



PRIMETAX GUIDE: SETTING UP A LIAISON OFFICE IN TÜRKİYE

INTRODUCTION

Non-Turkish entities can establish liaison offices in Turkey for certain non-income-generating activities. The formation and activities of liaison offices are subject to prior approval and ongoing supervision by the Ministry of Economy (the "Ministry"). Permits for liaison offices are issued for a limited period, which may be subject to extension upon further approval by the Ministry.

Liaison offices can be established to represent a non-Turkish company and to act as a regional hub, advertise and promote the parent company's business, provide training and technical support to distributors, recruit and monitor suppliers, and/or conduct market research and liaison activities, provided no commercial or trading activity is undertaken.

A liaison office's activities must comply with the permitted scope of operations. Liaison offices are not allowed to issue invoices, execute purchase/sale agreements on behalf of the parent company, act as a broker or agent for the parent company's sales activities, submit offers or price quotations, or accept customer orders.

Therefore, it is advisable to clearly distinguish between the permitted activities of a liaison office and those of a more commercial nature conducted by the parent company.

Liaison offices cannot expatriate profits or other funds except when closing and liquidating their assets.

Therefore, liaison offices are not legal entities and cannot be parties to agreements in their name.

All expenditures (including the salaries of employees) of a liaison office must be funded by the foreign entity being represented through such liaison office, and such funding, among other information, must be reported to the Ministry annually.

Tax registration for liaison offices is compulsory; however, since a liaison office is not permitted to carry out any commercial activities, it cannot generate income or make any profits in Turkey. Therefore, a liaison office is not subject to corporate income tax nor permitted to be involved in any activity that would create tax exposure under relevant Turkish tax laws.

LEGAL FRAMEWORK

Law 6224 (dated 1954) on Encouragement of Foreign Capital established the legal framework for creating liaison offices. This framework was finalised per the provisions of Law no. 4875 on Foreign Direct Investments (“FDI”), which entered into force on June 5th, 2003, and the Regulation for the Implementation of Foreign Direct Investment Law (the “FDI Regulation”). A new Decree published in the Official Gazette on 03/07/2011 amended the FDI Regulation.

The General Directorate of Foreign Investment (“FIGD”), structured under the Ministry of Economy, is the authorised body for regulating and supervising the Law and FDI Regulation.

The Ministry is authorised to grant and extend permits to companies established under the laws of foreign countries to open liaison offices in Turkey, provided they do not carry out commercial activities in Turkey. The conduct of any income-generating activity in Turkey through a liaison office is strictly prohibited. Liaison offices cannot issue invoices or collect income in Turkey.

ESTABLISHMENT OF A LIAISON OFFICE

As mentioned above, the Ministry is authorised to grant and extend permits to companies established under the laws of foreign countries to open liaison offices in Turkey.

Applications for establishing liaison offices or extensions of current permission must be finalised within 15 working days of receipt. However, in practice, approvals are often received later than this.

The Ministry of Economy may also require that the foreign company establishing the liaison office has been incorporated for at least one year.

Specific regulated sectors (such as banking, insurance, and investment firms) have special supervisory powers held by the relevant sectoral regulatory organisations (e.g., the Banking Regulatory Supervisory Authority or Capital Markets Board), which may not be applicable in your case.

Necessary Information/Documents for Applications:

The following information/documents must be submitted to the Ministry in the application for the establishment of a liaison office:

- "Application Form": Includes information on the foreign company (parent company) and a description of the liaison office's activities.
- "Declaration Form": Official commitment from the applicant stating that the liaison office will not perform any commercial activity.
- "Signature Circular": Evidence of the employee's authority who will sign the "Declaration Form" on behalf of the foreign company.
- Original copy of the "Certificate of Activity" from the foreign company approved by the relevant Turkish Consulate in the foreign country.

- "Annual Operating Report" or Balance Sheet and Profit & Loss Statement of the foreign company.
- An original copy of the "Certificate of Authority" was issued to the relevant employee, who will be officially appointed to manage the liaison office's operations.
- Original copy of "Power of Attorney": If the liaison office is established by third parties (e.g., an accountancy or law firm).

After completing the above documentation, an application will be made to the Ministry of Economy for permission to establish a liaison office. After receiving the permission, a further application shall be made to the relevant Tax Office for registration of the liaison office, and a tax number will be obtained. The liaison office's tax number and address details must be submitted to the Ministry to finalise the establishment procedures.

Scope of the Liaison Offices:

Liaison offices in Turkey are limited to coordinating and managing services for units in other countries in the following areas:

- Establishment of investment and management strategies
- Planning
- Promotion
- Sales
- After-sales services
- Brand management
- Financial management
- Technical support
- R&D
- Procurement
- Testing of new products (including laboratory activities)
- Research and analysis
- Training of employees

Within the context above, the typical activities of liaison offices can be summarised below:

- Representation and Hosting: The foreign company is represented in sectoral organisations and relevant events, and the coordination and organisation of business contacts for foreign company representatives in Turkey and the provision of office space for such persons are also provided.
- Supervising and Auditing suppliers: Supervising Turkish suppliers for quality and standards, providing suppliers (supervision firms performing subcontracting for the foreign company in terms of quality standards), and fulfilling product and manufacturer requests of the foreign company.
- Technical Assistance: Providing training and technical assistance for distributors and supporting supplier manufacturers to improve quality standards.
- Communication and Information Transfer: Gathering and transferring market progress, consumer trends, competitors' and distributors' sales figures, distributor performance, etc., to be transferred to the foreign company.
- Regional Head Office: Coordinating and managing services for the foreign company's units in other countries, including creating investment and management strategies, planning, promotion, sales, after-sales services, brand management, financial management, technical support, R&D, procurement, product testing, research, and employee training.

The critical point is that the liaison office must meet all its expenditures and pay employee salaries with funds transferred from abroad by the foreign company that established it. Tax registration for liaison offices is compulsory for these purposes only. Since a liaison office cannot carry out any commercial activities, it cannot generate any income or profit in Turkey. Therefore, a liaison office is not subject to income tax and is not permitted to engage in any activities that would result in tax exposure under relevant Turkish tax laws. All expenditures of the liaison offices established in Turkey must be funded by a foreign entity abroad. This must be reported annually through a supplementary report submitted to the FIGD.

Legal Form of Liaison Office:

Liaison offices do not have a separate legal personality from the foreign parent company and thus cannot enter into contracts in their name. Therefore, they differ from subsidiaries, which are separate legal entities. A liaison office is simply a part of the foreign company, and it would not be legally possible to invoice the foreign company that established it, as it is legally considered the same entity.

Duration of Liaison Office Permit:

(i) Initial Term

Liaison office permits are granted for a maximum initial term of three years. Upon the expiry of this initial term, the FIGD may extend the license for a maximum of three years.

(ii) Extension Permit

The General Directorate is entitled to extend the operation permits based on the nature of the liaison offices' operations.

Employees:

It is also worth noting that liaison offices can only employ one “foreign key personnel.” The number of Turkish employees who can be employed is unlimited.

The parent company must fund all employee wages and costs, including social security premiums (see the Tax section below). However, since these employees' salaries will be transferred from abroad, they will not pay income tax in Turkey.

Salaries may be paid in foreign currency or Turkish Lira for local Turkish employees.

Taxation:

A liaison office does not generate taxes in Turkey other than social security premiums, as follows:

a) Corporate Tax:

Liaison offices are prohibited from participating in commercial activity, so they do not generate taxable income. Therefore, they are not subject to corporate tax and are not required to submit a corporate tax return.

b) Income Tax:

(i) Income Tax on Remuneration:

According to the Income Tax Law, salaries paid in foreign currency from the revenues generated outside of Turkey by non-resident parent companies are exempt from income tax.

To qualify for this exemption, the following conditions must be met:

- The non-resident parent company should employ the personnel.
- The personnel should be an employee, and the payment should be a salary.
- The salaries should be funded from outside of Turkey.
- The salary should be paid in foreign currency (the funds must not be remitted to the expatriates' personal bank accounts but instead transferred to the foreign currency account of the liaison office in a local bank).
- Personnel must prove that such foreign currency was brought into Turkey from abroad, using the foreign currency exchange slips from banks or special institutions. Alternatively, the liaison office can manage this process.

Other cash and in-kind benefits (e.g., gas, lunch, health-care insurance, rent for the house where the employee lives, and benefits for the spouse and children) may also be exempt from income tax if the required conditions are met. Moreover, salaries are exempt from Stamp Duty.

(ii) Income Tax on Other Payments:

The liaison office is required to withhold income tax at source on certain payments (if any), such as:

- Rent payments made to individuals (20%)
- Payments for independent professional services (20%), such as lawyers or accountants.

c) VAT:

Liaison offices are not VAT-registered because they are assumed not to conduct business (trade) in Turkey. However, they must pay VAT on services or goods purchased in Turkey. Since no VAT refund or offsetting system applies, the liaison office bears these VAT amounts as part of its cost. Remuneration paid to expatriates or local employees is not subject to VAT.

d) Stamp Duty:

Liaison offices do not pay stamp duty on contracts (other than those for employee remuneration) because it is assumed that the foreign parent company is the counterparty to any legally binding contract.

Tax Returns to Be Submitted to the Tax Office:

Liaison offices must submit brief tax returns monthly or quarterly (if they have fewer than 10 employees). As previously mentioned, the tax payable is the withholding tax on payments.



Tax Office Registration:

Liaison offices must be registered at the tax office for withholding tax purposes.

Bookkeeping Requirement:

Theoretically, liaison offices are not obliged to keep formal books of account. However, they must maintain records of all expenditures and income (i.e., fund transfers from the parent), which are open to examination by Revenue Agents.

Social Security Liability:

Expatriates' salaries are not subject to Social Security premiums if they are covered abroad. However, local Turkish employees and expatriates who are not covered by any Social Security Agreement are subject to the Social Security System in Turkey.

Under Turkish Labor Law or Social Security legislation, entering into a written employment contract with liaison office employees is not required. However, employment agreements with foreign entities are commonly used to clarify the scope of employment and the rights and obligations of both employer and employee.

Reporting Requirements:

Liaison offices must submit an annual activity report to the Treasury detailing the foreign currency brought from abroad and the expenses covered by those amounts. The report is due at the end of May of the following year.

Legal Liability under Turkish Law:

Apart from the requirements listed above, such as registration and reporting, the Foreign Direct Investments Law or Implementation Regulation do not stipulate any specific liabilities for liaison offices, their representatives, the foreign entity, or its directors.

According to Article 8(e) of the Regulation, the Ministry can revoke liaison office permits if it is determined, upon inspection, that the liaison office's operations are not in line with legislation or their authorised scope of activities. No penalty or fine is specified in the Law or Regulation as a result of such revocation.
