



DOING BUSINESS IN TURKEY

INVESTMENT GUIDE FOR
FOREIGN INVESTORS

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COUNTRY PROFILE



Republic of Turkey is a transcontinental Eurasian country that stretches across the Anatolian peninsula in western Asia and traces in the Balkan region of southeastern Europe. Turkey is bordered by eight countries: Bulgaria to the northwest; Greece to the west; Georgia to the northeast; Armenia, Azerbaijan and Iran to the east; and Iraq and Syria to the southeast. The Mediterranean Sea and Cyprus are to the south; the Aegean Sea to the west; and the Black Sea is to the north. The Sea of Marmara, the Bosphorus and the Dardanelles (which together form the Turkish Straits) demarcate the boundary between Eastern Thrace and Anatolia; they also separate Europe and Asia. Turkey's location at the crossroads of Europe and Asia makes it a country of significant geostrategic importance. Asian Turkey (made up largely of Anatolia), which includes 90% of the country, is separated from European Turkey by the Bosphorus, the Sea of Marmara, and the Dardanelles (which together form a water link between the Black Sea and the Mediterranean Sea). European Turkey (eastern Thrace or Rumelia in the Balkan peninsula) comprises 10% of the country.

The territory of Turkey is more than 1,600 kilometers (1,000 mi) long and 800 km (500 mi) wide, with a roughly rectangular shape. It lies between latitudes 35° and 43° N, and longitudes 25° and 45° E. Turkey's area, including lakes, occupies 783,562 square kilometers (300,948 sq mi), of which 755,688 square kilometers (291,773 sq mi) are in Southwest Asia and 23,764 square kilometers (9,174 sq mi) in Europe. Turkey is the world's 37th-largest country in terms of area. The country is encircled by seas on three sides: the Aegean Sea to the west, the Black Sea to the north and the Mediterranean Sea to the south. Turkey also contains the Sea of Marmara in the northwest.

Turkey is divided into seven census regions: Marmara, Aegean, Black Sea, Central Anatolia, Eastern Anatolia, Southeastern Anatolia and the Mediterranean. The capital city of Turkey is Ankara. The territory of Turkey is subdivided into 81 provinces for administrative purposes.

The population is approximately 73,722,988 as of 31.12.2010. Provinces with the largest populations are Istanbul (13 million), Ankara (5 million), Izmir (4 million), Bursa (3 million) and Adana (2 million).

The biggest city and the pre-Republican capital Istanbul is the financial, economic and cultural heart of the country.

The official language of Turkey is Turkish.

The currency of Turkey is the Turkish Lira

1 US	1.5460
1 EURO	2.0491
1 Pound Sterling	2.3886
100 Japanese Yen	1.8933

The Central Bank exchange rate of Turkish Lira, to other major currencies as of 31 December 2010.

Turkey is a republic in which, power is divided between the legislative, the executive and judiciary. Turkish parliament is the sole legislative body. Executive power is exercised by the President and Council of Ministers, in accordance with the constitution and the law. Judiciary operates independently on behalf of the state.

Turkey has been founding member of the UN since 1946, the Council of Europe since 1949, the NATO since 1952 and the OECD since 1961.

General Facts

Official Name of Country	Republic of Turkey
Capital City	Ankara
Government	Parliamentary Democracy
Population	74 million (2010)
Labour Force (Population)	25.9 million (October 2010)
Median Age	29.2 (2010)
Official Language	Turkish
Area	783,562.38 km ²
Coordinates	35° 55' North, 32° 50' East
Time Zone	GMT +2
Neighbouring Countries	Bulgaria, Greece, Syria, Iraq, Iran, Azerbaijan, Armenia, Georgia
Major Cities (Population)	Istanbul (13.3 million), Ankara (4.8 million), Izmir (3.9 million), Bursa (2.6 million), Adana (2.1 million)
Climate	Temperate; hot, dry summers with mild, wet winters
Telephone Code	+90
Country Code Top-Level Domain	.tr
Electricity Voltage	220 V, 50 Hz
Currency	Turkish Lira (TRY)
Financial Centre	Istanbul
Traffic Flow	Right
Airports	45 (13 international)



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**ECONOMIC
OUTLOOK**

2.1 MACROECONOMIC FIGURES

GDP

In 2010, GDP was \$ 735,828 million, which suggests that the Turkish economy became the sixteenth biggest economy among 30 OECD countries. GDP in 2010 has increased by 16% to Turkish Lira 1,105,101 million at current prices and increased by 8.9% to Turkish Lira 105,680 million at constant prices. GDP per capita in 2010 was Turkish Lira 15,138 and US Dollar 10,079 at current prices.

Real economic growth rates (based on GDP- production approach) in Q1, Q2, Q3 and Q4 in 2010 were 12%, 10.3%, 5.2% and 9.2% respectively.

Foreign Trade

The improvements in the Turkish economy have also boosted foreign trade, while exports reached USD 132 billion by the end of 2010 while imports rose 19 percent, hitting USD 202 billion. Similarly, tourism revenues, which were around USD 8.5 billion in 2002, exceeded USD 20 billion in 2010.

Employment

It is inevitably that the economic crisis hit the Turkish labour market, where reduced demand for labour resulted in job losses in Turkey like most of the other economies. However, measures to accelerate economic growth made positive effect on the dynamics of the labour market.

Turkey's unemployment rate fell 2.1 points to 11.4 percent in December 2010 from 13.5 in the same month of the preceding year, providing a good indication of stable growth in the economy. The number of jobless was down by 432,000 in December 2010 compared to the same month in 2009. The TurkStat figures show that Turkey's labor force rose to 22.67 million in December 2010, an increase of 1.2 million over the same month of 2009.

Inflation

As the recovery policy has strengthened the macroeconomic fundamentals of the country, inflation drastically decreased to 6.4 percent by the end of 2010, with the committed measures taken, while the EU-defined general government nominal debt stock fell to 41.6 percent from 74 percent in a period of eight years between 2002 and 2010.

The following table shows the inflation rates of past 5 years.

Years	Wholesale/PPI	Retail/CPI
2006	11,58	9,6
2007	5,94	8,39
2008	8,11	10,06
2009	5,936	6,53
2010	8.87	6.40

2.2 General Overview

Despite the economic problems during last crisis and fluctuating trend in global economy, developments in 2010 indicated a sound economic recovery in Turkey, driven by strong consumer and business demand, thanks to the fiscal stimulus packages and monetary policy easing measures. The robust economic performance in the last four quarters up to the end of 2010 has integrated the Turkish economy into the globalized world, while transforming the country into one of the major recipients of FDI in its region and made Turkey the fastest recovering economy among the European and the OECD countries and also one of the fastest growing economies in the world.

Turkey has considerably improved its terms of access to the global capital market. Progress in macroeconomic fundamentals has enhanced credibility and reduced risk premium and capital costs. This has had broad effects on capital supply conditions in the entire economy. Real interest rates have declined, and funds of lengthened maturity are becoming available for a broader range of borrowers and fund users, offering a basis for broader-based long-term growth. Estimations suggest that reinforcing fiscal institutions, price stability, governance quality, political stability and trade and growth performance would help Turkey to continue to improve its integration with the international capital market.

2.3 Financial Sector Overview

Turkish financial sector is still in development stage with its financial services available for new expansion opportunities thanks to sound economic growth in addition to the falling interest and inflation rates. According to the Banking Regulation and Supervision Agency (BRSA), the asset volume of the Turkish financial sector increased by 12% in 2009 compared to the preceding year. When the asset volumes are considered, 80% of the assets are owned by the banks which suggest that the banks are dominant in the financial services market, particularly in the credit sector. When undue bonds are concerned, we see the capital markets are mainly consisted of government bonds. And the quick growth in the Turkish insurance sector is expected to gain acceleration afresh with the Insurance Act, which has become effective on June 14, 2007.

- Financial sector in Turkey has liberalized considerably.
- Regulatory bodies have developed since 2001 and economy has become resistive against financial fluctuations both at home and abroad.
- There are 49 banks actively operating in Turkey and the foreign capital rate in 17 of them is above 50%. A there are 33 foreign insurance companies operating in the sector as of December 31, 2008.
- Despite of the global financial crisis, the banking sector in Turkey maintains its powerful and lucrative nature.
- Financial institutions of Turkey have not been subject to "toxic assets" caused by financial crisis.
- Central Bank, the Republic of Turkey (TRCB) has effective instruments for liquidity and flexibility management, which it uses to provide support for emergency case.
- According to the statistics by the Banking Regulation and Supervision Agency for 2009, ISE 100 index showed a growth of 84.1 on US Dollar basis in the first nine months of 2009, presenting the second highest performance in growth after the Brazil Stock Exchange, which grew by 104.4%.

- Istanbul Stock Exchange (ISE) has become one of the biggest exchanges of the world, although it has started its operations not long ago, in 1986.
- ISE became the best operating exchange of the world in 1993, with the foreign investment accounting for 25% of the daily transaction volume.
- According to ISE, 65% of the shares dealt in the exchange since September 2009 is held by foreign investors.
- Economic Intelligence Unit (EIU) expects that the credit growth will increase by 25% annually from 2010 through 2012 on account of stable economic growth, growth and age characteristic of the population, urbanization, ongoing reform and professionalization in the financial sector as well as relative improvement achieved in terms of economic stability and credit growth.
- Turkish and international investors are subject to same conditions and authorizations.

Aim of Istanbul Financial Center Project is to make Istanbul a regional financial center within ten years and, furthermore, convert it to a global financial center in the following decades.

With a view to attract financial investments, Turkish government constantly works to improve tax system, legal and financial environment, political and economic stability and legislative framework.

2.4 Central Bank of Turkey

Central Bank of Turkey is founded as a joint stock company with the exclusive right to issue banknotes in Turkey. The preparations to establish a central bank began in 1926, but organization was established on 3 October 1931 and opened officially on 1 January 1932. The Bank had, originally, a privilege of issuing banknotes for a period of 30 years. In 1955, this privilege was extended until 1999. Finally it was prolonged indefinitely in 1994.

CBRT's current powers and duties are defined by a specific law (CBRT law) accepted on 14 January 1970. The Central Bank issues money, serves as source of refinancing, clearing and collection to other financial institutions and as bank of the government. The Central bank is independent of the government. It employs various measures to influence monetary conditions, including discount rate policy, minimum reserve requirements and open market interventions.



3

**INVESTMENT
& BUSINESS
ENVIRONMENT**

3.1 Foreign Direct Investment Law

The foreign investment legislation of Turkey, which has been gradually liberalized since the 1980's, was revised in 2003 through some structural reforms. The procedures for foreign investment are simplified, some bureaucratic formalities are abandoned, and the principle of equal treatment is reemphasized.

The aim The New Foreign Direct Investment Law is defined as to encourage foreign direct investments in the country; to protect the rights of foreign investors; to align investment and investor with international standards; to establish a notification-based system for foreign direct investments rather than establish a notification-based system rather than an approval-based one for FDI; and thus regulate the principles to increase foreign direct investments through established policies.

There is the principle of non-discrimination and equal treatment in Foreign Investment Legislation unless otherwise stated in International Agreements and Special Law Regulations, foreign investors are subject to same principals with domestic investors. There is no requirement for Turkish participation in the capital or management of the company.

3.2 Establishing a Business in Turkey with Foreign Capital.

Profile of investors

- Citizens of foreign countries,
- Turkish citizens who live in foreign countries,
- Legal entity founded under the regulations of foreign countries and international institutions,

are defined as foreign investors.

3.3 Autonomous Organizations

For fulfillment of the requirements of an active market economy in Turkey, autonomous organizations were established for supervising and monitoring different markets in legal sense. These organizations are independent in administrative and financial sense. Among them are Competition Authority, Energy Market Regulatory Authority, Banking Regulation and Supervision Agency, Telecommunication Agency, Capital Market Board, Tobacco and Tobacco Products and Alcoholic Beverages Regulation Board.

Banking Regulation and Supervision Agency (www.bddk.org.tr)

Banking Regulation and Supervision Agency (BRSA) operates to assure rights and interests of the deposit holders; prevent any actions and operations that may constitute risk against regular and safe operation of the banks or prevent activities that may give damage to the economy and facilitate efficient operation of the loan system. Basic targets of BRSA are as follows:

- Improves efficiency and competitive nature of the activities in the banking sector;
- Ensures reliability of the banking sector;
- Minimizes possible adverse effects of the activities in the banking sector on the economy;
- Improves constantly the stability of the banking sector; and
- Protects the rights of the deposit holders.

Capital Market Board (www.cmb.gov.tr)

Responsible for regulation and supervision of the securities market in Turkey, Turkish Capital Market Board (CMB) makes arrangements for regulation of the markets and development of the organizations through capital market instruments, basing on the authority granted to it under the Capital Market Act. Turkish Capital Market Board has a variety of responsibilities for fair and regular operation of the markets and protection of the rights of the investors.

Priority order of the said responsibilities varies depending on the development stages of the markets and economic status of the country. However, the primary target is same: taking necessary precautions to support development of the capital markets, and thus, while it protects the investors, contributes effective allocation of the financial resources in the country. Aim of the Turkish Capital Market Board is to ensure justice, efficiency and transparency in the capital market in Turkey, perform innovative regulations and supervision to improve international competitiveness of the markets.

Turkish Capital Market Board assumes responsibilities with the authorization granted under the Capital Market Act. The Board is authorized and responsible in the following areas:

- Regulates and supervises the securities market and respective authorities;
- Determines the operating principles of the capital market; and
- Protects rights and interests of the investors.

Competition Authority (www.rekabet.gov.tr)

Competition Authority (CA) is responsible for a definitely free competition in the markets. The basic responsibilities and powers of the Competition Authority are described below:

- Performs, on its own initiative or upon request, inspection, investigation and search for activities and official operations defined in the Competition Act; takes measures necessary to prevent violations of the act and implements administrative regulations;
- Considers the exemption requests and, if deemed proper, issues exemptions for agreements that may disturb the competition;
- Monitors the markets constantly to consider the exemption decisions and negative authorization certificates and evaluates the applications again in case of any change in the markets and status of the respective parties;
- Evaluates mergers and assignment of companies and gives approval according to the specified criteria.

Energy Market Regulatory Authority (www.epdk.go.tr)

Energy Market Regulatory Authority (EMRA) regulates and monitors the energy market. This Authority provides independent regulation and supervision services to procure energy resources such as Electric, Natural Gas, Gasoline and LPG sufficiently for the customers at low cost, reliably and environment-friendly. Aims of EMRA are as follows:

- Regulates and supervises Electric, Natural Gas, Gasoline and Liquid Gas markets legally;
- Ensures an active, stable and transparent energy market in financial sense in a competitive environment

3.4 FOREIGN EXCHANGE LEGISLATION

3.4.1 Payment of Foreign Capital

The cash capital imported to Turkey must be convertible foreign currencies determined by the Central Bank.

It must be confirmed by banks or authorized institutions that the foreign cash capital imported by foreign investors. It is possible to import foreign capital as effective cash as well as importing through banks or authorized institutions.

Currency declaration record must be arranged for the capital imported in cash by customs administrations without any limitation of amount and country. In this record there must be a remark that if capital is a capital payment or capital advance.

The amounts imported as capital including the cash must be converted into Turkish currency and be kept in deposit or foreign exchange account and a receipt must be arranged and following must take place on these receipts,

- The name of the company established by foreign capital
- The name of non-resident partner
- The country foreign currency or Turkish currency is send
- The way of transaction (remittance, cheque, cash etc.)
- USD equivalence
- TRY equivalent of the amount which is calculated according to exchange selling rate of the bank or authorized institution doing the transaction
- Why the foreign capital is imported
- The field of activity which the capital imported.

3.4.2 Use Of Capital Advances

The capital advance send from abroad by non-resident partner can be kept in an account opened on behalf of the company.

The amounts imported to a present company as capital increase value or capital advance must can be put to the account of savings accounts.

3.4.3 Transfers of Foreign Capital Back

Transfer of the foreign capital back to the origin country is free with the condition all taxes and obligations are full filled.

3.4.4 Transfer of Profits from Commercial Activities

Foreign investors established a company, participated or established a branch in Turkey can transfer their profits from these activities to abroad by banks or authorized institutions freely.

3.5 FDI in Turkey By Numbers

International Direct Investment (Inflows)

(Million \$)

	2006	2007	2008	2009	2010
International Direct Investment Total (Net)	20185	22047	19504	8411	9071
International Direct Investment	17263	19121	16567	6629	6577
Equity Investment (Net)	16982	18394	14712	6170	6501
Inflows	17639	19137	14747	6252	6536
Liquidation Outflows	-657	-743	-35	-82	-35
Intra Company Loans**	281	727	1855	459	76
Real Estate (Net)	2922	2926	2937	1782	2494

**Loans which companies with foreign capital take from foreign partners
Provisional Data, Source: Central Bank of the Republic of Turkey

Table annex-2: International Direct Investment Inflow by Sector

(Million \$)

Sector	2006	2007	2008	2009	2010
Agriculture, hunting and forestry	5	6	23	48	79
Fishing	1	3	18	1	4
Mining and quarrying	122	337	151	89	196
Manufacturing	1866	4211	3955	1565	867
Manufacture of food products, beverages and tobacco	608	766	1252	196	149
Manufacture of textiles	26	232	189	77	82
Manufacture of chemicals and chemical products	601	1109	200	336	102
Manufacture of machinery and equipment n.e.c.	54	48	226	220	64
Office machinery and computers	53	117	236	59	167
Manufacture of motor vehicles, trailers and semi-trailers	63	70	77	225	39
Other Manufacturing	461	1869	1775	452	264
Electricity, gas and water supply	112	568	1068	2126	2063
Construction	222	285	336	208	372
Wholesale and retail trade	1166	165	2085	389	389
Hotels and restaurants	23	33	24	54	113
Transport, storage and communications	6696	1117	170	391	210
Financial intermediation	6957	11662	6069	666	1630
Real estate, renting and business activities	99	560	641	560	368
Health and social work	265	177	149	106	114
Other community, social and personal service activities	105	13	58	49	131
Total	17639	19137	14747	6252	6536

Provisional Data, Source: Central Bank of the Republic of Turkey

Table annex-3: International Direct Investment Inflow by Country

(Million \$)

Sector	2006	2007	2008	2009	2010
European Union (27)	14489	12601	11076	4928	4910
Germany	357	954	1237	498	598
France	439	367	679	617	600
Netherlands	5069	5442	1343	718	498
United Kingdom	628	703	1335	350	240
Italy	189	74	249	314	56
Other European Countries	7807	5061	6233	2431	2918
Other European Countries (Excluding EU)	85	373	291	306	256
Africa	21	5	82	2	0
U.S.A.	848	4212	868	260	320
Canada	121	11	23	52	56
Central-South America And Caribbean	33	494	60	19	5
Asian	1927	1405	2345	673	984
Near And Middle Eastern Countries	1910	608	2184	361	539
Gulf Arabian Countries	1783	311	1963	209	442
Other Near And Middle Eastern Countries	3	196	96	78	46
Other Asian Countries	17	797	161	312	445
Other Countries	115	36	2	12	5
Total	17639	19137	14747	6252	6536

Provisional Data, Source: Central Bank of the Republic of Turkey

Table annex-5: Breakdown of Companies with International Capital by Sector

(Number of Companies)

Sectors	1954-2005	2006	2007	2008	2009	2010	(1954-2011/ (Feb.))
	(Cumulative)						Total
Agriculture, hunting, fishing and forestry	156	39	46	52	55	63	423
Mining and quarrying	182	45	77	87	73	79	567
Manufacturing	2237	412	463	454	388	415	4452
Manufacture of food products, beverages and tobacco	244	42	34	34	50	64	474
Manufacture of textiles	290	45	46	21	18	20	446
Manufacture of chemicals and chemical products	254	40	54	45	39	52	502
Manufacture of machinery and equipment n.e.c.	164	51	44	46	29	23	362
Manufacture of motor vehicles, trailers and semi-trailers	157	15	19	23	18	7	239
Other Manufacturing	1128	219	266	285	234	249	2429
Electricity, gas and water supply	97	40	69	108	128	126	581
Construction	624	386	444	344	299	319	2495
Wholesale and retail trade	3579	717	757	760	913	1121	8052
Hotels and restaurants	849	182	196	203	171	154	1775
Transport, storage and communications	867	256	270	282	264	344	2354
Financial intermediation	138	46	42	42	17	14	303
Real estate, renting and business activities	1104	626	779	635	468	532	4258
Other community, social and personal service activities	440	171	161	204	160	177	1349
Total	10273	2920	3304	3171	2936	3344	26609

Provisional Data, Source: Undersecretariat of Treasury

4

**BUSINESS
ENTITIES**

There are two basic business entities available to foreign companies operating in Turkey (A.S. or Ltd.). Which companies are established under the provisions of the Turkish Commercial Code. There is no limitation regarding the partners origin. The legal differences between these two entities concern the allocation of liability and the legal identity of the entity.

- Anonim Sirket - A.S. which means corporation
- Limited Sirket - denoted Ltd, Which means Limited Liability Company

Foreign businesses can also open a Liaison Office or a Branch in Turkey.

4.1 Joint Stock Companies / Corporations

A Joint Stock Company is a limited company that can issue stock certificates, which is founded with at least five real or legal shareholders. Its stock capital is divided into shares, and the liability of the shareholders is limited with the share capital. Minimum capital requirement is 50,000 TRY. Twenty-five percent of the capital must be deposited in a bank before the registration process is completed. It is managed by board of directors and the governance of corporations executed by general assembly.

The structure and organisation of joint stock companies is subject to regulation by the Turkish Commercial Code. However, the founders of joint stock companies are afforded significant flexibility in drafting the Articles of Association, thereby serving the needs of the specific venture.

4.2 Limited Liability Company

A limited company in Turkey can be founded with at least 2 founders. Minimum capital requirement is 5.000 TRY. The liability of the shareholders is limited with the share capital. The founders can be real persons or legal entities. Similar to Joint Stock Companies in other respects, Limited Companies cannot issue stock certificates. All partners are personally liable for the debts of the company up to the maximum of their contribution, however, partners are not held liable for the unpaid portions of others' contributions. Ltd.s need not have a board of directors. There is no disclosure requirement or mandatory annual meeting if there are under 20 partners. The Ltd. is less restricted by government regulations and is commonly used by sales and distribution enterprises. The procedure for forming a Ltd. is the same as forming an A.S

4.3 Documents Required for Joint Stock and Limited Companies

- A company establishment petition and a notification form duly filled in and signed by persons authorized to represent the company. The list of the documents to be procured, and forms to be filled can be downloaded at www.sanayi.gov.tr and www.hazine.gov.tr
- Notarized signatures of persons authorized to represent the company, together with the company trade name
- A letter of commitment in accordance with Article 29 of the Trade Registry Regulation
- The bank receipt indicating that 0.04% of the company capital has been deposited to the account of the Turkish Competition Authority at a state bank or the Central Bank of the Republic of Turkey

- Certified copies of the ID certificates of the real person founders and their residence certificates (if they have Turkish citizenship)
- In case there are any real persons of foreign citizenship among the founders of the company, the copy of his/her passport to be presented together with the passport itself or its notarized copy
- In case the foreign shareholder(s) is a legal entity; the original copy of the certificate of activity issued by the competent authorities and approved by the relevant Turkish Consulate or apostilled and its notarized translation
- In case there are any rights and movable and immovable assets to be put in as capital for a company to be established; expert report of the assessment made to ascertain the value of these and the related court decision for the expert assignment

Foreign companies may also operate through liaison offices or branches provided that they are established in accordance with the relevant legislation.

4.4 Branch

A Branch of a foreign entity is not a separate legal entity. The official title of the branch must bear "branch" the phrase. Branches of foreign banks and insurance companies are subject to special rules.

There is no minimum capital requirement for the establishment of a branch, but the funds needed for the activities are provided by headquarters. Liabilities of the branch are under the guarantee of the company assets.

A Branch of a company may operate only in the area that company operates. It is managed by a foreign representative residing in Turkey.

4.5 Documents Required for Branch Establishment

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

- A translated version of Articles of Association
- Permission granted from the Ministry of Industry and Trade
- Power of Attorney for the Branch Manager
- Signature Circular of Branch Manager
- For a Turkish branch manager, copies of Identification Card (Notarized before a Notary Public), for foreign branch manager, copies of the photo bearing identification pages of their passports, as notarized and apostilled,

4.6 Liaison Office

Foreign entities may establish a non-trading, unincorporated liaison office under the framework decree on the basis of a permit from FDI. Liaison Offices are not allowed to carry on any commercial activity. Their main activity is to conduct market research and feasibility studies and to accumulate investment opportunities in the Turkish market on behalf of their head offices.

4.7 Documents Required for Liaison Office Formation

- The original copy of "Certificate of Business Activity" approved by the relevant Turkish Consulate or as per the Den Haag International Law Conference Treaty on establishment of the Requirement for Endorsement of Official Documents.
- Operational report or balance sheet and income statement of the main company
- Original power of attorney issued to the name of the person who will carry out the operation of the liaison office.
- The original power of attorney that in case another attorney will carry out the establishment transactions of the liaison office.

4.8 Declarations to Start up Company and Branch

Declaration to Tax Administration: Starting a business declaration is submitted within 15 days after company is registered by Trade Registration Office to tax office by the tax payers.

Registration to Chamber of Trade: The documents are presented following obtaining Trade Registration.

Registration to Social Security Institution: The declaration of a new established company to Social Security Institution is submitted following the Trade Registration within 10 days. Other transactions are completed by the company.

Declaration to Regional Labour Office: The registration transactions of the companies whose establishment is completed and who will employ personnel is done to regional labour office with declaration and documents of Trade Registry Office within 1 month.



5

TAXATION

The major types of taxes that is applicable in Turkey

Corporate Tax
Income Tax
Withholding Tax
Value Added Tax
Special Consumption Tax
Other Taxes

5.1 CORPORATE TAX

5.1.1 Entities Liable for Corporate Income Tax

In Turkey, Capital companies and similar foreign companies, Cooperatives, Limited liability companies, Turkish branch offices of foreign companies, joint ventures, public enterprises and Enterprises owned by foundations societies and associations; are subject to corporate income tax.

5.1.2 Taxable Income

All profits derived in the earning of income by corporations and corporate bodies are included in taxable income. Some deductions and exemptions are applied. Expenses incurred in the course of the business are generally deductible.

5.1.3 Determination of Net Taxable Income

Basically, taxable corporate income is determined by taking into consideration all business-related expenses, income, losses and deductions and calculated as the difference in the value of the net assets on the last and first day of the tax year (normally calendar year). Deductible and non-deductible expenses and tax-exempt corporate income are taken into consideration while calculating the taxable income.

5.1.4 Tax Rates

Corporate income tax rate is 20 %

Corporate tax payers pay provisional tax at the basis on the same rate. These advance payments are deducted from yearly corporate tax of current period.

5.1.5 Deductions and Disallowable Expenses

An expense is deductible if it is related to the generation of income or the operation of a business.

Some of the deductions allowed for both corporate and income tax purposes are as follows:

- Common expenses,
- Meals provided to the employees on site,
- Social security contributions,
- Travel and lodging expenses adequate to the size of business,

- Expenses of leased or owned vehicles that are used for business purposes,
- Property tax, stamp duties and municipal taxes, which are related to the business,(indirect taxes)
- Depreciation expenses calculated by the methods of the Tax Procedural Law,
- Bad debt provisions, if legal act towards enforcing the payment has been taken,
- Donations to certain institutions and associations for charitable works, up to a limit.

Some disallowable expenses are as follows

Corporate tax, income tax, and delay charges calculated in accordance with the Public Receivables Collection Law,

Interest paid or calculated on the basis of equity capital and interest and foreign exchange losses on disguised capital,

Disguised profit distribution through transfer pricing practice.

Penalties and indemnities resulting from delinquencies of the taxpayers and/or his employees,

Legal reserves and other profit reserves.

5.1.6 Exemptions from Corporate Tax

The following earnings of corporations are exempted from corporate tax:

- a. Dividend income from other Turkish companies
- b. Dividend income received from foreign subsidiaries or branches when certain conditions fulfilled (minimum 10 % of participation and holding minimum 1 year),
- c. 75% of the capital gains from disposal of share certificate and immovable properties that are held over 2 years.
- d. Earnings of the following funds and companies that are established in Turkey:
 - Portfolio management earnings of investment funds/companies,
 - Real estate investment funds/companies,
 - Venture capital funds/companies,
 - Pension funds,
 - Housing financing funds and assets financing funds.
- e. Income from construction, restoration assembly and technical services done abroad
- f. Income through selling companies rights or shares which are issued by A.S. companies over nominal prices
- g. 100 % of research and development expenditures for new technology and information development

SPECIAL PROVISIONS

5.1.7 Capital Gains

The standard tax rate on corporate income is 20 %. When calculating capital gains, if the index rise is 10% or more the purchase price of the asset sold is adjusted in line with the rise in the index from the date of purchase to the date of sale. Capital gains tax on the real profit. On the sale of foreign participations by a resident international holding company if held for more than 2 years the capital gain is exempt from tax. Under certain terms 75 % of income from sale of real estate.

5.1.8 Dividend

Foreign investors have the right to transfer dividends, after deducting the relevant taxes and legal reserves required by laws, without needing a prior approval from any authority. Immediately after the end of the tax year, dividends corresponding to the foreign investor can be transferred abroad, provided that a resolution is passed in the annual general meeting of the shareholders. Advance dividend distribution is possible for listed companies at Istanbul Stock Exchange and also for other corporate taxpayers.

Foreign currency equivalent of the dividends is determined by applying the prevailing official exchange rate on the date of transfer. Dividend transfer can be realized even before the declaration of tax return of the concerned year.

5.1.9 Carry-forward Losses

The tax-loss is carried forward and set off against the income of subsequent for 5 years. For carrying forward, the loss corresponding to each years must be specified in the corporate tax return. There are no loss carry-back.

5.1.10 Tax Year

In general the tax year is the calendar year. A taxpayer may adopt a 12-month tax year other than the calendar year, provided that a prior permission from the Ministry of Finance is obtained.

5.1.11 Transfer Pricing

The new rules enacted in 2007 regarding transfer pricing. Under Article 13 of New Corporate Income Tax Law, "Arm's length principle means that the price or consideration charged for the purchase or sale of goods or services between related parties should be the price or consideration which would have been occurred in the absence of such a relationship between them."

Article 13(2) also states that "By taking into account whether the taxation capacity of the source country's tax system is the same with that of Turkey and the issue of exchange of information, all transactions made with persons located in countries or regions to be announced by Council of Ministers will be deemed as if they were made with related parties".

Transfer pricing methods

- Comparable uncontrolled price method
- Cost plus method
- Resale price method
- Other methods (Profit split method, Transactional net margin method, Other methods determined by taxpayer)

Taxpayers should select one of the first three method which is the most appropriate to the transaction in determining price in the transactions with related parties. Only if these methods can not be applicable to determine the price, taxpayers can use one of the other method which is most appropriate.

Advance Pricing Arrangement

There is an opportunity that, taxpayers can request advanced approval of the tax authority regarding "the method" to be used in their transactions with related parties. Thus, corporate taxpayers may apply for unilateral, bilateral or multilateral APAs. A formal APA signed between the taxpayer and tax administration and both sides are bound by the approved method to be applicable for the agreed-upon period (maximum three years) as long as conditions and critical assumptions of the APA are valid.

Transfer pricing documentation requirements

There are 3 types of documentation requirements:

1. Annual transfer pricing report: In general, all corporate taxpayers which have international transactions, must prepare.
2. Transfer pricing, controlled foreign corporations and thin capitalisation form: Must be filled by all corporate income taxpayers and submitted to the tax office with annual tax return.
3. Annual APA Report: Taxpayers having an APA should prepare an APA report every year and submit to Turkish Revenue Administration.

All reporting requirements shall be done until the deadline same as annual tax return. There is no specific regulations on transfer pricing audit procedures and transfer pricing penalties. General audit and penalty regimes apply to transfer pricing cases.

5.1.12 Declaration of Corporate Income Tax

In general, the corporate tax is assessed on the base declared through tax returns filled annually by taxpayers. The annual tax return is applicable for the reporting of net corporate profits realized in the course of one tax year.

In principle, every taxpayer is required to file only one single tax return, even if tax payer has derived the income through different business places or branches and those places and branches have their own accounting and allocated capital.

The corporate tax return is filled until the 25th day evening of the fourth month of the year following the month in which the tax year ends and the assessed taxes are paid until the end of that month. Each entity (corporate) is a different taxpayer. No consolidation is allowed.

5.1.13 Taxation of Non Resident Entities

Non-resident entities that have not both legal and business center in Turkey are sole taxed on the income they realized in Turkey.

- Commercial and Agricultural income: declared yearly and taxed at 20%.
- Other income and revenue: income from sales of real estates which are hold less than four years as assets and income from disposable of share right and share notes declared within period of 15 days after realization of the income and are subject to 20% tax.
- Income of non-resident entities not having both legal and business center in Turkey are taxed by stoppage and those taxed must be declared and paid Tax Administration in following month.

5.1.14 Taxation of Branch of a Foreign Entity

A branch is subject to Turkish taxes based on income derived in Turkey since the branches are considered to have limited liability status, whereas a subsidiary or joint venture is subject to taxes on worldwide income.

Corporate income generated by a branch of a foreign entity is subject to corporate tax same as resident companies

5.2 INDIVIDUAL INCOME TAX

5.2.1 Tax Liability

In general individuals residing in Turkey are liable for personal income tax on all of their income derived in and outside Turkey. Any person who remains in Turkey more than six months in a calendar year is assumed as a resident of Turkey. However, foreigners who do not reside in Turkey but receive part of their income from Turkey are not treated as resident and therefore, unlimited tax liability does not apply to them, they are liable for income tax only on their income derived in Turkey.

For tax purposes, it is especially important for non residents to determine in what circumstances income is deemed to be derived in Turkey.

5.2.2 Taxable Income

The income tax is levied on the income of individuals. In the application of income tax, ordinary partnerships are not deemed as an entity and each partner is taxed individually on their share of profit.

Types of Income tax is levied on the following types of income:

- Business profits,
- Agricultural profits,
- Salaries and wages,
- Income from independent personal services
- Income from immovable property and rights (rental income)
- Income from movable property (income from capital investment)
- Other income and earnings without considering the source of income

Income Tax Rate for 2011

INCOME SCALES (TL) (NON-EMPLOYMENT INCOME)	RATE (%)
Up to 9,400	15
9,401-23,000	20
23,001-53,000	27
53,001 and upwards	35

Income Tax Rate for 2011

INCOME SCALES (TL) (EMPLOYMENT INCOME)	RATE (%)
Up to 9,400	15
9,401-23,000	20
23,001-80,000	27
80,001 and upwards	35

Business profit

A person must have a permanent establishment or permanent representative in Turkey and income must result from business carried out in this permanent establishment or through such representatives.

Agricultural income

Agricultural activities generating income must take place in Turkey.

Wages and Salaries

- Services must be rendered or accounted in Turkey.
- Fees, allocations, dividends and the like paid to the chairmen, directors, auditors and liquidators of the establishment located in Turkey must be accounted in Turkey.

Income from Independent Personal Services

Independent personal services must be performed or accounted in Turkey.

Income from Immovable Property

- Immovable must be in Turkey;
- Rights considered as immovable must be used or accounted in Turkey.

Income from Capital Investment

Investment of the capital must be in Turkey.

Other Income and Earnings

The activities or transactions generating for other income, specified in the Income Tax Act, must be performed or accounted in Turkey.

The term “accounted for” used above to clarify tax liability of the non-residents means that a payment is to be made in Turkey, or if the payment is made abroad, it is to be recorded in the books in Turkey.

5.2.3 Taxation Of Limited Individual Tax Payer

- Who does not reside in Turkey and
- Who stays less than 6 months in a calendar year in Turkey

Non residents are liable for tax on their income derived in Turkey.
are limited tax payers.

If the whole income of the limited tax payers derived in Turkey are wage, income from independent professional services, income from capital investments or income from immovable assets and other income which is subject to withholding tax, limited tax payer do not have to make any declarations. Withholding tax is the only tax they will pay.

5.2.4 Bilateral Agreements for the Promotion of Investments

The basic aim of bilateral investment agreements is to establish a favorable environment for economic cooperation between the contracting parties by defining standards of treatment for investors and their investments within the boundaries of the countries concerned. The aim of these agreements is to increase the flow of capital between the contracting parties, while ensuring a stable investment environment.

As of 01.01.2010, Turkey has signed agreements with 66 countries. (Appendix 3)

Double Taxation Prevention Treaties

Turkey has signed double taxation prevention treaties with 71 countries. (Appendix 3) This enables tax paid in one of two countries to be offset against tax payable in the other, thus preventing double taxation.

5.3 Value-Added Tax

Value added tax is levied on all goods and services supplied within the scope of commercial, industrial, agricultural and independent professional activities and import of goods and services.

The general rate is 18 %. The goods those are subject to VAT at 1% such as; vegetable & animal products, newspapers, magazines. The goods and services that are taxed at 8% such as; basic food items, health services and medical devices, textile and apparel products, accommodation services provided at hotel, motel, holiday village and etc. and entry price of cinema, opera, theatre etc. Education employ at college.

Taxable persons are allowed to deduct the input VAT which they have paid on their purchases from the output VAT that they have collected from their own sales. If there is remain balance they pay it to the tax administration.

There are some exemptions. These are export of good and service, transit transportation, delivery of machine and equipment within the investment incentive certificate.

Value added tax refund available for some cases within the scope of procedures and with some conditions.

5.4 Special Consumption Tax

This tax is levied on different kinds of goods and governed by the Special Consumption Tax Law. There are four kinds of groups of goods which are taxable once:

- Group I contains petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents. Taxpayers are manufacturers and importers of the petroleum products;
- Group II contains automobiles and other vehicles, motorcycles, planes, helicopters and yachts. Taxpayers are merchants of motor vehicles, exporters or sellers by auction;
- Group III contains tobacco and tobacco products, alcoholic beverages and cola. Taxpayers are manufacturers, exporters or sellers by auction of tobacco, alcoholic beverages and cola;
- Group IV contains luxury products. Taxpayers are manufacturers, exporters or sellers by auction of luxury products.

5.5 Other Taxes

Stamp tax

Stamp tax is applied on a wide range of official and legal documents at different rates. When the amount is specified, the rate is 0.825% over the amount specified, such as contracts, guarantees and mortgages. The ceiling for stamp tax is 1.161.915,90 TRY for the year 2010 per each document that is subject to stamp tax.

The Stamp Tax Law provides that each relevant party shall be responsible for payment of the total amount of stamp tax on the agreements. Each original document is separately subject to stamp tax.

Property taxes

Property taxes are paid each year on the tax values of land and buildings at rates varying from 0.1 % to 0.3 %. In the case of the sale of a property, a 1.5 % levy is paid on the sales value by both the buyer and the seller.

Property tax returns have to be filed every four years; the annual tax is paid in two equal instalments, the first being in March, April or May and the second in November.

5.6 SOCIAL SECURITY SYSTEM

Social security system in Turkey underwent a great transformation in 2007 and, as a result of this process, became a system operating more efficiently and quickly, basing on central supervision of different social security institution by collecting the same under the roof of a single organization.

The following were performed under the reform scheme:

Three different security organizations, namely Social Security Organization, Pension Fund and Bağ-Kur (social security organization for artisans and the self-employed), were combined in the body of a single organization. The three social security organizations cover about 81% of the population by 2008. New system has started to be functional definitely since early 2008.

5.6.1 Social Security Premium Payments

Social security premiums (calculated as a certain percentage of the employee's gross revenue) is paid either by employer or employee. The following table shows rates for office employees working in the private sector. Rates working in certain sectors such as mining sector, oil/natural gas exploration sector may vary depending on the risks category of the work in question. The rates are available in Labor section

Foreign nationals that pay their social security contribution premiums applicable in their own countries are not required to pay social security premiums applicable in Turkey if there is a contract mutually signed by the respective country and Turkey.

5.6.2 Payments of Unemployment Insurance Premium

Unemployment insurance contribution premium should be paid at 1%, 2% and 1% by the employees, employers and government, respectively, on the monthly gross revenue of the employee. The employers may deduct such contribution share from their taxable revenues. Furthermore, the contribution share of the employees may be deducted from their income tax assessment.

Foreign nationals that continue to be subject to mandatory social security system applicable in a country where the social security contract entered with Turkey is still effective are not subject to social security payments applicable in Turkey. Such people are required to provide the local social security directorates with a document evidencing they are subject to social security system in their respective countries. If the employee is not subject to social security system in his/her country, this employee is generally required to make the social security payments applicable in Turkey.



5.7 ACCOUNTING & AUDIT

5.7.1 Accounting

In 2002, for the purpose of identifying and publishing the national accounting standards that will be applied for public benefit and that will ensure the development and adoption of national accounting principles to enable accurate, reliable, balanced, comparable and comprehensible financial statements, Turkish Accounting Standards Board was established as an administratively and financially autonomous public legal entity

To enable integration with international practice whilst ensuring harmonisation with European Union legislation The Board has decided to adopt the "International Financial Reporting Standards" (IFRSs).

In Turkey, the financial statements of banks and public companies have been prepared in conformity with IFRSs since the beginning of 2005.

The accounting profession is currently governed by the Law enacted in 1989. However, related regulations issued by the Central Bank and the Capital Markets Board (CMB) are also particularly important, since they stipulate the auditing, accounting and financial reporting standards for banks and public companies of more than 200 shareholders, or whose shares or bonds are quoted on the stock exchange.

Accounting records such as the Journal Ledger, Inventory Ledger, Production Ledger or Stamp Tax Book have to be retained for five years following the relevant accounting period, and for a period of ten years in order to comply with the Turkish Commercial Code.

The financial records must be maintained in the Turkish language and in Turkish Lira, and must be authenticated by a notary public.

5.7.2 Regulations For Chartered Public Accountants, Tax Accountants and Auditors

Turkish law classifies accounting professionals in two categories:

- Certified Public Accountant (SMMM)
- Sworn - in Financial Advisor (YMM)

In order to carry out audits for taxation purposes, Individuals and professionals in auditing companies respectively need a licence as Sworn - in Financial Advisor .

5.7.3 Reporting

The annual report of the joint stock companies, including basic financial statements and auditor's report are submitted to shareholders 15 days prior to annual shareholder's meeting and to the Trade Registry Office within 30 days after the annual shareholder's meeting.

Listed companies must file their audited financial statements and independent auditors' reports with the CMB and the ISE within 10 weeks (plus 4 weeks for consolidated financial statements) after the end of the financial year.

Banks must submit audited yearend financial statements till the end of April and reviewed quarterly interim unconsolidated and consolidated financial statements within 45 days and 75 days, respectively, to the BRSA and Banks Association of Turkey after the end of each quarter. Listed banks are also subject to CMB rules.

Insurance companies must submit their audited annual financial statements within 10 weeks after the end of the financial year and reviewed mid year financial statements within 8 weeks after the end of semi annual period with the Undersecretariat of Treasury.

5.7.4 Audit

Appointing statutory auditors is required for joint stock companies to examine financial statements on behalf of the shareholders. Statutory auditors are not always from the profession and viewed as fulfilling legal requirements.

Limited liability companies with more than 20 shareholders must have at least one statutory auditor, who is subject to the rules that apply to joint stock companies.

5.7.5 IFRS

Generally, IFRS audits are requested by multinational companies and also by some Turkish companies to control, consolidation or credibility purposes.

Turkish Accounting Standards Board has been active since 2002. The aim of the Board is to produce nationwide accounting and reporting standards by making official interpretations of the International Financial Reporting Standards (the IFRS). There are 40 standards that has been released.

According to New Turkish Commercial Code, all Turkish Companies are oblige to maintain the statutory books in line with the IFRS.

5.7.6 New Turkish Commercial Code

The New Turkish Commercial Code that will replace the Turkish Commercial Code that has been in effect for nearly 50 years, was adopted by the Turkish Parliament on 13 January 2011 and promulgated in the Official Gazette on 14 February 2011. The code, which will affect various practices of commercial companies, negotiable instruments, transportation operations and insurance contracts, and bring into effect new elements of maritime law, will be put into practice in July, 2012.

The New Law offers a very important opportunity and foundation for institutionalisation, increasing competitive power, establishing public confidence and transparency. Within this context the New Turkish Commercial Code will require every capital stock company in Turkey to create a website dedicated to publishing all data relevant for shareholders, such as annual and interim financial statements and audit reports. Auditing will be conducted by independent auditors who is professionally competent, in compliance with international auditing standards.





6

INVESTMENT INCENTIVES

Various incentives are provided to the investors for the purpose of encourage, facilitate larger investments and capital contributions by local and foreign investors to the capital-build up of the country, and to reduce the inter-regional imbalances within the country.

The incentives may be classified mainly under the following headings;

State Aids

Regional Based Incentives

R&D Supports

SMEs Support

Free Zones

There is no discrimination between the investors with respect to the application of incentives, both local and foreigners have equal access to the incentives.

Investment Incentive Certificates Issued for Companies with International Capital, 2011/February

	January	February
Number of Incentive Certificates (Number)	21	18
Amount of Investment (Million \$)	1032.0	836.2
Amount of Investment (Million TL)	1588.7	1336.4
Equity Share of Foreign Direct Investor (%)	94.9	29,6

* Investment value is prescribed in the investment certificate which is issued for companies with foreign capital
Source: Undersecretariat of Treasury

6.1 State Aids

The main objective of the state aids is to reduce the inter-regional imbalances within the country, encourage exports, and increase competitiveness of the investments and employment. The implementation of the Turkish incentive regime varies depending on the location, scale and subject of investments. Investors who have an investment incentive certificate may apply for the stated incentives. The Foreign Investment Department (FID) of the Treasury grants incentives for projects where foreign investments involved. The investments granted through investment incentive certificate are reduced corporate tax on earnings derived from various sectors and regions, VAT and custom duty exemption and loan interest support.

The total amounts of investments specified that eligible for incentives are below:

- Minimum TRL 200,000 and maximum TRL 2,000,000 for SMEs
- Minimum TRL 200,000 for financial leasing companies
- Minimum TRL 1,000,000 for enterprises other than SMEs

Custom Duties Exemption

To the investors holding investment incentive certificate, 100% exemption from custom duties are available on imported investment goods and machinery and equipment and raw, semi processed materials and operating supplies.

Value Added Tax (VAT) Exemption

In accordance with the VAT Law, dated 25/10/1984 numbered.3065, VAT exemption are available on imported and locally purchased machinery and equipment. Machinery and equipment imported or locally purchased within the scope of investment incentive certificate.

Loan Interest Support

The Treasury supports for interest are 5% for TL loans (atleast 1 year maturity), 2% for foreign currency loans. (for first 4 years) Interest support is provided for investment projects by SMEs, research and development projects, environmental projects and projects in the regions having priority for development within the scope of investment incentive certificate

6.2 Incentives Applied in Emergency Zone and Priority Development Areas

For the purpose of increasing the new investments and employment opportunities in provinces whose per capita share of GDP is under USD1,500 or socioeconomic index in the 2003 Socioeconomic Ranking is negative, following incentives has been provided to the investors to be applied on regional basis;

Income Withholding Tax Exemption

There is an incentive provisionally in effect until 31 December 2012, under certain conditions through cancellation of income withholding tax liability calculated on the salaries of the employees working for the employers whose investments are located in that regions.

Support for Social Security Insurance Premium

A financing support by the Turkish Treasury is provisionally available until 31 December 2012

with respect to 100% of the employer's share of the social security premium for the employees employed in organized industrial zones or industry zones and 80% of the employer's share of the social security premium for the employees employed outside these zones within the cities enumerated above.

Energy Support

20% of the electricity expense is financed by the Treasury for those operating in certain sectors provided that the minimum number of employees, as specified by Law No. 5084, are employed. 0.5 point is added to 20% for each extra employee employed over the minimum number. However, the maximum financing ratio is limited to 50% for organized industrial zones or industry zones and 40% for other locations (provisionally available until 31 December 2012).

6.3 Research and Development Incentives

Several incentives are ensured to R&D expenditures in Turkey by targeting ensuring of sustainable growth, increasing of competitive power, rising of R&D expenditures share in GDP, increasing of goods and service production which it's added value is higher, decreasing of manufacturing costs by increasing of productivity, supporting of employment qualified workforce, encouraging of employment in domestic of Turkish researcher in abroad, expediting of entering to Country of direct foreign investments within the R&D, developing and encouraging of cooperation project pre-competition. In accordance with the Corporate Tax Law, companies conducting R&D activities approved by the Council of Science and Technical Research, universities and entities specialized in the subject of the research as "R&D activities" can benefit from the supports such as custom

duties, VAT exemption and loan support regardless of the region of investment.

6.4 Technology Development Zones

The areas designed to support R&D activities and attract investments in high technology fields are Technology Development Zones (TDZs) There are 39 TDZs of which 27 are operational, and 12 have been approved and are currently under construction. Ankara has six TDZs, Istanbul has five, Kocaeli has three.

6.5 SMEs Support

KOSGEB (Small and Medium Industry Development Organization) is one of the major organizations executing the SME policy in Turkey. KOSGEB provides supports for SMEs mainly in the following topics:

- Consultancy and Training Supports
- Technology Development and Innovation Supports
- Information Technology Supports
- Quality Improvement Supports
- Market Research and Export Improvement Supports
- Support for Improving International Cooperation
- Regional Development Supports
- Supports for Developing Entrepreneurship

6.6 Free-Trade Zones

Free-Trade zones are primarily designed to encourage trade to and from Turkey and to encourage foreign investment which is not primarily directed at Turkish market.

- The areas within free zone boundaries are treated as extraterritorial for customs duties purposes.
- The income and profit provided from the activities done in these zones can be transferred to abroad or to Turkey without any permission
- Goods can be hold in these zones without time limitation.
- All kind of payments regarding free zones are made by foreign currency.

Taxpayers who started their operations in free zones after 06.02.2004 are subject to 20% of income tax. But income of manufacturers and income from manufacturing activities are still exempted from corporate tax. These zones can be attractive for companies; want to get rid of financial burden arising from taxation system and bureaucracy; want to export their goods that are produced by imported inputs; and using labour force intensively since the delivery of goods and services in free trade zones are excluded from VAT

7

LABOUR

7.1 Employment Contracts

Based on new Turkish Labour Law entered into force in June 2003, there are four different types of job contracts: “Temporary” and “Permanent” Work, “Definite Period” and “Indefinite Period”, for “Part-time” work and “Work-upon-call”

The law does not require a special form for contracts and these contracts are exempted from duties and stamp tax. The law stipulates a trial period of a maximum 2 months and a contract can be terminated within that trial period without any notice.

7.2 Working Hours

In general terms, working hours is forty-five hours maximum weekly. Unless the contrary has been decided, working time shall be divided equally by the days of the week worked at the establishment. Provided that the parties have so agreed, working time may be divided by the days of the week worked in different forms on condition that the daily working time must not exceed eleven hours. In this case, within a time period of two months, the average weekly working time of the employee shall not exceed normal weekly working time.

Hours exceeding the limit of 45 hours per week are to be paid as “overtime hours”. Payment for the overtime hour must be at least 1.5 times the regular hourly wage/salary.

7.3 Public Holidays and Annual Paid Leave

There are five paid public holiday per year (January 1st, April 23rd, May 19th, August 30th, October 29th) plus two paid periods of religious holiday which is eight days in total.

The minimum length of the annual paid leave is proportional to the working length of the employee in the workplace and ranges between 14-26 work days.

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

7.4 Notice of Termination

Before terminating an employment contract made for an indefinite period, a notice to the other party must be served by the terminating party. The notice periods are proportional to the length of the employment and range between 2 to 8 weeks.

The contract shall then terminate:

Years of Work	Notice Period
Less than 6 months	2 week
6 months - 1,5 year	4 week
1,5 year - 3 years	6 week
More than 3 years	8 week

7.5 The Wage and Its Remuneration

As a rule the wage shall be paid in Turkish lira at the establishment or shall be deposited into a specially opened bank account. If the wage has been decided in terms of a foreign currency, it may be paid in Turkish lira according to the currency rate on, the date of payment.

Wage payment must not be made in bonds, coupons or another paper claimed to represent the national currency valid in the country or by any other means whatsoever.

Wage may be paid on a monthly basis at the latest. The time of remuneration may be reduced down to one week by employment contract or by collective agreement.

7.6 Social Security Insurance Contribution

Social security premiums (as a percentage of employee's gross earnings) are payable by both employers and employees. The contribution rate for the employer and employee is around 19.522.5% and 15% of the gross salary, respectively. The rates may vary depending on the work category. With the exception of contributions for insurance against work accidents and occupational diseases, social insurance contributions to be levied on wages paid to the insured during annual leave shall continue to be paid by employees and employers in accordance with the principles set forth in the Social Insurance Act No 506.

For citizens of foreign countries with which Turkey has reciprocal social security agreements between the home country and Turkey, it is possible to make contributions in their home countries.

7.7 Social Security Premiums

Social Security Premiums (office employees)			
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 1% and 6.5%.			

7.8 Age of Retirement

With the amendments introduced in 1999, the retirement age has been raised for both male and female employees. The age of retirement has been determined as 60 for men and 58 for women, respectively. Some lower ages are determined for those who are already within the social security system to protect the vested rights.

7.9 Social Security for Expatriates

As a rule, expatriates working in Turkey are subject to Social Security Law at the same rates with local employees. However, those, who are assigned by the employer for a temporary period and pay social security premium in the home country may be exempt from Turkish social security premiums, provided that the proper documents from the competent authorities of the home country are submitted to the Social Security Institute.

Turkey has bilateral social security agreements with several countries. Turkey is also a party to the European Social Security Agreement. Most bilateral treaties and the European Social Security Agreement provide an opportunity to the employees to stay within the scope of the social security of their home country, based on the length of the assignment in Turkey.

Countries that have signed social security agreements with Turkey are as follows:

Germany, Austria, France, TRNC Macedonia, United Kingdom, Belgium,
Netherlands, Libya, Romania, Switzerland, Denmark, Sweden, Norway,
Bosnia Herzegovina, Luxembourg, Albania, Azerbaijan, Canada, Czech
Republic, Georgia, Italy, Spain and Portugal

7.10 Employment of Foreign Employee

All foreign nationals to be employed by resident companies need to obtain a work permit to be issued by Ministry of Labor and Social Security. Besides the work permit, a working visa and a residence permit has to be obtained from the Ministry of Internal Affairs in order to work and reside in Turkey.

Work Permit Criteria

The evaluation criteria designated by the Ministry of Labour and Social Security of the Republic of Turkey for the purpose of fulfilling transactions related to foreigners' work permit requests quickly and objectively are defined below:

1. At the workplace for which work permit is requested, at least five persons who are citizens of the Republic of Turkey must be employed. In case the foreigner requesting work permit is a co-partner of the company, aforementioned condition related to the employment of five persons who are Turkish citizens will be required for the last six months of one-year work permit to be granted by the Ministry. In case of requesting work permit for more than one foreigner at the same workplace, for each foreigner following the first foreigner who is granted a work permit, the condition regarding the employment of five persons who are Turkish citizens will be required individually.
2. Paid-in capital of the workplace must be at least TRY 100,000 or the lowest figure for its gross sales amount must be equal to TRY 800,000 or its export amount in the last year must be at least USD 250,000.
3. For work permit requests concerning foreigners to be employed by associations and foundations, Article 2, and for evaluations regarding work permit applications related to foreigners to be employed in representative agencies of foreign countries' airlines in Turkey as well as those to work in education sector and home services sector Articles 1 and 2 will not be applied.
4. Foreigner requesting work permit who is a co-partner of the company must own at least 20% shares in the company, and this percentage shall correspond to at least TRY 40,000, as an obligation.

8

APPENDIX

APPENDIX 1

Chart Of Turkish Taxes

Legal form Characteristics	Limited Liability Partnership (LTD)	AŞ (Private corporation) and Plc (Public corporation)
Partners/shareholders		
• Number	• Minimum: 2	• Minimum: 5
• Restrictions	• Maximum: 50	• No restriction
Directors	Partners or a manager who may not be partner	Management by board
Establishment	Notarisation of Articles of Association and submitting it to Trade Registry Office	Establishment of public corporation is subject to approval. But other private entities except banks, holding companies are not subject to an approval
Registration	Trade Registry Offices	
Minimum Capital	5,000 TRY	50,000 TRY
Liability	Limited to capital share for partners	Limited to capital amount of partners
Governance	Board of shareholders	General Assembly and Board of Management
Audit requirements	Audit is not obligatory but advantageous for big companies	Audit is not obligatory but advantageous for big companies Auditing is required by Capital Markets Board and obligatory for public corporations, banks and insurance companies
Taxation	• 20% corporate tax • 15% withholding tax on distributed profit shares • The sales of shares is subject to corporate income tax	• 20% corporate tax • 15% withholding tax on distributed profit • The sales of shares which are held for at least 2 years are not subject to corporate income tax

II CORPORATE TAX

Legal form Description	Resident corporation	Permanent establishment (PE)
General description	Corporation tax on profit	
Taxable income	Worldwide profits	Profits derived in Turkey
Tax year, return and payment	Tax year – calendar year (normally) The tax rate is 20% Tax payments are due quarterly in advance in March, June, September and December Advance taxes paid within the calendar year are deductible from the final liability, yearly tax return for which has to be submitted in the fourth month of the succeeding tax year end	
Capital Gains	• No tax on dividends distributed to resident corporate partners • 15% tax on dividends distributed to foreign corporate and dividends • The provisions of the relevant Double Taxation Agreements (DTA) should be taken into consideration	
Losses	Losses can be carried forward for 5 years	

III TAXES FOR INDIVIDUALS

		Residents	Non-residents																			
Income Tax	General description	Tax levied on the ncome of an individual for the year of assessment																				
	Taxable entities	Individual resident in Turkey are subject to income tax for all of their worldwide income	Income in Turkey is subject to tax																			
	Types of taxable income	• Business income • Agricultural income • Self-employment income • Returns on stocks and bonds • Property income • Increase/appreciation in value of income																				
	Calculation of income	The calculation of taxable income of business profits is based on results found by deducting the expenses specified by law from profit gained within a calendar year Taxable income for self-employment is calculated on cash basis, not accrual basis)																				
	Tax year, tax assessment and tax payment	Tax year – calendar year Business and self-employment advance tax retun is submitted quarterly basis Yearly tax returns are due by March of the year succeeding the tax year and paid in two instalments in March and July																				
	Losses	Losses related with business and self-employment profit, may be carried forward 5 years	None																			
	Tax rates	<table><thead><tr><th>INCOME SCALES (TL) (NON-EMPLOYMENT INCOME)</th><th>RATE (%)</th></tr></thead><tbody><tr><td>Up to 9,400</td><td>15</td></tr><tr><td>9,401-23,000</td><td>20</td></tr><tr><td>23,001-53,000</td><td>27</td></tr><tr><td>53,001 and upwards</td><td>35</td></tr></tbody></table> <table><thead><tr><th>INCOME SCALES (TL) (EMPLOYMENT INCOME)</th><th>RATE (%)</th></tr></thead><tbody><tr><td>Up to 9,400</td><td>15</td></tr><tr><td>9,401-23,000</td><td>20</td></tr><tr><td>23,001-80,000</td><td>27</td></tr><tr><td>80,001 and upwards</td><td>35</td></tr></tbody></table>	INCOME SCALES (TL) (NON-EMPLOYMENT INCOME)	RATE (%)	Up to 9,400	15	9,401-23,000	20	23,001-53,000	27	53,001 and upwards	35	INCOME SCALES (TL) (EMPLOYMENT INCOME)	RATE (%)	Up to 9,400	15	9,401-23,000	20	23,001-80,000	27	80,001 and upwards	35
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23,001-80,000	27																					
80,001 and upwards	35																					

Capital Gains Tax

		Residents	Non-residents
Capital Gains Tax (CGT)	General description	Tax on gains derived from disposal of movable and immovable properties	
	Taxable entities and chargeable assets	Gains derived from disposal of securities within 2 years, immovable property within 5 years and from sales of partnership rights	
	Calculation of gain	Revenue from the sale or transfer of goods or rights minus costs of the goods or rights and other expenses paid by the supplier	
	Tax year, tax assessment and tax payment	Tax year – calendar year Tax returns are due to be filed by 25 March each year following the calendar year Tax is payable in two instalments in March and July	
	Losses	No relief is available	None
	Tax rates	15%–35% progressive tax	

		Residents	Non-residents
Value Added Tax (VAT)	General description	Value added tax is levied on all goods and services supplied within the scope of commercial industrial, agricultural and independent professional activities and on the import of goods and services	
	Entities being obliged to levy VAT	Any individual, partnership, corporation, association and foundation which carries out taxable activities	
	Taxable activities	• Supply of goods and services • Import of goods • Post, telephone, radio and TV services • Organising and participating in gambling	
	Taxable activities – zero rated (examples)	Export of goods and supply of services to abroad	
	Exemptions (examples)	• Export of goods and services • Forwarding services from Turkey to abroad • Export of goods to free zones and services performed in free zones • Delivery of naval, air and road vehicles and goods and services to be used in manufacturing these vehicles	
	Refund of VAT	There is a VAT refund mechanism in transactions: • which are exempt from VAT (export sales) and • where there are rate differences in output and inputs (output rate is 1% or 8%, input rate is 18%)	• Non-residents in forwarding business can recover VAT issued for fuel, spare parts, maintenance and repair expenses • Companies in all sectors that participated in fairs can recover VAT under some conditions
	Tax liability	The supplier (company, partnership) of goods and services is responsible for charging VAT	
	Tax rates	• Standard rate = 18% • Goods that are subject to VAT at 1% such as: some vegetables , newspapers, magazines • Employed at college = 8% • Textile and apparel products = 8% • Accommodation services provided at hotel, motel, holiday village, etc = 8% • Health services, pharmaceuticals and medical devices = 8%	

APPENDIX 2

Tax Treaties and Principal Treaty Withholding Tax (WHT) Rates

	dividends (%)	branch profits (%)	(%)interest	royalties (%)
Austria	5/15	5	10/15	10
Ireland	5/10/15	5	10/15	10
Norway	25/30	25	15	10
South Korea	15/20	-	10/15	10
Jordan	10/15	*	10	12
Tunisia	12/15	-	10	10
Romania	15	15	10	10
Netherlands	15/20	7.5	10/15	10
Pakistan	10/15	10/15	10	10
United Kingdom	15/20	15	15	10
Finland	15/20	15	15	10
T.R.N.Cyprus	15/20	15	10	10
France	15/20	7.5	15	10
Sweden	15/20	15	15	10
Belgium	15/20	15	15	10
Denmark	15/20	7.5	15	10
Italy	15	15	15	10
Japan	10/15	10/15	10/15	10
U.Arap Emirates	10/12	5/10/12	10	10
Hungary	10/15	10	10	10
Kazakhstan	10	10	10	10
Macedonia	5/10	5	10	10
Albania	5/15	5	10	10
Algeria	12	12	10	10
Mongolia	10	10	10	10
China	10	10	10	10
India	15	15	10/15	15
Malaysia	10/15	10	15	10
Egypt	5/15	5	10	10
Poland	10/15	15	10	10
Turkmenistan	10	10	10	10
Azerbaijan	12	12	10	10
Bulgaria	10/15	10	10	10
Uzbekistan	10	10	10	10
United States	15/20	15	15/10	10/5
Ukraine	10/15	10	10	10
Israel	10	10	10	10
Belarus	10/15	15	10	10
Russia	10	10	10	10
Kuwait	10	10	10	10
Slovakia	5/10	10	10	10
Indonesia	10/15	10/15	10	10
Lithuania	10	10	10	10/5
Croatia	10	10	10	10
Moldavia	10/15	10/15	10	10
Singapore	10/15	10	7.5/10	10
Kyrgyzstan	10	10	10	10
Tajikistan	10	10	10	10
Sudan	10	10	10	10
Czech Republic	10	10	10	10
Bangladesh	10	10	10	10
Latvia	10	10	10	5/10
Spain	5/15	5/15	10/15	10
Slovenia	10	10	10	10
Greece	15	15	12	10
Syria	10	10	10	15/10
Estonia	10	10	10	10/5
Thailand	10/15	10/15	10/15	15
Luxembourg	5/10/20	10	10/15	10
Iran	15/20	15	10	10
Saudi Arabia	5/10	5/10	10	10
Lebanon	10/15	10	10	10
Morocco	7/10	7	10	10
Rep. of South Africa	10/15	10	10	10
Portugal	5/15	5	10/15	10
Serbia Montenegro	5/15	5	10	10
Ethiopia	10	10	10	10
Bahrain	10/15	15	10	10
Qatar	10/15	10/15	10	10
Bosnia Herzegovina	5/15	5/15	10	10

APPENDIX 3

Bilateral Agreements

Turkey has signed agreements with 82 countries. The list of effective agreements covers 66 countries, whereas the remaining 16 agreements marked with (*) in the list below are in the process of ratification.

Bilateral Agreements for the Promotion and Protection of Investments

Afghanistan, Albania, Algeria*, Argentina, Australia*, Austria, Azerbaijan, Bahrain*, Bangladesh,
Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Chile*, China, Croatia, Cuba, Czech Republic,
Denmark, Egypt, Estonia, Ethiopia, Finland, France*, Georgia, Germany, Greece, Hungary, India,
Indonesia, Iran, Israel, Italy, Japan, Jordan, Kazakhstan, Kosovo*, Kuwait, Kyrgyzstan, Latvia,
Lebanon, Libya*, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Moldova, Mongolia, Morocco,
Nigeria*, Oman*, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation,
Saudi Arabia*, Serbia, Singapore*, Slovakia, Slovenia, South Africa*, South Korea, Spain, Sudan*,
Sweden, Switzerland, Syria, Tajikistan, Thailand*, The Netherlands, The United Arab Emirates*,
The United Kingdom, The United States, Tunisia, Turkmenistan, Ukraine, Uzbekistan,

Double Taxation Prevention Treaties

Albania, Algeria, Austria, Azerbaijan, Bahrain, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina,
Bulgaria, China, Croatia, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Finland, France,
Bulgaria, China, Croatia, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Finland, France,
Kyrgyzstan, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malaysia, Moldova, Mongolia,
Montenegro, Morocco, Norway, Pakistan, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi
Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sudan, Sweden, Syria,
Tajikistan, Thailand, The Netherlands, The United Arab Emirates, The United Kingdom, The United
States, Tunisia, Turkish Republic of Northern Cyprus, Turkmenistan, Ukraine, Uzbekistan.

APPENDIX 4

Free Zones and Priority Regions

	Name / Location	Operator	Year of Starting Operations
1	Mersin	MESBAŞ	1987
2	Antalya	ASBAŞ	1987
3	Aegean FTZ	ESBAŞ	1990
4	Istanbul Atatürk Airport FTZ	İSBI	1990
5	Trabzon	TRANSBAŞ	1992
6	Istanbul Leather and Industry FTZ	DESBAŞ	1995
7	East Anatolia FTZ	DASBAŞ	1995
8	Mardin	MASBAŞ	1995
9	Istanbul Stock Exchange International Securities FTZ	ISE	1997
10	Izmir Menemen Leather FTZ	İDESBAŞ	1998
11	Rize	RISBAŞ	1998
12	Samsun	SASBAŞ	1998
13	Istanbul Thrace FTZ	ISBAŞ	1998
14	Kayseri	KAYSER	1998
15	European FTZ	Avrupa Serbest Bölgesi Kurucu ve İşletici A.Ş.	1999
16	Gaziantep	GASBAŞ	1999
17	Adana – Yumurtalık	TAYSEB	1999
18	Bursa	BUSEB	2001
19	Denizli	DENSER	2001
20	Kocaeli	KOSBAŞ	2001
21	Tubitak Marmara Center Technology Research	TUBITAK	2002

Provinces where free land lots are provided in OIZs

1	Çanakkale
2	Karabük
3	Kırıkkale
4	Samsun
5	Zonguldak

Provinces where free land lots are provided in OIZs along with tax, insurance premium and energy supports

1	Adiyaman	18	Gumushane	35	Van
2	Afyon	19	Hakkari	36	Yozgat
3	Agri	20	Igdir	37	Artvin
4	Aksaray	21	Kars	38	Corlu
5	Amasya	22	Kirsehir	39	Elazig
6	Ardahan	23	Malatya	40	Karaman
7	Bartın	24	Mardin	41	Karstamonu
8	Batman	25	Mus	42	Rize
9	Bayburt	26	Ordu	43	Tunceli
10	Bingöl	27	Osmaniye	44	Kahramanmaras
11	Bitlis	28	Siirt	45	Kilis
12	Cankiri	28	Sinop	46	Kutahya
13	Diyarbakir	30	Sivas	47	Nevsehir
14	Duzce	31	Sanliurfa	48	Nigde
15	Erzincan	32	Sirnak	49	Trabzon
16	Erzurum	33	Tokat		
17	Giresun	34	Usak		

APPENDIX 5

Withholding Tax Rates

WITHHOLDING TAX FOR CORPORATES		
	Resident corporations	Non-resident corporation
Independent Professional services		%20
Construction and repair works extending to more than one calendar year	%3	%3
Rents	N/A	%20
Royalties		
on the use of rights	N/A	%20
on the transfer and assignment of right	N/A	%20
dividends		
to the non-residents who is paid through their permanent establishments or representatives in Turkey	N/A	%0
to other non-resident corporations		%15
Interests		
the loans from foreign banks and financial institutions	N/A	%0
private bonds, G-bonds and T-bills(excl. TR-Eurobonds)	%10	%0
TR-Eurobonds	%0	%0
Deposit accounts	%10	%0
repo(repurchasing agreement) transactions	%10	%0
Capital Gains on securities		
trading the stocks in Istanbul Stock Exchange within 1-year holding period	%10	%0
trading investment fund certificates	%10	%0
private bonds, G-bonds and T-bills(excl. TR-Eurobonds)	%10	%0
TR-Eurobonds	%0	%0
futures and options contracts	%10	%0
All sorts of payments to entities in tax-heavens (except for payments to financial institutions, and to insurance and reinsurance companies)	N/A	%30

WITHHOLDING TAX FOR INDIVIDUALS		
	Resident Individuals	Non-resident Individuals
salaries, Wages and suchlike payments		
Independent Professional Services		
general	%20	%20
specified copyright payments to authors, artists, etc.	%17	%17
Rents	%20	%20
Royalties		
for the use of rights	%20	%20
for the tranfer and assignment of rights	N/A	%20
Dividends	%15	%15
Interests		
on deposit accounts	%15	%15
on repo(repurchasing agreement) transactions	%15	%15
Capital Gains on Securities		
on trading the stocks in Istanbul Stock Exchange within 1-year holding period	%10	%0
on trading investment fun certificates	%10	%0
on TR-Eurobonds	%0	%0

APPENDIX 6

Addresses

Organization	Web - site
Undersecretariat of Foreign Trade	www.foreingtrade.gov.tr
Central Bank of Turkey	www.tcmb.gov.tr
Undersecretariat of Treasury	www.treasury.gov.tr
Ministry of Finance	www.maliye.gov.tr
Turkish Revenue Administration	www.gib.gov.tr
Ministry of Foreign Affairs	www.mfa.gov.tr
Ministry of Industry and Commerce	www.sanayi.gov.tr
Ministry of Labour and Social Security	www.calisma.gov.tr
Customs Administration	www.gumruk.gov.tr
Capital Market Board (CMB)	www.spk.gov.tr
State Planning Organization	www.dpt.gov.tr
Privatization Administration	www.oib.gov.tr
State Institute of Statistics	www.tuik.gov.tr
Istanbul Stock Exchange (ISE)	www.imkb.gov.tr
Union of Banks	www.tbb.org.tr
Union of Chambers and Markets ("TOBB")	www.tobb.org.tr
Istanbul Chamber of Commerce	www.ito.org.tr
Istanbul Chamber Of Industry	www.iso.org.tr
Association of Foreign Investors	www.yased.org.tr
Union of Chambers of CPAs of Turkey	www.turmob.org.tr
Investment Support and Promotion Agency	www.invest.gov.tr



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