Doing business in Turkey

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Contents

Introduction

This guide to doing business in Turkey will provide foreign investors with an insight into the key aspects of undertaking business and investing in Turkey. The country's large and young workforce and strong economic outlook make it especially attractive for overseas investors. Furthermore, its low cost of living and excellent climate have contributed to a vast improvement in the quality of life of its citizens.

Turkey is one of the world's newly industrialised economies. It is a predominately free-market economy driven by its industry and service sectors, although its traditional agriculture sector still accounts for a large proportion of employment.

It is the 15th largest economy in the world and the sixth largest in the EU area. Turkey is also a member of the G20 major economies. The economy is well-diversified, producing a variety of services and goods. The major sector is services, accounting for 63.8 per cent of GDP, followed by industry which represents 27.3 per cent and agriculture by 8.9 per cent[1]. Its primary exports are textiles and clothing, automotive, iron and steel, white goods and chemicals and pharmaceuticals. Furthermore, its proximity to both Asia and Europe enables it to act as a bridge between the continents, as well as an energy corridor.

Following a period of liberalisation and the enactment of the 1995 EU customs union, the country experienced rapid economic growth. Between 2002 and 2008, Turkey experienced an average annual growth of 5.8 per cent, compared to 1.8 per cent in the EU. Nevertheless, as with most countries in Europe, it experienced a period of recession in 2009. Economic growth rebounded in 2010 and the country has experienced an average growth rate of six per cent in the years succeeding. As at October 2014, a number of concerns had been raised regarding the country's slowing growth. The deceleration had been attributed to a number of factors, including: political instability, monetary tightening, macro prudential measures, economic problems in the EU countries, geopolitical tensions and a drought affecting agricultural production.

Foreign investment will be critical to achieving the Turkish government's growth aims; to become one of the world's top 10 economies by 2023, with a GDP of USD2 trillion. Accordingly, the government provides a number of incentives to foreign investment under the Investment Incentive Scheme. Alongside these, Turkey offers the following competitive advantages for investors:

- A large, highly motivated and young workforce with low labour costs
- Its location at the crossroads of Europe, Asia and Middle East
- Equal treatment of foreign investors and domestic companies; foreign ownership is unrestricted
- A customs union agreement with the EU, with all customs practices aligned to WTO standards
- An ambitious government plan for infrastructure improvements across road, rail, air and sea transport channels

While this guide makes reference to some of the most common issues investors might face, it must be noted that certain industries, such as the financial services sector, are subject to special regulation and therefore companies wishing to invest in this area should seek legal advice.

[1] CIA World Factbook

Legal overview

Political and legal system

Turkey is a parliamentary republic in which power is divided between the legislature, the executive and the judiciary. Under the 1982 Constitution, the Turkish parliament (TBMM) is the sole legislative body, exercising supreme power. Executive power is exercised by the President and the Council of Ministers, in accordance with the constitution and the law. The Judiciary operates independently on behalf of the state.

The TBMM consists of 550 deputies who are directly elected by democratic vote. Elections take place every four years; or more frequently at the discretion of the government. The Council of Ministers (the cabinet) is headed by the Prime Minister and is responsible to the Parliament. The primary duty of the Council of Ministers is to formulate and implement the internal and foreign policies of the state. The Council of Ministers is accountable to the Parliament in the execution of this duty.

Following an election, the President invites the leader of the largest party to form a government. If successful, he or she is then appointed Prime Minister and nominates ministers who are in turn approved by the President. The President is elected by the members of the parliament for a period of seven years.

Turkey is an associate member of the EU and, in accordance with its accession talks, has adapted a number of its policies and procedures in line with EU standards.

Turkey has a civil law system based on continental European law. Turkish jurisprudence is split into three main sections: criminal law, civil law and administrative law. Administrative law primarily deals with disputes between individuals and legal entities and the departments of the state, namely: the local councils and tax and customs authorities.

The judicial system comprises general law courts, specialised heavy penal courts, military courts, the Constitutional Court, the nation's highest court, and three other high courts. The Constitutional Court deals with cases related to the functioning of the rules laid down in the Turkish Constitution. The Court of Appeal *('Yargitay')* re-examines the decisions and judgments taken by Courts of Justice and by Commercial Courts. The Council of State Court *('Danistay')* is the last place of review for decisions and judgments given by the Administrative Courts and Tax Courts. It oversees the interpretation of the law by the other Administrative Courts.

Data protection

At present, there are no specific data protection laws in Turkey. While the Turkish parliament has written a Draft Code on the Protection of Personal Data, which aims to harmonise the national data protection provisions with that of the EU's, this has not yet been enacted. Accordingly, data protection is governed by provisions found in a number of laws and regulations and dealt with in an ad hoc manner.

The Turkish Constitution stipulates that every individual is entitled to rights of living, protection and improvement of his material and spiritual being and that everyone has the right to request the protection of his personal data. Further provisions can be found in the Civil Code, Code of Obligations, Criminal Code, Law on the Right to Access Information and a number of sectorial laws.

The general legislation applies to all individuals in Turkey but there are a number of specific laws applicable to people or businesses that obtain, record and process personal data as a part of their commercial activities. There are a number of exemptions from the regulations that can be applied. These include, if consent is obtained from the data subject, data is publicly accessible, processing is necessary for public safety or there is a lawful reason for processing the data.

There is no obligation for organisations to notify a local data authority if they process data, although there are provisions for this in the Draft Code.

The main obligations for those handling personal data are as follows:

- Keeping personal data confidential
- Limit the data usage to the purposes stated on collection
- Process the data in line with the applicable law and good faith principles
- Do not disclose the data
- Provide the data subject with the option to use a pseudonym or remain anonymous, if or when possible
- Delete or anonymise personal data once the stated purposes have been fulfilled and legal obligations met

Data processors must also obtain consent of the data subject before collecting, processing or disclosing personal data. There are a number of obligations a business/person must fulfil in obtaining consent.

The laws also provide data subjects with a number of rights such as being informed about the collection of their data, having the ability to access and correct the data and withdrawing their consent at any time.

While there is, at present, no national regulator monitoring compliance, failure to comply with the data privacy laws can result in administrative fines, penalties or sanctions, civil actions and criminal proceedings. The Criminal Code can also impose prison sentences or judicial fines in cases where there is illegal collection, processing and transferral of personal data.

Exchange controls
In Turkey there are, at present, no exchange control restrictions affecting inward or outward investment, the repatriation of income or capital, the holding of currency accounts or the settlement of current trading transactions. However, Turkish banks must inform the relevant authority of Turkish lira transfers executed abroad, within a 30 day period of the date of transfer.

Money laundering regulations
Turkey has strict money laundering regulations in place. The country's protection against money laundering was strengthened following a number of concerns raised by the Financial Action Task Force (FATF) in its mutual evaluation report and International Co-operation Review Group process.

The Turkish Financial Crimes Investigation Board *('Mali Suclari Arastirma Kurulu')* is the regulatory authority charged with carrying out investigations concerning the developments in money laundering and terrorist financing practices.

The main regulatory provisions for anti-money laundering can be found in:

- Law No. 5549 on Prevention of Laundering Proceeds of Crime (Anti-Money Laundering Law)
- Regulation on Implementation of the Law No. 5549
- Law No. 6415 on the Prevention of the Financing of Terrorism
- The Turkish Criminal Code
- Regulation on the Procedures and Principles on the Enforcement of the Law on the Prevention of the Financing of Terrorism

Firms operating in Turkey must comply with general requirements, such as undertaking customer due diligence, having appropriate escalation and whistleblowing measures in place and keeping accurate records and retaining them for a period of eight years.

Enhanced due diligence measures must be undertaken for complex and unusually large transactions or for establishing business relationships with persons or organisations from countries identified as posing high risks of money laundering. There are also a number of provisions allowing for the application of Simplified Due Diligence (SDD).

Firms are also obliged to submit suspicious transactions reports when there is reasonable ground to believe that a transaction carried out through the obligated party has been acquired through illegal ways or used for illegal purposes.

Under the legislation, a person can be found guilty of money laundering if they transfer the value of the proceeds to a foreign company or subjects the proceeds to various transactions to either conceal their source or create a false impression of legitimacy of the source of the money. These offences are punishable by imprisonment of 6 months or more. Terrorist financing, defined as a person who knowingly and willingly provides funds to a terrorist or terrorist organisation, is punishable with imprisonment of between 5 - 10 years.

Intellectual Property Rights
In Turkey, protection is generally granted for registered, and sometimes unregistered, Intellectual Property Rights. These include: patents, trademarks, copyright and designs.

Intellectual property matters are dealt with by the Turkish Patent Institute which is responsible for granting patents for the registration of industrial designs, trademarks and patents. To register for Intellectual Property Rights, the applicant must submit a written request alongside a number of specified documents; these documents will be different for a real person and a legal entity. The process of registration may take up to one year. The Intellectual Property Rights Court is responsible for handling cases of intellectual property disputes.

Turkey is a party to a number of international agreements, conventions and treaties related to Intellectual Property Rights, including: Paris Convention for the Protection of Intellectual Property Rights, the Convention Establishing WIPO, the Patent Cooperation Treaty (PCT), and Strasbourg Agreement Concerning the International Patent Classification (IPC).

COPYRIGHT

Copyright is the ownership of any intellectual or artistic creation that is personal to the owner. This may include scientific, literary, musical, artistic or cinematographic works. The regulator responsible for copyright is the Ministry of Culture and Tourism.

Protection granted	Protection is typically granted without the need for formal registration. The author has moral rights, such as the recognition of his authorship and protection from distortion of his work or economic exploitation. However, registration may be necessary for some cinematographic and musical works.
Infringement	Copyright is infringed by any person who, without permission from the owner, reproduces, distributes or performs the material in question. In the case of infringement, the owner can seek to stop the infringement, prevent future infringement or receive damages. Any person guilty of infringing a copyright may be liable to a period of imprisonment of between one to seven years, alongside an administrative fine.
Duration	Copyright protection exists from the time of creation of the work and ends 70 years after the author's death. Upon the expiry of the protection, the work is free for general use.

PATENTS

Patents protect inventions which can be applied in an industrial environment. For a patent to be granted, the invention must be new, improve on the current state of art and capable of being used in some kind of industry. Pure discoveries and scientific or mathematical formulae cannot be patented.

Protection granted	There are two types of patent available: a patent with examination and a patent without examination. A patent with examination is granted following the consideration of objections from third parties and submissions from the applicant in response to these. A patent without examination is given without any consideration of third party views. A patent gives its owner the ability to take legal action to stop others from producing, selling, using or importing the patented product or process.
Infringement	Infringing a patent means manufacturing, using, selling or importing patented products or processes without the owner's permission. This patent right is protected through civil and criminal actions before the specialist IP courts. If a patent is infringed, the patent owner can seek: the termination of this infringement, material and moral damages, confiscation of any products, enforcement measures to prevent continued infringement and an order to publicly disclose those that were involved in the infringement. Sanctions for patent infringement can be up to two to three years' imprisonment and/or a fine.
Duration	A patent with examination is protected for 20 years from the filing date. A patent without examination is protected for seven years but can be upgraded to a patent with examination at any time.

TRADE MARKS

A trade mark must be a sign capable of distinguishing goods and services of one undertaking from those of another undertaking. Those signs can be: words, personal names, words, figures, letters and numbers.

Protection granted	Protection for trademarks is provided following registration with the Patent Institute. Trademarks cannot be registered if the trademark applied for is identical to an existing trade market or one with an earlier application date. Furthermore they will not be granted if the trademark is likely to provide public confusion due to its similarity to another trademark. The holder of a trademark can prevent the use of any sign relating to the trademark, the use of the sign of the trademark on any package, importation of the signed product or use of the sign in adverts or business. Unregistered trademarks can also be protected under competition provisions in the Commercial Code.
Infringement	Infringement of a trademark can take a number of forms. This may include, making a false declaration regarding the true identity of the trademark right holder, removing a sign that indicates a valid trademark or falsely presenting oneself as the owner of a trademark. Anyone engaging in the above activities may be liable to imprisonment of between one and three years.
Duration	10 years (registration can be renewed indefinitely for further periods of 10 years).

DESIGNS

Protection for designs is granted by registration with the Patent Institute under a number of different pieces of legislation. A design must relate to the features of the whole or part of a product.

Protection granted	Registering a design gives the owner a property right over the design; it is protected if the design in question is new and has individual character. Holding a design right provides the owner the exclusive right to use it, to prevent any third party using it without consent and the license the use of the design to third parties. Although there is no specific protection for unregistered designs, they may be protected through general civil and criminal actions or by copyright, subject to legal requirements.
Infringement	A design right is infringed by an unauthorised person making an article exactly or substantially similar to the protected design or by making a design document for the purpose of making unauthorised copies. Remedies for civil and criminal actions related to the unauthorised use of unregistered designs include: damages, action to prevent the potential infringement and penal sanctions.
Duration	Protection lasts for five years from the date of application but can be renewed for additional five-year terms for up to 25 years.

Conducting business in Turkey

Business entities
Any foreign company or individual wanting to do business in Turkey will need to decide under which form they want to operate. Under Turkish law, foreign investors and domestic entities have equal rights and obligations. There are some exemptions whereby commercial activities and/or the ratio of foreign shareholding of such companies are restricted; this is predominately in the civil aviation, maritime transport and media sectors.

In accordance with the Turkish Commercial Code, foreign investors can use the following forms of business vehicle:

- Branch
- the Joint Stock Company (A.S.)
- the Private Limited Liability Company (Ltd. Sirket)
- Ordinary partnerships
- Joint Ventures
- Liaison offices

In practice, foreign investors in Turkey generally operate through a Joint Stock Company or a Limited Liability Company.

Branch
An overseas company can set up a place of business without forming a Turkish subsidiary by using the branch form. The establishment of Turkish or foreign company branches (registered) is governed by the Commercial Code.

Any branch established in Turkey is recognised as a legal entity. There are no formal minimum capital requirements. Although the branch has separate capital, it cannot have separate articles of association and therefore must act within the same field of activity as its head office. A branch is considered to have a separate tax personality to that of its parent company. All rights and liabilities arising from the activities of a branch belong to the parent company.

There are no stipulated formal management structures. Nevertheless, the branch must be represented by a branch manager who resides in Turkey; this can be a Turkish resident or a non-resident who possesses the appropriate work and residency permits. Branch managers have a number of obligations, such as publishing the financial statements of their branch, parent company and group within 6 months of approval in the parent jurisdiction.

In order to establish a branch of a foreign company, a permit will be required from the Ministry of Industry and Commerce, before registering with the Trade Registry Office. To obtain a Ministry of Industry and Trade permit, the following documents must be provided: written confirmation of the decision to open a branch, an original copy of the company's articles of association, documents showing the registration and legal status of the company and a Power of Attorney documenting the resident representative. For certain industries, eg banking, other permits may be required before the commencement of trading. The branch name must use the parent company's name in order to indicate its status as a branch.

The Joint Stock Company (A.S.) (JSC)
Organisations wishing to set up business in Turkey are permitted to use a joint stock company (A.S.) form. It is mandatory to use a joint stock company form for any foreign investors wishing to set up business in the following industries: holding companies, telecom companies, banks, financial institutions, intermediary institutions and insurance companies. The company's stock capital is divided into shares and the liability of the shareholders is limited to the subscribed capital and paid by the shareholder. A joint stock company can issue debentures and is also permitted to public. 100 per cent foreign ownership is allowed.

Formation
The establishment of a joint stock company requires at least one shareholder; if there are over 100, the company will be deemed to be a public company, and treated accordingly. The Foreign Investment Directorate must be notified of the establishment of a company. A company cannot begin trading until it is registered and published in the Trade Registry Gazette.

The formation of a JSC will typically comprise the following procedures: The articles of association will be executed by the shareholders and notarised by a Turkish notary; for certain industries, the Ministry of Customs and Trade must authorise the articles. The articles of association must then be registered with, and published in, the Trade Registry Gazette within 15 days of notarisation. The registration will typically take between one to four weeks, depending on the workload of the Trade Registry. The Registry may require additional documents to evaluate the incorporation documents. Following this, the firm must register with the tax office.

Capital requirement
The minimum share capital of a joint stock company is TRY50,000, of which 25 per cent of each capital contribution must be paid up on registration. The remaining share capital is due within 24 months of incorporation.

Name
The trade name of a joint stock company must be in Turkish and cannot be misleading, offensive or include any sensitive words or expressions.

Management
A joint stock company is managed by a board of directors, comprising of at least one member. Directors can be local or foreign. Although permissible, there is no obligation for a Board member to be a shareholder as well. A legal entity can also be a board member, but must be represented by a real person.

The Private Limited Liability Company (Ltd. Sirket)
Organisations wishing to set up a business in Turkey are permitted to use the Private Limited Liability Company (Ltd. Sirket) form. The company's stock capital is divided into shares and the liability of the shareholders is limited to the subscribed capital and paid by the shareholder. An LLC is prohibited from issuing debentures and cannot offer any shares to the public.

Formation
The establishment of a limited liability company requires at least one shareholder; this can be a natural person of a legal entity. However, the number of shareholders cannot exceed 50. The Foreign Investment Directorate must be notified of the establishment of a company. A company cannot begin trading until it is registered and published in the Trade Registry Gazette.

The formation of an LLC will typically comprise the following procedures. The articles of association will be executed by the shareholders and notarised by a Turkish notary; for certain industries, the Ministry of Customs and Trade must authorise the articles. The articles of association must then be registered with, and published in, the Trade Registry Gazette within 15 days of notarisation. The registration will typically take between one to four weeks, depending on the workload of the Trade Registry. The Registry may require additional documents to evaluate the incorporation documents. Following this, the firm must register with the tax office.

Capital requirement
The minimum share capital of a limited liability company is TRY10,000, of which the value per share cannot be less than TRY25. 25 per cent of each capital contribution must be paid up on registration. The remaining share capital is due within 24 months of incorporation.

Name
The trade name of a limited liability company must be in Turkish and cannot be misleading, offensive or include any sensitive words or expressions.

Management
The LLC is managed by managers. Managers can be legal entities but the entity must be represented by a natural person. At least one shareholder shall be appointed as a manager. There are no restrictions regarding residency and becoming a manager. Managers' responsibilities begin on the establishment of the company.

Ordinary Partnerships
Those wishing to set up business in Turkey are permitted to use an ordinary partnership form. The ordinary partnership does not have its own legal identity but is instead where two or more self-employed people or entities share in the decision-making, risks, costs and obligations of a business. All partners are subject to joint and several personal liability. In principle, all partners are authorised to manage the partnership together unless otherwise expressly stipulated. The partnership is governed by a written agreement which can be ratified by the notary public to formalise the members' obligations. There are no minimum capital requirements for an ordinary partnership.

Joint Venture
Joint ventures can be formed in Turkey but are generally established as a company or a partnership.

Liaison Office
Foreign corporations can establish an unincorporated liaison office in Turkey; the liaison office cannot engage in commercial activities but is permitted to conduct market research and promotional activities for the foreign investor's business in Turkey. Liaison offices have no legal identity and are an extension of their parent company; they are unable to acquire rights or incur liabilities. There are no minimum capital requirements.

As the business is unable to engage in commercial activity, a liaison office is not liable to any corporate tax. Nevertheless, it must keep accurate accounts which may be open to inspection by the authorities of the Ministry of Finance.

To establish a liaison office, a firm must submit an application to the Treasury. This should be in writing with information about the applicant's identity, nature of business, reasons for establishment and a description of intended activities. Permits are generally issued for up to three years and can then be extended on expiration for another three. Following establishment, the office must make an application to the relevant tax office.

Tax system

For foreign investors in Turkey, the taxes of major importance are as follows:

- Corporation Tax *('Kurumlar Vergisi')*
- Personal Income Tax *('Gelir Vergisi')*
- Value Added Tax *('Katma Deger Vergisi')*
- Bank and Insurance Transactions Tax *('Banka ve Sigorta Muameleleri Vergisi')*
- Stamp Duty *('Damga Vergisi')*
- Special Consumption Tax *('Özel Tüketim Vergisi')*

Property Tax

Resource Utilisation Support Fund (RUSF)

There are also a number of other taxes, such as municipal, taxes and motor vehicles taxes.

Both corporations and individuals can be designated as either full or limited taxpayers. Full taxpayers are liable for tax on their worldwide income whereas limited taxpayers are subject to tax only on their income derived in Turkey.

Companies are regarded as full tax payers if either their head office or business centre is located in Turkey. In the case of partnerships, including joint ventures and consortia, the residence status of the partners is taken into account for tax treatment.

For individuals, tax status is determined according to their residency. Foreigners will be regarded as resident if they stay in Turkey for a continuous period of more than six months in a calendar year other than for reasons of imprisonment, illness or assignment for temporary projects or education.

Corporate Income Tax

Scope

Corporation tax is levied on the profits of a company following the addition of tax disallowable expenses and the deduction of tax exempt income. The current rate of corporate income tax is 20 per cent, which is applicable across all companies, irrespective of legal form.

The accounting year-end is 31 December. Firms can apply to the Ministry of Finance for permission to use a different accounting year, providing they have a substantiated reason, eg conflict with the accounting period of the foreign parent of a Turkish subsidiary.

Companies must prepare a statement of income for each quarter and pay tax on the quarterly profits at the rate of 20 per cent. Quarterly declarations must be made by the 14th, and payment made by 17th of the second month following the end of the quarter.

An annual corporation tax return must also be submitted by the 25th, and payment made by the end of the fourth month following the accounting year end. The quarterly corporation tax payments are then offset against the final annual corporation tax assessment. The outstanding balance may then be refunded or used to offset other tax liabilities.

Corporate income tax must be paid by 30 April of the year of filing.

Legal reserves

Under the Turkish Commercial Code, Turkish companies must set aside first and second level legal resources out of their profits; a branch is not liable to this obligation.

First level legal reserves comprise five per cent of the company's net profits each yet. The ceiling on the first level legal reserve is 20 per cent of the paid-up capital; once a company has reached 20 per cent, the reserve requirement ends. The second level legal reserves comprise 10 per cent of the profits distributed following the deduction of the first level legal reserves and the minimum obligatory dividend pay-out. There is no ceiling for second level legal reserves; they are accumulated every year.

Taxable income

Statutory accounts provide the basis for calculating taxable income. In Turkey, there is no separate capital gains tax so capital gains are included in ordinary income. The tax base is determined by deducting expenses from a company's income.

For corporate and income tax purposes, an expense is deductible if it relates to the generation of income or the operation of a business. The following items are allowed as deductions for Turkish tax purposes:

- Travel and accommodation expenses commensurate to the size of business
- Meals provided to employees on site
- Employer's share of social security contributions
- Compensation and losses incurred according to a contract or a court decision
- Expenses of leased or owned vehicles that are used for business purposes
- Depreciation expenses calculated on basis of the rates and methods of the Tax Procedural Law

- Employer's contributions to labour unions and to the private pension plan of the employees (subject to ceiling)
- Donations to certain institutions and associations for charitable works (up to a limit)
- Bad debt provisions only if legal action towards enforcing the payment has been taken
- Interest paid for business purposes
- Business losses inherited from a merger/reduction of capital transaction (subject to a limit)
- Losses incurred in foreign jurisdictions (subject to certain conditions)

There are a number of stipulated disallowable expenses. These include:

- Legal reserves and other reserves set aside from profits
- Tax penalties
- Late payment interest related to corporate tax and income tax, calculated in accordance with the regulations
- Interest and foreign exchange losses on disguised capital
- Disguised profit distribution through transfer pricing
- Interest paid or calculated on basis of capital
- Depreciation rates and methods of fixed assets

As of the 1 January 2004, depreciation rates are derived from depreciations lists prepared by the Ministry of Finance, based on the expected useful lives of the relevant fixed assets. Depreciation can be calculated used the 'Straight-Line' or 'Declining Balance' method.

With the declining method, the depreciation rate is twice the rate of straight-line method. The ceiling rate for the declining-balance method is 50 per cent. There are a number of items that the declining balance method cannot be used for.

Fixed assets acquired before 1 January 2004 shall continue to be depreciated on the basis of previously applicable rates where the taxpayer is free to choose a depreciation rate of up to 20 per cent annually.

Preferred corporate structure

All businesses are subject to corporation tax, regardless of their legal form. Furthermore, there is no difference in tax treatment (incentives, etc) between resident and non-resident companies.

Non-resident companies are only taxed on their Turkish source income. A tax liability may arise, for example, if a permanent establishment is set up in Turkey, such as a branch, business office, warehouse, etc or a participation in a partnership. The tax liability of the Turkish branch of a non-resident company is limited to its Turkish source income and capital gains. A joint venture of a foreign company with a Turkish entity is subject to corporation tax on its share of profits earned in Turkey.

Groups

The consolidation of group accounts for tax purposes is not permitted in Turkey. Each corporate entity is regarded as a separate taxpayer.

Thin capitalisation rules
Where borrowings from related parties exceed three times the shareholder equity of the borrower company at any time within the relevant year, these are considered thin capital. This ratio can double for loans received from related banks or financial institutions.

The term related parties refers to shareholders and real or legal persons that own 10per cent or more of the shares, voting rights or right to receive dividends of a company. Besides, payments or accruals related to the portion of borrowings over three times the equity shall be subject to withholding tax as they are regarded as distributed dividends.

Non-cash guarantees provided by related parties, and loans which are obtained from banks/financial institutions by related parties and given over to a company with the same credit terms, are out of the scope of thin capital definition.

Where thin capitalisation exists, interest paid or accrued and foreign exchange losses calculated, thin capital is treated as non-deductible for corporate income tax purposes. These are therefore reclassified and taxed as dividends distributed by the borrower and as dividends received by the lender, and are treated as repatriated profit for non-resident lenders.

Losses
Tax losses may be carried forward and set off against the profits of the following five years. Losses cannot be carried back.

Dividend income
Dividend income distributions to individuals and non-resident corporate shareholders, who do not have a presence in Turkey, are subject to a withholding tax of 15 per cent. This rate may be reduced if there is a relevant tax treaty present.

Participation exemption
A participation exemption is available for dividends derived by companies from Turkish corporations; these dividends are fully exempt from corporate tax. To qualify for an exemption, a Turkish resident company must hold a participation in another Turkish resident company.

Under Turkish tax law, another participation exemption exists for dividends derived by companies from foreign participations. Nevertheless, a number of conditions must be satisfied to quality.

Withholding tax
Under the Turkish tax system, a number of taxes are collected through withholding. Alongside the aforementioned withholding tax on dividend income, the following sources of income are subject to withholding tax:

Interest – Interest paid by a Turkish company to a foreign corporate shareholder is subject to withholding tax at 10 per cent, and 0 per cent in case the counterparty is a banking or financial institution.

Intellectual Property – Income derived from the sale of intangible assets such as intellectual property is subject to a 20 per cent withholding tax. Double tax treaties generally reduce the rate to 10 per cent.

Branch remittance – A 15 per cent withholding tax is levied on after-tax branch profits that are remitted to a headquarter

Technical service fee – Fees paid for professional services are subject to a 20 per cent withholding tax

Long-term construction works – A withholding tax of three per cent is applicable on all progress payments made under long term construction works

Tax losses may be carried forward and set off against the profits of the following five years. Losses cannot be carried back.

Transfer pricing

Turkish transfer-pricing regulations can be found in the Turkish Corporate Tax Code. Provisions include the arm's length principle and the requirement for documentation of all related-party transactions.

The arm's length principle applies to all transactions carried out by tax payers and related parties. Any earnings from goods or services traded with related parties on the basis of prices or values that are contrary to the arm's length principle will be deemed as totally or partially disguised through transfer pricing.

Under Turkish transfer-pricing laws, the OECD transfer pricing guidelines are acceptable and therefore one of the following methods should be used:

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

If it is not possible to reach an appropriate transfer price through the above methods, taxpayers may select other transfer-pricing methods. The taxpayer can make a request to form an advance pricing agreement (APA) with the Ministry of Finance regarding the method for the determination of the price or value to be applied to the goods and services traded with related parties. The method agreed upon becomes applicable for a maximum period of three years.

Firms are obliged to keep the records, lists and documents pertaining to the calculations concerning the prices and values determined in compliance with the arm's length principle.

Any profit deemed in whole or in part as disguised profit under these regulations is treated as dividend distributed on the last day of accounting period. It is considered as a disallowable expense for corporation tax purposes and also becomes subject to dividend withholding tax.

Anti-tax haven provisions

All payments made to individuals and legal entities in countries or regions regarded by the Turkish Council of Ministers as 'tax havens' may be subject a withholding tax of 30 per cent.

Controlled foreign companies (CFC)

Controlled foreign companies rules apply to both individual and corporate shareholders of a controlled foreign company. Shareholders must include their share of passive income as a deemed dividend in their taxable income if:

- Turkish residents control the foreign company (Turkish residents own more than 50 per cent of the vote or capital of the foreign corporation)
- The company is taxed at a rate that is less than 25 per cent on their passive income
- The foreign company is subject to a corporate tax rate of less than 10 per cent
- The gross revenue of the foreign company exceeds TRY100,000

Any profit from a CFC that has already been taxed in Turkey will not be subject to additional tax in the country in the event of dividend distribution.

Anti-avoidance measures

Alongside the withholding tax charged on any payments made to transactions with companies in tax havens, Turkish law includes a number of anti-abuse rules. The principle rule is the substance-over-form rule which stipulates that a company's accounts must show what it has truthfully earned in a particular period.

Tax incentives

The Turkish government provides a number of tax incentives for foreign direct investment that comes under the Investment Incentive Certificate (IIC) or Research and Development law. A full description of the exemptions and incentives available can be found in the trade section.

Personal Income Tax

Turkish resident individuals are subject to tax on their worldwide income; non-residents are taxed only on Turkish-source income.

Under Turkey's unitary tax system, income derived from different sources is aggregated and tax is liable on the total amount. Gross income includes all income from the following categories: commercial income, agricultural income, employment income, self-employment earnings, revenues received from removable properties, dividends, interest and royalties and any other capital gains.

Income received from rental property and royalties from intellectual property is subject to a withholding tax of 20 per cent. Income received from dividends and interest is subject to a withholding tax of 15 per cent.

In determining taxable income, business expenses can be deducted if properly documented and necessarily incurred. Non-business expenses, such as social security contributions and insurance premiums may also be deducted up to a specific limit.

Turkey's tax year runs on a calendar-year basis (1 January – 31 December).

Turkey also has an extensive network of Double Tax Treaties which will affect the Turkish tax liability of residents and non-residents.

Individuals liable to Turkish tax
Turkish resident individuals are deemed full taxpayers and are therefore subject to income tax on their worldwide income and have unlimited tax liability. Turkish tax law considers an individual to be a Turkish resident if the individual is present in Turkey during the calendar year for more than six months or if their 'legal residence' is in Turkey.

A non-resident is not subject to unlimited tax liability; they are deemed a limited taxpayer and tax is only liable on Turkish-source income. Certain foreign individuals, who are present in Turkey for more than six-months for the fulfilment of 'specific and temporary assignments', will not be regarded as resident and will be taxed only on Turkish-derived income.

Individual responsibilities in relation to Turkish tax
The Turkish tax system requires employers to deduct tax from the salaries of their employees, alongside the necessary social security contributions and stamp duty on the salary payments. The tax rate will be based on the employee's wages for the year, which will include the value of any emoluments (fringe benefits). A number of specific benefits are exempt from taxation.

It is the employer's responsibility to account for all necessary withholding taxes and make all relevant returns of the same to the local tax authority. All taxes withheld must be declared monthly on the 23rd day, and paid on the 26th day of the month following the month of payment.

Self-employed individuals must file and pay advance income tax on a quarterly basis. The advance tax payment equals 15 per cent of net income and must be made by the 17th day of the second month following the end of the quarterly tax period. These payments are then offset against income tax payable in the final tax return.

Tax rates and bands - 2015

Turkish income tax is a progressive tax, calculated on a cumulative basis, with rates varying from 15 - 35 per cent.

The tax rates and income bands applicable for employment income earned in calendar year 2015 are as follows;

Taxable Income (TRY)	Tax rate (%)	Cumulative tax due (TRY)
First 12,000	15	03
Next 17,000	20	10
Next 77,000	27	25,990
Above 106,000	35	–

Capital gains and losses
As above, capital gains are generally aggregated and taxed under gross income. However, capital gains derived from transfers of shares may be exempt from income tax. Following a Council of Ministers' Decree, the withholding tax rate levied on capital gains derived from the sale of shares traded at the ISA (Borsa Istanbul) was decreased to 0 per cent. Furthermore, capital gains from the sale of shares in non-listed Turkish resident companies are exempt from taxation, providing they have been held for longer than two years.

Capital losses can be offset against capital gains arising in the same tax year, but they cannot be off set against other taxable income. Capital losses are not permitted to be carried forward.

Tax returns
All resident taxpayers must file an annual income tax return, although there are exemptions in place. They are assessed on a tax year basis, which for personal income tax is the calendar year.

Tax returns are due by 25 March following the end of the tax year and tax is payable in two equal instalments in March and July.

Non-residents are not required to file income tax returns, providing they only have income that is subject to withholding tax.

Other taxes

Value Added Tax *('Katma Deger Vergisi')*
VAT is a transaction tax, the cost of which ultimately falls on the end customer. The majority of transactions involving the supply of goods, the provision of services and importations will be subject to this tax.

Broadly, VAT is levied in Turkey on the value added at each stage of the production and distribution supply chain. Registered businesses act as collection points for the Value Added Tax department. A business subject to VAT can generally reclaim the input VAT it pays on purchased goods and services (but no input tax deduction is allowed for exempt supplies) and must account for the output VAT charged for the sale of goods or the supply of services.

Not all transactions are subject to the tax, and those that are may be subject to varying rates.

Making taxable supplies
A taxable person for the purposes of VAT can be an individual (sole trader) in business, a partnership (including a limited liability partnership), a trust, an incorporated business or a branch of an overseas corporate entity.

VAT must be paid on the import of goods into Turkey and on every supply of goods or services made in Turkey in the course of business.

VAT registration
There is no single 'VAT registration' process in Turkey; VAT registration comes under the registration for all tax purposes. Therefore, any corporation or person engaged in an activity that comes under the scope of VAT law must notify the local tax office where its business is located.

Businesses established outside of Turkey but selling goods of providing services within the country, must appoint a tax representative to register for VAT. The business must then use the reverse charge method of charging VAT.

Administration
VAT returns are submitted monthly and should be filed by the 24th day of the month following the end of the taxation period. Input tax is offset against output tax and any outstanding tax should then be paid on the 26th day of that month. Corporations must file VAT returns for each month, even if no transactions subject to VAT have been made.

If input tax exceeds output tax, the balance is not refunded but carried forward to the following months to be offset against future output VAT.

Applicable rates

The standard rate of VAT is 18 per cent.
A reduced rate of eight per cent exists for items including basic foodstuffs and pharmaceutical products. A one per cent VAT rate is levied on journals, newspapers, certain farm products and certain equipment under finance leases.

There are also two forms of exemption under the Turkish VAT law: exemptions with credit, which includes goods such as international transportations and exports, and exemptions without credit, which includes goods such as services rendered in Free Trade Zones and banking and insurance transactions.

Stamp Duty
Stamp duty is levied on a wide range of legal documents such as contracts, promissory notes, and letters of guarantee. Stamp duty may be either fixed or proportional. Proportional rates range between 0.189 - 0.948 per cent.

Stamp duty also applies to the gross salary of individuals receiving their income from a local payroll; this is current levied at the rate of 0.759 per cent.

Property Tax
Real Property owners are obliged to pay Property Tax on an annual basis; this is undertaken in two instalments in May and November. The value for the tax base is set by local municipal authorities. The typical rates are as follows (these rates are increased by 100 per cent in the metropolitan areas such as Ankara, Istanbul, Izmir, Antalya, and Bursa).

- Residences used as domiciles: 0.1%
- All other buildings: 0.2%
- Land allocated for construction: 0.3%
- All other land: 0.1%

Capital Duty
While there are no taxes levied on share capital, firms must contribution 0.04per cent of the capital amount committed upon the establishment of a company to the Competition Board. If there are any subsequent increases in capital, the 0.04 per cent levy applies on the increased amount.

Gift and Inheritance Tax
Inheritance tax is imposed on the transfer of property upon death if the deceased was a Turkish resident at the time of death or the beneficiary is a current Turkish resident. The rates are progressive ranging from 1 - 10 per cent.

Gift tax is charged on transfers of assets during the giver's lifetime if either the giver or the recipient is a Turkish resident. The rates are progressive, ranging from 10 - 30 per cent.

Inheritance tax and gift tax are both assessed on the basis of the taxable value of the property transferred. A number of exemptions exist, including donations to charities or goods of a lower value inherited by the deceased's spouse, children or grandchildren.

Bank and Insurance Transaction Tax (BITT)
Banks, insurers and reinsurance companies are exempted from VAT. However, all transactions of banks and insurance companies are the subject to the BITT. The BITT is liable on all income of banks and insurance/reinsurance companies (interest, commission, service charge etc). The current rate of tax is five per cent but some categories of income have a reduced rate of one per cent. There are also a number of exemptions. Taxpayers must declare their monthly taxable transactions within 15 days of the end of each month.

Special Consumption Tax
A special consumption tax is levied on the four specified groups of products listed below. Each product is subject to a different tax rate.

- Group I covers petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents

- Group II covers automobiles and other vehicles, motorcycles, planes, helicopters, yachts
- Group III covers tobacco and tobacco products, carbonated and alcoholic beverages and soda ash
- Group IV is related to durable consumer articles and luxury goods

The tax is charged only once at importation and/or production stages of the products.

Resource Utilisation Fund

The Resource utilisation support fund was established by the Central Bank of Turkey with a primary aim of lowering costs incurred in special loans, in accordance with development plans. Banks, special financial institutions and financing companies are liable for the payment of this fund.

This levy amounts to a transaction tax, particularly on foreign loans obtained by Turkish residents from entities other than banks or financial institutions abroad.

The current rates are as follows:

- Loans provided by banks and other financial institutions
  - Consumer loans: 15%
  - Other loans: 0%
- Loans secured from abroad by banks and financing companies: 0per cent
- Loans secured from abroad by Turkish residents, other than banks and financing companies
  - If the maturity is less than one year: 3%
  - If the maturity is between one year and two years: 1%
  - If the maturity is between two years and three years: 0.5%
  - If the maturity is more than three years (including three years): 0%
  - Imports made on basis of payment terms such as acceptance credit, forward letter of credit and against goods: 6%

Labour

Turkish employment relationships are governed by the Labour Code (Law No. 4857) and its relevant regulations. The Code applies to all Turkish workplace establishments, employee representatives, employees and employers. The provisions contained within the Code outline the general terms and conditions of an employment relationship alongside the corresponding statutory obligations. A number of mandatory conditions are defined in the Turkish Labour Code; these are in relation to overtime, probation, re-instatement to work, notice periods and termination rights. Furthermore, discrimination based on race, sex or religion is strictly prohibited.

Employment contract
Under Turkish law, employment contracts are not subject to a specific legal form. The parties involved are able to enter into either a written or verbal agreement. However, the Labour Code states that, for any employment lasting longer than one year, a contract must be produced in written form.

The employment agreement, whether in written or verbal form, must contain the employee's agreement to perform work for the employer and the employer's obligation to provide a salary in return. If there is no written contract, the employer must inform the employee in writing of the following: terms of employment, salary, working hours and benefits.

There are a number of different employment contracts available in Turkey:

- Continuous and non-continuous
- Full-time and part-time
- Seasonal
- Temporary
- Team employment contracts
- Employment controls with or without trial periods
- Provisional employment contracts

Employment protection legislation
Minimum standards of working conditions are established by law under the Code on Workplace Health and Safety. Employers must take all necessary actions to prevent occupational risk, appoint an occupational safety expert, provide all necessary equipment for employees to safely undertake their job and educate employees regarding workplace health and safety.

Compensation is payable for unjustified dismissal; if the court determines unjustified dismissal, the employer must pay the employee with an amount equal to four months' wages and an additional amount of compensation that equals four to eight months' worth of wages. If a mass redundancy planned, it is normal practice for redundancy payments to be made to employees who willingly accept redundancy.

Employees are also protected in case of outsourcing or if a company or operating unit is sold or changed in its corporate form. The work contract, including all collective agreements, will remain in force with respect to the new employer.

Termination of employment
Under Article 18 of the Turkish Labour Code, the termination of the employee contract, of an employee with 6 months or more service, must be based on a valid reason. Valid reasons include inadequacy of the employee, behaviour of the employee or requirements from the needs of the business. If there is no valid cause, the employee is entitled to sue their employer.

Turkish labour law does not contain an official definition of employees who may be protected against redundancy. However, those who fall under the scope of job security provisions will generally be protected against redundancy. Furthermore, dismissal based on language, race, religion, sex, political or religious view or pregnancy is prohibited.

Employers are obliged to provide a severance payment to employees who have had their contract terminated after a one year service period. The payment is calculated by multiplying the employee's monthly salary with the number of years they have been employed. The government sets a maximum amount that can be paid as severance; this is revised every six months.

Notice periods
Turkish labour law determines a mandatory advance notice period that must be provided by either employee or employer should they wish to terminate an indefinite employment contract. If no notice is provided, the party terminating the contract must provide compensation to the other; this is generally equivalent to the salary that would be paid over the notice period. Notice must be provided in writing. Minimum notice periods are as follows:

- Less than six months employment: two weeks
- Between six and 18 months employment: four weeks
- Between 18 and 36 months: six weeks
- More than three years: eight weeks

Mass redundancy
In the case that the employer must undertake a mass redundancy, this must be officially communicated to trade union representatives, the regional directorate of the Ministry of Labour and Social Security and the Turkish Labour Authority 30 days prior to initiating the collective redundancy. There are stipulated topics that must be included in this notice. Furthermore, a meeting may then be held between the trade union representative and employer. This meeting will determine whether the redundancy can be avoided or the amount of employees being dismissed reduced whether any adverse effects that result from the redundancy mitigated.

Minimum wage
Under Article 39 of the Turkish Labour Code, the minimum wage is revised by Ministry of Labour and Social Security twice every year. Effective from 1 July 2015, the monthly minimum wage is TRY1,201.50 (Gross amount) for employees 16 years of age and above.

Working time and leave
Under Article 63 of the Turkish Labour Code, employees are allowed to work up to 45 hours per week. These hours may be unevenly distributed across the week, providing the time worked in a single day does not exceed 11 hours.

These limits cannot be extended, even with an agreement between the employer and employee. If the employee exceeds the limit, the working time is considered as overtime and therefore must be compensated accordingly. The maximum hours an employee can work as overtime is 270 hours in a year. Exemptions exist for certain categories of employment, such as the armed forces or health services. Overtime compensation is generally calculated as 1.5 times the normal hour rate. The employee may also exchange overtime payment for supplementary time off.

Under the Turkish Labour Code, employers are obliged to provide workers with rest breaks. The length of the breaks is dependent on the length of work but must be provided uninterrupted.

- Up to four hours worked: 15 minutes break
- Up to 7.5 hours worked: 30 minutes break
- More than 7.5 hours worked: one hour break

Employees who have worked for at least one year are entitled to paid annual leave; the length of this is dependent on the duration of their employment. The minimum entitlements are as follows:

- One to five years of employment: 14 days per year
- More than five years to fifteen years of employment: 20 days per year
- More than fifteen years of employment: 26 days per year

Any employees who are below the age of 18 or above the age of 50 are entitled to a minimum of 20 days of annual leave. These entitlements may be extended through individual negotiation of employment contracts or collective bargaining agreements. Turkey has 14.5 public holidays per year which are not included in the minimum annual leave entitlements.

If an employee becomes ill and is able to provide a doctor's certificate, they are entitled to time off during the period recommended by the doctor. Employers are not obliged to pay sick pay; employees can claim compensation during this time through government (Social Security Institution) disability programmes.

Paid maternity leave is available for the period beginning eight weeks before children and ending eight weeks after childbirth. Turkish labour law does not contain any provisions regarding paternity rights, although in practice, most employers grant paternity leave of up to three days following the birth of the child.

Social security
All individuals working in Turkey must be covered by Turkish social security. Employers and employees are both obliged to contribute social security payments. Employers must pay their portion and withhold the employee's portion from their salary. Foreign nationals are exempt from the Turkish social security scheme if they remain covered by their home country under a totalisation agreement.

The primary features of the social security system are short-term insurance (covering occupational accidents and diseases, illness insurance and maternity insurance), long-term insurance (covers old-age insurance, disability insurance and retirement insurance) and unemployment insurance.

Social security contributions for 2014 are as follows:

Type of risk	Employer's share (%)	Employee's share (%)	Total (%)
Short-term risks	1 - 6.5*	–	1 - 6.5
Long-term risks	11	9	20
General health insurance	7.5	5	12.5
Contribution to unemployment insurance	2	1	3
TOTAL	21.5*	15	36.5

**The rates change according to the risk categories of jobs. Depending on the risk category, the employer's share varies between one per cent and 6.5 per cent.*

Pensions
As above, state pensions are paid for by monthly social security contributions. In 2014, the contribution for pensions is 20 per cent of gross earnings, 11 per cent of which is paid for by the employer. The other nine per cent is deducted directly from the monthly earnings of the employee.

Furthermore, employers often operate their own pension scheme providing additional benefits.

Employee benefits
In Turkey, the provision of employee benefits is voluntary. Typical benefits that may be provided include: transportation, private health insurance, private life insurance and pensions, company cars, company phones, stock option plans and canteen services.

Personnel limitations - foreigners/nationals
Foreign nationals must obtain a work visa and work permit before they can start work in Turkey. Visas are obtained from Turkey's foreign missions; the cost of obtaining a work visa depends on the country from which the application is filed. The application for a work visa should be made at least one month prior to the foreign national entering Turkey.

Work permits are obtained from the Ministry of Labour and Social Security and the application for this can be filed from Turkey or abroad. A residence permit application must also be submitted within 30 days of the foreign national's arrival and before starting employment. Once the application is submitted, a work permit will usually be provided within one month. In order to be granted a work permit, a number of conditions must be satisfied by both the employer and potential employee. This includes a minimum monthly salary, a requirement for a minimum share and amount of capital for potential foreign shareholders and a check that a local employment quota is not broken. Work permits may be provided on an indefinite or definite term; indefinite term work permits can only be granted to foreign nationals who have resided in Turkey for more than eight years or those that have worked in Turkey for more than six years. The costs for obtaining a work permit are below; these are subject to annual revision.

- Definite- term work (up to one year): TRY181.00
- Definite work term (up to three years): TRY545.00
- Indefinite work term: TRY909.10

For professions such as engineering and architecture, that are currently heavily regulated, the work permit application process may differ from that of regular work permits; these may take up to a year to obtain.

Employers who knowingly employ foreign nations without work permits are liable to a fine of TRY8.381 for each illegal employee. The employee themselves will also be liable for a fine of TRY835. These fines are subject to annual revision.

Trade unions
All employees aged 16 and over are eligible to become a member of a trade union in Turkey. Trade unions have the right to negotiate collective bargaining agreements on behalf of the employees they represent.

Employers are bound by collective agreements if more than half of the employees of the employer are members of the trade union. Under the Trade Unions and Collective Labour Agreements Code, collective bargaining agreements are subject to specific regulations regarding trial periods, salary payment terms.

Unions may also provide certain benefits to their members, such as legal aid for retirement.

Audit

Under the Turkish Commercial Code, all companies must maintain statutory books alongside individual and consolidated financial accounts, in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards. All Turkish companies must prepare annual reports. The financial year in Turkey is generally the calendar year. Company key management will be responsible for the preparation of the annual report which must be prepared in accordance with the Turkish Financial Reporting Standards.

Accounting standards
The financial statements prepared by a company must comply with the Turkish Accounting Standards/Turkish Financial Reporting Standards. The Turkish Accounting Standards/Turkish Financial Reporting Standards were formed through a translation of the International Financial Reporting Standards (IFRS) into Turkish, in line with Turkey's progressive alignment to EU standards.

Accounting standards are regulated by the Public Oversight, Accounting and Auditing Standards (POA) Board of Turkey. This board was established under the Turkish Commercial Code and is responsible for preparing and declaring the Turkish Accounting and Auditing Standards which are in line with IFRS and ISAs, authorising the licenses of audit firms and providing oversight of the auditing profession.

Accounting and audit requirements
Under Turkish Accounting law, the following companies are required to prepare their standalone and consolidated financial statements in according with Turkish Financial Reporting Standards:

- All companies whose securities trade in a public market
- Companies specified in decree no. 66 as organisations of public interest
- Companies listed in Article 1534 of the Turkish Commercial Code
- All joint stock companies not covered by the above list, cooperation's under law 4572 and parent organisations
- All companies regulated by the Banking Regulation and Supervisory Agency (BRSA) and the Capital Markets Board (CMB)
- Insurance and reinsurance companies and pension companies
- Institutions authorised by the Istanbul Gold Exchange
- Companies licensed for warehousing of agricultural products, established as JSC
- JSC in accordance with laws of public malls
- Media companies that are owners of national terrestrial satellite and cable TVs

Furthermore all companies that are subject to statutory audits must also use the Turkish Financial Report Standards.

Statutory audits are mandatory for all companies that meet the following criteria:

Total Assets	≥ TR75 million
Annual Net Sales	≥ TRY150 million
Number of employees	≥ 250

The statutory audit requirement applies if any two of the three criteria are met in two consecutive years. A company moves into another category if it has failed to

Under the Turkish Commercial Code, all books and statements must be maintained in the Turkish language and using Turkish Lira.

meet the respective criteria in two consecutive years. The change in category becomes effective at the end of the second year.

All other firms are required to prepare their financial statements in accordance with Tax Procedural Law and the Turkish Commercial Code; they are not obliged to comply with the TFRS.

Financial reporting
All Turkish companies have to prepare financial statements and an annual activity report for the fiscal year. The documents must include:

- **Financial statements:** a truthful and transparent representation of the company's assets, debts and liabilities, equity capital and activity results. This must be presented in a complete, understandable and comparable form.
- **Annual directors' report:** this must outline the activities of the company for the relevant year and the financial situation of the company based on the company financial statements in a correct, complete and truthful manner. It must also discuss the development of the company and the potential risks it faces.

The annual report of the board of directors must also include:

- Significant events at the company that occurred following the end of the activity year
- Research and development works of the company
- Financial benefits paid to directors and senior managers, such as salaries, expenses, allowances, guarantees, premiums and bonuses

Under the Turkish Commercial Code, all books and statements must be maintained in the Turkish language and using Turkish Lira. The business year is generally the calendar year. However, other business years may be chosen and registered with the consent of the fiscal authorities.

The annual report must be presented and approved by the Board of Directors and presented to the shareholders before the end of the first quarter following the financial year.

Responsibility for accounting and financial reporting
Responsibility for accounting and financial reporting lies with the key management of a company. This will depend on the form of the company but is typically as follows: the board of directors in a joint stock company, the board of managers in a limited liability company and the management of a limited partnership.

Audit requirements
In accordance with the Turkish Commercial Code, the financial statements and the directors' report of companies that fulfil the requirements listed above are subject to an independent audit. All joint stock companies must have a statutory audit, whereas it is required for an LLC only if it has more than 20 partners. Auditors are selected and voted for by the shareholders during the General Assembly.

The audit must be conducted by an independent auditor or an independent audit firm in line with the Turkish Auditing Standards; these are identical with International Standards on Auditing. Companies cannot be audited by the same firm for more than seven consecutive years, and following this there must be a three year 'cool-off' period before re-election.

Filing requirements
Publicly-held companies must upload their financial statements and directors' report to the Public Disclosure Platform (KAP) where they are announced to the public. All other companies, subject to Public Oversight Accounting and Auditing Standards Authority of Turkey (KGK), are uploaded on the KGK website. Processes may be different for specific industries, such as banking.

Group requirements
Group companies must prepare consolidated financial statements, in accordance with the requirements above. Furthermore, the board of directors for each parent company must prepare an annual activity report for the group.

Trade

Foreign Direct Investment
Due to Turkey's rapidly growing market and liberal investment policy, the country has attracted large amounts of foreign direct investment. During the period 2009 - 2013, the country's FDI inflows amounted to over USD60 billion2.

Turkey's investment environment has a number of provisions for foreign ownership and investment. The Direct Foreign Investment Law published on 17 June 2003 stipulates that foreign investors in Turkey must be treated in an equal manner to local investors.

Currently a foreign investor does not need to obtain advance permission from the authorities in order to invest in Turkey, but has to submit statistical information to the Turkish Treasury after the investment has taken place.

Foreign companies are subject to the same Commercial Law, as well as all other corporate laws, and are committed to bear the same taxes, as their Turkish counterparts. Furthermore, foreign investors' rights are protected by the Turkish Constitution. For example, they are guaranteed no expropriation of property without compensation, transfer of dividends, repatriation of capital, purchase of real estate and employment of expatriate personnel and international arbitration.

Accordingly, foreign investors are allowed to operate using the following:

- Foundation of a new company or opening a branch
- Investment in industrial and commercial companies
- Portfolio investments
- Opening of liaison office
- Licence, know how, technical assistance and management agreements

International loan agreements
Non-residents can freely purchase and sell Turkish securities and capital market instruments, providing that Turkish banks or brokerage firms act as intermediaries. However, there are special prior approval requirements for owning shares or voting rights in the following regulated companies: banks, brokerage companies, insurance companies, television companies, energy companies, asset management companies, financial leasing companies, factoring companies, finance companies, financial holding companies, air transportation companies and any other company regulated by government authority.

Nevertheless, ownership of real property by foreign nationals is restricted to up to 10per cent of the real property in certain designated zones in each district. Companies incorporated in Turkey by foreign investors, or companies with foreign shareholders can only acquire and use real estate to conduct the activities stated in their articles of association. Exemptions exist under the following laws: Petroleum Law, Encouragement of Tourism Law, Banking Law, and Industrial Zones Law.

Government incentives
Turkey's investment incentive scheme, enacted on the 19 June 2012, comprises four different support schemes: general investment incentive scheme, regional investment incentive scheme, large-scale investment incentive scheme and strategic investment incentives scheme. The primary objectives of the new system are to reduce the current account deficit, boost investment in lesser developed regions and support technology investments.

While there are very few restrictions on who can apply for an investment incentive certificate, there are a number of priority industries. These include: mining extraction investments, railroad and maritime transportation investments, education investments and tourism investments in Cultural and Touristic Preservation and Development regions.

General Investment Incentive Scheme: All projects which meet the conditions outlined and the minimum fixed investment amount will be supported within the scheme, irrelevant of which region the investment is based.

Regional Investment Incentive Scheme: The investments that will be supported are determined in accordance with regional potential and the scale of the local economy.

Large-scale Investment Incentive Scheme: The incentives within this scheme are provided only for large-scale investments. These investments are subject to minimum investment amounts.

Strategic Investment Incentive Scheme: These incentives are rewarded without taking into account the regions and sectors. The primary aim of this scheme is to support the production of intermediate and final products with high import dependency within the remit of reducing the current account deficit.

	General Investment Incentive Scheme	Regional Investment Incentive Scheme	Large-scale Investment Incentive Scheme	Strategic Investment Incentive Scheme Tax Reduction
VAT Exemption	✗	✗	✗	✗
Customs Duty Exemption	✗	✗	✗	✗
Tax Reduction	✔	✗	✗	✗
Social Security Premium Support (Employer's Share)	✔	✗	✗	✗
Income Tax Withholding Allowance	✗	✗	✗	✗
Social Security Premium Support (Employee's Share)	✔	✗	✗	✗
Interest Rate Support	✔	✗	✔	✗
Land Allocation	✔	✗	✗	✗
VAT Refund	✔	✔	✔	✗

VAT Exemption
VAT is exempted for the supply of machinery or equipment to a taxpayer with an Investment Incentive Certificate (IIC).

Customs Duty exemption
Customs duty is exempted in the importation of machinery and equipment supplied to a taxpayer within the scope of the IIC.

Tax Reduction
Under Turkish Corporate Income Tax Law, any investments made within the scope of the IIC may be liable to reduce income tax. This is available until the total amount of tax reduced tax reaches the amount of contribution to the investment.

Social Security Premium Support (Employer's Share)
For any additional employment created by the investment, the employer's share of social security premium on the wages will be covered by the Ministry of Economy, up to the amount of minimum wage.

Income Tax Withholding Allowance
If there is additional employment created by the investment, income tax on wages shall not be applicable for 10 years.

Social Security Premium Support (Employee's Share)
For any additional employment created by the investment, the employee's share of social security premium on wages up to the amount of legal minimum wage will be covered by the Ministry of Economy, up to the amount of minimum wage.

Interest Rate Support
Interest rate support is a financial support tool that is provided for loans with a term of at least one year. A certain portion of the interest/profit share, of at most 70 per cent of the investment amount, will be covered by the Ministry of Economy.

Land Allocation
Investments within the scope of the IIC may be allocated land, depending on the availability of such land. Land allocation support can only be made by the Ministry of Finance and can only be obtained providing that the investment is not receiving reduced corporate tax reduction.

VAT Refund
For fixed investments, with a minimum value of TRY500 million, input VAT on building and construction expenses will be refunded.

IIC applications are made to the Ministry of Economy or Local Authorities with a general application fee of TRY400. There are a number of required documents that must be supplied as part of the application.

Other incentive schemes

Research and Development activities

In the last decade, the Turkish government has enacted a number of regulations providing incentives for research and development activities. Any companies resident in Turkey or non-resident companies with a subsidiary or branch in Turkey can benefit from the incentives, providing they have obtained an R&D centre license from the Ministry of Industry And Trade. The key incentives include:

R&D deduction: all eligible R&D expenditure, made in technology centres which employ at least 50 full-time R&D employees, can be deduced from the corporate income tax base at a rate of 100 per cent.

Income tax exemption: 80 per cent of the income of eligible R&D employees is exempt from income tax. For those that possess a doctorate degree, this rises to 90 per cent.

Social security premium support: the Ministry of Finance will pay 50 per cent of the employer portion of social security premiums, for all R&D employees, for five years.

Stamp tax exemption: Any documents that are prepared in relation to R&D activities will be exempt from stamp duty.

Technology Development Regions "Technoparks"

Further to the R&D incentives provided above, significant advantages are granted to investors that carry out R&D activities in the science and technology sector in special zones, known as 'technoparks'. These include: exemption from income and corporate taxes, exemption from VAT, exemption from all taxes for wages of R&D employees and a government provision towards social security premiums.

Free Trade Agreements (FTAs)

As at November 2014, Turkey has the following 17 FTAs in force: EFTA, Israel, Macedonia, Bosnia-Herzegovina, Palestine, Tunisia, Morocco, Syria, Egypt, Albania, Georgia, Montenegro, Serbia, Chile, Jordan, Mauritius, and South Korea. Additionally, the FTAs signed with Lebanon, Kosovo, Malaysia and Moldova are under ratification process.

Imports

Turkey's Import Regime comprises its membership to the World Trade Organisation, the Customs Union between Turkey and the EU, its FTAs and any unilateral preferential treatments granted by Turkey to other countries.

Turkey signed a Customs Union Agreement with the EU in 1996 and has since aligned its customs code and associated legislation to that of the EU's customs code. This allows for the free movement between the two sides of the customs union for goods either wholly produced, or put into free circulation after their importation from third countries, in either Turkey or the Union. Furthermore, Turkey has been aligned to the Community common customs tariff which includes preferential arrangements and the harmonisation of commercial policy measures.

The scope of the customs unions, and the associated free movement of goods, is limited to industrial products and processed agricultural products. It does not cover agricultural products or coal and steel products.

For any imports into Turkey, a custom duty must be paid; there is an exception for goods temporarily imported into the country if they are to be used in the production or manufacture of a product that is to be exported. The threshold for customs duties begins at EUR75 or 30kg.

Customs duties are calculated Ad Valorem on the CIF value of the goods. Customs surcharges include a value-added tax levied on most imported goods and services of which the importer is responsible for paying.

There is a list of sensitive products (furniture, ceramics, porcelain, etc) that require a higher custom duty. Preferential rates exist for the countries that are part of the WTO, Black Sea Economic Cooperation, Economic Cooperation Organisation and the South Europe Cooperative Imitative.

Import restrictions

The restriction or the prohibition of imports of certain goods may be due to economic or non-economic reasons. Restrictions exist for narcotics, weapons, live animals, medicines and pharmaceuticals, food and plant products, chemicals, telecommunications equipment, explosives, banknotes and radioactive materials. Any importation of the aforementioned goods may be restricted or require additional permissions or certificates from government agencies.

[2] Data from the World Bank

Finance

The Turkish financing market consists of banks, factoring, leasing and insurance companies. There are three types of banks in Turkey: deposit banks, development/ investment banks and participation banks. In the World Bank's 2015 Doing Business rankings, Turkey ranked 89th in the world for obtaining credit3.

Capital markets

The Borsa Istanbul (BIST) is the primary market for trading shares and other securities issued by public company and government bodies; it was formed following a merger between the Istanbul Stock Exchange, the Istanbul Gold Exchange and the Derivatives Exchange of Turkey that occurred in April 2013. Ownership of the Borsa Istanbul is divided between the treasury, Borsa Istanbul's members, Istanbul Gold Exchange members, the Association of Capital Market Intermediary Institutions of Turkey and Turkish Derivatives Exchange shareholders. It is regulated by the Capital Markets Board, which is based in Ankara.

Equities, debt, warrants, futures and equity options, indices, precious metals, foreign currencies, interest rates, commodities and energy products are all available for trading on the BIST.

There are two markets for trading equities on the BIST: the Equity Market and the Emerging Companies Market (ECM). Companies that fulfil the listing requirements or relevant market criteria can be traded on the Equity Market. The securities of companies that do not meet the listing requirements, but are identified as having development and growth potential, can be traded on the ECM. The listing requirements include: a submission of the financial statements and audit reports to the Exchange, a minimum of three calendar years since establishment and a number of quantitative and financial criteria.

Banking system

The structure of the Turkish banking system is generally characterised by three different types of financial institutions: deposit banks, development/investment banks and participation banks. Turkey's banking system comprises national and international banks.

The banking sector is regulated by the Banking Regulation and Supervision Agency. The central bank, Central Bank of Turkish Republic, is responsible for regulating the currency in circulation by implement monetary policy to maintain price stability.

Banks provide financing arrangements particularly, but not limited to, the following:

- Overdraft
- Term loans
- Mortgages
- Loans

Any businesses operating in Turkey will require a bank account. The process for opening a bank account is fairly simple; a passport or a certificate of residency, relevant proof of address and a tax ID number is required.

In order to open a bank account for any company established abroad, the following documentation may also be required: Articles of Association, Turkish Tax Identity Card, Board Resolution, Identification of Authorised Signatories, Trade/Commercial Registry Certificate, Shareholder Structure and Banking Transactions Agreement.

Other types of finance

Factoring

Factoring is a form of short-term commercial finance based on selling trade debts at a discount from one part of another. Factoring operations in Turkey began in the late 1980s as a product of commercial banks but are now undertaken by individually established factoring companies.

Insurance industry

Turkey has a robust insurance industry that has experienced strong growth in the last few years. There are a number of reasons for this growth but it can be primarily attributed to government incentives that encourage the use of insurance, economic growth and an expanding middle class. Furthermore, the Turkish insurance industry is of high foreign investor interest; currently, out of 59 insurers active in Turkey's insurance market, 44 are either foreign-owned or partnered4. In accordance with Turkey's alignment to EU policies, the Turkish insurance industry has progressed to comply with the EU and global practices in relation to conversion to IFRS, Solvency II and a number of other standards.

There are three main types of insurance that are mandatory for individuals living and businesses operating in Turkey: Compulsory Traffic Insurances (Motor Third Party Liability, Motorways Third Party Liability policy for Passenger Transportation and Motorways Seat Personal Accident policy for Passenger Transportation), Compulsory Liability Insurances (Hazardous Material and Hazardous

Waste, LPG, Private Security, Coast Facilities Sea Pollution, Carriers of Passengers by Sea and Medical Malpractice) and Compulsory Earthquake Insurance (TCIP).

Distribution channels of Turkish insurance market are categorised as agencies, banks, brokers and direct sales. According to 2013 fiscal year's general insurance figures, 68.89 per cent of premiums underwritten in Turkish insurance market are produced by agencies, 13.87 per cent by banks, 11.59 per cent by brokers and 5.65 per cent by direct sales.

Investment management industry

Turkey's investment management industry is relatively immature. Until recently, high inflation and high real interest rates meant that investors rarely sought alternatives to retail deposits and money market funds. Nevertheless, as real and nominal interest rates decline, demand for alternative investment products has begun to increase.

The Capital Markets Board of Turkey (CMB) has initiated a number of programmes in the past few years to bring the Turkish asset management industry into line with European institutional standards. The introduction of a law that law requires the use of an independent, third-party fund administrator and custodian and promotes open architecture and third-party distribution, has sought to strengthen investor confidence in the sector and provide easier access to funds, helping inflows.

The new law follows a number of other provisions, including measures to cut management fees and reform pensions, which contributed to a 30 per cent growth of pension assets in 2013.

Moreover, the Turkish private pensions system is continuing to grow following new incentives enacted by the government to boost domestic savings. Since January 2013, the government has matched 25 per cent of individual contributions up to a gross monthly salary of TRY978.

[3] World Bank, 2015 Doing Business Rankings

[4] Invest in Turkey, http://www.invest.gov.tr/en-US/infocenter/news/Pages/240414-turkish-insurance-market-growing-strongly.aspx

Infrastructure

The overall quality and reliability of infrastructure is a critical factor for businesses across all sectors.

Turkey's ICT sector is growing rapidly. The government has increased its focus on the sector, enacting the R&D law to provide incentives for significant investment. IT spending is expected to grow faster than the world average with spending on hardware, software, IT services and telecommunication services in Turkey expected to increase to USD25 billion by 2016. Currently, more than half of all households in Turkey have computers with internet access, which is expected to rise to 65.6 per cent over the next five years. The government, in accordance with its development programme, has set a number of ICT specific targets it wishes to achieve by 2023:

- Reaching 30 million broadband subscribers
- Providing internet connection for 14 million houses at a speed of 1,000 Mbps
- Increasing the sector's share in GDP from 2.9 per cent to eight per cent
- Becoming one of the top 10 countries in e-transformation
- Having 80 per cent of the population computer literate
- Increasing the number of companies to 5,500; employees to 65,000; and exports to USD 10 billion in technology development zones (TDZs)
- Increasing the ICT sector's size to USD160 billion, with a market growth of around 15 per cent each year
- Increasing the R&D expenditure to GDP ratio to three per cent from 0.85 per cent

Turkey has a reasonably developed transport infrastructure sector, ranking 51/144 in the 2014 – 2015 Global Competitiveness Report. Due to its location, it acts as a logistics hub for over USD2 trillion worth of freight, between the continents of Asia and Europe. Turkey's current logistics industry size is estimated to be USD80-100 billion and is forecast to reach USD108-140 billion by 2017. The country currently has 46 airports, of which 33 offer both domestic and international flights, while 13 offer regional flights across Turkey. The Turkish State Railways owns and operates all public railways; it is the 11th largest railway system in the world. The country also operates a number of award winning tram systems in Istanbul and Eskişehir. Turkey's road network comprises 426,906 km of road, upon which a number of private bus companies provide connections between cities and villages. Turkey's government has committed to a significant investment programme which comprises a number of ambitious goals that are to be achieved by 2023:

- An investment program for Turkish State Railways to build 10,000 km of high-speed railways, and 5,000 km of conventional rail lines
- Have at least one Turkish port among the world's 10 largest ports
- Constructing new airports with a total annual capacity of 400 million passengers
- Reaching a 32 million twenty-foot equivalent units (TEU) handling capacity for container transport
- Having a 10 million deadweight tonnage (DWT) shipbuilding capacity
- Increasing the number of marinas to 100 with a yacht capacity of 50,000
- Building an additional 15,000 km of dual carriageways and highways
- Increasing the share of sea freight transportation to 10 per cent in total freight transportation and containerization by 15 per cent
- Building three large ports in each seas surrounding Turkey

Country profile

Capital City	Ankara
Area	814,578 sq. km
Population	74.93 million
Language	Turkish
Currency	Turkish Lira
International dialling code	+ 90
National Holidays 2015	1 January – New Year's Day 23 April – National Sovereignty and Children's Day 1 May – Labour Day 19 May – Commemoration of Ataturk, Youth and Sports Day 17 - 19 July – Ramazan Feast * 30 August – Victory Day 23 - 26 September – Kurban Bayrami * 29 October – Republic Day
Business and Banking hours	09:00 to 17:00
Stock exchanges	ISE
Political structure	Democratic and secular republic
Doing Business rank 2014	55

** These are subject to change every year*

Ease of Doing Business

Topics	2015 rank	2014 rank	Change in rank
Starting a business	79	64	-15
Licenses and Permits	136	137	1
Getting Electricity	34	35	1
Registering property	54	55	1
Financing	89	86	-3
Protecting Investors	13	12	-1
Paying Taxes	56	50	-6
Trading Across Borders	90	92	2
Enforcing Contracts	38	42	4
Resolving Insolvency	109	118	9

Source: World Bank Group (Doing Business)