Primetax

PRIMETAX GUIDE: DOING BUSINESS IN TÜRKİYE

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This booklet is designed to give recipients an overview of the Turkish tax regime. It is not intended as legal advice or a formal opinion regarding specific facts or circumstances. The content is for general informational purposes only. For specific questions or concerns, it is recommended to seek the guidance of tax counsel. For further details, please get in touch with us at Primetax Serbest Muhasebe Mali Müşavirlik A.Ş., Büyükdere Cad. 193 Plaza Floor: 2 No: 224-228 Levent Beşiktaş - Istanbul, Türkiye. Tel: +90 (212) 371 46 03,
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FOREWORD

Primetax is proud to be one of Türkiye's premier full-service tax and accounting firms, and our dedicated tax practice distinguishes it. Our expertise encompasses extensive tax-related matters, including mergers and acquisitions, joint ventures, capital markets, private equity transactions, securitisation, corporate tax structuring, international taxation, tax disputes, and personal taxation.

While numerous publications on the Turkish tax system exist, foreign investors often lament the absence of a succinct and insightful guide that encapsulates the essence of the Turkish tax regime. To address this gap, we have curated "Primetax Guide: Doing Business in Türkiye", a booklet designed to provide clarity and precision for those seeking a deeper understanding of Turkey's business and taxation landscape.

In crafting this manual, we have spared no effort to ensure the information is accurate, current, and expressed with the utmost clarity. The content reflects the state of Turkish tax laws as of January 2025. However, given the dynamic nature of tax regulations, we urge readers to treat this booklet as a foundational reference and consult us directly for tailored advice before embarking on investment ventures.

We hope this guide is a valuable companion, offering practical insights and helping prospective investors navigate the opportunities within Türkiye's dynamic market.

Sincerely Yours,

Primetax

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1. INTRODUCTION

Türkiye, one of Europe's largest countries, boasts a population of 85 million and spans an area of 814,578 square kilometres. With a robust economy blending modern industry, commerce, and a traditional agricultural sector employing around 30% of its workforce, Türkiye is a magnet for foreign investors.

According to the IMF, Türkiye is the 17th largest economy globally as of 2023, with a GDP of $1.024 trillion. Türkiye is a member of the OECD and G20 and is increasingly involved in providing official development assistance (ODA).

Between 2006 and 2017, Türkiye implemented bold reforms, achieving high growth rates that elevated it to upper-middle-income status and significantly reduced poverty. From 2002 to 2022, real GDP growth averaged 5.4%, doubling income per capita. Poverty levels fell sharply, from over 20% in 2007 to 7.6% in 2021.

In 2023, the economy grew by a solid 4.5%, though this rate is expected to moderate slightly to just above 3% in 2024 before gaining momentum in subsequent years. Contributing factors include economic diversification, proximity to Europe, the Middle East, North Africa, and Eurasia, integration with European markets, a dynamic workforce, and effective economic management.

Türkiye's investment appeal is bolstered by favourable demographics, a strategic geographical location, and one of the most liberal FDI legal frameworks among OECD members. The country provides access to numerous regional markets and has consistently attracted foreign capital. In November 2024, Foreign Direct Investment increased by $721 million, with average monthly inflows of $803.94 million from 2003 to 2024.

Türkiye ranks 45th in the Economist Business Environment Index and 47th in the 2023 Global Competitiveness Ranking. However, its position in the 2023 Index of Economic Freedom stands at 102nd out of 184 countries.

The country's strategic location as a gateway between Europe, the Middle East, and Central Asia offers immense opportunities for foreign investors. These opportunities extend beyond the domestic market into the broader region. Türkiye's hospitable culture and welcoming to foreigners further enhances its attractiveness to investors, who are drawn by factors such as:

- A large and growing domestic market
- A mature, dynamic private sector
- A leading regional role
- A unique location bridging Asia and Europe
- A liberal and secure investment environment
- High-quality, cost-effective labour
- Customs union with EU countries
- Free Trade Agreements with EFTA and 11 non-member countries, with more planned
- Developed infrastructure
- A competitive tax system
- Numerous privatisation initiatives

FDI in Türkiye reached $6.48 billion in equity capital inflows in 2022, down slightly from $7.1 billion in 2021. Foreign real estate investments accounted for $6.3 billion in 2022, while $800 million came via debt instruments. Most FDI was directed towards finance (31.6%), manufacturing (24.2%), and energy (10.6%), with significant investment also in ICT services, wholesale and retail trade, and transport and storage. The Netherlands, the United States, the UK, and Gulf countries (primarily Qatar) are major contributors to FDI in Türkiye.

The advantages of FDI in Türkiye include its adoption of European trade standards, governmental focus on high-growth sectors like technology and services, growing middle class with increased purchasing power, low labour costs, and strategic geographical position linking key regions.

However, challenges remain, including bureaucratic hurdles, frequent regulatory changes, dependence on exports and hydrocarbon imports, exchange rate volatility, rising public debt, regional geopolitical risks, high inflation, and currency instability.

Türkiye's 2024–2028 strategy aims to increase its global share of FDI to 1.5% by 2028, up from a three-year average of 0.85% in 2023. Over this period, the country plans to attract 120 climate-focused FDI projects, 240 in digital sectors, 360 related to global value chains, 270 in high-end services, 360 in creating high-quality jobs, and 300 in knowledge-intensive industries.

2. FOREIGN DIRECT INVESTMENT LAW

Türkiye's Foreign Direct Investment (FDI) Law is founded on equal treatment, granting international investors the same rights and responsibilities as domestic investors. Some exceptions exist in specific sectors, such as media ownership, certain maritime activities, and real property acquisitions. The primary aims of the FDI Law are to encourage foreign direct investments, safeguard the rights of foreign investors, define investments and investors per international standards, implement a notification-based system for FDI instead of a screening and approval process, and establish clear principles to boost FDI through structured policies. This legislation determines the treatment applicable to foreign direct investments.

Foreign and domestic investors have identical procedures for establishing a business and transferring shares. International investors can set up any company outlined in the Turkish Commercial Code, incorporating a corporate governance framework aligned with international standards. The Code promotes private equity and public offerings, ensures transparency in operations, and harmonises Türkiye's business environment with EU legislation and its EU accession efforts.

Türkiye has long been reforming its economy with a more liberal economic approach. This includes prioritising the private sector, particularly in productive areas of the economy, while limiting the State's role to infrastructure development and the delivery of public services. This framework employs fiscal incentives to encourage domestic and foreign investments on equal terms, support industrial growth, and integrate rural and urban areas.

In summary, foreign investors are free to undertake FDI in Türkiye either as individuals or through foreign entities and are assured equal treatment with domestic investors under FDI Law No. 4875. This law provides key protections to foreign investors, including:

1. Equal treatment with domestic investors
2. Safeguards against expropriation and nationalisation
3. The right to repatriate profits and proceeds freely

3. CORPORATE VEHICLES AVAILABLE UNDER LOCAL LAW

There are four types of legal entities a foreign investor person or entity may utilise when investing in Türkiye, namely:

(i) joint stock company,
(ii) limited liability company,
(iii) branch, and
(iv) liaison office.

Except for liaison offices of non-Turkish entities, foreign investors do not need to obtain approval from the Foreign Investment General Directorate of the Undersecretariat of the Treasury (the government entity regulating foreign investment in Türkiye) when incorporating a Turkish company or a branch of a non-Turkish entity.

Joint stock companies (JSCs) and limited liability companies (LLCs) are the two primary types of legal entities that can be established under the Turkish Commercial Code (TCC), Law No. 6102. Both entity types can be formed with a single shareholder, who may be an individual or a legal entity, with no restrictions on nationality. For most JSCs and LLCs, foreign investors do not require prior approval from the Ministry of Customs and Trade, except in specific sectors such as banking, financial leasing, factoring, and insurance.

The financing, funding requirements, tax obligations, and customs tariffs are identical for JSCs and LLCs. The primary differences lie in their administrative and legal structures.

JSCs are the preferred choice for local and foreign investors, mainly due to the option to go public and the ease of transferring shares. They are also well-suited for joint ventures, where potential conflicts of interest may arise among shareholders, and are often required by public authorities for participation in public tenders.

Conversely, LLCs are simpler to manage despite being equally straightforward to incorporate as JSCs. LLCs are typically favoured for wholly owned subsidiaries requiring minimal capitalisation and administrative complexity. However, LLC shareholders face additional financial and tax liabilities. Sometimes, LLCs are preferred when foreign shareholders benefit from a favourable tax regime in their home jurisdiction.

The incorporation process for JSCs and LLCs is straightforward, taking approximately 10 days once all notarization, apostille certification, and other formalities for submitted documents are completed. The minimum share capital for a JSC is TL 250,000, compared to TL 50,000 for an LLC. Share capital can be contributed in cash or in-kind, with at least 25% of cash contributions required before registration at the trade registry and the remainder payable within 24 months. Companies must also have a registered address where official visits can be conducted during the tax registration.

a. Management Structure

JSCs and LLCs require at least one management body member, who can be a Turkish or foreign individual or legal entity. For LLCs, at least one manager must also be a shareholder.

b. Board of Directors (JSCs):

- JSCs are managed by a board of directors appointed for up to three years, with re-election permitted.
- A director may be an individual or legal entity with no nationality restrictions.
- If a foreign director is appointed, they must obtain a Turkish tax identification number. A work permit is required if the director resides in Türkiye, which takes 6–9 months.
- The board can delegate management to third parties through internal regulations, except for high-level reserved matters stipulated by the TCC.
- Board meetings can occur physically or via "circulation" (written consent without a meeting), provided all board members' consent.

c. Managers (LLCs):

- LLCs are managed by one or more managers, with at least one being a shareholder.
- Like JSCs, there are no restrictions on the nationality of managers, but foreign managers must obtain a tax ID and a work permit if residing in Türkiye.
- Managers can be appointed unlimitedly, and their rules of appointment, liabilities, and delegation mirror JSCs' rules.

d. Liability of Shareholders

- In JSCs, shareholder liability is limited to the capital they have committed. They are not personally liable for the company's public debts.
- In LLCs, shareholders are personally liable for public debts (e.g., taxes, social security premiums) that cannot be recovered from the company in proportion to their shares.

e. Banking and Financial Transactions

Türkiye does not impose exchange controls or currency regulations on the repatriation of funds by foreign investors under the Foreign Direct Investments Law and Circular on Capital Movements. Businesses are free to receive and transfer funds domestically and internationally.

However, under the Council of Ministers Decree on the Protection of the Value of the Turkish Currency (No. 32), foreign currency transactions between Turkish residents have been regulated, which may indirectly affect foreign-owned Turkish entities. Transfers exceeding USD 50,000 must be reported to the Central Bank of Türkiye within 30 days.

Opening bank accounts, including foreign currency accounts, is a simple process and can typically be completed within a few hours.

4. BRINGING FOREIGN CAPITAL SHARE TO TÜRKİYE

Foreign investors can bring capital into Türkiye for purposes such as establishing a company or branch with foreign capital, participating in existing companies, acquiring shares, or contributing to capital increases. Investors must notify the Ministry of Economy about their investments, whether they involve greenfield projects, share transfers, or other forms of investment, and the amount of foreign capital introduced into Türkiye. Furthermore, any cash capital brought by foreign investors must be deposited into a bank operating in Türkiye.

Injecting equity into a Turkish company is not subject to capital or stamp duty. However, it is subject to a fund contribution (i.e., a contribution to the Competition Board) at 0.04% (four per 10,000).

5. CAPITAL REDUCTION

Capital reduction is governed by Articles 473–475 of the Turkish Commercial Code No. 6102 (TCC). A joint stock company may reduce its capital to (i) return part of the capital to shareholders or (ii) address company losses.

A capital reduction can also occur concurrently with a capital increase, in which case fully paid new shares are issued for the reduced capital.

Reducing capital requires amending the Articles of Association, and the board of directors must draft an amendment detailing the reduction. As per Article 408/1 of the TCC, the authority to decide on a capital reduction lies exclusively with the general assembly and cannot be delegated to any other body.

The board of directors must prepare a report outlining the capital reduction's purpose, scope, and procedure. This report must be registered and announced along with the resolution approving the reduction.

Certain restrictions apply to the amount of capital that may be reduced. Capital may not be reduced below the minimum capital thresholds.

Capital reduction can be executed by cancelling some of the shareholders' share certificates or reducing the nominal value of shares as approved by the general assembly. The issued share certificates must be returned to the company in both cases.

Per Article 475 of the TCC, the necessary documentation must be submitted to the trade registry for registration.

The amount of reduced capital is not considered a dividend repatriated to shareholders and, therefore, is not subject to withholding tax.

6. NOTIONAL INTEREST DEDUCTION ON CAPITAL

A significant tax incentive, the notional interest deduction, is available for cash capital contributions. This allows companies to deduct a notional interest from their Corporate Income Tax (CIT), calculated based on the capital contributed after 1 July 2015. This incentive applies to Turkish resident companies, excluding those in the banking, finance, and insurance sectors.

The deductible interest is calculated by applying the most recent 'annual weighted average interest rate for loans provided by banks', as announced by the Central Bank of Türkiye, to the cash capital increases and the cash portion of initial capital for newly established companies. However, only 50% of the calculated amount may be deducted from the CIT base. To qualify, the company must have a taxable profit, and those with carry-forward tax losses or current-year tax losses are not eligible for this deduction.

Specific capital increase methods are excluded from the deduction calculation. These include capital increases derived from in-kind contributions, increases during mergers, acquisitions, or spin-offs, increases from internal sources (such as legal reserves) booked under shareholders' equity, and increases through shareholder loans.

Under the Decree of the Council of Ministers (no: 2015/7910), the deemed interest deduction rate has been redefined for various scenarios:

a. Publicly traded companies: Depending on specific conditions, the rate increases by 25 or 50 points for companies listed on Borsa Istanbul (BIST).
b. Capital increase for investments with incentives: The rate is increased by 25 points for capital increases related to specified investments.
c. Other companies: Companies that do not fall into categories (a) or (b) receive a 50-point deduction.

The Decree also set the rate to 0% for capital increases made under specific conditions, such as where at least 25% of the company's passive income is derived from affiliate marketable securities, shares, and subsidiaries or where at least 50% of total assets are made up of such investments. Real estate company investments are limited to the corresponding investment amount.

Subsequent amendments have been introduced. Law No. 7338, published on 26 October 2021, increased the discount rate for cash capital increases from abroad to 75%. Law No. 7417, enacted on 1 July 2022, allows this discount to be applied separately for each period, with a five-year maximum duration for the discount application. The reduction applies to the accounting period in which the capital increase or changes to the articles of association were registered at the establishment stage and the following four accounting periods.

The general deduction limit is 50%, but the rate is 75% for foreign capital injections.

For a cash capital injection from abroad, the deductible amount is calculated using the following formula:

Deductible Amount from Corporate Income = Cash Capital Increase × TCMB Interest Rate × Duration (Months) × Discount Rate.

For example, with a cash capital increase of 100,000 units, a TCMB interest rate of 13.54%, a duration of 12 months, and a discount rate of 75%, the calculation is: Deductible Amount from Corporate Income = 100,000 × 0.1354 × 12 × 0.75

For future updates on the TCMB interest rate, refer to the provided link:
https://evds2.tcmb.gov.tr/index.php?/evds/portlet/K24NEG9DQ1s%3D/tr

Please also note that, in the case of a share capital injection, the funds may be freely allocated to create a term deposit to generate interest income.

7. SHARE BUYBACK

Under Article 379 of the Turkish Commercial Code (TCC), a company can repurchase or accept pledges on its shares for consideration, provided that the total number of repurchased shares does not exceed 10% of its share capital or issued capital. Acquisitions made by third parties on behalf of the company, as well as acquisitions by subsidiary companies, are included in this calculation.

The general assembly can authorise the board of directors to carry out share buybacks for a maximum period of five years, specifying the total number of shares, the total nominal value, and the maximum and minimum amounts that may be paid for these shares. This enables the general assembly to maintain oversight of the buyback process. After deducting the cost of repurchased shares, the company's assets must remain equal to the sum of the share capital or issued capital and any undistributable reserves per the law or the company’s articles of association. Repurchased shares must be fully paid up. To protect capital, Article 388 explicitly prohibits a company from subscribing to pay for its shares.

Article 381 outlines provisions for share buybacks that do not require authorisation from the general assembly, as set out in Article 379. According to this article, the board of directors may repurchase shares without prior approval to prevent significant and imminent losses. However, the board must inform the company at the next general assembly meeting about the purpose of the buyback, the total number and nominal value of the shares repurchased, the percentage of share capital, the total amount paid, and the payment terms.

Article 382 specifies exceptional circumstances in which a company may repurchase its shares without being subject to the abovementioned restrictions and conditions. These exceptional cases include buybacks to reduce capital due to business transfers, to collect a receivable through enforcement proceedings, or when enforced by security companies.

Article 383 exempts a company or its subsidiary from the 10% threshold if the share purchase is made without consideration (gratuitously). Repurchased shares under this article do not count towards the calculation of the general assembly quorum and do not grant the company any shareholder rights.

In addition to permitting share buybacks, Article 380 of the TCC prohibits financial assistance to prevent the circumvention of buyback regulations. A company is not allowed to engage in transactions involving the provision of prepayments, loans, or guarantees to third parties to acquire company shares; such transactions are considered void.

a. Disposing of Repurchased Shares

The disposal of repurchased shares is not mandatory for all shares as long as the buyback complies with the law. The obligation to dispose of repurchased shares applies only to those exceeding 10% of the share capital, as regulated by Article 384. These shares must be disposed of at the earliest opportunity, without causing losses to the company, and no later than three years from the buyback, except in certain exceptional cases as set out in Article 382 (where shares are destroyed following a capital reduction) and for shares repurchased gratuitously under Article 383.

b. Withholding Tax on Share Buybacks

In 2020, Article 94 of the Income Tax Law was amended to introduce anti-avoidance provisions to prevent companies from transferring funds to their shareholders without incurring dividend withholding tax. According to the revised Article 94/4 of the Income Tax Law, certain events following share buybacks by Turkish resident companies are considered dividend distributions and are subject to a 15% withholding tax:

Capital Reduction: If a company repurchases its shares and then reduces its capital, the difference between the repurchase price and the nominal value of the shares is treated as a dividend to be distributed on the date the capital reduction is registered with the Trade Registry.

Sale of Shares Below Repurchase Price: If the repurchased shares are sold for less than the repurchase price, the difference between the repurchase price and the sale price is treated as a dividend, distributed on the date of the sale.

Suppose the repurchased shares are not sold or cancelled by capital reduction within two years of the repurchase. In that case, the difference between the repurchase price and the nominal value of the shares is treated as a dividend to be distributed on the last day of the two years from the repurchase date.

Presidential Decree No. 6791, issued on 14 February 2023, significantly changed the withholding tax rate on these deemed distributions from 15% to 0%. However, a subsequent amendment in Presidential Decree No. 7343, dated 7 July 2023, limited the 0% tax rate to companies listed on the Istanbul Stock Exchange. As a result, unlisted companies are subject to the standard 15% withholding tax rate for deemed distributions concerning shares acquired after 7 July 2023.

8. BORROWINGS FROM ABROAD

Under Article 17 of Decision No. 32 on the Protection of the Value of the Turkish Currency (Decree No. 32), Turkish residents can obtain Turkish lira loans from overseas sources. Furthermore, the second paragraph of the same article allows them to secure foreign currency loans from abroad, provided such transactions are routed through Turkish banks designated as "Intermediary Banks."

Intermediary Banks are responsible for ensuring that foreign loans comply with the general regulations outlined in Article 14 of the Capital Movements Communiqué.

These banks must review SWIFT messages related to funds transferred from abroad into the deposit accounts of Turkish residents. They must verify whether the transferred amount, based on information in Turkish or other languages, constitutes a loan. If identified as a loan, the Intermediary Bank requests a detailed loan agreement from the borrower, including specifics such as the maturity date and interest rate. Once the borrower meets the necessary conditions, the funds are processed as a foreign loan.

The Intermediary Bank handling the foreign loan ensures it obtains a copy of the borrowing entity's loan agreement and repayment schedule. Additionally, the bank monitors the loan's repayment progress. Turkish residents utilising foreign loans are required to provide the loan agreement—detailing the maturity date and interest rate—to the bank facilitating the repayment to ensure the proper repayment of the loan.

9. FX LOAN RESTRICTIONS

Recent amendments to Decree No. 32 on the Protection of the Value of the Turkish Currency restrict Turkish residents from obtaining FX Loans or FX-indexed loans from abroad unless specific conditions are satisfied.

Offshore FX Loans and FX-indexed loans may only be obtained under the following circumstances:

- By state entities, banks, financial leasing companies, factoring companies, and financing companies;
- By Turkish legal entities with an outstanding credit balance of at least USD 15 million as of the proposed loan utilisation date;
- By Turkish legal entities holding an investment incentive certificate;
- For financing specific machinery and equipment specified under Council of Ministers' Decree No. 2007/13033;
- By Turkish legal entities awarded domestic tenders that were open to international bidders;
- By Turkish legal entities engaged in defence industry projects approved by the Undersecretariat of Defence Industry;
- By Turkish legal entities appointed to execute projects under the Public-Private Partnership (PPP) model;

- By Turkish legal entities without foreign currency revenues in the past three fiscal years, provided they can demonstrate and verify estimated foreign currency revenues (in such cases, the amount of FX Loans cannot exceed the estimated foreign currency revenues); or
- By Turkish legal entities meeting other criteria determined by the Ministry responsible for the Undersecretariat of Treasury.

The Turkish Central Bank also introduced an exception for Turkish subsidiaries of foreign companies. Wholly owned Turkish subsidiaries of foreign companies may now obtain FX Loans from other group companies based abroad, free from FX borrowing restrictions.

The control of Turkish subsidiaries, whether direct or indirect, does not affect eligibility, and such subsidiaries may secure FX Loans from parent or sister companies. The legislation refers explicitly to parent companies rather than individual shareholders, but this should not preclude obtaining FX Loans from an individual shareholder residing abroad. However, informing the intermediary Turkish bank in advance is advisable, as they may be hesitant to process FX Loans from individual shareholders abroad.

In all cases, the Turkish company's ownership documents must be provided to the intermediary bank to complete such transactions.

10. TAXES ON BORROWINGS

a. Withholding Tax on Interest

Under Article 30 of the Corporate Tax Law, certain earnings and revenues of non-resident corporations with limited tax liability are subject to a 15% withholding tax. These include:

- Contract progress income from construction and improvement projects,
- Independent professional service income,
- Gains from securities (excluding dividends), gains from participation shares, dividends paid to board members, and profits repatriated by limited liability entities,
- Payments received from the sale, transfer, or assignment of copyrights, patents, trademarks, enterprise and commercial titles, and similar intangible rights, whether part of commercial or agricultural income.

Interest income earned by non-resident corporations is also subject to withholding tax in Türkiye. The Corporate Tax Law authorises the Council of Ministers to adjust withholding tax rates for each income category, ranging from 0% to 30%.

Currently, the general withholding tax rate for interest payments on loans obtained from abroad is 10%. However, interest payments made to the following entities are subject to a 0% withholding tax:

- Foreign governments,
- International institutions,
- Foreign banks or Qualified Financial Institutions (QFIs) are authorised to provide loans broadly beyond their affiliates.

Conversely, if the lender operates in or is based in a tax haven jurisdiction, the withholding tax rate increases to 30% on all payments unless the lender is a QFI. However, since the Ministry of Finance has yet to designate tax haven jurisdictions, these provisions are not currently enforceable.

In summary:

- Loans from QFIs, regardless of jurisdiction, are subject to a 0% withholding tax on interest payments.
- Loans from non-QFIs are subject to a 10% withholding tax.

b. Value Added Tax (VAT)

Under Article 9 of the VAT Law, payments made abroad are generally subject to a 20% reverse charge VAT as they are considered payments for services. Borrowers must declare this via a No. 2 VAT return, and the VAT can be offset against the calculated VAT for the same month under the reverse charge mechanism.

However, Article 17/4-e of the VAT Law exempts transactions subject to the Banking and Insurance Transaction Tax from VAT. The VAT Application General Communiqué clarifies that interest payments on loans obtained from foreign financial institutions fall within this exemption.

In summary:

- Interest payments on loans from foreign financial institutions are exempt from VAT.
- Interest payments on loans from non-financial institutions are subject to a 20% VAT.

c. Stamp Tax for Loan Agreements

Stamp tax applies to various documents, including agreements and financial statements, at a rate of 0.948% of the monetary value stated in the contract. The liability for stamp tax rests with the signatories, who are jointly responsible for payment. Only one signed copy of the agreement is taxed, and the annual stamp tax cap per document is set at TL 24,477,478.90 in 2025.

If an agreement is signed abroad, stamp tax is only triggered when the document is submitted to Turkish authorities or when its provisions are utilised in Türkiye (e.g., recorded in legal books or used to assert rights).

Loan agreements and related documents issued by banks, foreign financial institutions, or international institutions are exempt from stamp tax under Article 23 of Table 2 of the Stamp Tax Law. Agreements involving other entities are subject to the standard 0.948% stamp tax.

In summary:

- Loan agreements with banks, foreign financial institutions, or international institutions are exempt from stamp tax.
- Agreements with other entities are subject to a 0.948% stamp tax.

d. Resource Utilisation Support Fund (RUSF)

According to Communiqué No. 6 on the Resource Utilisation Support Fund, foreign currency loans obtained from abroad with an average maturity of less than three years are subject to RUSF as follows:

- Up to 1 year: 3%
- 1–2 years: 1%
- 2–3 years: 0.5%
- 3 years or more: exempt

RUSF is calculated on the principal amount of foreign currency loans. If a loan's average maturity exceeds three years but later falls short due to early repayment, RUSF becomes payable retroactively, including interest for delayed payment.

For Turkish lira-denominated loans from abroad, a 1% RUSF applies if the loan's maturity is less than one year, calculated on the interest amount.

In summary:

- Foreign currency loans with a maturity of three years or more are exempt from RUSF.
- Loans with shorter maturities are subject to RUSF based on their term and principal amount.
- TL-denominated loans with a maturity under one year are subject to a 1% RUSF on the interest amount.

11. TAX RESIDENCE AND FISCAL DOMICILE

Tax residence plays a significant role in determining corporate income tax obligations. Residents are subject to full tax liability in Türkiye, taxing them on their worldwide income. On the other hand, non-residents have limited liability and are only taxed on business income derived from activities in Türkiye.

Corporations are deemed fully liable for Turkish tax if their legal headquarters, as specified in their Articles of Incorporation, or their business centres are in Türkiye. A "business centre" is where business transactions are predominantly conducted or managed.

Companies established under the Turkish Commercial Code (TCC) with foreign capital are treated as fully liable taxpayers. However, foreign companies investing in Türkiye often retain corporate status abroad, with their legal and business headquarters outside Türkiye. As a result, these companies, or foreign participants in joint ventures, are generally considered limited liability under the Corporate Tax Law and are taxed solely on business income and earnings sourced within Türkiye.

For a non-resident company's income to be taxable in Türkiye, it must have either a place of business or a permanent representative in Türkiye and generate income through that place of business or representative.

Even when these conditions are met, if a company's business headquarters are not located in Türkiye and its activities involve selling goods purchased in Türkiye solely for export purposes, the earnings from such transactions are not subject to Turkish tax. Conversely, all commercial income earned within Türkiye, whether through a place of business or permanent representatives, is taxable for foreign legal entities operating in the country.

The concept of a fixed workplace is aligned with the international notion of a permanent establishment. Article 156 of the Turkish Procedural Tax Code outlines a list of workplaces rather than providing a strict definition. Based on the relevant provisions, a fixed workplace is any location designated for conducting commercial or industrial activities.

A permanent representative refers to an individual who, under a service contract or power of attorney, is authorised to conduct commercial transactions on behalf of and for the account of the principal. These transactions may be performed over a definite or indefinite period (per Article 8 of the Income Tax Law).

12. TAXATION OF BUSINESSES

a. Administration

The Constitution of the Republic of Türkiye gives Parliament exclusive authority to enact all laws regulating taxes, customs duties, and similar financial obligations. Each tax is generally associated with a specific tax law.

Türkiye levies both direct and indirect taxes. The direct taxes are corporate and income taxes, and the indirect taxes are on wealth and expenditures. Taxes on wealth include inheritance and gift tax, motor vehicle tax, and property tax. Taxes on expenditures include value-added tax (VAT), special consumption tax, banking and insurance transaction tax, and municipal taxes.

Türkiye's central government and the Ministry of Finance are authorised to levy taxes, and local authorities impose no income taxes. Although only Parliament may legislate tax matters, the laws authorise the President to change tax rates. The Ministry of Finance administers taxes for the central government, and local tax offices are responsible for tax collection. Local customs offices collect customs duties and VAT levied on imported goods. Municipal authorities collect property taxes and municipal taxes.

The two primary procedural tax laws currently in effect are the Tax Procedures Code (Law No. 213) and the Law on the Procedures for Collection of Public Claims (Law No. 6183). These laws contain general principles applicable to all the other laws. The Tax Procedures Code contains regulatory provisions concerning tax liability, various forms of taxation, statutes of limitations, bookkeeping, and applicable methods for valuing assets, liabilities, and payables. The Law on the Procedures for Collection of Public Claims contains provisions relating to paying taxes, penalties, and interest to be imposed on taxpayers who fail to fulfil their tax obligations.

The Administrative Judicial Procedures Act and the governing statute of the Council of State, Türkiye's highest administrative court, contain provisions relating to the tax courts.

b. Corporate tax

Corporate tax in Türkiye is governed by the Corporate Tax Law (Law No. 5520), which applies to profits generated by corporations, cooperatives, state-owned enterprises, economic entities owned by associations and foundations, and mutual funds and investment trusts regulated under the Capital Markets Law. The corporate tax rate is 25% of a corporation's taxable income, calculated by deducting allowable expenses from the enterprise's revenue. Dividend distributions to resident and non-resident individuals and non-resident companies are subject to a withholding tax of 15%.

Corporate tax is typically assessed on profits reported for the calendar year, although businesses may apply for permission from the Ministry of Finance to adopt a different fiscal year. Companies must file annual corporate tax returns based on their financial accounting year and make quarterly advance tax payments. The advance corporate tax rate is also 25%, and these payments can be offset against the tax liability declared in the annual return. If advance payments exceed the final tax due, the surplus can be offset against other tax liabilities or refunded.

Entities with their legal or business headquarters in Türkiye are considered resident companies and are subject to tax on their worldwide income. Non-resident entities with no legal or business headquarters in Türkiye are liable only for corporate income earned within Türkiye.

c. Position of losses

Corporate losses may be carried over for up to five years but cannot be used to offset previous years' profits.

d. Group treatment

In Türkiye, consolidating the accounts of group companies for tax purposes is prohibited since each company is regarded as a separate taxpayer.

e. Determination of net taxable income

The principles of determining business income under the Income Tax Law also apply to corporate income calculations. Net corporate income is the difference between the net asset value at the beginning and the end of the fiscal year.

In addition to deductible expenses listed under Article 40 of the Income Tax Law, corporations can deduct all business-related expenses reasonably incurred to generate profit, except for the following:

- Interest on shareholder equity or advances from shareholders.
- Reserves allocated from profits (excluding technical reserves of insurance companies and doubtful receivables for which legal proceedings have been initiated).
- Corporate tax and associated penalties or interest on tax liabilities.
- Discounts or losses from selling the company's securities below par value.
- For non-resident entities, interest, commissions, and other charges paid to headquarters or branches outside Türkiye for purchases or sales conducted on their behalf and contributions to headquarters' or branches' losses or expenses. Such charges are deductible only if they adhere to arm's length principles and are directly related to generating business income in Türkiye.
- Interest, foreign exchange losses, or similar expenses incurred on disguised capital.
- Profits distributed inappropriately through transfer pricing.

In addition to the deductions specified in Article 40 of the Income Tax Law, which can be subtracted from revenues, corporations can deduct all reasonable business-related expenses incurred for profit-making purposes, with some exceptions. These exceptions include interest on shareholder equity or advances from shareholders, reserves set aside from profits (except for technical reserves for insurance companies and doubtful debts from debtors involved in legal proceedings), corporate tax, and any monetary or tax penalties and interest imposed on taxes. Furthermore, discounts or losses incurred from selling the corporation's securities at less than their par value and certain expenses for non-resident companies are not deductible unless they comply with the arm's length principle and are related to the generation and maintenance of business income in Türkiye.

Additionally, interest, foreign exchange differences, or similar expenses incurred on disguised capital or profit distribution, disguised through improper transfer pricing, are non-deductible.

f. Declaration requirements

Taxable income is reported quarterly, covering the first three quarters, with advance tax payments due on the 17th day of the second month after each quarter. The corresponding taxes must be paid by the 17th day of the relevant period. Advance corporate tax payments are applied as a credit against the final tax liability, determined when filing the annual corporate tax return. The deadline for submitting the annual corporate tax return is the 30th day of the fourth month following the end of the fiscal year.

g. Value-Added Tax (VAT)

The VAT Law regulates VAT assessment in Türkiye (No. 3065). In Türkiye, VAT applies to all transactions involving the supply of goods and services in commercial, industrial, agricultural, and professional activities and to goods and services imported into the country. The standard VAT rate is 20%.

The entity responsible for VAT payment delivers the goods or services, while the importer is responsible for VAT payment on imports.

A taxpayer may offset the VAT paid on purchased goods and services against the VAT collected on goods and services delivered. If the VAT on sales exceeds the VAT on purchases, the taxpayer must remit the difference to the tax office. If input VAT exceeds output VAT, the general rule is that the difference is not refunded to the taxpayer, except for input VAT on exports. Instead, the excess is carried forward and can be offset against future VAT collections.

Turkish tax regulations prohibit businesses from reclaiming input VAT on non-deductible expenses.

VAT liability arises at the time of delivering goods or services. If invoices (or equivalent documents) are issued before delivery, VAT is payable only on the amounts indicated. Regarding goods in transit, VAT liability arises when the shipment begins.

Article 1 of the VAT Law specifies the transactions subject to VAT in Türkiye. These include the delivery of goods and services related to commercial, industrial, agricultural, and professional activities and importing various goods and services. VAT also applies to transactions such as mail, telecommunications, energy products, immovable property rentals, intellectual property, motor vehicles, machinery, equipment, lotteries, concerts, sports events, contests, sales at auctions, and customs warehouses.

Other transactions are not subject to VAT in Türkiye apart from the explicitly listed transactions. To determine whether a sale is subject to VAT, it is essential to understand the definitions of "delivery of services" and "being performed in Türkiye," as outlined in Article 1 of the VAT Law.

The VAT taxable period is one month, and a VAT return must be submitted by the 28th day of the month following the end of the taxation period. The corresponding tax payment is due on the 28th day of that same month. A VAT return must be filed monthly, regardless of whether any VATable transactions have occurred.

h. VAT Refund for Exported Goods

Export transactions are VAT-exempt, and unclaimed input VAT for export goods can be credited or refunded. The VAT Law allows refunds for VAT paid on goods used or processed to produce exported goods.

Navigating the VAT refund process in Türkiye can be complex, and any effort to streamline the tax and financial model requires a thorough review of the company's overall business structure.

As outlined in the VAT Communique, there are two main methods for VAT refunds: refund by deduction and refund in cash. Refund by deduction is the primary method due to its simplicity and speed, while cash refunds are less common. The main barrier to cash refunds is the additional procedures and costs involved, including reports from sworn public accountants and supplementary tax office investigations.

i. Reverse Charge VAT

Typically, payments made abroad are subject to a 20% reverse charge VAT per Article 9 of the VAT Law. As a result, these payments are treated as service-related transactions, triggering VAT liability. The VAT amount for such foreign payments must be reported through the No: 2 VAT return and offset against the payer's calculated VAT for the same month, in line with the reverse charge mechanism.

Under this system, service fees are subject to a 20% reverse charge VAT. Following the reverse charge mechanism, the service recipient is responsible for calculating and remitting the VAT on behalf of the service provider.

j. Dividend Withholding Tax

Dividends paid by Turkish resident entities are subject to an income withholding tax of 15% when distributed to resident or non-resident individuals or non-resident entities without shares through a fixed place of business or a permanent representative qualifying as a "Permanent Establishment" in Türkiye. It is important to note that distributions in the form of bonus shares are exempt from taxation under Turkish income tax laws.

If a double taxation treaty exists between Türkiye and the country of residence of the dividend's beneficial owner and specifies a lower tax rate, the reduced withholding tax rate under the treaty may apply, subject to specific conditions.

Additionally, dividend income received by resident entities from another resident entity is not subject to withholding tax. Such income is also exempt from corporate tax at the receiving entity's level.

The taxable period is one month, and a withholding tax return must be filed by the 26th day of the month following the end of the taxation period. The corresponding tax payment is due on the 26th day of the same month.

k. Taxes on Payroll

Labour compensation, including monetary wages and non-monetary benefits, is classified as salary and wages within a specific employment contract.

All types of compensation, such as cash payments, indemnities, allowances, overtime pay, advances, subscriptions, premiums, bonuses, expense reimbursements, or profit-related percentages (not related to a partnership), are subject to grossing up. These payments are taxed at progressive rates, ranging from 15% to 40%, as part of the total salary and wage income.

For non-resident individuals, wage income in Türkiye is determined under the following conditions:

a. Employment services are performed in Türkiye or
b. Services are evaluated in Türkiye

Stamp Duty is applied 0.759% on the gross salaries of resident and non-resident individuals.

l. Stamp Tax

Stamp tax is applied to various legal documents, including contracts, agreements, financial statements, and tax returns. The tax base varies depending on the document type, with the tax rate ranging from 0.189% to 0.948%.

The taxable event occurs when the documents are signed for agreements executed within Türkiye. For contracts signed abroad, stamp tax only arises when the agreement is brought into Türkiye for submission to official departments or when the document terms are used in Türkiye.

The parties who sign the document are responsible for paying the stamp tax, which is shared by all parties involved in a taxable document.

The maximum stamp tax per document is capped at TL 24,477,478.90 in 2025.

Share Purchase Agreements are exempt from stamp tax.

m. Social Security Insurance Payments

The Social Security Law (No. 5502) covers individuals employed in the private sector, protecting social security premiums for various aspects such as occupational accidents and diseases, illness, maternity, disability, old age, and death.

Both employees and employers are responsible for making monthly Social Security premium payments to the Social Security Institution. The applicable premium rates are determined based on the social security base, which includes gross wages, bonuses, and other payments subject to social security premiums.

	Employee	Employer
SSI Premium	%14	%20,75
SSI Unemployment Premium	%1	%2
Total	%15	%22,75
Discount**		%4
Total Discount Included	%15	%18,5

**The employer discount (Incentive No. 5510) applies only if the employer makes timely social security premium payments. The manufacturing sector has a discount rate of 5%.

It is important to note that if the Social Security base exceeds the annual Social Security premium ceiling, updated each year, the premiums are calculated based on the ceiling amount applicable for that specific period.

The current premium ceiling is TL 195,041.40 for 2025

n. Deductibility Requirements

Under Turkish tax legislation, expenses are only deductible if they are directly related to the generation and maintenance of the recipient's business income in Türkiye and comply with the arm's length principle. Turkish tax authorities apply these criteria rigorously, allowing expenses to be deducted from the corporate tax base only when the services are physically provided and directly contribute to the recipient's income generation in Türkiye.

To be considered deductible expenses for corporate tax purposes, the charges must meet the following conditions:

- Directly linked to the generation and maintenance of the recipient's business income in Türkiye,
- In line with the arm's length principle,
- Properly documented to withstand potential scrutiny,
- Associated with services provided directly to the recipient, not to a third party (even if it is a related party).

Additionally, if the charges are deemed non-deductible, the VAT paid on those charges will also be non-deductible.

o. Limitation on Financial Expense Deductibility

Corporate income taxpayers with borrowings exceeding their equity are not eligible to deduct 10% of the excess borrowing costs, including interest, commission, exchange rate, and maturity differences. This 10% portion is considered a non-deductible expense when determining the taxable income.

Regarding the regulation that limits the deductibility of financial expenses for tax purposes:

- The limitation only applies when the external financing exceeds the taxpayer's equity,
- The non-deductible portion of financial expenses is capped at 10%,
- Interest and similar payments capitalised to the investment cost are exempt from this deductibility restriction.

13. ANTI-AVOIDANCE PROVISIONS

The Turkish Tax Procedure Code includes a general anti-avoidance rule prioritising substance over form. Specific anti-avoidance measures within the Corporate Income Tax Law address transfer pricing, thin capitalisation, and controlled foreign corporation rules. Furthermore, the Corporate Income Tax Law grants the Turkish government the authority to impose restrictions on the interest expenses of corporate income taxpayers.

It is important to note that Turkish tax legislation does not distinguish between aggressive tax planning and tax avoidance. Regarding penalties for non-compliance with anti-avoidance provisions, no specific penalty is explicitly outlined for such cases. Taxpayers suspected of engaging in tax avoidance may be subject to penalties, including a tax loss penalty and an irregularity fine as specified in the Turkish Tax Procedure Code.

a. Thin Capitalisation

For a company to be classified as having thin capitalisation, borrowings from shareholders or individuals associated with shareholders must exceed three times the company's shareholders' equity at any point during the relevant year. This ratio can rise to six times for loans obtained from related banks or financial institutions, excluding those solely financing related parties.

For thin capitalisation purposes, the borrower's equity at the beginning of the fiscal year is considered the equity capital. Loans from different related parties are aggregated for calculation.

A "related party" is defined as shareholders and entities connected to the shareholders. A related party to a shareholder includes a company where the shareholder directly or indirectly holds more than 10% of the shares, voting rights, or rights to receive dividends, or a company or individual directly or indirectly holding at least 10% of the capital, voting rights, or dividend rights in the shareholder's entity or a company related to the shareholder.

The following types of borrowing are exempt from thin capitalisation rules:

- Loans from third parties secured by non-cash guarantees provided by shareholders or related parties.
- Loans obtained by related parties from banks, financial institutions, or capital markets and subsequently on-lent, wholly or partially, under the same terms.

In cases of thin capitalisation, interest paid or accrued, along with foreign exchange losses incurred on such thin capital, are reclassified and taxed as dividends distributed by the borrower. These amounts are treated as dividends received by the lender and, consequently, as repatriated profits for non-resident lenders, making them non-deductible in Türkiye.

Apart from the exemptions listed above, all liabilities are considered for thin capitalisation. This includes:

- Borrowings from third parties secured by non-cash collateral provided by shareholders or related parties.
- Loans obtained by subsidiaries, shareholders, or related parties from banks, financial institutions, or capital markets and used under the same conditions, in whole or in part.

Under local thin capitalisation regulations, the excess portion is considered thin capital if borrowings from shareholders or related individuals exceed three times the shareholders' equity at the start of the accounting period. Consequently, the interest paid or accrued and foreign exchange losses on this excess borrowing become non-deductible.

For example, suppose the shareholders' equity at the start of the period is TL 200,000 and the total borrowing from shareholders or related individuals reaches TL 850,000 (the highest amount during the year). In that case, the threshold is three times the shareholders' equity (200,000 x 3 = TL 600,000).

Thus, the thin capital is calculated as 850,000 - 600,000 = TL 250,000. To determine the implicit capital coefficient, divide the thin capital by the total debt amount: 250,000 / 850,000 = 0.294117.

By multiplying this coefficient with any relevant payments, such as interest or foreign exchange differences, you can calculate the amount of thin capital for each payment.

b. Transfer Pricing

Under the transfer pricing regulations, when the pricing of transactions involving the sale or purchase of goods and services between related parties does not comply with the "arm's length" principle, the allocation of the associated profits is considered concealed through transfer pricing. Profits from such transactions are thus treated as hidden profit distributions via transfer pricing.

Transactions between related parties that fail to follow the arm's length principle may attract scrutiny from tax authorities. In these cases, the profits resulting from such transactions, which are believed to be disguised profit distributions via transfer pricing, will be regarded as hidden dividends at the end of the fiscal year in which the transaction occurred. These amounts will, therefore, be subject to dividend withholding tax.

The Turkish tax authorities recognise and accept the three traditional transfer pricing methods outlined in the OECD Transfer Pricing Guidelines, which include:

- The comparable uncontrolled price method
- The resale price method
- The cost-plus method

Taxpayers are also permitted to use a transfer pricing method of their choosing if applying the above techniques is not feasible due to particular circumstances. Furthermore, taxpayers can enter into a unilateral agreement with the Turkish Ministry of Finance to pre-determine the applicable transfer pricing method for up to three years, provided the conditions at the time of method determination remain unchanged. This agreement is binding on both the tax administration and the taxpayer, ensuring certainty for both parties.

It is important to note that there is no minimum threshold for preparing the Local File. A local file must be maintained for the relevant fiscal years if transactions with foreign-related parties occur. The Local File must be prepared in Turkish, as the Turkish tax authorities do not accept documents in English. It must be submitted within 15 days of the authorities' request.

c. Controlled Foreign Company (CFC) Rules

Profits of non-resident subsidiaries controlled by fully tax-resident individuals or entities, through ownership of at least 50% of the capital, dividends, or voting rights, are subject to corporate tax in Türkiye, provided the following conditions are met:

a. At least 25% of the affiliate's gross revenue must be derived from passive income, such as interest, dividends, rent, licence fees, and proceeds from the sale of marketable securities;
b. The non-resident affiliate must be subject to a combined corporate or income tax rate lower than 10% on its distributable commercial profits and
c. The non-resident affiliate's gross revenue must exceed TL 100,000 in foreign currency in the relevant year.

d. Other Anti-Avoidance Provisions

A tax deduction of 30% will be applied to companies (including the business centres of tax-resident corporations located in such countries) operating in certain countries, as determined by the Council of Ministers (which has yet to specify these countries). This deduction applies to companies based on whether the tax system in the country where the profit was generated imposes a tax rate comparable to the Turkish tax system's capacity and allows for information exchange. The deduction applies to all payments, whether made in cash or on account, regardless of whether these payments fall within the scope of the tax or whether the corporation receiving the payment is a taxpayer.

Withholding tax will not apply to the following payments:

- Payments for goods and shares purchased at prices in line with market benchmarks;
- Principal, interest, and dividend payments on borrowings from non-resident financial institutions, as well as insurance and reinsurance payments.

14. DIVIDEND DISTRIBUTION

Profit repatriation is generally unrestricted unless the company is under the oversight of a higher supervisory body, such as the Capital Markets Board or the Banking Regulatory and Supervisory Authority, which requires approval.

Foreign investors can transfer dividends abroad per the Foreign Direct Investment (FDI) Law. However, compliance with the legal reserve requirements set out in the Turkish Commercial Code is mandatory. While the FDI Law imposes no restrictions on dividend payments, the dividend withholding tax must be settled before repatriation, with banks facilitating the transfer verifying this step.

Dividends paid are subject to an income withholding tax of 15% when distributed to shareholders who are resident individuals, non-resident individuals, or non-resident entities without shares in a permanent establishment or representative in Türkiye. Under Turkish income tax laws, distributions made as bonus shares are exempt from taxation.

Where a double taxation treaty exists between Türkiye and the country of residence of a non-resident entity or individual, and the treaty specifies a lower income withholding tax rate on dividends than the rate stipulated in the Income Tax Law, the reduced withholding tax rate as set out in the treaty will apply.

Dividend income received by resident entities from another resident entity is exempt from withholding tax and benefits from a corporate tax exemption at the receiving entity's level.

a. Legal Reserves

According to the Turkish Commercial Code, Turkish companies must allocate first—and second-level legal reserves from their profits.

- **First-level legal reserves:** Joint-stock and limited companies must allocate 5% of their net profits yearly to the first-level legal reserve. The cap for first-level legal reserves is set at 20% of the paid-up capital, and the obligation to allocate reserves ceases once this threshold is met.
- **Second-level legal reserves:** These reserves amount to 10% of the profits distributed after deducting the first-level legal reserves and the mandatory minimum dividend payout (5% of the paid-up capital). Second-level legal reserves represent approximately 1/11th of the profit intended for distribution. There is no limit on second-level legal reserves, and they accumulate annually.

According to the Turkish Commercial Code, when legal reserves exceed 50% of the paid-up capital, they must be used to cover losses, maintain operations during challenging economic conditions, prevent unemployment, or mitigate the adverse effects of unemployment.

15. INVESTMENT INCENTIVES

The investment incentives system comprises five distinct investment models, two specialised investment programmes, and a wide range of 12 incentive components.

a. General Incentives:

Projects meeting specific criteria and minimum fixed investment thresholds are eligible for support under general incentives, regardless of location. The support elements include:

- VAT exemption
- Customs duty exemption, including RUSF and additional customs duties
- Stamp tax support
- Municipal revenue support
- Real estate tax support
- Income tax withholding allowance (for the 6th region)
- Social security premium support (for shipbuilding investments in shipyards)

b. Regional Incentives:

Industries categorised regionally benefit from incentive elements tailored to each region's conditions. These include:

- Corporate Income Tax (CIT) deduction
- VAT exemption
- Customs duty exemption, including RUSF and additional customs duties
- Stamp tax support
- Municipal revenue support
- Real estate tax support
- Income tax withholding allowance (for the 6th region)
- Land allocation
- Social Security premium support
- Interest support
- Social premium support (for the 6th region)
- VAT refund

c. Medium-High Technology Investments:
Investments in the fourth region, excluding Istanbul, are eligible for regional support. Investments in the fourth, fifth, or sixth regions also qualify for regional support.

d. Preferential Investment Projects:
Certain investment areas are designated as 'preferential' and receive regional support similar to the 5th region, irrespective of the investment's geographical location. When such investments occur in the 6th region, the regional incentives specific to that region will apply.

e. Strategic Investments:
Projects that meet specific criteria and are considered strategic under the Technology-Oriented Industry Move Programme may receive support from the Programme Evaluation Committee. These criteria include:

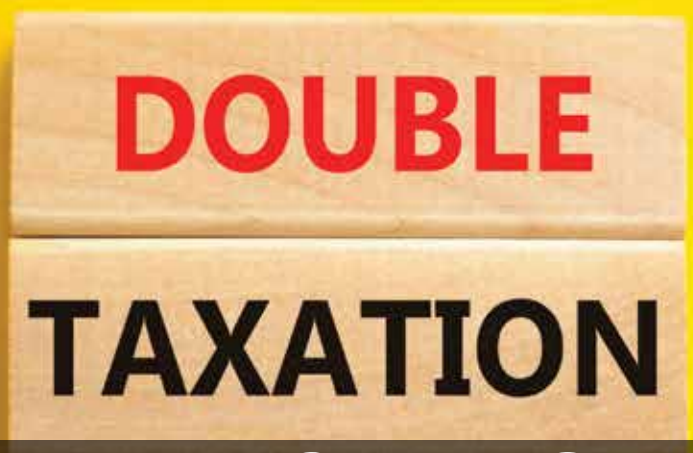
- A minimum fixed investment amount exceeding TRY 50 million
- Total domestic production capacity lower than the import level
- A minimum added value of 40%
- A total import amount exceeding USD 50 million in the previous year

f. Technology-Focused Industry Move Programme:
This programme aims to increase value-added production in Türkiye, especially in medium-high and high-tech industries. It supports the local production capacity of products with high future potential and critical importance.

g. Preferential Product List:
This list includes products from medium-high and high-tech sectors, as defined by the OECD, and those considered critical for industrial development by the Ministry.

h. Project-Based Investments:
Projects must meet a minimum fixed investment of TRY 50 million to qualify under the Technology-Focused Industry Move Programme. Other investments require a minimum fixed investment of TRY 500 million. The incentive items may include:

- CIT rate reduction
- Investment contribution rates up to 200%
- Employee income tax withholding incentives
- Customs tax exemption
- Social Security premium employer share support for ten years
- Provision of free treasury land for 49 years
- Energy consumption expenditure support for ten years
- Interest support for investment loans for up to ten years
- Minimum wage support for qualified personnel for five years
- Capital support up to 49%
- A purchase guarantee for goods produced through the supported investment



16. APPLICATION OF DOUBLE TAX TREATIES

Türkiye has established 86 double tax treaties, including agreements with countries such as France, the UK, the US, Australia, Switzerland, Canada, and Germany. The most advantageous treaties are those with the Netherlands, Luxembourg, Germany, and Switzerland, which provide a withholding tax rate of 10% or lower on dividends.

When a double taxation treaty exists between Türkiye and the country of residence of a non-resident entity or individual, and the treaty specifies a lower tax rate or provides an exemption compared to Turkish Tax Law, the entity or individual may benefit from the more favourable tax rate or exemption outlined in the treaty.

To benefit from the provisions of a double taxation treaty, the non-resident entity or individual must submit the original certificate of residency issued by the relevant country's competent authority, along with a certified translation, to the paying entity. The Ministry of Finance may also request additional documentation demonstrating the beneficiary ownership of the entity or individual benefiting from the treaty.

Corporate entities that do not have a registered address or business headquarters in Türkiye are classified as non-resident entities. To qualify as a non-resident entity and access the tax treaty between Türkiye and the entity's jurisdiction of tax residence, the entity must have neither a registered address nor a business headquarters in Türkiye.

A registered head office is designated in the entity's legal documents, charter, or contract, subject to corporation tax. The business headquarters is where the entity centralises its business transactions. Therefore, non-resident entities must not manage, hold board meetings, or make business decisions in Türkiye to benefit from tax treaties.

17. TAX ASPECTS OF IMPORTATION

Goods imported into Türkiye are subject to various charges, including customs duties, levies, and internal taxes such as the Special Consumption Tax (SCT) and VAT. Since 1996, due to Türkiye's participation in the customs union with the EU, Türkiye has applied the EU's standard external tariff to all industrial products and the industrial components of processed agricultural products imported from third countries.

It is important to note that only Turkish resident companies with a valid tax number can import or export goods. Non-resident entities without a presence in Türkiye are not allowed to import. Importers must submit an information file to the relevant customs administration, including their registration certificate with the Council of Commerce or Industry, a copy of the Trade Registry Gazette, a list of authorised signatures, and a power of attorney.

Customs duties, VAT, SCT, and other taxes and funds are collected at importation. The primary tax levied at customs is the import duty, which varies based on the classification of the goods and the country of origin. VAT and SCT are also collected upon import, with the VAT rate being the same as the domestic rate of 20%, while the SCT varies depending on the type of imported goods.

Anti-dumping and countervailing duties, if applicable, are also collected at the time of importation. Additionally, suppose the import is not conducted in cash. In that case, the importer must pay a special fund, the Resource Utilisation Support Fund (RUSF), currently set at 6% for imports.

Under the Customs Union agreement between Türkiye and the EU, all customs duties on industrial products imported from the EU have been eliminated. Türkiye now applies the EU's Common Customs Tariff for third-world imports.

Türkiye operates both non-preferential and preferential rules of origin. As part of its obligations under the Customs Union with the EU, Türkiye applies the same rules of origin as the EU for imports from third countries. Non-preferential rules of origin, outlined in Articles 17 to 21 of the Customs Law, assign origin based on the country where the goods were wholly obtained or underwent their last substantial transformation.

The customs union facilitates the free circulation of goods, and preferential treatment is applied to industrial and processed agricultural goods. To qualify for preferential treatment, goods must be delivered directly to Türkiye with an A.TR Certificate (a movement certificate, not a certificate of origin). If goods are transported through a third country, they must be under customs observation in that country, and it must be demonstrated to Turkish Customs Authorities that the goods were not further processed there. The details of the goods on the invoice and customs declaration must match those on the A.TR certificate.

It is also important to note that Türkiye has Free Trade Agreements with various countries, including South Korea, which must be considered when determining customs duties and formalities.

The only requirement for importing goods into Türkiye is to complete customs formalities.

18. EXPORTS

According to Articles 11 and 32 of the Value Added Tax Law, VAT paid on exported goods is deductible, with any non-deductible portion refunded to the taxpayer. Export transactions are exempt from VAT.

Under the Special Consumption Tax Law, export deliveries of goods listed in the annexes of the Special Consumption Tax Law are exempt from Special Consumption Tax. However, no refunds are granted for exports to free zones.

Under the Stamp Tax Law, stamp tax applies to customs declarations, except those related to foreign exchange-earning transactions. Exports are considered foreign exchange-earning transactions and are not subject to stamp tax.

Türkiye is an EU candidate country and a member of the EU Customs Union. However, the customs union does not cover all goods, and specific exceptions may apply based on the relevant agreements or decisions.

To qualify as an exporter, you must be a member of the General Secretariat of Exporters' Associations.

19. TRANSIT REGIME

As outlined in Turkish Customs Legislation, the transit regime governs the movement of goods within the Customs Territory of Türkiye under various conditions:

- From a foreign country to another foreign country.
- From a foreign country to Türkiye.
- From Türkiye to a foreign country.
- Between inland customs offices within Türkiye.

Goods in transit can be transported within Türkiye's Customs Territory using specific documentation, including:

- Transit declaration.
- TIR carnet.
- ATA carnet.
- NATO form 302.
- Post services.
- Summary declaration for goods transported by sea or air, either from one Turkish port to another or a port outside the Customs Territory of Türkiye.

a. Security in Transit Procedures

In line with Customs Legislation, security must be provided for transit operations to cover customs duties and other related charges. There are three primary types of securities available:

- Security for a single transit operation.
- Turkish Lira in Cash.
- A letter of guarantee from a bank or private financial institution.
- Treasury bills or bonds.
- Foreign currencies.
- Comprehensive security, covering multiple transit operations.
- Global security, which encompasses numerous transit operations.

20. BONDED WAREHOUSES

According to Turkish Customs Legislation, goods not in free circulation may be stored in bonded warehouses without being subject to import duties or commercial policy measures. There is no set time limit for goods to remain in these warehouses.

Customs Legislation distinguishes between two types of bonded warehouses:

- Public bonded warehouses are available for use by any individual or entity.
- Private bonded warehouses, which are designated for use exclusively by warehouse keepers.

Additionally, fairs and exhibitions displaying goods that are not in free circulation are considered private warehouses.

The bonded warehouse system in Türkiye allows specific imported goods to be stored in customs-approved bonded warehouses without incurring import duties or taxes, typically until the goods are re-exported, cleared for domestic market sale, or when duties and taxes become due. While goods are in bonded warehouses, they may undergo handling procedures to preserve, enhance appearance or marketability, and prepare for distribution or resale.

Furthermore, costs related to warehousing and preserving goods while stored are excluded from the customs value if they are separately disclosed from the actual price paid. However, these costs must be included in the tax base for Value Added Tax (VAT).

21. FREE TRADE ZONES

Free Trade Zones (FTZs) are designated economic areas within a country's borders but outside its Customs Zone for imports and exports. These zones are either partially or entirely exempt from the legal and administrative regulations typically applied to the country's commercial, financial, and economic activities.

According to Customs Law No. 4458, FTZs are considered zones within Türkiye's Customs Territory where goods that are not in free circulation are stored without being subjected to customs procedures or entering free circulation, as long as they are not consumed or used except in specific circumstances outlined by customs law. These zones are regarded as outside Türkiye's Customs Territory for import duties and trade policy measures, and goods in free circulation within FTZs enjoy the advantages generally available to exports.

Under Free Trade Zones Law No. 3218, FTZs are considered areas where goods not in free circulation are placed without being subject to customs regimes and without entering free circulation, provided they are not used or consumed except under the conditions outlined in customs legislation. Additionally, these zones are treated as outside Türkiye's Customs Territory regarding the imposition of import duties, trade policy measures, and foreign exchange regulations. Goods in free circulation within FTZs benefit from export-related opportunities.

Article 1 of the Free Zones Law No. 3218 outlines the objectives of FTZs as follows:

- To promote export-driven investment and manufacturing,
- To attract foreign direct investment and facilitate technology transfer,
- To encourage businesses to focus on exports,
- To enhance international trade.

Operating licences for investor users are valid for 45 years for production activities and 30 years for other business activities. Tenant users are granted operating licences for 20 years for production and 15 years for different activities.

a. Corporate Tax Exemption

For businesses involved in production within FTZs, the date of obtaining an operating licence does not affect the application for corporate tax exemption. Revenues generated from the sale of goods produced in FTZs are exempt from corporate tax until the end of the taxation period, which includes the date of full EU accession. The exemption is considered an income exemption, meaning that the remaining income, after deducting relevant expenses, will be exempt from corporate tax.

Tracking the exempt revenue, cost, and expense elements is essential for determining the exempt income and corporate tax base, ensuring they are not mixed with other operations. Records must be kept distinguishing between exempt and non-exempt elements.

b. Transfer Pricing

Transactions between companies operating in FTZs and their head offices or related parties in Türkiye or abroad are subject to transfer pricing rules to prevent disguised profit distribution.

c. Income Tax Exemption

Wages paid to employees working for businesses that export at least 85% of the FOB value of the products produced in FTZs are exempt from income tax until the end of the taxation period, including Türkiye's full EU accession. Businesses can benefit from this exemption if they meet the criteria, regardless of the date their operating licences were issued.

This income tax exemption applies to all personnel employed in production activities within the FTZ. Employees in sales, marketing, accounting, and logistics departments for businesses engaged in production and other activities are also eligible for the exemption. However, the exemption only applies to wages listed in the monthly premium and service certificates submitted to the Social Security Institution for workplaces where production activities occur.

There is no upper limit for income tax exemptions, meaning the entire tax amount can be exempted, subject to certain conditions. No exemptions are available for the following:

- Salaries paid if less than 85% of the total FOB value of the goods produced in the FTZ is exported,
- Salaries for employees working outside the FTZ for reasons unrelated to FTZ activities,
- Salaries paid to employees by companies that fail to submit exemption declarations by the deadline,
- Salaries paid to employees working for businesses that engage in activities other than production within the FTZ.

To qualify for the income tax exemption, the total FOB price of exported products must be calculated. This is done by multiplying the unit FOB price of produced goods by the total quantity of products produced. The unit FOB price is determined by dividing the total sales value of products sold by the amount of those products.

To determine the total FOB price of exported goods, the exchange rates published by the Central Bank of the Republic of Türkiye on the date the sales receipt is recorded in the legal books should be used.

If products cannot be sold in the same year, an "Average FOB Price" will be calculated by averaging the unit FOB prices over multiple years. The cost of goods sold within Türkiye or to FTZs does not count towards fulfilling the 85% export requirement. Suppose FTZ-produced goods are exported together with imported goods. In that case, the exemption applies only if at least 85% of the total FOB value of the products manufactured in the FTZ is exported.

If products remain in stock from the year production occurred and the exemption was applied, the total FOB price must be tracked in subsequent years. The exemption will only continue if the ratio of the total FOB price of exported goods to the total FOB price of produced goods is 85% or more. Otherwise, no exemption will apply.

For multi-year production, the wages of personnel employed during the production period by taxpayers who export at least 85% of the total FOB price of the product in the year of completion and sale will be exempt from income tax.

22. SUPPORT FOR R&D AND DESIGN ACTIVITIES

a. R&D Deduction (100%)

All eligible expenses related to innovation, R&D, or design activities carried out in technology centres, R&D centres (which must employ at least 15 full-time equivalent R&D staff), design centres (which must employ at least 10 full-time equivalent design staff), as well as R&D and innovation or design projects supported by government bodies, law-established foundations, or international funds, can be deducted from the Corporate Income Tax (CIT) base at a rate of 100%. Successful projects should capitalise and amortise these expenses over five years, while unsuccessful projects can immediately expense the R&D and design costs.

Moreover, there is an increase of at least 20% in any of the following indicators compared to the previous year. In that case, 50% of the increase in R&D, innovation, or design expenses will be an additional deduction in the CIT base calculation:

- Share of R&D or design expenditures in total turnover.
- Number of registered national or international patents.
- Number of internationally funded projects.
- Ratio of researchers with graduate degrees to total R&D personnel.
- Ratio of total researchers to total R&D personnel.
- Ratio of turnover from new products (output of successful R&D projects) to total turnover.

b. Income Tax Exemption (95%, 90%, or 80%)

The salaries of R&D, design, and support personnel are exempt from income tax, with the following rates:

- 95% for personnel with a PhD or master's degree working on "supported programs" declared by the Ministry.
- 90% for personnel with master's or undergraduate degrees in such supported programs.
- 80% for others.

c. Social Security Premium Support (50%)

The Ministry of Finance will subsidise 50% of the employer's share of social security premiums for R&D, design, and support personnel (capped at 10% of the total full-time R&D and design staff) for each R&D and support staff member.

d. VAT Exemption and Amortisation on Equipment for R&D and Design

Machines and equipment used for R&D, innovation, and design projects by R&D Centres are exempt from VAT.

e. Stamp Tax Exemption

Documents prepared for R&D and design activities, including payrolls for R&D, design, and support personnel, are exempt from stamp tax.

f. Customs Duty Exemption

Goods imported for use in R&D, innovation, and design projects are exempt from customs duties. Furthermore, any funds, held papers, and related transactions are exempt from stamp tax and fees.

g. Additional Support for Personnel Graduated from Supported Programs

The Ministry of Industry and Technology will finance the minimum gross wage portion of the monthly salaries for R&D or design personnel with at least a bachelor's degree from "supported programs" declared by the Ministry, employed in R&D and design centres, for a period of two years, under specific conditions outlined in R&D legislation.

Note: Contract-based R&D activities are excluded from the scope of this support, as companies do not require intellectual property (IP) registration for contract-based R&D to utilise CIT exemptions. If a project results in a loss, it cannot be deducted from the CIT base. Additionally, income from activities unrelated to R&D and software is subject to CIT.

23. TECHNOLOGY DEVELOPMENT ZONES

a. CIT Exemption

Profits generated from software activities or products developed through R&D in technology development zones are exempt from Corporate Income Tax (CIT). According to the decision of the Council of Ministers published in the official gazette on 19 October 2017, for companies in these zones to benefit from CIT exemption on income derived from the sale, transfer, or leasing of intellectual property (IP), such IP must be protected by patents or equivalent documents (e.g. utility model certificates, design registration certificates, copyright registration certificates, integrated circuit topography registration certificates, or certificates for new plant variety breeding).

Note that contract-based R&D activities are excluded from this exemption as companies do not require IP registration for such activities to qualify for CIT exemption. If a project results in a loss, that loss cannot be deducted from the CIT base. Additionally, income from activities unrelated to R&D and software is subject to CIT.

b. Income Tax Exemption (100%)

Salaries of R&D and support personnel involved in R&D and software development activities in technology development zones are exempt from income tax until 31 December 2028. However, wages for activities unrelated to software development and R&D are not eligible for this exemption.

c. Social Security Premium Support (50%)

The Ministry of Finance will fund 50% of the employer's social security premiums for R&D and support personnel (up to 10% of the total number of full-time R&D staff) for each R&D and support employee.

d. Stamp Tax Exemption (on Payrolls)

Payrolls related to R&D activities are exempt from stamp duty.

e. VAT Exemption on Machinery and Equipment for R&D and Design Activities

Machines and equipment purchased by companies in technology development zones for R&D, innovation, and design projects are exempt from VAT.

f. VAT Exemption on Certain Software and Services

Software and services related to system management, data management, business applications, internet services, mobile applications, gaming, military command control applications, and similar software developed by companies in technology development zones are exempt from VAT until 12 December 2028.

g. Customs Duty Exemption

Goods imported for use in R&D, innovation, and design projects are exempt from customs duties. Moreover, any funds, held papers, and applied transactions are exempt from stamp tax and fees.

h. Additional Support for Personnel Graduated from 'Supported Programs'

The Ministry of Industry and Technology will finance the minimum gross wage portion of the monthly salary for R&D and design personnel with at least a bachelor's degree from "supported programs" declared by the Ministry for two years, per the technopark legislation.

i. Additional Support for PhD Students

The Ministry of Industry and Technology will also finance the minimum gross wage portion of the monthly salary for PhD students employed in technology development zones for two years under the specific conditions outlined in the technopark legislation.

24. STATUTORY AUDIT REQUIREMENT

According to Article 397/4 of the Turkish Commercial Code, the Council of Ministers determines which companies must undergo an independent audit and has established new criteria for identifying these companies.

Under these criteria, companies that meet at least two of the following conditions for two consecutive financial years are subject to an independent audit:

- Companies with assets valued at TL 150 million or more
- Companies with net sales revenue of TL 300 million or more
- Companies employing at least 150 employees

It is important to note:

- To assess whether these thresholds have been met, the financial statements of the companies and the average number of employees over the past two years will be considered.
- For companies with subsidiaries or affiliates, the thresholds will be evaluated by considering the aggregate financial figures (such as asset value and net sales) and the average number of employees for the entire group of companies.

25. TURKISH GAAP VS IFRS

In Türkiye, businesses are legally required to follow a statutory framework for their chart of accounts, known as the Uniform Chart of Accounts. This framework is recognised as Turkish GAAP, which all companies use to prepare and present their financial statements.

Turkish GAAP emphasises transactions' legal form rather than their economic substance. As a result, it has been criticised for being overly influenced by taxation, which limits its ability to support high-quality financial reporting.

Under the Turkish Commercial Code, enacted in July 2012, companies subject to independent audits must prepare their financial statements per the new Turkish Accounting Standards and have them audited. IFRS has been translated into Turkish and adopted as Turkish Financial Reporting Standards (TFRS).

Public interest entities, such as those whose securities are traded on a regulated market, banks, financial institutions, and insurance companies, must use TFRS for their financial reporting. Companies subject to statutory audit must also apply TFRS.

While other companies can opt to apply IFRS, they generally prefer to adhere to Turkish GAAP for tax purposes, which results in the need for dual bookkeeping. Consequently, most multinational companies use IFRS for group reporting while continuing to follow Turkish GAAP for local reporting.

Key differences between IFRS and Turkish GAAP include:

- Turkish GAAP does not recognise deferred tax, investment properties, biological assets, or biological products.
- The fair value model is not utilised under Turkish GAAP.
- Depreciation and amortisation rates for assets are set by the Ministry of Finance rather than based on expected useful lives.
- Financial instruments are carried at cost, and there are no specific provisions for hedge accounting.

Revaluation of tangible assets is not permitted under Turkish GAAP.

26. INTERNATIONAL HOLDING REGIME

a. Corporate Tax Exemption for Dividend Income Received by Holding Companies in Türkiye

Dividend income received by companies holding shares in joint-stock corporations and limited liability partnerships whose legal or business headquarters are outside Türkiye will be exempt from corporate tax, provided that the following conditions are met:

- The company holding the shares owns at least 10% of the paid-in capital of the foreign entity;
- The shares have been held continuously for at least one year as of the date the income is received;
- The foreign participation income is subject to a minimum tax burden of 15%, including income and corporate tax, as well as taxes paid on earnings used for dividend distribution, according to the country's tax laws where the foreign entity is resident. If the foreign entity's primary activity is providing financial or insurance services or securities investment (including financial leasing), the tax burden must be at least equal to the corporate tax rate in Türkiye;
- The participation income is repatriated to Türkiye by the deadline for submitting the corporate tax return for the period the income is earned.

b. Corporate Tax Exemption on Earnings from the Sale of Foreign Participatory Shares by Holding Companies in Türkiye

Earnings from the sale of participatory (interest) shares in foreign joint-stock corporations or limited liability partnerships by companies incorporated in Türkiye will be exempt from corporate tax if the following conditions are met:

- The entity receiving the income is a resident joint-stock corporation in Türkiye;
- At least 75% of the total assets of the holding company (excluding liquid assets) consist of shares in foreign joint-stock corporations or limited liability partnerships that have been held for at least one year continuously as of the date the income is received;
- The minimum participation ratio is 10%;
- The participatory (interest) shares sold have been held for at least two full years.

c. Reduced Withholding Tax on Dividend Distributions by Holding Companies in Türkiye

Dividends distributed by holding companies in Türkiye, which are joint-stock corporations and receive participation income from foreign entities exempt from corporate tax as described above, will be subject to a withholding tax rate of only 7.5% when paid to non-resident shareholders who are also joint-stock corporations or limited liability partnerships.

27. FOREIGN TAX RELIEF

Taxes paid on earnings acquired abroad and recorded as income in Türkiye can be deducted from the corporate tax liability assessed on those earnings in Türkiye. However, the foreign taxes that can be offset against the Turkish taxes cannot exceed the Turkish corporate tax rate applicable to those earnings.

Resident companies that directly or indirectly hold at least 25% of the shares or voting rights in foreign subsidiaries can claim a tax credit for the taxes paid by the foreign subsidiaries on dividends distributed to the resident companies. This credit is capped at the amount of Turkish tax attributable to the dividend distributions and cannot be applied to dividends eligible for the participation exemption.

Any foreign tax that cannot be offset against the corporate tax in Türkiye due to insufficient taxable income can be carried forward for up to three years. The tax credit may also be used to offset provisional tax payments.

28. OTHER TAXES

a. Special Consumption Tax

Special Consumption Tax (SCT) is regulated under Special Consumption Tax Law (No. 4760). The tax applies to the delivery, initial acquisition, or importation of specific goods listed in four distinct categories:

- Petroleum products, natural gas, lubricating oils, solvents, and solvent derivatives;
- Automobiles and other vehicles, motorcycles, planes, helicopters, and yachts;
- Tobacco and tobacco products, alcoholic beverages; and
- Luxury goods.

b. Property Taxes

Real estate in Türkiye, including buildings and land, is subject to property tax. The taxpayer is either the property owner, the holder of any usufruct over the property, or, in the absence of either, the person who uses the property as though they were the owner.

The tax value is based on the property's estimated market value determined by the relevant municipality. The standard building tax rate is 0.2%, which is reduced to 0.1% for residential buildings. The land tax rate is 0.1%, while the rate for parcelled land is 0.3%. As defined by law, these rates are doubled within metropolitan municipalities and their contiguous regions.

c. Inheritance Tax

This tax applies to transfers made gratuitously through inheritance or donations. The tax rate ranges from 1% to 30%, depending on the value and type of the transfer (whether gratuitous or non-gratuitous).

d. Motor Vehicle Tax

Motor vehicle owners are required to pay this tax twice a year. The amount payable varies depending on the vehicle's characteristics and age.

e. Banking and Insurance Transactions Tax

Banks' income, including commissions, interest, and insurance premiums collected, is subject to a 5% banking and insurance transaction tax. The customers typically bear this tax. Transactions subject to this tax are exempt from VAT.

f. Municipal Taxes

In addition to real estate tax, municipalities may levy other taxes and duties such as advertisement tax, entertainment tax, and business registration fees.

29. ACQUISITION STRUCTURES AND RESTRUCTURING

a. Acquisition

When a foreign investor acquires a local business either through a local subsidiary or directly, the tax implications are minimal, except for potential delays in dividend distribution and the requirement to establish legal reserves at the entity level for each business in Türkiye.

As dividend income received by resident entities from other resident entities is not subject to withholding tax and is exempt from corporate tax at the receiving entity's level, having an additional local entity in between will not create any adverse tax consequences.

b. Tax-Free Mergers

Under Turkish law, mergers must generally occur at the market or net realisable value, and tax will be levied on the increase in value above the book values. Taxes arise when the hidden reserves of the dissolved company are realised. However, an exception is known as a "take-over" under the Corporate Tax Law.

A merger is considered tax-free (also known as a take-over) if the following conditions are met:

- Both the absorbing and absorbed companies are tax residents, and
- The absorbing company takes on all assets and liabilities of the absorbed company in its balance sheet on a carryover basis (i.e. without increasing the value of the assets).

c. Tax-Free Demerger

Turkish tax law allows for two types of tax-free demergers:

- **Full Demerger:** This involves dividing a company into two or more existing or new companies while dissolving the transferring company. This type of demerger allows the transfer of tax losses, but there are currently insufficient guidelines in company law to implement a full demerger.

- Partial Demerger: This involves transferring some company assets to a new or existing company as capital in kind on a carryover basis. Recently, a partial demerger can also be carried out for a Turkish branch of a foreign company, provided that the transferee company is a tax resident.

The tax treatment for both types of demergers is similar to that of a tax-free merger, although losses cannot be transferred in the case of a partial demerger.

d. Tax-Free Share Swaps

A share swap is considered a tax-free transaction if the acquiring company receives shares of the target company in exchange for its shares, provided the swap results in the acquiring company gaining control of the target's management and obtaining a majority of shares.

e. Conversions

Changes in a company's legal form carried out under the requirements for tax-free mergers will not be regarded as a taxable reorganisation.

f. Liquidations

A Turkish corporation may liquidate its assets and distribute the proceeds to its shareholders. During the liquidation process, the financial period is replaced by a liquidation period, which begins when the company is placed into liquidation. The period between the liquidation date and the end of that calendar year and each subsequent year is treated as a separate liquidation period. Once liquidation is completed, the final profit or loss is determined, any prior liquidation returns are amended, and any overpaid taxes are refunded if necessary.

30. TAX AUDITS

The tax authorities in Türkiye do not have a regular audit cycle for every taxpayer. Tax audits are usually performed based on selection through risk assessment software, where they can conduct either sector-specific or issue-specific audits. According to Turkish Tax Procedural Law provisions, company tax returns remain open to tax inspection until the end of the five-year statute of limitations.

The audit usually takes place on-site. If the taxpayer accepts, the tax authorities may request that all the accounting records or documents likely to justify the declared results be delivered to the tax office.

The tax audit will start with a letter to the company's head office specifying the period to be checked and inviting the company representatives to a meeting, along with the required documents.

A counsel may assist the company throughout the audit.

31. TAXATION OF CAPITAL GAINS FOR NON-RESIDENTS

Capital gains refer to the increase in value of an asset, whether movable or immovable or the right to dispose of such an asset. "Disposal" includes actions such as sale, transfer, assignment, exchange, barter, expropriation for consideration, or asset contribution as capital in-kind to a business.

Under Article 7/7 of the Income Tax Law, non-residents are deemed to derive taxable gains from the sale of participation shares if the transaction results in capital gains, takes place within Türkiye, or is assessed in Türkiye. The assessment in Türkiye is a payment made within the country or to the seller's account in Türkiye.

To clarify, gains from the sale, exchange, or other disposal of shares by a non-resident are subject to taxation in Türkiye if: (i) the transaction (sale, exchange, or disposal) occurs within Türkiye (including physical transfer of shares); (ii) the payment is made within Türkiye; or (iii) the payment, though made outside Türkiye, is transferred to either the payer's or the payee's account in Türkiye.

Thus, if both parties to a share transfer are non-residents living outside Türkiye, the transaction is not deemed to have occurred or been assessed in Türkiye and is not subject to taxation in Türkiye.

Additionally, capital gains realised by non-resident companies from the sale of shares may be exempt from Turkish taxation if a tax treaty exists between Türkiye and the relevant country.

32. RESTRICTIONS ON FOREIGN CURRENCY-DENOMINATED OR INDEXED PAYMENTS AMONG RESIDENTS IN TÜRKİYE

In 2018, Türkiye prohibited using foreign currency-denominated or foreign currency-indexed payments in specific contracts among Turkish residents. As a result, contracts and financial obligations from certain agreements cannot include foreign currency terms or be tied to foreign exchange rates for Turkish residents unless exceptions outlined in Decree No. 32 apply.

On 19 April 2022, the Ministry of Treasury and Finance of Türkiye updated foreign exchange regulations through Communiqué No. 2022/32-66, which amends Communiqué No. 2008-32/34, in line with Council of Ministers Decision No. 32. The revisions are intended to protect the value of the Turkish Lira. They mandate that contracts involving the sale of movable property must be transacted in Turkish Lira. Although the parties may still agree on payment obligations in foreign currency, actual payments must be made in Turkish Lira equivalent.

Following the release of Communiqué No. 2022/32-66, the Ministry issued a press release on 21 April 2022, clarifying key points:

- The term "movable," used in Communiqué No. 2008-32/34 and Communiqué No. 2022/32-66, refers to all types of goods and products not classified as immovable property.
- Cheques and similar payment instruments denominated in foreign currency as of 19 April 2022 (the enactment date of Communiqué No. 2022/32-66) cannot be used to settle payments for contracts related to the sale of movable property between Turkish residents.

However, there are exceptions under Decree No. 32, where specific contracts may be denominated in foreign currency or indexed to foreign currency, including:

- **Immovable Property Contracts:** Contracts for the sale, purchase, or lease of immovable property where the buyer or tenant is not a Turkish citizen or represents a non-resident entity, such as a branch, representative office, or liaison office of a foreign company, or an entity controlled by a non-resident. In such cases, the contract pricing and payments may be in foreign currency.
- **Public Contracts:** Foreign currency may be used in public contracts that are either denominated or indexed in foreign currency or those executed under international treaties or similar agreements, including leases of immovable property.
- **Employment Contracts:** These may be denominated or indexed in foreign currency under the following conditions:
  - When the contract is executed outside Türkiye.
  - When the employee is not a Turkish citizen.
  - When the employer represents a branch, representative office, or liaison office of a non-resident entity in Türkiye or is a Turkish entity in which a non-resident holds at least 50% of the share capital, or when the employer operates within a free zone in Türkiye. This exception applies specifically to activities conducted within free zones.
- **Service Agreements:** Service contracts may be denominated or indexed in foreign currency if the recipient is:
  - A branch, representative office, or liaison office of a non-resident entity in Türkiye.
  - A Turkish entity where a non-resident holds at least 50% of the share capital.
  - An entity operating in a Turkish free zone.
- **Cross-Border or Foreign-Based Services:** Agreements for services that either start in Türkiye, finish abroad, take place entirely abroad, or begin abroad and end in Türkiye may be denominated or indexed in foreign currency.
- **Independent Contractor Agreements:** Contracts for independent contractors may use foreign currency if the input price is also stated in foreign currency.
- **Licensing and Maintenance Contracts:** Agreements for the licensing and maintaining hardware and software produced abroad may be denominated or indexed in foreign currency.
- **Public Institutions:** Public institutions may enter into contracts in foreign currency, excluding transactions related to the sale or lease of immovable property.

33. DECLARATION OF ULTIMATE BENEFICIARY OWNER

Corporate taxpayers and other entities without legal status (such as commandite companies, trusts, and similar organisations) must regularly submit their Ultimate Beneficial Owner (UBO) information to the Revenue Administration.

Corporate taxpayers must report their UBO details in advance and annual corporate tax returns. Other entities, not classified as corporate taxpayers, must submit their UBO information to the Turkish Revenue Administration via electronic forms by the end of August each year. If any changes occur in the declared information, these changes must be reported within one month.

"Ultimate Beneficial Owner" refers to individuals who ultimately own or control a legal entity or arrangement, such as a company or a trust. The criteria for identifying a beneficial owner are as follows:

For legal entities:

- Individuals who own more than 25% of the legal entity.
- Individuals who have ultimate control over the legal entity if it is suspected that those owning more than 25% are not the beneficial owners or if no individual holds 25% of the legal entity.
- Individuals holding the highest level of executive power (e.g., the general manager) if the beneficial owner cannot be determined based on the above criteria.

For entities without legal status:

- Individuals with ultimate control.
- Individuals holding the highest level of executive power if the beneficial owner cannot be determined.

For trusts:

- The founders, trustees, directors, auditors, or beneficiaries, as well as those who exert influence over these individuals or entities.

34. TAXATION OF STOCK OPTIONS

Türkiye has no specific rules or regulations governing the taxation of stock options, so we have assessed the matter based on the general provisions of Turkish Tax Law.

According to Article 61 of the Income Tax Law, any form of compensation or fringe benefits, whether paid in cash or kind, that can be expressed in monetary terms and is provided by the employer to the employee will be treated as part of the employment income and subject to withholding tax via payroll, applied to the gross amount.

A key point to address is the "taxable event"—when the recipient will be taxed: when the option is granted, vested, or exercised.

Under the Income Tax Law, compensation is considered to be received when the beneficiary has the right to access the income from the award, which legally and economically arises upon exercise. Consequently, the employee will be taxed at the date the option vests. The vested portion of the net gain will be treated as taxable remuneration.

a. Taxation at the Date the Stock Option is Granted

The employee does not acquire an asset when the stock option is granted. The stock option cannot be exercised on that date or transferred to a third party. Additionally, it is unclear whether the value of the stock option will exceed its current value. As a result, no gain or income will be taxable on the grant date.

However, in tax rulings related to employee stock option plans, the tax authorities often regard any discounts given on the actual price of the shares as taxable "employment income" derived from a foreign employer, with tax rates ranging from 15% to 40%, to be reported through an annual personal tax declaration.

These discounted amounts should not be subject to taxation at the grant date via self-declaration. Instead, the difference between the sale and subscription prices should be taxed as a capital gain when the shares are sold. This income will be classified as a capital gain and taxed upon the sale of the shares, with employees required to report their earnings to the relevant tax office via their personal income tax return.

Suppose the headquarters bears the financial burden of the stock option plan granted. In that case, any related costs may be deducted from the local company's corporate tax base, provided these charges are grossed up and subject to individual income tax as fringe benefits for the employee.

Suppose the headquarters does not charge the local company for the stock option plan, and the local employer makes no monetary payment to the employee. In that case, the discount will not be treated as part of the employee's salary paid by the local employer.

b. Taxation at the Date the Stock Option is Exercised

If the stock option is exercised at a price lower than the fair market value at the time of exercise, the difference will be considered employment income. A key consideration for taxation in Türkiye is who will bear the cost of the stock option. If the local company bears the cost, this amount should be treated as salary, and withholding income tax should be calculated as part of the payroll.

If the stock option cost is not charged to the local company and the stock option is exercised abroad, the wage payment cannot be taxed via withholding tax in Türkiye. In this case, employees must declare the income in their annual tax return, which is due in March of the following year.

c. Taxation of Capital Gains

If employees sell shares acquired through the exercise of stock options, the difference between the exercise price and the fair market price on the exercise date will be considered a capital gain. This capital gain should be reported through an annual income tax return, subject to specific conditions.

d. Taxation of Dividends

For 2025, there is a TL 660,000 threshold for annual declarations, which applies to income from movable assets (such as interest and dividends from abroad) and immovable property (e.g., rental income). No filing, reporting, or other obligations are required if the total income does not exceed this threshold. If the threshold is exceeded, the entire income must be reported in the employee's annual tax return, with applicable tax rates ranging from 15% to 40%.

If employees have a legal entitlement to dividends, it does not matter whether the dividends are reinvested in company shares or physically received by employees after a lock-up period. The dividends will be regarded as distributed to the employees and taxed in Türkiye through self-declaration in the year the dividend income is distributed.

35. BOOKKEEPING IN FOREIGN CURRENCY

The Turkish Commercial Code and the Tax Procedure Law (TPL) mandate that businesses maintain their records and documents in Turkish currency.

However, in 2004, an exception to this rule was introduced, allowing businesses meeting specific criteria to keep their accounts in foreign currency.

This regulation aimed to eliminate another barrier to attracting foreign investment to Turkey.

Businesses that fulfil the following conditions may, by Presidential Decree, be authorised to maintain their records in a currency other than Turkish currency (Article 215/2-b of the Tax Procedure Law):

- The paid-in capital (the portion allocated to Turkey for companies established abroad) must be at least USD 100 million or its equivalent in foreign currency converted to TL.
- At least 40 per cent of the capital must be owned by individuals or entities whose domicile, legal, and business centres are outside Turkey.

36. SUMMARY TABLE FOR BORROWINGS ABROAD

				VAT (**)	BITT (**)	RUSF (**)	Stamp Tax (***)	Withholding Tax (**)	Thin Capital (****)
Borrowing From	Financial Institution	Resident Abroad		Exempt	N/A	0%-0.5 %-1%-3%	Exempt	0%	See below
		Resident in Turkey		N/A	5%	0%	Exempt	N/A	See below
	Non-Financial Institution	Resident Abroad		20%	N/A	0%-0.5 %-1%-3%	0.948%	10%	See below
		Resident in Turkey		20%	N/A	N/A	0.948%	N/A	See below

(*)RUSF Liability over Borrowings	Average Maturity	Resident Lender	Non-Resident Lender	RUSF Base
Turkish Lira	All	0%	1%	Interest Amount
Foreign Currency	< 1 year	0%	3%	Principal Amount
	btw 1-2 years	0%	1%	Principal Amount
	btw 2-3 years	0%	0.5%	Principal Amount
	> 3 year	0%	0.5%	N/A

(**) Calculated over interest amount (***) Each executed copy of an agreement is subject to stamp tax currently levied at 0.948% of the agreement's value, customarily determined by the highest monetary figure. Stamp taxes due on an agreement are subject to a cap of TL 24,477,478.90 in 2025. (****) 3:1 debt to equity test for the borrowings from shareholders or persons related to shareholders. Any borrowing exceeding this limit will be thin capital. The ratio is 6:1 for loans received from related banks or financial institutions. Where thin capitalisation exists, interest paid or accrued and foreign exchange losses attributable to the thin capital are non-deductible and taxed as dividends.

37. COMPARISON TABLE FOR JSC VS LLC

Subject	Joint Stock Company ("JSC")	Limited Liability Company ("LLC")
Field of Activity	Unless active in regulated areas where licensing is required (such as banking, telecommunication, energy, etc.), the company can carry out any commercial or industrial activity.	
Shareholders	It can be incorporated by one shareholder, who could be a non-resident company or a foreign individual. Foreign investors are permitted to own 100% of the company.	
Capital Requirement	Minimum TL 250,000 [¼ (one-fourth) shall be paid into the company accounts before incorporation, and the rest shall be paid within 24 months to follow]	Minimum TL 50,000 [¼ (one-fourth) shall be paid into the company accounts before incorporation, and the rest shall be paid within 24 months to follow]
Share Transfers	There is no requirement to recognise (unless required by company articles), notarise or register share transfers.	LLC company share transfers shall be recognised by the majority vote of all shareholders unless further required by articles. They shall be realised with a notarised share transfer agreement subject to registration with the Trade Registry.
Management	The management body is the Board of Directors, formed by at least one member (either a legal entity or an individual). Shareholders are not required to participate directly in management.	The management body is a Board of Managers formed by at least one member. One of the company's shareholders (either a legal entity or an individual) shall become the company's manager.
Representation	The Board of Directors may delegate signature powers to managers or directors to represent the company in daily affairs.	The Board of Managers may delegate signature powers to managers or directors to represent the company in daily affairs.
Liability of Shareholders	Limited with the capital commitment amount. No personal liability.	Limited with the capital commitment amount for commercial liabilities. However, the shareholders (subject to the capital contribution ratio) and the management are also liable for amounts owed by the company to government authorities with their assets for taxes, duties and charges that cannot be collected from the company (such as taxes, administrative fines and social security premiums).
Imposing Additional Financial Obligations on Shareholders in Case of Loss	In JSC, the articles of association cannot impose additional financial obligations on the shareholders above the consideration of the shares they subscribe for.	In an LLC's articles of association, shareholders may be required to make additional payments to compensate the company's losses if the company's capital with legal reserves is insufficient to cover the losses and the company cannot continue its business without additional financial support.

Subject	Joint Stock Company ("JSC")	Limited Liability Company ("LLC")
Unlimited Liability for Public Debts	Only directors with representation powers in JSC are personally liable for public debts. Shareholders who are not involved in the management and representation of the company do not have such liability as long as they fulfil the obligation to pay the consideration of the shares they subscribe for.	In an LLC, all shareholders (regardless of whether they are involved in the management or representation of the company) and managers (those with representation powers) are personally liable for public debts (taxes, social security premiums, administrative costs, fines, and charges) that cannot be collected from the company.
Public Offering	Only JSC can be listed with stock exchanges.	LLC cannot be listed with stock exchanges.
Tax Issues in Share Transfers; **i. Stamp Tax**	No notarization is required for share transfers in JSC; therefore, no such stamp tax must be paid.	To transfer shares of an LLC, a written contract must be executed before a public notary. Therefore, stamp tax must be paid in addition to the notary costs.
ii. Income Tax (for individual shareholders)	In JSC, profits from the sale of shares held by the transferor continuously for more than 2 years are not subject to any income tax, provided share certificates or temporary share certificates represent the transferred shares. Capital gains derived from sales of resident companies' shares by non-resident individuals are only subject to income tax if the sale is to a Turkish resident entity or individual. Moreover, capital gains derived by non-resident individuals from the disposal of shares may be avoided by being taxed in Turkey in the existence of a tax treaty.	In an LLC, shares transfer profits are subject to income tax in case of any sale of shares. Capital gains derived from sales of resident companies' shares by non-resident individuals are only subject to income tax if the sale is to a Turkish resident entity or individual. Moreover, capital gains derived by non-resident individuals from the disposal of shares may be avoided by being taxed in Turkey in the existence of a tax treaty.
iii. VAT	In JSC, the transfer of shares represented by share certificates or temporary share certificates is exempt from VAT without any time limitation. If certificates do not represent shares, the transferor must hold the shares continuously for more than 2 years to escape the VAT requirement.	In an LLC, VAT must be paid unless the transferor holds the shares continuously for more than 2 years.
iv. Corporate Tax (for corporate shareholders)	The sale of share certificates or temporary share certificates may be exempt from corporate tax provided they are held by the transferor continuously for more than 2 years, and certain other conditions stipulated under the Corporate Tax Law are met. Capital gains derived from sales of resident companies' shares by non-resident entities without a permanent establishment in Turkey are only subject to corporate tax if the sale is to a Turkish resident entity or individual. Moreover, capital gains derived by non-resident companies from disposals of shares may be avoided from being taxed in Turkey in the existence of a tax treaty.	The sale of share certificates or temporary share certificates may be exempt from corporate tax provided they are held by the transferor continuously for more than 2 years, and certain other conditions stipulated under the Corporate Tax Law are met. Capital gains derived from sales of resident companies' shares by non-resident entities without a permanent establishment in Turkey are only subject to corporate tax if the sale is to a Turkish resident entity or individual. Moreover, capital gains derived by non-resident companies from disposals of shares may be avoided from being taxed in Turkey in the existence of a tax treaty.

38. COMPARISON OF ASSET AND SHARE PURCHASES

Advantages of Asset Purchases

- The purchase price is eligible for tax depreciation or amortisation.
- A step-up in tax basis can be achieved through revaluation.
- The buyer avoids inheriting the seller's existing liabilities.
- Allows selective acquisition of specific parts of the business.
- Offers greater flexibility in financing options.
- Enables integration of a profitable business into a loss-making entity for tax benefits.

Disadvantages of Asset Purchases

- Existing contracts and licences may require renegotiation or renewal.
- Typically incurs higher transaction costs (e.g., stamp duties, registration fees).
- Tax exemptions applicable to share sales don't apply.
- Tax losses remain with the seller.
- Generally less advantageous to the seller in terms of cash flow.

Advantages of Share Purchases

- Lower capital outlay as the purchase is on a net asset basis.
- It appeals more to the seller due to tax exemptions and improved cash flow.
- The buyer acquires the target's tax attributes, including any carried-forward tax losses.
- Existing contracts, licences, and agreements are transferred seamlessly to the buyer.

Disadvantages of Share Purchases

- The buyer assumes potential tax liabilities, including the difference between asset market value and tax basis, which may be realised upon future asset disposal.
- Goodwill cannot be depreciated for tax purposes.
- The buyer inherits any contingent or undisclosed tax liabilities of the target company.

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