

DOING BUSINESS IN TURKEY

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DOING BUSINESS IN TURKEY

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KEY ATTRACTIONS OF TURKEY

- ▶ **STRATEGICALLY SITUATED -**
Turkey is a country offering significant opportunities for foreign investors with its geographically perfect position to function as a gateway between Europe, Middle East and Central Asia.



KEY ATTRACTIONS OF TURKEY

- ▶ **CUSTOMS UNION WITH EU COUNTRIES**
- ▶ **SUPPLY OF HIGH QUALITY AND COST-EFFECTIVE LABOR FORCE**

TURKEY OFFERS INVESTORS A YOUNG TALENTED, MOTIVATED AND SKILLED WORK FORCE OF OVER 24 MILLION PEOPLE.



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KEY ATTRACTIONS OF TURKEY

- ▶ FLEXIBLE EXCHANGE RATE AND LIBERAL IMPORT REGULATIONS
- ▶ DOUBLE TAXATION AGREEMENTS AND TAX INCENTIVES



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KEY ATTRACTIONS OF TURKEY

- ▶ LARGE AND GROWING DOMESTIC MARKET
- ▶ MATURE AND DYNAMIC PRIVATE SECTOR



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KEY ATTRACTIONS OF TURKEY

- ▶ DEVELOPED INFRASTRUCTURE
- ▶ INSTITUTIONALIZED ECONOMY

**DID YOU KNOW THAT
TURKEY IS THE 15TH
LARGEST ECONOMY IN
THE WORLD?**



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KEY ATTRACTIONS OF TURKEY

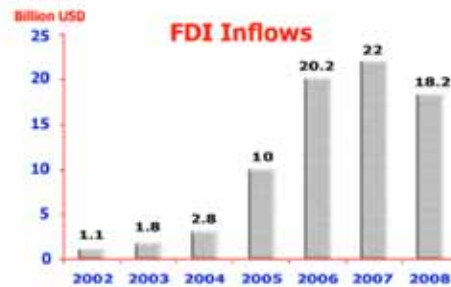
WITH ITS WONDERFUL CLIMATE, CHARMING TOWNS
AND VILLAGES, GOLDEN BEACHES, WEALTH OF HISTORY
AND FRIENDLY, HOSPITABLE PEOPLE...



DOING BUSINESS IN TURKEY

FDI IN TURKEY

- ▶ Turkey is the 15th most attractive destination for foreign direct investment (FDI) in the world (UNCTAD World Investment Prospects Survey, 2008-2010).



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FDI IN TURKEY

- ▶ Currently, a total of 21,079 companies with international capital are operating in Turkey. Among these, 17,160 companies and branch offices with international capital have been established, while 3,919 existing domestic companies received foreign capital.



FORMING A COMPANY

The Turkish Commercial Code provides several company structures in Turkey:

- ▶ joint stock companies,
- ▶ limited liability companies,
- ▶ collective companies,
- ▶ partnerships limited by shares and co-operative associations.

The legal difference between those company structures mainly concern the allocation of liability and the legal form of the entity.



FORMING A COMPANY

The two most popular forms of business entity in Turkey are:

- ▶ LIMITED LIABILITY COMPANIES (LTD. STI.)
- ▶ JOINT STOCK COMPANIES (A.S.)



FORMING A COMPANY

LIMITED LIABILITY COMPANIES (LTD. STI.)

- ▶ Minimum of two shareholders.
- ▶ Shareholders may be Turkish or foreign nationals.
- ▶ The minimum capital is TL 5.000 (of which 25% should be paid up.)



FORMING A COMPANY

JOINT STOCK COMPANIES (A.S.)

- ▶ Minimum of five shareholders (no nationality requirement)
- ▶ Board of Directors (minimum three directors).
- ▶ The minimum capital is TL 50.000 (of which 25% should be paid up.)
- ▶ All A.S. companies are required to have their accounts audited.
- ▶ Companies in Turkey that are owned by foreign investors are usually A.S. companies.



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FORMING A COMPANY

HOW EASY IS IT TO OPEN A TURKISH COMPANY?

Few countries do it faster.
You can open a Turkish company
inside a day, provided you have
the correct documentation to hand.



DOING BUSINESS IN TURKEY

FORMING A COMPANY

According to the "WorldBank Doing Business Database"

**TURKEY RANKS WELL AHEAD OF ALL
COMPETITORS AND THE OECD COUNTRIES IN
TERMS OF AVERAGE BUSINESS STARTUP TIME.**



Since 2003 foreign investment has been regulated in a more liberalized manner under Foreign Direct Investment Law, No. 4875. Under this law foreign investors may freely start up business in company, branch office or liaison office forms.



TAXATION

- ▶ The tax system in Turkey is progressive. In other words, the higher your income, the higher the rate at which you will pay tax.
- ▶ The standard rate of Turkey corporate tax is 20%.
- ▶ The individual tax rates vary from 15% - 35%.



TAX ENVIRONMENT : SPECIFICITIES

TAX RESIDENCY

According to Turkish tax legislation, income taxation differs significantly based on where the taxpayer is resident.

- ▶ If both the legal and the business headquarters of a company are located outside Turkey, the company is regarded as a non-resident entity.
- ▶ If one of these headquarters is located within Turkey, the company is regarded as a resident entity.
- ▶ Resident entities are subject to tax on their worldwide income, whereas non-resident entities are taxed solely on the income from activities in Turkey.



TAX ENVIRONMENT : SPECIFICITIES

TAXABLE INCOME

Income of Turkish corporations is always treated as income from a business enterprise. Taxable income from such an enterprise is defined as the difference between the net worth at the end of the year and the net worth at the end of the preceding year, with certain adjustments, mainly to eliminate capital items and to recognize special statutory allowances and disallowances.



TAX ENVIRONMENT : SPECIFICITIES

CORPORATION TAX SYSTEM

Corporations are liable to taxation as described below:

- ▶ Profits generated, as adjusted for exemptions and deductions, including prior-year losses carried forward, are liable corporation tax at 20 %.
- ▶ Dividend distributions to individual and non-resident corporate shareholders are subject to withholding tax at the rate of 15 %. This rate might be reduced in the existence of tax treaty.



TAX ENVIRONMENT : SPECIFICITIES

CORPORATION TAX SYSTEM

- ▶ Corporations are required to pay advanced corporation tax based on their quarterly balance sheets and income statements at the rate of 20 %. Advanced corporation tax paid during the year is offset against the corporate tax liability calculated over the annual corporate tax return. The balance of advance tax can be refunded or used to offset other tax liabilities.



TAX ENVIRONMENT : SPECIFICITIES

CORPORATION TAX SYSTEM

- ▶ Turkish Corporate Income Tax Legislation allows as a deduction of "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business".
- ▶ Corporate losses may be carried forward for five years, but losses may not be carried back.



TAX ENVIRONMENT : SPECIFICITIES

RELATED PARTY TRANSACTIONS

In principle, transactions between the related parties must be carried out on an arm's length basis.

- ▶ Transfer pricing – With the new Corporate Income Tax Law, considerable amendments are made to transfer pricing regulations, taking OECD transfer pricing guide as a basis.
- ▶ Thin capital rules - The Corporate Tax Law imposes a specific debt/equity ratio of 3:1 for consideration of thin capital.



TAX ENVIRONMENT : SPECIFICITIES

RELATED PARTY TRANSACTIONS

- ▶ Thin capital - Interest, foreign exchange losses and other similar expenses related to the loans regarded as thin capital are treated as non-deductible expenses for the corporate income tax purposes.
- ▶ Controlled Foreign Corporation (CFC) - The profits of CFC controlled by tax resident companies or persons are subject to corporate income tax in Turkey irrespective whether profits distributed or not with the fulfillment of some conditions, i.e. 25 % or more of the gross revenue must be composed of passive income, the CFC must be subject to an effective income tax rate lower than 10 % in its home country, etc.



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TAX ENVIRONMENT : SPECIFICITIES

INCOME TAX ON INDIVIDUALS

- ▶ An individual in Turkey is liable for tax on his income as an employee and on income as a self-employed person. Income tax rates applicable as from 2009 are as follows:

INCOME SCALES (TL)	RATE (%)
Up to 8,700	15
8,701-22,000	20
22,001-50,000	27
50,001 and upwards	35



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TAX ENVIRONMENT : SPECIFICITIES

MAJOR TRANSACTION TAXES

- ▶ **VALUE ADDED TAX**– Deliveries of goods and services are subject to VAT at rates varying from 1% to 18 %. The general rate applied is 18 %.
- ▶ **WITHHOLDING TAX** – Income tax on salaries of employees, lease payments to individual landlords, independent professional service fee payments to resident individuals; and royalty, license and service fee payments to non-residents. Withholding tax rates vary from 1% to 35% and may be reduced based on the available bilateral tax treaty provisions.



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TAX ENVIRONMENT : SPECIFICITIES

TAX INCENTIVES IN TURKEY

- ▶ Exclusion Of Investment Deduction
- ▶ Deduction Of Research & Development
- ▶ Gain exclusion on education and instruction businesses
- ▶ Incentive of value added tax in vehicles, oil searching and incentive certificated investments
- ▶ Tax incentives in industrial zones, technology developing zones, free zones, emergency zone and priority development areas, organized industrial zones.

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TAX ENVIRONMENT : SPECIFICITIES

TAX INCENTIVES IN TURKEY

- ▶ Tax and fees exclusion in providing credits
- ▶ Tax Incentives for rising of investment and employment
- ▶ Tax incentives for cultural investments and enterprises



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ACCOUNTANCY AND AUDITING

CORPORATE FINANCIAL REPORTING REQUIREMENTS

Financial Statements Entities	Legal Entity Financial Statements	Consolidated Financial Statements
Joint Stock and Limited Liability Companies		
Large and medium	Tax Procedural Law and UCA	No requirement
Small entities and sole proprietors	Basic Concepts of Accounting set out in the ASIR	No requirement
Publicly-held companies	Tax Procedural Law, UCA and Communiqués issued by the CMB (Required to follow IFRSs)	Communiqués issued by the CMB (Required to follow IFRSs)
Banks	Specific accounting requirements within the Regulations and Communiqués issued by the Banking Regulatory and Supervisory Agency (BSRA), as established by the Banks Act (Required to follow IFRSs)	
Insurance companies	Specific accounting requirements within the Regulations and Communiqués issued by the GDI	No requirement



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ACCOUNTANCY AND AUDITING

AUDIT EXEMPTION

- ▶ A company can be an audit exempt company if it meets the following criteria:
 - ▶ its annual turnover is 4,264,000 TL or less;
 - ▶ its balance sheet total is 8,528,000 TL or less;



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ACCOUNTANCY AND AUDITING

NEW COMMERCIAL CODE

A new commercial code is currently with the General Assembly of the Parliament for approval. The Code aims to integrate the Turkish Commercial Code with EU law, improve transparency, protect minority rights and strengthen corporate governance principles.



DOING BUSINESS IN TURKEY

ACCOUNTANCY AND AUDITING

NEW COMMERCIAL CODE

A new commercial code is currently with the General Assembly of the Parliament for approval. Aims of the new CC

- ▶ Integrates CC with EU law
- ▶ Fair competition
- ▶ Infrastructure for transparency and information society
- ▶ Corporate Governance principles
- ▶ Generally accepted accounting and audit standards
- ▶ Democracy among shareholders
- ▶ Use of information technology tools



DOING BUSINESS IN TURKEY

ACCOUNTANCY AND AUDITING

NEW COMMERCIAL CODE

More Transparency	<ul style="list-style-type: none"> ➤ Turkish Accounting Standards identical to IFRS and announcement of the audited accounts through websites ➤ Annual reports ➤ Independent audit ➤ Comprehensive disclosure of transactions with group companies ➤ Corporate Governance report to be published by public companies ➤ Internet site
Fairness	<ul style="list-style-type: none"> ➤ Electronic voting on General Board and Board of Directors ➤ Corporate representation ➤ Protection of rights of minority shareholders
Accountability and Responsibility	<ul style="list-style-type: none"> ➤ Professionalism and specialization in bodies emphasized ➤ Finance management, internal audit, financial planning and risk management



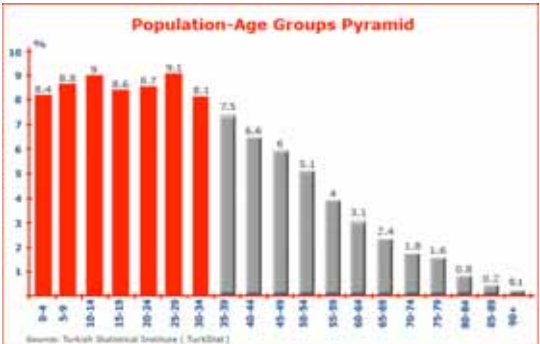

DOING BUSINESS IN TURKEY

LABOR



POPULATION

Turkey has a total population of 72 million with an average age of 28.5.

Population-Age Groups Pyramid



Source: Turkish Statistical Institute (TurkStat)

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LABOR

LABOR FORCE

Turkey has a total population of 72 million, of which 24 million people are active in the labor force, and Turkey is the 5th largest labor force compared with the 27 EU countries.



DOING BUSINESS IN TURKEY

LABOR

WORKING TIME

- ▶ In general the working week consists of maximum 45 hours. Total working hours may be divided freely to the number of working days; however, working hours cannot exceed 11 hours in any day.
- ▶ The overtime work is defined as the working hours, which exceeds 45 hours in a week. The days on which overtime work is done cannot exceed 270 hours a year.



LABOR

LABOR COSTS

- ▶ Wage regulation - There is no ceiling to the wages that can be given. On the other hand, wages cannot be below the minimum wage.
- ▶ Bonuses and Other Extra Payments - There are no legal obligations in this respect.
- ▶ Social security premiums are compulsory in respect of all persons earning salaries and wages.



LABOR

LABOR COSTS – SOCIAL INSURANCE PREMIUMS

- ▶ Social insurance premiums are calculated on the basis of the monthly wages and are paid jointly by the worker and the employer at the following rates:

BRANCHES	EMPLOYEE %	EMPLOYER %	TOTAL %
Occupational accidents and diseases (varies according to the job)	-	1.5-7	1.5-7
Illness	5	6	11
Maternity	-	1	1
Disability, Old Age, Death	9	11	20
Total Minimum	14	19.5	33.5
Total Maximum	14	25	39
Unemployment Insurance	1	2	3



APPENDIX – USEFUL LINKS

Organization	Website
Under secretariat of Foreign Trade	www.foreingtrade.gov.tr
Central Bank of Turkey	www.tcmb.gov.tr
Under secretariat 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 Labor and Social Security	www.calisma.gov.tr
Customs Administration	www.gumruk.gov.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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