **Unqualified opinion** means the financial statements are in accordance with the Turkish Accounting & Auditing Standards and that the statements fairly represent the financial position of the Company
- **Qualified opinion** means the financial statements include some discrepancies which may be corrected by the Company Management.
- **Disclaimer** means the impossibility to finalise the audit work in accordance with the Turkish Accounting/Auditing Standards, due to significant uncertainties to form an opinion, significant limitations made by the Company.
- **Adverse opinion** means the financial statements include significant errors, mistakes and do not fairly present the Company status.

In case of a disclaimer or adverse opinion, BoD resigns in four days after the delivery date of the report and the General Assembly is to assign a new BoD to prepare the correct financial statements.

As per Council of Ministers Decision no. 2014/5973, which was promulgated in the Official Gazette dated 14 March 2014, companies meeting at least two of the following criteria shall be subject to independent audit (for 2014);

- a) Total asset size of TL 75 million or more.
- b) Annual net sales revenue of TL 150 million or more.
- c) Minimum of 250 employees or more.

In case of companies that have subsidiaries or affiliate companies, the amounts on the financial statements will be taken into account on a consolidated basis after eliminating the intra-group transactions. The participation share will be taken into consideration when consolidating the figures denoted on the financial statements of the subsidiaries. These criteria are required to be met for two consecutive accounting periods (i.e. for 2012 and 2013 with respect to the year 2014).

NTCC also stipulates that limited liability companies are also subject to the aforementioned criterion.

Please also refer to Section 5.7. above.

7.2.7. New Rules About Limited Liability Companies Under the NTCC

The NTCC has made many amendments to Articles related to Limited Liability Companies, the main points of which are summarized below:

Establishment

If partners of a limited Liability company (LLC) want to have a stronger organization, they may decide to put Articles for validity stated in Article 577 of the NTCC in the Company's Articles of Association.

LLC With a Sole Shareholder

The NTCC also allows the establishment of limited liability company with one shareholder. As in the case of joint stock companies with a sole shareholder; through sole shareholder, the entrepreneurs shall not be bound to pick other persons in order to fulfill the minimum number of shareholders. The sole shareholder shall manage the Company in bona fides in order to prevent third parties to claim for the sole shareholder's personal liability. Finally, the fact that all the shares of the Company are transferred to a sole shareholder shall no more be a ground for dissolution.

In case the number of shareholders decreases to one, it should be registered to the Turkish Trade Registry and announced in the Trade Registry Gazette within seven days.

Maximum number of shareholders of a limited liability company can be 50.

Minimum capital of a limited liability company must be TL 10,000 divided into shares of minimum TL 25.

The regime regarding the payment of the capital is in parallel with joint stock companies.

Quorum in Shareholders Meetings

The NTCC, unless otherwise stated by Law or Articles of Incorporation, requires more than 50% of shareholders' votes to make decisions. Only under certain circumstances, different rates are required.

Resolutions below can be made with the 2/3 of voting rights represented and absolute majority of shareholders with voting rights

- Change of Company's field of activity
- Creating Privileged share stocks
- Limitation, prohibition or facilitation of transfer of shares
- Capital increase
- Limitation or elimination of preemptive right
- Change of company headquarters
- Approval of managers or shareholders acts against dedication liability or prohibited liability
- Dismissal of a shareholder on just cause
- Liquidation of the company

Application of Turkish Accounting Standards for Financial Statements

According to the NTCC, limited liability companies are subject to the same regulations as joint stock companies. They are also required to apply Turkish Accounting Standards starting from 1 January 2013 and onwards.

Audit

Articles with respect to audit for Specific Purpose, and Independent Audit applicable for Joint Stock Companies are also applicable for limited liability companies.

Managers

- Legally it is possible to assign one manager.
- Legal person shareholders are allowed to be a member of managers' board by means of assignment of a real person representative. This should be registered in the related Trade Registry and published in the Trade Registry Gazette.
- Managers' meetings may be realized in electronic environment. Quorum rates are the same as physical meetings.

Non-transferable Duties and Powers of the Managers

- Company's corporate management
- Determination of organization of the company
- Assignment and dismissal of authorized personnel
- Supervision of managers' acts
- Keeping of book of shares, book of BoD, book of a GA Resolutions, preparation of annual activity report, Preparation and realization of General Assembly, Running of General Assembly Resolutions
- Notifying the related Court in case of loss of 2/3 of the total of Capital & Legal Reserves
- Establishment of the Committee for Early Inspection and Management of Risk

8. Employment law and practice

Employment in Turkey is mainly governed by the Turkish Labor Law and Trade Union Law.

8.1 Employees' Rights and Remuneration

Types of Job Contracts

Based on the current Turkish Labor Law, there are four different types of job contracts:

- a) Job contracts for "Temporary" and "Permanent" Work
- b) Job contracts with "Definite Period" and "Indefinite Period"
- c) Job contracts for "Part-time" work
- d) Job contracts for "Work-upon-call"

Job contract does not have to be concluded in a specific format. However, if a job contract is signed for a definite period, it must be concluded in writing.

Job contracts are exempt from stamp tax and other duties.

Principle of "Equality" Among Employees

Any kind of discrimination among employees with respect to language, race, gender, political opinion, philosophical approach, religion or similar criteria is prohibited by Law. Discrimination based on the gender of an employee is not allowed when determining the amount of remuneration for employees working in the same or equivalent jobs.

In case of violation of the principle of equality, the employee who is subject to discrimination can request monetary compensation.

Working Hours and Overtime

According to the Labor Law, the maximum normal working hours is 45 hours per week. In principle, 45 hours should be distributed equally to the working days.

However, based on the relevant rules introduced by the new Labor Law, working hours may be distributed unevenly over the working days provided that the total daily working hours do not exceed 11 hours a day and the parties agree on the uneven distribution of the working hours over the working days.

Hours exceeding the limit of 45 hours per week are to be paid as "overtime hours". Payment for the overtime hour must be 1.5 times the regular hourly wage/salary. Instead of the overtime payment, employees may be granted a free time of 1.5 hours for each overtime hour worked.

Overtime worked during weekends and public holidays is to be paid twice as much as the regular hourly rate. These rates are the minimum set by Law and may be increased based on a collective or bilateral agreement between employees and the employer. Total overtime hours worked per year may not exceed 270 hours.

Annual Paid Vacation

There are six paid public holidays per year (January 1st, April 23rd, May 1st, May 19th, August 30th, and October 29th) plus two paid periods of religious holidays (Ramadan Holidays - 3.5 days and Feast of the sacrifice - 4.5 days).

Employees are entitled to paid annual vacation for the periods indicated below, provided that they have worked for at least one year including the probation period.

Table 39: Entitlement to Paid Annual Vacation

Years of Work	Minimum Paid Vacation Period
1 – 5 years (inclusive)	14 days
5 – 15 years	20 days
15 years and longer	26 days

The minimum period of annual paid vacation for employees below 19 and above 49 is 20 days.

These benefits are the minimum set by the Law and may be increased based on a collective or bilateral agreement.

In principle, paid vacation period cannot be unilaterally divided by the employer. However, the total period can be divided into three parts (at most) based on the agreement between the employer and the employee, provided that a part of the vacation period would not be shorter than 10 days.

If a job contract is terminated either by the employer or the employee, the vacation pay earned by the employee as of the date of termination must be paid.

Payment Procedures for Wages and Salaries:

According to the Law on the amendments on Turkish Labor Law, wages and salaries are required to be paid in terms of TL to the bank account of the employee by employers that employ at least 10 personnel. An administrative penalty amount of TL 139 per employee and per month shall be charged to the employer in case of failure of the employer to pay the wages and salaries to the bank account of the employees. It is possible to denominate wages/ salaries in terms of a foreign currency. In this case, wages/salaries shall be paid in TL calculated on the basis of the related foreign currency rate prevailing as of the payment date.

Wages/salaries cannot be paid in terms of promissory notes or any other forms of negotiable instruments. According to the relevant rules of the current Turkish Labor Law, employees whose salaries are not paid within twenty days following the regular payment date for reasons other than force majeure are allowed to refrain from work.

Maternity Leave:

According to the relevant rules of the current Turkish Labor Law, female employees are permitted to have a paid maternity leave period of eight weeks prior to and eight weeks after giving birth (i.e. a total paid maternity leave period of 16 weeks). It is also possible to optionally take unpaid maternity leave of up to six months in addition to the paid leave period of 16 weeks.

Obligation to Employ the Disabled/ Handicapped and Ex-Convicts:

Those employers that employ 50 or more than 50 employees are required by Labor Law to employ a certain number of disabled/handicapped persons and ex-convicts. In private sector, the number of disabled/ handicapped persons employed must consist of 3% of the total number of employees. This percentage is applied as 0% in the case of ex-convicts, meaning no obligation for companies to employ ex-convicts. In case of failure to comply with disabled/handicapped employment obligation, an administrative penalty of TL 1,903 per each disabled/handicapped employee who has not been employed and per each month is to be charged to the employer.

Bonuses and Profit Sharing

Bonuses equal to one month's salary are usually paid four times a year, in March, June, September, and December. There is no obligation as to the number of times of bonus payment during a year. Timing for bonus payments can be decided between employees and the employer. Profit sharing is optional. There is no obligation for employers to distribute a share of profits to their employees.

8.2 Social Security and Unemployment Insurance Payments

Social Security Premium Payments:

Social security premiums (as a percentage of employee's gross earnings) are payable by both employers and employees. Table 40 shows the rates that apply in the case of office employees in the private sector. Rates for employees working in specific sectors (like mining, oil/gas exploration) may vary depending on the risk category of the work performed.

Maximum and minimum bases for calculation of monthly social security premium are TL 6,961.5 and TL 1,071 respectively, for the first half of the year 2014 whereas the bases are TL 7,371 and TL 1,134 respectively, for the second half of the year 2014. These bases are updated every six months. Foreigners making social security contributions in their home countries do not have to pay the Turkish social security premiums if there is a reciprocal agreement between their home country and Turkey.

Compulsory Contributions to Unemployment Insurance Plan (Unemployment Insurance Premium Payments):

Employees, employers and the State are required to make a compulsory contribution to the Unemployment Insurance Plan at the rates of 1%, 2% and 1%, respectively, of gross salary of the employee (subject to a maximum base). The monthly maximum base for the period between 1 January 2014 and 30 June 2014 is TL 6,961.5 and it is TL 7,371 for the period between 1 July 2014 and 31 December 2014. (i.e. the maximum base applied is the same as the maximum base applied for calculating social security premiums).

Like the social security premium payments, unemployment insurance premiums are also to be paid on a monthly basis. Employers are able to deduct such contributions from their taxable income. On the other hand, employee's contributions are deductible from the income tax base of the employee.

Unemployment insurance premiums are declared and paid to the Social Security Organization together with social security premium contributions.

Table 40: Social Security Premiums
(Office Employees who have not qualified for retirement yet)

Type of Risk	Employer's Share (%)	Employee's Share (%)	Total (%)
Short-term risks (job accidents, occupational diseases, health and maternity)	2 ^(a)	-	2 ^(a)
Long-term risks (disability, old age, death)	11 ^(b)	9	20
General Health Insurance	7.5	5	12.5
Contribution to Unemployment Insurance	2	1	3
Total	22.5	15	37.5

^(a) Short Term Insurance Branches: work accident and occupational diseases, health and maternity insurance branches.

Further, for Short Term insurance branches premium varied between 1% and 6.5% depending on the gravity of the danger of the work in terms of work accident and occupational disease. Effective from 01.09.2013 the rate for short-term insurance branches covering work-related accidents and illness, health and maternity has been fixed to 2%. However, the Council of Ministers is authorized to reduce this percentage to 1.5% or to increase up to 2.5%.

^(b) Employer's share for long term risks is applied over 6% instead of 11% for employers who submit their monthly social security declarations in time, who do not have any unpaid social security premium, penalty and unemployment premium of previous and current month(s). This discount is not applicable for salaries of employees who start working after being officially retired.

Turkey has bilateral Social Security Agreements currently with the following countries:

- Albania
- Austria
- Azerbaijan
- Belgium
- Bosnia Herzegovina
- Bulgaria (regarding retirement payments)
- Canada
- Turkish Republic of Northern Cyprus
- Croatia
- Czech Republic
- Denmark
- France
- Georgia
- Germany
- Libya
- Luxembourg
- Macedonia
- Netherlands
- Norway
- The Province of Quebec (Canada)
- Romania
- Sweden
- Serbia
- Slovakia
- Switzerland
- United Kingdom

Apart from the bilateral agreements, there is a European Social Security Convention approved also by Turkey, covering Spain, Italy, Luxembourg and Portugal.

8.3 Termination of Employment

Based on the relevant provisions of the Labor law, employers and employees are required to give specified notification periods prior to the termination of employment, as summarized in **Table 41**, below.

Table 41: Required Minimum Notification Periods for Employers and Employees

Length of Service	Length of Notification Period
0 –6 months	2 weeks
6 –18 months	4 weeks
18–36 months	6 weeks
More than 36 months	8 weeks

There are two types of termination of a job contract:

- 1) Termination with notification
- 2) Termination without notification based on justifiable reasons

Termination with Notification

Both the employee and the employer may terminate a job contract concluded for an indefinite period based on the notification periods indicated in **Table 41**. The Employer may terminate job contract by paying the salary of the employee corresponding to the notification period.

Termination without Notification Based on Justifiable Reasons

Both the employer and employee have the right to terminate job contract without notification under the following conditions:

- Reasons of health,
- Cases arising from misconduct and the similar reasons,
- “Force Majeure” events that prevent employee from working for a period exceeding one week.

Termination Indemnity (Severance Pay)

A lump-sum termination indemnity is to be paid to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such indemnity pay is calculated on the basis of thirty days’ pay per year of employment based on the gross salary amount applicable at the date of retirement or leaving. However, the thirty days’ payment per year of employment may not exceed a maximum limit which is **TL 3,438.22** for the whole year (determined for the year 2014). Indemnity may be agreed to be paid at an amount higher than the limit indicated above if there is a provision in the contract of employment. Termination indemnity paid within the limit specified is exempt from income withholding tax. However, the amounts of indemnity paid in excess of the limit shall be subject to income tax.

The reasons on the basis of which employees are entitled to receive termination indemnity are as follows:

- a) Leaving workplace due to the compulsory military service (for males),
- b) Retirement (in order to receive old age, retirement pension or disability allowance from the relevant insurance institutions),
- c) Voluntary termination by female employees within one year from the date of marriage
- d) Death of the employee.

8.4 Labor Management Relations

In practice, employees' influence on management is not strong in Turkey.

Unionization of labor is permitted under the general framework of the Turkish Labor Law.

Collective bargaining agreements are negotiated by the Unions on behalf of employees.

8.5 Employment of Foreign Individuals

In Turkey, all foreign nationals to be employed by resident companies need to obtain a work permit to be issued by the Ministry of Labor and Social Security.

Evaluation Criteria for Granting Work Permits

The evaluation criteria designated by the Ministry of Labor and Social Security for the purpose of fulfilling transactions related to foreigners' work permit requests are summarized below:

1) The 5:1 Ratio: At least five persons who are citizens of the Republic of Turkey must be employed per each foreign national to be employed at the workplace for which work permit is requested. In case the foreign national requesting work permit is a shareholder of the company, this condition shall be required for the last 6 months of one-year work permit to be granted by the Ministry of Labor and Social Security. In case of requesting work permit for more than one foreign national at the same workplace, the condition to employ five Turkish citizens per each foreign national shall be required individually (this condition shall not be applicable, provided that the Turkish entity applying for the work permit works with the governmental authorities under a governmental contract for the purpose of realization of a public project that is crucial for the Turkish economy).

2) Conditions regarding paid-in capital and sales volumes of the employer: Paid-in capital of the workplace must be at least TL 100,000 or it should have gross sales of at least TL 800,000 or the export volume in the last year must be at least USD 250,000 (this condition shall not be applicable provided that the Turkish entity applying for the work permits works with the governmental authorities under a governmental contract for the purpose of realization of a public project that is crucial for the Turkish economy).

- 3) For work permit requests regarding foreign nationals to be employed by Associations and Foundations, the condition regarding minimum capital, sales and export volume shall not be applied; and both of the conditions 1) and 2) shall not be applicable for work permit applications related to those foreign nationals to be employed in representative agencies of foreign countries' airlines in Turkey as well as those who will work in education and home services sectors.
- 4) Condition for Foreign Shareholders: If a foreign national requesting work permit is a shareholder of the Turkish company, he must own at least 20% of the shares in the company and the amount of his shares must correspond to at least TL 40,000.
- 5) Salary amount which is declared by the employer to be paid to a foreign national must be at a level which complies with the position and competence of the foreign national (limits are determined as certain times the minimum wage amount depending on the type of profession and expertise of the foreign national).
- 6) For foreign nationals to be employed by companies in entertainment sector as well as tourism animation organization companies for occupations requiring expertise and proficiency, there will not be a separate quota application provided that at least 10 Turkish citizens are employed in these firms.

Applications for work permits can be made inside or also outside Turkey. Foreign nationals residing outside Turkey shall apply to the relevant Turkish Consulate of either their country of residence or their country of citizenship. Those foreign nationals who have a valid residence permit can apply directly to the Ministry of Labor and Social Security.

Applications to be done outside of Turkey via relevant Turkish consulates are realized by the issuance of the work visa. Following the application of the work visa, the Turkish consulate gives a reference number to the foreign applicant. This reference number is used in the online work permit application. An online work permit application is also mandatory for the work permit applications to be realized inside of Turkey.

The application for work permit should be made prior to the arrival of the foreign employee in Turkey. The preparation of the required documents and the processing of an application by the Ministry of Labor and Social Security may sometimes take a few months, it is advisable that the application be filed by the local employer a few months before the planned commencement of employment of the foreign individual concerned.

The documents and information to be submitted to the Ministry of Labor and Social Security for the work permit applications are listed below:

Work Permits

For companies established in accordance with Law No. 4875 (governing foreign investments in Turkey), an application has to be made to the Ministry of Labor and Social Security to obtain work permit for each foreign employee. The Ministry of Labor and Social Security reviews, evaluates and approves the work permit applications.

Documents to be submitted by the Employee:

- 1) Petition requesting the work permit, addressed to the Ministry of Labor and Social Security,
- 2) Foreign Personnel Application Form,
- 3) Translated and notarized copy of the passport -first three pages and the pages on which the visas are issued,
- 4) Into Turkish Language translated and notarized copy of diplomas (graduate and post graduate),
- 5) Curriculum Vitae Form,
- 6) Passport sized photographs in the number to be requested,
- 7) Power of Attorney (to be notarized and apostilled).

Documents to be submitted by the Employer:

- 1) Petition requesting the working permit, addressed to the Ministry of Labor and Social Security,
- 2) Original Balance sheet and profit/loss statement of the preceding year that are approved by the relevant tax office,

- 3) For legal entities which will employ foreign expert in the scope of engineering, architecture, contractor and consultancy services; the copy of the contract executed with the foreign personnel, and payroll evidencing that a Turkish engineer/ architect has been employed for the same profession,
- 4) In case the employer is awarded with a public bid, document approved by the related public authority for the contracting of the public work,
- 5) The Turkish Trade Registry Gazette indicating the most recent capital and shareholding structure of the company,
- 6) For Liaison office employees, opening permission for the liaison office from the Treasury,
- 7) For liaison office activities, bank statements documenting transfer of at least USD 200,000 to liaison office bank account in Turkey,
- 8) The Employment Contract to be executed in line with Turkish Labour Law or any assignment letter that shows the assignment to Turkey,
- 9) Signature Circular,
- 10) The last month of Social Security Declarations with attachment of personnel list,
- 11) Certificate of Activity which is approved by Trade Registry,
- 12) Tax Registration Certificate,
- 13) Tax office document shows no outstanding liabilities.

It should be noted that the Ministry of Labor and Social Security may request additional documents to issue the work permit.

If the applicant is an engineer/architect, a "diploma equivalency certificate", documents from the professional institution (chamber) evidencing the membership, and that the applicant has not been prohibited to work as an architect/engineer shall also be required. If the applicant is an engineer/architect but will not work in this position, then an undertaking of the employer stating this will be required.

As a result of the changes effective as of 11 April 2014 in accordance with the new Law on Foreigners and International Protection (Law No. 6458), the work permits that are issued by the Ministry of Labour in Turkey will substitute for a residence permit within its validity. The use of work permit based residence permit booklet is not applicable anymore with the new implementation as the individuals will be provided with ID cards which will be directly issued by the Ministry of Labour.

As congruent with this new implementation, foreign nationals do not need to apply at the local Security Office after the issuance of their work permit anymore (Residence permit applications at Security Offices for family members are still applicable). Instead of this, the first requirement for the work permit applications made outside of Turkey is to realize the work visa endorsement to their passports from the Turkish consulate once their work permit is approved. Following their entry to the Turkish territory, within 20 working days their residency address in Turkey will need to be registered at the civil registry office.

Working Visa

To obtain the authorization to work in Turkey depends on securing a work permit. After the work permit is issued, the foreign individual is required to apply to the Turkish Consulate in his/her home country so as to obtain a working visa. In case of application from abroad, application for a working visa should be made to the relevant Turkish Consulate within at most 30 days from the date of obtaining the work permit.

9. Choice of business entity

9.1 Principal Forms

Companies that are established by foreign investors in Turkey under the provisions of the NTCC, either on their own or with Turkish partners, are regarded as Turkish companies and entitled to all the rights granted to companies founded by Turkish citizens. The NTCC, in its provisions related to the formation of companies, makes no essential distinction between Turkish citizens and foreigners, nor does it distinguish between partners and founding partners, be they Turkish or foreigners. According to the NTCC legal forms of business entities may be classified as follows:

- Corporations ("Anonim Şirketi" – A.Ş.)
- Limited Liability Companies ("Limited Şirketi" – Ltd. Şti.)
- Ordinary Partnerships ("Adi Ortaklık")
- Limited Partnerships ("Komandit Şirket")
- Registered Partnerships ("Kollektif Şirket")
- Limited Partnership Dividend Into Shares ("Sermayesi Paylara Bölünmüş Komandit Şirket")
- Sole Proprietorships

The major guidelines for the choice of legal status by a foreign investor in Turkey are as follows:

- The choice of legal status for operations should be between establishing either a branch, (which does not constitute a separate legal entity) or a subsidiary company. A liaison office may also be incorporated, however, it would not be sufficient for a long-term operation due to the prohibition on commercial activities.
- The General Directorate of Incentives Implementation and Foreign Investment (GDIIFI) treats branch offices and independent affiliated companies in almost the same manner.
- There are no significant differences in establishment formalities for a branch and subsidiary company.
- The foreign head office is liable for obligations incurred by the branch.
- Branches have limited tax liability; they are taxed on only the income derived in Turkey, while subsidiary companies have full tax liability, i.e. taxed on worldwide income (see Chapter 10).
- Branches and subsidiaries can both benefit from tax incentives.
- Branches are not required to provide for legal reserves whereas subsidiary companies have to provide the legal reserves in accordance with the Turkish Commercial Code.

Foreign firms that decide to operate in Turkey usually establish either corporations (A.Ş.) or limited liability companies (Ltd. Şti.).

Table 42: Comparison of the Three Most Common Types of Legal Presence

	Corporation (A.Ş.)	Limited Liability Company (Ltd. Şti)	Branch
Legal Status	Independent legal entity	Independent legal entity	Legally dependent on its headquarters
Tax Status	Full tax liability (resident)	Full tax liability (resident)	Limited tax liability
Number of shareholders	Min: 1/Max: No limit	Min: 1/Max: 50	N/A
Capital Requirements	Minimum Total Capital: TL 50,000 (TL 100,000 for registered capital companies)	Minimum Total Capital: TL 10,000 (minimum capital per shareholder: TL 25)	No specific limit required
Responsibility of Shareholders for tax and public liabilities	Limited to the amount of capital contributed.	Liability is in proportion to the share in capital.	The headquarters will be liable.
Corporate Income Tax Rate	20%	20%	20%
Dividend Withholding Tax	15% (if profit is distributed)	15% (if profit is distributed)	15% (if profits are remitted)
Legal Reserves	Must be provided	Must be provided	N/A

9.2 General Rules for Establishment of Companies by Foreign Shareholders

1) Permission from the GDIFI: As a result of the changes made in the Turkish Foreign Investment Legislation in June 2003, there is no longer a permission requirement from the GDIFI.

2) Permission from the Ministry Customs and Commerce (MCC): Permission from the MCC is no longer required for establishment of both corporations and limited liability companies. However, the establishment of following types of corporations is still subject to the permission of the MCC:

- Contribution Banks (formerly “Special Finance Institutions”)
- Banks
- Holdings
- Insurance Companies
- Financial Leasing Companies
- Factoring Companies
- Companies providing services in the field of consumer finance and credit cards
- Asset management companies
- Companies operating as licensed warehouses
- Companies operating as licensed agricultural warehouses
- Companies to be listed in the Mercantile Exchange
- Corporations authorized in trading of foreign currencies (foreign exchange dealers)
- Corporations subject to the regulations of the Capital Market Board
- Corporations that will operate as Department Stores
- Corporations established as the Founder and Operator of a Turkish Free Trade Zone

3) Minimum Capital Requirement: There is no longer a minimum capital requirement for foreign investors (previously, there was a minimum capital requirement of USD 50,000 per each foreign investor).

The relevant rules of the NTCC are applicable with respect to the minimum capital required for establishment.

Table 43: Minimum Capital Requirement

Type of Company	TL	USD ^(*)
Corporation	50,000	23,483
Corporation with registered capital	100,000	46,966
Limited Liability Company	10,000	4,697

^(*) Based on the exchange rates prevailing as of 27 June 2014.

4) Number of Shareholders Required for Establishment:

Table 44: Number of Shareholders Required for Establishment

Type of Company	Minimum	Maximum
Corporation	1	No limit
Limited Liability Company	1	50

5) Types of Activities: No limitation unless prohibited by Law.

6) Limitation for Foreign Shareholding Percentage: There is no limitation with regard to percentage of share held by foreign shareholder. There are certain limitations only for specific sectors like telecommunication, operation of ports etc.

9.3 Corporations

Formation

Turkish Commercial Code allows two different methods of formation for corporations:

1. Formation in a single step, in which the founders contribute the whole capital stock.
2. Formation by successive subscription, in which some or all of the capital stock is raised by public subscription.

In the latter case, the founders draw up proposed Articles of Incorporation and a prospectus on the basis of which interested parties may subscribe to the capital stock. However, Article 12 of Turkish Capital Markets Code (TCMC) prohibits the formation by successive subscription for corporations applying to the Capital Markets Board for public offering. Consequently, formation by successive subscription may be theoretically applied in a manner that less than five hundred shareholders may buy the shares by public subscription, since corporations with five hundred shareholders shall be deemed as public companies. Thus successive subscription may solely serve to form close corporations.

A corporation may be formed with a minimum of one registered shareholder. A corporation is free to choose its trade name on the condition that this name reflects the scope of the activity of the corporation in question. In order to establish a corporation, the Articles of Association must be prepared, signed, and notarized before the Notary Public.

The Articles must include:

- A trade name
- The duration of the life of the corporation (which may be indefinite)
- Corporate objectives and fields of activity
- The split of contributed capital
- The number and groups of authorized shares of the capital

Articles of Incorporation and a document representing that all the capital has been committed by shareholders (one fourth to be paid prior to the incorporation and the remaining to be paid within two years at the latest from the registration date of the Company).

Formation permit for corporations which require permission of the authority is issued by the Ministry of Customs and Trade. A corporation shall be registered in the Trade Registry where the head office of such corporation is located.

A corporation is considered incorporated when it is registered before the Trade Registry and its Articles of Association are announced in the Trade Registry Gazette.

Publicly Held Companies

Corporations whose shares or bonds are offered to public must be registered with the Turkish Capital Market Board; the executive body governing the operations of publicly held companies. Only those companies established in the form of a corporation may go public and their shares can be traded on Stock Exchange. Public corporations are subject to the regulations of the Turkish Capital Market Board. These regulations cover financial reporting/audit requirements, disclosure and announcement of a prospectus for issuance of shares to the public, and the authorized share capital.

Publicly held companies are subject to Corporate Governance Rules released and recently revised by the Turkish Capital Market Board on 3 January 2014.

Capital

Corporations may be formed with a minimum capital of TL 50,000. The subscribed share capital is to be paid in cash or in kind.

Each shareholder's liability is limited to the value of his or her shares, and share certificates may be in bearer or registered form. Founding shares may be issued to the founding members at the date of formation. These shares may entitle the holders to additional dividends.

Legal Reserves

Pursuant to the Turkish Commercial Code five percent of a company's profit after tax (or alternatively profit before tax) is set aside as the first apportionment of legal reserves (First Legal Reserve - FLR) to recover any unforeseen losses that may occur in the future. FLR must be provided until its cumulative balance reaches 20% of paid-in capital. A second apportionment of legal reserves (Second Legal Reserve - SLR) must be calculated as 10% of the amount of profit decided to be distributed (except for 5% of paid-in share capital-set aside as "First Dividend") to shareholders (see **Table 45**).

Table 45: Sample Computation of Taxes and Legal Reserves (assuming that all profits are distributed)

Explanation	TL
Profit Before Tax	100.00
Corporate Income Tax (TL 100 x 20%) ^(a)	(20.00)
Profit After Corporate Income Tax	80.00
- First Legal Reserves (TL 80 x 5%) ^(b)	(4.00)
Distributable Profit	76.00
- First apportionment of dividends (5% of paid-in capital) ^(c)	(20.00)
Balance after First Dividends	56.00
- Second Legal Reserves (56/11)	(5.09)
- Second apportionment of dividends (to be distributed in accordance with a decision by the shareholders' general meeting)	50.91
Total Dividends Distributed (20 + 50.91)	70.91
Dividend Withholding Tax (DWT) (15% * 70.91) ^(d)	(10.64)
Net Dividends (70.91-10.64)	60.27
Total Tax Burden	30.64
Total Legal Reserves	9.09

^(a) The computation assumes that the corporation has no tax-exempt income and non-deductible expenses. The 20% rate is effective from 1 January 2006.

^(b) FLR is to be provided until its total cumulative balance reaches 20% of paid in capital as per the relevant rules of the TCC.

^(c) Paid-in capital is assumed to be TL 400.

^(d) Dividend Withholding Tax is applied at 15%.

Other extraordinary reserves are optional and are determined by the Articles of Association or by a decision of the General Assembly.

A company is managed by its Board of Directors (BoD) comprising a minimum of one person. A director may be a real or a legal person. There is no limitation in the Turkish Commercial Code for the maximum number of persons in the BoD. The directors are elected at the General Assembly meeting for a certain time period by the shareholders or by the Articles of Association. However, this period cannot exceed three years.

They may be re-elected for a next period of three years. The BoD designates individuals authorized to represent the company and determines the details concerning signatory powers. Foreigners may also be appointed as members of the BoD.

Meeting and Votes

Based on the Turkish Commercial Code, the general assembly of a corporation is attached with exclusive authorities and is composed of all shareholders.

There are two types of general assembly meeting:

1. **The ordinary general assembly meeting**, which is to be held at least once a year within three months following the end of the accounting period.
2. **The extraordinary general assembly meeting**, which may be held as often as deemed necessary.

In a general assembly meeting, the shareholders have the right to modify the Articles of Incorporation; appoint directors and auditors; approve the income statement, balance sheet, independent auditors' and directors' reports; ratify the acts of the directors and acquit BoD; and make all important decisions that may not be delegated to any other body by Law.

The shareholders also have the right to approve the dividend distribution proposal of the directors as well as the amounts of the directors' emoluments.

A general assembly meeting is called by the BoD or, if the BoD fails to perform its duties, by the statutory auditors. One or more shareholders, representing at least one-tenth of the shares ("minority shareholders"), can at any time request extraordinary general assembly meeting. This request must be in written form, designating the purpose.

In general, a simple majority of votes represented at general assembly meetings is sufficient to pass a resolution and make elections to office. However, certain decisions require a quorum of two-thirds or more of the shares (i.e. changing legal type of the company granting certain privileges and establishing limitations referring share transfers). Some decisions like increasing the shareholders' subscription (not capital) requires a quorum of all of the shares and a voting majority of 100%.

Liquidation of the company, acquisition of the company by public enterprises requires a quorum of two-thirds of the shares and a voting majority of one-half of those present; if a quorum is not reached at the first call, a quorum of only one-half of the shares is required at the second call and a voting majority of one-half of those present.

In the case of issuing of debentures, profit distribution, an increase or decrease of capital, the approval of directors, or amendments to the Articles of Incorporation, a quorum of one-half of the shares is required and a voting majority of one-half of those present; if a quorum is not reached at the first call, a quorum of only one-third is required at the second call and a voting majority of one-half of those present.

Independent Audit Requirements

As per Council of Ministers Decision no. 2014/5973, which was promulgated in the Official Gazette dated 14 March 2014, companies meeting at least two of the following criteria shall be subject to independent audit;

- a) Total asset size of TL 75 million or more.
- b) Annual net sales revenue of TL 150 million or more.
- c) Minimum of 250 employees or more.

In case of companies that have subsidiaries or affiliate companies, the amounts on the financial statements will be taken into account on a consolidated basis after eliminating the intra-group transactions. The participation share will be taken into consideration when consolidating the figures denoted on the financial statements of the subsidiaries. These criteria are required to be met for two consecutive accounting periods.

Publication of Information

Any changes in the Articles of Association of a corporation must be announced in the Official Trade Registry Gazette as well as the announcement of the Articles of Association. The resolutions regarding the transfer of head office or the minutes of the general assembly must also be announced in the Official Trade Registry Gazette.

An annual report is required for each accounting period and must be made available for inspection by all shareholders fifteen days prior to the annual general assembly meeting.

Banks and insurance companies have to submit their quarterly and annual reports to various agencies, and their financial statements must be published in a newspaper. The format of financial statements must be in accordance with the standards approved by the related public authorities governing the operations of banks and insurance companies.

The companies that are subject to independent audit must also have a website in order to publish the information to be announced in the Trade Registry Gazette online.

9.4 Limited Liability Companies

Limited liability companies differ from corporations with respect to the flexibility of forming the organizational and financial structure of the company and exceptions regarding the limited liability of shareholders. Moreover, limited liability companies may not effectuate public offerings. Limited liability companies require a minimum of one shareholder.

The conditions for the formation of limited liability companies are as follows:

- a) The founders must be at least one individual or legal entity, and the number of shareholders may not exceed fifty. The shareholders' financial liability with respect to unpaid taxes and the similar public charges is in proportion to their shares in the capital of the company (with effect from 29 July 1998).
- b) The minimum capital requirement for a limited liability company is TL 10,000 which is divided into shares of TL 25 or a multiple thereof. Each shareholder receives a share of the net profit in proportion to the amount of capital paid up.
- c) The independent audit criterion and requirements for joint stock companies are also applicable to limited liability companies.

9.5 Branches

Previous pre-permits issued by the Undersecretariat of Treasury - General Directorate of Foreign Investment (GDFI) were abolished through the new Foreign Direct Investment Law. Branches can be established under the provisions of the Turkish Commercial Code with the permission of the Ministry of Customs and Trade.

According to the regulations, to establish a branch, a foreign company is required to get permission from the Ministry of Customs and Trade, Domestic Commerce Directorate. The documents required are as follows:

1. A translated version of Articles of Association
2. Permission granted from the Ministry of Customs and Trade
3. Accompanying declaration approved by the Ministry of Customs and Trade
4. Power of Attorney for the Branch Manager
5. Signature Circular of Branch Manager
6. For a Turkish branch manager, copies of Identification Card (Notarized before a Notary Public), for foreign branch manager, copies of the photo bearing identification pages of their passports, as notarized and apostilled
7. Letter of Undertaking
8. Registration Form
9. Establishment Form
10. Petition

9.6 Partnerships

Partnerships are not a common vehicle for foreign investment. Although they are considered as legal entities (except "ordinary partnerships") under the Commercial Code, they are not recognized as such for tax purposes. Instead, the partners are assessed as individual income taxpayers on their respective shares of the profits.

A corporate entity can be a partner of an ordinary partnership. As for limited partnerships, all partners must be real persons. Limited partnerships and Limited Partnership Divided Into Shares are the two most common types of partnerships in use.

9.7 Joint Ventures

Foreign companies may establish joint ventures with individuals or ordinary limited partnerships in order to perform a certain project and to share the resulting profit. Joint ventures may either choose to register with the tax office to be subject to corporate income tax or the parties establishing the joint venture may each be liable to tax individually, according to their status, on their respective shares of the profits. Joint ventures should be established for projects that will be completed within a certain period of time. The parties forming the joint venture should jointly undertake the project. "Consortia" in which each party undertakes to conclude a different part of the job do not fall within the category of joint ventures.

9.8 Liaison Offices

Liaison offices are not permitted to perform any commercial activity in Turkey. Their activities are limited to representation and gathering information. The Ministry of Economy (General Directorate of Incentives Implementation and Foreign Investment) initially gives a three-year term permission for the establishment of liaison office. A liaison office's expenses must be covered by funds sent by the head office abroad. The liaison office may not collect revenues on its own account in Turkey.

A liaison office is not itself subject to corporate income tax or personal income tax as it is not permitted to generate any income from its activities. However, it should maintain statutory books and file the necessary documentation to public authorities when required. Employees of a liaison office are not subject to income tax provided that their salaries are paid from abroad in terms of a foreign currency (i.e. the salaries must not be paid from Turkish sources).

9.9 Mergers, Acquisitions, Conversions, De-mergers, Share Swaps

A capital stock company may merge with a capital stock company, cooperatives or registered general partnerships ("kollektif şirket") and limited partnerships ("komandit şirket") provided that the company is in the position of the transferee (in the case of mergers with registered general partnerships and limited partnerships). Whereas, based on the previous TCC, only merger of the same type of companies was possible.

On the other hand, sole proprietorships may only merge with sole proprietorships, capital stock companies and cooperatives provided that sole proprietorship is the transferor (in the case of merger with companies and cooperatives).

If merger of companies is realized in accordance with those provisions of the Turkish Corporate Income Tax Law governing tax-free mergers, any income resulting from the merger is not subject to corporate income tax. Only the profit of the dissolving company for the partial accounting period ending as of the date of merger is subject to taxation. Carry-forward tax losses of the dissolved company can be utilized by the takeover company under certain conditions.

Tax-free full and partial de-mergers as well as share swaps can be realized based on the relevant rules of the new Corporate Income Tax Law.

The transaction of merging or dissolving itself is exempt from Value Added Tax provided that the transactions are realized in accordance with the conditions specified in the relevant provisions of the Turkish Corporate Income Tax Law.

10. Corporate income taxation

The previous Corporate Income Tax Law (Law No. 5422) was replaced by a new Law (Law No. 5520) (published in the Official Gazette on 21 June 2006) including a number of significant changes and introducing new concepts with the intention to bring Turkey more in line with the international applications and to fully address international tax issues of multinational companies as well as issues relevant to Turkish companies with extensive trade and manufacturing operations in foreign countries.

Some of the rules of the New Turkish Corporate Income Tax Law apply retroactively from 1 January 2006.

10.1 Entities Liable for Corporate Income Tax

In Turkey, income and earnings of corporations, limited liability companies, Turkish branch offices of foreign firms, joint ventures, cooperatives and public enterprises are subject to corporate income tax. State Economic Enterprises and trading bodies of foundations and associations are also regarded as corporate income taxpayers and subject to corporate income tax.

10.2 Residence and Non-Residence

Residence is of considerable importance for corporate income taxation. Residents are fully liable under the Turkish tax system (that is, they pay taxes in Turkey based on their worldwide income). Non-residents have limited liability and are subject to tax on only their business earnings derived in Turkey.

Corporations have full liability to Turkish taxation if their legal headquarters (as indicated in the taxpayer's Articles of Incorporation) or their business centers are in Turkey. Business center means the place where business transactions are actually concentrated or carried out. All companies established with foreign capital under the Turkish Commercial Code have full liability.

Foreign companies investing in Turkey usually have corporate status abroad and their legal and business headquarters are outside of Turkey. For this reason, foreign companies or foreign members of joint venture companies are usually regarded as having limited liability under the Corporate Income Tax Law and are subject to tax only on their business income and earnings derived in Turkey.

Under Turkish Tax Legislation, for the income of a non-resident company to be taxable, the company must have a place of business or a permanent representative in Turkey and the earnings must have been realized either at this place of business or through this representative. Even if these conditions are fulfilled, if a company's business headquarters are not in Turkey and it sells in other countries—but not in Turkey—the goods purchased in Turkey for export purposes, the company will not be taxed on the earnings derived from this business. On the other hand, all the commercial earnings derived in Turkey (in a place of business or through permanent representatives) by foreign legal entities having a place of business or branch offices or permanent representatives in Turkey shall be taxable.

10.3 Taxable Income

Taxable corporate income is determined by taking into consideration all business-related expenses, income, tax losses and deductions in accordance with the provisions of Articles 8, 9, 10 and 11 of the Corporate Income Tax Law.

10.4 Corporate Income Tax Rates

Effective from 1 January 2006, the Turkish corporate income tax rate is reduced from 30% to 20%. Please refer to **Table 46** for a computation of the tax burden of a resident corporate income taxpayer assuming that profit is distributed.

10.5 Dividend Withholding Tax

With effect from 23 July 2006, the dividend withholding tax rate is increased from 10% to 15% on distributions of profit to non-resident shareholders and amounts repatriated by a branch to its head office. Dividends distributed by a resident Turkish entity to another resident Turkish entity continue to be exempt from dividend withholding tax.

Table 46: Tax Burden of a Resident Corporate Income Tax Payer (Assuming that profits are distributed and legal reserves are ignored)

	TL
Corporate Income	100
Corporate Income Tax (20%)	-20
Net Income After Corporate Income Tax	80
Dividend Withholding Tax (15%)	-12
Total Tax Burden	32
Net Profit After Taxes	68

10.6 Treatment of Losses

Tax losses may be carried forward for five years provided that the losses for each year are shown separately in the corporate income tax returns. Tax losses may not be carried back. If a company incurs losses as a result of which share capital is impaired or the company becomes insolvent ("technical bankruptcy"), shareholders are to take the necessary actions to repair the equity in accordance with Article 376 of the New Turkish Commercial Code which is effective as from 1 July 2012.

10.7 Participation Exemption

a) Exemption of Participation Gains Derived from Turkish (Resident) Participations:

Dividends received by a resident corporate income taxpayer or a Turkish branch of a foreign entity from a Turkish (resident) company are exempt from Turkish corporate income tax.

b) Exemption of Participation Gains Derived from Foreign (Non-Resident) Participations:

Dividends received from foreign participations are exempt from corporate income tax in Turkey provided that all of the following conditions below are satisfied:

- The foreign company paying the dividend must have corporation or limited liability company characteristics;
- The Turkish recipient must own at least 10% of the paid-in capital of the foreign company for a continuous period of at least one year as of the date of the derived income;
- The profits of the foreign participation out of which dividends are paid must be taxed at an effective tax rate of at least 15% (20% where the profits are derived from financial operations including financial leasing, insurance or investments in securities);
- The dividends from the foreign participation must be remitted to Turkey by the deadline for filling the corporate income tax return for the year in which the dividends are derived.

10.8 Capital Gains Taxation

10.8.1 Turkish Holding Companies

Under the rules, which have been effective from 1 January 2006, capital gains derived from the sale of foreign participations that have been held for at least two years (730 days) by an international holding company (in the form of a corporation) resident in Turkey are exempt from corporate income tax. To qualify as an international holding company, the following requirements must be met:

- At least 75% of the total assets (excluding cash items) must comprise foreign participations for a continuous period of at least one year;
- The Turkish company must hold at least 10% of the capital of each foreign participation;
- The foreign participation must have corporation or limited liability company characteristics.

10.8.2 Sale of Participation Shares and Immovable Property

Based on the relevant rules of the Corporate Income Tax Law effective from 21 June 2006, a corporate income tax exemption is granted for 75% of the capital gains derived from the sale of participation shares and immovable property that have been held for at least two years provided that the gains from such transactions are kept in a special reserve account under "Shareholders' Equity" for five years and that the sales proceeds are collected by the end of the second calendar year following the year of sale. Liquidation of the company or distribution of the reserves within five years is a violation to apply the exemption.

Those corporate income taxpayers that are commercially engaged in continuous trading of participation shares and immovable property cannot benefit from this capital gain exemption.

10.9 Controlled Foreign Companies (CFC)

The CFC rules, which apply from 1 January 2006, will be triggered where a Turkish resident company (alone or with another Turkish resident) controls, directly or indirectly, at least 50% of the share capital, dividends or voting power of a foreign entity and the following conditions are satisfied;

- 25% or more of the gross income of the CFC is composed of passive income items such as dividends, interests, rents, license fees or gains from the sale of securities which are outside the scope of commercial, agricultural or professional income;
- The CFC is subject to an effective tax rate of lower than 10% in its country of residence; and
- The annual total gross revenues of the CFC exceed the foreign currency equivalent of TL 100,000.

If the above requirements are met, the profits of the CFC will be included in the profits of the Turkish company in proportion to the Turkish company's share in the capital of the CFC, regardless of whether such profits are distributed, and will be taxed currently at the Turkish corporate income tax rate of 20%.

10.10 Transfer Pricing

The new Corporate Income Tax Law has introduced transfer pricing rules that are in the line with the OECD Transfer Pricing Guidelines. The transfer pricing rules have been effective from 1 January 2007.

According to the transfer pricing rules, transactions (i.e. the sale or purchase of goods and services) between related parties (both resident and non-resident) must be in line with the **arm's length principle**. Otherwise, the related profits will be treated as having been wholly or partially distributed in a disguised way via transfer pricing and subject to both corporate income tax and dividend withholding tax depending on the tax status of the recipient of the disguised profit.

The rules provide for three traditional transfer pricing methods listed in the OECD Transfer Pricing Guidelines: 1) the Comparable Uncontrolled Price (CUP) method, 2) the Cost-plus Method and 3) the Resale Price Method. When these are not appropriate, taxpayers may use other methods as necessary.

Other acceptable methods include profit-based methods in the OECD Transfer Pricing Guidelines (e.g., the profit-split method and the transactional net margin method) as well as unspecified methods which prove to be the best method based on the particular circumstances of the taxpayer.

Taxpayers also have the option of concluding an Advance Pricing Agreement (APA) with the Turkish Ministry of Finance to determine the transfer pricing method with regard to cross-border related party transactions. The selected method would apply for a maximum period of three years, provided that the conditions effective at the time the APA is agreed remain unchanged. APAs may be unilateral, bilateral or multilateral.

Taxpayers are required to prepare/maintain documentation to support transfer prices determined and used.

Declaration of Related Party Transactions: All corporate income taxpayers having related party transactions are required to complete a **“Form Relating to Transfer Pricing, Controlled Foreign Companies and Thin Capitalization”** and submit it to their tax office together with their corporate income tax returns.

Annual Documentation Report Requirement: Corporate income taxpayers registered with the Large Taxpayers’ Tax Office (LTTO) must prepare annual transfer pricing documentation report regarding their both cross-border and domestic related party transactions. Those corporate income taxpayers not registered with LTTO must also prepare annual documentation report regarding

only their cross-border related party transactions. All documentation must be prepared by the time corporate income tax returns are filed. Taxpayers must retain the documentation reports and submit it to the Tax Authorities upon any official request.

As long as a domestic related party transaction between two Turkish corporate entities does not cause a loss of revenue to the Turkish Treasury, it will be deemed to be at arm’s length for tax purposes (effective from 1 January 2008).

10.11 Cost Sharing/Cost Allocations

Costs incurred by headquarters located abroad may be allocated to Turkish branches and deducted through distribution keys to be determined in accordance with the arm’s length principle, provided that the costs incurred abroad are directly related to the commercial activities of the Turkish branch.

In order to ensure tax deductibility, the following conditions must be satisfied:

a) Benefit Test: The services underlying cost contribution arrangements or cost sharing agreements must be performed in reality. The payment must be related to the services which contribute to generation and securing of revenues in Turkey.

b) The group company in Turkey receiving the service must really need the service concerned.

c) The portion of the cost to be allocated with respect to the services provided for the benefit of the Turkish recipient must be in compliance with the arm’s length principle. The allocation/distribution key of the costs shared must be at arm’s length.

d) The relevant supporting documentation must be maintained.

10.12 Anti-Tax Haven Rules

Any cash/accrued payments to parties including the business offices of Turkish Resident Companies located in those jurisdictions engaged in **“harmful tax competition”** (usually tax haven countries), to be specified by the Council of Ministers, will be subject to a 30% withholding tax regardless of the type of income derived by the party resident in a country engaged in harmful tax competition. The Council of Ministers is expected to announce these tax haven countries by taking into consideration the taxation system of the country where the earnings are derived as well as the capacity to exchange information (however, the list of countries has still not been announced by the Council of Ministers).

The Council of Ministers has the authority to reduce this WHT rate to 0% for particularly specified transactions which are in line with the arms-length principle. If the transactions involve the import of a commodity, acquisition of participation shares or dividend payments, the withholding tax will not be imposed provided that the pricing is considered to be at arm's length.

10.13 Thin Capitalization Rules

Under the current rules of the Turkish Corporate Tax Law, **that portion of the loans granted by shareholders or related parties which exceeds three times the equity at any time within an accounting period is deemed to be “thin capital”**. In case the loan is obtained from a related bank or a related financial institution, then half of such loans will be taken into consideration in determination of thin capital amount. Accordingly, loans from related party banks or financial institutions will not trigger the rules unless the amount of the borrowing exceeds **six times** the equity.

For thin capitalization purposes, “related parties” are defined as shareholders and persons related to shareholders that own, directly or indirectly **10% or more** of the shares, the voting rights or the right to receive dividends of the company. The equity amount to be determined in accordance with the Tax Procedures Code at the beginning of the accounting period shall be the equity to be considered in determination of thin capitalization.

Interest, foreign exchange losses and any similar expenses incurred on the exceeding portion of the related party loan are considered as non-deductible for corporate income tax purposes and thus subject to corporate income tax. In addition, the interest and any relevant expenses corresponding to that portion of the loan exceeding three times the equity will be deemed as “hidden profit distribution” or a “remittance of profits” (in the case of non-residents operating in Turkey through a permanent establishment) as of the last day of the accounting period in which the conditions for application of thin capitalization rules are satisfied. Such hidden profit distributions will be made subject to dividend withholding tax at 15%, depending on the taxation status of the recipient of the hidden profit. Double Tax Treaties may reduce the rate of dividend withholding tax down to 10% or even 5% depending on the country of residence of the recipient of the dividends.

The following loans are not within the scope of Turkish thin capitalization rules:

- Loans from third parties under a **non-cash guarantee** provided by shareholders or related parties,
- Loans extended to shareholders or related parties under the same conditions as they are obtained from third-party banks, financial institutions or capital market institutions (i.e. “pass through loans”),

- Loans received by financial leasing and factoring companies.

Comparison of the provisions of thin capitalization under the new rules and the previous regime is provided below:

Table 47: Comparison of Thin Capitalization under the New and Previous Rules

Explanation	Previous Thin Capitalization Rules (Abolished)	New Thin Capitalization Rules (in effect)
Relevant Legislation	Article 16 of the Abolished CT Law (Law No. 5422)	Article 12 of New CT Law (Law No. 5520)
Definition of “Related Party”	Not clear, no objective criteria: “related either directly or indirectly”	At least 10% of shares or voting power must be held either directly or indirectly
Definition of Equity for the purpose of determination of debt/equity ratio	No definition	<u>Defined as:</u> Equity amount to be determined in accordance with the Tax Procedures Code <u>at the beginning of accounting period</u>
Debt/Equity Ratio	No specific ratio indicated. There is a subjective description: “significantly higher as compared to those of similar companies”	3:1 (the portion exceeding three times the equity)
Period of using related party loan	No objective definition: “continuous use” (9 months/1 year deemed to be continuous based on Court Case decisions – subjective)	No specific period is indicated. That part of the related party loan exceeding 3 times the equity at <u>any time within an accounting period</u> is deemed as thin capital
Differentiation as to the status of the Lender (independent bank, related bank, non-financial entity)	No clear differentiation exists in the abolished CT Law	There are explanations in this respect in the New CT Law. If the lender is a related bank, debt/equity ratio to be applied is 6:1

10.14 Restriction on Deduction of Financial Expenses

Restriction on Deduction of Financial Expenses from taxable income is effective as of 1 January 2013.

As per Article 37 of Law No. 6322 and Article 11 (i) of the Corporate Income Tax Law, in cases where the external borrowings of a company exceeds its equity, up to 10% of the interest, commission, delay charge, dividend, foreign exchange losses and the similar types of expenses incurred on the exceeding portion (i.e. except for the expenses that were included in the cost of ongoing investments) shall not be deducted from the corporate income tax base provided that the Council of Ministers takes a resolution in this regard. On the other hand, credit institutions, financial institutions, financial leasing, factoring and financing companies shall not be subject to this restriction.

This new regulation which aims at encouraging the enterprises to use their own resources rather than external borrowings in order to fulfill their financing needs, is effective as of 1 January 2013. However, in order to apply this regulation, it is required that the Council of Ministers determine the portion of the financing expenses related to the borrowings, that will not be deductible from the tax base. The rate to be determined by the Council of Ministers shall not exceed 10%.

10.15 Taxation of Branches of Foreign Companies

Branches of foreign companies are considered to have limited tax liability based on the income derived in Turkey. Business income derived by a Turkish branch of a foreign entity is subject to corporate income tax at 20% effective from 1 January 2006 based on the new Corporate Income Tax Law.

Additionally, branch profits after deduction of 20% corporate income tax are subject to 15% withholding tax in case profit is transferred. See **Table 48** for a sample computation of tax burden on a branch.

Income items other than business income derived by non-resident corporate entities are subject to withholding tax at the following rates:

- Professional service earnings such as consulting, supervision, technical assistance and design fees – 20%
- Earnings derived from the sale or transfer of intangible assets such as copyrights, patents and trademarks – 20%
- Royalties – 20%
- Dividends distributed – 15%

Table 48: Tax Burden of a Branch

	TL
Branch Profits Before Tax	100.00
Corporate Income Tax (20%)	20.00
Profit after Corporate Income Tax (Withholding Tax Base)	80.00
Withholding Tax (15% * 80)	12.00
Total Tax Burden	32.00

10.16 Taxation of foreign funds

According to Article 5/A of the Turkish Corporate Tax Law, foreign funds will not be taxed on the income derived from specified portfolio investments made through fully liable companies possessing portfolio management certificates issued by the Capital Market Board of Turkey. If all the requirements are met, portfolio management companies will not constitute a permanent representative or the place of business of the foreign fund, and such earnings will not be reported as income.

10.16.1 Who can benefit from the exemption?

Tax exemption is allowed to foreign funds that are accepted to be similar to those subject to the regulations and supervision of the Capital Market Board of Turkey. This exemption shall not affect the withholding taxes to be imposed on these funds' gains obtained from Turkey.

10.16.2 Covered instruments in the portfolio:

- all kinds of securities and capital market instruments which are traded or non-traded in organized stock exchange,
- futures and options contracts,
- warrants,
- foreign exchange,
- futures and options contracts on commodity based,
- credit and other financial assets,
- commodity transactions in precious metals stock markets

10.16.3 Other Requirements:

- a) Transactions that are conducted on behalf of the foreign fund should fall into the usual operation activities of the portfolio management company
- b) There should be independent relationship between portfolio management company and foreign funds, with regard to their commercial, legal and financial characteristics
- c) Portfolio management company should receive arm's length compensation for the services performed and transfer pricing report should be submitted by the portfolio management company to Revenue Administration, within the period of the corporate tax declaration submission
- d) Portfolio management company and associated persons or entities should not have direct or indirect ownership right more than 20% of the portfolio management company on gains of foreign funds after offsetting the compensation received for the services provided

In case transfer pricing report is not submitted on time as indicated in (c), the company which is engaged in portfolio management, shall be deemed to be the permanent representative of the fund in Turkey for the accounting period related with this report. Although transfer pricing report is provided, if the price applied on portfolio management services is lower than the arm's length price, assessment (reallocation of income) is made for only to the portfolio management company in accordance with arm's length principle.

Portfolio management company's income derived from the benefits of ownership of the share of foreign fund is exempted from corporate tax, provided that above mentioned conditions are met. When the calculation of the share of the Portfolio management company's earnings is made; payments such as management fees, incentive, bonus, performance fee and the similar are excluded. If the company engaged in portfolio management and its related people separately or together own more than 20% of the gains of foreign funds, corresponding gains of the fund is taxed according to the general rules.

Excluding the gains of a portfolio management company arising from share holding in a foreign fund, in case of fund's fully liable shareholders' direct or indirect ownership on the fund's income exceeds the 5% of the fund's total gain, all of the full liable persons and companies are declared by the company acting as portfolio manager to the Revenue Administration. In case of failure to make such declaration, the company acting as portfolio manager shall be jointly and severally liable.

10.16.4 Non- Covered portfolio income:

The following types of income are excluded from the definition of portfolio income:

- Income from immovable property in Turkey
- Income from shares of companies, 51% or more of whose assets composes of immovable property, and forward transactions and option agreement on these shares
- Income from forward transactions and option agreement on the basis of commodity excluding payment reconciliation entailment
- Income from insurance agreements and gains of forward transactions and option agreement of insurance agreements

10.17 Incentives for Venture Capital Investment Funds

The qualifying income and corporate taxpayers can benefit from allowance from their income/ corporate tax base with respect to the funds that will be set aside to be invested into the Turkish venture capital investment partnerships or funds provided that the amount of fund set aside shall not exceed 10% of their taxable profits and 20% of their shareholders equity. The funds should be kept under special fund account in their balance sheet and should be allocated to the venture capital investment partnership or fund until the end of the year in which such funds are set aside.

10.18 Liquidation

Liquidation involves the conversion of assets into cash, settlement of liabilities and distribution of the surplus to the shareholders in proportion to their equity. Capital gains (asset realization value less book value) are subject to corporate income tax. Net liquidation proceeds (after tax) can be repatriated.

Liquidation is started by a court decision at the company's request or at the request of creditors and a fairly lengthy process lasting eighteen to twenty-four months.

10.19 Assessments, Payments and Tax Audits

The accounting period for tax purposes (tax year) is normally the calendar year. However, companies may have tax years different from the calendar year, appropriate to their business and subject to the prior approval of the Ministry of Finance.

Returns, Assessments and Payments

Corporate income tax return is due to be filed by the 25th day of the fourth month after the end of the accounting year (i.e. in case of the calendar year, the return is due by April 25th 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 the 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.

Delays in the payment of taxes are made subject to a monthly delay charge at the rate of 1.40% (effective from 19 October 2010). The Council of Ministers is authorized to amend the delay charge rate, at any time.

If a taxpayer fails to file a return, the tax authorities may do ex-officio assessment. In case of fraudulent transactions (specified in Article 359 of Turkish Tax Procedures Code), there may be imprisonment penalties charged from 18 months to three or five years in addition to the monetary tax penalties.

Advance corporate income tax payments must be made based on 20% of quarterly profits, as shown in the corporate income taxpayer's quarterly income statement.

The advance corporate income tax must be declared until the 14th of the second month following the quarterly period (i.e. within 44 days) and paid until the 17th day of the second month following the quarterly period. If the advance corporate income tax payments made during a year exceed the actual corporate income tax amount calculated on the annual corporate income tax return, the excess may be credited or paid back to corporate income taxpayer upon written application to tax office.

Role of Accounting Professionals and Tax Auditors

Until June 1989, there were no regulations in Turkey related to the accounting profession. The Law of Certified Public Accountancy And Sworn Certified Financial Consultancy (Law No. 3568) basically defines the profession and indicates the rights and responsibilities of accountants and tax auditors. Certain transactions and documentation require certification by sworn financial consultants (similar to certified public accountants in the US practice).

Inspections for tax purposes are carried out by government tax inspectors under the supervision of the Turkish Tax Inspection Board within the Ministry of Finance. Controls are strict and tax inspectors from the Ministry of Finance make spot checks of tax returns. Recently, tax inspections are mainly focused on related party transactions and transfer pricing applications as a result of the introduction of transfer pricing rules with effect from 1 January 2007.

The period of statute of limitations for tax inspections is five years. Accordingly, tax return of a particular fiscal year is not subject to inspection or additional assessment after the end of the fifth year following the year in which the tax liability was incurred.

11. Individual income taxation

11.1 Residence and Non-Residence

In general, individuals residing in Turkey are liable for personal income tax on all of their income derived in and outside Turkey. However, individuals who do not reside in Turkey but receive part of their income from Turkey are liable for income tax only on their income derived in Turkey. The former is known as **"full liability taxpayers"**, and the latter as **"limited liability taxpayers"**.

Expatriates who reside in Turkey for more than six months in one calendar year are generally considered as having permanent residence in Turkey and are taxed on their worldwide income. Foreigners who are in Turkey for a fixed period **on a temporary assignment** are not regarded as resident taxpayer in Turkey, even if they stay for more than six months.

In determination of the extent of Turkish tax liability of an expatriate, the relevant provisions of double tax treaties should also be considered.

In order for wages to be taxable in Turkey, the services must be performed or benefited in Turkey; the payment must be made in Turkey; or if the payment is made in a foreign country, it must be transferred to the account of a company in Turkey.

Personnel sent to Turkey by companies with headquarters outside Turkey in order to carry out assembly work or perform any other specific task are taxed on emoluments paid by the local employer covering their costs in Turkey. On the other hand, the emoluments that such personnel receive with respect to their position in their home country and paid by the head office abroad are not subject to Turkish withholding taxation. However, consideration (in the form of wages, salaries, attendance fees or other fees) received outside Turkey by chairmen, directors, other officials or the auditors of companies located in Turkey is considered to be earned in Turkey (and therefore subject to Turkish taxation) if it has been charged to the account of a company or individual resident in Turkey.

Regardless of their nationality, most Turkish residents, unless covered by an exemption, are subject to personal income tax. The emoluments of employees of some non-resident companies are exempt from income tax if they meet the following conditions:

- The employer is non-resident.
- The emoluments are paid in terms of a foreign currency.
- The emoluments are paid from gains of the employer outside Turkey and not deducted from the tax base in Turkey as a wage and salary expense.

The income tax exemption mentioned above is effectively applicable only to employees of liaison offices.

11.2 Taxable Income

Types of Income

Income tax is levied on the following types of income:

- Business profits (Commercial Income)
- Agricultural profits
- Salaries and wages (defined further below)
- Income from professional services (such as services rendered by lawyers, tax consultants, engineers etc.)
- Income from immovable property (mainly rental income)
- Income derived from securities (interests, dividends)
- Other income (capital gains and nonrecurring income)

Each income item is defined in the Income Tax Law.

All income arising from an individual's employment is subject to personal income tax. As a rule, all benefits received from the employer (in cash or in kind) fall within the definition of emoluments, however, there are some exceptions to this general rule (for example, equipment that the employer owns but assigns to the usage of the employee does not give rise to assessment).

Social security contributions (including contributions to be paid to the Unemployment Insurance Plan starting from 1 June 2000) are also allowable expenses, as well as insurance premiums for sickness, life (limited with 50% of the premium) and disablement. Premium deduction is limited with 15% of the salary and the total amount of annual deduction cannot exceed the annual minimum wage amount.

Based on Law no. 6327 which amended 'The Private Pension Savings and Investment System Law', deduction of premiums paid by employee to private pension system is not allowed anymore (effective from 1 January 2013). Instead, employees will have the right for government contribution for his/her paid contributions to the Private Pension Account. Accordingly, if an employee pays premiums to private pension system, there will be a government contribution equal to 25% of the premium paid. (The contribution upper limit to favour this incentive is the 25% of annual amount of minimum wage). The arrangement that has been related to the government contribution entered in force with effect from 1 January 2013.

New incentive system promotes staying longer within the system, and, accordingly, the insured parties have been enabled to earn government contribution and proceeds in relation with the determined periods and proportions. The government's contributions will be withdrawn if an insured individual cancels membership before three years. In order to earn full amount of government contribution, retirement must be won or leaving must occur due to compulsory reasons (i.e death or disablement).

Below are the determined periods and earnings:

- At the end of the third year, 15%
- At the end of the 6th year, 35%
- At the end of the 10th year, 60%
- In case retirement, death or disablement, 100%

An employee staying in the system between 3 to 6 years is entitled to 15% of the contribution. For 6 to 10 years, the entitlement is 35%. If an employee stays more than 10 years in the system, he is entitled to 60% of the contribution. Finally, if an employee gets retired or disabled or if he dies, he is entitled to 100% of the government contribution.

Additionally, employees are granted particular amount of subsistence allowance varying according to their spouse's working status and the number of their children.

11.3 Individual Income Tax Rates

The progressive income tax rates for salaries and other income (with effect from 1 January 2014) are shown in **Table 49** and **50**, below.

Table 49: Individual Income Tax Rates for Salaries (2014)

Taxable Income (TL)	Tax Rate (%)
Up to 11,000	15
Between 11,000 – 27,000	20
Between 27,000 – 97,000	27
Over 97,000	35

Table 50: Income Tax Rates for Other Types Of Income (2014)

Taxable Income (TL)	Tax Rate (%)
Up to 11,000	15
Between 11,000 – 27,000	20
Between 27,000 – 60,000	27
Over 60,000	35

11.4 Assessments and Payments

The tax year for individuals is calendar year and thus ends on 31 December. The filing and payment schedules vary according to the type of income. Generally individuals must file their income tax return by 25 March of the following year. The income tax must be paid in two equal installments by the end of March and July.

On the other hand, individuals earning commercial and/or professional service income are required to make advance income tax payments based on 15% of quarterly profits shown in their quarterly income statements. Advance income tax of a quarterly period is to be declared until 14th day of the second month following the end of the quarterly period and paid on the 17th day of the following second month of the end of the quarterly period.

If the advance income tax payments during a year exceed the actual income tax liability to be declared on annual individual income tax return, the excess may be credited against other tax liabilities. Any remaining tax can be paid back to the taxpayer upon written application to the tax office. If Tax Authorities find out that the difference between the actual advance income tax amount declared and the income tax amount which must have been declared is greater than 10% of the income tax that must have been declared, a tax loss penalty and delay interest shall be calculated on the missing portion of the declaration over 10%.

Income Tax is withheld at source from a wide range of payments, including employment income. Generally, employees and a number of other individuals are not required to submit annual individual income tax returns if the tax withheld at source constitutes the final tax burden.

If an individual's only source of income is his salary and he receives salary only from one employer, he does not have to file annual income tax return. If the individual works for more than one employer, the salaries received from the other employers have to be declared by an annual income tax return, provided that the salaries received from the other employers exceed TL 27,000 for the year 2014.

11.5 Tax Incentives for Business Angels

With the purpose of encouraging "private venture companies" through enabling their easier access to financing, certain tax incentives have been introduced for so-called "business angels" through addition of a provisional Article in Income Tax Code. (Provisional Article 82 which is in effect starting from 29 June 2012).

"Business Angels" can be defined as those individual investors who have knowledge/expertise and/or available financial funds and resources to invest in high-growth start-up companies, (i.e. venture capital investments). The Turkish Treasury is authorized through Law no. 6327 dated 13 June 2012 to regulate so-called "angel investments".

A certain number of tax reliefs have been provided for "business angels". Accordingly, the qualifying Turkish tax resident real person investors (i.e. business angels) may deduct 75% of the participation shares of qualifying Turkish resident joint stock companies (i.e. private venture companies) from their annual income tax base in the calendar year when such investment is made; provided that the shares are held for at least two years and the annual deduction is capped at TL 1,000,000.

In order to benefit from the incentives, the shares of joint stock companies should be acquired as from the date this provision entered into force (i.e. 29 June 2012)

In case the business angels participate in qualifying private venture companies whose projects are related to research, development and innovation, the applicable rate for deduction is 100% (instead of 75%) provided that those projects are supported in the last five years by the Scientific and Technological Research Council of Turkey, Small and Medium Enterprises Development Organization and the Ministry of Science, Industry and Technology.

If the incentivized investment amount cannot be benefited in the relevant year due to lack of annual income tax base, the residual can be carried forward to the following years. The carry forward amount can be revalued with the revaluation rates determined by Ministry of Finance.

The incentive will be applicable until 31 December 2017.

In order to benefit from tax incentives, the individual investors qualifying as "business angels" are required to obtain a licence from the Treasury.

12. Withholding taxes and double tax relief

Table 51: Major Withholding Tax Rates on Payments to Resident and Non-Resident Corporations

Types of Income	For residents (%)	For non-residents (%)
Income from professional services	20	20
Income from construction and repair work extending to more than one year:	3	3
Dividends:	15 ⁽¹⁾	15
Interest:		
- On foreign loans from foreign states, foreign banks and financial institutions	0	0 ⁽²⁾
- On Treasury Bills and Government Bonds	0	0
- On Turkish Lira and foreign currency deposit accounts (regardless of the length of maturity period)	15	15
Repo income	15	15
Capital gains on share certificates (provided that they are traded in the Borsa İstanbul and held for more than one year)	0	0
Rental Income from Immovable Property	-(3)	20
Income from intangible assets		
- on payments for the right to use (copyrights, patents, know-how etc.)	- (3)	20
- on payments for the transfer of ownership of copyrights, patents and trademarks	- (3)	20

⁽¹⁾ Dividends distributed by a Turkish company to another Turkish company are exempt from dividend withholding tax, however, dividends distributed by a Turkish company to real persons are subject to 15% dividend withholding tax.

⁽²⁾ Interest on foreign loans obtained from those financial entities that grant loans exclusively to the group companies are still subject to 10% withholding tax. In order to eliminate 10% withholding tax, the lenders must qualify as a financial institution in their country of residence and additionally they must be providing loans to the public, not only to the companies in a specific group.

⁽³⁾ Payment of royalties by a Turkish company to another resident Turkish company is not subject to income withholding tax. 20% withholding tax applies on royalty payments made by resident Turkish companies to non-residents.

12.1 Major Withholding Tax Rates

Withholding tax rates vary depending on the type of income. The Council of Ministers is authorized to amend the rates.

Major rates currently in effect are shown in **Table 51**.

12.2 Double Tax Treaty Relief

Turkey has Double Tax Treaties with 80 countries which provide relief from double taxation. Withholding tax rates are applied at the lower of local tax rate and treaty tax rate. **Table 52** shows the countries included in Turkey's tax treaty network as well as the reduced withholding taxes applied on dividend and royalty payments based on the relevant provisions of the Double Tax Treaties concerned.

Three new Tax Treaties (with Philippines, Kosovo and Mexico) have been signed however they are not yet in effect. Tax Treaty with Palestine has also been initiated by the parties however not yet in effect.

Table 52: Countries with which Turkey has Tax Treaties and Principal Withholding Tax (WHT) Rates^(*)

	Country of Recipient	Date of Entry into force	WHT Rates on dividends paid from Turkey ⁽¹⁾			WHT on
			Major Ownership	Major Rate (%)	Minor Rate (%)	Royalty (%)
1	Albania	1 January 1997	25%	5	15	10
2	Algeria	1 January 1997	-	12	12	10
3	Austria (Revised) ⁽²⁾	1 January 2010	25%	5	15	10
4	Azerbaijan	1 January 1998	-	12	12	10
5	Bahrain	1 January 2008	25%	10	15	10
6	Bangladesh	1 January 2004	-	10	10	10
7	Belarus	1 January 1999	25%	10	15	10
8	Belgium ⁽³⁾	1 January 1992	10%	15	15	10
9	Bosnia and Herzegovina	1 January 2009	25%	5	15	10
10	Bulgaria	1 January 1998	25%	10	15	10
11	Croatia	1 January 2001	-	10	10	10
12	Czech Republic	1 January 2004	-	10	10	10
13	Denmark	1 January 1991	25%	15	15	10
14	Egypt	1 January 1997	25%	5	15	10
15	Estonia	1 January 2006	-	10	10	5/10
16	Ethiopia	1 January 2008	-	10	10	10
17	Finland (Revised)	1 January 2013	25%	5	15	10
18	France	1 January 1990	10%	15	15	10
19	Germany (New) ⁽⁴⁾	1 January 2011	25%	5	15	10
20	Georgia	1 January 2011	-	10	10	10
21	Greece	1 January 2005	-	15	15	10
22	Hungary	1 January 1993	25%	10	15	10
23	India	1 January 1994	-	15	15	15
24	Indonesia	1 January 2001	25%	10	15	10
25	Iran	1 January 2006	25%	15	15	10
26	Ireland	1 January 2011	25%	5/10	15	10
27	Israel	1 January 1999	-	10	10	10
28	Italy	1 January 1994	-	15	15	10
29	Japan ⁽⁵⁾	1 January 1995	25%	10/15	15	10
30	Jordan	1 January 1987	25%	10	15	12
31	Kazakhstan	1 January 1997	-	10	10	10
32	Kuwait	1 January 1997	-	10	10	10
33	Kyrgyzstan	1 January 2002	-	10	10	10
34	Latvia	1 January 2004	-	10	10	5/10
35	Lebanon	1 January 2007	15%	10	15	10
36	Lithuania	1 January 2001	-	10	10	5/10
37	Luxembourg	1 January 2006	25%	10	15	10
38	Macedonia (FYROM)	1 January 1997	25%	5	10	10
39	Malaysia	1 January 1997	25%	10	15	10
40	Moldova	1 January 2001	25%	10	15	10
41	Mongolia	1 January 1997	-	10	10	10
42	Morocco	1 January 2007	25%	7	10	10

Table 52: Countries with which Turkey has Tax Treaties and Principal WHT Rates - Continued^(*)

	Country of Recipient	Date of Entry into force	WHT Rates on dividends paid from Turkey ^(*)			WHT on Royalty (%)
			Major Ownership	Major Rate (%)	Minor Rate (%)	
43	Netherlands ⁽⁶⁾	1 January 1989	25%	15	15	10
44	Norway (Revised)	1 January 2012	20%	5	15	10
45	Oman	1 January 2011	15%	10	15	10
46	Pakistan	1 January 1989	25%	10	15	10
47	People's Republic of China	1 January 1998	-	10	10	10
48	Poland	1 January 1998	25%	10	15	10
49	Portugal	1 January 2007	25%	5	15	10
50	Qatar	1 January 2009	25%	10	15	10
51	Romania	1 January 1989	-	15	15	10
52	Russia	1 January 2000	-	10	10	10
53	Serbia and Montenegro	1 January 2008	25%	5	15	10
54	Singapore	1 January 2002	25%	10	15	10
55	Slovakia	1 January 2000	25%	5	10	10
56	Slovenia	1 January 2004	-	10	10	10
57	South Africa	1 January 2007	25%	10	15	10
58	Saudi Arabia	1 January 2010	20%	5	10	10
59	South Korea	1 January 1987	25%	15	15	10
60	Spain ⁽⁷⁾	1 January 2004	25%	5	15	10
61	Sudan	1 January 2006	-	10	10	10
62	Sweden	1 January 1991	25%	15	15	10
63	Syria	1 January 2005	-	10	10	10/15
64	Tajikistan	1 January 2002	-	10	10	10
65	Thailand	1 January 2006	25%	10	15	15
66	Tunisia	1 January 1988	25%	12	15	10
67	Turkish Republic of Northern Cyprus	1 January 1989	25%	15	15	10
68	Turkmenistan	1 January 1998	-	10	10	10
69	Ukraine	1 January 1999	25%	10	15	10
70	United Arab Emirates	1 January 1995	25%	10	12	10
71	United Kingdom	1 January 1989	25%	15	15	10
72	United States of America	1 January 1998	10%	15	15	5/10
73	Uzbekistan	1 January 1997	-	10	10	10
74	Yemen	1 January 2011	-	10	10	10
75	New Zealand	1 January 2012	25%	5	15	10
76	Canada	1 January 2012	10%	15	15	10
77	Switzerland	1 January 2013	20%	5	15	10
78	Australia	1 January 2014	25%	5	15	10
79	Malta	1 January 2014	25%	10	15	10
80	Brazil	1 January 2013	25%	10	15	10/15

^(*) Each Tax Treaty may have different conditions which need to be satisfied for the purpose of application of the reduced dividend and royalty withholding tax rates. Therefore, we advise that the text of the Tax Treaties as well as the protocols attached to the Treaties be thoroughly examined and professional advice should be obtained before the application of the reduced rates.

¹ If the Treaty WHT rate is greater than the local dividend WHT rate of 15%, the local dividend WHT rate which is lower shall be applicable.

² Provided that the Austrian resident company benefits from participation exemption on dividends received from Turkish Companies, the WHT rate is reduced to 5% as per Article 10-2/b-(i) and Article I of Final Protocol.

³ Provided that the Belgium resident company benefits from participation exemption on dividends received from Turkish Companies, the WHT rate is reduced to 10% as per Article 4 of the Protocol.

⁴ The Turkish-German Double Tax Treaty had been abolished effective from 1 January 2011. However, this Treaty has been revised by the parties and the revised new Treaty was signed on 19 September 2011 and is in force retroactively with effect from 1 January 2011.

⁵ The dividend WHT rate will apply as 15% where the amount of the Turkish tax imposed on the income of the company paying dividends is less than 40 per cent of such income which is derived in the accounting period ending immediately before the date when such dividends become payable, as per Article 6 of the Protocol.

⁶ The major rate can be applied at 10% under certain conditions. Please refer to the protocol of the Tax Treaty.

⁷ As per Article 10/5 of the Treaty and Article 3 of the Protocol, 5% WHT rate will apply on dividends where the profits out of which the dividends are distributed have been subject to tax in Turkey, where they have not been exempted and are subject to the full rate of corporation tax (Kurumlar Vergisi).

Under Turkey's Double Tax Treaties, income derived from foreign countries is either exempted from Turkish tax ("exemption method") or double taxation is eliminated through tax credit mechanism ("credit method"). Accordingly, foreign tax paid in treaty countries can be credited against the Turkish tax amount calculated. For detailed information, applicable tax treaties should be referred to.

Among the benefits offered by the tax treaties are relief from Turkish withholding taxes on dividends and royalties. Treaty rates are shown in **Table 52**. **Table 53** below compares some non-treaty rates with the rates generally offered under double tax treaties.

12.3 Unilateral Relief

In the case of countries that do not have a tax treaty with Turkey, tax paid in foreign countries on income derived by fully-liable taxpayers can be deducted from the annual individual income tax or corporate income tax to be paid. The amount of foreign tax credit cannot exceed Turkish income tax or corporate income tax amount calculated on earnings derived from the foreign country.

12.4. Tax Information Exchange Agreements

In addition to the double tax treaties, Turkey also has Tax Information Exchange Agreements signed with certain countries, as indicated in **Table 54** below:

Table 53: Comparison of Non-Treaty (Local) Rates With the Rates Generally Available Under Double Tax Treaties ^(*)

Type of Payment	Non-Treaty Rate (%)	Treaty Rate (%)
Commercial (such as banking or insurance charges, commissions, storage or transportation payments, production payments or cross charges)	0	0
Professional (such as engineering, consulting or tuition payments, technical or assembly work):		
• If the period of presence in Turkey is shorter than 183 days per year	20	0
• If the period of presence in Turkey is 183 or more days per year	20	20
• If work is carried out outside Turkey	20	0
Royalties (such as payments for licenses, know-how and intangible rights):		
• For contracts in the form of rents (entitling to the right of use)	20	10
• For contracts in the form of transfers or assignments of rights	20	10
(*) Important: The specific provisions of the relevant Double Tax Treaty must always be checked and professional advice must be sought prior to the application.		

Table 54: Tax Information Exchange Agreements

Tax Information Exchange Agreements	
Contracting State	Effective From
The Government of Jersey	11 September 2013
The Government of Bermuda	18 September 2013

13. Other taxes

13.1 Value Added Tax

Value Added Tax (VAT) is levied on goods delivered and services rendered in connection with commercial, industrial, and agricultural activities and professional services in Turkey, as well as on goods imported and professional services received from abroad. Persons who deliver such goods or perform such services are liable for VAT. In general, VAT arises when a service is performed, goods are delivered or an invoice is issued prior to delivery of goods or, in the case of imports, when import clearance document is filed with the Customs Authority.

Major exemptions are as follows²⁴:

- Exports of goods and services
- Deliveries of sea, air and rail transport vehicles to the sea, air and rail transportation operators, as well as deliveries and services related to manufacturing of such vehicles (including rectification, repair and maintenance services)
- Services rendered for vessels and aircraft at harbors and airports
- International transport
- Diplomatic deliveries
- Certain types of imports specified in the Customs Duties Legislation
- Specified supplies of goods and services for educational, cultural, social, military purposes
- Services performed within Turkish Free Trade Zones
- Tax-free mergers and de-mergers realized according the relevant provisions of the Corporate Income Tax Law (The assets pass to the transferee VAT free, no correction is needed for the input VAT incurred at the time of purchasing the assets. In case of tax free mergers, the VAT carried forward by the transferor until the day of merger also passes to the transferee, so as to be offset against the output VAT of the transferee.)

- Transportation of crude oil, gas and other by-products through cross-border pipelines
- Deliveries of goods and services to those dealing with oil exploration activities within the scope of Petroleum Law.
- Deliveries of machinery and equipment to investors within the scope of an investment incentive certificate.

VAT rates are shown in **Table 55**. VAT incurred on purchases of inventory, fixed assets, supplies and other goods and services are recorded as input VAT and offset against the output VAT calculated on deliveries of goods and services. When the output VAT calculated is greater than the input VAT paid/ incurred on purchases, the output VAT in excess of the input VAT is paid to tax office as "VAT Payable".

In cases when input VAT paid/incurred on purchases is greater than the output VAT calculated, the input VAT in excess of the output VAT is carried forward to the following months so as to be offset against the output VAT to be generated through sales in the following months.

Table 55: Value Added Tax Rates

Types of Supply	Rate (%)
Most supplies (including services)	18
Basic foodstuffs, Books, Education Services by Private Schools, Touristic Services	8
Agricultural products sold as raw materials, newspaper, used cars	1
Delivery of the textile and leather products	8
Luxury goods and entertainment services rendered by discos, bars etc.	18
Medical products and devices	8
Automobiles	18

²⁴ Although all the listed transactions above are categorized in the "exemptions", some of the transactions listed are actually zero rated. (The confusion is because Turkish legislation calls both zero rated and exempt transactions as exemption). For example exports of goods and services are actually zero rated. Thus, the input tax incurred in the transaction is given as credit and on demand it is also refunded.

VAT Rates Applied to Delivery of Houses

VAT rate on sale of residential houses with an area of up to 150 square meter (m²) net (sold by commercial enterprises) used to be 1% while the VAT rate applicable to those houses with an area above 150m² was 18% (until 1 January 2013). However, with the announcement of the Council of Minister's Decree No. 2012/4116 (effective from 1 January 2013), VAT system on sale of residential houses has been changed. The VAT rate for residential houses of less than 150 m² has been increased based on the unit m² value of the house. New VAT system is applied to the sale of houses;

- whose construction permit is received after 1 January 2013
- that have been constructed within the metropolitan municipality border line
- that have been constructed out of reserve building land and risky areas
- that have been classified as luxury or first class.

The new VAT rates are indicated in **Table 56**.

Table 56: VAT Rates on Residential Houses

Residential House Area	Unit m ² Value (TL)	Previous VAT Rate	New VAT Rate
Less Than 150 m ²	Less Than 500	1%	1%
Less Than 150 m ²	500 – 1,000 (exclusive)	1%	8%
Less Than 150 m ²	1,000 and above	1%	18%
More Than 150 m ²	N/A	18%	18%

Reverse Charge VAT Mechanism

If certain services (e.g. professional services like engineering, legal consultancy, design etc.) from non-residents are received or benefited by a resident company in Turkey under certain conditions defined by the VAT legislation, VAT is required to be paid by the resident company purchasing/importing the service under the “reverse charge mechanism” and monthly Reverse Charge VAT return (VAT Return No. 2) is required to be filed by the company for the monthly period in which the transactions are realized.

Turkish resident company treats the Reverse Charge VAT paid as an Input VAT and offsets it against the output VAT declared on the Regular VAT return (VAT Return No. 1). However, if there is no sufficient output VAT to offset, the VAT paid on a reverse charge basis constitutes a cash-flow burden on the Turkish company that has purchased the services concerned.

Table 57: Special Consumption Tax Rates

List No.	Types of Products	Taxable Event	SCT Rates
List I (Sub-list A)	Petroleum products, natural gas, LPG, petrol derivatives	Importation and production of the goods concerned	Fixed amount depending on the Customs Tariff Position Number (CTPN) of the product
List I (Sub-list B)	Solvent and various types of solvent derivatives (toluen, exxsol, solvent- naphta etc.)	Importation and production of the goods concerned	Fixed amount depending on the CTPN of the product
List II	Vehicles <u>subject to registration</u>	First Acquisition	Proportional Tax: Rates vary between 0.5-145% depending on the CTPN of the vehicle
	Vehicles <u>not subject to registration</u>	Importation, or delivery of the vehicles by its manufacturer, auction sale of the vehicles before SCT is levied on	
List III (Sub-list A)	Alcoholic drinks, non-alcoholic beverages	Importation or delivery of the goods by its manufacturer and auction sale of the goods before SCT is levied on	Higher of proportional tax/ minimum fixed amount per liter (varying depending on the CTPN) (Currently, only minimum fixed amounts are applied since proportional rate is zero for alcoholic drinks, except beer)
List III (Sub-list B)	Cigarettes, tobacco products	Importation or delivery of the goods by its manufacturer, auction sale of the goods before SCT is levied on	Higher of proportional tax and minimum fixed amount (varying depending on the CTPN) applied on the basis of retail sales price to final consumers
List IV	Those consumer goods which are used to be subject to high VAT rate (26%) prior to 1 August 2002 such as cosmetics, perfumes, fur, air-conditioners, refrigerators, receivers, recorders and various electronic appliances etc.	Importation or delivery of the goods by its manufacturer, auction sale of the goods before SCT is levied on	Proportional tax: 3%, 6.7%, 20% or 25% depending on the CTPN of the goods

13.2 Special Consumption Tax (SCT)

SCT is an indirect tax (excise tax) which has been introduced with effect from 1 August 2002. Unlike VAT, SCT is applied only at once by the party that becomes liable as a result of occurrence of the taxable event for the particular types of products as specified in the lists attached to SCT Law. Thus, SCT constitutes a cost for those parties who are not held liable to calculate and declare such tax however, incur the cost of SCT on their purchases from those taxpayers who are liable to calculate SCT on their deliveries.

SCT is applicable to only certain types of goods specified and enumerated in the lists attached to the SCT Law. There are four lists of products attached to the SCT Law.

List I: Natural gas, petroleum products and various kinds of solvent products and by-products

List II: Vehicles

List III: Cigarettes, tobacco products, alcoholic drinks, non-alcoholic beverages

List IV: Durable consuming goods and luxury goods such as cosmetics, perfumes, white goods like refrigerators, washing machines etc., electronic appliances like recorders, television etc.

The Council of Ministers is authorized to change the rates of SCT, impose fixed amounts of SCT instead of proportional taxation in accordance with the SCT Law. Application of SCT and the general ranges of SCT rates are indicated in the following table (it should be noted that the rates and fixed amounts are frequently subject to change by the Council of the Ministers).

13.3 Property Tax

Property tax is levied on buildings (0.1% for houses; 0.2% for business premises) and land (0.1% for undeveloped/regular land; 0.3% for parceled land) located in regular districts based on their annual value in Turkey. These rates are applied as twice in the districts which are located in metropolitan municipality border line. There is a partial exemption at a rate of 25%, if the related property is used as residence.

13.4 Inheritance and Transfer Tax

Inheritance and transfer tax is levied on free transfers such as gifts and inheritances and varies between 1% and 30%, depending on the amount of the transfer concerned and the way the property is transferred (as inheritance or gift). The inheritance and transfer tax rates to be applied to inheritance and free transfers for the year 2014 are provided in **Table 58** below:

Table 58: Inheritance and Transfer Tax Bases and Rates (2014)

Inheritance/ Transfer Tax Base	Inheritance Tax Rate (%)	Transfer (Gift) Tax Rate (%)
First TL 190,000	1	10
Next TL 440,000	3	15
Next TL 970,000	5	20
Next TL 1,800,000	7	25
Above TL 3,400,000	10	30

13.5 Stamp Tax

Stamp taxes are levied on a wide range of transaction documents. The maximum limit of stamp tax to be imposed per document is **TL 1,545,852.40 (for 2014)**.

A brief summary of stamp taxes relating to major business transactions are shown in **Table 59** below:

Table 59: Stamp Tax on Selected Documents (2014)

Taxable Document	Stamp Tax Rate
Contracts with a monetary amount	0.948% of the contract amount ^(*)
Letters of guarantee	0.948% of the amount ^(*)
Payrolls	0.759% of the gross salary

(*) The stamp tax amount per document may not exceed TL 1,545,852.40 (applicable for the year 2014- this limit is subject to change every year).

13.6 Motor Vehicle Tax

Motor Vehicle Tax is levied annually on motorized vehicles and boats, according to a specific tariff. The individuals and the entities registered as the owners of motor vehicles are obliged to pay motor vehicle tax. The payments are made in two equal installments in January and July of each year. The amount of tax varies depending on the age, engine capacity and type of vehicle or boat.

13.7 Bank and Insurance Transaction Tax

Bank and Insurance Transaction Tax (BITT) is levied on any favorable amount which arises from the transactions carried out by banks and insurance companies in accordance with Articles 28-33 of Law No.6802. The general rate of BITT is **5%** of the favorable amount received by a bank or insurance company as a result of a transaction subject to BITT. The BITT rate is applied as **1%** on the following transactions:

- a) Favorable amounts received from deposit transactions among banks,
- b) Favorable amounts received from money market transactions between banks and brokerage companies operating according to the Capital Market Law,
- c) Favorable amounts received as a result of purchase and sale as well as repurchase ("repo") transactions of government securities,
- d) Favorable amounts received as a result of sale of government securities prior to maturity,
- e) Favorable amounts received as a result of repurchase and resale transactions of domestic bonds issued at local currency and lease certificates (also known as "sukuk"),
- f) Favorable amounts received as a result of sale of domestic bonds issued at local currency and lease certificates (also known as "sukuk") prior to maturity.

The Council of Ministers is authorized to amend these rates.

Certain transactions are exempt from BITT (as per Article 29 of Law No. 6802)

There is no longer BITT applied on foreign currency sales since the BITT rate used to be applied at 0.1% on foreign currency sales has been reduced to zero with effect from 1 May 2008.

13.8 Special Communication Tax

Special communication Tax is governed by Article 39 of Law No. 6802.

Companies which sign concession agreements with the Telecommunications Authority, pursuant to the Telegram and Telephone Law, or establish or operate telecommunications infrastructure or provide telecommunications services via general license or authorization granted by the Telecommunications Authority are required to pay special communication tax.

The following transactions are subject to special communication tax.

- a) Every kind of mobile telecommunication operation services (including sales of prepaid cards): **25%**
- b) Radio and television broadcasting services via cable and satellite platforms: **15%**
- c) Cabled, wireless and mobile internet service providing activities: **5%** (effective from 1 March 2009)
- d) Other telecommunication services (i.e. those outside the scope of the services defined in a), b) and c) above): **15%**

Special communication tax return is filed on a monthly basis and the tax is paid on the 15th of the following month.

Special communication tax is treated as non-deductible expense and it cannot be offset against other taxes.

14. How can Deloitte help?

If you are considering opening up a new affiliate, starting a new office, making an investment, acquiring a partner or establishing a new partnership in Turkey or if you have just done so, Deloitte Turkey can be your partner in achieving this challenging task in all aspects of your requirements.

Our experienced professionals can:

- Understand your specific business needs and advise on how to adopt to management needs in the Turkish market
- Advise on Turkish tax matters
- Assist you in all stages of establishing a fully functioning company
- Help you set up your organization in a way that can succeed in the dynamics of the Turkish market
- Advise on statutory, corporate and regulatory compliance
- Advise on antitrust & unfair competition

We can provide you services in the following core areas:

- Market assessment, go-to-market strategy development, and company formation
- Location selection
- M&A advisory
- Audit services, accounting and financial reporting advisory
- Tax services

14.1. Market Assessment, Go-to-Market Strategy Development, and Company Formation

We help investors define and analyze their target market and design their go-to-market strategies. Our team performs an assessment of the market attractiveness, with a special focus on underlying drivers, trends and competitive environment. Based on the analysis, we can help you define the right go-to-market strategy including strategic entry option, sales channel structure, brand positioning, etc.

We provide services with regards to establishment of new companies (joint stock and limited liability), setting up of branches and liaison offices, and structuring joint ventures and consortiums. We also provide assistance on restructuring and reorganizations.

14.2. Location Selection

We can assist in the selection of the most appropriate location for establishment of the production facility that will enable maximizing benefits while reducing risks through an in-depth analysis of alternative locations based on critical location factors such as real estate, infrastructure, workforce, logistics, regulations and incentives, etc.

14.3. M&A Advisory

Target Assessment: We explore the universe of potential targets and screen them against the buyers' investment criteria. By prioritizing the targets that are worthy of deeper consideration, we develop acquisition pathways to help you to achieve your strategic objectives.

Our team performs a quick initial review of the target through examining its market, customers and operations to evaluate the associated opportunities and risks. We help our clients in establishing pre-deal strategy, pre-validating the target's business plan and identifying the likely deal breakers.

Optimal match is critical. We initiate introductions and facilitate the meetings between the parties and help develop a strategy to engage the target's executives in productive discussions while advising on next steps.

M&A Advisory: Deloitte is a leading M&A advisory firm based in Turkey and focused on the Turkish market with its experienced M&A professionals. We provide full-scope financial advisory and investment banking services to a broad range of clients in cross-border transactions on sell-side and buy-side mandates during the entire lifecycle of a deal.

Financial Due Diligence: Successful acquirers will need a clear, concise and speedy analysis on key transaction issues. Our financial due diligence team develop a customized approach based on deal requirements in order to complete a focused due diligence on the target to confirm price and funding and to identify issues that require reflection in the sale and purchase agreement and completion accounts. Our financial due diligence team serves strategic buyers and private equity investors at buy-side due diligence assignments and local sellers for vendor due diligence.

Tax Due Diligence: Our tax specialists in Turkey understand the increasingly complex tax and commercial laws and practices of the local market. With our knowledge and experience, we can help you to assess and minimize the cost of your investment decisions. Our tax due diligence team provides a thorough overview and analysis of any potential material tax risks and target's main tax attributes and proposes recommendations as to the risk mitigations and comments on the recoverability of available tax assets.

Commercial Due Diligence: The value potential in a deal is extracted mostly by a thorough analysis of the target's market, competitive environment, pricing strategy, customer base, operations and management. Our commercial due diligence team, in cooperation with respected internal and external subject matter experts, provides detailed analysis of the market dynamics, assessment of the competitive positioning and strategic strengths, analysis of the customer profile, perceptions and relationships, capabilities of the management and operating model, assessment of business plan and forecast assumption achievability, upside potential analysis and definition of preliminary strategic initiatives for post-closing period.

Regulatory Due Diligence: The negotiation of the transaction requires the intervention of a legislative expert as numerous legal pitfalls need to be tackled as early as at the negotiation table. Our regulatory team advises both sellers and buyers in drafting and negotiating the transaction contracts such as share purchase and shareholders agreements. Our regulatory advice is a fully integrated service with other transaction services and is not isolated of the commercial aspects of the transaction. We also help investors in conducting regulatory due diligence on the target as well as sellers for vendor due diligence exercise specifically focusing on analysis of legal risks, review of corporate structure, capitalization and contracts, review and assessment of the assets & liabilities, analysis on the litigation involved, compliance requirements, regulatory aspects of borrowings, guarantees and financial liabilities and employment and health & safety regulations.

IT Due Diligence: Solid IT infrastructure and efficient business applications are critical for a successful acquisition and post-closing strategy. Our team is experienced in serving both private equity and trade buyers in transactions and provides a comprehensive analysis of the target's business applications and IT infrastructure; an assessment of IT functionality and of supply of resources; an evaluation of IT investments and on-going IT projects as well as an assessment of IT governance and risk mitigation. We have a proven methodology for assessing control gaps and suggesting action plans to remediate.

HR Due Diligence: By identifying and evaluating human capital risks and opportunities, Deloitte helps investors create value. We specifically evaluate the current HR structure of the organization, evaluate current HR processes and analyze HR function effectiveness and remuneration strategy and quantify HR and identify cost and hidden liabilities as well as synergy opportunities.

14.4. Audit Services, Accounting and Financial Reporting Advisory

Audit Services: Our team consists of experienced and specialized professionals equipped with solid knowledge and long-standing experience in auditing. Our services include independent audit, limited review, agreed-upon procedures, financial statement preparation service and compliance audit.

Accounting and Financial Reporting

Advisory: Our Accounting Advisory teams of professionals provide value-added accounting and financial reporting advisory services combining quantitative skills, deep technical accounting and project management experience. The services include advisory services for transition to and implementation of Turkish Financial Reporting Standards, financial reporting services, due diligence, IPO services, temporary personnel supply services and training.

14.5. Tax Services

Our tax experts providing comprehensive tax consulting services can guide you in choosing the appropriate legal corporation structure to meet your specific needs. They can also support in completing all legal administrative work required in the incorporation phase of the company.

Deloitte, being a sector oriented and specialized tax expert company, is able to respond easily to daily changes of the relevant legislation, and imperceptible risks/opportunities created instantly by market conditions. You can find further details below about our comprehensive tax consulting services.

14.5.1 Corporate Income Tax Certification (Compliance) Services

What is Tax Certification (Compliance)?

The main purpose of tax certification is to audit, ensure and secure the accuracy of income and corporate income tax bases. In tax certification services, financial statements and tax returns are audited and certified within the framework of tax legislation and Turkish accounting principles. Tax certification reports are submitted to the tax offices within two months following the submission of annual corporate income tax return.

What are the advantages of tax certification services?

- The likelihood of being included in the scope of tax inspection is decreased
- Avoidance of erroneous applications on time
- Efficient consultancy
- Value adding service

Deloitte tax compliance services include:

- Identification of client needs
- Comprehensive audit
- Tax computations and controlling
- Reporting
- Tax consultancy

14.5.2 International Tax Advisory Services

- International tax planning advisory
- Interpretation and examinations of tax treaties
- Advisory on "Double tax treaties and elimination of double taxation"
- Tax Advisory on international disputes, and intermediation with the Ministry of Finance
- Evaluation of international tax treatment for Private Projects
- Advisory on tax incentives for foreign investors
- Advisory on tax incentives for outbound investments
- Taxation of profit distribution in foreign partnerships
- Tax advisory on international leasing agreements
- Tax advisory on Franchising and Benchmarking
- Tax advisory on corporate income taxation for non-residents
- Tax aspects of "International Holding" companies
- Tax aspects of trademark, patent, license fee payments
- Tax advisory on borrowing from abroad

14.5.3 Mergers and Acquisitions

Instead of starting from scratch, you might prefer to acquire a Turkish company already working in your field of expertise. Our mergers and acquisitions professionals can assist you in this venture.

We have significant M&A experience in a wide range of industries. Therefore, we can understand your specific M&A needs. We can guide you in all stages of the transaction including negotiations if needed.

Our Services on mergers and acquisitions including Tax Due Diligence, Acquisition Structuring and Post Acquisition Restructuring achieve the following goals:

- Developing alternative deal structures that maximize long-term returns
- Considering the post-acquisition structuring alternatives
- Identifying tax and accounting issues associated with cross-border transactions
- Surfacing "deal breakers" early in the process, before significant resources are expended
- Quantifying the amounts, timing and uncertainties around expected future cash flows
- Identifying the issues to effect the purchase price
- Suggesting strategies to improve operating results and after-tax cash flows
- Helping clients manage the newly acquired operation for effective tax management
- Identifying the alternatives in case of an exit

14.5.4 Global Employer Services / Taxation of Individuals

Personal income tax

Successful tax planning relies on a sensitive balance between your income and potential tax amount. Today, taxation of securities and other income have a complex and flexible structure. Thus investors are forced to revise and alter their investment decisions.

The crucial point is to make decisions on time and navigate appropriately. Through the global contacts provided by the Deloitte network, Deloitte Turkey aims to provide worldwide assistance wherever your business requires it.

Turkish Taxation of Foreign Nationals and Global Employer Services

From compliance with labor and tax laws in various countries to the fairness and appropriateness of policies and procedures, the challenges can be staggering. This is why many companies in Turkey rely on our innovative strategies for international compensation, incentive, medical, and retirement plans, among many others.

14.5.5 Indirect Tax Services

Our indirect tax advisory services:

- VAT Compliance, Consultancy and Risk Analysis
- Preparation of VAT Refund Certification Reports
- VAT Applications on Off Shore Transactions
- Customs Procedures and Import Taxes
- Stamp Tax Applications and Risk Analysis
- Resource Utilization Support Fund Consultancy
- Special Consumption Tax Consultancy
- Consultancy about Banking Insurance Transactions Tax applications

14.5.6 Transfer Pricing Services

Are you aware about your transfer pricing risks and your documentation obligations arising from the Turkish Transfer Pricing Rules?

Deloitte Turkey transfer pricing practice is a part of a global network of tax professionals and economists experienced and specialized exclusively in transfer pricing services. The Deloitte global network has an extensive presence throughout North America, Europe, Asia, Australia and Latin America, and brings a truly international and specialized perspective to transfer pricing issues and trends. As a result, you have the access to the global resources you need, wherever you need them. We employ a unified approach to understanding your organization's business objectives and aligning our services appropriately.

Deloitte Turkey have the experience in providing transfer pricing services within a wide range of industries, including:

- Life sciences and health care
- Energy and resources
- Manufacturing (automotive, chemical etc.)
- Financial services industry (banks, pension funds etc.)
- Technology, Media and Telecommunications
- Consumer Business

Deloitte Turkey Transfer Pricing Practice covers all parts of the transfer pricing spectrum, providing the following services through a full time dedicated interdisciplinary team exclusively specialized in transfer pricing:

1. Local transfer pricing documentation services
2. Global transfer pricing master file documentation studies
3. Planning for the right transfer pricing policy
4. Analysis of transfer pricing implications of different business structures (toll manufacturing, stripped risk distributor, "sogo shosha", etc.)
5. Sector-specific transfer pricing risk analyses
6. Review of intra-group services and headquarter cost allocation studies
7. Transfer pricing audit defense support
8. Advance pricing agreements (APAs)

14.5.7 Tax and Customs Litigation Consultancy Services

Authorized customs consultancy services

- Consultancy services during the Tax Investigation Processes
- Tax Disputes
- Tax Court Cases
- Consultancy about management of dispute resolution against the Tax Administration (Amendment, Application Through Complaint, Reduction in Penalties, Repentance and Adjustment)
- Participation in the Customs Processes
- Consulting about management of dispute resolution against the Customs Administration (Amendment, Appeal, Application to the Judiciary, Case Consultancy)
- Consulting Services on tax administration affairs

14.5.8 Business Process Solutions (BPS)

In today's markets, companies have to concentrate on their primary field of operation for excellence in their business.

Therefore, companies rely on outsourcing services for the processes that are not directly related with their main business lines to increase the quality while reducing the overhead.

Our business process solutions include:

• Accounting / Finance

- Accounting / Bookkeeping Services
- Accounting Review and Tax Return Review Services
- Accounting / Finance / Payroll Loan Staff Services

• Tax Compliance

- Tax Return Preparation Services
- Tax and Social Security Registration and Notification Services

• Reporting

- Reporting Services
- Tax and Accounting Compliance Consultancy for the ERPs

• Payroll Outsourcing

- Payroll Services

14.5.9 Customs and Foreign Trade Consultancy

Customs and foreign trade advisory services:

- Customs and Foreign Trade Transactions Audit and Determination of the Risks
- Advisory Services on Technical Customs Issues like Classification of the Goods, Origin, and Customs Valuation
- Advisory Services on Customs Procedures Including Customs Procedures with Economical Impact like Inward Processing, Outward Processing, Temporary Importation, and Bonded Warehouses
- Advisory Services on Indirect Taxes and Funds in Foreign Trade
- Disputes on Customs and Foreign Trade, Penalties and Litigation Management
- Planning, Documentation, Project and Pre-Authorization Services Regarding Investments
- Customs and Foreign Trade Cost Analysis
- Customs Brokers and other Third party Relation Management
- Legislation Support and Firm Specific Trainings
- Determination of entries and exits to/from bonded warehouses
- Determination of stocks of the bonded warehouses for six-month periods
- Pre-examination of bonded customs warehouse application files
- Determination of the compliance of the transfer of bonded customs warehouses
- Determination of the A.TR and EUR.1 certificates' compliance to the related legislation prepared by Authorized Exporters
- Determination of the origin of the goods subject to the application of Authorized Exporter certificate
- Determination of the goods' compliance subject to temporary importation procedure for the reason of extension of the duration
- Determination of the goods' compliance subject to inward processing procedure for the reason of extension of the duration
- Determination of the goods compliance subject to end use procedure
- Determination of the exports resulted from the private goods produced by using the temporary imported goods under the complete exemption
- Determination of acquittal for the goods subject to procedure under customs control

15. Foreign Economic Relations Board of Turkey (DEİK)

DEİK, the gateway of the Turkish private sector to the world, was founded to monitor and develop Turkey's economic, commercial and industrial and financial relations with foreign countries and international organizations. It has 99 founding institutions, representing all sectors of the Turkish private sector.

DEİK operates through Bilateral Business Councils which are established by a cooperation agreement signed with foreign counterpart. As of 2014 there are 119 business councils operating under DEİK umbrella.

Headquartered in Istanbul, DEİK has representatives in 149 Chambers of Commerce and/or Industry in more than 70 industrial cities in Turkey as well as in the Turkish Republic of Northern Cyprus.

Turkish – African Business Councils

Turkish – Algerian Business Council
Turkish – Angolan Business Council
Turkish-Cameroonian Business Council
Turkish – Egyptian Business Council
Turkish – Ethiopian Business Council
Turkish - Gambian Business Council
Turkish – Ghanaian Business Council
Turkish-Ivory Coast Business Council
Turkish – Kenya Business Council
Turkish – Libyan Business Council
Turkish – Mauritanian Business Council
Turkish – Moroccan Business Council
Turkish – Nigerian Business Council
Turkish – Rwandan Business Council
Turkish – South African Business Council
Turkish – Sudanese Business Council
Turkish – Tanzania Business Council
Turkish - Tunisian Business Council
Turkish – Ugandan Business Council

Turkish – European Union Business Councils

Turkish – Austrian Business Council
Turkish – Belgian Business Council
Turkish – British Business Council
Turkish – Bulgarian Business Council
Turkish – Czech Business Council
Turkish – Danish Business Council
Turkish – Dutch Business Council
Turkish – Estonian Business Council
Turkish – Finnish Business Council
Turkish – French Business Council
Turkish – German Business Council
Turkish – Greek Business Council
Turkish – Hungarian Business Council
Turkish – Irish Business Council
Turkish – Italian Business Council
Turkish – Latvian Business Council
Turkish – Lithuanian Business Council
Turkish – Luxembourg Business Council
Turkish – Maltese Business Council
Turkish – Norwegian Business Council
Turkish – Polish Business Council
Turkish – Portuguese Business Council
Turkish – Romanian Business Council
Turkish – Slovak Business Council
Turkish – Slovene Business Council
Turkish – Spanish Business Council
Turkish – Sweden Business Council

Turkish – American Business Councils

Turkish – American Business Council
Turkish - Argentinian Business Council
Turkish - Brazilian Business Council
Turkish – Canadian Business Council
Turkish - Chilean Business Council
Turkish – Colombian Business Council
Turkish - Equatorial Business Council
Turkish - Mexican Business Council
Turkish – Peruvian Business Council
Turkish – Venezuelan Business Council

Turkish – Southeastern European Business Councils

Turkish – Albanian Business Council
Turkish – Bosnian Business Council
Turkish – Croatian Business Council
Turkish – Kosovo Business Council
Turkish – Macedonian Business Council
Turkish – Montenegrin Business Council
Turkish – Serbian Business Council

Turkish – Asia Pasific Business Councils

Turkish – Australian Business Council
Turkish – Bangladesh Business Council
Turkish – Cambodian Business Council
Turkish – Chinese Business Council
Turkish – Hong Kong Business Council
Turkish – Indian Business Council
Turkish – Indonesian Business Council
Turkish – Japanese Business Council
Turkish – Korean Business Council
Turkish – Malaysian Business Council
Turkish – Nepalese Business Council
Turkish – New Zealand Business Council
Turkish – Pakistan Business Council
Turkish – Philippines Business Council
Turkish – Singapore Business Council
Turkish – Taiwanese Business Council
Turkish – Thailand Business Council
Turkish – Vietnam Business Council

Turkish – Middle Eastern Business Councils

Turkish – Iraqi Business Council
Turkish – Iranian Business Council
Turkish – Jordanian Business Council
Turkish – Lebanese Business Council
Turkish – Palestinian Business Council
Turkish – Syrian Business Council

Turkish – Gulf Business Councils

Turkish – Bahraini Business Council
Turkish – Kuwaiti Business Council
Turkish – Omani Business Council
Turkish – Qatari Business Council
Turkish – Saudi Arabian Business Council
Turkish – UAE Business Council
Turkish – Yemen Business Council

Sectoral Business Councils

Energy Business Council
Health Tourism Business Council
Higher Education Business Council
International Technical Consultancy Business Council
Logistics Business Council
Turkish – UAE Business Council
Turkish – Yemen Business Council

Turkish – Eurasian Business Councils

Turkish – Afghan Business Council
Turkish – Azerbaijani Business Council
Turkish – Belarussian Business Council
Turkish – Georgian Business Council
Turkish – Kazakh Business Council
Turkish – Kyrgyz Business Council
Turkish – Moldovan Business Council
Turkish – Mongolian Business Council
Turkish – Russian Business Council
Turkish – Tajik Business Council
Turkish – Turkmen Business Council
Turkish – Ukrainian Business Council
Turkish – Uzbek Business Council

Independent Business Councils

Turkish – Israeli Business Council
Turkish – Swiss Business Council
Turkish – Turkish R.N.Cyprus Business Council

Special – Purpose Business Councils

World – Turkish Business Council
Foreign Investments Business Council

Appendix 1:

Useful Links and addresses

Organization	Web - site	Address	Phone
Investment Support and Promotion Agency	www.invest.gov.tr	Kavaklıdere Mah. Akay Cad. No:5 Çankaya 06640 - Ankara	+ 90 (312) 413 89 00
Ministry of Economy	www.ekonomi.gov.tr	İnönü Bulvarı, No:36 06510 Emek - Ankara	+ 90 (312) 204 75 00 Export Call Center: +90 (312) 444 43 63
Central Bank of Turkey	www.tcmb.gov.tr	İstiklal Cad. No: 10 06100 Ulus - Ankara	+ 90 (312) 507 50 00
Undersecretariat of Treasury	www.treasury.gov.tr	İnönü Bulvarı, No:36 06510 Emek - Ankara	+ 90 (312) 204 60 00
Ministry of Finance	www.maliye.gov.tr	İlkadım Cad., TBMM Karşısı, 06450 Dikmen - Ankara	+ 90 (312) 415 29 00
Turkish Revenue Administration	www.gib.gov.tr	İlkadım Cad. 06450 Dikmen - Ankara	+ 90 (312) 415 29 00 + 90 (312) 415 30 00
Ministry of Foreign Affairs	www.mfa.gov.tr	Dr. Sadık Ahmet Cad. No:8 Balgat 06100 Ankara	+ 90 (312) 292 10 00
Ministry of Science, Industry and Development	www.sanayi.gov.tr	Mustafa Kemal Mahallesi, Dumlupınar Bulvarı, Eskişehir Yolu, 2151. Cadde, No:154 06510 Çankaya - Ankara	+ 90 (312) 201 50 00
Ministry of Customs and Trade	www.gtb.gov.tr	Dumlupınar Bulvarı, No:151 Eskişehir Yolu 9. Km, 06800, Çankaya - Ankara	+ 90 (312) 449 10 00
Ministry of Labor and Social Security	www.csgb.gov.tr	İnönü Bulvarı, No:42, 06520 Emek - Ankara	+ 90 (312) 296 60 00
Capital Market Board (CMB)	www.spk.gov.tr	Eskişehir Yolu, 8. Km No:156 06530 Ankara	+ 90 (312) 292 90 90
Ministry of Development	www.kalkinma.gov.tr	Beytepe Mah. Necatibey Cad. 110/A, 06100 Maltepe - Ankara	+ 90 (312) 294 50 00
Privatization Administration	www.oib.gov.tr	Ziya Gökalp Cad., No:80 06600 Kurtuluş - Ankara	+ 90 (312) 585 80 00
State Institute of Statistics	www.tuik.gov.tr	Necatibey Cad. No:114 06100 Çankaya - Ankara	+ 90 (312) 410 04 10
Borsa İstanbul A.Ş.	www.borsaistanbul.com	Reşitpaşa Mah. Tuncay Artun Cad. 34467 Emirgan - İstanbul	+ 90 (212) 298 21 00
Union of Banks	www.tbb.org.tr	Nispetiye Cad. Akmerkez, B3 Blok, Kat:13 34340 Etiler - İstanbul	+ 90 (212) 282 09 73
Union of Chambers and Markets ("TOBB")	www.tobb.org.tr	Dumlupınar Bulvarı, No:252 (Eskişehir Yolu 9Km) 06530, Ankara	+ 90 (312) 219 40 90- 91- 92- 93
İstanbul Chamber of Commerce	www.ito.org.tr	Reşadiye Cad. 34112 Eminönü - İstanbul	+ 90 (212) 455 60 00 Call Center: 444 04 86
İstanbul Chamber of Industry	www.iso.org.tr	Meşrutiyet Cad. No:62, 34430, Tepebaşı - İstanbul	+ 90 (212) 252 29 00
Association of Foreign Investors	www.yased.org.tr	Barbaros Bulvarı, Morbasan Sok. Koza İş Merkezi, B Blok Kat:3, 34349, Balmumcu Beşiktaş - İstanbul	+ 90 (212) 272 50 94
Union of Chambers of CPAs CPAs of Turkey	www.turmob.org.tr	Gençlik Cad., No:107 Anıttepe - Ankara	+ 90 (312) 232 50 60
Public Oversight Accounting and Auditing Standards Authority	www.kgk.gov.tr	Söğütözü Mah., 2177 Sokak, N:4, Çankaya - Ankara	+90 (312) 253 55 55

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Foreign Economic Relations Board (DEİK)

Dış Ekonomik İlişkiler Kurulu
TOBB Plaza Harman Sokak No:10
34394 Esentepe/Şişli/ İstanbul-Türkiye
Tel: +90 (212) 339 50 00
Fax: +90 (212) 270 35 92

www.deik.org.tr



Deloitte Turkey

İstanbul Office
Deloitte Values House
Maslak No1, 34398
İstanbul, Turkey
34398
+90 (212) 366 60 00

Ankara Office
Armada İş Merkezi
A Blok Kat:7 No:8
Söğütözü, Ankara
06510
+90 (312) 295 47 00

İzmir Office
Punta Plaza 1456 Sok.
No:10/1 Kat:12
Daire:14 - 15
Alsancak, İzmir
+90 (232) 464 70 64

Bursa Office
Zeno Center İş Merkezi
Odunluk Mah. Kale Cad.
No:10 d
Nilüfer, Bursa
+90 (224) 324 25 00



Çukurova Office
Güneş Panorama İş Merkezi
Reşatbey Mah. Türkkuşu Cad. Bina
No:1 B Blok Kat:7
Seyhan, Adana
+90 (322) 237 11 00

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