

PrimetaX

Primetax Publications

Doing Business in Türkiye

Corporate Structuring & Tax Architecture Framework

To everyone who has been part of Primetax's first year and to our families, whose support made this journey possible.

PRIMETAX EDITION

(Special Anniversary Publication)

We prepared this edition to mark the first year of Primetax—a year in which our work, our clients and our institutional philosophy converged into a single premise: that Türkiye is best understood not through isolated regulations, but through its architecture.

Türkiye is a system of rhythms, signals and structural relationships. It is a jurisdiction where documentation creates visibility, visibility shapes behaviour, and behaviour defines institutional credibility.

This publication reflects that philosophy. It distils decades of experience across corporate taxation, cross-border structuring, compliance governance and transaction execution into a framework that is both analytical and enduring.

The pages that follow are not a manual. They are an attempt to articulate the underlying logic of doing business in Türkiye—a framework for investors, institutions and decision-makers who seek clarity, coherence and a long-term perspective.

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PREFACE NOTE

When we established Primetax, our objective was clear: to build an advisory platform capable of delivering institutional clarity in a regulatory environment defined by constant evolution. Türkiye's corporate and tax landscape has grown increasingly complex, and organisations now require not only technical accuracy but also structural thinking—an ability to interpret regulatory systems as interconnected frameworks rather than isolated obligations.

Primetax was created to meet this need.

Throughout our first year, we worked with clients whose operations span multiple jurisdictions, sectors and governance models. Their questions, priorities and strategic challenges reflected a common theme: the need for an integrated perspective—one that connects taxation, corporate structuring, compliance, incentives and operational governance into a single, coherent architecture. Those interactions shaped this publication. It is the product of a professional philosophy that places discipline, clarity and institutional reasoning at the centre of advisory work.

Our aim in preparing this book was not to produce a short guide or a market overview. We wanted to present a structured, analytical narrative that reflects how Türkiye's regulatory ecosystem truly functions, how institutions read companies, and how investors can design operations that are sustainable, compliant, and strategically resilient. The chapters that follow are intended to serve as a long-term reference—one that supports decision-making, strengthens strategic planning and provides the conceptual tools required to navigate Türkiye's modern corporate environment.

As Primetax enters its second year, our focus remains unchanged: to offer advisory that is technically sound, analytically rigorous and aligned with the behavioural dynamics of Türkiye’s institutional order. We will continue to develop frameworks and publications that contribute to the professional community and support organisations seeking clarity in a complex environment.

We hope this work provides a valuable foundation for all readers seeking to understand, invest in, or operate within Türkiye’s corporate, tax, and regulatory architecture.

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FOREWORD

This book is published on the occasion of Primetax's first anniversary. This milestone marks not only the beginning of a corporate journey but also the continuation of a professional legacy shaped over more than 25 years. While Primetax is a young institution in its formal structure, the intellectual capital that underpins it has been forged through decades of hands-on advisory in taxation, corporate structuring, M&A execution, financial services and cross-border regulatory strategy. The pages that follow are therefore not the reflection of a single year, but the distilled expression of a long-standing professional discipline built on analytical depth, precision and institutional clarity.

Türkiye's business environment is undergoing a profound transformation. Digitalisation of tax systems, regulatory harmonisation, capital mobility, evolving investor expectations and the steady expansion of institutional oversight have altered not only how companies operate but also how they must design their internal architecture. In such an environment, advisory work cannot remain transactional; it must become structural. Primetax was founded precisely to address this shift—to provide a platform that translates complexity into clarity, and to offer investors, corporates and financial institutions a forward-looking, integrated view of Türkiye's regulatory landscape.

The academic tone and analytical depth of this book are intentional.

It is not meant to resemble the short, high-level "Doing Business in Türkiye" brochures that circulate widely in the market. It aims instead to provide a durable intellectual reference—a work that readers will keep in their libraries, return to over time, and use

as a strategic companion in navigating Türkiye's corporate, tax and governance environment. Each chapter has been developed to reflect the standards Primetax applies in practice: rigorous interpretation, institutional awareness, and an emphasis on the behavioural dimension of doing business in a digital regulatory order.

We intend to offer not merely information, but an architecture: a way of understanding Türkiye's institutional ecosystem that helps organisations design, operate and govern with clarity. This makes the book relevant not only for foreign investors and multinational groups, but also for Turkish corporates, family offices, private equity platforms, financial institutions and legal practitioners seeking a deeper, structural view of the environment in which they operate.

As Primetax enters its second year, our mission remains unchanged: to deliver high-calibre advisory, strengthen our clients' strategic capabilities, and contribute meaningfully to Türkiye's corporate and tax advisory landscape. This book represents the first volume of a broader thought-leadership series through which we will continue to share our analyses, methodologies and institutional perspective. We hope that this work serves not only as a guide, but as a long-term companion—one that supports informed decision-making, encourages structural thinking and reflects the level of discipline that Türkiye's modern regulatory environment now demands.

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ABOUT PRIMETAX

Primetax was created with a focused mandate: to elevate tax advisory from a transactional requirement into a strategic capability embedded within the organisation's operating architecture. In Türkiye's regulatory environment—where institutions increasingly interpret companies through behaviour, data integrity and governance coherence—tax has become a structural signal. Primetax exists to help organisations design that signal with clarity and intention.

Although the Primetax brand is young, its advisory practice is built on more than twenty-five years of hands-on experience across Turkish and international tax systems, cross-border structuring, M&A execution, incentive design, financial-sector regulation and multi-layered compliance. The firm consolidates this expertise into an independent platform tailored to Türkiye's institutional landscape.

Our operating model is defined by three principles: technical accuracy, strategic clarity and institutional discipline. These are the foundations through which we guide clients in environments where uncertainty is high, expectations are complex, and documentation defines credibility.

◆ OUR PURPOSE

Türkiye's corporate ecosystem increasingly rewards organisations that demonstrate governance quality, behavioural predictability and data coherence alongside financial outcomes. Primetax supports companies, investment platforms and financial institutions in building these capabilities into their daily operations.

We work with multinational groups, investment funds, family offices, financial institutions and high-growth Turkish businesses to transform regulatory complexity into stable, actionable and value-protective strategies.

◆ WHAT WE DO

Strategic Tax Advisory

Design-driven solutions across corporate tax, restructuring, international taxation, incentives, transfer pricing, treaty application and risk mitigation.

M&A and Transaction Support

Transaction-aligned tax architecture, structuring strategies, SPA support, funding flows, pre-deal readiness, carve-out planning, PMI design and W&I insurance integration.

Corporate Compliance & Governance

Full-cycle tax compliance, payroll and SGK oversight, governance infrastructure, board-level reporting and operational tax mapping.

Cross-Border & Holding Structures

Tax-efficient platforms, treaty-aligned structures, cash-mobility models, substance frameworks and long-term operating designs.

Tax Risk, Disputes & Litigation Strategy

Audit readiness, behavioural risk assessment, negotiation support, controversy strategy and litigation-aligned documentation standards.

◆ OUR PHILOSOPHY

Advisory is not the production of reports—it is the provision of clarity.

Primetax is anchored in four principles:

Substance First

Advice grounded in economic reality, functional substance and behavioural alignment.

Predictive Governance

Structures designed to withstand Türkiye's data-driven, pattern-based audit environment.

Transparency & Integrity

Independent, technically accurate and strategically coherent guidance.

Strategic Partnership

Long-term collaboration that anticipates risks and embeds discipline across the corporate lifecycle.

◆ WHY PRIMETAX?

Deep Expertise, Boutique Precision

Large-firm calibre insight delivered with the agility and senior-level ownership of a focused boutique.

End-to-End Perspective

An understanding of tax as part of corporate architecture—from market entry to exit.

Institutional Quality

International-standard methodologies adapted to Türkiye's regulatory logic.

Confidentiality & Independence

A partner-led firm that protects each client's strategic agenda with absolute discretion.

Future-Ready Thinking

Advisory calibrated to the behavioural and data-driven systems shaping tomorrow's regulatory frameworks.

◆ OUR CLIENTS

We work with clients who value precision, discretion and institutional discipline:

- Multinational groups
- Private equity and venture capital funds
- Banks and financial institutions
- Corporate groups and holding structures
- Family offices and UHNW individuals
- High-growth and technology companies
- Law firms and international advisory networks

◆ OUR VISION

To redefine the standards of tax advisory in Türkiye by building a platform where technical excellence and strategic depth operate as a unified capability.

◆ OUR MISSION

To guide organisations with clarity, integrity and institutional discipline as they navigate Türkiye's evolving regulatory architecture.

TABLE OF CONTENTS

PRIMETAX EDITION	III
PREFACE NOTE	V
FOREWORD	VII
ABOUT PRIMETAX.....	IX

CHAPTER 1

TÜRKİYE AT A GLANCE	1
1.1 Reading Türkiye Through Rhythm Rather Than Numbers.....	4
1.2 A Young, Urban, Numerically Significant Market.....	7
1.3 Operating Conditions Defined by Daily and Monthly Rituals.....	10
1.4 Institutions That Maintain Order Through Documentation	14
1.5 Taxation as Türkiye's Real Operating Infrastructure.....	17
1.6 A Multi-Engine Economy with Built-In Balancing Mechanisms	19
1.7 Corporate Behaviour: Speed, Caution and Learned Adaptation	21
1.8 Volatility Treated as a Parameter Rather Than a Crisis	23
1.9 The First-Year Realisation.....	25

CHAPTER 2

THE FOREIGN INVESTMENT REGIME IN TÜRKİYE:

EQUALITY, RIGHTS AND THE LEGAL ARCHITECTURE OF

MARKET ACCESS	29
2.1 National Treatment as the Cornerstone of the FDI Regime.....	30
2.2 Market Access: A Liberal and Rules-Based Entry Framework.....	32
2.3 Freedom of Capital Movements and Repatriation.....	34
2.4 Protection Against Expropriation and Legal Security	35
2.5 Documentation-Based Administration and Predictability in Practice.....	37
2.6 Treaty Networks as Dual Protection: Tax and Investment.....	39

2.7 Post-Establishment Notifications and Administrative Philosophy	41
2.8 Dispute Resolution and Access to Justice	42
2.9 Managerial Control, Employment Rights and Corporate Governance	44
2.10 A Foreign-Investment Regime Based on Equality, Predictability and Institutional Discipline	46

CHAPTER 3

LEGAL FORMS FOR MARKET ENTRY IN TÜRKİYE:

SUBSIDIARIES, BRANCHES AND LIAISON OFFICES	49
3.1 The Strategic Logic of Selecting a Market Entry Vehicle	51
3.2 Subsidiaries: Joint Stock Companies (A.Ş.) and Limited Liability Companies (Ltd.)	52
3.3 Branch Offices: Commercial Presence Without Separate Legal Personality	54
3.4 Liaison Offices: Representation Without Commercial Activity	55
3.5 Strategic Comparison and Decision Framework	56
3.6 Designing for Growth, Compliance and Exit from Day One	57

CHAPTER 4

INSTITUTIONAL ONBOARDING, REGULATORY

TOUCHPOINTS & COMPLIANCE ARCHITECTURE FOR

FOREIGN INVESTORS	59
4.1 Trade Registry: Corporate Legitimacy and the Documentation Spine	60
4.2 Banking Onboarding: KYC Depth, Risk Profiling and Operational Capacity	62
4.3 Tax Authority Interface: Registration, Inspection and Nexus Formation	63
4.4 UBO, Signatory Structure and Work-Permit Implications	64
4.5 MASAK and AML Interaction: Behavioural Core of Institutional Trust	65
4.6 Permanent Establishment and Nexus Risk Mapping	65
4.7 Documentation Burden and Compliance Load by Entity Type	66
4.8 Onboarding in Licensed Sectors	66

4.9 Building a Unified Compliance Architecture	67
CHAPTER 5	
CAPITAL STRUCTURE & CROSS-BORDER FINANCING	
MODELS IN TÜRKİYE.....	69
5.1 Capital as a Strategic Signal	70
5.2 Equity Capital Framework for A.Ş. and Ltd.	71
5.3 Debt Financing: Domestic and Cross-Border Models.....	74
5.4 Thin Capitalisation and Transfer Pricing in Financial Transactions.....	79
5.5 Withholding Tax and Treaty Interaction in Inbound Financing.....	80
5.6 Hybrid Funding Instruments	81
5.7 FX Exposure and Treasury Integration	82
5.8 Cash-Pooling, Netting and Group Treasury Integration	83
5.9 Institutional Visibility and Documentation Integrity	84
5.10 Outbound Financing: Repatriation, Dividends and Exit-Stage Capital Flows	85
CHAPTER 6	
OPERATIONAL & FISCAL ONBOARDING IN TÜRKİYE.....	89
6.1 Entering Türkiye's Operating Rhythm: The Logic of Monthly Compliance.....	90
6.2 Accounting Architecture: VUK, IFRS and the Dual Reporting Reality	90
6.3 VAT-Centric Operational Mechanics and Cash- Flow Effects.....	92
6.4 Payroll, Social Security and HR Compliance Architecture.....	93
6.5 Transfer Pricing in Daily Operations: From Policy to Execution	96
6.6 Internal Controls, Authority Systems and Documentation Traceability	98
6.7 FX Exposure, Pricing Adjustments and Inflation- Linked Behaviour	99
6.9 Building a Sustainable Internal Compliance Framework.....	101

CHAPTER 7

THE TAX ARCHITECTURE OF DOING BUSINESS IN TÜRKİYE	103
7.1 Corporate Residency and the Formation of Taxable Presence.....	104
7.2 Corporate Income Tax Base, Statutory Accounting and the Architecture of Adjustments.....	107
7.3 Participation Exemption and Dividend Taxation: The Architecture of Equity Mobility in Türkiye.....	112
7.4 The Architecture of Türkiye's VAT System: Transactional Visibility, Compliance Rhythm and Supply-Chain Logic.....	116
7.5 Withholding Tax on Cross-Border Payments: Classification, Substance and Treaty Interaction	121
7.6 Stamp Tax Architecture: Value, Form and the Legal Dynamics of Documentation in Türkiye.....	124
7.7 Payroll Taxation, Income Tax Brackets and the Social Security Architecture.....	128
7.8 Tax Administration Behaviour, Audit Risk and Türkiye's Supervisory Architecture	131
7.9 Tax Disputes, Administrative Appeals and Türkiye's Settlement Framework	134
7.10 Incentive Regimes and Sector-Based Tax Programs: The Architecture of Targeted Advantage	136

CHAPTER 8

INTERNATIONAL TAXATION, CROSS-BORDER

STRUCTURING AND TÜRKİYE'S TREATY ARCHITECTURE	141
8.1 Türkiye's Position in the Global Tax Network: Treaties, OECD Standards and Institutional Expectations.....	142
8.2 Permanent Establishment Thresholds and the Attribution of Profits	143
8.3 Advanced CFC Strategy: Passive Income, Economic Substance and Cross-Border Corporate Structures	148
8.4 Cross-Border Services, Technical Fees and Recharacterisation Risk.....	151
8.5 Intragroup Financing, Interest Deduction Limitations and Treaty Interactions.....	155
8.6 Dividends, Capital Gains and Participation Exemption in a Treaty Context	158

8.7 Pillar Two, the Global Minimum Tax and Türkiye's Integration Pathway	161
8.8 Intellectual Property, Intangibles and the DEMPE Substance Model	165
8.9 Global Mobility and Payroll Nexus in Practice	169
8.10 Global Mobility Strategy, Multi-Residency Conflicts and Governance Architecture	172
8.11 Allocation of Risk, Governance Architecture and Value-Chain Transparency	175
8.12 Transparency, Reporting Obligations and International Data Flows	177
8.13 Commercial Presence Models in Türkiye	180
8.14 Hybrid Structures, Classification Divergence and Behavioural Coherence	182
8.15 Hybrid Mismatches and Treaty Outcomes: The Economic Actor Test	184
8.16 Practical PE Dynamics in Türkiye: Functional Gravity and Institutional Memory	186
8.17 Thin Capitalisation Dynamics and the Behavioural Interpretation of Group Financing	189
8.18 Withholding Tax Outcomes: Classification, Economic Reality and Treaty Integrity	192

CHAPTER 9

TRANSFER PRICING IN TÜRKİYE: GOVERNANCE,

SUBSTANCE AND ADMINISTRATIVE EXPECTATIONS	199
9.1 Functional and Risk Architecture	200
9.2 Transfer Pricing Methods: Practical Relevance in Türkiye	203
9.3 Intragroup Services and the Reality of Benefit	205
9.4 Profitability Patterns and Local Expectations	208
9.5 Documentation and Cross-System Integrity	210
9.6 Advance Pricing Agreements (APAs) in Türkiye	212
9.7 Transfer Pricing as Strategic Governance	214

CHAPTER 10

OTHER TAXES AND SECTORAL LEVIES IN TÜRKİYE	217
10.1 Banking and Insurance Transactions Tax (BITT)	218
10.2 Special Consumption Tax (SCT / ÖTV)	219
10.3 Property Tax and Real-Estate Levies	220
10.4 Motor Vehicles Tax (MTV)	221

10.5 Digital Taxes and Platform-Focused Levies	222
10.6 Environmental Levies, Municipal Charges & Sectoral Fees	223
10.7 Stamp Tax	223
10.8 Administrative Fees, Licences & Procedural Charges	224
10.9 E-Documentation Systems and Tax Visibility	224
10.10 Telecommunications & Media-Related Levies	225
10.11 Green Transition, CBAM & Emerging Environmental Costs	225
10.12 Integration Note: Completing Türkiye's Fiscal Architecture	226

CHAPTER 11

FOREIGN EXCHANGE, BANKING & TREASURY

OPERATIONS IN TÜRKİYE	229
11.1 FX Freedom and the Operational Reality of Türkiye's Foreign-Exchange Regime	230
11.1.1 FX-Denominated Domestic Contracts: Legal Boundaries and Practical Implications	231
11.2 Bank Compliance Standards and Transaction Monitoring	232
11.3 Cash Repatriation, Dividend Flows and Capital Mobility	234
11.4 RUSF, FX Borrowing Restrictions and the Treasury Cost Architecture	237
11.5 Intercompany Loans and Intragroup Financing Structures	240
11.6 Hedging Strategies, FX Risk Management and Treasury Models	243
11.7 How Turkish Banks Assess Corporate Risk: Institutional Reality	247
11.8 Integration Note: Treasury Operations as Institutional Narrative	250

CHAPTER 12

CORPORATE STRUCTURING, HOLDING MODELS AND

CAPITAL ARCHITECTURE IN TÜRKİYE	253
12.1 Local Subsidiary Models and the Architecture of Incorporation	254
12.2 Holding Company Frameworks: Models, Jurisdictions and Strategic Architecture	256

12.3 Effective Management Architecture and POEM	
Risk in Cross-Border Groups	260
12.3.1 Evidence-Based POEM Criteria.....	262
12.4 Capitalisation Strategy: Equity, Debt and Hybrid	
Instruments	265
12.5 Capital Reduction Mechanics.....	267
12.6 Governance Architecture, Shareholder Controls	
and Decision-Making Design.....	270
12.7 Ownership Transitions, Exit Pathways and Long-	
Term Structural Flexibility.....	273
12.8 Share Buybacks as a Structured Form of Repatriation.....	276
12.9 Structural Coherence and the Lifecycle of a	
Turkish Investment	278
12.10 Notional Interest Deduction and the Economics	
of Equity Strengthening	281
CHAPTER 13	
INCENTIVES, FREE ZONES AND TÜRKİYE'S	
INVESTMENT PROMOTION ARCHITECTURE	285
13.1 Türkiye's Incentive Logic and the Investment	
Behaviour Framework	286
13.2 The Regional Investment Incentive Scheme:	
Structure, Behaviour and Lifecycle Performance.....	288
13.3 Technology, R&D and Innovation Incentives: The	
Teknopark and R&D Ecosystem	290
13.4 Free Zones: Operational Architecture, Export	
Behaviour and Incentive Continuity	293
13.5 R&D Centres and Design Centres: Strategic Cost	
Architecture and the Economics of Law No. 5746	296
13.6 Technology Development Zones: Intellectual	
Capital, Fiscal Efficiency and the 4691 Incentive	
Model	298
13.7 Export Incentives, Grants and Performance-	
Based Support Programs	300
13.8 Sector-Specific Incentives: Strategic Alignment	
and Operational Fit	302
13.9 Incentive-Driven Corporate Structuring and	
Long-Term Strategic Fit.....	304

CHAPTER 14

TAX GOVERNANCE, PREDICTIVE COMPLIANCE AND THE

FUTURE OF CORPORATE TAX OPERATIONS IN TÜRKİYE..... 307

14.1 Türkiye's Digital Tax Architecture and the Logic of Data-Driven Compliance..... 308

14.2 Predictive Audit Models, Risk Signals and Institutional Expectations..... 310

14.3 Tax Governance Frameworks and the Architecture of Internal Controls..... 313

14.4 Intercompany Transactions, Funding Flows and Transfer Pricing Behaviour in a Predictive Environment 315

14.5 VAT Behaviour, Input–Output Consistency and Real-Time Indirect Tax Risk 318

14.6 Withholding Tax Logic, Cross-Functional Consistency and Institutional Perception 321

14.7 Cross-Border Payments, FX Behaviour, Banking Dynamics and Tax Visibility 324

14.8 Incentive Behaviour, Documentation Integrity and Sustainable Eligibility in a Predictive System 327

14.9 Building a Predictive-Ready Operating Model: Integrating Tax, Treasury, Data and Governance 330

14.10 Statutory Accounting and Reporting Snapshot 332

CHAPTER 15

CROSS-BORDER TAXATION, DOUBLE TAX TREATIES

AND INTERNATIONAL STRUCTURING DYNAMICS..... 337

15.1 Treaty Network Architecture and Türkiye's Position in the Global Tax Map 338

15.2 Capital Gains Under Treaties..... 339

15.3 Withholding Tax Outcomes on Dividends, Interest, Royalties and Services Under Treaty Relief..... 341

15.4 Permanent Establishment Thresholds, Digital Presence and Functional Attribution Under Modern Treaties..... 344

15.5 Managing Cross-Border Losses, Tax Credits and Relief Mechanisms in Global Structures..... 347

15.6 Cross-Border Financing Architecture, Thin Capitalisation Rules and Interest Deductibility Dynamics..... 350

15.7 IP Migration, Intangible Structuring and Royalty Flows in a Treaty Environment.....	354
15.8 Cash Repatriation, Exit Planning and Post- Investment Structuring Pathways.....	358
15.9 Tax Transparency, Reporting Frameworks and Global Information-Exchange Dynamics	362

CHAPTER 16

M&A TAX ARCHITECTURE, TRANSACTION

STRUCTURING AND DEAL EXECUTION DYNAMICS IN

TÜRKİYE.....	367
16.1 Buy-Side vs. Sell-Side Tax Priorities and Transaction Readiness Signals.....	369
16.2 Share Deal vs. Asset Deal Tax Dynamics in Türkiye.....	370
16.3 Tax-Neutral Mergers, Demergers and Share-for- Share Exchanges: The Strategic Architecture of KVK 19/20.....	373
16.4 Asset Transfers, Book-Value Continuity and the Operational Tax Logic of Turkish M&A	376
16.5 Funding Architecture: Debt Pushdown, Equity Infusion and the Institutional Logic of Cross- Border Financing.....	378
16.6 SPA Structuring, Tax Allocation and W&I Insurance Behaviour in the Turkish Deal Environment	381
16.7 Post-Merger Integration: Data Behaviour, Institutional Visibility and the First Operational Convergence Cycle	384
16.8 Carve-Out Structuring, Perimeter Design and Tax Separation Logic	387
16.9 Tax Structuring for SPA, Pricing Adjustments and Value-Protection Mechanisms.....	389
16.10 Post-Closing Tax Integration, Behaviour Reset and the First 12-Month Operating Blueprint.....	392
16.11 Exit Architecture: Divestment, Cross-Border Reorganisation and Post-Deal Structural Realignment.....	395
16.12 Capital Impairment, Corporate Recovery Measures and Institutional Expectations	399
16.13 Closing Perspective: Strategic Coherence as the Essence of M&A in Türkiye.....	401

CHAPTER 17	
TAX RISK MANAGEMENT, DISPUTE STRATEGY AND LITIGATION BEHAVIOUR IN TÜRKİYE	405
17.1 The Anatomy of a Tax Audit: Behaviour, Triggers and Digital Selection Logic	406
17.2 Managing Tax Controversy: Negotiation Dynamics, Institutional Expectations and Settlement Strategy	408
17.3 Litigation Behaviour, Court Dynamics and the Judicial Interpretation of Substance in Türkiye	411
17.4 Designing a Forward-Looking Tax Risk Framework: Governance, Preparedness and Institutional Resilience	414
17.5 Dispute & Remedies Toolbox — Türkiye’s Institutional Approach to Resolution	416
CHAPTER 18	
COMPLIANCE CULTURE, BOARD OVERSIGHT AND THE INSTITUTIONAL RESPONSIBILITY OF DOING BUSINESS IN TÜRKİYE	421
18.1 Compliance as an Operating Philosophy, Not an Administrative Function	422
18.2 Board Oversight: Turning Governance into Institutional Stability	424
18.3 Institutional Responsibility: How Companies Are “Read” Across Systems	425
18.4 Internal Controls, Documentation Culture and the Discipline of Evidence	427
18.5 Employment Tax Architecture and the Expatriate Framework	428
18.6 Data Governance and KVKK Snapshot	431
18.7 Compliance Failures as Institutional Risks	433
18.8 Building a Sustainable Compliance Culture in Türkiye	436
18.9 Closing Perspective: Compliance as a Long-Term Institutional Contract	438
CHAPTER 19	
EMPLOYMENT TAX AND EXPAT FRAMEWORK IN TÜRKİYE	441
19.1 Payroll as Behavioural Infrastructure in Türkiye	442

19.2 Shadow Payroll Architecture and the Visibility Logic of Cross-Border Employment	443
19.3 Tax Residency, Economic Employer Doctrine and the Substance of Expat Assignments.....	445
19.4 Social Security Architecture and Totalisation Logic.....	446
19.5 Immigration Compliance, Work-Permit Governance and Institutional Visibility	447
19.6 Incentives, Expatriate Roles and Restricted Eligibility in R&D, Design Centres and Technology Zones	449
19.7 Remote Work, Cross-Border Employees and Hidden PE Signals.....	450
19.8 Payroll as a Monthly Behavioural Scorecard: Data Integrity and Institutional Rhythm.....	451
CHAPTER 20	
MULTI-AGENCY VISIBILITY AND INSTITUTIONAL COHERENCE IN TÜRKİYE	
20.1 A Unified Reading: How Multiple Institutions Interpret the Same Behavioural Footprint.....	453
20.2 Behavioural Signals: Why Institutions Focus on Rhythm, Not Declarations.....	454
20.3 Cross-Institutional Friction: How Inconsistency in One Area Becomes Visibility Everywhere.....	455
20.4 Multi-Agency Stability as a Component of Governance	456
20.5 Multi-Institutional Coherence as a Strategic Asset in Transactions.....	457
CHAPTER 21	
TAX AS THE ARCHITECTURE OF ORGANISATIONAL BEHAVIOUR IN TÜRKİYE	
21.1 Tax as a Behavioural Narrative, Not Merely a Fiscal Outcome	461
21.2 The Institutional Logic Behind Türkiye's Tax Visibility.....	462
21.3 Tax as Organisational Architecture and Strategic Capability	462
21.4 The High-Frequency Discipline of the Turkish System.....	463
21.5 Tax as the Final Expression of Corporate Substance.....	464

CONCLUSION
TAX AS AN INSTITUTIONAL CAPABILITY IN TÜRKİYE 467

EPILOGUE
BEHAVIOUR, INSTITUTIONS AND THE FUTURE OF
DOING BUSINESS IN TÜRKİYE..... 469

GLOSSARY 471

CHAPTER 1

TÜRKİYE AT A GLANCE

Türkiye operates as a high-frequency information system in which institutional rhythm, documentation discipline, and behavioural coherence transform a seemingly volatile landscape into a predictable operating architecture.

“Predictability in Türkiye is not a promise—it is the product of visible, repeatable behaviour.”

Türkiye’s business environment is best understood through its administrative rhythm and documentation-based visibility. Monthly tax filings, electronic records and banking transparency produce a continuously refreshed dataset that allows institutions to read economic behaviour with a level of granularity uncommon in most emerging markets. Once this rhythm is recognised, Türkiye operates less like a volatile system and more like an environment where predictability stems from the coherence of underlying signals rather than the stability of macroeconomic variables. This is why Türkiye’s operating logic must be understood as a dynamic information architecture rather than a shifting regulatory terrain.

This book views Türkiye as a data-anchored business architecture, not a fragmented regulatory landscape. Economic activity is recorded through digital channels—e-Invoice (e-Fatura), e-Archive (e-Arşiv), e-Dispatch (e-İrsaliye), and e-Ledger (e-Defter)—which collectively form a consistent representation of commercial substance. These datasets matter because Türkiye’s institutions use them not only to validate declarations, but also to interpret the internal coherence of a company’s operational footprint. The system is transactional in nature, but institutional

judgment is pattern-based: authorities look for stability across time, across filings and across related datasets.

Institutional memory reinforces this dynamic. Türkiye evaluates companies longitudinally—through filing patterns, payroll stability, long-term banking behaviour, incentive utilisation and continuity of transfer-pricing positions. While administrative practice is largely unified, interpretation can vary across sectors and local offices at the margins. For investors, predictability emerges when signals remain stable despite these operational nuances. When firms consistently align their filings, flows and behaviours, institutional reactions become markedly more stable across cycles.

Three principles define this environment:

- Documentation determines visibility and shapes institutional judgment.
- Monthly cycles are the primary engine of operational predictability.
- Behavioural consistency signals governance quality and institutional reliability.

Regulators—tax, social security, banking and sectoral authorities—observe the same economic activity through complementary datasets. Their mandates differ, and interpretations reflect sector characteristics and transaction density. High-visibility sectors such as manufacturing and logistics generate rich documentation trails; holding companies and professional services generate more selective visibility. Understanding these asymmetries is essential to interpreting how institutions perceive each taxpayer type. For foreign investors, this visibility architecture is not a constraint—it is the foundation of predictability.

Türkiye's regulatory framework is disciplined but not monolithic. Coordination is structured, but each authority maintains its own operational rhythm. This creates minor variances in emphasis—particularly in areas such as payroll reporting,

cross-border payment clearance, documentation format expectations and incentive eligibility. These nuances do not undermine predictability; on the contrary, they reinforce that Türkiye's coherence arises from data alignment, not discretionary centralisation. Predictability emerges from converging datasets, not from uniform interpretations.

In practice, clarity is a strategic asset. Companies whose documentation, economic logic and financial flows align experience Türkiye as structured, navigable and responsive. When these elements diverge—when filings, ledgers and banking flows tell inconsistent stories—administrative scrutiny increases. This is not a symptom of arbitrariness; it reflects how the system identifies risk through internal coherence. Türkiye's institutions operate in a high-volume, data-rich environment, and they rely on consistency to filter genuine economic activity from anomalies.

Macroeconomic volatility shapes sentiment, yet administrative outcomes depend more on data discipline than macro cycles. Companies that maintain consistent reporting, documentation, and cash flow logic encounter fewer institutional risks, regardless of inflationary episodes, currency adjustments, or business-cycle fluctuations. This is why Türkiye's operating environment often surprises foreign investors: the system rewards behavioural discipline even when macro conditions appear turbulent.

Türkiye is therefore best understood—analytically—as a tax-centred information system, where monthly rhythm, documentation and behavioural continuity shape regulatory perception. This chapter provides the analytical foundation for the rest of the book, demonstrating how legal structures, tax rules, incentives and reporting obligations interact to reward discipline, transparency and long-term coherence.

1.1 Reading Türkiye Through Rhythm Rather Than Numbers

Foreign executives often approach Türkiye through familiar dashboards—growth charts, inflation paths, labour-cost benchmarks and capital-flow tables. These indicators matter, yet they do not fully explain how the system behaves. Türkiye reveals its operational logic not through static numbers but through rhythm: the recurring cadence of documentation, the monthly VAT cycle, withholding patterns under domestic rules and Article 30 of the Corporate Income Tax Law, the sequencing of cross-border payments under tax-treaty provisions, payroll flows through the unified muhtasar ve prim hizmet beyannamesi system—now consolidated nationwide—and the e-Ledger cycles mandated under the Tax Procedure Law and related communiqués.

This rhythm is not an abstract metaphor; it is the operational lens through which Türkiye expresses its institutional intelligence. Companies that misread this cadence often interpret routines as bureaucracy; companies that understand it recognise a structurally predictable compliance ecosystem.

Stamp tax follows this same institutional through-line. Although Türkiye's stamp tax is levied at the transaction level, only a narrowly defined group of taxpayers authorised under the Revenue Administration's secondary legislation files consolidated monthly returns. This framework does not replace the underlying transactional liability; it simply overlays an additional reporting cadence available only to taxpayers approved under the Revenue Administration's secondary legislation governing continuous stamp-tax filers. The eligibility criteria for this regime are narrowly drawn and apply only to specific taxpayer profiles. Even for authorised entities, transactional stamp tax liability must be tracked contemporaneously in internal ledgers. Consolidation simplifies the rhythm; it does not dilute the legal architecture.

This rhythm is strategically meaningful. Türkiye is a jurisdiction

where predictability stems from repeatable institutional routines rather than from macroeconomic symmetry. Digital reporting—particularly through the e-Invoice (e-Fatura) system, which transmits transactional data directly into the Revenue Administration’s digital infrastructure—reduces discretionary uncertainty and makes corporate behaviour observable in real time. Investors who read these cycles correctly can model risk with greater precision and identify structurally resilient businesses even during periods of macro volatility. In practice, rhythm becomes an analytical tool: it converts headline turbulence into interpretable behavioural patterns, revealing which companies operate with discipline and which deviate from institutional expectations.

Türkiye operates on a 30-day compliance frequency, making corporate behaviour observable monthly. This monthly visibility materialises through VAT trails and input-output consistency checks, withholding and payroll alignment, and the coherence of e-Ledger records. This high-frequency data projection allows institutions to assess stability, substance and operational credibility with an unusual level of granularity. For investors, the actionable signal is not an isolated indicator but the consistency of the behavioural footprint generated through these cycles.

During 2024–2025, Türkiye’s administrative rhythm became even more transparent and measurable with the deployment of digital supervision modules. The Revenue Administration’s risk-based screening engine (RASS), the expanding e-Audit pilot programmes, and behaviour-based scoring algorithms enable institutions to test operational consistency in real time. These tools transform monthly tax filings from a legal obligation into a pattern-recognition mechanism, ensuring that predictability flows from institutional reflexes rather than from macro stability alone.

The numbers still matter—they provide scale, context and boundary conditions. Türkiye closed 2024 with a GDP of

approximately USD 1.2 trillion, securing its place among the world's 20 largest economies. Real growth averaged approximately 5 per cent over the past decade, depending on base-year adjustments in official statistics. Inflation peaked at 65 per cent in 2023 before moderating into the upper-20s to mid-30s during the 2024–2025 disinflation programme. The current-account deficit narrowed to around 3 per cent of GDP, supported by goods exports exceeding USD 255 billion and tourism revenues surpassing USD 50 billion. These figures—anchored in TÜİK, Central Bank and Medium-Term Programme sources—reflect structural scale rather than temporary cycles. Macro conditions fluctuate; the institutional rhythm remains intact.

For investors, these numbers validate scale and illustrate Türkiye's capacity for self-correction. Disinflation reshapes valuations, discount rates and working-capital models; export performance and tourism resilience offset earnings volatility in sectors anchored to foreign-currency inflows. When combined with Türkiye's administrative rhythm, the macro picture reveals not instability but a system capable of rapid operational recalibration—an attribute that long-term capital can integrate into forecasting models.

Fiscal policy forms an additional stabilising pillar. Public debt stands at roughly 32 per cent of GDP under the EU methodology—conservative by emerging-market standards. This allows monetary tightening without compromising sovereign balance-sheet integrity and reinforces confidence in Türkiye's tax-centred administrative architecture. Low sovereign-risk parameters improve due diligence outcomes, compress uncertainty premiums and extend strategic planning horizons. Türkiye's digitalised tax administration transforms taxation from a procedural requirement into an operational infrastructure.

Türkiye is not unpredictable—it is cyclical. These cycles generate institutional muscle memory across regulators, including the Revenue Administration, the Central Bank and the BRSA.

This cyclical continuity explains why sophisticated investors consistently outperform in Türkiye: cycles can be priced, operational volatility can be modelled, and institutional reflexes remain stable even as macro conditions fluctuate. Türkiye rewards those who understand tempo.

This cyclical behaviour complements the rhythm framework without duplicating it. Rhythm describes timing; cycles describe reflexes. Together, they form the jurisdiction's operating code.

1.2 A Young, Urban, Numerically Significant Market

Türkiye's demographic weight is structural rather than rhetorical. With a population of 86 million and a median age of 33.2, the country maintains one of the youngest and most dynamically replenished labour pools in Europe and the OECD. Each year, approximately 900,000 students graduate from universities—including more than 80,000 engineers, according to YÖK's Higher Education Statistics. This sustained supply of qualified labour underpins sectors that depend on technical skill and operational depth, bolstering both manufacturing capacity and knowledge-intensive service industries.

For investors, demography is not a background indicator; it is a long-term economic engine that shapes consumption patterns, workforce availability and sectoral scalability. A young, urbanised population generates persistent consumer demand, accelerates the adoption of new technologies, and enables rapid organisational expansion across sectors such as digital services, energy, logistics, and advanced manufacturing. These demographic fundamentals influence valuation models, operating-cost structures and revenue trajectories. In labour-intensive industries—retail, logistics, hospitality, construction and manufacturing—payroll dynamics, social-security contributions and HR compliance frameworks form a core part of strategic

planning, making Türkiye's demographic profile directly relevant to operational modelling.

Urbanisation stands at approximately 75 per cent. Urban density in Türkiye is not merely a spatial characteristic; it is an operational accelerator. Istanbul, with close to 16 million residents, accounts for over 30 per cent of the national GDP. Ankara exceeds 6 million; Izmir approaches 4.5 million; and major regional hubs across the Marmara, Aegean, Central Anatolia and Mediterranean corridors contribute significantly to industrial and commercial output. TÜİK's regional statistics demonstrate that this urban concentration has remained structurally stable over time, reinforcing Türkiye's position as one of the most urbanised economies in its peer group.

This concentration generates advantages across every phase of the business lifecycle. Dense metropolitan clusters compress logistics costs, shorten customer-acquisition cycles, and improve scalability for both B2C and B2B models. For private equity investors, these conditions reduce the time-to-value creation and accelerate revenue normalisation post-acquisition. For strategic investors, urban density supports faster integration, more reliable demand modelling and more efficient deployment of shared services, procurement centres and regional governance structures.

Türkiye's demographic base also produces a highly connected, mobile and digitally fluent consumer population. Smartphone penetration exceeds 90 per cent across all primary demographics, and nearly 70 per cent of retail consumers engage with at least one e-commerce platform monthly. Payment infrastructure—including the instant FAST system and the TR QR framework—further amplifies digital fluency, embedding behavioural agility into retail and service consumption. This digital elasticity enhances pricing responsiveness, reduces friction in customer interactions and heightens sensitivity to service quality—characteristics that are critical to scaling digital business models.

This elasticity allows Türkiye to serve as both a large domestic market and a high-speed regional testbed. Rapid adoption cycles deliver real-time insights into pricing strategies, product-market fit and operational resilience. Sectors such as retail, digital services, entertainment, mobility and financial technology benefit from these high-frequency behavioural feedback loops, enabling companies to refine offerings, adjust cost structures and calibrate scaling strategies with greater precision than in slower-adjusting markets.

Geography amplifies demographic strength. From Istanbul, airlines connect to more than 60 capitals within a four-hour flight radius, covering Europe, the Middle East, North Africa, Central Asia and parts of Russia—a geographic zone with nearly 1.5 billion consumers. Türkiye's Customs Union with the EU, complemented by an extensive network of Free Trade Agreements, reinforces its position as a viable base for regional headquarters, distribution centres and export-oriented manufacturing hubs. This geographic leverage transforms Türkiye into both a market of scale and a platform for cross-border execution, enabling operational consolidation across treasury, procurement, logistics, shared services and management functions.

For global investors, these integrated advantages create a strategic environment in which business models can be adjusted, expanded or regionalised without fracturing operational coherence. Corporate treasury functions can consolidate multi-country liquidity management; logistics can operate on hub-and-spoke models; manufacturing can serve multi-jurisdictional demand; and digital platforms can scale across borders with minimal latency.

While macroeconomic variables—tax ratios, inflation bands, monetary conditions and sectoral growth rates—shift over policy cycles, the deeper insight for strategic decision-makers lies in the institutional rhythm governing these adjustments. Investors who recognise how Türkiye's institutional mechanisms recalibrate

across cycles can design operating models that remain robust during periods of fluctuation. Rather than relying on static forecasts, they build adaptive structures that incorporate Türkiye's high-frequency feedback loops into pricing, liquidity planning and staffing strategies.

According to 2025 population projections, Türkiye's demographic base continues to trend toward the 87-million mark. Tourism revenues reached approximately USD 54 billion in the 2024 actuals, while goods exports approached USD 255 billion—both confirming the upward recalibration in the country's economic scale and external-sector resilience. These structural indicators underscore a demographic and economic base capable of supporting long-term investment horizons.

1.3 Operating Conditions Defined by Daily and Monthly Rituals

Macro indicators frame the environment, yet daily operational rituals shape the practical experience of doing business in Türkiye. Companies follow a predictable choreography: issuing e-Invoices through the e-Fatura system; documenting stock movements through e-İrsaliye, where threshold- or sector-based rules apply; reconciling multi-currency bank flows; and maintaining meticulous documentation in accordance with the Tax Procedure Law's evidence and retention requirements. These routines, repeated with clock-like regularity, form the operational architecture beneath commercial continuity.

These rituals are not administrative noise; they are the mechanisms through which Türkiye's institutional rhythm expresses itself. Each step in this choreography ties a company's internal records to external visibility, strengthening the connective tissue between operational reality and institutional perception. For many foreign investors, this is the moment Türkiye begins to feel predictable:

once the daily routines are understood, the system's cadence becomes readable.

While subsequent sections explore documentation in greater depth, it is sufficient here to emphasise that these daily rituals collectively sustain the system's behavioural consistency without reiterating the broader institutional doctrine. They anchor companies to the monthly rhythm through which compliance, transparency and operational discipline are evaluated.

For investors evaluating acquisition targets or designing regional operations, these rituals provide valuable data. Türkiye's reporting systems are entirely digital and synchronised across institutions, offering transaction-level visibility that strengthens due diligence far beyond what is possible in markets where documentation is fragmented or partially manual. The Revenue Administration's digital supervision infrastructure cross-checks transactional flows across e-Fatura, e-Arşiv, e-İrsaliye and e-Defter systems—each grounded in the secondary legislation of the Tax Procedure Law—creating near real-time institutional visibility. This interlocking digital architecture reduces asymmetry between declared activity and actual economic behaviour, and it builds a transactional truth layer that is difficult to bypass.

The monthly cycle is even more central. Banks and payment institutions act as compliance amplifiers, supplying transaction data that enables authorities to match POS records, bank movements and declared revenues. This creates a secondary verification grid that sits under the banking framework, payment systems regulations, and Central Bank oversight. The system is further reinforced through MASAK-driven transaction monitoring and risk scoring, which require coherence between tax declarations and actual banking activity. These layers create a harmonised verification architecture that ensures corporate behaviour remains tethered to observable financial flows.

Recent MASAK guidance—including updates reflected in the 2024

revisions to the MASAK risk-scoring framework—formalised a three-layer scoring matrix: transaction pattern, client profile and geographic exposure. Banks apply this matrix continuously, enabling them to flag inconsistencies between declared revenue, VAT trails and transactional cash flows. This process positions financial institutions not simply as intermediaries but as compliance amplifiers that reinforce Türkiye’s documentation-driven operating model. In practical terms, a company’s banking behaviour becomes an additional lens through which its operational credibility is interpreted.

Türkiye’s compliance environment operates in a defined sequence: VAT returns; unified withholding and social security filings via the unified withholding and social security filing (*muhtasar ve prim hizmet beyannamesi*); monthly payroll calculations; stamp tax reconciliation for continuous filers; e-Ledger closings through *berat* submissions; and month-end inventory valuation—particularly relevant for taxpayers applying inflation accounting or sector-specific stock rules. Each step contributes to a rhythm that repeats across the entire business ecosystem. These cycles create a feedback loop that allows institutions to read continuity, detect anomalies and evaluate behavioural discipline.

For investors, this cadence functions as a natural governance mechanism. Companies cannot move far from institutional visibility without leaving a detectable trail. Well-managed businesses distinguish themselves not only through financial statements but through consistent compliance signals—coherent VAT trails, aligned payroll data, reconciled ledgers and stable documentation patterns. These signals form a built-in clarity filter that separates resilient operations from fragile ones. In due diligence, this clarity often reveals more about a company’s operational integrity than top-line figures ever could.

Foreign executives sometimes interpret this structure as bureaucratic density. However, once the choreography becomes familiar, they recognise that these cycles generate order, visibility

and trust. Monthly discipline is Türkiye's operating system; alignment with it removes friction and restores predictability. When a company internalises this rhythm, the perceived complexity of Türkiye's business environment recedes rapidly. For investors, this alignment is not merely helpful—it is frequently the decisive factor in long-term operational success.

The reintroduction of inflation accounting in 2024–2025 further increased the monthly cycle's weight. Inventory valuation, monetary versus non-monetary classifications and the interaction with financing-expense limitations require companies to produce disciplined monthly data. These adjustments ensure that profitability signals and cash-flow narratives remain internally consistent despite inflationary distortion, monetary item reclassifications or shifts in input prices. In essence, inflation accounting forces companies to articulate their operational story with greater quantitative precision.

The SGK's unified monthly premium and service filings operate as a parallel governance mechanism that validates payroll continuity, labour-cost stability and workforce visibility. This layer is particularly relevant to the labour-intensive sectors discussed in Chapter 9, where monthly variations in headcount, contribution bases, and contractual terms can materially affect the tax posture, compliance exposure, and operational risk. Together, these cycles form a dual-axis verification model—fiscal and labour—which underpins Türkiye's approach to institutional oversight.

1.4 Institutions That Maintain Order Through Documentation

Across Türkiye's regulatory architecture, documentation serves as the common language through which institutions interpret corporate behaviour. The tax administration, social security authorities, customs, financial regulators, and the banking system rely on the same evidentiary signals—invoices, contracts, approvals, reconciliations, payroll records, and digital filings. This creates a documentation-centred ecosystem in which the credibility of any transaction, structure or incentive claim depends on the coherence and traceability of its record, not on narrative explanation.

For foreign investors, this structure offers a degree of clarity that is uncommon in most emerging markets. When documentation aligns with operational reality, institutional friction decreases, and supervisory engagement becomes predictable. Türkiye's broad e-documentation mandate—implemented through secondary legislation under the Tax Procedure Law—requires even small and mid-sized companies to issue e-Invoices, maintain e-Ledgers and report transactions electronically. This reduces the feasibility of off-record activity and strengthens the reliability of declared financial behaviour. The system effectively “pulls” companies into transparency, not through punitive mechanisms but through structural design.

Türkiye's institutions do not operate in isolation; they function as components of a documentation-driven network. A transaction's credibility is assessed through its digital or paper trail, and the absence of documentation limits institutional recognition. This interconnected structure reduces information asymmetry and makes misrepresentation operationally difficult. As a result, due diligence processes benefit from robust, evidence-based validation. For investors, this shifts the focus from narrative to

data: companies with well-structured documentation project credibility before any audit or inspection begins.

The institutional actors each play distinct but tightly interlinked roles:

- The tax administration interprets economic activity through line-level data, analysing input-output consistency and behavioural patterns across monthly declarations.
- The Social Security Institution (SGK) governs labour identification and contribution flows, forming a parallel track of visibility that reinforces payroll integrity.
- Customs authorities, operating through systems such as BILGE, match declarations with invoices and movement records, ensuring that cross-border trade narratives align with documentary evidence.
- Trade registries establish legal personality and verify authority structures under the Turkish Commercial Code, anchoring documentation to governance.
- Municipal regulators oversee zoning, environmental and operational compliance, adding a spatial dimension to documentation oversight.
- Banks act as frontline compliance agents, verifying documentation before processing payments in line with the Banking Law, AML rules and KYC standards.

BILGE now operates as part of an integrated visibility stack that includes the Risk Management System (RMS), ETGB flows, algorithmic red-line scoring and behavioural profiling within trade-monitoring modules. Together, these layers align customs declarations with invoice data, movement records and banking transactions, creating a unified institutional view across trade, tax and financial authorities. This interoperability transforms documentation from a static record into a multi-dimensional verification framework.

The BRSA's real-time transaction oversight—particularly within card payment ecosystems—adds a layer of verification. POS flows, bank account movements and declared turnover interact through a triangulated dataset, enabling institutions to detect discrepancies rapidly. This coordination strengthens Türkiye's position as a high-visibility jurisdiction in both tax and financial-sector supervision. The system does not merely react to anomalies; it anticipates them through continuous cross-referencing of independent datasets.

Cross-border payments integrate domestic withholding obligations under Article 30 with treaty analyses and bank-level KYC sequencing. This tri-layer structure creates a harmonised visibility model for outbound payments, anchoring the cross-border compliance logic explored in Chapter 14. For foreign investors, this means that international flows are not only taxable events but also documentation governance checkpoints.

The connective tissue across these institutions is the principle that documentation defines existence. Under the Tax Procedure Law, undocumented expenses and deductions cannot be recognised. Article 3/B reinforces this by requiring assessments to rely on objective evidence. A transaction without documentation does not exist for institutional purposes; documents not entered into the system remain incomplete; and signatures without timestamps carry materially limited evidentiary weight. In effect, the documentary record becomes the legal reality.

For investors accustomed to discretionary enforcement in other emerging markets, Türkiye's documentation-first institutional culture often feels unusually rule-based. Compliance becomes a strategic asset—one that reduces audit exposure, institutional friction and operational delays. Companies that maintain consistent, timestamped, digitally anchored documentation experience Türkiye as a predictable, navigable system.

Türkiye's institutional architecture is strict but predictable. When

records are clear, the system moves efficiently. When they are not, it slows—but in a cautious, consistent manner rather than an arbitrary one. For long-term investors, predictable caution is significantly more valuable than unpredictable flexibility. In Türkiye, transparency and documentary discipline are not merely compliance obligations—they are the operational infrastructure of trust.

1.5 Taxation as Türkiye's Real Operating Infrastructure

Türkiye's tax system is not a peripheral layer of regulation; it is the operating infrastructure of commercial life. VAT shapes cash management, supply chains and pricing strategy. Corporate income tax influences financial planning. Withholding tax governs payroll, domestic service procurement and cross-border payments under domestic rules and Article 30 for non-residents. Stamp tax confers legal validity on contracts. Social-security contributions define employment cost structures. Customs duties—administered through the Customs Code, the EU–Türkiye Customs Union and a vast Free Trade Agreement network—shape import strategy, sourcing decisions and supply-chain architecture.

Many investors underestimate the depth of this architecture until they observe how directly tax rules structure operational workflows. Taxation is not merely a statutory obligation; it is the institutional blueprint through which the system reads behaviour. It informs business model design, group structuring, treasury organisation, and profit repatriation strategy.

Under the Tax Procedure Law, obligations are assessed transaction by transaction. Documentation quality, timing accuracy and ledger consistency therefore have immediate operational consequences. Failures result in non-deductible expenses, denied

input VAT and special irregularity penalties under VUK's detailed documentation and assessment provisions. The system reacts quickly because it is built on continuous data validation—every transaction becomes a signalling event.

VAT is the most decisive component of this infrastructure. It functions as a transactional visibility engine: every movement of goods or services, export, refund request or adjustment is rendered legible through the VAT footprint—primarily through the consistency between input and output records. VAT is not just a tax; it is an institutional visibility protocol.

Companies with disciplined VAT processes move through institutional channels more smoothly. Audit interactions become more predictable, refund cycles accelerate, and customs processes become less burdensome. Banks increasingly incorporate tax documentation into risk scoring and KYC reviews, strengthening the link between fiscal behaviour and financial credibility. Sector-specific areas—such as ÖTV tracking, electronic monitoring in the fuel distribution sector, and risk-based audit scoring by the Revenue Administration and the Ministry of Trade—reinforce this visibility framework.

Tax compliance quality is one of the most reliable proxies for management quality. In due diligence, VAT integrity, withholding accuracy, and ledger alignment reveal behavioural patterns far more clearly than financial statements. These signals indicate whether a business is well controlled, whether its workflows align with its declared narratives, and whether its internal controls effectively engage with institutional expectations.

In Türkiye, tax compliance is not merely a cost of doing business—it is strategic infrastructure. It signals stability, reduces friction and supports continuity. For investors, it compresses uncertainty premiums, enhances exit-readiness and serves as a structural indicator of long-term resilience. Tax compliance is not defensive; it is a forward-looking measure of operational coherence.

This infrastructure connects directly to the corporate-tax base architecture outlined in Chapter 7. The determination of commercial profit under Türkiye's statutory accounting framework is inseparable from the discipline of monthly documentation. When the monthly rhythm breaks, the coherence of the tax-base narrative breaks down with it. In Türkiye, tax outcomes reflect behavioural consistency as much as arithmetic calculation. Well-run companies embed tax logic into operational logic; poorly run companies treat tax as an afterthought and encounter predictable institutional friction.

This VAT-driven visibility should be viewed as part of the system's data architecture rather than a secondary repetition of Türkiye's documentation logic. Tax is not an overlay—it is the system that translates operational behaviour into institutional signals. For investors, mastering Türkiye's tax infrastructure is not a compliance exercise but a strategic imperative. It is the map through which the entire business landscape is understood.

1.6 A Multi-Engine Economy with Built-In Balancing Mechanisms

Türkiye's economic base is broad and structurally diversified. Goods and manufacturing-driven exports exceed USD 240 billion. Automotive output surpasses 1.3 million vehicles annually. Tourism generates USD 50–55 billion in revenue. Agriculture remains among the world's top ten producers. Logistics capacity is supported by more than 180,000 kilometres of roads, 12,000 kilometres of rail and more than 50 airports—approximately 36 of which operate internationally. Renewable-energy capacity has passed 58 GW. These figures, based on TÜİK and relevant ministry data, illustrate not just the country's economic size but the architectural scale of its underlying infrastructure.

This breadth produces natural diversification. Different sectors

move through various phases, enabling portfolios to hedge cyclicity without exiting the market. Export-oriented industries benefit from depreciatory environments; consumer-facing sectors expand during credit cycles; tourism provides a natural external stabiliser; and agriculture contributes baseline resilience through extensive agro-industrial value chains and favourable climate patterns across multiple regions. A single engine does not dominate Türkiye's economic structure; its resilience comes from interlocking sectoral gears that activate as conditions shift.

These engines do not move in lockstep. When consumption slows, tourism often fills the gap. When import prices rise, exporters gain competitiveness. During monetary tightening, manufacturers rebalance by managing working capital discipline, optimising inventory, and selectively calibrating capacity. These reflexes represent more than sectoral agility—they form the systemic balancing mechanism that allows Türkiye to adjust without requiring constant policy intervention. It is a market whose internal engines counterbalance each other.

This rebalancing mechanism is one of Türkiye's less visible but more durable strengths. Few emerging markets operate with a comparable multi-engine structure supported by formal policy frameworks such as the Medium-Term Programme, sector-oriented incentive regimes, and flexible labour-market dynamics. These components help maintain continuity during policy cycles and macro adjustments. For investors, this structural diversity reduces volatility and strengthens earnings stability across different macro phases. It provides a foundation for long-term planning that can absorb shocks without destabilising core business operations.

The system's balancing capacity has strategic implications:

- Manufacturers adjust production and inventory cycles to hedge currency volatility.
- Exporters leverage FX movements to expand market share.

- Tourism operators capture external demand cycles that offset domestic slowdowns.
- Agriculture provides baseline stability regardless of global cycles.
- Energy and logistics infrastructure enable rapid recalibration across sectors.

These adaptive dynamics allow companies to adjust business models without fracturing operational continuity. Türkiye's economic architecture has therefore evolved into a self-correcting ecosystem where sectoral interplay, infrastructure depth and geographic reach combine to moderate systemic shocks.

For investors, this means Türkiye offers not merely growth, but resilient growth—growth that persists across cycles because the country's economic engines amplify or neutralise each other depending on the macro environment. This structural resilience is one of Türkiye's key long-term attractors for foreign capital.

1.7 Corporate Behaviour: Speed, Caution and Learned Adaptation

Turkish companies operate with a behavioural model shaped by decades of lived volatility. Decisions are made quickly, yet liquidity is guarded carefully. Treasury teams monitor FX dynamics in real time using banking dashboards, market terminals, and live data streams—an approach shaped by years of operating in an active, sometimes abrupt, foreign-exchange environment. Organisational hierarchies remain structured, but decision-making often moves faster than in flatter Western models. This combination of structured authority and accelerated execution forms a hybrid governance culture that prioritises speed without abandoning control.

For investors, this accelerates negotiation timelines and shortens post-acquisition integration. Turkish management teams

adapt rapidly to new ownership structures, pricing models and operating mandates. A long history of international partnerships, joint ventures and export-driven commercial activity reinforces this agility. Companies are accustomed to interacting with foreign banks, global supply chains and multinational compliance standards, which increases their readiness for complex transaction processes and cross-border operational expectations.

Documentation discipline is another defining behaviour. Companies maintain detailed archives not only because institutions require them but because experience has taught them that documentation is protection. In an inflationary and cyclical environment, records function as insurance—clarifying positions in disputes, supporting audit defence and stabilising cross-border interactions. The Tax Procedure Law formalises this expectation: deductible expenses and taxable transactions must be fully documented, and in practice, undocumented items do not exist for tax purposes. As a result, operational teams internalise documentation not merely as compliance but as institutional risk management.

This documentation directly reflects M&A readiness. Well-managed Turkish companies typically maintain structured document sets—contracts, payroll files, VAT trails, bank reconciliations, stock movements—that allow investors to assess operational integrity with minimal friction. Even mid-sized companies tend to maintain robust digital archives because the system rewards documentation with predictable institutional treatment and sharply penalises its absence.

This discipline improves deal certainty. For investors, it reduces hidden-liability risk, clarifies compliance histories and supports smoother value-creation planning. In cross-border transactions, documentation carries disproportionate weight; institutions, banks, auditors and compliance teams consistently prioritise traceable, timestamped, system-recorded evidence over narrative explanations. These expectations shape corporate behaviour,

fostering a business culture in which documentation is not an administrative formality but a strategic asset that strengthens credibility, continuity and transaction readiness.

Turkish companies also exhibit an operational reflex shaped by experience: learned adaptation. They adjust pricing strategies quickly, diversify supplier bases pre-emptively, hedge currency exposure informally through natural FX flows, and align working-capital cycles with macro conditions. This agility is less reactive than it appears; it is a learned discipline derived from managing volatility over multiple decades. The result is a private sector that treats environmental change not as a disruption but as a variable to be priced, managed and incorporated into daily routines.

For international investors, understanding this behavioural architecture is essential. Türkiye's operating environment rewards companies that combine fast decision cycles, disciplined liquidity management and rigorous documentation habits. These behaviours explain why many foreign buyers observe that integration proceeds more smoothly in Türkiye than in comparable emerging markets. Adaptation is embedded in organisational DNA.

1.8 Volatility Treated as a Parameter Rather Than a Crisis

Economic volatility in Türkiye is managed with pragmatic discipline. Currency movements reshape pricing strategies; inflation recalibrates cash management; regulatory adjustments prompt operational redesign rather than disruption. This elasticity is a core strength. It reflects experience—decades of economic cycles that have embedded agility into private-sector operating models. Companies do not wait for stability to act; they treat volatility as a structural input into daily decision-making.

Investors who initially interpret volatility as instability often

come to view it instead as a parameter—embedded in routines rather than disruptive to them. Turkish companies reprice, restructure and rebalance quickly. Treasury teams track FX movements in real time, adjusting receivable and payable cycles, aligning maturity profiles and re-sequencing cash allocations with remarkable speed. Procurement and sales channels adapt in parallel, changing contract terms, inventory positions, and supplier exposures without disrupting operational continuity. As a result, earnings volatility is frequently lower than macro indicators suggest, supported by operational hedges such as FX-linked pricing, adaptive supplier terms and disciplined inventory management. These mechanisms act as natural stabilisers, reducing the amplitude of shocks.

This response pattern is not improvisation; it is institutional muscle memory. Years of navigating inflationary phases, interest-rate transitions and rapid exchange-rate movements have created a corporate reflex that integrates volatility into planning rather than resisting it. Decision-makers perceive volatility not as an anomaly but as a predictable element of the operating environment—something to be priced into models, embedded into liquidity buffers and managed through contractual flexibility.

Türkiye does not require macro stability to function; it relies on adaptation. Monthly compliance rhythms—VAT filings, SGK declarations, payroll processes and e-Ledger cycles—force companies to continuously monitor cash, pricing and operations. This cadence creates a real-time feedback loop between operations, treasury and management, reinforcing organisational awareness and tightening internal control systems. Deviation becomes visible within days; misalignment, within weeks. This visibility compels companies to maintain disciplined working-capital cycles even during macro turbulence.

Volatility, therefore, becomes quantifiable. Companies build scenario matrices for FX exposure, run sensitivity tests on margin compression and stress-test cash positions around VAT

refund cycles and wage adjustments. These practices, broadly standardised across sectors, enable even mid-sized firms to anticipate liquidity pressure points with a level of foresight not typically associated with emerging markets.

For investors, this environment presents an unexpected advantage. With appropriate structuring, volatility becomes investable rather than prohibitive. The ability to price cycles, model liquidity patterns and anticipate operational adjustments turns macro fluctuations into manageable inputs rather than existential risks. Companies that operate effectively in this environment demonstrate operational resilience that often exceeds that of their peers in comparatively stable markets.

In strategic planning, volatility functions as both a constraint and a catalyst. It encourages cash discipline, sharpens governance, accelerates innovation in pricing models and compels management teams to build dynamic rather than static operating frameworks. For long-term investors, this adaptability enhances strategic resilience. It broadens the range of viable investment theses—particularly in sectors where elasticity, response time and documentation visibility interact to create competitive advantage.

1.9 The First-Year Realisation

Most foreign companies, after completing a full annual cycle, reach a similar conclusion: Türkiye is not complex; it is distinct. The challenge is not unpredictability but learning the rhythm. Once a business aligns with documentation discipline, consistent monthly compliance patterns and institutionally sequenced processes, the environment becomes consistent, navigable and scalable. By the end of the first twelve months, what initially appears as administrative density evolves into an operational framework that is both intelligible and repeatable.

This realisation does not duplicate earlier themes; it synthesises

them into a single twelve-month learning curve observed across foreign investors. What changes is not the system, but the investor's ability to interpret its signals. Companies that initially react to each filing or reporting milestone as a discrete obligation eventually recognise the integrated structure: VAT cycles, payroll declarations, bank-aligned cash-flow monitoring, withholding mechanics and e-Ledger synchronisation collectively form a predictable institutional calendar. Once this architecture becomes familiar, the perceived complexity dissolves into a cadence.

This learning curve exists because Türkiye forces companies to experience its entire operating system within a single twelve-month compliance loop. VAT cycles, withholding obligations, SGK filings, temporary tax periods, e-Ledger submissions, e-Invoice requirements and bank-verified cash-flow reporting all accumulate within the structured timetable established by the Tax Procedure Law, the Social Security Law and the Revenue Administration's periodic tax calendar. The system's design exposes companies to every institutional touchpoint early, accelerating operational understanding. Companies effectively complete a full institutional onboarding in one year—a compressed, high-frequency acclimatisation process rarely seen in other jurisdictions.

Investors consistently report that this first year redefines their expectations. Once the rhythm is internalised, operational planning becomes more accurate, cash management more precise, and governance alignment significantly easier. The institutional architecture begins to feel less like oversight and more like an operating system that rewards alignment through smoother audits, faster refunds, clearer supervisory interactions and predictable regulatory responses.

For investors, this first-year inflexion point is often transformative. Türkiye is not only a market but also a base for regional-scale operations. Its scale, geographic reach and institutional data architecture enable companies to consolidate procurement,

treasury, technology and management functions into a single hub. Regional deployment becomes more efficient, supported by the Customs Union with the EU and a broad Free Trade Agreement network that expands market access well beyond national borders. For companies seeking regional integration, Türkiye offers not only market presence but execution leverage.

The “first-year realisation” also has implications for acquisition strategy and post-deal integration. Targets that appear administratively intense at first glance often reveal strong documentation muscle once examined across a complete compliance cycle. Buyers gain visibility into patterns of behaviour—whether payroll stability is sustained, whether VAT trails remain coherent, and whether cash-flow narratives align with bank records. This behavioural footprint becomes a reliable proxy for governance maturity and long-term operability.

Türkiye rewards those who learn its rhythm. Once understood, the jurisdiction reveals itself as a viable regional platform—young, adaptive and connected to nearly 1.5 billion consumers within a four-hour flight radius, supported by an aviation network that reaches more than sixty capitals directly from Istanbul. This physical connectivity is complemented by a regulatory and documentation infrastructure that scales predictably across sectors, enabling companies to expand regionally without re-engineering their operating model.

For investors—and for the advisors guiding them—mastery of this rhythm becomes the foundation of long-term success. Türkiye’s operating environment is not enigmatic; it is structured. The discipline required in the first twelve months becomes the strategic advantage of the years that follow, transforming initial complexity into operational fluency and institutional trust.

Türkiye’s institutional ecosystem does not evaluate investors

based on declarations or business plans, but rather on the legal footing on which they enter the system and the documentation discipline they maintain over time. Before an enterprise becomes visible through filings, workflows or tax behaviour, it becomes visible through the rights, protections and structural guarantees that frame its presence in the jurisdiction.

The next chapter advances into this foundational layer. It examines Türkiye's foreign-investment regime as a rules-based architecture built on equality, legal certainty and documentation-driven predictability. It unpacks how the Foreign Direct Investment Law positions foreign investors on the same legal plane as domestic capital, eliminates discretionary risk, and defines the rights, protections and institutional touchpoints that govern market access.

This framework serves as the reference layer on which subsequent chapters—corporate forms, tax posture, operational design, and behavioural visibility—will rest. We now move to the strategic entry architecture that determines with which rights, obligations and institutional expectations an investor becomes part of Türkiye's system.

CHAPTER 2

THE FOREIGN INVESTMENT REGIME IN TÜRKİYE: EQUALITY, RIGHTS AND THE LEGAL ARCHITECTURE OF MARKET ACCESS

Türkiye's foreign-investment regime functions as a rules-based equality architecture, translating statutory neutrality into concrete rights, protections and market access for international capital.

"In Türkiye, equality for foreign investors is not a negotiated privilege—it is codified infrastructure."

Türkiye's foreign-investment regime is anchored in structural equality. The system does not grant foreign investors privileges; it removes disadvantages by placing them on an equal procedural, commercial, and corporate law footing with domestic investors. This principle is embedded directly into statute—most visibly through the Foreign Direct Investment Law No. 4875—which eliminates discretionary entry controls and guarantees market access, ownership rights and the freedom to participate in companies without prior approval.

This equality operates through institutional mechanisms rather than rhetoric. Administrative processes are documentation-driven, rule-based and standardised across all investors. Trade registries, tax offices, social security authorities, and regulatory agencies apply the same evidentiary thresholds and procedural steps to domestic- and foreign-owned companies alike.

Predictability arises not from negotiated privileges but from uniform application of statutory criteria.

The result is a legal and administrative architecture in which outcomes depend on evidence, coherence and compliance discipline—not nationality. Türkiye’s integrated digital infrastructure, statutory governance standards and cross-institutional data pathways transform equality from a policy goal into an operational feature of the investment environment. For foreign investors, this architecture provides a reliable perimeter for modelling regulatory risk and designing long-term operating strategies.

For global capital, Türkiye is not merely an open market—it is an open market with a defined institutional architecture. This is what creates measurable investor behaviour, standardised regulatory paths and predictable administrative logic. It is this architecture—not slogans—that constitutes Türkiye’s competitive advantage within its region.

2.1 National Treatment as the Cornerstone of the FDI Regime

In practical terms, foreign-owned entities establish companies through the same procedures as domestic entrepreneurs, acquire real estate under the same general property rules and execute mergers and acquisitions under the same commercial and corporate code provisions. The principle of national treatment is not aspirational; it is structurally operational. Foreign investors undergo the same trade registry processes, comply with the same corporate governance rules, and benefit from the same legal protections as Turkish investors. For real estate investments, title-deed procedures apply through the same core framework, with restrictions focused on designated military zones and strategically sensitive areas. Where special regimes apply,

they are defined transparently in statute rather than through discretionary approvals.

This uniformity transforms investment decision-making. When entry rights, procedural mechanics and ownership structures operate on equal footing, investment outcomes become a function of documentation quality rather than nationality. Equality compresses transaction friction, enhances valuation precision and accelerates deal execution because the regulatory risk premium becomes structurally neutral. Investors are no longer required to navigate informal approval layers or implicit local-partner expectations; the decision tree becomes linear, rule-based and fully benchmarkable against OECD comparators.

The practical effect is a cleaner regulatory perimeter. Investors can model Türkiye with the same analytical frameworks used in advanced jurisdictions—corporate law, tax allocation, governance dynamics, HR compliance and sector-specific licensing—without applying a “foreign investor discount” to regulatory outcomes. This harmonisation elevates Türkiye in regional comparisons, particularly when benchmarked against markets that still rely on negotiation-centric approval mechanisms.

The legal reality is straightforward: Türkiye does not grant privileges to foreign investors; it eliminates disadvantages. Neutrality is the competitive asset. It ensures that foreign capital enters a market defined by equal procedural rights, consistent administrative interpretation, and a compliance architecture in which documentation—not domestic status—determines institutional outcomes.

This equality principle is foundational to the broader investment narrative. It signals to global capital that Türkiye operates with a transparent legal architecture, where predictability is designed into the system rather than delegated to administrative discretion. For long-term investors, this transforms risk pricing, accelerates

transaction timetables and strengthens strategic alignment across the investment lifecycle.

2.2 Market Access: A Liberal and Rules-Based Entry Framework

Türkiye permits foreign participation in virtually all economic sectors. Market entry is liberal, rapid and documentation-driven. Foreign investors do not require pre-screening, foreign investment permits, or political authorisations. Incorporation proceeds through precisely the trade-registry mechanisms used by domestic investors, without an additional approval tier or discretionary gatekeeping. This procedural symmetry aligns Türkiye with jurisdictions that treat incorporation as a rights-based administrative act rather than a negotiated privilege.

Minimum-capital thresholds under the Turkish Commercial Code apply uniformly: TRY 250,000 for joint-stock companies (or TRY 500,000 for entities adopting the registered-capital system) and TRY 50,000 for limited-liability companies. These requirements are structural and nationality-neutral. Türkiye imposes no minimum investment size and no foreign-ownership cap in ordinary commercial sectors, enabling global investors to enter the market without scale-based restrictions or partnership mandates. Apostilled corporate documents or passport translations suffice for incorporation, and trade registries rely on digitised document standards that reduce interpretive variability and ensure uniform treatment across provinces.

Restrictions apply only in sectors where public interest, national security, or specialised regulatory oversight requires licensing—civil aviation, broadcasting, maritime transport, and specific defence-related industries. Even here, limitations typically relate to operational licensing rather than shareholder composition. Regulators supervise activities, not nationality profiles, and

foreign investors regularly hold 100% ownership where sectoral statutes allow.

This screening-free entry model embeds Türkiye within the family of rules-based investment jurisdictions. Investors evaluate Türkiye using the same analytical frameworks applied to advanced markets: sector fundamentals, regulatory burdens, tax architecture, workforce capabilities and operating-cost structures. The absence of political filtering allows capital to price Türkiye using statutory criteria rather than informal expectations.

In practice, foreign investors complete incorporation within days, not weeks. Türkiye's digital trade-registry infrastructure accelerates onboarding, reduces manual intervention and provides a uniform national standard for document verification. These efficiencies compress the administrative friction typically associated with emerging markets, enabling investors to reallocate time and resources to operational planning, treasury integration and early-stage compliance design.

For global capital, Türkiye's market-access regime is structural. Liberal entry rules, documentation-driven procedures and nationality-neutral requirements collectively produce a predictable operating perimeter—one where investment decisions can focus on business fundamentals rather than administrative uncertainty. This predictability strengthens valuation modelling, enhances exit visibility and positions Türkiye as a jurisdiction where market access is not a negotiation but an institutional guarantee.

2.3 Freedom of Capital Movements and Repatriation

Türkiye maintains one of the most liberal capital regimes among major emerging markets. No classical foreign-exchange controls restrict the movement of profits, dividends, loan repayments or liquidation proceeds. Capital flows are governed by banking regulations, prudential standards and tax rules—not by political discretion or administrative approvals. This creates a capital architecture in which repatriation is a rights-based process anchored in transparent statutory mechanisms.

This openness is grounded in Decree No. 32 on the Protection of the Value of Turkish Currency, the primary regulatory framework governing Türkiye's liberal capital-account regime. Under this regime, investors may freely repatriate profits, exit proceeds and intercompany payments, provided they comply with standard banking documentation and AML/KYC protocols. Banks serve as operational checkpoints—not to restrict flows, but to ensure legitimacy, traceability and documentation integrity within the financial system. This transforms banks into compliance intermediaries rather than capital-control agents.

Certain FX-denomination restrictions apply to specific domestic contracts—particularly real estate leases and selected service arrangements—where currency stability objectives require local-currency pricing. These rules, however, regulate contract denomination, not capital movement, and do not affect foreign investors' ability to extract dividends or deploy capital cross-border.

Outbound payments remain subject to withholding tax under corporate tax law, but Türkiye's double-tax treaty network materially reduces the effective burden when beneficial ownership and substance requirements are satisfied. Intercompany flows, including interest, royalties and service fees, operate within

established transfer-pricing and thin-capitalisation frameworks, ensuring transparency without impeding operational flexibility.

For investors, Türkiye's liberal capital regime is a critical component of strategic modelling. The ability to repatriate returns without capital-control uncertainty strengthens exit visibility, supports leveraged-transaction planning and enables multinational groups to integrate Türkiye into global treasury architectures. Private-equity funds and sovereign wealth platforms value this structural clarity because it eliminates the valuation discount typically associated with capital-restricted jurisdictions.

Türkiye's open-capital framework, therefore, acts as a competitive differentiator. Investors can assume that contractual rights to repatriation will be honoured not only legally but operationally—a dual assurance that materially enhances Türkiye's investment profile and positions the jurisdiction as a scalable, liquid and globally interoperable market for long-term capital.

2.4 Protection Against Expropriation and Legal Security

Türkiye's legal system provides strong institutional safeguards against expropriation, discrimination and arbitrary administrative action. These protections originate in the Constitution—particularly Articles 35 and 46—and are reinforced by investment legislation, administrative law doctrine, and consistent judicial practice. Expropriation is permissible only for public interest, requires prompt and fair compensation and must adhere to due-process standards that are tightly defined and judicially reviewable.

These safeguards are not theoretical. Turkish courts and administrative bodies have developed a structured evidentiary doctrine requiring authorities to justify decisions through documented reasoning. Administrative acts must be rooted in

statutory mandates, and courts routinely invalidate measures that lack adequate justification or fail to meet proportionality standards. As a result, outcomes depend on evidence and legality rather than institutional discretion.

Türkiye strengthens this domestic framework through a robust network of bilateral investment treaties that guarantee fair and equitable treatment, protection against unlawful expropriation, non-discrimination, complete security and safety and access to international arbitration. These protections extend the legal perimeter available to investors beyond domestic courts, providing an additional procedural layer against sovereign risk.

ICSID and UNCITRAL arbitration mechanisms offer neutral adjudication fora with enforceability under the New York Convention. ICSID jurisdiction applies only where Türkiye has provided consent through its bilateral investment treaties or through explicit agreement in the relevant instrument, as required under the ICSID Convention's consent-based framework. Where applicable, ICSID awards are directly enforceable in contracting states, insulating investors from domestic-law uncertainties. UNCITRAL and ICC frameworks, meanwhile, remain available for contractual disputes or for hybrid arbitration under BITs.

This dual architecture—constitutional guarantees internally, treaty protections externally—creates a layered legal shield. For investors in regulated or capital-intensive sectors such as energy, infrastructure, telecommunications, industrial operations, or healthcare, these protections materially reduce political risk premiums and support long-duration capital commitments.

Türkiye's legal discipline is particularly relevant in sectors with licensing requirements. Regulatory actions in areas such as energy generation, logistics infrastructure, or telecommunications must follow statutory procedures, maintain transparency, and rely on documented evidence. Judicial review is not deferential in the face of procedural defects; courts regularly test whether authorities

respect statutory boundaries. This consistency reinforces the credibility of Türkiye's administrative architecture.

For global capital, the implication is clear: Türkiye provides a legal ecosystem where rights are enforceable, procedures are transparent, and expropriation standards are tightly controlled. Regulatory and administrative decisions can be challenged, documented and evaluated through predictable mechanisms. This combination of domestic rule-of-law protections and international arbitration pathways forms a comprehensive legal-security regime that materially strengthens Türkiye's investment proposition.

2.5 Documentation-Based Administration and Predictability in Practice

Türkiye's administrative structure operates through a documentation-driven, evidence-based framework across all major institutions. Tax authorities evaluate businesses through filings, e-Defter, e-Fatura and integrated data systems. The Social Security Institution validates employment through digital declarations under Law No. 5510. Customs authorities verify shipments through the Single Window System and the BILGE platform, triangulating declarations, invoices and movement records. Banks function as compliance agents under AML and KYC regulations, verifying documentation before executing transactions.

These systems do not operate in isolation—they form an interconnected institutional network. Coherence between tax, customs and banking datasets is not theoretical; it is operational and continuous. A single transaction generates multiple institutional signals, and the system measures their alignment: POS records must match VAT trails; customs declarations must align with e-Fatura data; payroll filings must mirror banking

outflows. This cross-institutional visibility is the backbone of Türkiye's predictability. It standardises administrative behaviour and replaces discretion with evidence-based interpretation.

For compliant companies, this interlocking architecture reduces regulatory friction. A coherent documentary footprint accelerates VAT refunds, stabilises audit interactions and shortens verification cycles. For companies with weaker documentation, the same architecture amplifies institutional attention—because misalignment becomes traceable across datasets. Türkiye's administrative philosophy is not punitive; it is diagnostic. Institutions respond to documentary coherence or divergence, not to subjective assessments.

Investors benefit directly from the early-warning function this design provides. Because institutions evaluate evidence rather than intent, risks can be identified, quantified and mitigated through documentation discipline. Predictability depends on internal controls: the stronger the documentation architecture, the more stable and frictionless the operational interaction with the state. This environment rewards companies with consistent reporting behaviour, disciplined accounting practices and traceable transaction histories.

The documentation-based structure also enhances the quality of due diligence. Türkiye's digitised ecosystem enables investors to validate revenue integrity, payroll accuracy, cash flow visibility, inventory consistency, and compliance maturity with unusually high precision. This reduces information asymmetry, strengthens governance assessments and accelerates acquisition timetables. In practice, due diligence becomes less exploratory and more confirmatory.

As companies scale, this architecture becomes an operational advantage. Once an investor establishes a documentation-compliant rhythm—VAT cycles, payroll filings, customs alignment, banking verification—the system behaves consistently during

expansions, acquisitions and restructuring. Predictability at scale is one of Türkiye's underappreciated competitive strengths.

This evidence-driven environment transforms administration from a procedural burden into a structural reliability mechanism. It ensures that outcomes depend on objective signals rather than interpretive variability. For investors, this creates a governance perimeter that is transparent, navigable and strategically dependable across the entire investment lifecycle.

2.6 Treaty Networks as Dual Protection: Tax and Investment

Türkiye's international treaty network provides foreign investors with a dual layer of protection—one fiscal, one legal. The country's double-tax treaties reduce withholding tax on dividends, interest and royalties; prevent juridical and economic double taxation; and create structurally predictable channels for cross-border cash flows. These treaties operate within Türkiye's constitutional hierarchy, as international agreements have the force of domestic law under Article 90 of the Constitution. This elevates treaty protections above ordinary statutes and embeds tax predictability directly into the legal architecture.

Substance-based requirements, beneficial-ownership tests and principal-purpose rules apply across the treaty network. Investors must demonstrate functional presence, economic rationale and operational coherence in their holding structures. This aligns Türkiye with OECD standards and ensures that treaty benefits flow to structures grounded in genuine commercial activity. Once these conditions are met, post-tax cash-flow modelling becomes highly reliable across both ordinary commercial and capital-intensive sectors.

Parallel to the tax architecture, Türkiye's bilateral investment treaties—spanning Europe, the Middle East, Central Asia,

Asia-Pacific and beyond—provide substantive and procedural protections against expropriation, unfair treatment, discriminatory measures and arbitrary administrative action. These treaties grant access to international arbitration mechanisms, including ICSID, UNCITRAL and ICC, providing investors with a neutral forum insulated from domestic political dynamics. BITs therefore function as a sovereignty-neutral dispute-resolution channel, complementing domestic legal remedies and reinforcing the enforceability of investor rights.

The interaction between double-tax treaties and bilateral investment treaties creates a combined protective framework that is both forward-looking and defensive. The tax-treaty layer ensures efficient cash extraction, branch profit allocation, intercompany pricing and dividend planning. The investment-treaty layer safeguards against adverse state action, regulatory inconsistency and discriminatory treatment. Together, they form a dual shield—one affecting cash-flow efficiency, the other institutional security.

For global investors, this architecture is strategically meaningful. It allows Türkiye to be evaluated not only as a standalone market but as a treaty-anchored jurisdiction within global investment structures. Fund managers and multinational groups can build treasury flows, financing chains, IP allocations, shared-service hubs and holding structures with a high degree of legal and fiscal certainty.

Few emerging markets combine scale, openness and a treaty network of this breadth. Türkiye's dual-treaty ecosystem therefore operates as both a risk-reduction framework and a structural enhancement to long-term investment returns.

2.7 Post-Establishment Notifications and Administrative Philosophy

Türkiye's foreign-investment regime is characterised by openness at entry and minimal bureaucratic burden afterwards. Investors must complete post-establishment reporting through the E-TUYS electronic platform, including notifications regarding shareholding structure, capital contributions and investment progress. Annual activity reports and share-transfer notifications ensure that institutional records remain current and that the state maintains visibility over investment trends without interfering in operational decision-making.

This system reflects Türkiye's administrative philosophy: transparency without intervention. Notifications are not approval mechanisms; they do not grant permissions, impose conditions or require evaluative discretion. Instead, they serve as structured reporting tools that allow policymakers to monitor the investment landscape, measure sectoral dynamics and maintain a coherent statistical framework. The absence of post-entry approval layers reinforces the principle that investment rights are statutory, not contingent.

Despite this light-touch structure, accuracy in reporting is essential. Because Türkiye's institutional architecture is digitally interconnected—linking tax records, trade-registry data, banking flows and social-security filings—any inconsistency in E-TUYS notifications can trigger verification requests or automated cross-checks. A share-transfer notification, for example, may interact with corporate tax filings, trade registry changes, and bank-level KYC updates. The system does not penalise investors for reporting per se; it simply expects coherence across datasets.

This design elevates documentation discipline into the operational centre of investment management. Foreign investors operating through multi-entity structures, layered shareholding chains or staggered capital injections must ensure precise alignment

between legal documentation and E-TUYS entries. When this alignment is maintained, Türkiye's administrative environment remains exceptionally predictable, with low compliance friction and limited supervisory intervention.

The overall regime produces a balanced governance dynamic: Structural freedom for investors, systemic visibility for institutions.

Türkiye achieves this without the heavy licensing, periodic renewal, or political screening mechanisms still standard in many emerging markets. Investors retain complete autonomy in corporate strategy, financing, governance and reorganisation, while the state maintains a panoramic view of the investment ecosystem through standardised, data-driven reporting.

This equilibrium strengthens investor confidence. It ensures that Türkiye's liberal entry framework is matched by a post-entry environment where compliance is straightforward, digitalised and non-intrusive, and where predictability arises from stable institutional design rather than administrative negotiation.

2.8 Dispute Resolution and Access to Justice

Foreign investors have full access to Türkiye's judicial system and commercial courts. As a civil-law jurisdiction, Türkiye relies heavily on statutes, codified principles and documentary evidence rather than precedent. This makes documentation quality, contractual clarity and evidentiary preparation central to successful dispute management. Procedures under the Code of Civil Procedure impose strict timelines, mandatory documentation standards and defined stages of adjudication, producing consistent and predictable outcomes in commercial disputes.

Commercial courts in Türkiye are presided over by judges specialised in commercial law, corporate disputes, and financial

matters. Their decision-making is structured around statutory interpretation and documentary coherence, not subjective discretion. This creates a judicial environment where outcomes can be modelled, risks quantified, and litigation strategies aligned with clear procedural expectations. For investors accustomed to discretionary court behaviour in some emerging markets, Türkiye's documentary and procedural discipline offers a materially different governance dynamic.

Beyond domestic litigation, investors may utilise arbitration mechanisms. Domestic institutions—such as ISTAC and TOBB—provide expedited procedures, emergency arbitrator mechanisms and enforceable awards under Türkiye's Arbitration Law. ISTAC, in particular, has become a preferred forum for cross-border disputes due to its efficiency, modern rules, and seamless integration with international arbitration frameworks.

International arbitration remains a core component of Türkiye's investment-protection architecture. ICC, UNCITRAL and ICSID mechanisms provide neutral fora with enforceability under the New York Convention. ICSID, where consent exists, offers direct enforceability without recourse to domestic courts, insulating investors from potential jurisdictional complexities. UNCITRAL and ICC arbitration allow flexible procedural design, well-suited to joint ventures, M&A transactions, shareholder agreements, and long-term infrastructure contracts.

The availability of these multiple channels—commercial courts, domestic arbitration and international arbitration—gives investors the ability to tailor dispute-resolution clauses to sectoral realities, counterparty profiles and transaction structures. This flexibility enhances deal certainty, supports complex contractual frameworks and ensures enforceability across borders.

For investment committees, these mechanisms materially reduce legal-governance risk. Türkiye's blend of statutory clarity, documentation-focused adjudication, and multi-tier arbitration

access creates a stable environment in which contractual and property rights are enforceable through credible, predictable, and internationally recognised processes. This legal infrastructure—when combined with the broader equality and documentation principles—reinforces Türkiye’s position as a defensible, stable and strategically reliable investment jurisdiction.

2.9 Managerial Control, Employment Rights and Corporate Governance

Türkiye imposes no nationality-based restrictions on the appointment of directors, senior managers or executives in ordinary commercial companies. Foreign directors may hold full signatory authority, exercise operational control and assume fiduciary responsibilities without the need for Turkish intermediaries. This reflects a governance model based on structural equality, not implied local-partner requirements, informal quotas or nationality-based supervisory filters.

Work permits for foreign employees are governed by the International Labour Force Law No. 6735, which operates through a rules-based scoring system rather than discretionary evaluation. The criteria—educational background, professional experience, company size, capital structure and sectoral relevance—form a structured compliance matrix that allows investors to anticipate outcomes. Türkiye’s system is designed to balance labour-market integrity with the needs of international business, not to restrict managerial autonomy or foreign strategic control.

Corporate governance obligations apply uniformly to both foreign- and domestically owned companies. Joint-stock companies operate through boards with statutory responsibilities defined under the Turkish Commercial Code, including non-delegable duties, fiduciary obligations, decision-making thresholds and clear liability parameters. Limited liability companies operate

through managers or authorised representatives, whose powers and responsibilities are defined by articles of association, board resolutions, and trade-registry records. These governance frameworks are fully compatible with multinational group structures and do not require localisation or modification to accommodate foreign ownership.

Sector-specific governance requirements—banking, capital markets, insurance, telecommunications, energy—apply based on activity, not nationality. Regulatory agencies evaluate competence, financial adequacy, operational capability and compliance maturity. A foreign-owned entity must satisfy the exact prudential and operational requirements as a domestically owned one. This uniformity strengthens predictability and aligns Türkiye’s governance model with OECD best practices.

For multinational groups, this architecture reduces onboarding friction and integration risk. Foreign headquarters can deploy global governance frameworks—such as internal audit, compliance structures, risk committees, ESG programmes, and treasury controls—into their Turkish subsidiaries without structural adjustment. Foreign executives can hold complete control over decision-making, signatory authority, treasury operations, strategic execution and compliance oversight.

This clarity carries operational implications. It shortens the timeline for establishing governance infrastructure, facilitates rapid post-acquisition alignment and reinforces deal certainty by eliminating hidden nationality-based constraints. For investors designing regional headquarters, shared-service centres or treasury hubs, Türkiye’s governance environment provides the institutional neutrality needed to coordinate multi-jurisdictional operations efficiently.

Türkiye’s approach is consistent and deliberate: foreign investors are treated as corporate actors, not as special categories requiring exceptional regulation. This neutrality anchors operational

freedom, aligns administrative expectations with global standards and enhances Türkiye's attractiveness as a scalable, managerially autonomous investment jurisdiction.

2.10 A Foreign-Investment Regime Based on Equality, Predictability and Institutional Discipline

Foreign investors consistently report that Türkiye's investment environment becomes significantly more predictable once they internalise its underlying logic. Equality is structural, not conditional. The regime is rules-based rather than discretionary. Administration is anchored in documentation, reducing ambiguity and aligning outcomes with evidence. Capital movement is liberalised, enabling transparent and reliable exit strategies. Dispute-resolution mechanisms—both domestic and international—provide enforceable pathways insulated from political dynamics. Regulatory agencies apply statutory criteria through standardised procedures, ensuring that compliance discipline, not nationality, determines outcomes.

Crucially, Türkiye does not require foreign investors to obtain special approvals, negotiate political clearances or partner with local shareholders in ordinary commercial sectors. The absence of hidden ownership expectations, informal screening or unwritten policy norms eliminates the uncertainty premiums that frequently distort investment decisions in peer jurisdictions. Türkiye's neutrality is deliberate: it positions the investor within the system, rather than outside or adjacent to it.

This neutrality extends beyond incorporation. Documentation requirements apply uniformly; tax rules follow the same evidentiary standards; employment rights reflect the same statutory obligations; and incentive regimes treat foreign and domestic applicants identically. The coherence of this architecture

means that institutional behaviour can be modelled through statutory logic rather than interpersonal negotiation. Governance risk becomes quantifiable, regulatory timelines become predictable, and operational planning becomes structurally stable.

For global capital, this alignment creates an environment where long-term decisions can be made with clarity. Investors can integrate Türkiye into multi-jurisdictional strategies—regional headquarters, supply-chain nodes, treasury hubs, R&D centres—without imposing jurisdiction-specific governance layers. Türkiye’s predictability is not passive; it is engineered through decades of legislative development, digitalisation and harmonisation with international standards.

The system treats foreign investors as full participants in the market, not as exceptional cases requiring bespoke oversight. The resulting investment environment is commercially grounded, transparent and operationally reliable.

This chapter demonstrates that Türkiye’s foreign-investment regime is a product of institutional discipline rather than policy marketing: equality embedded in statute, predictability reinforced through documentation, and governance matured through cross-institutional coherence. These elements combine to form the strategic foundation on which foreign investors can build durable, scalable and regionally integrated operations.

Türkiye’s foreign-investment regime establishes equality, liberal capital mobility and documentary certainty as the structural foundations of market access. Once these principles are internalised, the investor’s next strategic decision is not operational but architectural: identifying the legal form that can translate these rights into a coherent, institutionally aligned presence within Türkiye’s data-driven system.

Legal form is the first signal the investor sends into Türkiye's institutional architecture. It determines how the company is perceived by tax authorities, social security institutions, banks, regulators, and counterparties. It defines visibility, documentation density, governance posture, liability allocation and the rhythm through which the business will interact with the state. In a jurisdiction where outcomes are shaped by data consistency and behavioural coherence, the choice between a subsidiary, branch or liaison office is not merely an incorporation formality—it is a structural alignment decision.

The next chapter moves from the macro-architecture of equality and access to the micro-architecture of institutional positioning. It explains how each legal form interacts differently with Türkiye's compliance cycles, tax structures, reporting obligations and operational visibility. It also shows how these differences influence due diligence, valuation, treasury strategy and exit planning. Structure determines not only tax posture but visibility, dataset density and institutional interpretation—variables that become decisive from Day One.

Chapter 3, therefore, marks a shift from understanding Türkiye's investment regime to designing the organisational vehicle that can operate effectively within it. The question is no longer "What rights does an investor have in Türkiye?" but "Which legal structure best expresses those rights in a system built on documentation, rhythm and institutional coherence?"

CHAPTER 3

LEGAL FORMS FOR MARKET ENTRY IN TÜRKİYE: SUBSIDIARIES, BRANCHES AND LIAISON OFFICES

Selecting a legal form in Türkiye is a strategic architecture decision—one that calibrates visibility, tax posture, operational credibility and the organisation's long-term alignment with the country's institutional rhythm.

“In Türkiye, legal form is not an incorporation choice—it is the investor's first institutional signal.”

Choosing a legal form in Türkiye is not an incorporation formality; it is a structural decision that determines an investor's tax position, visibility and long-term operational credibility. A subsidiary (limited or joint-stock company) is a separate legal entity under Turkish law. A branch, by contrast, has no separate legal personality; it is legally part of the foreign parent. This distinction produces meaningful differences in liability allocation, regulatory treatment, capitalisation rules and banking relationships. Despite lacking a separate legal personality, a branch is nevertheless a full corporate-income taxpayer in Türkiye and is taxed on Türkiye-sourced income, making its tax obligations functionally similar to those of a subsidiary.

Subsidiaries also provide structurally cleaner exit pathways, as share transfers can be executed efficiently, whereas a branch requires a formal liquidation procedure that often extends exit timelines.

This structural choice becomes even more consequential in Türkiye because institutions—banks, regulators, landlords, sectoral authorities and commercial counterparties—respond differently to each form. Legal identity acts as a practical signal. Subsidiaries are generally perceived as more permanent and capital-committed, which tends to facilitate operational integration such as opening bank accounts, onboarding suppliers or completing licensing processes. Branches, although fully recognised under Turkish law, often trigger additional documentation requests or heightened KYC expectations due to their direct link to the foreign entity. Banks may require more extensive parent-company documents for branches, including financial statements, resolutions and, in some cases, capital or deposit undertakings, reflecting the higher compliance burden associated with non-separate entities.

Liaison offices stand apart. They are temporary, non-commercial presences and are legally prohibited from generating revenue or conducting commercial transactions. Institutions treat them purely as administrative representations with limited contracting capacity, limited banking capability and a sharply defined functional perimeter.

In essence, the choice of legal form in Türkiye is not merely a statutory classification. It is a signalling mechanism—one that shapes institutional perception, operational onboarding, compliance rhythm and long-term scalability.

3.1 The Strategic Logic of Selecting a Market Entry Vehicle

Türkiye's regulatory framework classifies corporate presence into three legally distinct forms: a subsidiary operates as an autonomous legal person; a branch functions as an extension of the foreign parent; and a liaison office serves as a strictly non-commercial representation.

These distinctions determine the investor's ability to contract, hire employees, issue invoices, import or export goods, obtain financing, repatriate profits and ultimately exit the market. They also define each entity's tax posture: both subsidiaries and branches are corporate-income taxpayers under the Corporate Tax Law. At the same time, liaison offices remain outside the corporate tax and VAT system so long as they stay within their authorised non-commercial scope.

For investors, the Day One choice locks in the entity's operational cadence and cross-institutional visibility. Subsidiaries produce their own statutory accounts and sit cleanly in global consolidation frameworks. Branches keep Türkiye within the parent's perimeter, simplifying control but increasing the documentation burden for banking, tax attribution and compliance. Liaison offices enable controlled market testing without entering Türkiye's full corporate tax and VAT monthly compliance rhythm.

This sequencing—liaison office → branch or subsidiary → operational scale-up—is one of the most common entry paths. It aligns regulatory certainty, commercial traction and capital allocation with the structural obligations of each form.

Ultimately, the legal form chosen determines not only how the business operates in Türkiye but also how Türkiye appears within the investor's global-governance and reporting architecture.

3.2 Subsidiaries: Joint Stock Companies (A.Ş.) and Limited Liability Companies (Ltd.)

A subsidiary is the most robust and scalable entry vehicle. Foreign ownership is unrestricted in ordinary commercial sectors, and both A.Ş. and Ltd. structures provide full commercial capacity. Minimum capital stands at TRY 50,000 for Ltd. and TRY 250,000 for A.Ş. (or TRY 500,000 for A.Ş. adopting the registered-capital system). In practice, market norms generally exceed these baselines to signal financial depth and strengthen banking credibility.

No local-partner requirement exists. No nationality restrictions apply. Governance can be aligned with group-level norms. Banks and regulators generally expect one locally resident signatory for administrative ease—an expectation, not a statutory rule.

Subsidiaries enter Türkiye's monthly compliance rhythm immediately: VAT filings, withholding tax and SGK submissions, e-Defter postings, temporary-tax filings and mandatory e-documentation. This cycle reinforces institutional visibility and serves as an early indicator of behavioural discipline.

3.2.1 Legal Identity and Shareholding Structure

Both A.Ş. and Ltd. can be incorporated with a single shareholder, domestic or foreign. Once incorporated, the subsidiary becomes a separate legal person capable of contracting, owning assets, employing staff, entering regulated sectors and participating in public tenders.

Foreign investors frequently layer ownership through international holding companies (Luxembourg, Netherlands, UAE, UK). Türkiye allows these structures seamlessly, requiring only UBO disclosures under MASAK transparency rules—procedural rather than restrictive.

3.2.2 Minimum Capital Requirements and Practical Expectations

While statutory minimums exist, market practice requires higher capitalisation—often in the TRY 2–15 million range for manufacturing, logistics, wholesale, energy or technology. Subsidiaries with insufficient capital frequently experience delays in banking, VAT refunds, customs processes and interactions with auditors. Sector-specific regulators (energy, fintech, financial institutions) impose materially higher capital thresholds.

Across institutions, capital is read as a signal of seriousness, stability and governance quality.

3.2.3 Governance Design and Operational Flexibility

A.Ş. entities support board-centric governance. Ltd. entities operate through managers with more flexible structures. Sector expectations, internal controls and group-level reporting generally guide the choice.

3.2.4 Tax and Exit Considerations

Subsidiaries are independent CIT taxpayers. Dividends to foreign shareholders are subject to withholding tax—often reduced under treaties. Exit is structurally clean: share transfers, SPA drafting, due diligence and valuation all flow through parent-level share-sale processes. Many treaties reduce or eliminate Türkiye’s taxing rights on share-sale gains, reinforcing subsidiaries as the optimal long-horizon vehicle.

3.3 Branch Offices: Commercial Presence Without Separate Legal Personality

A branch enables commercial activity while remaining legally indistinguishable from the foreign parent. This creates both simplicity (centralised control, consolidated reporting) and exposure (parent-level liability, enhanced documentation scrutiny).

Professional service firms, EPC contractors, engineering groups and project-based operators frequently rely on branches to maintain direct accountability to their parents.

3.3.1 Legal Nature and Operational Scope

Despite lacking a separate personality, a branch may issue invoices, employ staff, import/export goods and enter commercial contracts. Counterparties expect broader documentation, including parent resolutions, audited financial statements, residency certificates and UBO filings.

3.3.2 Capitalisation and Banking Expectations

Branches have no statutory capital, yet banks expect “allocated capital” to evidence financial substance. Expectations vary by sector, but engineering, construction, and manufacturing support branches typically face higher requirements.

A locally resident authorised representative (mümessil) is effectively mandatory in practice for signatory and compliance functions.

3.3.3 Tax Exposure and Profit Attribution

Branches are taxed on Türkiye-attributable profits. Profit remittances are subject to a branch profit tax (treated as dividend withholding tax) at 15%, reduced under many treaties. Transfer-

pricing rules apply heavily because all branch–head-office flows are related-party dealings.

Audit scrutiny focuses on segmentation of Türkiye-source income, allocation keys, HQ-fee justifications and documentation coherence.

3.3.3.1 Evidence-Based Attribution Standards

Türkiye applies OECD-aligned PE principles but emphasises contemporaneous evidence—workflow approvals, project documentation and managerial involvement. Attribution models unsupported by operational reality are treated as red flags.

3.3.4 Exit Dynamics

Branch closures require tax-office deregistration, final filings and limited-scope inspections. No share-transfer mechanism exists, limiting strategic exit optionality. Residual profits are subject to branch-profit tax unless treaty relief applies.

Branches excel at project-based, HQ-controlled operations but are rarely used for scalable, multi-phase investment strategies.

3.4 Liaison Offices: Representation Without Commercial Activity

Liaison offices operate under a strictly non-commercial mandate authorised by the Ministry of Industry and Technology. They may conduct preparatory and auxiliary activities—market assessments, supplier mapping, coordination—but cannot sell, contract or invoice. Permits are typically issued for up to three years and may be renewed depending on the activity.

Liaison offices suit early-stage intelligence gathering. They remain outside CIT and VAT but are subject to payroll taxes and

SGK obligations—deviations from the non-commercial scope trigger retroactive taxation and potential penalties.

3.4.1 Legal Scope and Regulatory Supervision

Authorities examine job descriptions, correspondence patterns, transaction flows and annual reports to confirm non-commercial activity. Renewal requires narrative and documentary evidence of continued compliance.

3.4.2 Capitalisation and Funding Mechanics

No capital requirement exists. All expenses must be funded from abroad. Banks treat liaison accounts as structurally low-risk but require clear foreign-source documentation.

3.4.3 Strategic Use

Liaison offices enable phased entry, talent assessment and regulatory familiarisation. They provide visibility without triggering Türkiye's monthly compliance rhythm, but cannot evolve into commercial entities without complete re-registration.

3.5 Strategic Comparison and Decision Framework

- A subsidiary offers permanence, scalability, bankability, regulatory access, financing flexibility and clean exit routes.
- A branch offers centralised oversight, consolidated control and direct parent accountability but limited exit mobility and higher documentation sensitivity.
- A liaison office offers low-risk visibility, operational intelligence and early-stage positioning without a tax or VAT footprint.

Strategic choice defines tax posture, capitalisation expectations,

institutional visibility, documentation obligations, compliance rhythm and long-term scalability.

3.6 Designing for Growth, Compliance and Exit from Day One

The market-entry structure is the architectural anchor for Türkiye's entire investment lifecycle. Subsidiaries support exit engineering, treaty optimisation and complex governance. Branches support parent-driven control models. Liaison offices support exploratory phases with minimal compliance burden.

Aligning the structure with capitalisation, treasury design, tax positioning and global-governance architecture allows Türkiye to function as a stable, scalable component of international operations.

Institutional Onboarding and Visibility Architecture. The choice of legal form is only the first architectural act. Once the entity enters Türkiye's institutional orbit—tax administration, social security, banking, customs and sectoral regulators—it is no longer the legal form alone that shapes outcomes, but the quality of visibility within these systems.

Türkiye's operating environment is defined by documentation, consistency and institutional memory. The structure chosen in Chapter 3 becomes meaningful only after it encounters the realities of onboarding, compliance sequencing and cross-institutional data alignment.

Chapter 4 explains this moment of institutional entry. It examines how entities become legible to the state, how onboarding creates the company's first compliance footprint and how early documentation quality influences long-term regulatory

behaviour. With this transition, the focus shifts from the architecture of presence to the architecture of visibility—the core determinant of predictability in Türkiye’s rules-based ecosystem.

CHAPTER 4

INSTITUTIONAL ONBOARDING, REGULATORY TOUCHPOINTS & COMPLIANCE ARCHITECTURE FOR FOREIGN INVESTORS

Institutional onboarding in Türkiye is a high-velocity integration process in which corporate identity, documentation integrity and cross-system coherence determine how quickly a foreign investor becomes operational within the country's regulatory grid.

“In Türkiye, institutions do not react to intentions—they respond to the documentary footprint you create.”

Entering Türkiye's institutional ecosystem requires navigating interconnected systems—trade registry, banking, tax, MASAK, social security, customs and sectoral regulators—all unified by a shared logic of documentation, digital traceability and internal coherence. Türkiye's administrative landscape has evolved into a cross-verified, multi-institutional grid: tax inspections flow through e-audit platforms; social security registrations are fully electronic; banks conduct MASAK-driven risk assessments via digital interfaces; and inter-agency systems cross-check corporate identity, capital, UBOs, activity profiles and transactional behaviour in real time.

Institutional onboarding is, therefore, the natural progression after selecting a legal form. It is the moment when the entity enters Türkiye's cross-institutional visibility spine—not through declarations or strategic plans, but through timestamped filings, corporate records, contractual documentation and transaction

data. When these elements align, Türkiye's institutional machinery moves quickly, predictably and consistently. When they diverge, the system deliberately slows to protect the integrity of the regulatory architecture.

Because of this logic, the chosen legal form directly influences onboarding complexity: subsidiaries generally achieve the fastest KYC and AML clearance; branches undergo deeper verification because their identity flows from the foreign parent; liaison offices—while low-risk—operate under a narrower banking and compliance envelope due to their non-commercial mandate. Türkiye's administrative design increasingly relies on cross-institutional data harmonisation. Inconsistencies between MERSİS, tax registrations, SGK data, UBO filings or banking KYC records are automatically flagged, generating institutional friction long before any subjective assessment is made.

This chapter explains how foreign investors enter this ecosystem, how institutions interpret structural choices and how a sustainable compliance architecture is built from day one.

4.1 Trade Registry: Corporate Legitimacy and the Documentation Spine

The Trade Registry is the first institution that records, verifies and legitimises the corporate identity of a foreign investor. Filings are processed through MERSİS, Türkiye's centralised digital registry, which eliminates discretionary variation between offices by relying on standardised forms, embedded verification fields and cross-checking logic that aligns corporate records with downstream institutions.

Türkiye's registry officers increasingly examine alignment between the declared activity scope and the parent entity's authorised fields, mainly when the parent company's articles include unusually broad or ambiguous purpose clauses. Where

the parent is incorporated in jurisdictions with limited public transparency, Registry officers routinely insist on apostilled incumbency documents, shareholder lists or ultimate parent confirmations. These requests are not discretionary; they reflect the need for a clear corporate lineage before the entity becomes visible to the wider administrative system.

For subsidiaries, onboarding is streamlined when the incorporation file presents a coherent picture—paid-in capital, UBO identity, governance authority, signatory hierarchy and corporate purpose must narrate the same factual structure. Any ambiguity here reverberates downstream: banks, tax offices, SGK and sectoral bodies all rely on the Registry data as the authoritative anchor of corporate identity.

Branches remain subject to deeper scrutiny because the Registry must ensure that the parent company has expressly authorised the establishment of a Turkish branch. Apostilled board resolutions, certified signature authorities and fully traceable ownership chains are mandatory. Where the parent is in jurisdictions with opaque public registries (e.g., BVI, Delaware LLCs without public registries), the Registry frequently escalates review and requests supplementary documentation.

Liaison office permits, granted by the Ministry of Industry and Technology, follow a different workflow but still meet the exact expectations: clarity, traceability and documentary precision. Renewal cycles increasingly focus on whether the office remains strictly within the permitted non-commercial scope. Authorities now frequently examine email patterns, job descriptions and bank account movements when evaluating renewal requests.

Additionally, for specific operating models—such as co-working spaces or virtual-office arrangements—Registries and tax offices may request evidence demonstrating the suitability of the premises for the declared activity. This practical concern

reflects Türkiye's shift toward aligning documentary claims with operational plausibility.

Local municipal requirements (workplace-opening notices, signage regulations, zoning confirmations) follow the Registry process and form part of the documentation spine that other institutions consult during audits and licensing assessments.

4.2 Banking Onboarding: KYC Depth, Risk Profiling and Operational Capacity

Banks serve as the operational gateway to Türkiye's economy. Their KYC, AML and transactional capacity assessments determine how—and how quickly—a foreign investor becomes operational. In Türkiye's compliance architecture, banks effectively serve as secondary regulators: every capital injection, shareholder loan, intercompany charge, import payment, dividend distribution, or FX remittance must pass through bank-controlled verification before reaching any other institution.

For subsidiaries, banks interpret paid-in capital as a behavioural signal of seriousness and operational readiness. MERSİS alignment is critical: discrepancies in authorised signatories, capital documentation or shareholder identity automatically trigger enhanced review.

Branches face the heaviest scrutiny because banks must understand both the local operation and the financial standing of the foreign parent. Annual KYC refresh cycles for branches are rigorous. Parent-company financials, governance, UBO pedigree and AML records are reassessed each year.

Liaison offices operate in a narrower channel: their banking activity is limited to foreign-funded expense flows. Any domestic incoming transfer, customer-like payment or revenue-pattern

transaction is flagged immediately and can trigger MASAK reporting or compliance inquiries.

In addition to MASAK requirements, all cross-border transactions must comply with the Central Bank's Balance of Payments (BOP) coding discipline. Banks must assign an economic-purpose code to each transfer, and mismatches between BOP codes, invoices, contracts or tax filings can delay execution. This coding architecture is now one of the most sensitive components of Türkiye's cross-border compliance environment.

Banks also apply algorithmic behavioural monitoring: repeated low-value payments without a clear commercial rationale, inconsistent intercompany flows or unaligned funding patterns may trigger enhanced due diligence even in low-risk structures.

Across all forms, banking integration becomes a proxy for institutional credibility. A coherent KYC package accelerates operational capacity across the entire ecosystem.

4.3 Tax Authority Interface: Registration, Inspection and Nexus Formation

Tax registration forms the backbone of Türkiye's institutional visibility grid. Subsidiaries and branches undergo VUK "yoklama" inspection, during which inspectors verify not only the address and signatory authority but also the operational plausibility of the declared activity.

Where the declared activity involves manufacturing, engineering, procurement, software development or any activity requiring tangible operational capacity, tax offices increasingly scrutinise the suitability of premises. Home-office setups, co-working arrangements or virtual offices may be challenged during yoklama if the activity profile requires physical infrastructure.

Branches are subject to additional scrutiny because taxable

income must be attributed exclusively to Türkiye. Transfer-pricing alignment and attribution methodologies are often requested early—even before substantial revenue emerges.

Liaison offices interact with the tax system only through payroll obligations, yet the behavioural threshold distinguishing preparatory work from commercial activity has tightened. Email patterns, meeting attendance, staff roles and customer communications are now evaluated in PE disputes.

Türkiye's tax-audit infrastructure now operates through algorithmic, cross-system verification: e-Fatura, e-Defter, payroll filings, customs data and selected banking records are automatically matched. Inconsistency—not industry or size—is the primary risk trigger.

4.4 UBO, Signatory Structure and Work-Permit Implications

UBO filings under MASAK Communiqué No. 554 and the 2021 UBO Communiqué must align with MERSİS, banking KYC and tax registrations. Multi-layered structures face heightened scrutiny but are not restricted if UBO clarity is maintained.

Work-permit obligations for foreign directors depend on the nature of physical presence. Subsidiaries and branches are not required to appoint local directors, though banks often expect at least one resident signatory for continuity.

Liaison offices use a specialised work-permit track consistent with their non-commercial scope, and the repeated physical presence of foreign directors in Türkiye may create de facto expectations even in the absence of a statutory trigger.

4.5 MASAK and AML Interaction: Behavioural Core of Institutional Trust

MASAK operates through banks, tax offices and financial institutions rather than as a standalone checkpoint. Every cross-border payment—capital, loan, fee, dividend or reimbursement—is evaluated under AML filters.

Turkish banks increasingly use behavioural anomaly-detection systems—algorithmic tools that flag unusual frequency, amount, timing or counterparty patterns. Even low-value intra-group transactions may be flagged if they deviate from the declared economic rationale.

MASAK's regime rewards entities that maintain coherent economic narratives, documented group policies, clear transfer-pricing rationales and stable funding patterns.

4.6 Permanent Establishment and Nexus Risk Mapping

While Türkiye applies OECD-aligned PE principles, certain treaties—particularly those with Germany, Austria and France—permit multi-year aggregation of service days or project activity when assessing PE formation. This creates a cumulative risk profile for rotating personnel, even where individual visits remain below threshold.

Subsidiaries eliminate ambiguity by establishing an undeniable taxable presence. Branches must justify attribution of profits to Türkiye. Liaison offices remain the most sensitive from a behavioural perspective: any drift into sales-linked or commercially determinative roles may trigger retroactive PE classification.

4.7 Documentation Burden and Compliance Load by Entity Type

Subsidiaries, branches and liaison offices each shoulder different compliance loads, yet all operate within Türkiye's documentation-first environment.

Under the e-Defter regime, monthly berat uploads, XML schema integrity and timestamp coherence are critical audit triggers. Even minor discrepancies in berat sequencing can prompt desk audits, reflecting the system's forensic design.

Entities frequently fall within the e-Fatura system depending on turnover thresholds, making digital recordkeeping not an exception but the operational norm.

4.8 Onboarding in Licensed Sectors

Sectoral regulators—including the Central Bank (CBRT), the Banking Regulation and Supervision Agency (BRSA), the Energy Market Regulatory Authority (EPDK) and the Information and Communication Technologies Authority (BTK)—operate specialised licensing frameworks that override the general corporate regime.

For payment and e-money institutions, the Central Bank requires demonstrable operational continuity, including a locally maintained technology environment and 7/24 technical-response capability. Similarly, BTK licensing frameworks require the physical presence of network operations centres (NOCs) capable of ensuring service continuity within Türkiye.

Specific financial and quasi-financial industries (factoring, leasing, insurance, consumer finance) require shareholder approval and detailed suitability assessments. These markets

operate under continuing supervisory relationships that involve periodic reporting, on-site inspections and prudential monitoring.

4.9 Building a Unified Compliance Architecture

The first operational year in Türkiye follows a predictable rhythm: incorporation, tax registration and *yoklama*, SGK workplace registration, VAT activation, e-Fatura and e-Defter onboarding, monthly VAT and withholding filings, quarterly advance CIT submissions and continuous AML visibility. Each layer builds on the previous one.

Türkiye's administrative environment rewards alignment over improvisation.

When Registry records, bank KYC files, tax filings, SGK declarations, MASAK visibility and sectoral licensing all narrate the same factual story, institutions respond with remarkable predictability. When these elements diverge, the system slows—not punitively, but to protect its internal coherence.

A unified compliance architecture enables foreign investors to operate with stability, transparency and long-term institutional credibility. Türkiye's institutions now place decisive weight on cross-verified digital identity; when governance, authority chains, shareholder data and activity profiles align, the administrative ecosystem becomes an enabler rather than a constraint.

Türkiye's institutional ecosystem recognises entities through documentation, yet it understands them through people. Once the corporate architecture is registered, banked, verified and integrated into the tax and AML grid, the next institutional layer activates: the labour-market interface.

Workforce onboarding marks the point where the entity's

operational reality becomes visible to Türkiye's regulatory system. Employment contracts, SGK registrations, payroll flows, workplace notifications, job-role classifications and wage-tax compliance form the human layer of institutional identity. In Türkiye's administrative logic, these records carry the same evidentiary weight as corporate filings—they are timestamped, cross-checked and used to assess whether the business's declared activity profile aligns with its actual behaviour.

By this stage, Türkiye no longer evaluates the investor as a legal entity but as an operational actor participating in its institutional rhythm.

If incorporation establishes the entity's legal identity and onboarding positions it within Türkiye's regulatory infrastructure, then workforce integration is the moment where the entity acquires operational substance. From this point onward, Türkiye measures not only how the company is structured, but how it operates.

Chapter 5 explains how Türkiye's employment ecosystem functions, how institutions assess workforce composition and how foreign investors can build a compliant, scalable and operationally resilient human-capital architecture from day one.

CHAPTER 5

CAPITAL STRUCTURE & CROSS-BORDER FINANCING MODELS IN TÜRKİYE

Capital structuring in Türkiye is not a mechanical funding choice; it is an institutional behaviour profile that calibrates credibility, visibility, treasury integration and long-term resilience in the eyes of every regulator and bank in the system.

“In Türkiye, capital is never just money—it is the first narrative your balance sheet tells to the institutions watching it.”

Capital in Türkiye operates as both a regulatory signal and a strategic tool, shaping credibility, banking alignment and long-term operational resilience. Institutions respond directly to the investor’s capital posture. Paid-in capital is interpreted as a signal of permanence, financial resilience and risk tolerance. Intercompany loans offer treasury flexibility but must be backed by defensible transfer pricing, clear economic rationale and transparent funding trails that satisfy MASAK’s AML standards. Hybrid structures permit calibrated risk allocation, yet their treatment depends on accurate characterisation under both Turkish accounting standards and tax rules. Regardless of form, all capital inflows pass through the banking system and are scrutinised under Türkiye’s AML and KYC framework, ensuring complete visibility regarding the source of funds, pricing logic and ultimate beneficial ownership.

Türkiye’s environment rewards clarity: when the economic logic

of equity, debt, or hybrid capital is well documented and internally consistent, institutions process onboarding and financing transactions quickly. When documentation is ambiguous or misaligned, the system slows down—by design. This chapter outlines the logic of funding of market entry into Türkiye, covering equity structuring, intercompany lending norms, thin-capitalisation rules, transfer-pricing requirements for financial transactions, hybrid capital instruments and the FX environment that shapes all cross-border funding.

5.1 Capital as a Strategic Signal

Capitalisation is the first meaningful signal a foreign investor sends to Türkiye's institutional ecosystem. A well-capitalised entity is immediately perceived as serious, resilient and prepared for long-term engagement. Banks interpret paid-in capital as evidence of commitment and financial strength; suppliers and landlords read it as a proxy for stability; regulators view it as the foundation upon which compliance discipline will be built. A strong equity base facilitates foreign-currency operations, accelerates banking onboarding and enhances institutional trust across the board.

Intercompany debt—particularly from group treasury centres—adds flexibility. It enables calibrated liquidity management, supports working-capital cycles and allows investors to adjust financing structures as operations evolve. Hybrid instruments, when structured and documented correctly, provide additional refinement by balancing risk allocation, governance rights and treasury strategy.

Türkiye's compliance environment—anchored in monthly VAT returns, withholding declarations, e-ledger submissions, stamp-tax documentation and MASAK-level transparency—rewards capital structures that are coherent, well-documented and aligned with operational reality. The structure chosen at incorporation

becomes the financial backbone of the organisation, shaping not only the flow of capital but also how institutions assess credibility, risk and compliance discipline from day one.

5.2 Equity Capital Framework for A.Ş. and Ltd.

Equity remains the most stable and institutionally recognisable form of funding in Türkiye. Both joint-stock companies (A.Ş.) and limited liability companies (Ltd.) permit 100% foreign ownership without requiring a local director or shareholder, offering global investors high flexibility and predictability.

5.2.1 Minimum Capital and Practical Expectations

Statutory thresholds—TRY 250,000 for an A.Ş. and TRY 50,000 for an Ltd.—define minimum compliance requirements, but do not reflect market reality. Minimum capital requirements are statutory and may be revised periodically; investors should verify thresholds at the time of incorporation. Foreign investors generally inject significantly higher amounts to meet banking expectations, align with sector norms and support operational scale. Paid-in capital in the TRY 2–15 million range is standard for foreign-owned companies intending to launch substantive commercial activity.

A solid equity base strengthens credibility across the ecosystem: it improves the company's standing in lease negotiations, supports supplier onboarding and import financing, and often results in more favourable assessments by bank credit committees.

5.2.2 Competition Authority Fund Contribution (0.0004 of Capital)

Every incorporation and every capital increase triggers a mandatory contribution to the Turkish Competition Authority equal to 0.0004 of the registered capital. Although the amount is

modest, the cumulative effect can become material when capital increases occur frequently. For this reason, investors typically prefer fewer, larger increases. The payment sequence must align with Trade Registry filings and bank statements to maintain institutional coherence.

5.2.3 Paid-In Capital and MASAK Visibility

Paid-in capital must be deposited into a blocked bank account before registration. After the Trade Registry finalises incorporation, the block is lifted, and the capital becomes available for use. All capital inflows pass through MASAK's AML framework, which examines the source of funds, the clarity of the transaction narrative and the consistency across documentation, accounting entries and institutional records. Clean audit trails accelerate onboarding and reduce friction in subsequent cross-border funding.

5.2.4 Capital Advance and Its Legal Posture

Capital advance is a practical tool when funding is needed before a formal capital increase is completed. The mechanism is legitimate, but its use requires strict documentation discipline. Board resolutions should specify intent clearly; conversion into capital should occur within a reasonable timeframe; and banking movements must correspond to the declared purpose. Extended delays or unexplained balances risk reclassification as loans or disguised contributions, potentially affecting deductibility or triggering tax questions. Although no statutory deadline exists, prolonged periods without conversion may attract the attention of the tax office.

5.2.5 Capital Replenishment

Capital replenishment restores net equity without changing nominal capital. It is typically used when accumulated losses reduce equity below statutory thresholds or when balance-sheet

integrity needs reinforcement without altering shareholding ratios. Turkish tax law treats replenishment as tax-neutral, provided the economic rationale is documented and aligned with statutory financial statements.

5.2.6 Sector-Specific Capital Expectations

In regulated sectors—payments, e-money, fintech, telecom, leasing, factoring, insurance intermediation, energy distribution—capital adequacy is not discretionary but a licensing condition. Minimum sectoral requirements are significantly higher than the Commercial Code thresholds, and regulators view capitalisation as a proxy for financial strength, operational resilience and compliance capability. Investors entering these sectors must therefore align capital planning with sector-specific prudential rules at the outset.

5.2.7 Negative Equity, Loss Absorption and Financial Resilience

Foreign investors often underestimate the regulatory and banking impact of negative equity. Under Turkish commercial law, companies whose equity falls below legal thresholds must follow specific restructuring steps, including loss-absorption resolutions, capital replenishment or capital increase. Negative equity triggers the measures under Article 376 of the Turkish Commercial Code, requiring timely board action to protect creditors.

Banks monitor equity levels closely; entities in negative equity may face reduced FX limits, tighter KYC reviews or delays in credit committee approvals. Documented remediation plans—such as capital replenishment or loan-to-equity conversions—restore institutional confidence and protect the company's credit profile.

5.2.8 Notional Interest Deduction (NID) on Cash Capital Contributions

Türkiye's notional interest deduction (NID) provides a calculated notional return on qualifying cash-capital injections. The mechanism strengthens balance sheets by rewarding genuine equity funding over short-term or related-party debt. Because NID applies only to actual cash paid into share capital or certain statutory capital accounts, it directly reinforces the visibility and reliability of an organisation's equity position in Türkiye.

NID interacts naturally with the capitalisation strategy. It does not replace thin-capitalisation rules or transfer-pricing principles but complements them by creating a tax-efficient alternative to leverage-based funding. The timing of capital contributions, the documentary trail of payments and the proper reflection of injections in statutory ledgers are essential components of a sustainable NID position. For foreign-invested groups, NID serves as a practical tool for optimising post-investment equity structuring, especially in sectors where regulatory expectations limit excessive borrowing. NID parameters (rates, qualifying capital elements) are periodically updated through Presidential Decrees and secondary legislation.

5.3 Debt Financing: Domestic and Cross-Border Models

Debt provides flexibility and connects the Turkish entity to its global treasury's funding capacity. Türkiye recognises both domestic and foreign-sourced loans, provided that the economic rationale, pricing methodology and documentation comply with transfer-pricing standards and MASAK's AML framework. The chosen debt structure influences not only liquidity but also the company's tax posture, banking profile and regulatory visibility. Under Turkish law, intercompany financing is entirely

permissible, but documentation discipline is the defining factor for tax deductibility and AML comfort.

5.3.1 Intercompany Loans

Intercompany loans remain one of the most commonly used financing tools for foreign-owned entities. Loan agreements must clearly set out interest rates, maturities, repayment terms and the economic purpose of the borrowing. Under Turkish transfer-pricing rules, interest rates must align with market benchmarks and be supported by a defensible functional and comparability analysis.

Banks review all foreign-sourced loan inflows through an AML lens, with heightened scrutiny when the lender is located in low-transparency jurisdictions or has multi-layered holding structures, and when proper documentation—including the loan agreement—is absent. Board resolutions, interest calculations and evidence of repayment ensure deductibility for tax purposes, strengthen audit defensibility and help prevent re-characterisation as disguised equity or undocumented capital.

Companies without FX revenues are generally prohibited from obtaining FX loans unless a statutory exemption applies. In practice, the clearer the funding narrative, the smoother the MASAK and tax-office treatment becomes.

5.3.2 Local Bank Borrowing

Local banks evaluate creditworthiness by examining paid-in capital, equity-to-debt ratios, projected cash flows, collateral availability, group guarantees and the clarity of the corporate governance framework. Newly incorporated companies frequently rely on intercompany loans in their early stages, but access to domestic credit largely depends on visible capital strength and transparent ownership structures.

KYC and MASAK requirements are fully embedded in domestic

lending processes. Banks cross-check corporate identity, UBO information and financial records across MERSIS, tax filings and SGK systems. Documentation quality directly affects the speed and depth of credit evaluation, making coherent capitalisation and governance essential for obtaining domestic borrowing capacity. When inconsistencies arise, banks treat them as risk indicators, often delaying or narrowing credit limits until alignment is restored.

5.3.3 Foreign-Currency Loans

Foreign-currency borrowing is permitted only if the company satisfies the Central Bank's regulatory criteria. Companies without FX revenues are generally prohibited from obtaining FX loans unless they qualify for a statutory exemption. These criteria typically include having foreign-exchange-based revenues, generating export proceeds or securing project-based financing supported by contractual FX inflows. Exporters, logistics operators, industrial manufacturers and infrastructure companies frequently use FX loans because their operational flows naturally hedge currency exposure.

Although FX loans introduce currency risk for entities without corresponding FX revenues, they remain an effective tool for companies with cross-border income streams or regional operations. Financing structures must align with the Central Bank's restrictions on FX borrowing to avoid regulatory breaches, and documentation must clearly demonstrate eligibility, a foreign-exchange rationale and risk-management capacity.

The entire FX borrowing regime functions as a behavioural test of economic capacity. Offshore FX loans must be registered with the Central Bank through an Intermediary Bank, which verifies eligibility, records the loan lifecycle and monitors amendments, refinancings and early repayments. Non-compliance can result in administrative penalties or future borrowing restrictions. The framework, therefore, influences how holding structures are

designed, how treasury centres allocate risk and how financing flows align with operational substance.

5.3.4 RUSF Maturity Framework and Compliance Expectations

The Resource Utilisation Support Fund (RUSF) is a maturity-sensitive levy on certain cross-border loans. RUSF rates vary by effective maturity, and early repayments may reset the applicable bracket. Effective maturity—not only contractual maturity—determines the appropriate rate. Early repayments, partial settlements or refinancing transactions that shorten the weighted-average maturity may trigger retroactive liability.

For TRY-denominated loans obtained abroad, RUSF is generally calculated on interest amounts; for FX-denominated loans, it is based on the exchange rate. Exemptions exist for investment-incentive-backed financing, ECA loans and designated development finance institutions.

Because RUSF is inherently behavioural, authorities examine repayment patterns, loan-usage consistency and alignment between the borrower's economic profile and funding choices. Documentation of maturity calculations, amendment histories and exemption evidence is essential to avoid ex post adjustments. Parameters are periodically revised, so investors must rely on the rules in force at the relevant time.

5.3.5 Stamp Tax Considerations in Cross-Border Loan Agreements

Stamp-tax exposure hinges on whether the loan agreement is executed, presented or produces legal effect in Türkiye. Agreements signed entirely abroad and never used domestically may fall outside the scope. However, when a foreign-signed agreement is submitted to a Turkish bank for utilisation, referenced in filings or relied upon in domestic transactions, it

may be treated as “used” in Türkiye and become taxable. Even electronic submission may constitute use, depending on context.

Electronic execution does not eliminate exposure; the analysis focuses on legal effect rather than physical form. Syndicated or club facilities may generate multiple taxable instruments if lenders sign separate participation documents. Conversely, loans from multilateral development banks, ECAs or designated institutions may qualify for exemptions, subject to documentary confirmation.

Clear evidence of execution locations, accession mechanics and intended domestic use is essential for accurate tax analysis.

5.3.6 Qualified Financial Institutions (QFI) and Withholding Tax Treatment

The withholding tax on cross-border interest depends on whether the lender qualifies as a Qualified Financial Institution (QFI). Although not defined in a single statute, QFI status is interpreted through the Corporate Tax Law, Presidential Decrees and administrative practice. A QFI is typically a regulated financial entity whose ordinary business includes extending credit to third parties.

Turkish practice examines regulatory supervision, the lender’s core business, beneficial ownership of interest income and functional substance—including personnel, governance and decision-making capacity. Where these criteria are met, interest may qualify for a 0% WHT rate, particularly for loans from foreign banks, development finance institutions or ECAs.

Borrowers must maintain documentary evidence and present it to the Intermediary Bank upon registration. Back-to-back loans routed through minimal-substance entities are subject to heightened scrutiny under Türkiye’s substance-driven audit logic.

5.3.7 Debt Pushdown and Acquisition Financing

In acquisitions, debt pushdown may be considered if grounded in a commercial purpose, supported by appropriate merger mechanics, and in arm's-length conditions. Interest deductibility, thin capitalisation rules, and transfer pricing limits must be modelled precisely. Leverage at the Turkish level must align with the target's cash flows and be supportable by the business model; otherwise, audit challenges emerge.

5.4 Thin Capitalisation and Transfer Pricing in Financial Transactions

Under Corporate Tax Law Article 12, Türkiye applies a 3:1 debt-to-equity ratio to related-party loans (6:1 for lenders that qualify as financial institutions). Exceeding this threshold renders the corresponding interest non-deductible and may trigger a reclassification as a disguised profit distribution, resulting in dividend WHT unless mitigated under a treaty.

However, Türkiye evaluates leverage behaviourally. Inspectors examine whether the scale, duration and pricing of loans align with operational needs and treasury capacity. Circular funding patterns, year-end leverage spikes, or loans lacking a demonstrable commercial purpose indicate structural inconsistency—even when numerical ratios appear to be met.

Thin-capitalisation testing is annual and based on average balances, necessitating continuous monitoring for companies that rely on intercompany financing.

Transfer-pricing rules reinforce this behavioural analysis. Benchmarking must consider borrower credit quality, collateral, currency, maturity, repayment capacity and functional rationale. Treasury-centre funding, back-to-back loans, cash pooling

and multi-jurisdiction chains require functional analysis to differentiate roles and demonstrate economic substance.

Tax audits in Türkiye frequently prioritise financial transactions. Inspectors evaluate interest rates, loan terms and economic logic against arm's-length standards and thin-capitalisation thresholds. Contemporaneous documentation—agreements, benchmarking, credit assessments and treasury policies—is essential to avoid adjustments or reclassifications.

5.5 Withholding Tax and Treaty Interaction in Inbound Financing

Interest paid to foreign lenders is generally subject to WHT under Article 30 unless reduced by a treaty. The practical WHT outcome depends on beneficial ownership, tax residency and correct legal classification. Government securities often receive preferential treatment; repos follow the underlying structure; derivatives are assessed on economic substance. Türkiye emphasises transparency and risk-profiling over formal labels.

Mischaracterising interest as service fees can distort both WHT and deductibility and trigger scrutiny. Many treaties include PPT and LOB-style provisions. Minimal substance, rapid pass-through flows or disproportionate capitalisation raise treaty-shopping concerns.

Under the MLI, PPT requires financing structures to demonstrate economic purpose and operational substance. The lender must show decision-making capacity, financial strength and entitlement to income. Treaty benefits apply only when documentation—agreements, payment trails, bank records, transfer-pricing support and accounting—is coherent. When aligned, treaty protection materially lowers financing costs and strengthens audit defensibility.

5.6 Hybrid Funding Instruments

Hybrid structures bridge equity and debt, enabling investors to calibrate economic exposure, risk allocation and strategic control with greater precision. Türkiye's legal and banking framework accommodates a broad spectrum of hybrid instruments—including mezzanine financing, convertible loans, preferred equity and participating rights—provided that classification, documentation and economic intent are clearly articulated.

The effectiveness of a hybrid instrument depends on accurate legal and economic characterisation. Under Turkish tax law, an instrument may be treated as debt for deductibility and thin-capitalisation purposes, while simultaneously being classified as equity under IFRS. Conversely, structures that appear equity-like may be reinterpreted as debt for tax purposes if repayment obligations, fixed returns or subordination mechanics dominate their economic substance.

For this reason, agreements must clearly define conversion triggers, the subordination hierarchy, return methodology, governance rights and, where relevant, exit mechanics. Thin-capitalisation rules, withholding-tax exposure and transfer-pricing obligations all hinge on economic interpretation. Instruments embedding fixed-interest features or mandatory redemption may fall within debt classification for thin-capitalisation purposes; instruments resembling dividends or contingent profit participation may fall within dividend withholding.

Hybrid models add particular value in high-growth, capital-intensive or early-stage sectors, where straight equity may dilute ownership prematurely and pure debt may not reflect the investor's genuine risk profile. They also align well with multinational treasury strategies, offering flexibility in cross-border funding while maintaining compliance with Türkiye's tax, accounting and AML expectations.

When structured with a clear purpose, robust documentation, and a coherent accounting treatment, hybrid instruments serve as a practical component of Türkiye-focused capital planning. Turkish practice evaluates hybrids through three behavioural tests: (i) whether legal form aligns with economic risk allocation, (ii) whether remuneration reflects equity-like variability or debt-like certainty, and (iii) whether payments risk treatment as disguised profit distributions under the Corporate Tax Law. Documentation of functional behaviour remains decisive.

5.7 FX Exposure and Treasury Integration

In Türkiye's dynamic foreign-exchange environment, treasury governance forms a critical element of capital planning. Companies must assess whether their revenue profile provides a natural hedge, whether pricing formulas incorporate FX adjustment mechanisms, and which treasury instruments—such as forwards, swaps, or options—best align with their global policies.

Banks evaluate FX governance as part of credit and risk assessment. They expect clear documentation of the rationale for FX borrowing, the company's internal risk-management framework, liquidity planning for repayments and the degree of alignment between treasury actions and operational cash flows. Strong internal treasury protocols increase transaction predictability and accelerate both credit approvals and regulatory interactions.

For multinational groups, integrating the Turkish entity into global treasury systems delivers material benefits, including centralised working-capital optimisation, consolidated liquidity management, reduced transaction costs and more sophisticated hedging capabilities. Türkiye's regulatory framework accommodates these systems, provided transfer-pricing principles, economic-substance requirements and MASAK expectations are consistently met.

5.8 Cash-Pooling, Netting and Group Treasury Integration

Multinational groups increasingly integrate their Turkish entities into global treasury platforms—including physical and notional cash pooling, intercompany netting, sweeping and centralised liquidity management. Where cash pools create functional exposure, such as implied guarantees, liquidity support or risk-sharing, Türkiye may treat participants as engaging in intercompany lending rather than mere treasury coordination. This affects interest deductibility, thin-capitalisation analysis and withholding-tax classification, particularly where the pool leader cannot demonstrate beneficial ownership over interest flows.

Türkiye permits participation in both physical and notional pooling structures, provided transfer-pricing rules, thin-capitalisation limits and MASAK visibility are satisfied. Banks typically request complete documentation of the pooling agreement, allocation methodology, the nature of intra-group balances and liquidity triggers.

From a tax standpoint, cash-pool interest spreads and internal remuneration mechanisms must satisfy arm's-length conditions. From an AML standpoint, transaction flows within the pool must remain transparent, traceable and reconcilable with underlying commercial activity. When these conditions align, group treasury integration improves liquidity efficiency without increasing compliance risk.

5.8.1 Visibility and Audit Expectations

Cash pooling and upstream loans are treated as high-visibility transactions. Authorities evaluate whether liquidity transfers reflect operational requirements, whether pricing is defensible and whether flows are economically coherent. Circular or overnight sweeps lacking commercial justification may trigger

permanent-establishment exposure, disguised-distribution concerns or transfer-pricing challenges.

5.9 Institutional Visibility and Documentation Integrity

Every capital inflow—whether equity, intercompany loans, hybrid instruments, capital advances or capital replenishments—passes through Türkiye’s banking system and MASAK’s AML framework. Institutional expectations converge around one principle: clarity. The stated purpose of funds, the supporting documentation and the accounting and tax treatment must narrate a consistent economic story.

When documentation is coherent, institutions process capital inflows predictably and with speed.

When records are inconsistent, incomplete or economically unconvincing, the system deliberately slows to protect regulatory integrity. Banks, tax offices and sector regulators expect alignment across all touchpoints: shareholder and board resolutions, loan agreements, funding instructions, bank transfer details, accounting entries and tax disclosures.

Documentation integrity is not an administrative formality. It is the mechanism that enables Türkiye’s compliance system to function with stability, transparency and trust. A well-structured capital inflow creates no friction; an unclear one introduces inquiries, delays, increased monitoring, and, in some cases, reclassification risk for tax or AML purposes.

5.10 Outbound Financing: Repatriation, Dividends and Exit-Stage Capital Flows

How capital exits Türkiye is as significant as how it enters. Türkiye's capital-movement regime is liberal and rules-based, allowing foreign investors to repatriate returns, repay intercompany loans, and extract liquidation proceeds, provided that documentation, banking visibility, and tax treatment align.

Outbound loans from Turkish entities to foreign affiliates require dual analysis:

- transfer-pricing discipline to justify interest and functional substance,
- withholding-tax classification to determine whether the payment constitutes interest or another cross-border charge.

Because Türkiye does not offer safe-harbour interest rates, benchmarking and economic rationale carry significant weight. Treaty protection applies only when beneficial ownership, substance and commercial purpose are demonstrably met. Banks verify that distributable profits reconcile with statutory accounts and retained earnings before executing payments.

Dividends (Profit Repatriation)

Dividend distributions are exempt from corporate income tax at the Turkish-entity level. Payments to non-resident shareholders are subject to withholding tax, often reduced under treaties. During execution, banks verify general assembly resolutions, supporting financial statements, and the traceability of retained earnings.

Intercompany Loan Repayments

Repayment of principal is not subject to withholding tax. However, banks and MASAK examine the loan agreement, amortisation schedules, board decisions and transfer-pricing support.

Alignment between accounting treatment, bank transfers and contractual terms is necessary to avoid recharacterisation.

Capital Reduction

Capital reductions require creditor-protection steps under the Commercial Code, including statutory notices, waiting periods and safeguards. Although tax-neutral when executed correctly, reductions are examined to ensure economic rationale and consistency between shareholder resolutions and financial statements.

Liquidation Proceeds

Residual amounts distributed upon liquidation are treated as dividend equivalents, subject to withholding tax unless treaty protection applies. The tax authority often reviews liquidation balance sheets and historical documentation to validate the final distribution.

Türkiye imposes no capital-control restrictions on outbound flows. Institutional speed depends entirely on the coherence of documentation. When agreements, resolutions, accounting entries and bank explanations align, repatriation proceeds smoothly. When they diverge, banks slow execution until the narrative is clarified.

Capital structure is not merely a funding decision in Türkiye—it is an institutional behaviour profile. Equity communicates durability and long-term alignment. Debt links the Turkish entity to global treasury capacity. Hybrid instruments introduce calibrated flexibility for models that must balance risk and reward across borders. Together, these mechanisms shape how Türkiye's institutions interpret an investor's intent, seriousness and operational integrity.

Because Türkiye's administrative architecture is cross-verified—Registry, MASAK, banks, tax offices, SGK and sectoral regulators—capital structuring forms the first behavioural footprint the system reads. A coherent capital framework reduces friction, accelerates onboarding, reinforces institutional trust and shapes the pathway for subsequent phases of the investment lifecycle: workforce integration, operational expansion, local financing, restructuring and exit.

With the capital architecture in place, the next chapter turns to the operational layer where institutional visibility becomes human: workforce onboarding, employment structures and Türkiye's labour-market compliance grid.

CHAPTER 6

OPERATIONAL & FISCAL ONBOARDING IN TÜRKİYE

Operational onboarding in Türkiye is the point at which a legal entity becomes a living data profile—its behaviour measured, scored, and interpreted through a relentless monthly cycle of filings, reconciliations, and electronic records.

“In Türkiye, you are not judged by what you plan to do, but by the rhythm and precision of the data you generate every month.”

Operating in Türkiye means entering a monthly compliance rhythm in which VAT, payroll, e-ledgers and banking flows form a unified visibility matrix.

Entering the market does not conclude with incorporation or capitalisation. Once the legal entity is established and banking channels become operational, the organisation steps into Türkiye’s distinctive operating cadence—a cadence defined not by discretionary decision-making but by structured obligations, recurring deadlines and the discipline of electronic reporting systems. Türkiye’s operational reality begins with documentation; institutions evaluate behaviour through the evidence embedded in records.

Each month unfolds through a familiar cycle of VAT filings, withholding submissions, social security declarations, e-Ledger uploads, bank reconciliations, and internal accounting closures. This recurring structure forms the operational backbone of corporate life and anchors Türkiye’s regulatory environment more

firmly than any single piece of legislation. Because these systems operate on timestamped e-documentation, inconsistencies are detected automatically and trigger procedural reviews long before an audit is formally initiated.

6.1 Entering Türkiye's Operating Rhythm: The Logic of Monthly Compliance

Türkiye's corporate environment is built around a monthly compliance rhythm. Companies navigate a fixed sequence of obligations—VAT returns, withholding declarations, stamp-tax reconciliations, payroll cycles, social-security submissions and electronic ledger closures. These cycles remain broadly stable over time, even as digital platforms evolve. They are not remnants of bureaucracy; they constitute the core operating system of the Turkish regulatory architecture.

Mastering this rhythm is not simply about meeting deadlines. It requires aligning accounting, HR, treasury and operational functions so that institutions perceive the company as organised, consistent and professionally governed. Organisations that internalise this rhythm early build institutional trust; those that do not inevitably encounter delays, procedural friction and avoidable scrutiny.

6.2 Accounting Architecture: VUK, IFRS and the Dual Reporting Reality

Companies operating in Türkiye must maintain accounting records on two parallel tracks: Statutory ledgers under the Tax Procedure Law (VUK) and group reporting under IFRS. This dual reporting reality defines the organisation's operational backbone from the first month onward.

VUK relies on the Uniform Chart of Accounts and prescribes

strict documentation discipline. Every invoice, dispatch note, contract amendment, bank slip, cost entry and foreign-currency movement flows directly into statutory ledgers. The precision demanded by VUK shapes far more than tax outcomes—it determines data quality, informs audit readiness and anchors internal consistency for transfer-pricing analysis. The coherence of VUK records is the first element examined during inspections and directly influences a company's risk classification.

Companies that perform structured monthly closures—bank reconciliations, accruals, intercompany confirmations, foreign-currency remeasurement and documentation of significant transactions—operate with significantly greater stability. In Türkiye, accounting functions not merely as an administrative requirement but as a governance discipline, and institutions interpret timely, accurate monthly closures as a signal of professional management.

Türkiye reinstated inflation accounting under the Tax Procedure Law beginning in 2024. The regime applies when statutory CPI thresholds are exceeded, requiring taxpayers to restate non-monetary assets, liabilities, equity items and cost bases. Inflation adjustments directly affect taxable profit unless specific exceptions apply. They materially influence EBITDA quality, deferred tax positions, and asset valuation schedules. Implementing this framework requires reconstructing historical asset registers, applying indexation coefficients published by the Revenue Administration and ensuring complete reconciliation between statutory ledgers, temporary tax returns and IFRS reporting sets.

6.3 VAT-Centric Operational Mechanics and Cash-Flow Effects

VAT shapes Türkiye's operational landscape more than any other tax. It influences pricing architecture, procurement models, invoicing sequences, treasury planning and contract drafting. Monthly VAT returns and the offset mechanism between input and output VAT create direct liquidity effects that must be integrated into working-capital planning. In long-term or capital-intensive projects, VAT's cash-flow impact often becomes a central determinant of project viability.

Türkiye's partial VAT withholding mechanism—applied across construction, consultancy, advertising, and various service categories—creates additional compliance obligations and materially affects cash flow timing. Organisations with structural input-VAT surpluses, such as exporters, pre-revenue entities or investment-heavy sectors, must navigate refund procedures, prepare documentation sets and respond to tax-office queries with precision. Domestic sales-driven entities, conversely, face predictable monthly VAT outflows that must be factored into pricing and treasury cycles.

Refund timelines depend on the completeness of documentation and the internal consistency among e-Ledger data, e-Invoice records and statutory books.

VAT also functions as one of Türkiye's most robust transparency mechanisms. The e-Invoice, e-Archive and e-Dispatch platforms provide near real-time visibility into supply-chain transactions, while e-Ledgers enable authorities to cross-check all transactional data against statutory books. This continuous documentation trail materially reduces information asymmetry and forms a behavioural profile that institutions use to assess operational integrity.

In this environment, consistency—not negotiation—determines

outcomes. Companies with coherent VAT trails experience smoother refund processes and fewer audit-related delays; fragmented or poorly documented trails generate friction at every stage of interaction.

6.4 Payroll, Social Security and HR Compliance Architecture

Payroll and social-security compliance form one of the most structured and behaviourally sensitive components of Türkiye's operational ecosystem. Once employees are hired—even a single employee—the entity enters a strict monthly sequencing discipline, monitored through interlinked social security, withholding tax, and e-ledger platforms. Türkiye's institutional system interprets payroll data as a direct mirror of operational reality. As a result, payroll processes serve not only as a statutory requirement but as a primary governance signal.

The Social-Security Compliance Backbone

Employee onboarding requires immediate registration with the Social Security Authority, followed by monthly premium declarations, contribution payments, and payroll tax submissions. These obligations are strictly timestamped, and failures are visible across interconnected systems. Because payroll involves simultaneous reporting to multiple authorities—social security, withholding tax, e-ledgers, and banking—any inconsistency across these layers is automatically flagged.

Every payroll cycle generates a multi-layered data trail:

- contract terms, salary components and benefits;
- time-sheets or attendance records;
- payroll calculations and employer contributions;
- statutory declarations and payment receipts;
- accounting entries and cost allocations;

- intercompany recharges where applicable.

Authorities assess whether these elements align internally and whether the company's workforce composition reflects its declared business activity. Headcount, job descriptions, compensation levels, and internal-control structures form part of the operational narrative that authorities rely on to monitor the entity's behavioural consistency.

The Taxability Architecture of Compensation

Türkiye treats each wage component—whether cash or in-kind—as potentially taxable. Allowances for housing, transportation, meals, travel, representation, per diem models, remote-work stipends, insurance premiums, bonuses, and retention programmes each carry specific taxability rules. Employers must determine whether:

- an item forms part of taxable wage;
- it qualifies for a statutory exemption;
- it requires additional withholding;
- it triggers employer-level tax or social-security obligations.

Because these rules intersect with corporate tax, transfer pricing and HR policy structures, misclassification is one of the most common triggers for payroll audits.

Private-Pension Auto-Enrolment

Employers must enrol eligible employees in the mandatory private-pension auto-enrolment system unless the employee opts out within the statutory timeframe. Contribution rates, opt-out windows, and administrative procedures are periodically updated; failure to follow these rules can create compliance backlogs that become apparent in social security audits.

Expatriate Employees and Cross-Border HR Structuring

Foreign employees introduce a second compliance layer that

intersects with immigration, bilateral social security agreements, withholding tax rules, and corporate governance expectations. Work-permit and residence-permit sequencing must align precisely with onboarding timelines and payroll cycles.

Key considerations include:

- whether the employee remains covered under a foreign social-security scheme;
- whether certificates of coverage under bilateral treaties apply;
- whether compensation is split between the Turkish entity and a foreign employer;
- how gross-up mechanisms are structured;
- whether equity-based compensation triggers reporting obligations in Türkiye;
- how cross-border reimbursements are documented and substantiated.

Authorities examine whether the expatriate's role aligns with the entity's legal form. For example, liaison offices cannot employ expatriates in roles that indicate revenue-linked activity or negotiation authority, as this may raise concerns about permanent establishment.

Payroll as the First Audit Window

Payroll is often the first domain authorities review in compliance audits because it reveals the company's operational posture. Through payroll, authorities assess:

- whether the entity has sufficient staff for its declared operations;
- whether compensation patterns reflect the business model;
- whether social-security contributions align with salary levels;
- whether HR practices match the functional reality;

- whether intercompany recharges for personnel are aligned with transfer-pricing logic.

Companies with inconsistent payroll structures—such as undocumented allowances, sudden salary adjustments, incomplete onboarding documentation or inconsistent job descriptions—face immediate institutional friction. In contrast, companies that maintain transparent, well-documented payroll architecture benefit from smoother institutional interactions across all regulatory bodies.

The Behavioural Function of HR Compliance

Payroll compliance reinforces Türkiye's institutional logic: the system trusts what it can verify. Because payroll data intersects with tax records, social security systems, banking flows, and accounting ledgers, it creates one of the richest behavioural datasets available to regulators. When this dataset is coherent, the institution interprets the entity as professionally governed. When it is fragmented, the system slows down or escalates scrutiny.

6.5 Transfer Pricing in Daily Operations: From Policy to Execution

Transfer pricing in Türkiye functions as an operational discipline rather than an annual compliance exercise. Because e-Invoice, e-Archive, e-Dispatch, and e-Ledger systems provide authorities with continuous visibility into intercompany flows, Türkiye interprets transfer pricing based on behavioural data rather than formal policy statements. Every service charge, royalty, cost-sharing allocation, management fee or cross-border recharge must align with both the global TP model and the functional profile of the Turkish entity.

Authorities evaluate consistency across six pillars that together define Türkiye's TP architecture:

- the economic reality of activities performed locally,
- the contractual allocation of responsibilities and risks,
- the alignment between operational workflows and service charges,
- the reconciliation between accounting entries and intercompany agreements,
- the monthly evolution of intercompany balances, and
- the timing and rationale of invoices issued or received.

The statutory environment requires annual transfer pricing documentation—including the Local File, annual related-party forms, and detailed supporting analyses attached to the corporate tax return. Yet Türkiye’s digital compliance systems make these documents secondary. The primary reference point is behavioural coherence: whether monthly data flows match the entity’s declared TP methodology.

Companies that defer TP review to year-end often encounter misalignments between functional reality and allocation logic, especially when intercompany charges accumulate without monthly monitoring. In contrast, organisations that embed TP discipline into daily operations—through automated invoicing workflows, periodic reconciliations, quarterly mark-up testing, and cross-functional communication between finance, legal and operations—achieve demonstrably lower audit risk. Türkiye rewards operational accuracy, not post-hoc rationalisation.

6.6 Internal Controls, Authority Systems and Documentation Traceability

Türkiye's compliance architecture is designed around documentation traceability. Authorities do not rely on oral explanations or managerial assurances; they rely on timestamped records, contractual trails, system logs and data coherence across platforms. Internal control frameworks, therefore, form a fundamental element of operational onboarding.

Robust internal structures typically include:

- a clearly articulated authority matrix governing procurement, contracting, payments and approvals,
- alignment between contractual terms, invoicing sequences and banking flows,
- ERP systems configured to enforce multi-step approvals and traceable audit logs,
- cross-verification between accounting entries and underlying documents,
- supplier and customer reconciliations conducted on a monthly or quarterly basis,
- group-wide policies documented in a manner consistent with local statutory requirements,
- retention schedules aligned with Türkiye's digital recordkeeping standards.

In Türkiye, documentation does not merely support compliance—it defines the organisation's institutional identity. Banks, tax offices, social security authorities, customs bodies, and regulators each interpret the company through the lens of documentation consistency. When records reinforce each other across multiple systems, institutional trust is strengthened. When records contradict each other, the ecosystem responds with friction, slowdowns or targeted inquiries.

Documentation inconsistencies—such as contract terms

misaligned with invoices, approval logs that do not match payment patterns, or ledger entries unsupported by evidence—signal governance weaknesses. The result is a loss of institutional momentum: banks request additional KYC justification, tax authorities schedule pre-audit reviews, and regulators broaden their scope of inquiry. Conversely, a coherent control environment shortens response cycles and accelerates institutional processing.

6.7 FX Exposure, Pricing Adjustments and Inflation-Linked Behaviour

Operating in Türkiye requires an understanding of the behavioural dynamics generated by foreign-exchange volatility and inflation cycles. These dynamics shape commercial behaviour, treasury posture and day-to-day decision-making across the entire organisation. Treasury teams continuously monitor exchange movements, adjust liquidity buffers, and manage multi-currency accounts, while commercial teams adopt pricing formulas, indexation mechanisms, or shortened repricing periods to ensure economic continuity. These behavioural adjustments are not ad hoc reactions; they are structured responses to the macro-environment and have become an integral part of Türkiye's operational practice.

Türkiye has reinstated inflation accounting under the statutory framework, requiring companies to restate non-monetary items, cost bases and equity components when inflation thresholds are exceeded. Restatement affects taxable profit calculations and reporting logic, making alignment between statutory ledgers, temporary tax returns and group financial reporting essential. Companies must rebuild asset registers, apply the official indexation coefficients, and ensure reconciliation between historical entries and current-period adjustments. Inflation accounting, therefore, becomes both a financial reporting obligation and an operational discipline, influencing internal

controls, pricing decisions, procurement strategies, and contract structures.

Inflation also shapes commercial conduct. Companies renegotiate supplier terms more frequently, accelerate inventory turnover, tighten receivable timelines and refine working-capital models. Treasury decisions—such as hedging policies or the use of forwards, swaps or options—must align with both group-level frameworks and the company's real capacity to absorb exchange-rate risk. Because Türkiye's institutional architecture relies heavily on documentation traceability, any inflation-linked pricing formula, FX clause or commercial adjustment must be visible in contracts, invoices and accounting entries. Consistency across these layers determines how banks, auditors and tax authorities interpret the underlying behaviour.

Although Türkiye offers a structured and rule-based operating environment, certain behaviours consistently increase institutional friction: liaison offices engaging in revenue-generating or negotiation-based activities; undocumented intragroup flows; payroll items implemented without taxability analysis; operational conduct that diverges from contractual language; workplace or activity-scope changes not notified through the correct channels; delegation of authority not reflected in updated board records; or inconsistencies between ledger entries and commercial substance. These behaviours weaken institutional trust and invite corrective scrutiny. Türkiye rewards coherence; when documentation, conduct and economic logic align, institutional response is fast and predictable. When they diverge, the system slows or intervenes to protect regulatory integrity.

6.9 Building a Sustainable Internal Compliance Framework

Long-term success in Türkiye depends on a compliance architecture that integrates accounting, tax, HR, treasury, legal and operational functions into a single coherent system. Companies that invest early in documentation standards, structured monthly closures, approval workflows, internal audits and reconciliation routines position themselves for greater institutional stability. Türkiye's electronic-compliance platforms—e-Invoice, e-Archive, e-Dispatch and e-Ledgers—operate on timestamped, immutable records. Late submissions, inconsistent entries or misaligned narratives do not merely create administrative issues; they alter how institutions evaluate the company's risk posture.

E-Ledger files must be uploaded within statutory deadlines, and late submissions cannot be cured through voluntary disclosure. This elevates the importance of internal calendars, approval chains and monitoring mechanisms. Because authorities evaluate an organisation's governance capacity through its documentation behaviour, companies that maintain disciplined workflows—bank reconciliations performed monthly, contract-invoice-payment sequences aligned, intercompany balances confirmed regularly, authority matrices updated promptly—are perceived as structurally reliable. In Türkiye, compliance systems function as reputational infrastructure.

The goal is not only to meet regulatory obligations but to demonstrate behavioural stability. When internal processes, accounting entries, operational conduct, and external reporting reinforce each other, audit exposure declines, banking interactions accelerate, and institutional relationships strengthen. A misaligned internal environment, by contrast, amplifies operational risk: inconsistencies between commercial behaviour and statutory documentation, unexplained ledger entries, or unstructured approval practices trigger procedural

review. Türkiye's institutional logic prioritises coherence, and companies that embed compliance into their operational spine create a durable foundation for growth, treasury integration and long-term credibility.

Operational onboarding defines how a foreign investor becomes visible within Türkiye's institutional ecosystem. Once the company demonstrates a consistent monthly rhythm—through accounting precision, VAT alignment, payroll discipline, transfer-pricing coherence and robust documentation trails—the foundation is set for the next stage: understanding how Türkiye's corporate tax base is constructed, interpreted and adjusted.

Where Chapter 6 establishes the behavioural and procedural architecture of daily operations, Chapter 7 moves to the financial logic that underpins taxable profit, statutory adjustments, incentive interactions, and the mechanisms by which Türkiye converts economic activity into a coherent tax base. The shift from operational visibility to fiscal interpretation reveals the deeper structure of Türkiye's rules-based ecosystem and positions investors to build tax-resilient, institutionally aligned operating models.

CHAPTER 7

THE TAX ARCHITECTURE OF DOING BUSINESS IN TÜRKİYE

Türkiye's tax architecture functions as the jurisdiction's institutional operating system—translating every commercial action into a documented signal that shapes visibility, risk calibration and long-term value creation.

“In Türkiye, tax is not a cost line—it is the language through which institutions interpret your entire business model.”

Türkiye's tax system functions as the country's real operating infrastructure—shaping business models, supply chains, documentation standards and institutional behaviour.

Türkiye's tax administration reads economic activity through data. E-Invoices, e-Ledgers, payroll declarations, bank movements, customs records and institutional submissions converge into a unified narrative. When this narrative is consistent, the environment becomes predictable and highly functional. When inconsistencies arise—between contracts and invoices, statutory ledgers and transfer-pricing documentation, and operational substance and formal representation—the system deliberately slows. Türkiye rewards coherence, not improvisation.

The tax architecture rests on clear distinctions: full taxpayers versus limited taxpayers; commercial activity versus auxiliary functions; deductible business expenses versus non-deductible consumption; foreign subsidiaries versus permanent establishments. Yet these distinctions are assessed on the basis of evidence rather than abstract definitions. The legitimacy of

taxable income depends on a company's ability to demonstrate alignment between its legal structure, operational behaviour and financial records.

For international investors, Türkiye's tax system is therefore not merely a cost centre. It is the language through which they signal seriousness, maturity in compliance, and governance discipline. Companies that master this language benefit from faster banking processes, smoother regulatory interactions, reduced audit friction and stronger positioning in cross-border planning. In Türkiye, tax architecture is commercial architecture.

7.1 Corporate Residency and the Formation of Taxable Presence

Entities incorporated in Türkiye are full taxpayers and are subject to corporate income tax at 25% on worldwide profits (30% for banks and certain financial institutions). Their inclusion in the Turkish tax net is automatic, their visibility immediate, and their monthly reporting obligations begin as soon as the incorporation is registered. By contrast, foreign entities become taxable only when they create nexus through a permanent establishment (PE) or other forms of Turkish-source business income. Yet Türkiye interprets nexus through a behavioural and documentary lens that extends far beyond contract language.

7.1.1 A Behavioural Approach to Permanent Establishment

Türkiye applies OECD guidelines for PE, but the evaluation is anchored in evidence rather than formal drafting. The tax administration examines how the business operates in practice:

- where decisions are made,
- where economic influence is exerted,
- where negotiations occur,

- how personnel function on the ground, and
- how project work is executed and documented.

A PE may arise through a fixed place of business, habitual presence, authority to conclude (or materially negotiate) contracts, long-term service activity, or repeated commercial engagement. In assessing these factors, inspectors reconstruct the economic footprint by reviewing emails, meeting notes, project files, travel histories, employee roles and internal reporting chains. Türkiye increasingly relies on digital forensics—such as email metadata, calendar patterns and project management logs—to substantiate the functional footprint.

The core principle is clear: legal form must match documented substance. If contracts describe activities as “support services” but internal documents reveal negotiation or revenue-critical involvement, nexus forms regardless of disclaimers.

7.1.2 Branches: Operational Presence Without Legal Personality

Branches have no separate legal personality, yet for tax purposes, they are treated as fully taxable entities. The foreign parent’s Turkish operations must be subject to profit attribution supported by a defensible functional analysis. Türkiye expects methodologies that demonstrate how people, assets, functions and risk-taking activities located within Türkiye translate into taxable profit.

Cost allocations, head-office charges, managerial reporting lines and internal workflows all become central to the branch’s tax position. Because the branch is not a separate legal person, the entire foreign parent is exposed to scrutiny regarding how it organises and documents its Turkish presence. Branches, therefore, require a higher level of documentation discipline than subsidiaries.

7.1.3 Liaison Offices: Narrow Corridor, High Reclassification Risk

Liaison offices operate within a deliberately narrow regulatory corridor. Their mandate is limited to non-commercial functions such as market research, coordination, regulatory monitoring or representation. They cannot issue invoices, sign commercial contracts, engage in sales or perform activities that materially contribute to generating revenue. Their corporate tax exemption exists by design, but it is conditional—and fragile.

Any activity that indicates a commercial contribution risks reclassification as a permanent establishment, triggering full corporate taxation, VAT obligations, payroll liabilities and potential penalties. Annual activity reports must therefore demonstrate with precision that the liaison office has remained within its authorised non-commercial scope. Annual reports must explicitly document non-commercial workflows, ensuring no implicit revenue-generating behaviour appears in internal systems.

For multinational groups, strong internal governance is essential: functional boundaries must be clear, cross-border service flows must be structured, and internal communications must avoid signalling commercial involvement.

7.1.4 Strategic Impact of Nexus Decisions

The choice between a subsidiary, a branch, or a liaison office is not a procedural question—it shapes the entire tax and regulatory profile of the investment. The decision directly influences:

- audit posture and regulatory expectations
- cross-border service pricing and transfer-pricing alignment
- VAT reverse-charge obligations
- payroll and social-security exposure
- financing capacity and capital design
- long-term exit planning and dividend repatriation

- institutional credibility with banks and regulators

A misjudged nexus position can create years of retroactive exposure. A clearly documented structure, by contrast, enables predictable operations and strategic clarity across institutions.

7.1.5 Residency as an Institutional Signal

Ultimately, how a business positions itself in Türkiye—through incorporation, branching or liaison status—communicates its governance maturity. Entities that present consistent documentation, transparent authority lines and coherent functional structures gain institutional trust. Banks onboard them more efficiently, tax authorities interact with them more predictably, and regulators interpret their presence with fewer ambiguities.

In the Turkish system, corporate residency is not just a legal designation; it is the foundation on which the entire tax narrative is built.

7.2 Corporate Income Tax Base, Statutory Accounting and the Architecture of Adjustments

Corporate income taxation in Türkiye is not an accounting adjustment exercise; it is a statutory reconstruction of economic activity through a documentary ecosystem that must be internally coherent across every institutional interface. Although financial reporting follows TFRS—Türkiye’s IFRS-aligned framework—taxable income is determined exclusively under the Tax Procedure Law (VUK), which operates on the principles of legal certainty, historical cost and provable economic events. This duality means that taxable profit is not what the income statement suggests, but what the statutory accounting system can substantiate through digital trails, transaction logs and evidentiary records.

The divergence begins the moment one moves from TFRS to VUK. Under TFRS, management judgement plays a significant role: fair-value adjustments, expected-loss models, useful-life estimates and probability-based impairments shape financial reporting. Under VUK, these concepts lack authority unless specifically permitted by statute. Legally valid, documentable events govern recognition. A market fluctuation does not justify expense; a probability does not justify a provision; and an economic assumption does not justify valuation. Each line of the corporate tax calculation must correspond to a traceable element in the statutory documentary chain.

This principle becomes particularly clear in the treatment of foreign-exchange differences. Türkiye recognises both realised and unrealised FX gains and losses for tax purposes. Treasury decisions—loan-currency selection, hedging strategy, intercompany financing terms and import timing—therefore directly affect the tax base. FX in Türkiye is not a theoretical model of economic exposure; it is a visible and immediate input into taxable profit. Companies with significant foreign-currency liabilities must expect their CIT base to reflect market conditions unless hedged in a manner that creates entries that are equally documentable. Hedging instruments influence the tax base only to the extent that their accounting treatment produces traceable statutory entries.

Depreciation rules reinforce the statutory architecture. While TFRS permits management to determine useful lives based on economic reality, VUK mandates fixed statutory useful lives and depreciation rates. They cannot be altered. Accelerated depreciation is available only when explicitly authorised—such as for R&D centres, technology development zones or investment incentives—and even then requires precise documentation. The tax administration examines engineering assessments, asset registers, procurement files and incentive certificates to confirm that statutory classification has been applied correctly.

If documentation is incomplete or inconsistent, the statutory rate prevails.

A strict principle governs deductibility: expenses are deductible only when commercially connected to income generation and supported by a coherent evidentiary trail. In Türkiye, documentation is not a supporting material; it is the legal definition of the transaction. Costs lacking invoices, contractual support, matched bank traces, plausible commercial rationale or consistent internal approvals are reclassified as non-deductible. This rule applies with special force to:

- travel and representation lacking a demonstrable commercial purpose,
- shareholder-oriented consumption disguised as corporate expenditure,
- intercompany services lacking contemporaneous demonstration of benefit,
- management fees unsupported by functional substance,
- payments where contractual terms diverge from transactional reality.

Deductibility depends not on persuasion but on alignment: contract → invoice → ledger → bank → filing. If any link breaks, the expense falls outside the tax narrative. This chain operates as Türkiye's core deductibility test and applies uniformly across all industries.

Inventory valuation illustrates another structural principle. Türkiye allows only FIFO and weighted-average methods; downward valuation is accepted only when the loss of value is permanent and objectively provable. Temporary market declines or managerial estimates are insufficient. To validate inventory, the administration triangulates warehouse counts, dispatch notes, customs data, VAT records and e-Ledger entries. Any mismatch in quantity, timing or classification triggers scrutiny—not only of the inventory but of the broader reliability of the statutory

books. Inventory methodologies rarely change, making statutory consistency more critical than managerial valuation preferences.

Financing costs interact with two statutory mechanisms: thin capitalisation rules and interest limitation rules. Thin capitalisation applies a 3:1 debt-to-equity ratio for related-party loans; exceeding it renders a portion of interest non-deductible and potentially recharacterised as a disguised dividend, subject to withholding tax. Interest limitation rules may further restrict net financing costs when leverage exceeds defined thresholds. These mechanisms require that loan agreements, pricing benchmarks, treasury policies, intercompany rationales and cash-flow projections collectively form a credible economic story. The administration evaluates not just pricing but purpose, capacity and functional alignment.

Revenue recognition under VUK follows statutory logic: delivery, completion and invoicing must converge into a legally valid taxable event. Even if TFRS recognises revenue under the performance-obligation or percentage-of-completion principles, VUK requires documentary confirmation of realisation. Contracts, dispatch records, customer acceptances, e-Invoices and commercial-law milestones must align. Divergence between TFRS revenue and statutory revenue is permissible only when fully reconcilable through documentation.

Tax losses may be carried forward for five years, but the right is conditional. Losses generated in years with incomplete statutory books, mismatched reconciliations, missing documentation, VAT filings inconsistent with revenue or payroll data that conflict with ledger entries may be rejected. Loss carry-forward requires loss integrity; not all losses qualify simply because they appear on a tax return.

Quarterly advance corporate tax embeds a monitoring mechanism into the system. Year-end results must reasonably reconcile with cumulative quarterly figures. Significant divergence triggers

inquiry unless supported by documentation—commonly arising from FX volatility, year-end inventory adjustments, statutory depreciation differences or incentive-driven corrections. Türkiye expects year-round consistency, not year-end reconstruction.

Underlying all these elements is one institutional philosophy: the tax base is a narrative, not a number. The administration reconstructs this narrative through cross-system reconciliation. Statutory books are evaluated in relation to:

- e-Invoice and e-Archive data,
- e-Ledgers,
- VAT cycles,
- withholding filings,
- social-security declarations,
- customs data,
- bank transactions,
- transfer-pricing documentation.

Each dataset must tell the same economic story. When coherence prevails, Türkiye offers a highly predictable, rule-based environment. When inconsistencies arise, the system intentionally decelerates and requires taxpayers to reconcile statutory reality with operational conduct.

Ultimately, Türkiye's corporate income tax framework rewards businesses that treat tax as an extension of governance. Statutory accounting integrity, documentary precision, functional alignment and cross-system consistency determine not only the accuracy of taxable income but also the enterprise's institutional credibility. In Türkiye, taxable profit is not what management believes it earned—it is what the records, across all systems, can prove beyond a reasonable doubt.

7.3 Participation Exemption and Dividend Taxation: The Architecture of Equity Mobility in Türkiye

Türkiye's participation exemption regime is one of the most influential components of the country's tax architecture. It shapes holding-company design, profit-repatriation strategies, multi-entity operating models and the financial behaviour of cross-border groups. Although often compared—superficially—to EU directives, Türkiye's regime is entirely domestic, built on statutory requirements, substantive expectations and documentary integrity rather than harmonised bloc-wide rules.

At its core, the participation exemption operates as a narrative test. The tax administration examines whether the income being exempted reflects genuine equity returns arising from substantive, traceable investment activity. When this alignment is precise, Türkiye offers a clean, predictable, and durable pathway for moving profits across entities and across borders. When the narrative diverges—due to insufficient substance, inconsistent records or artificial structuring—the system responds immediately.

Participation exemption and dividend taxation form the backbone of Türkiye's internal capital markets, supporting the movement of profits within group structures while ensuring that outbound flows remain aligned with international standards on beneficial ownership and anti-abuse principles.

The Domestic Participation Exemption: A Frictionless Internal Capital Market

At the domestic level, Türkiye applies one of the most neutral dividend regimes in the region. Dividends distributed from a Turkish-resident company to another Turkish-resident corporate taxpayer are fully exempt from corporate income tax. The exemption is unconditional: no minimum shareholding

threshold, no holding period, no business-purpose requirement. This structural neutrality ensures that once corporate income tax is paid at the operating company level, profits can circulate upward through holding companies without additional tax friction.

Because Türkiye does not operate a fiscal-unity or group-taxation system, internal capital mobility must occur through dividends rather than consolidation. The domestic participation exemption serves as the institutional bridge, allowing cash to move efficiently across multi-entity structures. This neutrality underpins M&A structures, post-acquisition reorganisations, cash-pooling decisions, treasury strategies and internal recapitalisation cycles.

International Participation Exemption: Conditional Relief Anchored in Substance

Türkiye exempts dividends received from qualifying foreign subsidiaries, but the relief is conditional and enforced with a substance-driven lens. For a Turkish company to exempt foreign-sourced dividends, all of the following must be met:

- at least 10% ownership in the foreign entity,
- an uninterrupted two-year holding period,
- the foreign subsidiary being subject to at least 15% corporate income tax,
- actual remittance of the dividend to Türkiye within the statutory timeframe.

Each element is interpreted through documentary evidence. The administration expects continuous, traceable ownership supported by custodian statements, statutory filings and financial disclosures. Where the foreign jurisdiction applies hybrid or preferential regimes, the effective tax burden must be demonstrated with precision. When group structures involve multi-tier subsidiaries, documentation must show how profits flowed through each layer without erosion.

The 7491 Law Amendment: The 50% Partial Exemption Pathway

Recent amendments introduced by Law No. 7491 created an alternative pathway for foreign-sourced dividends that do not meet the 15% minimum tax-burden requirement. The regime provides a 50% participation exemption where:

- the Turkish shareholder holds at least 50% of the foreign entity, and
- The dividend is remitted to Türkiye by the tax-return filing deadline.

This pathway reflects Türkiye's structural priority: capital repatriation supported by traceable equity ownership. It provides relief to groups operating in low-tax jurisdictions while maintaining alignment with beneficial ownership standards and anti-avoidance frameworks.

The Two-Year Holding Requirement as a Substantive Test

The statutory holding period is not a symbolic formality—it is a continuity test. Turkish practice requires evidence that the investment has remained uninterrupted, unpledged and economically intact for the requisite period. Mergers, demergers, share-class conversions, and internal share transfers must be carefully documented to demonstrate continuous ownership. Any ambiguity may delay eligibility for an exemption or trigger audit challenges.

Outbound Dividends: Structural Taxation with Treaty-Based Relief

Dividends paid by Turkish companies to non-resident shareholders are subject to a default 15% withholding tax, reduced under many double tax treaties to 10% or 5% depending on shareholding ratios. No treaty reduces this rate to zero—this is a structural characteristic of Türkiye's treaty network, consistently applied.

However, treaty access depends on beneficial ownership. The administration examines whether the foreign recipient:

- exercises genuine control over the income,
- assumes real economic risk,
- has functional substance and decision-making capacity,
- is not contractually or financially obligated to pass the income onward.

Entities with minimal substance, back-to-back structures or conduit characteristics face heightened scrutiny, and treaty rates are denied where beneficial ownership cannot be established.

Disguised Profit Distribution: Protecting the Integrity of the Exemption

Türkiye's disguised profit distribution rules serve as the enforcement mechanism for the participation exemption. Payments reclassified as hidden dividends become non-deductible for corporate tax purposes and are subject to withholding as if they were dividends. This ensures that participation-exemption benefits cannot be circumvented through mislabelled management fees, royalties, service charges or financial flows that lack economic substance.

Participation Exemption in M&A, Holding Structures and Exit Design

The participation exemption is a foundational tool in Turkish holding-company and M&A design:

- Holding companies can aggregate surplus cash to service acquisition debt.
- Multi-tier structures can be built without additional domestic tax leakage.
- Pre-exit reorganisations can centralise profits efficiently.
- Post-acquisition dividends can flow across entities without friction.
- Exit-stage distributions remain predictable, subject only to outbound dividend WHT.

Because Türkiye does not tax dividends between resident companies, internal reorganisations can efficiently reallocate cash and equity, provided the documentary trail is clear.

Three Forces Define Türkiye's Participation-Exemption Architecture

➤ Domestic dividend neutrality

Once corporate income tax is paid, profits can flow freely within Türkiye—without incremental erosion or holding-period constraints.

➤ Positive outbound withholding tax

All outbound dividends bear a minimum positive rate. Treaties reduce, but never eliminate, this burden. Substance governs everything

➤ Beneficial ownership, functional alignment, documentation and economic purpose determine access to both domestic relief and treaty protection.

7.4 The Architecture of Türkiye's VAT System: Transactional Visibility, Compliance Rhythm and Supply-Chain Logic

Türkiye's VAT system operates as a high-frequency visibility engine rather than a transactional tax. It creates a continuous data stream that links commercial behaviour to institutional interpretation. Every invoice, dispatch note, customs declaration and ledger entry becomes a real-time signal. When these signals align, the system becomes predictable. When they diverge, visibility turns into scrutiny.

VAT rests on three structural pillars that shape the foreign investor's operating model from day one: a statutory framework

that defines liability with precision; a digital compliance infrastructure that records every movement of goods and services; and a monthly filing rhythm that institutionalises transparency. In this environment, VAT is not an after-the-fact accounting figure but a dynamic narrative of commercial activity.

The moment the first e-Invoice is issued, VAT becomes operational. Türkiye's digital infrastructure—e-Invoice, e-Archive, e-Dispatch, e-Ledger, customs systems and banking channels—feeds into a unified data architecture that cross-validates business conduct. The system assumes that real commercial activity leaves consistent, synchronised traces. When those traces conflict, the burden shifts immediately to the taxpayer to reconcile statutory form with economic substance.

7.4.1 Documentation as Economic Evidence

VAT in Türkiye treats documentation as the primary expression of economic intent. Contracts, invoices, dispatch records, stock movements and customs data must narrate the same event. A contract without a corresponding e-Invoice is incomplete; an invoice without a dispatch note is structurally irregular; a dispatch note unsupported by physical movement records becomes a risk flag.

Authorities read these materials spatially rather than in isolation. An e-Invoice is cross-checked against e-Ledger entries, which are reconciled against customs outputs or banking flows. The system rewards actors whose documentation ecosystem behaves with internal coherence. Inconsistent actors are treated as higher risk, even when individual documents appear correct.

In this sense, Türkiye's VAT framework is less a tax rule-set and more an institutionalised method for detecting behavioural misalignment.

7.4.2 Input VAT Credit and the Logic of Deductibility

Input VAT is entirely creditable when the underlying cost contributes to taxable activity and is appropriately documented. The credit rules treat deductibility as an evidentiary privilege rather than an automatic right. Every credit must be anchored to a commercially meaningful transaction that appears identically across invoices, stock records, ledgers and payment channels.

Where documentation is incomplete or where the commercial relevance of a cost is ambiguous, credit is disallowed. This transforms input VAT into a governance mechanism: procurement discipline, accurate accounting codes, supplier verification and timely ledger integration become central drivers of recoverability. The deductibility test is therefore behavioural: entities with consistent, timely and reconciled internal systems experience smooth credit recognition; those with fragmented processes face incremental VAT cost.

7.4.3 VAT Refunds and the Architecture of Precision

For exporters, refund entitlements turn VAT into a critical liquidity channel. Türkiye's refund system does not simply require evidence; it requires evidence that is internally synchronised across all data pipes. Successful refunds demonstrate alignment among customs confirmations, e-Invoices, dispatch records, shipping documentation, input VAT trails, and statutory ledgers.

Even a minor discrepancy—an invoice issued on the wrong day, a mismatch between dispatch and customs timing, a cost misallocated—can slow or suspend the entire refund cycle. Investors operating with high refund volumes must therefore embed documentary integrity into operational design rather than treat it as an administrative task.

Türkiye increasingly runs refunds on a dual-layer model: sworn-CPA (YMM) certification and centralised algorithmic risk scoring. Even a flawlessly prepared CPA report may undergo additional

verification if counterparty behaviour or transactional patterns trigger the risk engine. Refund governance, therefore, becomes an institutional competency requiring real-time reconciliation rather than retrospective audits.

7.4.4 Reverse Charge: The Structural Gatekeeper for Cross-Border Services

Reverse-charge VAT assigns liability to the Turkish recipient when the service is consumed domestically. This mechanism applies broadly to advisory, engineering, software licensing, cloud hosting, management fees, digital platforms and SaaS activity. The critical element is classification: a single agreement that combines licensing, hosting, and services may engage multiple VAT regimes, each with different corporate-tax and withholding-tax implications.

Failure to unbundle these elements results in cross-tax inconsistencies, which Türkiye's systems quickly uncover. A service treated as reverse-charge VAT but recorded as a royalty in transfer-pricing documentation, or vice versa, creates a compliance echo that triggers review. The VAT regime, therefore, requires contract architecture that separates functions according to economic substance.

Export-of-services relief operates under a strict four-factor test: the customer must be abroad; the benefit must accrue abroad; the service must not relate to activity carried out in Türkiye; and consideration must be paid in foreign currency. All four must be satisfied. Any deviation invalidates the exemption, often resulting in a complete retrospective VAT assessment.

7.4.5 Import VAT and the Customs Interface

Import VAT is assessed at customs and becomes creditable once it appears in the taxpayer's return. The customs interface is one of the most sensitive friction points in Türkiye's supply-

chain architecture. HS codes, invoice values, Incoterms, import sequencing and dispatch records must align not only with customs declarations but also with e-Ledger and VAT returns. A mismatch at this stage affects both tariff exposure and the integrity of VAT credits.

7.4.6 Contract Design and Revenue Timing

In project-driven sectors—construction, EPC, engineering, infrastructure deployment—contract design implicitly shapes VAT timing. Payment schedules, milestone definitions, material transfers and acceptance protocols each influence when VAT crystallises. Commercial teams frequently underestimate how contract structure affects liquidity through VAT. In Türkiye, VAT timing is an economic variable, not an administrative detail.

7.4.7 Monthly Filing Rhythm and Institutional Visibility

VAT returns are filed monthly, generating a high-frequency visibility cycle. Authorities use filings as recurring checkpoints that map taxpayer behaviour. Timing mismatches between invoices, dispatch records, ledger entries and VAT declarations immediately adjust the taxpayer's institutional risk score.

VAT also functions as a connective tissue between institutions: banks review VAT records to assess turnover credibility; the social-security system identifies payroll anomalies through VAT-linked data; customs cross-checks import and export VAT with transactional flows. The system expects taxpayers to exhibit month-on-month internal consistency rather than year-end reconstruction.

7.4.8 Sector-Specific Patterns and Algorithmic Sensitivities

Specific industries generate signature VAT risk patterns—technology through reverse-charge intensity; manufacturing through stock-movement alignment; construction through milestone-based timing. Türkiye’s transition toward algorithmic audit models means these patterns are increasingly detected automatically. VAT-withholding mechanisms have expanded accordingly, shifting obligations to reflect the economic substance of outsourced functions rather than traditional sector labels.

Institutional alignment is therefore essential: procurement descriptions, invoice wording, ledger codes and contract structures must narrate the same economic reality. When they do, VAT becomes a stable and predictable component of the operating model. When they do not, the system introduces deliberate friction until coherence is restored.

7.5 Withholding Tax on Cross-Border Payments: Classification, Substance and Treaty Interaction

Türkiye’s withholding-tax architecture does not operate as a mechanical tariff grid; it functions as an interpretive framework through which the State tests whether the legal form, economic substance and documentary footprint of a cross-border payment genuinely converge. The regime is built on one principle: the character of the income stream must be demonstrated through evidence, not contractual labels. This makes withholding tax not only a fiscal mechanism but an institutional signal of governance discipline.

Türkiye first asks what the payment actually is, not what the agreement calls it. A fee described as “consultancy” may contain royalty elements; a “technology service” may embed a licence; a “management fee” may hide financing value; an “access right”

may be economically indistinguishable from a recurring IP charge. In this sense, classification is not a drafting exercise but a behavioural test, and the test is applied through a digital ecosystem that processes transactions across multiple systems simultaneously.

Domestic withholding-tax rates are structurally stable: outbound dividends generally bear 15%, interest on foreign loans 10%, and royalties or many technical-service payments 20%, unless a treaty provides relief. Türkiye's treaty network narrows these rates—most commonly to 10% or 5% for dividends, and frequently to 10% or lower for interest and royalties—but no treaty reduces dividend WHT to zero. The non-zero minimum is a design feature of the treaty map.

The decisive gateway to treaty relief is beneficial ownership. The recipient must have economic control over the income, bear associated risks, and possess the genuine capacity to use and enjoy the income without a contractual or practical obligation to pass it onward. Türkiye interprets beneficial ownership through substance-over-form principles and the post-MLI landscape. Entities with limited substance, thin governance capacity, or back-to-back structures risk being treated as conduits, even with a valid residency certificate.

The administration conducts a factual inquiry that examines operational substance, functional involvement, economic risks assumed, governance autonomy and the commercial logic of the structure. If beneficial ownership is not demonstrated, Türkiye applies the domestic statutory rate regardless of treaty wording. The inquiry is not theoretical; it is grounded in internal approvals, funding flows, decision-making patterns, functional allocation and how the structure appears in transfer-pricing documentation.

Post-MLI, Türkiye applies the principal purpose test (PPT) alongside the beneficial ownership test. Even where beneficial ownership is accepted, treaty relief may still be denied if the arrangement's

dominant purpose is to obtain a favourable treaty rate without a substantive commercial justification. The analysis examines economic coherence: Does the payment align with functional profiles? Does the recipient have balance-sheet capacity? Do the contractual flows reflect commercial rationale? The emphasis is on institutional alignment, not contractual intent.

Classification remains the architecture's structural determinant. Technology, SaaS, engineering, hosting and IP-heavy sectors frequently involve hybrid payment flows embedded within a single agreement. A single contract may cover software licensing, implementation, hosting, maintenance, upgrades, user support and access rights—each with potentially different WHT treatment. Türkiye expects taxpayers to unbundle these elements and allocate consideration in accordance with economic substance. Failure to do so risks the entire amount being taxed at the highest applicable rate.

Interest payments follow a similar documentary logic. Although the default rate is 10%, deductibility is subject to thin capitalisation (3:1 debt-to-equity ratio for related-party loans) and arm's-length pricing. If leverage exceeds statutory limits or pricing deviates from arm's-length standards, the disallowed portion of interest becomes non-deductible and may be recharacterised as a disguised dividend. Such recharacterisation typically triggers dividend WHT, not interest WHT, and aligns with Türkiye's broader policy of preventing disguised profit shifting through intra-group financing structures.

Judicial doctrine adds nuance. Although the administration applies a broad "source-of-benefit" test, Turkish courts—particularly the Council of State—have held that purely advisory or information-based services require a demonstrable factual nexus to Türkiye to constitute Turkish-source income. These decisions underscore that classification for WHT purposes involves an analysis of both the economic benefit and the service's factual footprint. The assessment is not rhetorical; it is evidentiary.

Türkiye's digital ecosystem reinforces this evidentiary standard. Because WHT filings, VAT reverse-charge declarations, transfer-pricing documentation, customs data, and bank movements are part of an integrated digital architecture, inconsistencies are immediately visible. A payment treated as a service for WHT purposes but classified as a royalty for VAT creates an automatic risk signal. The system expects a single, coherent narrative: legal form → functional substance → financial flow → tax treatment → digital record.

The institutional expectation is clear: cross-border payments must reflect economic reality across every interface. Where contractual language, operational behaviour, transfer-pricing narratives, VAT treatment and financial flows align, treaty relief is applied predictably. Where they diverge, withholding tax becomes the mechanism through which the administration restores coherence.

7.6 Stamp Tax Architecture: Value, Form and the Legal Dynamics of Documentation in Türkiye

Stamp tax occupies an unusual strategic position within Türkiye's fiscal ecosystem: it does not track revenue, profitability or economic output — it attaches to documentation itself. The moment a commercial intention is translated into an enforceable written instrument, the fiscal consequence crystallises. In an administrative environment where institutions rely on documentation as the primary expression of economic reality, the stamp tax becomes both a monetary charge and a structural design constraint that shapes how contracts, undertakings and long-term business frameworks are drafted.

The core rule is deceptively simple. Most undertakings, commitments and agreements are subject to stamp duty at 0.948% of the highest enforceable monetary value stated in the

instrument. Liability arises at execution, regardless of whether the document is signed in ink, via electronic signature or through a digital contracting platform. What matters is enforceability, not medium. For this reason, stamp tax is a first-order variable in high-value EPC agreements, long-term service frameworks, financing documentation, procurement ecosystems and multi-year infrastructure undertakings.

A recurring source of misunderstanding among foreign investors is the distinction between an instrument and its counterparts. Türkiye does not levy multiple stamp taxes merely because each party holds a signed copy. Two signed originals of the same enforceable agreement constitute one taxable instrument. Multiplication arises only when legally independent undertakings exist — separate agreements, enforceable side letters, stand-alone guarantees or annexes that impose autonomous obligations. The determinant is legal independence, not the number of pages, signatures or physical copies.

Türkiye's stamp-tax ceiling adds a second layer of design logic. Each proportional-rate document is capped at a statutory maximum amount per year. Other categories — receipts, minutes, certifications, acknowledgements — are subject to fixed charges. These fixed duties are revalued annually. For high-value commercial frameworks, the ceiling informs not only financial modelling but the architecture of the document pack itself. Classification, therefore, cannot be an afterthought; it must precede drafting.

Share purchase agreements sit in their own category: they are entirely exempt, irrespective of value. The exemption is absolute and unaffected by deal size, share class, or the number of counterparts executed. However, the broader transaction ecosystem — shareholders' agreements, transitional services agreements, escrow arrangements, non-compete undertakings, financing documents, and collateral frameworks — does not inherit this exemption. Each must be evaluated individually. In

practice, this means the SPA is rarely the stamp-tax driver; the satellite documentation is.

Documents executed abroad may still fall within scope if they are brought into Türkiye, relied upon in a Turkish transaction, used before a Turkish authority, or invoked in a manner that creates rights or obligations within Türkiye. The determinant is the location of legal effect, not the place of signature. A New York-executed loan agreement delivered to a Turkish bank for drawdown, or a foreign guarantee invoked against Turkish assets, becomes taxable upon entering the Turkish sphere of use. Liability may arise even without a Turkish signature because enforceability—not formality—is the trigger.

Beneath these fundamentals lie deeper structural mechanics that materially influence exposure:

- Amendments, renewals and restatements that create new obligations are treated as new instruments and generate fresh tax events.
- Annexes and schedules may constitute independent taxable instruments when they impose stand-alone obligations or contain quantifiable commitments. Labelling is irrelevant; the analysis turns on legal effect.
- Conditional or variable obligations are taxed at the highest enforceable value, not at the amount likely to materialise.
- Embedded guarantees, indemnities or performance undertakings may, depending on drafting, be treated as separate taxable documents.
- Fragmented contracting models — standard in EPC, technology, outsourcing and infrastructure projects — may inadvertently create multiple taxable instruments unless structured cohesively.

Because the stamp tax attaches to enforceability rather than economic substance, contract design becomes a fiscal exercise. The architecture of a multi-document contracting suite can produce

materially different outcomes depending on how obligations are consolidated, sequenced or separated. In Türkiye, drafting is not merely a legal craft — it is a tax-structuring discipline.

Sectoral practice reinforces this dynamic. Infrastructure, energy, construction, and technology projects routinely involve layered agreements — master services agreements, annexes, technical specifications, performance guarantees, supply contracts, contractor declarations, change-order frameworks, and financing addenda. Without a unified design strategy, these ecosystems produce unnecessary stamp-tax multiplication. Experienced practitioners, therefore, treat stamp-tax structuring as a front-end design exercise rather than a post-execution compliance step.

At a conceptual level, Türkiye's stamp tax mirrors the broader administrative philosophy of the system: obligations must be both legally enforceable and fiscally accountable. The State taxes the commitment itself — the documentary act of binding parties to an obligation — because documentation is the anchor of institutional trust. The system rewards precision, clean drafting, consolidated structures, and early planning. Neglect, by contrast, results in avoidable friction embedded at the earliest stage of commercial engagement.

Handled proactively, the stamp tax becomes a predictable cost parameter. Handled reactively, it becomes a hidden variable that distorts economics long after the commercial terms have been agreed.

7.7 Payroll Taxation, Income Tax Brackets and the Social Security Architecture

Türkiye applies a progressive, cumulative income tax system. Although employers withhold tax monthly, the brackets themselves are used on a year-to-date basis. Once an employee's cumulative earnings exceed a threshold, the employer must immediately use the higher marginal rate. For mid- and high-income earners, this creates a notable increase in tax intensity in the latter half of the year, influencing workforce-cost modelling and compensation strategies.

Social-security contributions form the second structural layer of the payroll burden. Combined employer-and-employee SGK contributions often exceed 37% of gross salary, yet exposure is capped by the statutory earnings ceiling, which is updated annually. Once remuneration exceeds this ceiling, no additional social security contributions are levied; the incremental burden shifts entirely to income tax. For employers — particularly those managing expatriate assignments or high-skilled workforce profiles — the ceiling must be built directly into compensation algorithms, budgeting frameworks and long-term financial planning. Because SGK contribution rates and parameters are periodically revised, payroll governance requires ongoing legislative monitoring.

The distinguishing feature of Türkiye's payroll environment is system-wide coherence. Employment contracts, payroll calculations, withholding returns, SGK declarations, bank transfer records, and accounting entries must align with a near-zero tolerance for discrepancies. Türkiye's digital infrastructure continuously cross-validates payroll data against tax-office filings and SGK submissions. Even minor inconsistencies — a mismatch between net-salary transfers and payroll ledgers, an incorrectly coded benefit, a misaligned termination date — may

trigger administrative scrutiny because the system is engineered to self-audit through digital reconciliation.

Non-cash remuneration is one of the most sensitive compliance categories. Türkiye applies a strict presumption of taxability: unless a benefit is expressly exempt under statute, it is treated as taxable employment income. Housing allowances, tuition payments, transport reimbursements that exceed statutory limits, employer-paid private insurance premiums, and most forms of corporate expense coverage fall squarely within the taxable base. Documentation quality is pivotal. Benefits that lack statutory grounding, commercial rationale or contemporaneous approval trails are frequently reclassified as salary during inspections or M&A due diligence.

Equity-based compensation introduces a distinct structural exposure. Türkiye does not maintain a dedicated statutory regime for stock options. As a result, the taxable event is determined by when the employee obtains economic value — at grant, at vesting, or at exercise, depending on the plan design. Where the Turkish entity bears the cost through an intercompany recharge, provides functional involvement in the administration of the plan, or receives an economic benefit from the employee's participation, Turkish payroll taxation becomes unavoidable. Because no statutory valuation safe-harbour exists, companies must maintain contemporaneous evidence to support fair-value determinations and withstand audit scrutiny. These exposures frequently arise in due diligence processes and can produce material hidden liabilities if not monitored.

Expatriate taxation adds doctrinal complexity. Treaty protection under the 183-day rule requires that the employee:

- (1) remains in Türkiye for fewer than 183 days in 12 months,
- (2) receives remuneration from a non-resident employer, and
- (3) is not economically borne by a Turkish entity.

Türkiye interprets this framework through an economic-

employer lens. If the Turkish operation directs day-to-day activities, receives the benefit of the services, or bears the cost through intercompany charges, treaty protection collapses even when formal employment remains abroad. Authorities reconstruct the functional presence of expatriates through travel logs, residence data, digital communications, meeting records, and project management systems. Once economic presence is established, the administration imposes retrospective income tax withholding, SGK obligations, and, in some scenarios, permanent establishment implications for the foreign employer.

The payroll cycle reinforces these dynamics through its monthly structure. Each month requires calculating gross-to-net payroll, preparing withholding returns, filing SGK declarations, paying contributions, transferring net salaries, and reconciling all entries with e-Ledger outputs. Türkiye's infrastructure does not operate as an annual compliance regime; it functions as a continuous real-time monitoring system that automatically detects misalignment between filings and actual behaviour.

These characteristics explain why payroll is consistently identified as one of the highest-risk areas in Turkish due diligence reviews. Misclassified benefits, unregistered expatriates, incorrect application of cumulative tax brackets, errors in applying the SGK ceiling, missing approvals for allowances and misaligned payroll-to-bank transfers are among the most common findings. Warranty-and-indemnity insurers frequently exclude payroll exposures from coverage for this reason, unless the target can demonstrate multi-year data integrity and system coherence.

Taken as a whole, Türkiye's payroll architecture reflects a single institutional logic: employment taxation is a behavioural metric. The State evaluates not what the company claims to pay, but what its documents, bank movements, ledgers and digital submissions collectively prove. Consistency, not interpretation, governs compliance.

7.8 Tax Administration Behaviour, Audit Risk and Türkiye's Supervisory Architecture

Türkiye's tax administration operates through an institutional model that blends civil-law formalism with digital forensics. Once a foreign investor understands the substantive rules — corporate tax, VAT, withholding, payroll and stamp duty — the next strategic layer is learning how these rules are enforced. Enforcement follows a core principle: economic reality must match documentary evidence, and documentary evidence must match digital records.

Türkiye's supervisory environment has migrated from manual review to algorithmic oversight. The Revenue Administration's risk-scoring infrastructure — widely referenced as RDMS — integrates e-Invoice data, e-Ledger outputs, customs filings, banking movements, payroll declarations and VAT submissions into a unified behavioural map. A taxpayer becomes visible not when an audit begins, but the moment its first e-Invoice is issued.

The system applies a strict evidentiary hierarchy. Electronic statutory records — e-Invoices, e-Ledgers and e-Archive files — form the primary layer of truth. Bank movements and contractual documents follow. Management explanations, retrospective justifications or verbal assertions occupy the lowest tier and cannot override discrepancies embedded in statutory data. In practice, this hierarchy shapes audit outcomes more decisively than interpretative argumentation.

Audits rarely begin with dramatic notices. They originate deep within continuous data-reconciliation pipelines. The administration silently compares VAT filings with supplier declarations, contrasts payroll withholding with SGK notifications, matches customs data with inventory flows and evaluates payment trails against contractual commitments. When these datasets converge, the system remains silent. When they diverge,

it reacts algorithmically. In Türkiye, an audit is not triggered by suspicion — it is triggered by inconsistency.

By the time field auditors contact a taxpayer, they typically know exactly where the inconsistencies lie. The supervisory process begins long before any human interaction. Digital systems have already reconstructed a provisional economic narrative, identifying mismatches in invoice timing, stock movements, intercompany pricing, payroll data or banking flows. The audit merely seeks documentary confirmation of the pre-detected discrepancy.

This behaviour becomes particularly evident in cross-tax inconsistencies — scenarios in which the same transaction is described differently across tax types. A payment classified as “consultancy” for VAT but as “salary” for withholding creates a digital contradiction that the system detects instantly. Similarly, e-Ledger entries that do not reconcile with transfer-pricing documentation, or payroll declarations that diverge from bank payments, create systemic red flags. These are not interpretive disagreements; they are structural failures inside the data architecture.

Sectoral dynamics influence supervisory posture.

- Manufacturing audits focus on input-output logic, BOM alignment and stock movements.
- Construction audits follow subcontractor chains and milestone documentation.
- Technology and SaaS audits focus on reverse-charge VAT patterns and cross-border service classification.
- Logistics audits triangulate customs data with dispatch notes and VAT records.
- Professional services audits scrutinise withholding integrity and service-benefit alignment.

These patterns are the outcome of long-term behavioural analytics, not discretionary judgment.

Risk indicators extend beyond apparent anomalies. Common triggers include:

- consistent mismatches between VAT filings and supplier declarations, especially during refund cycles;
- salary payments inconsistent with payroll ledgers or SGK filings;
- intercompany charges lacking contemporaneous functional evidence;
- contracts whose commercial terms do not match bank payments;
- artificial timing patterns (backdated or post-dated invoices) creating temporal distortions in the statutory record.

The most consequential exposure arises when inconsistencies repeat across multiple datasets. Türkiye's administrative logic does not penalise minor, isolated errors — it penalises systemic misalignment.

Despite the intensity of digital oversight, Türkiye's audit culture is not adversarial. It is procedural, rules-driven and increasingly standardised. Penalties follow formulaic structures; settlement mechanisms offer structured relief; litigation focuses on legal interpretation rather than discretionary assertions. Foreign-owned companies with reconciled ledgers, consistent filings and robust documentation typically experience the system as firm but predictable.

Audit predictability stems from one institutional expectation: coherence.

Economic activity must be expressed identically across all systems — contractual, financial, operational and digital. When these layers align, audits become routine. When they diverge, the administration defaults to the version of events supported by the most objective record — usually digital financial flows.

Ultimately, Türkiye's supervisory architecture is not an unpredictable authority but a computational institution. It evaluates behaviour through data consistency with a degree of precision that makes transparency a strategic advantage. Companies that internalise this logic do not merely comply — they operate with institutional resilience.

7.9 Tax Disputes, Administrative Appeals and Türkiye's Settlement Framework

Türkiye's tax-dispute environment operates on a procedural framework in which documentary coherence, not advocacy, determines outcomes. When a disagreement surfaces, the administration evaluates the entire lifecycle of the transaction — contracts, invoices, statutory filings, digital records and financial flows — and reconstructs economic reality through evidence rather than argument. The credibility of the taxpayer's position depends on whether these channels narrate a consistent story.

A dispute typically begins with an administrative assessment in which the authority outlines its interpretation of the facts and the statutory basis for adjustment. This is not a negotiation; it is the administration's formal articulation of the economic narrative it has derived from the data pipeline. Once issued, the process follows a structured escalation path: objection, review commissions, settlement mechanisms and, if needed, judicial review. Each stage evaluates not the taxpayer's intentions but the integrity of the evidentiary record.

The objection stage offers the taxpayer the first opportunity to stabilise the factual matrix. It is a documentary process: the administration examines timing, alignment across datasets, consistency of supporting documents and the plausibility of the economic sequence. Minor discrepancies — delayed invoicing, mislabelled payments, missing shipping documents — are often

resolved here if the underlying records are coherent. The system reacts positively when inconsistencies are reconciled promptly and transparently.

Settlement (*uzlaşma*) represents Türkiye's most distinctive institutional mechanism. It is not discretionary bargaining but a structured resolution channel governed by statutory rules and administrative norms. Two behavioural principles dominate settlement outcomes:

1. Coherent documentation expands settlement capacity.

When contracts, invoices, ledgers, bank flows, and digital submissions align, penalties are typically reduced, timelines are shortened, and the process becomes more predictable.

2. Fragmented or contradictory records narrow settlement options.

Where inconsistencies remain unresolved, or where economic substance diverges from documentation, the administration shifts toward formal litigation channels.

If the settlement fails or is not pursued, the matter proceeds to court. Tax courts operate under a civil-law framework where written evidence is paramount. Hearings focus on alignment between statutory definitions and documentary proof—not on rhetorical persuasion. Judges place little weight on verbal clarifications; instead, they examine whether the taxpayer's narrative is expressed consistently across time-stamped filings, contracts, accounting records and bank movements. Appellate review — through the Regional Administrative Courts and ultimately the Council of State — narrows the dispute further to statutory interpretation and procedural compliance.

The penalty ecosystem reinforces this disciplined approach. Penalties are formulaic, with reductions available for early disclosure, cooperation or successful settlement. The architecture functions as a behavioural signal: transparency reduces exposure;

opacity increases it. The administration places a premium value on taxpayers who remediate root-cause inconsistencies and maintain reconciled data structures.

Foreign-owned companies generally find Türkiye's dispute system structured rather than adversarial. The determinative factor is the coherence of the evidentiary chain. When economic events are consistently reflected across contractual documents, statutory filings, digital records and financial flows, the dispute process becomes a predictable, process-driven exercise. When these channels diverge, the administration defaults to the narrative supported by objective records, particularly data embedded in e-Ledger and banking systems.

Ultimately, Türkiye's dispute architecture reinforces one strategic conclusion: credibility is a function of alignment. The strength of a taxpayer's position is not measured by argumentation, but by the synchronisation of documentation, timing, digital records and internal processes. Companies that embed this logic into their governance infrastructure develop durable resilience and navigate disputes with institutional stability.

7.10 Incentive Regimes and Sector-Based Tax Programs: The Architecture of Targeted Advantage

Türkiye's incentive ecosystem is not a collection of subsidies; it is a structural policy instrument designed to shape corporate behaviour, investment architecture and operational geography. VAT exemptions, corporate tax reductions, investment contribution rates, customs exemptions, social-security support and R&D-linked benefits all operate under a unified institutional principle: the activity benefiting from the incentive must be demonstrably aligned with the company's documented economic reality.

This principle distinguishes Türkiye from regimes where incentives function as stand-alone entitlements. In Türkiye, incentives amplify — rather than relax — documentation standards. The State expects clear, traceable evidence that the activity incentivised is performed as declared, that value is created within the defined boundaries, and that statutory preconditions are consistently reflected across digital systems. Incentive usage, therefore, sits at the intersection of governance, internal controls, statutory accounting and operational discipline.

The system evaluates incentive-supported activity through behaviour, not labels. Holding a certificate is not sufficient; the company must demonstrate that workflows, personnel functions, procurement patterns, asset deployment and financial flows align with the scope and geographic limits of the incentive. The incentive must be visible not only on paper but in the economic substance of the operation.

This expectation produces a structural impact on organisational design. Companies must articulate, with precision, which functions generate incentive-qualifying value, how these functions are segregated from routine operations, and how resource allocation — staff, equipment, cost centres — reflects this separation. Geographic boundaries, especially in organised industrial zones, free zones, technology development zones or R&D centres, must be respected both in practice and in documentation. Even minor deviations — employees working remotely outside the designated zone, assets temporarily used for non-incentivised work, or project records failing to distinguish activities — can undermine eligibility.

Digital reporting systems make these boundaries visible. E-Invoice records, cost allocations, payroll declarations, bank transfers and statutory ledgers must consistently reflect incentive-supported activity. A project described as incentive-qualifying must appear coherently across all datasets. If e-Ledger and procurement records point to activity outside the zone, or if payroll data

indicates staff performing functions unrelated to incentivised projects, credibility erodes quickly. Türkiye's incentive ecosystem is embedded in the same cross-verification logic that governs the broader tax architecture.

Incentives have a strategic design effect. They influence how investors structure supply chains, select locations, design workforce composition, plan capital expenditure and sequence investment phases. In technology- and R&D-driven sectors, incentives shape how intellectual property, engineering resources, and project management functions are organised. In manufacturing, they determine investment geography, cost structure and long-term competitive positioning. In capital-intensive industries, incentives influence financing models and asset lifecycles.

This behavioural discipline is not restrictive; it is the condition that makes Türkiye's incentive ecosystem durable, predictable and administratively credible. Investors who internalise the logic early integrate incentive governance into their operational DNA — setting up cost centres, project identifiers, workflow controls, asset logs and HR systems that mirror statutory boundaries. Those who treat incentives as peripheral financial advantages risk erosion during audits or during reviews tied to certification renewal.

As Türkiye intensifies its digital audit capacity, incentive integrity becomes increasingly data-driven. Each incentivised project effectively creates a digital fingerprint composed of invoices, payroll data, asset-use records, bank transfers, and statutory entries. Incentives remain robust only when this fingerprint matches the declared activity. When it does, Türkiye offers one of the most structured and strategically valuable incentive ecosystems in the region — one that supports industrial transformation, technology development and capital formation.

In this environment, incentives are not a short-term financial optimisation tool; they are a framework for designing corporate

behaviour, organisational architecture and long-term competitiveness. The companies that benefit most are those that approach incentives not as subsidies but as governance-ready strategic assets.

Türkiye's domestic tax ecosystem constructs a coherent internal narrative — statutory accounting under VUK, VAT as a transactional visibility engine, withholding-tax characterisation grounded in substance, payroll as a behavioural audit window, stamp duty as a documentation-based constraint, and incentive regimes as structural design tools. Together, these elements define how the State interprets economic reality within its borders.

Yet for multinational groups, Türkiye's institutional lens does not end at the domestic tax frontier. Cross-border activity — financing flows, service imports, royalty structures, supply-chain design, holding architectures, IP mobility, export-service eligibility and transaction sequencing — is evaluated through a second, equally rigorous framework: the interaction between domestic rules and Türkiye's treaty network.

This transition marks a structural pivot.

Where the earlier chapters explored how Türkiye reads economic activity inside its borders, the next chapter examines how Türkiye interprets the same activity across borders. Domestic coherence remains essential, but international consistency becomes equally decisive.

Türkiye's treaty architecture — influenced by OECD standards, MLI principles and long-standing domestic doctrines — does not simply reduce withholding rates; it defines the acceptable pathways through which cross-border profit allocation, substance, beneficial ownership, and economic intent must align. For groups operating global business models, these standards shape the

viability of holding companies, IP locations, financing hubs and regional operating structures.

What emerges is a dual narrative:

- the domestic tax identity built through data, documentation and behavioural consistency, and
- the cross-border tax identity built through treaty logic, substance alignment and international evidentiary expectations.

International tax strategy in Türkiye, therefore, becomes an exercise in coherence across jurisdictions.

A payment, structure, or value chain must survive scrutiny not only under Turkish domestic law but also under Türkiye's interpretive posture toward treaties, anti-abuse provisions, principal-purpose tests, and cross-border substance.

Chapter 8 examines this architecture in depth.

It explains how Türkiye interprets global structures, how treaty benefits are granted or denied, how cross-border services and royalties are classified, how transfer pricing interacts with international narratives, and how multinational groups can design internationally consistent, evidence-driven operating models that withstand both Turkish and foreign-jurisdiction scrutiny.

With domestic tax architecture established, the next step is understanding Türkiye's place in the international fiscal landscape — and how investors can build cross-border structures that are resilient, predictable and institutionally credible.

CHAPTER 8

INTERNATIONAL TAXATION, CROSS-BORDER STRUCTURING AND TÜRKİYE'S TREATY ARCHITECTURE

Türkiye's cross-border tax landscape operates as an integrated decision matrix in which treaties, substance expectations, and global transparency regimes converge to shape how international structures operate in practice.

"In Türkiye, international tax outcomes are not granted by structure—they are earned through substance, governance and behavioural coherence."

Türkiye's international tax framework aligns with global standards while emphasising substance, beneficial ownership and treaty-based coherence. The system assumes that cross-border tax outcomes must be anchored in economic reality: where value is created, where decisions are taken, where risks are managed, and how those elements are reflected in documentation and digital records. Treaties and OECD standards provide the legal architecture, but administrative practice ultimately follows behavioural evidence.

8.1 Türkiye's Position in the Global Tax Network: Treaties, OECD Standards and Institutional Expectations

Türkiye operates within a dense global tax network shaped by double tax treaties, OECD standards and the post-BEPS, post-MLI environment. These external frameworks converge with Türkiye's domestic philosophy: economic reality must match documentary evidence, and documentary evidence must match digital records.

Audit practice places special emphasis on service-PE indicators. Even where treaty protection exists, long-term on-the-ground involvement—especially in engineering, construction, consultancy or digital services—may be treated as creating a presence when negotiation, project management or decision-making extends into Türkiye.

Türkiye interprets cross-border flows through three complementary lenses:

- Economic purpose, assessed through contracts, bank flows, and functional involvement;
- Commercial substance, demonstrated by decision-making capacity, personnel activity and risk assumption;
- Documentary coherence, tested across invoices, transfer-pricing files, statutory records and electronic filings.

When these elements align, treaty benefits are usually granted without friction. When documentation is inconsistent or incomplete, however, treaty claims are frequently denied—even where legal prerequisites appear to be met. Beneficial ownership is evaluated economically: entities lacking genuine control, personnel or financial risk are generally treated as conduits and, accordingly, lose access to reduced treaty rates. Evidence of independent economic control is treated as the decisive test.

Türkiye's administrative expectations mirror the post-BEPS environment. The system does not reward aggressive planning;

instead, it favours transparent structuring in which profit allocation aligns with actual functions. This expectation is obvious in IP ownership, treasury operations, cross-border services and global employment models. Treaty protection remains robust, but it is grounded in a factual matrix that must withstand scrutiny under OECD standards and Türkiye's documentation-oriented administrative logic.

Investors who calibrate their structures to this environment achieve predictable outcomes: withholding rates are reduced smoothly, PE risks remain manageable, and profit attribution follows internationally recognised principles. When international frameworks align with Türkiye's evidence-based system, they create a reliable platform for long-term investment, regional headquarters activities and cross-border expansion.

Treaty protection also extends to dispute resolution. Mutual Agreement Procedures (MAPs) serve as a safety valve against double taxation and, for well-documented structures, Turkish authorities typically treat MAPs as a technical issue rather than a political negotiation. This further strengthens the stability of treaty-based protections for long-term investors.

8.2 Permanent Establishment Thresholds and the Attribution of Profits

Türkiye's permanent establishment (PE) rules sit at the intersection of treaty standards, domestic enforcement practice and an administrative mindset that expects economic activity to leave measurable institutional footprints. The conceptual framework reflects the OECD Model; the practical application reflects Türkiye's emphasis on documentation, functional clarity and visibility of economic presence.

A fixed place of business does not arise from formal declarations but from behavioural patterns: regularity of activity, a stable

commercial interface or a human presence performing core functions on Turkish soil. Multinationals often underestimate the speed with which recurring operational routines can accumulate into a taxable presence. Türkiye evaluates whether an enterprise has embedded itself into the local commercial environment—not whether the structure was designed to avoid permanence. Routine presence is interpreted as commercial anchoring when supported by emails, workflow logs or customer interaction records.

Agency PE risk is particularly significant. Authorities look beyond contractual wording to examine whether personnel—employees, secondees, consultants or dependent agents—habitually play a decisive role in concluding or materially shaping contracts. The threshold is functional rather than formal: if a person in Türkiye is executing the commercial strategy, the PE analysis shifts.

Operational signals that consistently heighten PE sensitivity include:

- local personnel performing value-creating or customer-facing functions, even if formally employed abroad;
- the use of co-working spaces, warehouses or technical facilities that create a stable commercial interface;
- repetitive or long-term service delivery in IT, engineering, logistics or advisory sectors;
- inbound projects evolving from temporary engagement into embedded operational presence.

Once a PE is recognised under the relevant treaty and domestic rules, profit attribution is not a negotiation but a reconstruction of the functional contribution made in Türkiye. Authorities assess roles, assets and risks through interviews, expenses, project documentation, internal approvals and transfer-pricing files. Profits must reflect what an independent enterprise performing the same functions would earn, following an OECD-consistent authorised approach—applied through Türkiye’s evidentiary discipline.

Türkiye expects groups to articulate clearly:

- Which decisions were made locally?
- Which risks were controlled or assumed in Türkiye?
- How value-creating functions were distributed across jurisdictions;
- How intercompany pricing, allocations and internal charges reflect actual activity.

Inconsistent narratives—such as denying PE status while recording significant local expenses, or asserting that Türkiye performs no functions while maintaining technical or commercial teams—invite scrutiny. Authorities reconcile discrepancies by reconstructing economic reality from objective records, often relying on financial flows, work patterns and digital data.

The principle is simple: where operational substance exists, profit attribution follows. Conversely, where formal substance is absent but commercial routines or human presence anchor the business in Türkiye, a PE may still arise. The system rewards transparency and penalises structures where contractual form diverges from functional behaviour.

Multinationals that manage PE exposure effectively adopt forward-looking governance: clearly defined scopes of work, controlled local involvement, documented reporting lines and contemporaneous evidence of where decisions and risks genuinely reside. This architecture reduces uncertainty and aligns operating models with Türkiye's expectations.

Türkiye's overall orientation reflects the global shift toward economic presence—defined by people, processes and commercial impact—as the basis for taxable nexus. When operations are calibrated to this reality, profit attribution becomes a manageable, analytically grounded exercise rather than a source of friction. The implications for digital and platform-based models are explored further in Section 15.3; the present section serves as the

early-warning system for groups designing their initial presence in Türkiye.

8.2.1 MLI-Aligned Interpretation of Permanent Establishment

Türkiye's treaty network increasingly reflects BEPS and MLI standards, expanding the circumstances under which a non-resident entity may be considered to have a PE in Türkiye. Under the MLI-aligned interpretation, a dependent agent may create a PE even where contracts are not formally concluded in Türkiye, provided that the agent habitually plays the principal role leading to their conclusion.

Türkiye interprets service-based presence more assertively than many OECD jurisdictions, and recurring or workflow-integrated presence—even below traditional day-thresholds—has been treated as creating a PE in several administrative positions. Activities that were historically classified as preparatory or auxiliary—such as warehousing, fulfilment, purchasing support or certain local coordination functions—may no longer qualify for exclusion where they form part of a cohesive business operation conducted partly in Türkiye. The anti-fragmentation rule aggregates complementary activities carried out by related entities when assessing PE exposure. For example, warehousing and fulfilment performed by one affiliate and sales support by another may be treated as a single cohesive operation.

Digital and remote-service footprints may also trigger PE analysis when the foreign enterprise maintains significant economic presence, customer-facing functions or commercially meaningful interaction with Türkiye-based operations.

Profit attribution under the MLI-aligned framework follows a substance-driven model: functions, assets and risks located in Türkiye determine the portion of global profit allocable to the PE. Documentation, governance signalling and behavioural

consistency therefore play a central role in managing modern PE risk.

8.2.2 Trusts, Family Foundations and Offshore Wealth Vehicles

Foreign wealth vehicles—including common-law trusts, private family foundations and similar offshore fiduciary structures—require careful classification under Turkish tax law. Although Türkiye does not explicitly regulate trusts, their taxation is determined through substance analysis rather than form. Distributions received by a Turkish resident are generally treated as investment income under Article 75/2 of the Income Tax Law unless they can be demonstrably traced to contributed capital. Distributions demonstrably representing a return of contributed capital are not considered income under Article 75/2.

Funding flows into foreign trusts present a separate risk dimension. Capital transfers made by Turkish residents may be challenged where the economic purpose is unclear or where the structure is used to shield passive income from Turkish taxation. The absence of recognised legal personality may lead authorities to treat contributions as disguised profit transfers or, in some cases, as components of a controlled-foreign-corporation arrangement if the trust meets the effective-control and passive-income thresholds under Article 7 of the Corporate Tax Law. In such cases, the trust's income may become fully taxable in Türkiye on an accrual basis.

A further consideration is beneficial ownership. If the trustee or intermediary entity lacks substantive control, decision-making capacity or economic risk, Türkiye may disregard the intermediary and attribute income directly to the beneficiary. This test is especially relevant where the trust is part of a multi-layered structure involving holding companies, foundations or similar entities in low-tax jurisdictions.

Funding a trust may trigger gift-tax considerations or, in some instances, transfer-pricing scrutiny where intra-group economic relationships are affected. Additionally, passive-income accumulation in low-tax jurisdictions may cause the structure to fall within the scope of the CFC regime even without an actual distribution.

As a result, governance controls, decision-making locations, beneficiary rights architecture, and beneficial ownership visibility become decisive in evaluating the Turkish tax exposure of offshore wealth platforms used in global holding or treasury structures. The economic substance of how the vehicle is managed—and where its strategic and financial decisions occur—typically carries greater weight than its legal form.

8.3 Advanced CFC Strategy: Passive Income, Economic Substance and Cross-Border Corporate Structures

Controlled Foreign Corporation (CFC) rules occupy one of the most structurally significant positions in Türkiye's international tax architecture. While the statutory framework appears technical—thresholds, effective-tax-rate tests, passive-income ratios—the underlying purpose is architectural: CFC rules ensure that income is taxed where meaningful activity, decision-making and commercial contribution actually occur. The regime distinguishes foreign subsidiaries that function as genuine business units from those that merely accumulate passive income without organisational substance.

Risk does not arise from the mere existence of a foreign entity. It occurs when an entity's economic footprint does not match its legal profile. Jurisdictions that rely on territorial taxation or low practical tax burdens—common locations for regional holding companies, treasury vehicles, IP platforms or family wealth

structures—are not inherently problematic. They become CFC candidates when three factors converge:

- the entity earns predominantly passive income;
- its jurisdictional tax burden falls materially below Türkiye's expectation of substantive business activity;
- It lacks decision-making capacity, personnel or functional control commensurate with the income it reports.

In these cases, Türkiye interprets the foreign company not as an operating platform, but as a passive accumulation point for returns generated elsewhere.

Accordingly, Türkiye's CFC analysis centres on substance alignment. Authorities examine whether the foreign entity possesses the organisational capacity to perform the functions implied by its income profile: decision-makers who exercise absolute discretion; personnel who carry out operational activities; systems that support the functions attributed to the entity; and governance procedures demonstrating control over assets and risk. When these markers are absent, passive returns—interest, dividends, royalties, rental flows, portfolio profit—are treated as economically anchored to the jurisdiction where strategic control is exercised. For Turkish-resident parent companies, this results in current taxation of the foreign entity's income, regardless of whether profits have been distributed.

The strategic implication is clear: CFC considerations must be integrated into the design phase of any cross-border structure, not treated as an afterthought. Treasury companies require genuine financial-risk functions. IP entities must demonstrate meaningful participation in development, enhancement or exploitation. Regional holding companies must demonstrate oversight, capital allocation and organisational coordination. When these features are built into the group's architecture, CFC exposure becomes a manageable compliance variable rather than a structural hazard.

Türkiye's CFC regime does not attempt to discourage international expansion or the establishment of offshore structures. Instead, it rewards coherence. Structures in which form and function align—where income is earned by entities that possess the organisational means to justify that income—are treated predictably. Conversely, structures dependent on passive accumulation or paper-based management face recalibration.

The statutory mechanics amplify this substance-driven orientation. Under Article 7 of the Corporate Income Tax Law, CFC rules apply where:

- passive income exceeds 25% of total revenues; and
- the foreign entity's effective tax burden is below 10%; and
- Turkish shareholders directly or indirectly hold at least 50% of shares, voting rights or profit rights.

Once the threshold is met, Türkiye taxes the foreign entity's full net income, not merely its passive income. The foreign subsidiary's accounting results are adjusted to the Turkish tax base, eliminating non-deductible expenses and aligning outcomes with domestic statutory norms. Losses of a foreign company cannot be offset against domestic losses, and any foreign tax paid is treated as a credit rather than a deduction. Critically, subsequent dividend distributions do not trigger double taxation; they are treated as a return of previously taxed CFC income. This requires rigorous ledger-level tracking to reconcile CFC inclusions, credit claims and future distributions.

For Turkish family offices and privately held cross-border groups, this architecture is decisive. Offshore vehicles—trusts, foundations, holding companies, captive investment platforms—must be evaluated not only for their legal form but for their economic substance, activity mix and governance structure. Passive accumulation in low-tax jurisdictions without purposeful organisational substance is the fastest path to CFC exposure.

Non-CFC outcomes arise where the foreign entity demonstrates:

- sustained, meaningful economic substance;
- effective taxation above the statutory threshold;
- operationally independent activities aligned with its revenue profile;
- governance and personnel structures consistent with its functional claims.

Türkiye recognises these distinctions, but only where evidence is coherent and contemporaneous.

CFC rules, therefore, act as both a defensive mechanism—preventing erosion of the domestic tax base—and a design constraint shaping the architecture of outbound corporate and family-office structures. They remind organisations that, in cross-border taxation, income must reside where value is genuinely created.

8.4 Cross-Border Services, Technical Fees and Recharacterisation Risk

Cross-border service flows into Türkiye operate within an evidentiary ecosystem shaped by a single governing question: What actually happened, and what does the documentation prove? Labels such as “management fee,” “technical service,” or “consultancy” provide only the starting point. Türkiye evaluates services by examining the trajectory of the underlying activity—who performed the work, where it was performed, how the group benefited, how the transaction was documented, and whether the functional substance aligns with the tax treatment claimed.

In practice, management-fee frameworks and centralised service platforms are among the most scrutinised structures in Türkiye’s cross-border tax environment. Although fully compatible with OECD transfer-pricing principles, these arrangements are

assessed through a multi-layered lens that blends substance analysis, economic-employer concepts, treaty classification standards, DEMPE-aligned substance tests and permanent establishment (PE) indicators.

At the core of the analysis lies behavioural coherence. A service charge must reflect an activity that demonstrably occurred. Authorities analyse internal deliverables, timesheets, travel logs, workstreams, project documentation, system access logs and decision-making trails. Generic agreements lacking measurable outputs or responsible personnel are treated with caution. Where key managerial, operational or decision-driving functions relevant to the service are performed in Türkiye, authorities may question whether the foreign provider or the Turkish recipient is the actual economic employer. In such cases, part of the payment may be denied, reclassified as domestic employment cost or treated as evidence of an undeclared PE.

Management-fee arrangements, therefore, sit at the intersection of three risk vectors:

Withholding tax risk. Even where a fee is arm's-length under transfer-pricing principles, Türkiye may reclassify it as a royalty, technical service or business profit depending on the underlying substance and treaty context. This classification affects withholding under Corporate Tax Law Article 30 and determines eligibility for treaty relief.

Permanent establishment risk. If foreign personnel materially influence strategy, negotiate contracts, direct teams or participate in recurring workflows while located in Türkiye, their activities may create a PE even where contractual protections exist.

Transfer-pricing and deductibility risk. Fees unsupported by deliverables, decision-making evidence or contemporaneous functional analysis may be viewed as non-deductible or recharacterised into a different tax category.

Reclassification risk increases where contractual form diverges from functional reality. Türkiye tests whether the foreign entity receiving the payment possesses the personnel, systems and governance needed to perform the functions attributed to it. Payments channelled through low-substance entities—particularly those in low-tax jurisdictions—invite scrutiny. In these cases, Türkiye reconstructs the economic narrative from objective evidence rather than contractual assertions.

The DEMPE-aligned perspective further reinforces this approach. Where payments involve embedded know-how, reusable capability, software customisation or technical enhancement, authorities assess whether value was created through development, enhancement, maintenance, protection or exploitation functions. If these functions occurred in Türkiye—or if the foreign recipient lacks meaningful DEMPE capacity—the payment may be partially or fully reclassified as a royalty. Contractual IP ownership is relevant but not decisive; the decisive test is where the functional contribution and risk control truly reside.

Operational patterns that consistently elevate risk include:

- generic service agreements without measurable outputs;
- management-fee charges unsupported by meeting minutes, technical records or workflow evidence;
- payments routed through entities lacking substance or financial autonomy;
- remote support that effectively directs Turkish operations;
- technical services involving know-how transfer without explicit licensing terms.

Each of these signals suggests that the contractual classification may not represent economic reality.

Treaty protection remains available but is not automatic. Under the MLI's Principal Purpose Test and traditional beneficial-ownership standards, Türkiye evaluates whether the arrangement serves a genuine commercial purpose. Authorities examine whether the

foreign entity performs meaningful functions, controls relevant risks, and retains the economic benefit of the fee. Reduced treaty rates are granted only where these conditions are substantiated.

Outbound service flows also interact with Türkiye's documentation-heavy compliance ecosystem. E-invoice consistency, statutory-ledger coherence, transfer-pricing files, accounting records and banking flows must narrate the same factual story. Where records diverge, Türkiye defaults to the underlying economic substance.

A governance architecture that mitigates recharacterisation risk typically includes:

- precise and functional service definitions;
- clear segregation between management support and strategic decision-making;
- DEMPE-aligned analysis where IP or technical capacity is embedded;
- transfer-pricing documentation linking value to activity;
- monthly or quarterly reconciliation of intercompany balances;
- contemporaneous records evidencing who performed the work and where.

Groups that operate within this structure experience predictable outcomes. Those relying on contractual language without operational support face the highest levels of scrutiny.

In Türkiye's international tax environment, services "travel" only as far as the evidence supporting them. The system is designed to separate form from substance and to ensure that cross-border charges reflect demonstrable economic activity, functional contribution and genuine value creation.

8.5 Intragroup Financing, Interest Deduction Limitations and Treaty Interactions

Intragroup financing sits at the intersection of capital structure, economic substance and international tax governance. Türkiye evaluates related-party loans, treasury arrangements and cash-pooling flows through a behavioural framework that prioritises commercial rationale, risk allocation and functional credibility. A loan is treated as a financing instrument only when the borrower demonstrates the capacity to service it, the lender bears identifiable economic risk, and the terms reflect what independent parties would accept under comparable circumstances. Contractual form alone carries limited weight; what matters is whether the financing behaves like genuine debt within the group's operational architecture.

Interest deductibility depends not on the existence of a loan agreement but on whether the financing is commercially logical. Authorities assess whether the borrower's financial position justifies the debt level, whether internal credit analyses were performed, whether funds were deployed for operational needs and whether repayment flows align with the group's liquidity cycle. Documentation must therefore extend beyond agreements to include treasury memoranda, cash flow modelling, credit assessments, internal approvals, and benchmarking studies. In their absence, Türkiye may treat the loan as equity-like, limit interest deductibility or recharacterise the flow as a disguised profit distribution.

Economic substance sits at the centre of this analysis. Treasury centres must demonstrate functional capabilities: personnel with credit-decision authority, systems supporting risk monitoring, governance structures that evidence control over lending activity, and financial capacity proportionate to the scale of the loan. Intermediary lenders that lack these features—particularly those in low-tax jurisdictions—are treated as conduits. In such cases,

Türkiye traces the financing relationship back to the entity that substantively owns and controls the capital, reallocating interest flows and treaty rights accordingly.

Thin-capitalisation rules under Article 12 of the Corporate Tax Law operate in parallel. Related-party loans exceeding the statutory 3:1 debt-to-equity ratio (or 6:1 for loans from financial-institution shareholders) trigger interest nondeductibility and recharacterisation as a deemed dividend. These adjustments are subject to withholding tax unless reduced by a treaty. However, thin capitalisation is not a mechanical test. Türkiye evaluates both the numerical ratio and the qualitative behaviour of the funding: whether the debt mirrors equity in terms of duration, repayment enforceability, or alignment with profit outcomes; whether borrowing patterns spike around year-end; and whether the economic rationale is consistent with the entity's operational profile.

Domestic interest limitation rules add another layer. Under Presidential Decree authority, Türkiye applies an EBITDA-style cap for net financing expenses once statutory leverage conditions are met. This test applies regardless of the entity's related-party status and captures the entity's overall economic leverage. As a result, intragroup loans must be evaluated for both transfer-pricing alignment and interaction with statutory interest restrictions.

Treaty provisions introduce another dimension. Many of Türkiye's treaties reduce withholding tax on cross-border interest, but these reductions apply only where the lender qualifies as the beneficial owner. Türkiye assesses beneficial ownership through substance indicators: whether the lender retains the economic benefit of the interest, possesses the autonomy to deploy funds, bears credit risk and maintains capital and personnel consistent with a lending business. Entities that merely pass funds along, lack authority over capital or do not meaningfully monitor risk generally fail the test. In these cases, treaty reductions are

denied under beneficial-ownership analysis or the Multilateral Instrument's Principal Purpose Test (PPT).

Cash-pooling structures attract heightened scrutiny because they blur traditional financing lines. Türkiye evaluates whether participants behave as independent enterprises would: contributing to and withdrawing from the pool according to liquidity needs; receiving or paying interest that reflects duration, credit exposure and utilisation; and interacting with a pool leader that performs genuine treasury functions. Where cash pools operate without functional substance—particularly where the pool leader lacks risk-management capacity—flows may be recharacterised as intercompany loans or implicit guarantees. The tax treatment then aligns with the underlying economic exposure rather than the pooling label.

Recharacterisation risk is at its highest where:

- loan terms do not match the borrower's financial reality;
- repayment behaviour contradicts the stated maturity;
- the lender lacks substantive capacity to manage risk;
- intermediary entities serve only as contractual funnels;
- treasury decisions originate in a different jurisdiction than the formal lender;
- funding mirrors a capital contribution rather than a credit transaction.

In these circumstances, Türkiye reconstructs the financing relationship based on observable facts: bank flows, correspondence, treasury approvals, cash-pool schedules, ERP records, transfer-pricing documentation and board minutes. Financing outcomes must follow the trajectory of economic behaviour—not the structure of a document.

A robust intragroup financing framework for Türkiye, therefore, requires alignment among legal form, functional substance and economic logic. Groups that maintain contemporaneous documentation—credit memoranda, pricing analyses, treasury-

risk protocols, board approvals and consistent bank trails—experience predictable deductibility and stable treaty outcomes. Those relying on nominal agreements unsupported by behaviour face exposure across three layers: thin capitalisation, interest limitation rules, and withholding tax reclassification.

In Türkiye's international tax environment, financing must behave like financing. Capital must reflect commercial purpose. Risk must sit with the entity claiming the return. And pricing must reflect an arm's-length reward for measurable economic contribution. Structures consistent with this logic operate smoothly; those that diverge are recalibrated to their economic substance.

8.6 Dividends, Capital Gains and Participation Exemption in a Treaty Context

Cross-border profit distributions sit at the centre of Türkiye's interaction with multinational holding chains. Whether the flow takes the form of dividends or capital gains, outcomes depend on the combined influence of domestic law, treaty protection and the administration's behavioural reading of ownership, substance and economic control. The domestic participation-exemption regime provides extensive relief for Turkish corporate shareholders. Treaties then modulate outbound taxation, while Türkiye's enforcement logic tests whether each layer of the structure withstands an evidence-based inquiry into purpose, function, and value.

Dividends paid by Turkish companies to non-residents are subject to withholding tax under domestic rules, typically at 15%. Treaties reduce this rate—most often to 5% or 10%—for qualifying corporate shareholders. These reductions, however, are not automatic. Türkiye assesses whether the shareholder is the genuine economic owner of the income: an entity that bears investment risk, exercises control over dividend policy

and retains the benefit of distributions. Holding companies with thin personnel, minimal capitalisation or rapid pass-through patterns are scrutinised. Where governance records, bank flows, or cash-sweep routines indicate that strategic authority resides elsewhere, treaty reductions may be denied under beneficial-ownership analysis or the Principal Purpose Test introduced through the MLI.

Legal ownership is therefore only the starting point. Türkiye examines whether the entity receiving the dividend participates meaningfully in group governance: approving investment decisions, allocating capital, monitoring subsidiaries, exercising shareholder rights and maintaining financial capacity proportionate to its role. Entities lacking these features—particularly those operating in low-tax jurisdictions—may be characterised as conduits, losing access to reduced rates. No treaty reduces dividend withholding to zero; a positive minimum always applies.

Capital-gains taxation follows a similarly layered approach. Under domestic rules, gains derived by non-residents from the disposal of shares in Turkish companies are generally taxable in Türkiye unless an exemption applies, such as the sale of portfolio-style listed shares. Many treaties override this rule, allocating taxing rights exclusively to the seller's residence jurisdiction unless the company is real-estate-rich. Türkiye applies these treaty distinctions through a factual analysis rather than labels. Whether a company is real estate-rich depends on its balance sheet composition, valuation evidence, and the relative significance of immovable assets compared with operational value. Treaty relief is therefore contingent on the underlying economics of the business, not on the form of the transaction.

The domestic participation exemption interacts strategically with this landscape. For Turkish corporate shareholders, dividends received from Turkish subsidiaries are fully exempt, with no minimum shareholding or holding period requirements. This

creates a frictionless internal capital market in which profits can move through Turkish holding structures without incremental taxation once corporate income tax has been paid at the operating level. Capital gains on the sale of Turkish participations are exempt from tax at 50% when the statutory conditions are met, primarily the holding period and balance sheet requirements. This relief is foundational for M&A, internal reorganisations, and investment platform design.

In cross-border settings, participation-exemption eligibility for foreign dividends depends on more stringent criteria: a minimum 10% shareholding, a two-year holding period, a minimum 15% foreign tax burden, and the actual remittance of the dividend to Türkiye. Türkiye evaluates the minimum-tax-burden test through effective taxation rather than headline rates. Where the foreign jurisdiction applies low-rate, territorial or incentive-driven relief, authorities request documentation of actual tax paid. The two-year holding period is evaluated based on continuous ownership evidence, including custody records, corporate registries, financial statements, and board approvals. Any ambiguity—pledges, interim transfers, restructurings that disrupt legal continuity—may defer exemption eligibility.

Recent amendments introduced a 50% partial exemption for foreign dividends where the minimum tax burden test is not met. Still, the Turkish shareholder holds at least 50% of the foreign entity, and remittance occurs by the return-filing deadline. This creates an alternative pathway aligned with Türkiye's policy preference for transparent ownership and repatriated earnings. In practice, eligibility depends on the group's ability to demonstrate structured control, documented distribution decisions and remittance integrity across bank flows.

Substance remains the decisive filter. Whether considering outbound dividends, inbound foreign dividends, or capital-gain relief, Türkiye reconstructs the role of the holding company through governance behaviour rather than incorporation

documents. Investment memoranda, board decisions, monitoring reports, treasury policies, funding arrangements and intercompany approvals collectively express whether the entity fulfils the functional profile expected of a genuine investment platform. When this narrative is coherent, treaty reductions and exemption claims proceed predictably. When not, tax outcomes revert to domestic defaults.

For multinational groups, the strategic value of Türkiye's dividend and capital-gains regime lies in its clarity. The system rewards structures that combine commercial rationale, functional evidence and governance discipline. Holding companies designed around long-term investment motives, capital allocation responsibilities and demonstrated oversight perform well. Pure form-based intermediaries do not. As global standards increasingly align around substance, Türkiye's treaty practice and participation-exemption architecture converge on a single expectation: profits must flow through entities that contribute meaningfully to the value chain.

8.7 Pillar Two, the Global Minimum Tax and Türkiye's Integration Pathway

Pillar Two represents a structural redesign of international taxation. The global minimum tax is not simply a mechanism that guarantees a 15% effective tax rate; it introduces a governance model in which tax outcomes must align with economic substance, financial accounting reality, and jurisdictional coherence. For Türkiye—integrated into global value chains, home to multinational subsidiaries, and increasingly active in outbound investment—the transition to a Pillar Two environment reshapes how corporate structures, incentive regimes, and cross-border models are expected to operate.

Türkiye's engagement with Pillar Two reflects a calibrated posture.

The jurisdiction signals alignment with OECD standards while preserving the commercial logic of domestic incentives and sustaining an evidence-driven audit culture. Although legislative implementation remains phased, the administrative mindset has already begun to shift toward the core principles animating GloBE: tax positions must reflect measurable presence, and low-taxed outcomes are credible only when backed by robust functional and accounting substance.

Pillar Two recalibrates profit and tax calculations using financial-accounting data rather than traditional tax bases. Jurisdictional effective tax rates (ETRs) must be computed based on GloBE income, covered taxes, deferred-tax mechanics and top-up adjustments. This creates a parallel computational architecture that intersects with Türkiye's statutory system. For multinational groups operating in Türkiye, the implications are both operational and strategic. Financial-accounting accuracy becomes a tax driver; deferred tax takes on heightened significance; and incentives must be evaluated through the qualified-versus-non-qualified lens to determine whether they reduce the GloBE ETR below the benchmark.

Türkiye's domestic tax landscape aligns with Pillar Two logic in several respects. The corporate income tax rate—25% for standard taxpayers and 30% for financial institutions—places the jurisdiction comfortably above the minimum threshold. Many incentive regimes operate through mechanisms that modify the tax base or the social security burden rather than reducing the headline corporate tax rate, which enhances their compatibility with GloBE's qualified incentive framework. R&D-centre reductions, technology-zone benefits and regional investment subsidies often take the form of exemptions or support measures that reinforce functional activity within Türkiye, rather than rate-driven incentives that depress ETRs. These features reduce systemic top-up exposure and reflect an institutional preference for substance-oriented benefits.

Friction arises mainly in groups where offshore or hybrid entities sit within the structure. Treasury hubs, asset-light holding entities, IP platforms, and financing vehicles located in low-tax jurisdictions must demonstrate a genuine functional contribution and an economic rationale. Under Pillar Two, legally correct outcomes alone are insufficient; groups must demonstrate that low-taxed entities possess the operational capacity, governance routines and risk-control mechanisms that justify the income allocated to them. Otherwise, top-up tax—whether paid in Türkiye through a Qualified Domestic Minimum Top-Up Tax (QDMTT) or abroad through an Income Inclusion Rule (IIR) or Undertaxed Payments Rule (UTPR)—may neutralise the intended effects of the structure.

For Türkiye-headquartered groups expanding abroad, Pillar Two introduces a new layer of risk management. Differences between Türkiye's statutory accounting system—rooted in VUK principles, historical cost, and documentary certainty—and GloBE income calculations must be mapped carefully. Inflation accounting, revaluation practices, investment-incentive adjustments and non-deductible items can create divergences between domestic taxable profit and GloBE income. These differences require reconciliations that are technically demanding and operationally intensive.

Transfer pricing interacts with Pillar Two in structurally significant ways. Even when intragroup prices satisfy the arm's-length principle, low-taxed outcomes elsewhere in the group may create friction under GloBE. Service centres, regional headquarters, cloud-hosting entities and IP licensing platforms must justify both the arm's-length nature of their charges and the Pillar Two implications of their profitability profiles. Documentation that once satisfied domestic TP requirements must now support GloBE positions, demonstrating that income is allocated to jurisdictions where substantive functions and risk control occur. The convergence of transfer pricing, CFC rules and minimum-tax

testing produces a multi-layered analytical environment that groups must model holistically.

For Turkish subsidiaries of in-scope multinational groups, the immediate impact is data readiness. Türkiye's statutory systems—e-ledgers, e-invoices, temporary tax filings and historical-cost accounting—do not automatically generate GloBE-ready data. Parallel data architectures must be built to reconcile local accounts with GloBE income, covered tax determinations, deferred tax recastings, and safe-harbour eligibility. As global supervisory expectations rise, Pillar Two preparedness increasingly signals governance maturity. Groups that develop internal GloBE models, maintain audit-ready documentation and integrate minimum-tax evaluations into their structuring decisions position themselves strongly for the next phase of Türkiye's implementation.

At its core, Pillar Two reinforces a principle deeply embedded in Türkiye's tax philosophy: substance is a strategic asset. Economic activity must be visible, measurable and coherent across jurisdictions. Financial outcomes must reflect functional reality, and tax benefits must correlate with demonstrable contribution. In this environment, the global minimum tax becomes not an administrative burden but an institutional lens—one that aligns with Türkiye's long-standing expectation that economic presence, governance discipline and cross-border integrity define credible tax outcomes.

Türkiye has fully enacted the Pillar Two framework through Law No. 7524, published on 2 August 2024, bringing the global minimum tax into domestic legislation. The Income Inclusion Rule and the qualified Domestic Minimum Top-Up Tax apply to fiscal years starting on or after 1 January 2024, while the UTPR becomes effective for periods beginning on or after 1 January 2025. In parallel, Türkiye has introduced a 10% domestic minimum corporate tax, effective from 2025, positioning the jurisdiction as fully aligned with the global minimum tax architecture rather than operating under a prospective or 'in-development'

framework. The trajectory is clear: data-driven governance, substance-aligned structures, and international consistency. Groups that prepare early—mapping ETR exposures, adjusting incentive usage, aligning intercompany models and building GloBE-functional data systems—navigate this environment with stability. Those relying on legacy structures built on contractual form rather than operational reality will face increasing pressure from both domestic and international authorities as the global minimum tax regime matures.

8.8 Intellectual Property, Intangibles and the DEMPE Substance Model

Intellectual property sits at the centre of modern value creation, and in Türkiye's tax environment, intangible-driven structures are assessed through functional reality rather than contractual allocation. The administration interprets royalties, licensing arrangements, technology transfers and intra-group IP charges through a lens that emphasises evidence of development, enhancement, maintenance, protection and exploitation—the DEMPE framework that now anchors international tax doctrine. For multinational groups operating in Türkiye, this creates a direct institutional expectation: the entity claiming intangible-related returns must be able to demonstrate, through documentary and operational evidence, a meaningful contribution to DEMPE functions.

Türkiye's transfer-pricing approach imposes a high standard of alignment between intangible ownership and functional substance. Legal ownership alone does not justify economic returns. Authorities examine who performs R&D, who funds development, who manages commercialisation strategy, who bears market risk, who protects the intangible from infringement, and who drives technological adaptation. If these functions occur within Türkiye but returns are allocated elsewhere, the

administration may recharacterise the structure, adjust pricing or deny deductibility. With the increasing integration of digital audit systems, these functional patterns are traced through payroll records, project documentation, cost allocations, internal reporting chains, engineering logs and management-level approvals.

Contractual labels—“licence fee,” “technology support,” “know-how charge”—carry limited weight unless they match the factual conduct of the parties. Türkiye expects robust evidentiary support, including technical documentation, R&D project notes, version histories, software repositories, testing protocols, engineering change orders, and commercialisation plans. Royalty streams that lack demonstrable alignment with DEMPE are frequently challenged, particularly when payments flow to entities with a limited operational footprint or thin personnel capacity. In the administration’s view, economic returns must follow the functional substance embedded in internal workflows.

In the context of software, digital tools, and SaaS platforms, the distinction between royalties, service fees, and bundled technology payments becomes critical. A software licence granting the right to reproduce, modify, or commercially exploit code constitutes a royalty. Access to a cloud-based platform without reproduction rights may constitute a service. Hybrid structures—common in digital transformation deployments—require unbundled analysis. Failure to separate these components results in cross-tax inconsistencies between withholding tax, VAT, reverse-charge treatment, and transfer pricing. Türkiye’s digital systems detect these mismatches automatically through reconciliation of e-invoices, ledger entries, VAT codes and payment classifications.

Multinational groups using centralised IP structures—regional IP hubs, treasury-funded intangible platforms or holding-company licensing models—must ensure that the entity receiving the royalty demonstrates genuine DEMPE substance. Authorities scrutinise personnel qualifications, decision-making capacity,

governance routines, budgeting control, and R&D oversight. Evidence must show that the payee performs value-creating activities rather than acting as a passive holder of legal rights. Where substance is insufficient, Türkiye may disallow deductions, reattribute income or assert that the intangible return belongs to the Turkish entity performing DEMPE functions.

Türkiye's R&D incentives, technology development zones and innovation-oriented support programs interact with DEMPE principles in meaningful ways. These regimes reward genuine scientific and technological activity conducted within Türkiye and require extensive documentation—project files, personnel logs, time sheets, experimental results, patent applications, versioning records, and asset-usage evidence. When these incentives are used, the administration expects royalty flows, licensing strategies and intangible ownership structures to reflect the economic substance created through incentive-supported activity. Misalignment between incentive documentation and intercompany royalty positions is one of the most frequent sources of scrutiny in intangible-heavy sectors.

Outbound royalties are subject to both withholding tax and beneficial ownership analysis. Treaty access depends on the foreign recipient's ability to demonstrate economic control over the income and capacity to bear associated risks. Payments to low-substance IP entities are subject to heightened review under both domestic anti-avoidance principles and treaty-aligned substance tests. Türkiye considers whether the foreign entity actively manages the intangible, maintains R&D oversight, funds development, or protects IP rights. Where these functions predominantly lie in Türkiye, withholding tax reductions may be denied, and deductions may be limited.

Inbound royalties undergo a different but equally rigorous examination. The administration tests whether the Turkish entity benefits from the intangible in a manner consistent with its operational activities. If the intangible is outdated, unused,

marginally relevant or unconnected to revenue generation, deductibility may be restricted. Authorities examine integration plans, evidence of technology deployment, user logs, engineering reports, compatibility assessments, and the economic rationale presented in internal governance documents. The standard is high: royalty payments must reflect measurable economic value supported by real technical and commercial activity.

In M&A transactions, intangible assets become a core focus of due diligence. Undocumented know-how transfers, legacy royalty agreements, intra-group charges lacking DEMPE substance and engineering functions misaligned with intangible ownership often generate significant adjustments. Buyers evaluate whether the target's intangible architecture reflects its operational reality or masks profit-allocation strategies that may be indefensible under modern transfer-pricing expectations. Warranty and indemnity insurance providers routinely exclude intangible-related exposures unless detailed DEMPE documentation is available.

Pillar Two amplifies these pressures. Low-taxed IP hubs within multinational groups must demonstrate robust DEMPE substance to avoid top-up tax. Structures that rely on passive ownership, minimal staffing, or contractual allocation of intangible returns are increasingly incompatible with a GloBE-aligned environment. Groups must ensure that intangible profits are supported by financial accounting data, operational evidence, and functional patterns that satisfy minimum-tax scrutiny across jurisdictions.

Ultimately, Türkiye's approach to intangibles reflects a structural principle that runs through its tax system: value must follow documented economic substance. Legal ownership, contractual drafting and nominal functional assertions cannot substitute for operational reality. In an environment where digital systems, transfer-pricing doctrine, incentive frameworks and international standards converge, intangible-driven structures must be built on demonstrable DEMPE contributions, transparent

governance and measurable commercial logic. Companies that internalise this expectation operate with clarity; those that rely on legacy models encounter increasing friction as institutional consistency becomes the defining measure of credibility in the intangible economy.

8.9 Global Mobility and Payroll Nexus in Practice

Türkiye's global mobility landscape operates on a behavioural rather than a formalist axis. The system does not ask where an employee is contractually employed; it asks where that individual actually performs economically relevant functions, who benefits from those functions, and how the organisation expresses that reality through its governance and reporting architecture. In a cross-border environment shaped by international mobility, hybrid work and dual-residency patterns, payroll obligations and permanent-establishment exposure arise not through declarations but through behavioural evidence.

Functional presence is the decisive variable. When an individual performs value-creating activities on Turkish soil—negotiating with customers, directing local teams, delivering engineering work, managing product cycles or exercising decision-relevant functions—Türkiye interprets this presence as establishing a payroll nexus. The analysis applies even to short-term travel, recurring visits, and hybrid arrangements. Institutions examine continuity, integration and operational reliance: whether the Turkish entity depends on that individual as part of its workflow. This expectation is observable across digital-audit systems that capture presence through VPN activity, metadata from communication platforms, ERP access logs and project-management footprints.

The system treats senior executives with particular sensitivity. A global CFO who periodically supervises Turkish operations, a regional director who shapes strategy, or a founder who conducts

oversight from Türkiye may create a payroll nexus and, in some instances, a permanent establishment. Türkiye evaluates whether the individual is functionally embedded in the organisation's decision loop. Cost-allocation patterns intensify the signal. When salary expenses are partially or fully recharged to Türkiye, the administration interprets this as a clear indicator that the Turkish entity is the economic employer—even where contractual employment lies abroad. Recharge mechanisms thus operate as a behavioural marker within the nexus analysis.

Remote work amplifies these dynamics. Individuals who relocate informally, perform remote duties from Türkiye, or perform digital functions systematically integrated into Turkish operations cannot rely on nominal employment ties elsewhere. Authorities assess the underlying functional rhythm: where the work is performed, who directs it, and how the Turkish entity incorporates it into its operating cadence. Informal relocations and unmonitored travel are therefore among the highest-risk scenarios, as they produce physical presence, functional contribution and economic benefit—all without coordinated payroll governance.

Treaties provide relief but not immunity. The 183-day threshold serves as a guideline, not a safe harbour. Türkiye considers whether the foreign employer bears the employee's risk, whether compensation is linked to Turkish activities, whether the work becomes part of local operations, and whether the individual's presence contributes to Turkish-source income. Executive functions, decision-relevant roles and operational dependence often override short physical-presence periods. Treaty allocation operates as a sequencing tool rather than a formal shield.

Permanent establishment (PE) risk arises when an individual's functions are sufficiently central to the Turkish business model. If inbound personnel shape contracts, supervise execution, manage product lines or maintain an ongoing managerial role, their activities may anchor a service PE or dependent-agent PE. Türkiye reads these indicators through evidence: recurring meeting logs,

customer interactions, workflow ownership, and patterns of digital presence. Once functional gravity pulls operations into Türkiye, PE becomes a behavioural conclusion rather than a legal controversy.

Payroll compliance operates within Türkiye's unified Muhtasar-SGK system, which integrates income tax withholding and social security obligations. Cross-border assignments must therefore align with corporate governance, global mobility policy, local payroll treatment, and social security coordination—particularly where bilateral agreements or totalisation frameworks apply. Misalignment across these systems produces inconsistencies visible in e-ledgers, bank flow data, and employer declarations.

Organisations that manage global mobility effectively adopt a structural approach. Assignment letters articulate functions, reporting lines and economic-benefit flows. Travel-tracking systems map presence patterns. Transfer-pricing frameworks govern recharge logic. Governance protocols ensure that digital workflows—such as ERP access, approvals, and data entry—align with intended residency and payroll outcomes. This architecture prevents functional presence from drifting into an unmonitored nexus.

The inverse is equally visible. Groups that allow mobility to emerge informally—through ad hoc relocations, visiting executives, or decentralised digital workflows—create friction within Türkiye's supervisory environment. Once inconsistencies surface between payroll filings, functional conduct and system logs, retrospective correction becomes difficult. Authorities lean on objective indicators—presence data, workflow patterns, managerial correspondence—to establish nexus and reconstruct tax obligations.

Türkiye's approach is not aggressive; it is structurally coherent. The system maps tax obligations to the functional location of work, the economic nature of contributions, and the

organisational behaviour surrounding global mobility decisions. For multinational groups, this creates a clear strategic signal: mobility must be designed, governed and documented with the same rigour as transfer pricing. Presence has become a tax-significant event, and mobility has become a core component of cross-border risk architecture.

8.10 Global Mobility Strategy, Multi-Residency Conflicts and Governance Architecture

Cross-border mobility has evolved into a structural risk vector within Türkiye's international tax environment. Executive presence, digital work patterns, multi-jurisdictional lifestyles, and decentralised decision-making now intersect with residency rules, payroll nexus, PE exposure, and global tax frameworks. Türkiye interprets these dynamics through a behavioural, evidence-led architecture rather than through formal triggers. As a result, mobility governance becomes an enterprise-level design challenge rather than an administrative afterthought.

Multi-residency is the first strategic fault line. Individuals with concurrent ties to Türkiye, the UK, Germany, the US or Gulf jurisdictions frequently cross residency thresholds unintentionally. Türkiye applies treaty tie-breaker rules as a substance test rather than a checklist. The evaluation begins with permanent home but typically turns on the centre-of-vital-interests criterion: a holistic assessment of where an individual's economic, managerial and personal life demonstrably converges. This analysis gives weight to patterns of oversight, the locus of executive functions, the location of family life and the evidentiary trail created by the individual's operational footprint. Habitual abode functions as the behavioural test: continuity, regularity and the embeddedness of presence within Türkiye's economic ecosystem. Citizenship operates only as a final fallback. For families with parallel lives across major jurisdictions, unmanaged

tie-breaker dynamics can result in simultaneous worldwide tax claims, inconsistencies in foreign income reporting, and exposure to CFC pull-through at the shareholder level.

Governance is therefore essential. Individuals with multi-jurisdictional lifestyles require an annual residency-risk map that reconciles travel behaviour, functional involvement and financial ties with treaty outcomes. A narrative that claims non-residency cannot coexist with evidence of executive oversight, board-level participation or operational decision-making in Türkiye. Organisations must calibrate their global mobility strategy to ensure coherence between individual behaviours, corporate structures, and cross-border reporting obligations.

From a corporate perspective, mobility risk is driven by function rather than geography. Türkiye evaluates payroll nexus and PE exposure through three operational lenses: the location of functional delivery, the distribution of economic benefit and the degree of organisational dependence on the individual's activity. Employees formally employed abroad but embedded in Turkish workflows—whether through management, engineering, sales, product strategy or operational oversight—may trigger domestic payroll requirements under the unified Muhtasar-SGK system. Recharge mechanisms intensify the analysis; when employment costs are borne economically by the Turkish entity, Türkiye interprets this as evidence that the individual is a functional component of Turkish operations.

Board members and senior executives occupy a distinctive category. Decision-making performed from Türkiye—whether on-site, hybrid or remote—feeds directly into both residency and PE assessments. Digital trails, such as ERP approvals, email metadata, videoconference logs, and VPN activity, provide an evidentiary backbone for determining where strategic control is exercised. As digital presence becomes indistinguishable from physical presence, mobility governance must expand to include digital-footprint controls. Inconsistencies in metadata and

workflow patterns increasingly serve as institutional evidence of functional nexus.

Remote-work models deepen these complexities. Individuals who relocate informally, perform global roles from Türkiye, or deliver sustained digital output from Turkish soil create payroll and PE exposure, even without a long-term presence. Digitalised workflows across global teams create a visibility layer: authorities can analyse where approvals occur, where projects are managed, and where high-value functions are performed, once previously invisible mobility is embedded in Türkiye's supervisory systems through data.

A resilient global mobility architecture for Turkish multinationals and families requires multiple layers of governance. First, residency-risk mapping integrates treaty tie-breaker logic with real behavioural patterns. Second, payroll nexus must be evaluated through function-mapping models that articulate where value-creating work is actually delivered and where employment income should be sourced. Third, the PE-prevention architecture must align with board governance, operational separation, and group-level decision rights. Fourth, digital governance must coordinate IP address policies, VPN usage, workflow approvals and document-management systems to ensure consistency between intended and actual functional presence.

Organisations that implement this architecture gain strategic agility. They can scale cross-border talent, maintain treaty protection, avoid unintentional payroll obligations and reduce the risk of hidden PE creation. Families with multi-jurisdictional ties gain clarity on their global tax exposure and prevent unintended residency outcomes. In contrast, informal mobility—executives travelling frequently, remote staff operating without oversight, or founders engaging in cross-border management without a governance structure—creates friction across tax, immigration and regulatory systems.

Türkiye's evaluation model converges with global practice: residency, payroll and PE outcomes follow economic reality, not formal titles. Cross-border mobility must therefore be addressed with the same strategic discipline as transfer pricing, risk allocation and governance design. In an environment where data drives institutional visibility, mobility strategy becomes a core component of sustainable cross-border operations.

8.11 Allocation of Risk, Governance Architecture and Value-Chain Transparency

Cross-border tax outcomes increasingly depend on how an organisation allocates risk, documents decision rights and articulates the operational logic of its value chain. Türkiye interprets these elements through an integrated behavioural framework: profits follow functions, risks follow control, and organisational structures must reflect real economic contribution. This is not a theoretical doctrine; it is the operational logic through which Türkiye reads contracts, financial flows, system logs and governance artefacts.

Risk allocation begins with a pragmatic question: who actually controls the decision and who economically absorbs its consequences? Contractual language provides context, but it is rarely determinative. Türkiye evaluates whether the entity asserting risk ownership has the personnel, expertise, systems and governance machinery required to oversee that risk. When these attributes are absent—when the formal owner lacks substance or decision-making capacity—risk is reallocated to the entity that demonstrably exercises control. This reallocation naturally pulls the associated returns toward the jurisdiction where economic reality resides.

Evidentiary markers consistently shape this analysis. Budget authority for products, markets or investments reveals where

strategic control sits. Operational control is visible through workflow ownership, approval chains and escalation pathways—strategic direction surfaces in board minutes, project charters and internal correspondence. Responsibility for outcomes is reflected in KPIs, reporting structures, and performance assessments. When these markers converge, the risk allocation is accepted. When they point in different directions, Türkiye reconstructs the value chain based on behaviour rather than intention.

Value-chain transparency complements this approach. As global supervision becomes increasingly data-driven, Türkiye expects every entity within a multinational group to articulate its real contribution—not through aspirational descriptions, but through repeatable activity patterns, staffing profiles, asset use, decision-making authority, and risk control. Profit attribution must align naturally with this operational footprint. Entities that generate profits without meaningful substance—“success without activity”—attract scrutiny. Conversely, entities that perform valuable work, control risks, and manage assets enjoy predictable outcomes.

Intercompany arrangements sit at the intersection of these principles. Service agreements, royalty constructs, management-support frameworks, cost-sharing models and financing relationships must demonstrate genuine economic logic. Türkiye evaluates whether the charge corresponds to observable activity and whether the governance framework matches the claimed value chain. Charges that do not reflect functional reality or that diverge from the organisation’s evidence trail invite challenge. Under this behavioural model, transfer pricing ceases to function as a document; it becomes a reflection of governance behaviour.

Organisations with coherent governance architectures perform better. They clearly articulate decision rights, configure cross-border arrangements through documented policies, and maintain audit-ready trails of functional involvement. Their pricing structures emerge from the same system that governs

their operations. This coherence stabilises tax outcomes and reduces controversy. Structures that rely on contractual form without operational alignment find the opposite: their narratives unravel when tested against financial flows, digital footprints, or staff activity.

As international frameworks converge—Pillar Two, DEMPE, MLI anti-abuse rules—Türkiye’s behavioural orientation gains even more weight. The jurisdiction increasingly expects groups to demonstrate not only legal compliance but also economic consistency: risk control where returns accrue, operational depth where profit is booked, and decision-making where strategic authority is claimed. In this environment, governance is not an administrative layer; it is the backbone of cross-border tax sustainability.

Effective risk allocation, therefore, serves as an organising principle for the entire international tax narrative. It unifies legal form, operational behaviour and economic purpose. The system rewards organisations whose architecture reflects how they truly operate, while pressuring those whose structures rely on form divorced from substance. In Türkiye’s framework, value-chain clarity, behavioural consistency and documentary coherence form the foundation upon which durable transfer pricing, treaty outcomes and cross-border structures are built.

8.12 Transparency, Reporting Obligations and International Data Flows

Türkiye’s integration into global transparency regimes has transformed cross-border taxation into a data-driven ecosystem where coherence, not formality, determines institutional trust. Reporting obligations no longer operate in isolation. They interact across jurisdictions, systems and supervisory networks, creating a visibility matrix in which inconsistencies travel farther and faster

than ever before. In this environment, a group's global tax profile is evaluated not through isolated filings but through the behavioural and numerical alignment of multiple information streams.

Country-by-Country Reporting (CbCR) sits at the centre of this shift in visibility. Türkiye uses CbCR not as a substitute for transfer-pricing analysis but as a diagnostic tool: a comparative data grid that highlights divergences in profitability, headcount, revenue allocation and functional intensity. Patterns such as high margins in asset-light jurisdictions, revenue booked without personnel, or a mismatch between reported functions and allocated profits immediately stand out. When these signals conflict with the group's transfer-pricing narrative, Türkiye expands its review. The aim is not penalty but coherence: the numbers must tell the same story as the functions.

The automatic exchange of financial information under CRS deepens this visibility. Banks worldwide transmit data that Türkiye cross-references against domestic filings, beneficial ownership records, and corporate disclosures. Cash movements, equity holdings, intra-group flows and offshore structures become observable in aggregate rather than in isolation. Discrepancies—such as assets reported abroad but absent in domestic declarations, or beneficiary information inconsistent with governance records—trigger supervisory curiosity. In this environment, opacity is not interpreted as strategic ambiguity; it is interpreted as structural inconsistency.

Emerging mandatory disclosure regimes, shaped by DAC6's global momentum, are influencing Turkish expectations even as the domestic framework is still evolving. The underlying principle has already taken hold: structures relying on opacity, hybrid arbitrage, or form-based planning must be supported by demonstrable commercial purpose. Türkiye interprets disclosure obligations not as bureaucratic requirements but as behavioural indicators. Groups that document rationale, risk allocation and commercial substance gain credibility. Those who

cannot articulate purpose encounter friction, even where the arrangement is technically legal.

Beneficial-ownership transparency reinforces this logic. Türkiye's supervisory institutions increasingly treat beneficial ownership as an economic concept rather than a share-ledger entry. Control, influence and rights matter as much as percentage holdings. Authorities compare BO data against board minutes, bank instructions, power-of-attorney records and dividend flows to reconstruct the actual control pattern. When the declared owner does not align with functional or financial behaviour, the structure is viewed as lacking integrity. Treaty access, withholding-tax reductions and cross-border classification outcomes depend heavily on this alignment.

This growing network of transparency regimes creates a unified analytical field. Tax positions must remain consistent across jurisdictions and across systems. In practice, several pressure points consistently draw attention:

- Profit distribution patterns that differ between transfer-pricing files and CbCR tables.
- CRS data showing asset locations inconsistent with intra-group financing arrangements.
- Beneficial-ownership declarations that contradict operational control and decision-rights evidence.
- Economic substance claims that conflict with global headcount or payroll distribution.

In Türkiye's data-driven environment, these mismatches are not treated as isolated errors; they shape the administration's perception of an organisation's governance discipline. When global filings, domestic submissions and operational behaviour align, the organisation is interpreted as professionally governed. When alignment breaks down, the credibility of the entire structure comes into question.

For multinational groups, the strategic implication is clear:

transparency systems must be integrated, not siloed. CbCR teams cannot operate separately from transfer-pricing teams. CRS governance cannot operate separately from treasury and legal. Beneficial-ownership data cannot diverge from actual governance behaviour. In Türkiye, institutional trust emerges from alignment across all these domains.

Groups that build consolidated transparency frameworks—where global and Turkish filings reflect the same functional logic—operate smoothly within Türkiye’s supervisory architecture. Those relying on fragmented compliance, form-based ownership chains, or inconsistent data narratives encounter heightened scrutiny as international data flows eliminate the space where misalignment once remained unnoticed.

Transparency has turned global taxation into a continuous, multi-jurisdictional conversation. Türkiye participates fully in that conversation. Sustainable cross-border outcomes, therefore, depend on presenting a single, coherent narrative across every system in which the organisation appears.

8.13 Commercial Presence Models in Türkiye

Türkiye interprets commercial presence not as a formal choice among distribution, service or commissionaire models, but as the behavioural footprint each model creates within its institutional ecosystem. The system reads operations through documentation flows, banking patterns, VAT visibility, contractual sequencing and the rhythms of monthly compliance. In practice, the commercial model becomes a strategic signal, revealing where value is created, where decisions take shape, and how deeply the foreign enterprise embeds itself in the domestic market.

Distribution models produce the deepest form of local anchoring. A distributor assumes inventory risk, credit exposure and commercial responsibility, placing it squarely within Türkiye’s

e-documentation universe. E-invoices, stock movements, payment cycles, VAT offsets, debtor management and the distributor's gross margins collectively reflect its entrepreneurial profile. Because distributors perform genuine market-facing functions, Türkiye expects profitability outcomes consistent with that substance. Inconsistencies—such as margins below functional expectations or pricing misaligned with market benchmarks—trigger adjustments grounded not in punitive reasoning but in the model's functional logic.

Service-provision models appear structurally lighter, but their institutional interpretation often mirrors deeper operational integration. When services are delivered continuously, involve decision-relevant functions or become embedded in local workflows, Türkiye views the relationship as more than cross-border support. Authorities examine who performs the service, where the work occurs, how local teams rely on it, and whether the service patterns form part of Türkiye's monthly operational cadence. Even in the absence of a legal presence, sustained service activity can evolve into a permanent establishment when the underlying behaviour resembles local operations rather than occasional technical assistance.

Commissionaire models sit within a narrower post-MLI corridor. Historically used to separate commercial presence from PE risk, their protective capacity has diminished markedly. Türkiye concentrates on how the commissionaire behaves: whether it plays the principal role in contract formation, influences negotiations or materially shapes customer relationships. If the commissionaire effectively determines commercial outcomes—even without signing authority—Türkiye may consider the foreign enterprise to have a dependent-agent PE. The contractual form matters far less than the functional narrative, and institutional analysis follows the principle that commercial impact indicates presence.

Across all three models, Türkiye applies a behavioural doctrine: commercial presence is defined by what the organisation does,

not by the language of its agreements. Authorities trace decision points, workflows, customer interactions, approval patterns, and financial flows to understand how the model operates in reality. Documentation and conduct take precedence over structure. In this sense, the commercial presence model serves as a visibility mechanism: it determines how clearly the foreign enterprise appears within Türkiye's supervisory system and, consequently, how its tax outcomes are interpreted.

Multinationals that design their presence model around functional clarity—aligning legal form with actual behaviour, documenting decision rights and maintaining consistent profitability outcomes—operate with predictability. Those relying on structures that bear little resemblance to operational reality encounter persistent friction, as the Turkish system recalibrates formal models to match observed economic substance.

8.14 Hybrid Structures, Classification Divergence and Behavioural Coherence

Hybrid structures arise when legal form, tax classification and economic behaviour begin telling different stories. Türkiye approaches these structures through a coherence lens that prioritises functional reality over the formal taxonomy of entities or instruments. The central question is not how the structure is labelled, but whether the parties' conduct reflects the economic consequences the label implies.

Reverse hybrids illustrate this tension clearly. Where one jurisdiction treats an entity as transparent and another as opaque, Türkiye does not allow treaty outcomes to depend solely on that divergence. Authorities examine governance patterns, the flow of decisions, the location of control and the distribution of economic benefits. If the entity sitting in the hybrid position lacks personnel, capital-at-risk, decision-making processes or operational

infrastructure, Türkiye interprets it as a pass-through rather than a beneficiary. Treaty relief may then be denied on the basis that the purported recipient is not the genuine economic actor.

Hybrid instruments follow the same logic. Türkiye tests whether the instrument behaves like debt or equity—not whether it is described as such. If remuneration aligns with profits, repayment is discretionary, or risk resembles investor exposure rather than creditor exposure, Türkiye may treat the instrument as equity for tax purposes. Conversely, where repayment is fixed, risk is borne by the lender and remuneration tracks market-based credit returns, the treatment aligns with debt. The behavioural attributes—not the nomenclature—govern the outcome.

The analysis extends into treasury chains and holding platforms where hybrid features often appear unintentionally. For instance, an entity classified as a corporation abroad may be treated as fiscally transparent locally, or vice versa. Türkiye examines which entity actually performs the functions and controls the risks. If the intermediary lender, holding company or IP entity lacks substance, Türkiye shifts tax consequences to the jurisdiction where functional control resides. In effect, hybrid structures collapse when the economic centre of gravity lies outside the entity claiming the tax outcome.

The coherence test is applied through observable evidence: board minutes, treasury correspondence, IP development trails, personnel allocation, risk management protocols, capital flows, and system-level approval chains. These artefacts reveal whether the legal form aligns with operational reality. Structures that match form and behaviour maintain credibility. Structures that diverge face reinterpretation through Türkiye's substance-driven administrative logic.

As global anti-hybrid standards converge under BEPS, MLI and evolving EU frameworks, Türkiye's interpretation fits comfortably within the international trajectory. The emphasis

on behavioural coherence aligns domestic practice with broader global expectations. Hybrid models can still operate effectively, but only when they demonstrate substantive alignment across contracts, functions and risk positions. In Türkiye's evidence-led environment, coherence is not an academic requirement—it is a structural condition for the sustainability of cross-border outcomes.

8.15 Hybrid Mismatches and Treaty Outcomes: The Economic Actor Test

Hybrid mismatches occur when different jurisdictions assign conflicting classifications to the same entity, instrument, or transaction, creating gaps in taxation, deductibility, or treaty entitlements. Türkiye resolves these situations through an economic-actor test. This substance-driven framework focuses on who genuinely controls the income, who bears the associated risks and who performs the functions that justify the return. Legal labels are relevant, but they are never decisive.

Under this test, Türkiye asks a single unifying question: Which entity is the real economic participant in the arrangement? The entity that demonstrably acts as the economic owner—exercising meaningful control, assuming risk and participating in value creation—is the one entitled to treaty protection. The entity that merely sits in the structural chain without functional contribution, operational presence or economic exposure is treated as a conduit, even if it qualifies as the legal recipient under foreign law.

This analysis applies consistently across hybrid mismatches. For reverse hybrids—entities treated as transparent locally but opaque abroad—Türkiye examines whether the hybrid entity has organisational substance, decision-making capacity, and capital at risk. If the functional centre of gravity lies with shareholders

or upstream entities, treaty benefits are allocated accordingly. For hybrid instruments—treated as debt in one jurisdiction and equity in another—Türkiye looks at how the instrument behaves in each jurisdiction. Returns that track performance, subordinated repayment rights or risk-bearing features lean toward equity; predictable interest-style returns with genuine credit risk lean toward debt.

Beneficial ownership plays a decisive role. Türkiye evaluates whether the purported income recipient retains, controls and enjoys the income. Indicators include the retention of funds, governance autonomy, the presence of risk-management processes and the ability to make independent decisions regarding the asset or income stream. If these features are missing, treaty access is denied—not as a penalty, but because the entity is not the economic owner required under modern treaty standards.

The MLI's Principal Purpose Test reinforces this approach. Where hybrid structures exist primarily to secure reduced withholding rates, access tax-preferred jurisdictions, or facilitate treaty shopping without substantive activity, Türkiye applies the PPT to restore the tax outcome consistent with economic reality. As a result, entities that once relied on classification mismatches—limited-risk conduits, paper IP owners, passive holding companies—must now demonstrate genuine involvement in the income lifecycle.

What distinguishes Türkiye's practice is its reliance on functional reconstruction. Authorities rebuild the structure by tracing where decisions are made, where personnel sit, how capital flows, who owns the intellectual contribution, how profits are used, and which entity is truly exposed to commercial risks. This behavioural evidence ultimately determines who the economic actor is. If the declared structure contradicts functional reality, Türkiye applies domestic law and treaty interpretation to reallocate income to the entity that actually performed the relevant economic activity.

Hybrid mismatches are therefore not resolved through legal interpretation alone but through behavioural alignment. The outcome depends on whether the structure expresses genuine economic relationships in a coherent, documented and defensible way. Entities that can support their position with operational evidence—decision logs, governance records, contractual control, personnel allocation and risk-management protocols—retain treaty protection; those relying solely on form face structural recalibration.

8.16 Practical PE Dynamics in Türkiye: Functional Gravity and Institutional Memory

Permanent establishment in Türkiye is not a theoretical threshold derived from abstract treaty concepts; it is a behavioural reality that materialises when the operational weight of a foreign enterprise settles into Türkiye's institutional ecosystem. The idea becomes visible not through formal declarations but through the accumulation of patterns—recurring activity, decision-making influence, technical integration, human presence, and the steady imprint of commercial routines across Türkiye's digital and supervisory infrastructure. In practice, PE emerges when behaviour—not corporate preference—anchors the enterprise in Türkiye's economic landscape.

Türkiye's administrative mindset views PE as the inevitable result of functional gravity. When activities that generate, shape, or support commercial outcomes repeatedly flow through Türkiye, the system treats these routines as evidence of a localised economic presence. Authorities do not ask whether a foreign enterprise intended to create a PE; they examine what the enterprise actually did, whether these actions produce sustained operational effects, and whether the surrounding documentation reveals a pattern of integration. In Türkiye's compliance architecture—built on e-ledgers, e-invoices, banking metadata, payroll flows, workflow

logs and cross-institutional visibility—behaviour leaves a trail that speaks more convincingly than any formal statement.

Service-based presence illustrates this dynamic clearly. While day-count thresholds provide analytical orientation, Türkiye focuses on the operational relevance of the individual's role. Short-term visits, project workshops, on-site coordination, hybrid work arrangements, or periodic managerial interventions may seem inconsequential when viewed in isolation. Yet, they accumulate significance when they become structurally embedded in a project lifecycle or a local workflow. When foreign personnel repeatedly direct local teams, shape decisions, manage implementation steps, resolve customer disputes, validate technical outputs or sustain project continuity, Türkiye interprets these actions as evidence that the business has positioned a value-creating function within its borders. The threshold is behavioural: if the person's involvement is integral to the Turkish operation's success, the activity is economically anchored in Türkiye.

Dependent-agent PE follows the same behavioural doctrine. Post-MLI, Türkiye assigns limited weight to the formal authority to conclude contracts. The relevant question is whether the local individual performs the function that gives the contract commercial reality—negotiation, pricing influence, deal shaping, client engagement, technical scoping, or operational closure. Suppose these functions occur in Türkiye as part of a recognisable pattern. In that case, the administration regards the individual as habitually playing the principal role leading to the conclusion of contracts, regardless of where the signature is placed. Contractual form matters, but it is no longer decisive; what matters is which jurisdiction's institutional ecosystem supports the activity that brings the deal into existence.

Fixed-place PE reflects similar logic. Türkiye does not restrict its analysis to formally leased premises or registered offices. A fixed place arises wherever the enterprise repeatedly uses a physical environment as the operational base of its activities: a

co-working room booked every week; a dedicated desk at a client's facility; a recurring project office; a server room used for system maintenance; a portion of warehouse space allocated to foreign personnel; or even a hybrid model where remote teams operate from Türkiye on a predictable cycle. The question is not who owns the space, but whether the space enables continuous functions that matter to the enterprise's commercial output. When an activity becomes rooted in a specific location, Türkiye views that location as the fixed place where the business is conducted.

Türkiye's institutional memory reinforces this behavioural interpretation—a concept embedded in its digital compliance infrastructure: E-invoices record project cycles, cost flows and customer interactions. E-ledgers capture accounting reality with timestamp precision. Payroll declarations reveal where teams operate and who reports to whom. Banking flows reflect the rhythm of economic activity and the direction of value creation. Project documentation, workflow approvals, and systems access logs provide granular evidence of operational behaviour. Collectively, these mechanisms ensure that PE is not determined by a single factor but by the convergence of data points that, over time, narrate how and where the business truly functions.

PE outcomes in Türkiye, therefore, arise not from legal formalism but from institutional perception. When behaviour signals sustained engagement, the administration interprets the enterprise as meaningfully present. When behaviour aligns with temporary support, limited coordination or peripheral involvement, PE risk subsides. This framework produces a predictable system: operations grounded in explicit scopes of work, structured reporting lines, limited in-scope involvement and transparent governance produce stable outcomes; operations blending local decision-making, routine operational support and project-critical functions naturally gravitate toward taxable presence.

In Türkiye's ecosystem, permanent establishment is the tax

expression of functional reality. Structures designed around carefully defined roles, controlled local engagement, and contemporaneous documentation remain stable. Structures relying on contractual minimisation while embedding decision-relevant functions within Türkiye's operational orbit encounter friction. The system does not penalise presence; it penalises inconsistency. When behaviour matches corporate design, PE questions are resolved analytically. When behaviour diverges, Türkiye reconstructs the economic truth and aligns taxation with the jurisdiction where value is demonstrably created.

8.17 Thin Capitalisation Dynamics and the Behavioural Interpretation of Group Financing

Thin capitalisation in Türkiye is not treated as a narrow mechanical ratio but as a behavioural expression of how a multinational group allocates risk, supports its subsidiaries and structures internal financial decision-making. The statutory 3:1 and 6:1 thresholds serve as formal guardrails, yet Türkiye's institutional reading extends far beyond these numerical limits. The system examines whether the funding structure, repayment pattern, economic purpose and governance behaviour collectively resemble genuine credit support or whether the debt functions as a proxy for equity. Thin capitalisation is therefore understood not merely as a balance-sheet calculation but as a diagnostic of how capital behaves within the organisation.

In Türkiye's supervisory environment, sustained losses, limited capitalisation, reliance on short-term related-party loans or borrowing patterns that lack commercial logic are viewed as indicators of structural imbalance. Authorities assess whether a Turkish entity has the financial resilience to justify the leverage it carries and whether the lender—or the party that substantively stands behind the lender—has the economic capacity to monitor, price and assume credit risk. If the borrower's debt profile appears

detached from operational performance or if the lender lacks the infrastructure that an actual financing function would require, Türkiye interprets these inconsistencies as signals that the financing arrangement does not reflect market behaviour.

This behavioural analysis extends across the whole architecture of group financing. Back-to-back lending chains, treasury-centre platforms, global cash-pooling frameworks, and multi-layered conduit structures are examined not for their formal design but for their functional substance. Where the nominal lender has minimal personnel, limited risk systems, or no decision-making process beyond administrative formality, Türkiye assigns limited weight to the stated structure. The administration re-anchors the financing relationship to the entity that demonstrably owns and deploys the capital, controls risk or performs the treasury function in practice. The question is not who issued the loan on paper, but who behaves as the economic lender.

Implicit support plays a central role in this evaluation. Even when no parental guarantee is documented, Türkiye recognises that multinational affiliation influences pricing, creditworthiness and expected repayment outcomes. The system, therefore, expects interest rates to reflect not only the borrower's standalone profile but also the economic realities of group membership. Where terms, maturities or repayment conditions appear inconsistent with the borrower's independent capacity, Türkiye interprets the disparity as evidence that the debt carries equity-like characteristics. Funding that behaves like equity—subordination, variable returns, flexible repayment or alignment with profitability—tends to be treated accordingly.

These interpretations emerge within Türkiye's data-rich institutional environment. E-ledgers, banking records, intercompany agreements, treasury correspondence, payment histories and credit-committee documentation collectively reveal whether the debt operates as a commercial instrument or as an internal capital-allocation tool. Patterns of rollover, non-payment,

ballooning balances, year-end window dressing or interest capitalisation are treated as behavioural markers indicating whether the loan serves an economic purpose or merely sustains undercapitalisation.

The thin-capitalisation ratio remains relevant but is applied as one element within a broader narrative reconstruction. When ratios are breached, interest deductions may be denied, and the excess financing may be reclassified as disguised profit distribution. This triggers withholding tax consequences unless treaty protection applies and unless the lender qualifies as the beneficial owner. But even where ratios are formally met, Türkiye may still challenge the financing if the arrangement lacks economic substance, if pricing fails arm's-length scrutiny or if the lender's functional capacity is inconsistent with its economic claim to interest income. Thin capitalisation thus operates in parallel with transfer pricing, beneficial ownership assessments, and treaty integrity principles.

For multinational groups, the practical implication is that financing structures must articulate not only contractual form but functional logic. Credit analyses, treasury policies, cash-flow projections, decision-making records, benchmarking studies and contemporaneous board approvals must demonstrate that the loan reflects commercial rationale and the lender genuinely bears that risk. Documentation cannot retroactively cure inconsistencies; Türkiye examines behaviour through the lens of ongoing financial conduct, not ex-post justification.

Where capital and risk allocation align with observable behaviour, financing structures are treated predictably, whether the group employs treasury centres, notional pools, acquisition financing or hybrid instruments. Where behavioural patterns contradict formal design—where the entity claiming interest income does not act as a lender, or where the Turkish borrower's leverage cannot be reconciled with its economic performance—the system recalibrates the structure to its economic substance.

In Türkiye's international tax architecture, thin capitalisation ultimately operates as a governance test: it reveals whether a group's financing model reflects real economic logic or merely contractual positioning. Structures built on coherence, transparent risk allocation and functional reality integrate smoothly. Structures relying on formal labels that diverge from behavioural evidence encounter institutional friction. By interpreting capital through the lens of conduct rather than form, Türkiye aligns its thin-capitalisation practice with the broader global shift toward substance-driven taxation.

8.18 Withholding Tax Outcomes: Classification, Economic Reality and Treaty Integrity

Withholding tax in Türkiye operates not as a mechanical levy but as a result of classification discipline, economic reality, and treaty integrity. The statutory rates—whether for interest, royalties, service fees or dividends—are only the surface layer. The more profound logic is behavioural. Türkiye evaluates each outbound payment through a sequence of substantive questions: What economic relationship gave rise to the payment? Which entity controls and enjoys the income? Where is value actually created, and where is risk borne? Only when legal form, functional behaviour and financial flows converge does a withholding position become credible.

Classification sits at the core of the system. A payment labelled as interest, royalty, or service cannot rely solely on contractual wording. Türkiye reconstructs the underlying activity by analysing personnel involvement, risk control, governance routines, technical content, IP usage, and the operational contribution of Turkish teams. Where the payment's characteristics diverge from the contractual label—such as interest with equity-like features, a "service fee" embedding intangible rights, or a royalty contract lacking DEMPE substance—Türkiye reclassifies the flow

to reflect its economic nature. The administration expects the tax treatment to follow the activity, not the description.

Interest payments illustrate this approach. When the lender lacks underwriting capacity, credit risk infrastructure, or treasury personnel, Türkiye questions whether the entity is the genuine provider of financing. Documentary shortcomings—such as the absence of credit analysis, yield-curve benchmarking, repayment oversight, or treasury governance—signal that the lender may be acting as a conduit. In such cases, interest may be recharacterised as a disguised distribution or as an allocation of profits to the jurisdiction where risk is actually controlled. Treaty benefits are granted only if the recipient demonstrably bears credit risk and retains the economic benefit of the interest. Beneficial ownership is therefore not a declaration; it is a factual test proven through conduct.

Royalty payments are subject to an equally substantive evaluation. Türkiye does not consider legal ownership of IP a decisive factor; it considers economic ownership, evidenced by DEMPE functions, decisive. Where development, enhancement, maintenance, protection or exploitation activities occur in Türkiye, or where the foreign IP owner lacks the systems and personnel to control intangible-related risks, Türkiye re-anchors part or all of the royalty income to the jurisdiction where substantive functions occur. Contractual IP title is respected only when supported by functional capacity. Without DEMPE alignment, outbound royalties may be partially denied, reclassified as service fees or treated as evidence of value creation within Türkiye.

Service fees require coherence across three dimensions: where the service is performed, where its benefit is consumed and whether the foreign provider has the functional substance to deliver it. Türkiye challenges arrangements in which work is substantively performed by Turkish personnel, in which decisions driving the service originate in Türkiye, or in which the fee masks managerial control exercised locally. When the service narrative diverges

from operational evidence—emails, project files, workflow logs, or governance approvals—classification shifts toward dependent personal services, business profits attributable to a PE, or royalty characterisation depending on the underlying conduct.

Dividend withholding hinges predominantly on beneficial ownership and economic control. Türkiye examines whether the foreign shareholder exercises genuine investment autonomy, bears market risk and retains control over the proceeds. Holding companies with minimal personnel, compressed cash-through patterns, artificial financing layers, or decision-making anchored elsewhere are subject to scrutiny under both beneficial-ownership and principal-purpose tests. Treaty reductions apply only when the shareholder operates as a genuine economic actor in its own right. No treaty reduces the Turkish dividend WHT to zero, but the decision to grant a reduced rate depends on whether the equity structure reflects commercial logic.

Across all payment types, Türkiye applies a unified interpretive methodology grounded in substance. The administration examines financial flows, governance records, board minutes, functional analyses, intercompany agreements and digital data—ERP logs, invoice trails, bank movements—to determine whether the tax outcome matches the economic narrative. Discrepancies across these channels weaken treaty claims and prompt reclassification. Coherence across filings—VAT, transfer pricing, e-Ledgers, withholding returns—becomes the institutional test for classification integrity.

Treaty interpretation follows the same behavioural logic. Beneficial ownership, PPT assessments and source-of-income tests converge into a single evidentiary inquiry: does the recipient act as the economic owner of the income? If the answer is not supported by functional substance, treaty benefits narrow or disappear altogether. Türkiye does not deny treaty protection arbitrarily; it denies protection where the structure fails to

demonstrate the economic reality that treaties were designed to preserve.

In this environment, classification becomes both a tax rule and a governance expectation. Payments that align legal form, functional behaviour and financial evidence are treated predictably. Payments that rely on structural positioning alone encounter friction. Withholding tax in Türkiye ultimately operates as a behavioural filter: it assigns tax outcomes to the parties who create, control and benefit from the underlying value. The system rewards transparency and penalises divergence between contracts and conduct, ensuring that treaty outcomes reflect genuine economic participation rather than engineered form.

Türkiye's international tax environment is ultimately a coherence test—structures, payments and cross-border functions are respected only when the underlying economic behaviour supports them. The journey of Chapter 8 has followed this logic across every dimension: permanent establishment theory, CFC alignment, cross-border services, financing architecture, DEMPE substance, global mobility, residency conflicts, hybrid mismatches and withholding-tax integrity. Each component operates as a narrative filter. They test not only what a group intends but what the group's evidence proves.

This evidentiary ecosystem has a direct consequence: transfer pricing is no longer an isolated compliance exercise. It is the operational language through which all cross-border behaviour is expressed. Every structural choice made in Chapter 8—how risks are allocated, where people sit, how decisions are made, which entity controls value, how financing behaves, how IP is managed and where work is actually performed—crystallises in Chapter 9 as quantifiable pricing outcomes.

Türkiye interprets transfer pricing not as a theoretical allocation

mechanism but as the financial expression of an organisation's behavioural footprint. The administration's digital tools read this footprint across systems: e-Ledgers, e-Invoices, payroll flows, VAT cycles, customs data, CbCR tables, cash movements, governance documentation and functional-substance narratives. Inconsistency at any point signals that the pricing does not reflect reality. When cross-border structures weaken, it is pricing that collapses first.

In practice, this means that transfer pricing is the institutional hinge between international architecture and domestic taxation. It translates governance structure into margins, functional roles into profitability, risk allocation into expected returns and cross-border support into defensible charges. Türkiye does not allow pricing to be detached from behaviour; instead, behaviour dictates how pricing must look.

As groups scale into Türkiye or build Turkish operations into regional or global models, this linkage becomes decisive. Service-centre profiles, distributor margins, commissionaire roles, IP returns, financing spreads, cash-pool outcomes and management-fee structures must all follow the economic logic established throughout Chapter 8. Transfer pricing becomes the measurable output of the system that Chapter 8 builds.

The next chapter operationalises this link.

Where Chapter 8 defined how Türkiye interprets cross-border presence, value creation, and economic substance, Chapter 9 describes how those interpretations translate into pricing, documentation, and financial outcomes.

Where Chapter 8 focused on the architecture of behaviour, Chapter 9 focuses on the mechanics of profitability.

And where Chapter 8 established Türkiye's behavioural expectations, Chapter 9 expresses them through the technical

language of methods, margins, functional analyses, and transactional evidence.

In Türkiye's supervisory environment, transfer pricing is not the end of the narrative—it is the moment the narrative becomes measurable.

CHAPTER 9

TRANSFER PRICING IN TÜRKİYE: GOVERNANCE, SUBSTANCE AND ADMINISTRATIVE EXPECTATIONS

Türkiye's transfer-pricing environment operates as a governance stress test—pricing is credible only when an organisation's functions, risks and financial flows tell the same story across every institutional touchpoint.

“In Türkiye, transfer pricing is not a calculation; it is the behavioural audit of how a business actually creates and captures value.”

Transfer pricing in Türkiye is not a purely technical exercise; it is an institutional assessment of behaviour, functions and cross-system consistency.

The Turkish tax administration does not view transfer pricing as an isolated compliance obligation. Instead, it frames transfer pricing as a diagnostic tool that reveals the internal logic of a multinational group: which entities exercise influence, which carry risk, which perform functions, and whether the economic outcomes match that distribution. When the organisation operates in a manner consistent with its declared roles—where governance, systems, people and financial flows point to the same narrative—transfer pricing positions tend to remain stable. When the declared structure tells one story but operational reality tells another, the pricing outcome becomes fragile, and

the administration begins reconstructing the value chain using objective indicators rather than stated intentions.

Two broad forces shape Türkiye's approach:

- A domestic emphasis on documentation coherence, driven by e-Ledger systems, statutory filings, payroll data and cross-border reporting frameworks;
- A global environment dominated by DEMPE logic, Pillar Two expectations, and increasingly substance-driven interpretations of treaties and transfer pricing standards.

The result is a system in which the strength of a transfer-pricing position depends less on the sophistication of a benchmarking study and more on whether the organisation can demonstrate, through its day-to-day behaviour, that value creation and profit allocation are structurally aligned.

Transfer pricing in Türkiye. Therefore, it is best understood not as a defensive tax exercise but as a form of institutional due diligence—one that tests whether a group's governance, strategic design and operational reality produce a credible, consistent and defensible narrative. In this environment, economic substance is not ancillary; it is the organising principle through which all pricing outcomes are evaluated.

9.1 Functional and Risk Architecture

Türkiye evaluates intragroup pricing first and foremost through the operational substance of the business. The administration's approach is rooted in a simple yet uncompromising logic: the entity that performs the work, directs it and bears its consequences is the entity that should earn the return. Functional and risk analysis is, therefore, the primary lens through which transfer-pricing credibility is measured.

The key questions are always the same:

Who performs the work in practice?

Not on paper, not in contractual language—but in the daily mechanics of the business.

Who directs, supervises and controls that work?

Türkiye places particular weight on day-to-day operational authority: who sets priorities, approves budgets, escalates issues and makes commercial judgments.

Who makes the key decisions that shape economic outcomes?

Strategic influence—even without a formal title—can shift an entity's functional profile.

Who ultimately bears the commercial and financial consequences when things go wrong?

Risk cannot be allocated by declaration; capacity, systems and governance must support it.

These questions become decisive when entities claim “limited-risk” profiles. Türkiye recognises limited-risk models—routine distributors, contract manufacturers, shared-service centres—but only when functional reality supports them. A limited-risk distributor that negotiates pricing, determines customer discounts, manages marketing budgets or assumes meaningful inventory exposure no longer fits the limited-risk paradigm. By the same logic, a contract manufacturer with genuine discretion over procurement, production planning or quality control is unlikely to be treated as a mere routine processor. Türkiye evaluates limited-risk claims not by job titles but by the observable decision rights embedded in daily workflows.

Conversely. Where an entity truly performs routine roles—standardised back-office support, transactional processing, logistics coordination, clerical accounting or manufacturing

under tightly controlled specifications—the expectation is a stable, predictable return commensurate with its limited exposure.

For this reason, the administration treats functional and risk analysis not as theoretical exercises but as factual reconstructions. Contractual language matters, but it is tested against objective indicators:

- actual workflows and approval chains, visible in ERP systems, email trails and project documentation;
- the calibre, seniority and decision rights of personnel in each jurisdiction;
- budget ownership and performance metrics, which reveal where commercial influence resides;
- incentive structures and remuneration patterns, which often show who truly bears risk and responsibility.

These indicators are increasingly reconstructed through digital artefacts, including ERP logs, ticketing data and workflow approvals.

Suppose these indicators align with the declared profile—whether limited-risk, routine or fully-fledged—pricing outcomes become defensible. If they contradict it, Türkiye reclassifies the entity's role and reallocates profit accordingly, regardless of contractual descriptions.

In practical terms, functional and risk architecture is the anchor of Türkiye's transfer-pricing framework. It shapes method selection, profit expectations, deductibility analysis and the credibility of intercompany arrangements. For multinational groups, the implication is clear: in Türkiye, functional truth governs pricing outcomes.

When governance, people, processes and financial results reinforce the same functional story, transfer pricing becomes stable. When they diverge, Türkiye reconstructs the value chain

based on what the business actually does—not what documents claim it does.

9.2 Transfer Pricing Methods: Practical Relevance in Türkiye

Türkiye has formally adopted the OECD toolkit of transfer pricing methods. Still, the way these methods operate in practice is shaped by the country's emphasis on functional reality, data quality and the actual structure of the transaction. The statutory rules provide the framework; the administration's expectations determine how that framework applies in real cases.

Traditional transaction methods—Comparable Uncontrolled Price (CUP), Resale Price and Cost Plus—retain strong relevance, but only when the underlying commercial circumstances make them viable. CUP is most persuasive when reliable market data is available, and the terms of trade are sufficiently standardised to allow a direct comparison. In Türkiye, CUP is particularly influential in commodity transactions, intragroup lending, licensing of standardised technology and financial dealings where external benchmarks (market interest rates, exchange-quoted prices, published licensing arrangements) are available. CUP carries maximum weight when pricing terms are standardised and contractual conditions are transparent.

The Resale Price Method becomes appropriate when a distributor purchases goods from a related party and resells them without materially altering their character. The key assumption is that the distributor performs typical selling functions—logistics coordination, customer management, routine marketing—without assuming significant risks. Where this pattern aligns with the Turkish entity's actual behaviour, the administration views resale price margins as an intuitive yardstick for arm's-length outcomes.

Cost Plus is similarly grounded in operational simplicity. It is commonly applied in contract manufacturing, shared-service centres and routine processing arrangements where a reliable cost base can be identified and a mark-up agreed. When the Turkish entity performs standardised functions under clearly defined instructions—with limited risk exposure—Cost Plus produces a result broadly aligned with the economic logic of the arrangement.

In many industries, however, the conditions that support traditional methods do not exist. Rapid product cycles, integrated value chains, blurred functional responsibilities and limited availability of clean local comparables make transactional profit methods more practical. For this reason, the Transactional Net Margin Method (TNMM) has become the workhorse of transfer-pricing practice in Türkiye. TNMM is typically applied when the tested party performs routine functions and does not own unique intangibles. It is widely used for distributing, manufacturing and routine service entities whose functions and risks can be benchmarked through segmental or full-company analyses drawn from public databases. The administration does not object to TNMM when it is used appropriately; what matters is that the tested party reflects the entity performing the simpler, more routine functions.

The profit split method is used much more sparingly. Türkiye reserves it for cases where the value chain is genuinely integrated—joint development of intangibles, combined decision-making structures or business models in which both parties contribute unique assets or capabilities. In these situations, neither side can be tested reliably in isolation, and a shared allocation of residual profit is the only method that reflects the arrangement's true economics. Because profit split requires detailed functional evidence, it is accepted only when the facts support such a level of integration.

Türkiye does not expect taxpayers to test every method

mechanically or to document a theoretical justification for methods that are clearly impractical. Instead, it expects a clear, reasoned explanation of why the selected method reflects the commercial essence of the transaction, the availability and reliability of data and the actual role and risk profile of each party. A technique that is technically elegant but contradicts the organisation's day-to-day behaviour will not carry weight. A method that accurately reflects operational reality, however, will generally be respected even if the statistical imperfections of benchmarking mean that the comparables are not flawless.

Transfer-pricing method selection in Türkiye, therefore, operates on a simple institutional expectation: the method must illuminate the economic reality of the transaction, not obscure it. When the functional analysis, data selection and method choice all point in the same direction, the resulting pricing is stable, defensible and aligned with the country's evidence-driven approach.

9.3 Intragroup Services and the Reality of Benefit

In Türkiye. Intragroup service charges are assessed through a practical question that runs through the entire transfer-pricing system: was an honest service performed, did the Turkish entity genuinely benefit from it, and is the charge consistent with what an independent business would pay? The benefit test examines whether the service measurably improves the Turkish entity's position.

In Türkiye, intragroup services are assessed through a strict benefit-test framework. The taxpayer must demonstrate that the service provided genuine, measurable economic value, that it was actually performed, and that it did not constitute a shareholder activity or a duplicative function.

For management-fee arrangements, centrally delivered service bundles and cost-sharing structures, the burden of proof rests

entirely on the Turkish entity. Authorities typically expect contemporaneous evidence such as service reports, deliverables, project records, time logs, personnel profiles, and transparent cost-allocation schedules.

Contract language alone does not satisfy this test. What matters is the operational record—the tangible outputs, the decision support provided and the degree to which the service influenced the Turkish entity’s activities.

The administration, therefore, evaluates service charges by seeking evidence of actual performance. Templates that refer vaguely to “management support”, “strategic oversight”, or “global integration services” are not considered persuasive unless they are anchored in demonstrable activity. What carries weight are concrete artefacts such as:

- meeting minutes, presentations, strategy decks and advisory papers;
- project plans, workstreams, deliverables and internal decision notes;
- system-access logs, ticketing records and workflow documentation;
- communications showing how foreign expertise shaped Turkish outcomes;
- time writing, allocation keys and internal correspondence linking the service to local processes.

If the record shows that the Turkish entity could not have generated the same result on its own—either due to lack of expertise, access to systems or organisational capacity—the charge is generally accepted, provided pricing is consistent with arm’s-length parameters.

Where the evidence is weak, duplicative or reveals services that primarily benefit shareholders or the global group rather than the local entity, deductibility becomes more challenging. Typical pressure points include:

- “steering committee”, “global management” or “headquarters oversight” fees where no concrete value to Türkiye is visible;
- arrangements where regional hubs and headquarters provide overlapping or indistinguishable services;
- allocation keys driven solely by revenue, headcount or a global formula without a clear explanation of why these metrics reflect actual benefit;
- costs that resemble shareholder activities—group reporting, investor relations, global governance—rather than operational support.

Costs primarily linked to investor protection or group governance are not deductible, even if allocated under global formulas.

The administration’s focus is not on rejecting intragroup services, but on confirming that they produce a measurable benefit for the Turkish entity. Türkiye follows the OECD’s benefit test closely but interprets it through the country’s broader emphasis on documentation coherence. Charges that cannot be traced through the organisation’s internal workflow, lack evidence of consumption by the Turkish entity or appear to support group-level objectives rather than local operations are treated with caution.

When the service is genuine, pricing and allocation must still follow arm’s-length logic. Allocation keys should reflect actual drivers of consumption: system usage, transaction volume, time devoted, project involvement or functional contribution. Keys based on global revenue or headcount may be acceptable, but only where they align with the nature of the service and the way costs accrue in practice.

In Türkiye, intragroup services are most defensible when four elements align:

- a clear scope of work linked to identifiable operational needs;
- documentation showing that the service was actually performed;

- evidence demonstrating how the Turkish entity benefited;
- a pricing mechanism grounded in functional analysis and market logic.

Turkish administrative practice often accepts a cost-plus margin of around 2% for low-value-adding intragroup services. Provided the taxpayer maintains detailed documentation evidencing the nature of the services, the benefit obtained and the allocation rationale. Although this is not a statutory safe harbour, it has been consistently reflected in administrative reviews. It is broadly aligned with OECD guidance, making it a practical benchmark for routine support functions.

Where these elements converge, the deductibility of service charges is generally stable. Where they diverge, the administration reconstructs the narrative using objective indicators, and form-based descriptions become less relevant.

9.4 Profitability Patterns and Local Expectations

Routine entities in Türkiye are expected to earn returns that reflect their functional profile, risk exposure and prevailing market conditions. The administration evaluates profitability over a multi-year horizon rather than treating a single year as decisive. Persistent losses are not inherently non-arm's-length, but they require a credible, evidence-based explanation that aligns with both the functional profile and the economic context of the sector. Türkiye emphasises contemporaneous board materials to validate loss rationales.

Acceptable justifications may include:

- start-up or ramp-up periods supported by business plans and investment cases, including internal approvals and cash-flow projections that show when the entity is expected to reach steady-state profitability;

- market contraction or macroeconomic shocks substantiated by external data, sector reports or internal board analyses;
- restructuring costs, plant closures or strategic repositioning, with documentation showing how these exceptional items impact the entity's risk profile;
- deliberate short-term cost absorption by the parent pursuant to a documented strategy, including evidence that the parent, rather than the Turkish entity, bears the commercial consequences of such decisions.

Where a distributor, contract manufacturer or routine service provider claims limited-risk status yet exhibits volatile, very low or persistently negative margins without a coherent narrative, the structure begins to send conflicting signals. In such cases, the administration may:

- challenge the limited-risk characterisation;
- question whether local functions and risks are understated;
- reassess transfer pricing for purchases, sales or service flows;
- attribute a greater share of group profit to Türkiye based on a reconstruction of the value chain using functional interviews, workflow analysis and cost structures.

Türkiye's practice also places weight on cross-system cohesiveness: profit levels must be consistent not only with benchmarking but with internal budgets, management reports, compensation structures and the actual behaviour of local personnel. If operational outputs or local decision-making indicate a higher functional intensity than the declared profile, profitability becomes a focal point for adjustment.

Benchmarking outcomes must be reconciled with Türkiye's sectoral dynamics and inflation-adjusted realities. Profitability is therefore not viewed as a standalone metric but as part of the governance narrative. Taxpayers are expected to demonstrate that

profit levels observed in Türkiye align with the entity's functions, risks and assets over time, not merely with the output of a static benchmarking study. The authority expects that functional profiles, financial outcomes and transfer-pricing methods reinforce each other without contradiction. Consistency between operational reality and economic outcomes is central to Türkiye's transfer-pricing expectations.

9.5 Documentation and Cross-System Integrity

Formal transfer-pricing documentation—Master File, Local File and, where applicable, Country-by-Country Reporting—is a starting point, not the end of the analysis. Türkiye's regime requires:

- a Master File for large groups that meet statutory size thresholds, describing the global business, value chain, intangibles and financing;
- a Local File (annual transfer-pricing report) detailing the Turkish entity's related-party transactions, functional profile, method selection and benchmarking;
- CbCR filing or notification obligations for groups whose ultimate parent exceeds the global consolidated revenue threshold.

Türkiye places particular weight on cross-system integrity:

- Are the related-party transactions in the Local File fully reconciled to statutory accounts and e-Ledgers?
- Do the volumes and prices in the benchmarking study match those in the actual invoices and customs data?
- Are the functions described in the Master File consistent with what local management, HR structures and payroll records show?
- Do the intercompany agreements align with how operations actually run and how costs are booked?
- Are the narratives in transfer-pricing documentation

consistent with internal budgets, management reporting, KPIs and workflow responsibilities?

Alignment failures between transfer-pricing files and e-Ledger records are treated as red flags.

When documentation, statutory books, e-systems and operational reality tell the same story, transfer-pricing positions tend to be respected, even if minor methodological imperfections exist. When they diverge, the administration reconstructs the value chain using objective indicators, and formal descriptions are given less weight. This reconstruction may involve interviews with personnel. Analysis of system access logs, review of internal project documentation, and examination of treasury and procurement flows—all of which are increasingly accessible through digital audit tools.

Moreover, deficiencies in transfer pricing can trigger adjustments to the tax base and reclassification as disguised profit distributions, with consequences for corporate tax, withholding tax and penalties. This elevates documentation quality from a compliance formality to a central component of tax-risk management. Authorities view documentation as a governance statement: it must demonstrate that pricing outcomes arise naturally from how the organisation functions, not from retrospective rationalisation.

A well-structured documentation ecosystem, therefore, requires:

- contemporaneous maintenance rather than year-end reconstruction;
- tight integration between tax, finance, HR and operational teams;
- version control and consistency across group-level and local documentation;
- proactive reconciliation of transfer-pricing narratives with e-Ledger and e-Invoice data.

In Türkiye's system, documentation is credible only when it aligns

with the economic reality visible across all institutional channels. Consistency across tax, finance and operational systems is the single most persuasive indicator of compliance.

9.6 Advance Pricing Agreements (APAs) in Türkiye

Türkiye offers an Advance Pricing Agreement mechanism that allows taxpayers to obtain prospective certainty regarding transfer pricing methods and profit levels for defined transactions. APAs are particularly valuable for groups with:

- complex or highly integrated value chains;
- significant and recurring cross-border flows;
- unique intangibles or specialised functions;
- a history of disputes or uncertainty around specific structures.

APAs may be unilateral (between the taxpayer and Türkiye only) or bilateral/multilateral (involving treaty partners through mutual agreement procedures). Bilateral APAs are particularly effective at eliminating double taxation and aligning positions across jurisdictions. In recent years, Türkiye has shown greater willingness to engage in bilateral APA processes, notably where the counterparty tax authority demonstrates strong MAP/ APA capacity.

The APA process in Türkiye typically involves:

- a pre-filing phase to scope eligible transactions and assess feasibility;
- a formal application with detailed functional analysis, method selection, financial projections and critical assumptions;
- intensive discussions with the administration on

governance, substance and sustainability of the proposed pricing;

- and, if successful, an agreement covering a forward-looking term (commonly three years, with the possibility of renewal if facts remain stable).

Throughout the process, authorities examine:

- the depth and reliability of the applicant's documentation infrastructure;
- the robustness of its internal controls and reporting systems;
- the stability of the business model and value chain;
- the taxpayer's ability to monitor and evidence compliance with agreed parameters on an ongoing basis.

A consistent theme in Türkiye's APA practice is the emphasis on factual discipline. Authorities expect applicants to demonstrate that the proposed pricing method aligns with their historical data, operational conduct and functional allocation—not merely with theoretical models. Applicants are often asked to provide multi-year financials, system extracts, internal policies, workflow charts and evidence of how decisions are made in practice.

The value of an APA lies not only in certainty but also in the internal discipline it requires. To sustain an APA, an organisation must align its governance, systems and day-to-day behaviour with the agreed-upon pricing logic. This transforms transfer pricing from an annual defensive exercise into a continuously managed governance framework. For many groups, the APA process also strengthens internal alignment among tax, finance and operational teams, as it requires consistent narratives across intercompany agreements, management reporting, KPI structures and budgeting processes.

Where business models evolve—such as changes in supply chains, new product lines, restructurings or shifts in personnel—APA-critical assumptions must be monitored and, where necessary, proactively discussed with the administration. Türkiye expects

ongoing transparency, and failure to maintain APA conditions may jeopardise its validity.

In this sense, APAs in Türkiye represent a forward-looking commitment: a pricing agreement, but also an agreement on governance precision. Organisations that treat the APA as a living framework, rather than a static ruling, achieve the most predictable and stable outcomes.

9.7 Transfer Pricing as Strategic Governance

Transfer pricing in Türkiye works best when the organisation presents a single, coherent narrative across its functions, systems and financial outcomes. The administration does not expect mathematical precision; it expects alignment. The underlying expectations are straightforward:

- profits should mirror contributions;
- contracts should reflect real behaviour;
- documentation should reflect facts;
- global narratives should remain consistent with local realities.

When these elements reinforce one another, transfer pricing becomes a natural extension of the operating model. In such circumstances, Türkiye's evidence-driven administrative system can be navigated with stability and predictability.

In Türkiye, transfer pricing is not merely about defending a margin; it is about designing and operating a governance structure in which value creation, risk control and financial outcomes are transparently and consistently aligned.

This integration of governance and pricing forms the foundation of sustainable cross-border tax outcomes under Türkiye's administrative and evidentiary standards.

Transfer pricing establishes the organisation's narrative of value creation; treasury operations reveal whether that narrative holds when money begins to move. Türkiye's institutional ecosystem does not evaluate financial flows solely through accounting entries. It reads capital injections, intercompany loans, cash-pool movements, hedging patterns, bank behaviour, liquidity timing and FX exposure as indicators of governance, substance and internal alignment.

Where transfer-pricing frameworks describe who does what within the value chain, the financial-flow architecture demonstrates who supports what, who funds what, and who ultimately carries the economic consequences of those decisions, this behavioural evidence becomes visible across banking systems, BOP coding discipline, treasury approvals, FX management routines, and monthly liquidity cycles.

In Türkiye's supervisory logic, pricing without coherent financial behaviour is incomplete. Treasury systems must reinforce the same story as the functional analysis:

- Those risks sit where decisions are made,
- That capital behaves consistently with commercial logic,
- And that liquidity flows match the operational substance described in the transfer-pricing architecture.

Chapter 10 builds on this reality.

It explains how Türkiye interprets cash-flow movements, intercompany funding, hedging decisions, FX exposure, capital structuring, cash-pool dynamics and working-capital cycles—how financial behaviour becomes part of the same evidentiary matrix that underpins governance, substance and cross-border tax integrity.

CHAPTER 10

OTHER TAXES AND SECTORAL LEVIES IN TÜRKİYE

Türkiye's fiscal ecosystem operates as a multi-layered cost architecture in which sectoral levies, transaction-based taxes and regulatory charges shape the real economic footprint of doing business far more than statutory rates alone.

"In Türkiye, the true cost of operating is defined not by a single tax, but by how the entire fiscal layer-set interacts with your business model."

Türkiye's fiscal landscape extends well beyond corporate tax and VAT, encompassing a second layer of sector-specific levies, transaction-based charges, and selective consumption taxes that materially shape cost structures, regulatory exposure, and commercial behaviour.

These taxes are not peripheral. They function as structural elements of Türkiye's regulatory architecture, influencing pricing strategies, financing design, supply-chain economics and sectoral feasibility modelling. None of them individually defines the investment climate, but together they determine how businesses experience the Turkish market in day-to-day operations.

Stamp duty on commercial agreements, BITT on banking transactions, Special Consumption Tax on targeted goods, environmental charges, sector-specific funds and administrative fees all form part of this ecosystem. For investors, a clear understanding of these levies is essential—not only for compliance

but for accurate budgeting, cash-flow modelling and long-term strategic planning.

10.1 Banking and Insurance Transactions Tax (BITT)

The Banking and Insurance Transactions Tax applies to interest, commissions and fees earned by banks, insurers and other regulated financial institutions operating in Türkiye. Liability rests with the financial institution, but BITT is economically embedded in transaction pricing and directly affects the effective cost of credit, hedging, treasury operations and cash-management structures.

The standard BITT rate is 5%, levied on interest income, commissions and fees. It does not apply to the full loan spread; only the bank's revenue components form the tax base.

Consumer loans carry a 15% BITT rate, reflecting domestic policy around retail credit. Conversely, certain transactions—defined export loans, qualifying FX operations, specified capital-markets activities—may benefit from reduced BITT or an exemption, depending on their regulatory classification. FX spot conversions are generally outside BITT; derivatives follow product-specific rules.

Because BITT taxes bank revenue rather than principals, it influences:

- loan margins and arrangement fees
- derivative/hedging economics (subject to exemptions)
- factoring, leasing, trade finance
- cash-pooling and liquidity-management structures

When integrated into treasury planning early, BITT becomes an entirely predictable cost input. When overlooked, it becomes a structural friction embedded in day-to-day financial transactions.

10.2 Special Consumption Tax (SCT / ÖTV)

The Special Consumption Tax is one of Türkiye's most consequential indirect taxes, applied on the manufacture or import of designated high-value or high-externality goods. Although charged only once—at import or first domestic acquisition—its economic impact cascades throughout the value chain because SCT becomes part of the tax-inclusive cost base.

SCT operates through distinct product groups:

Motor Vehicles

SCT rates vary widely depending on engine size and vehicle value thresholds updated by Presidential Decree. Rates range from roughly 45% for lower-value cars to 200%+ for high-value or large-engine vehicles. EVs benefit from differentiated brackets. SCT is the dominant determinant of automotive pricing in Türkiye.

Petroleum Products & Energy Derivatives

Predominantly specific (per litre/kg) taxation. Minimum amounts are regularly adjusted, forming a core component of pump prices and influencing logistics-intensive sectors.

Alcoholic Beverages

A hybrid structure of ad valorem and specific minimums creates a high overall burden. Rate indexing is frequent. SCT is central to pricing strategy and margin management in this sector.

Tobacco Products

A hybrid system combining specific and ad valorem elements ensures strong tax incidence regardless of the pricing strategy.

Luxury Goods & Electronics

Rates vary materially and function as demand-management or import-calibration tools.

SCT directly affects:

- fleet-acquisition economics
- import and distribution pricing
- logistics and supply-chain cost structures
- competitiveness of alcohol/tobacco producers
- feasibility of high-value consumer-goods imports

Under Turkish law, SCT is not creditable against VAT; instead, VAT is calculated on a base that includes SCT. This tax-on-tax effect is economically significant, especially for high ad valorem categories.

Refunds of SCT are minimal—generally only for goods physically exported.

10.3 Property Tax and Real-Estate Levies

Property taxation combines municipal real estate taxes, transactional fees, and infrastructure-related charges that shape the long-term economics of owning, developing, or operating immovable property.

Annual real-estate tax applies to buildings and land, based on municipality-determined taxable values:

- 0.1%–0.2% residential
- 0.2%–0.4% commercial & industrial
- 0.3%–0.6% vacant land

In metropolitan municipalities, these rates are automatically doubled.

Real-estate transfers trigger title-deed fees: 2% for the buyer and 2% for the seller, applied to the declared value, which must meet minimum taxable thresholds.

New construction and zoning-related processes trigger additional

municipal charges—public works contributions, utility connection fees, and participation in the zoning plan.

These obligations influence:

- site selection
- capex planning
- asset-management strategies
- long-term lease economics
- acquisition feasibility

When integrated early, the system is predictable. When overlooked, it distorts valuation and budgeting models.

10.4 Motor Vehicles Tax (MTV)

MTV is an annual tax on registered vehicles—cars, commercial trucks, buses and vans.

For passenger cars, MTV depends on:

- engine size
- model year (age tiers)

Newer cars sit at the top of each bracket; amounts decline as vehicles age. Commercial-vehicle MTV is based on weight/capacity and age.

Operational implications include:

- fleet composition
- lease-versus-own decisions
- asset replacement cycles
- maintenance and TCO forecasting

In addition to MTV, companies must budget for:

- registration-related fees
- periodic inspection charges

Combined with SCT (acquisition-stage) and MTV (usage-stage), Türkiye imposes a two-layered vehicle-cost system that must be embedded into fleet models from the outset.

10.5 Digital Taxes and Platform-Focused Levies

Türkiye's digital-economy approach is guided by the principle that economic participation in the Turkish market—whether through advertising, intermediation, content distribution, or data monetisation—should contribute to the domestic tax base, even without a physical presence.

DST applies 7.5% to gross revenue from defined digital activities:

- digital advertising
- digital content and distribution (streaming, gaming, subscriptions)
- online marketplace intermediation
- user-data monetisation

Because DST is on a gross basis, it immediately affects pricing and margin architecture. Foreign operators are entirely in scope once thresholds are exceeded; physical presence is irrelevant.

DST requires systems capable of:

- isolating Turkish-sourced gross revenue
- classifying digital services
- filing DST returns without local infrastructure
- Additional digital-era obligations include:
 - TRT broadcasting charges on devices
 - media-regulator licensing fees
 - e-commerce transaction-volume levies

Together, these create a predictable but non-negotiable digital cost base.

10.6 Environmental Levies, Municipal Charges & Sectoral Fees

A secondary layer of quasi-fiscal obligations operates alongside national taxes:

- municipal environmental cleaning charges
- packaging-waste and recycling contributions (extended producer responsibility)
- tourism contribution fees based on hospitality revenues
- workplace-opening licences and operational permits
- signage fees and zoning-related approvals
- broadcasting-related contributions on electronic devices

These obligations vary by location and sector but collectively shape the operational-cost environment for FMCG, retail, logistics, hospitality, industrial facilities and technology producers.

They must be treated as structural operating costs, not incidental administrative expenses.

10.7 Stamp Tax

Stamp Tax is one of Türkiye's most pervasive transactional levies.

Applicable to:

- commercial contracts and amendments
- loan agreements, guarantees, security packages
- intra-group licensing, services, distribution arrangements
- powers of attorney
- certain corporate documents

Standard rate: 0.948% (ad valorem), with specific fixed-fee categories. Digital execution does not eliminate the tax; it follows the document's legal effect, not its form. Annual maximum caps apply.

Stamp Tax materially affects financing documentation, procurement contracts, restructuring projects and routine intra-group paperwork. Errors—duplicate agreements, unnecessary amendments—create avoidable costs; under-declaration creates audit risk.

10.8 Administrative Fees, Licences & Procedural Charges

Mandatory public-law fees apply to:

- trade-registry filings
- notary procedures
- work-permit fees
- customs-processing fees
- zoning and land-registry applications

Individually modest, collectively significant—particularly for HR-intensive, regulated or frequently restructured entities.

10.9 E-Documentation Systems and Tax Visibility

E-Invoice, e-Ledger, e-Archive, e-Dispatch, and related systems are not taxes; they enhance transparency and reduce tolerance for inconsistency.

Authorities expect:

- real-time alignment between transactional flows and VAT/SCT declarations
- internal consistency across systems, locations and subsidiaries
- immediate audit-traceability
- elimination of post-hoc narrative corrections

Companies must integrate tax, finance, supply chain, and IT systems into a unified workflow to avoid data quality risks.

10.10 Telecommunications & Media-Related Levies

Operators in telecom and media are subject to:

- BTK regulatory contributions (revenue-based)
- licensing and spectrum fees
- broadcasting-related device charges (banderol)
- IMEI registration fees for imported mobile devices

These charges influence device pricing, operator cost structures and ecosystem economics for telecom, broadcasting and digital-platform businesses.

10.11 Green Transition, CBAM & Emerging Environmental Costs

Türkiye's environmental framework is evolving alongside the EU Green Deal.

Key developments:

- EU CBAM transition phase affecting Turkish exports (steel, aluminium, cement, electricity, fertilisers, hydrogen)
- rising requirements for emissions measurement and verification
- emerging energy-efficiency rules
- potential domestic carbon-pricing mechanisms

For exporters, carbon intensity becomes a quantifiable cost variable requiring product-level emissions accounting and strategic adaptation.

10.12 Integration Note: Completing Türkiye's Fiscal Architecture

Chapter 10 completes the two-layer structure of Türkiye's fiscal ecosystem.

Layer one:

Corporate income tax, VAT, withholding tax, and payroll taxes.

Layer two:

Environmental levies, municipal charges, BITT, SCT, digital taxes, sector fees, and administrative obligations.

Understanding both layers is essential.

The first determines the statutory fiscal burden; the second defines the economic reality of operating inside Türkiye's institutional environment.

Türkiye's fiscal ecosystem becomes fully intelligible only when the secondary layer of taxes, levies and regulatory charges is viewed as part of the same institutional logic that governs corporate income tax, VAT, transfer pricing and withholding rules. That logic is coherent. Every cost, whether sectoral or transactional, ultimately ties back to the country's broader expectation that commercial behaviour, documentation and financial outcomes must reflect a consistent narrative.

As the complexity of the tax environment grows, so does the centrality of governance, internal controls and organisational design. Sectoral levies influence contracts; e-documentation systems shape operating models; environmental obligations reshape supply chains; and BITT, SCT and stamp tax affect financial flows long before tax returns are filed. The result is an environment where fiscal architecture and corporate architecture converge.

This convergence sets the stage for the next chapter. If Chapter 10 explains the whole cost structure surrounding business operations, Chapter 11 describes the framework that protects those operations: Türkiye's network of double tax treaties, the Mutual Agreement Procedure, and the interaction between domestic rules and international standards.

In other words, Chapter 11 shifts the lens outward—from Türkiye's internal fiscal layers to the cross-border mechanisms that determine how income is allocated, how double taxation is prevented, and how multinational groups navigate treaty benefits in a governance-driven system.

CHAPTER 11

FOREIGN EXCHANGE, BANKING & TREASURY OPERATIONS IN TÜRKİYE

Türkiye's FX and treasury ecosystem operates as a dual-track architecture—legally unrestricted, yet institutionally curated through bank-driven documentation standards, behavioural analytics and prudential expectations that define how capital actually moves through the system.

“In Türkiye, FX freedom is absolute; operational success depends on whether every flow fits a coherent, bank-ready economic narrative.”

Türkiye's foreign-exchange and banking framework operates on two interlocking planes. Legislation provides full convertibility, unrestricted capital movement and broad transactional freedom. Banks, however, process these flows through institutional expectations shaped by prudential supervision, AML/CFT obligations, and a system-wide emphasis on documentation integrity. As a result, the practical movement of capital is determined not only by what the law allows but by whether each transaction fits into a consistent commercial story.

When contracts, invoices, internal approvals, transfer-pricing positions and liquidity movements reinforce one another, banking processes are straightforward and administrative. When these elements diverge, the system pauses—not because FX controls restrict the transfer, but because banks must verify that the flow is economically credible, regulatorily defensible and aligned with

the company's operational footprint. The outcome is a hybrid environment: legally liberal, institutionally disciplined, and highly predictable for companies whose behaviour and documentation are coherent.

In Türkiye, FX freedom is absolute, but operational efficiency depends on alignment. Capital moves most smoothly when the organisation's commercial logic, governance record and financial flows all point in the same direction.

11.1 FX Freedom and the Operational Reality of Türkiye's Foreign-Exchange Regime

Türkiye maintains one of the most liberal FX regimes among emerging markets. Companies may freely purchase, sell, hold and transfer foreign currency; open FX accounts; manage multi-currency liquidity; settle cross-border obligations; and structure treasury models without capital-control restrictions. This legal framework is longstanding and central to Türkiye's commitment to convertibility and capital mobility.

The operational reality, however, is shaped by how banks interpret and process FX flows within their compliance frameworks. Banks act as institutional gatekeepers not by limiting permissible transactions, but by ensuring that each movement of funds is supported by a clear economic rationale, coherent documentation and behaviour consistent with the company's established operating model. Legally unrestricted transactions may still be delayed if the commercial purpose is unclear, the documentation trail is incomplete, or the flow deviates significantly from historical patterns.

This creates a predictable operating logic:

- FX movements are permitted, but they must be intelligible.

- Capital can be transferred, but it must be documented coherently.
- Liquidity can be repositioned, but it must withstand prudential review.

Companies that anticipate these expectations in their treasury design experience frictionless FX operations. Those who treat banking compliance as a secondary step often encounter delays unrelated to the legal framework and rooted instead in documentation gaps or behavioural inconsistencies.

Türkiye's FX environment therefore operates as a coherent system: legally open, institutionally rigorous and aligned around the principle that commercial behaviour, governance records and financial flows must tell a consistent story.

11.1.1 FX-Denominated Domestic Contracts: Legal Boundaries and Practical Implications

Although Türkiye's FX regime is liberal, resident-to-resident contracts are subject to specific restrictions under Decree No. 32 and its implementing communiqué. The rule is structural rather than temporary: Turkish residents may not freely denominate or index their domestic contracts to foreign currency unless they fall within narrowly defined exemptions. These limitations apply to a broad spectrum of arrangements—including service agreements, leases, consultancy contracts and intra-group transactions—and must be assessed as part of the company's treasury architecture rather than as an isolated legal technicality.

The policy objective is straightforward: limiting economy-wide FX exposure in domestic commerce. The effect, however, extends beyond contract drafting. It influences pricing models, treasury flows, and the design of intercompany service frameworks. For multinational groups, this restriction becomes one of the

practical boundary conditions within which operational and treasury structures must be calibrated.

The exemptions, while targeted, are meaningful. They cover contracts involving non-resident counterparties, specific technology procurements, certain large-scale infrastructure and financing arrangements, and other categories defined explicitly in secondary legislation. Eligibility must be demonstrable through documentation, as banks often request explicit references to the relevant exemption before processing FX-indexed payments. The banking system, therefore, acts as a behavioural enforcement mechanism, ensuring that FX-linked obligations appear only where the regulatory framework allows them.

For foreign investors, the operational implication is clear: the resident-to-resident FX prohibition does not impede cross-border treasury flows, but it shapes how domestic arrangements must be structured. Treasury models must therefore preserve commercial logic while respecting the resident-to-resident FX boundary. When these conditions are internalised early, the rule becomes an ordinary design parameter. When overlooked, it becomes a source of avoidable contractual rework and banking-side delays.

11.2 Bank Compliance Standards and Transaction Monitoring

In Türkiye, the legal openness of the FX regime coexists with a banking environment shaped by prudential supervision, AML/CFT obligations and increasingly sophisticated transaction-monitoring systems. As a result, the operational reality of cross-border transfers is determined not only by what the law permits but also by how banks interpret each flow within their risk frameworks. Banks serve as institutional filters: they do not restrict capital movement, but they ensure that every payment

is commercially intelligible, internally approved and capable of withstanding regulatory scrutiny.

This dual structure means that a transfer may be entirely lawful under FX rules yet still pause at the banking level if its purpose is unclear, its documentation trail is incomplete, or its size, timing, or counterparties diverge from the company's established behavioural patterns. In this system, compliance is not simply a checklist; it is a behavioural evaluation. Banks assess whether a transaction makes sense within the company's operational narrative, financial profile and historical activity.

Three elements shape this assessment. The first is economic logic. Banks expect a transparent, traceable chain linking the corporate relationship, the contract, the invoice, the internal approval, and the payment. When these elements reinforce one another, the transaction passes smoothly through internal filters. When they diverge—such as a payment that does not match the contract terms, an invoice without a supporting agreement or a flow that contradicts the company's commercial profile—the bank initiates additional review, not as a barrier but as part of its supervisory responsibility.

The second is behavioural consistency. Turkish banks analyse transaction rhythm as closely as transaction size. Regular patterns—such as periodic service-fee payments, loan repayments following a defined schedule or predictable dividend distributions—move efficiently because they align with prior behaviour. By contrast, sudden spikes in outbound transfers, unexpected counterparty changes, or one-off payments of significant magnitude prompt heightened scrutiny. The issue is not permissibility; it is alignment with the company's established identity. A treasury profile that behaves predictably is treated as lower risk.

The third is risk scoring under MASAK-driven monitoring frameworks. Banks deploy automated filters and manual review

processes to identify flows that fall within predefined categories—circular fund movements, atypical FX conversions, high-risk jurisdictions, repeated short-term loans without economic rationale or abrupt intercompany settlements. Even routine corporate payments can attract questions if they match a risk code. These controls do not reflect a restrictive FX stance; they reflect the banking system's role as the first line of supervisory defence.

For corporates, the lesson is consistent with the broader logic of operating in Türkiye: documentation, purpose and behaviour must form a coherent narrative. When treasury teams prepare documentation before initiating the transfer, maintain predictable payment patterns and articulate commercial rationale transparently, banking processes operate smoothly. When documentation is assembled only after questions arise, or when payment behaviour appears disconnected from operational reality, friction increases—not because the FX regime limits movement, but because the institutional expectation of coherence is unmet.

In practice, efficient treasury operations in Türkiye depend on treating bank compliance not as a hurdle but as part of the system's operating architecture. Companies that internalise this approach experience a banking environment that is stable, predictable and responsive once each transfer fits into an intelligible economic story.

11.3 Cash Repatriation, Dividend Flows and Capital Mobility

Cash repatriation in Türkiye operates within a framework that is legally open yet institutionally disciplined. The law places no structural barriers on distributing dividends, repaying shareholder loans, returning capital or transferring funds within a multinational group. Capital is fully mobile, and the FX regime

protects convertibility as a core principle of the financial system. The operational reality, however, is mediated by banks, which serve as the practical gatekeepers through which every cross-border flow must pass. As a result, the smoothness of capital movement depends less on permissibility and more on the coherence of the documentation and economic narrative supporting each transfer.

Dividend distributions illustrate this dynamic clearly. In legal terms, dividends may be distributed at any time following a properly convened shareholder resolution and lawful determination of distributable profits. Banks, however, verify whether the distribution is supported by a corporate record that includes approved financial statements, the relevant shareholder decision, statutory filings and evidence that distributable profit exists under Turkish law. The purpose of this review is not to question the legitimacy of the dividend, but to ensure a coherent link between governance records, statutory accounting and the financial flow. When this link is clear, dividend transfers proceed predictably. When the documentation trail is incomplete or the timing deviates sharply from historical patterns, banks request clarification before releasing funds.

Intercompany loan repayments follow the same structural logic. Türkiye imposes no restrictions on the repayment of principal or interest. Yet banks evaluate whether the repayment aligns with the underlying agreement: whether maturity dates are precise, whether interest has been calculated correctly, whether amortisation schedules match the proposed payment and whether statutory VUK ledgers properly reflect the liability. When financial behaviour deviates from contractual terms—such as accelerated repayments without explanation, irregular interest calculations or prolonged inactivity followed by sudden large outbound transfers—banks may pause execution until the commercial rationale is restated. This is not a legal barrier; it is part of the prudential expectation that debt must behave like genuine debt.

Capital injections are similarly straightforward in law but, in practice, depend on documentation. Increases must be supported by shareholder resolutions, trade-registry filings and evidence that funds originate from transparent sources. Banks review these materials to ensure that the inbound flow corresponds to a lawful corporate action. Outbound capital reductions are subject to more elaborate statutory procedures. Still, the banking principle remains the same: funds move once the corporate process is correctly documented and the economic story is fully coherent.

In day-to-day treasury operations, delays rarely stem from regulatory restrictions. Instead, they arise from gaps in the documentary record or from behaviour that contradicts the company's financial identity. A Turkish entity that consistently distributes dividends once a year will be processed without friction when it repeats that rhythm; a sudden periodic pattern, a mid-cycle distribution with no context or a transfer size disconnected from historical profitability often prompts questions. The banking system interprets these anomalies not as signs of wrongdoing but as signals that the economic rationale requires clarification.

Multinational groups that integrate the Turkish entity into global cash-pooling arrangements encounter a similar set of expectations. Türkiye allows participation in cash pools, netting structures and intercompany liquidity systems. Still, banks require visibility into the mechanics—how interest is allocated, how exposures are tracked, which entities join the pool and how the arrangement aligns with transfer-pricing documentation. When the structure is transparent and supported by governance materials, cash pooling is treated as standard treasury infrastructure. When unclear, banks request additional details to confirm that the flows represent genuine liquidity management rather than circular movement of funds.

Taken together, Türkiye's capital-mobility framework reflects the broader logic of the system: movements of funds are permitted freely, but the legitimacy of each movement must be visible.

Economic purpose, documentation quality and behavioural consistency determine operational speed. The companies that experience the fewest delays are those that treat repatriation not as a transaction but as a governance process—one where every cross-border flow is supported by an intelligible commercial story that aligns with the entity's broader operational footprint.

11.4 RUSF, FX Borrowing Restrictions and the Treasury Cost Architecture

Türkiye's Resource Utilisation Support Fund (RUSF) sits at the centre of the country's treasury architecture, functioning not as a peripheral surcharge but as a behavioural pricing mechanism that shapes how corporates structure foreign-currency liabilities. Formally, RUSF applies to two independent triggers: import-linked financing and FX-denominated or FX-indexed loans obtained abroad by Turkish residents. In practice, its effect is broader: it signals that maturity, purpose and economic coherence are core components of responsible treasury behaviour.

The statutory design is simple. Shorter maturities attract higher RUSF rates; longer maturities reduce or eliminate the burden. The underlying logic is equally clear: short-term FX borrowing introduces liquidity vulnerability for both corporates and the financial system, whereas medium- and long-term funding aligns with operational planning and balance-sheet stability. This design nudges companies toward maturities that align with their business models rather than toward tactical or opportunistic liquidity decisions.

Yet the operational reality of RUSF is shaped less by statute and more by banking interpretation. Banks evaluate FX borrowing through a coherence-driven lens, examining whether the loan's scale, tenor, and pricing align with the borrower's commercial footprint. Facilities that remain inactive for prolonged periods,

are repeatedly rolled without justification or exhibit irregular drawdown patterns frequently attract attention—even when legally permissible—because they disrupt the behavioural narrative that underpins treasury discipline.

FX borrowing rules reinforce this logic by requiring an identifiable operational purpose. Companies must be able to show how the borrowed currency interacts with their economic activities—such as import commitments, export exposure, investment programmes, intercompany financing, or natural FX positions recognised under central-bank criteria. When the financial story is clear, banks process FX liabilities as routine components of a corporate treasury strategy. When the purpose is ambiguous, undocumented or inconsistent with the entity's financial capacity, banks treat the structure as a risk signal rather than a liquidity tool.

For cross-border loans—particularly intragroup structures—the expectation of consistency is even more explicit. Loan amounts, maturities, amortisation schedules, interest mechanics and pricing benchmarks must align with transfer-pricing documentation, VUK interest accrual entries and the company's functional profile. A group loan priced materially below market rates, assigned a maturity that contradicts the entity's cash-flow reality or structured in a way that resembles equity rather than debt, is treated with caution. Banks do not question legal permissibility; they question commercial coherence.

RUSF interacts with this environment by tying funding cost to maturity. For short-term borrowing, the fund burden can materially reshape the economics of liquidity decisions. Treasury teams must therefore model RUSF not as a secondary friction cost but as an integral element of the total funding architecture. As maturities lengthen, the RUSF impact diminishes, reinforcing the expectation that financing decisions should mirror long-term business planning rather than immediate tactical needs.

Institutionally, FX borrowing behaviour becomes an indicator

of governance quality. Companies that maintain predictable repayment habits, align maturities with cash-flow forecasts, and integrate financing structures into their broader treasury policies signal operational discipline. Those whose behaviour is irregular—such as sudden bulk repayments, unexplained refinancing waves, idle loans held without purpose or inconsistent drawdown patterns—signal volatility. In Türkiye’s risk-sensitised banking environment, volatility attracts questions, not restrictions, but questions that slow execution until the underlying economic rationale is clarified.

The system operates as a behavioural equilibrium: RUSF incentivises longer maturities; FX-borrowing rules require commercial purpose; banks verify documentary coherence; and treasury teams must orchestrate all three. When purpose, documentation and behaviour reinforce one another, FX borrowing in Türkiye becomes a predictable and efficient tool. When they diverge, institutional scrutiny increases—not because capital controls exist, but because the economic story does not align with the company’s financial identity.

Ultimately, RUSF and the FX-borrowing framework are best understood as components of a unified treasury governance model. They reward consistency, transparency and operational discipline. They penalise only incoherence. Companies that internalise this logic experience a banking environment in which FX financing flows smoothly, pricing is predictable, and treasury operations integrate seamlessly into Türkiye’s broader compliance rhythm. Those who overlook it encounter friction not from regulation but from behaviour that does not tell a complete institutional story.

11.5 Intercompany Loans and Intragroup Financing Structures

Intercompany loans in Türkiye operate within a framework that is legally open, operationally scrutinised and institutionally coherence-driven. The law imposes no substantive restrictions on a group's ability to extend or receive financing across borders. What shapes the practical experience is not permissibility, but whether the loan behaves like genuine debt—commercially justified, adequately documented, consistently serviced and aligned with the entity's functional and financial identity. In Türkiye's treasury environment, intercompany financing succeeds when it tells a credible economic story.

Banks are the first interpreters of this story. Every inbound or outbound loan transaction must move through a risk-sensitive compliance infrastructure that evaluates the loan's rationale, pricing, contractual terms and behavioural alignment. A written agreement with market-based interest terms, an evident maturity, an amortisation schedule and an identifiable business purpose transforms the transaction into a visible, intelligible financial instrument. By contrast, loans without clear documentation, without internal approvals, or with irregular payment patterns signal uncertainty—even when entirely lawful—and therefore invite additional review.

The commercial rationale is the anchor of this system. Intercompany financing must correspond to observable economic needs: working-capital pressure, investment cycles, inventory expansion, project financing, liquidity management or participation in a centralised cash-management model. When the purpose is explicit and documented, banks treat the structure as an extension of the company's operating model. When the purpose is ambiguous—such as repeated short-term loan extensions with no underlying business event, circular flows between group entities or idle balances that do not match operational needs—

banks pause execution until clarity is restored. This is not a legal barrier; it is a risk-governance expectation.

Interest mechanics form the second pillar of credibility. Türkiye expects intercompany loans to reflect arm's-length pricing, based on market benchmarks appropriate to the currency, maturity, and credit profile of the borrower. Transfer-pricing documentation must demonstrate how the rate was selected, how the borrower's risk was assessed and why the loan terms are commercially sensible. VUK interest accruals must match the contractual timetable, and general ledger entries must accurately reflect the liability. When these elements align, interest payments are processed smoothly. When the numbers diverge—such as interest accrued but not paid, principal fluctuating without explanation or interest rates unrelated to market conditions—banks and tax authorities both question whether the arrangement represents debt or disguised equity.

Statutory thin-capitalisation rules bring an additional dimension of economic realism. The relationship between paid-in capital, accumulated losses, retained earnings, and total intragroup debt must reflect the entity's financial capacity. While ratios alone are not determinative, they influence institutional perception: a heavily leveraged entity claiming routine-risk status or a low-function subsidiary borrowing at scales that contradict its cash-flow potential sends contradictory signals. Treasury structures must therefore position intercompany funding within the company's broader capital architecture, ensuring that the loan reinforces rather than contradicts the entity's economic profile.

Behavioural consistency completes the institutional picture. Banks track whether payment flows align with contractual obligations—regular interest settlement, predictable amortisation, and timely repayments. Sudden bulk repayments without prior discussion, prolonged silence followed by large movements, or maturity changes unsupported by corporate decisions trigger review, not prohibition. Banks compare the flow pattern with past behaviour,

updated KYC information, and the cash-flow forecasts provided during credit-limit evaluations. Deviations create friction because they disrupt the behavioural logic that defines a credible loan.

Intragroup loans involving multiple jurisdictions introduce additional transparency expectations. Turkish banks frequently request upstream documentation—evidence of the source of funds, the contractual chain and the commercial narrative across the group—to confirm that the structure is not circular, layered or economically opaque. This expectation is particularly pronounced when funds originate from low-transparency jurisdictions, when the lending entity is a treasury centre or when the group uses complex multi-entity financing chains. In these cases, banks require a clear view of the flow's legitimacy, even though no statutory restriction applies.

Operationally, intercompany financing in Türkiye supports working capital for distributors, liquidity smoothing for manufacturing subsidiaries, capital expenditure cycles for industrial facilities, acquisition funding for holding structures, and participation in group-level cash pooling. Each scenario interacts differently with the institutional ecosystem. Short-term working-capital loans align naturally with monthly operating cycles and are processed rapidly when properly documented. Long-term project funding requires more extensive documentation but benefits from stable institutional acceptance. Multi-entity pooling arrangements require transparency in the pool's mechanics, allocation rules and governance structure to ensure alignment with both AML and transfer-pricing expectations.

Interest and principal settlements travel through the same institutional filters as any cross-border flow: they must match the agreement, align with statutory accounting and exhibit behavioural discipline. When these elements reinforce one another, execution is fast, predictable and friction-free. When one element diverges—documentation, behaviour, accounting or purpose—the transaction slows until the discrepancy is resolved.

The cumulative reality is that intercompany financing in Türkiye operates within the governance architecture rather than as a stand-alone treasury tool. A loan that is commercially justified, documented with precision, priced in line with arm's-length standards, reflected accurately in statutory ledgers and serviced consistently becomes one of the most efficient mechanisms for liquidity and capital management in the Turkish market. A loan that lacks one of these pillars remains legal but becomes operationally fragile, subject to questions until its economic logic is reconstructed.

In Türkiye's institutional ecosystem, intragroup loans are not judged on form—they are judged on whether the organisation behaves as if the loan is genuine. When purpose, documentation, pricing and behaviour align, banks treat the structure as genuine debt. When they do not, the system pauses, not to restrict capital, but to ensure that financial flows reflect a coherent, defensible economic story.

11.6 Hedging Strategies, FX Risk Management and Treasury Models

Türkiye's hedging environment operates through a dual architecture: full legal permissibility combined with bank-driven expectations of economic relevance, behavioural consistency and organisational discipline. Companies may freely enter into forwards, swaps, options, and other structured derivatives through authorised financial institutions. Yet, the practical success of any hedging strategy depends not on the instrument itself, but on whether the company can demonstrate that the hedge corresponds to a real, measurable exposure and fits coherently within its treasury governance framework.

Banks interpret hedging activity not as a technical act of risk mitigation, but as a behavioural signal. A company that hedges

systematically—aligned with the timing, currency mix and magnitude of its underlying exposures—presents as a disciplined counterparty. A company that hedges reactively, sporadically or in patterns disconnected from its commercial flows signals volatility. These behavioural cues influence pricing, credit limits, collateral expectations and the level of scrutiny applied during derivative onboarding and execution. Hedging, therefore, functions not only as an economic protection mechanism but also as an indicator of institutional credibility.

Underlying-exposure analysis is the anchor of this environment. Banks expect to see concrete, documentable exposures: purchase commitments for imports; contracted export revenues; FX-denominated intercompany loans; recurring foreign-currency operating expenses; or multi-year capex cycles. When the exposure is visible through contracts, projections or statutory records, hedging execution is procedural. When the exposure is abstract, unsupported or inconsistent with the business model, banks pause—not to restrict, but to confirm the link between hedge and risk. This expectation reflects the prudential logic that hedging must mitigate risk, not create it.

Forwards and swaps form the operational core of Türkiye's corporate hedging landscape. These instruments integrate naturally into monthly treasury cycles, enabling companies to stabilise cash flows, protect margins and match liabilities with future receipts. Banks evaluate the tenor, nominal value and currency composition of each instrument in relation to the company's commercial activity. Exaggerated hedge volumes, unusually long maturities or derivative positions misaligned with the rhythm of cash flows invite questions because they deviate from expected economic behaviour. Predictable, exposure-based hedging is rewarded with efficient processing and stable pricing; speculative patterns encounter institutional hesitation.

Options and more complex structures are available but require demonstrable treasury capability. Banks assess whether the

company understands non-linear payoffs, time decay and the interaction between optionality and liquidity. They also evaluate whether the company has internal policies governing maximum hedge ratios, approved instruments, counterparty limits and board-level oversight. Where treasury governance is visible—policy documents, documented risk appetite statements, transparent approval chains—banks are more willing to extend structured products. Where governance is informal or undocumented, access narrows, not because regulation restricts complexity, but because institutional risk tolerance demands evidence of control.

Türkiye's Eximbank plays a structurally significant role for exporters. Through preferential credit lines, guarantee schemes and insurance programmes, Eximbank serves as both a liquidity stabiliser and a hedge-support mechanism. Facilities linked to export commitments allow companies to manage FX volatility through collateral-light instruments and longer-tenor financing, integrating export behaviour directly into treasury architecture. For export-intensive corporates, Eximbank becomes part of the hedging ecosystem rather than a separate financing source.

The other determinant of hedging credibility is internal forecasting capability. Turkish banks place substantial weight on whether the company can demonstrate visibility into upcoming FX flows—such as customer collections, supplier payments, intercompany settlements, and loan amortisations. A robust cash-flow forecasting process signals maturity, allowing banks to allocate derivative limits more efficiently and process hedge instructions more quickly. In contrast, companies that cannot articulate expected FX positions or whose forecasts contradict historical behaviour encounter friction because the hedge appears disconnected from operational reality.

Treasury centralisation versus local autonomy is another dimension shaped by institutional expectations. Türkiye permits both models, but their effectiveness depends on transparency. A

centralised treasury centre hedging exposures on behalf of the Turkish entity must be able to demonstrate accurate measurement of local exposures, alignment with global policies and a clear booking-and-settlement architecture for intercompany hedging flows. Decentralised models benefit from immediate proximity to local banking relationships but must still align with group-level governance to avoid inconsistencies in transfer pricing, hedge accounting or liquidity allocation. In both cases, coherence—not structure—is the determining factor.

Banks increasingly view hedging behaviour in the context of the company's broader treasury footprint, including liquidity buffers, debt maturity schedules, utilisation of credit facilities, covenant behaviour, and board-approved treasury policies. A hedging programme integrated into this broader governance environment increases institutional confidence and improves operational efficiency. A programme that appears ad hoc, undocumented or inconsistent with commercial patterns signals elevated risk.

In practice, Türkiye's hedging landscape rewards companies that approach FX risk management as a component of governance rather than as a series of isolated transactions. Hedging becomes credible when risk, exposure, purpose and behaviour align. Companies that can demonstrate why they hedge, what they hedge and how the hedge interacts with their operating model integrate seamlessly into Türkiye's institutional architecture. Those who treat derivatives as stand-alone tools encounter questions—not because hedging is restricted, but because institutional expectations demand strategic coherence.

A well-structured hedging model in Türkiye, therefore, does more than mitigate volatility. It creates a transparent, predictable treasury environment that aligns internal decision-making with external institutional expectations. When that alignment is visible, derivative execution becomes one of the most efficient and stable components of operating in Türkiye's financial system.

11.7 How Turkish Banks Assess Corporate Risk: Institutional Reality

Türkiye's banking system evaluates corporate risk not through a single metric but through a multi-layered assessment of behaviour, governance, documentation and financial coherence. Banks operate under prudential supervision, MASAK-aligned compliance expectations and increasingly sophisticated transaction-monitoring systems. As a result, a company's risk profile is understood as a composite of how it behaves—not how it describes itself.

Three structural anchors guide the institutional lens: financial stability, governance quality and documentation coherence. A fourth anchor—behavioural consistency—sits above them, defining how the bank interprets the company's entire operating identity.

Financial stability is always the first anchor, but it is evaluated through behaviour, not static numbers. Banks analyse liquidity ratios, leverage structure, profitability patterns and working-capital movements to determine whether the company manages its obligations with discipline. They examine collection behaviour, customer concentration, payment rhythms and whether the operational profile supports the financial results reported. Profitability disconnected from operating metrics, sudden swings in margins, or erratic cash-flow movements trigger questions—not because these patterns are inherently problematic, but because they weaken the bank's confidence in the predictability of future obligations. Treasury behaviour becomes an indicator of financial stability: predictable credit-line utilisation, stable repayment patterns and planned liquidity allocation reflect maturity; last-minute limit requests, reactive short-term borrowing and inconsistent drawdowns signal risk.

Governance quality forms the second anchor. Turkish banks place unusual weight on the transparency and discipline of

internal decision-making. A company that maintains clear delegation of authority, documented approval chains, board resolutions that reflect actual behaviour, and internal policies governing treasury, procurement, and spending limits presents as controlled and predictable. Governance is not evaluated as an abstract concept but through visible artefacts: the structure of signing authorities, the consistency of board approvals, the presence of documented treasury policies and the coherence of internal controls. Conversely, informal decision-making, unclear authority structures or undocumented internal processes create a perception of operational fragility. Banks do not require complexity—they need clarity. A simple, transparent governance framework reduces perceived risk more effectively than a formally sophisticated but inconsistently applied structure.

Documentation coherence forms the third anchor. Banks test whether the company “tells a single story” across contracts, invoices, internal approvals, accounting entries, e-Ledger records, VAT filings and payment flows. When these elements align, the bank’s review becomes procedural. When discrepancies emerge—contract terms that do not match payment patterns; intercompany flows inconsistent with the transfer-pricing narrative; invoices unsupported by commercial documentation; or payment sizes that contradict the underlying agreement—banks request clarification. These requests are not punitive; they reflect the institutional expectation that every financial flow must be commercially intelligible and regulatorily defensible. Increasingly, banks cross-reference e-Invoice and e-Ledger data with payment instructions, creating a real-time alignment check between the company’s commercial claims and its financial behaviour. Misalignment, even when innocent, increases perceived risk by weakening the credibility of the corporate narrative.

Counterparty transparency forms the fourth structural pillar. Turkish banks evaluate not only the company itself but also the entities with which it transacts. Ownership structures,

jurisdictional risk, clarity of beneficial ownership, and the economic legitimacy of cross-border counterparties are examined through AML and prudential lenses. Transfers to low-transparency jurisdictions, unusual intercompany chains or entities with opaque business models attract enhanced review, even when fully legal. Banks require visibility into the economic rationale: why this counterparty, why this structure, and why this jurisdiction? The underlying logic is straightforward—where economic purpose is transparent, flows move efficiently; where purpose is unclear, institutions slow down to protect system integrity.

Above all these anchors sits a single interpretive principle: behavioural consistency. Turkish banks observe not only what companies do, but how they do it over time. They track the rhythm of payments, the seasonality of cash flows, the cadence of intercompany settlements, and the stability of contractual performance. They assess whether the company's treasury movements align with its business model, sectoral dynamics, and historical operating footprint. Predictable behaviour reduces risk because it provides a stable basis for forward-looking assessment. Irregular or unexplained patterns increase scrutiny because they introduce uncertainty into the bank's internal models.

In this environment, a company's risk profile emerges from coherence. When financial results align with operational behaviour, when governance structures mirror decision-making reality, and when documentation supports every commercial claim, the institution perceives low risk. Credit lines expand more easily. Transaction processing accelerates. Treasury operations become frictionless.

When these elements diverge—even without wrongdoing—the system slows. Banks seek clarification not because capital movement is restricted, but because coherent behaviour is the foundation of their risk calculus.

Türkiye's banking environment is therefore not simply rules-based; it is behaviour-based. Companies that internalise this logic, aligning their financial, operational and documentation systems, achieve a predictable, stable and well-functioning banking relationship—the foundation upon which every treasury architecture in Türkiye is ultimately built.

11.8 Integration Note: Treasury Operations as Institutional Narrative

Foreign-exchange management, cash positioning, intercompany funding, hedging programmes and banking behaviour in Türkiye are not isolated technical modules. They form a unified institutional narrative that banks, regulators and auditors read together. The FX regime is legally open; financing structures are flexible; hedging is fully permitted; capital can move freely across borders. Yet the system functions on a deeper principle: capital must behave in a manner that is intelligible, documented and economically coherent.

Treasury operations become credible when they fit into this broader behavioural architecture. Banks evaluate whether the company's financial flows reinforce the story told by its contracts, governance systems, operational footprint and transfer-pricing model. Tax authorities examine whether treasury decisions align with statutory ledgers, VUK-based interest accruals, corporate authorisations and the underlying business model. Regulators assess whether liquidity movements and foreign-currency exposures reflect actual commercial activity rather than opportunistic positioning.

In practice, the institutional environment rewards consistency:

- When cash-flow patterns follow contractual terms, treasury behaviour is interpreted as stable.
- When hedging policies mirror the timing and currency

of underlying exposures, risk management is seen as disciplined.

- When intercompany loans exhibit commercially sensible maturities, pricing and repayment logic, financing flows clear compliance filters smoothly.
- When dividend distributions, capital reductions and loan repayments are supported by board decisions, financial statements and a clear governance record, banks process cross-border transfers predictably.

Conversely, when treasury flows contradict operational behaviour—such as short-term FX loans without underlying exposures, service-fee payments misaligned with transfer-pricing narratives, large outbound transfers unsupported by the company's historical cash position or hedging patterns based on market timing rather than commercial need—the system slows down. Not because the transactions are restricted, but because they breach the behavioural expectations that underpin institutional trust.

The Turkish financial ecosystem operates through this dual logic: complete legal openness framed by institutional scrutiny grounded in behaviour, documentation and economic substance. Treasury teams that recognise this dynamic build more resilient operating models. They structure financing around actual business needs; embed hedging programmes into governance systems; align intercompany flows with functional profiles; and maintain documentation trails that anticipate bank and regulatory review. In this environment, alignment is not administrative—it is strategic.

Treasury operations in Türkiye, therefore, function as an organisational mirror. They reveal whether a company's governance is disciplined, whether its financial decisions follow operational logic and whether its documentation systems support the economic story it intends to tell. When these elements reinforce one another, the institutional experience becomes predictable, frictionless and durable.

This chapter positions treasury not as a purely technical function, but as a governance discipline that sits at the intersection of law, banking behaviour, operational integrity and cross-border strategy. In Türkiye's system, treasury is not simply how capital moves; it is how the company is understood.

Transition — From FX Behaviour to Türkiye's Corporate Banking Realities

Türkiye's FX and treasury architecture demonstrates a recurring truth: capital moves freely only when behaviour, documentation and economic purpose form a coherent record. The banking system does not restrict movement; it interprets it. Treasury operations succeed when commercial logic, governance visibility and flow consistency reinforce one another.

This institutional logic extends beyond foreign-exchange transactions.

It shapes how companies open bank accounts, manage payment channels, structure corporate authorisations, interact with credit committees and build the day-to-day financial infrastructure through which every business in Türkiye operates.

The next chapter moves from the mechanics of FX and cross-border liquidity to the broader architecture of corporate banking operations, cash management structures, onboarding expectations, KYC cycles, account-level controls, and the behavioural patterns that determine a company's operational credibility within the Turkish financial system.

Where Chapter 11 examined how capital moves, Chapter 12 examines how companies function within the system that enables those movements.

CHAPTER 12

CORPORATE STRUCTURING, HOLDING MODELS AND CAPITAL ARCHITECTURE IN TÜRKİYE

Corporate structuring in Türkiye is the point at which legal form, capital logic, governance behaviour, and bank-facing credibility converge into a single operating architecture for the investment.

“In Türkiye, structure is not an incorporation detail; it is the operating system through which banks, regulators and markets interpret the entire investment.”

Corporate structuring in Türkiye is not the mechanical selection of an entity type. It is the point where legal form, capital logic, governance behaviour, and bank-facing credibility converge into a single operating system. An investment enters the Turkish market through a commercial idea. Still, it becomes viable only when that idea is housed within an organisational chassis capable of moving capital coherently, supporting scalable decision-making, and maintaining institutional trust across regulators, auditors, and financial institutions.

Türkiye offers a flexible legal environment; however, investors' practical experience varies dramatically depending on the quality of the structural design. A well-calibrated architecture accelerates treasury flows, stabilises bank interactions, enables frictionless repatriation, and preserves exit optionality. A poorly calibrated one creates avoidable friction—unclear capital accounts, irregular

intercompany balances, documentary gaps, and governance behaviour that fails to signal institutional reliability.

Every structural choice—entity type, ownership layout, capitalisation method, governance controls, intercompany funding models, and the use of foreign holding companies—establishes how the investment will be perceived and processed within Türkiye’s institutional ecosystem. These design elements influence not only tax outcomes, but also onboarding with banks, the rhythm of cross-border payments, the defensibility of transfer-pricing narratives, and the long-term resilience of the investment.

Corporate architecture in Türkiye, therefore, operates as a strategic design discipline. The structure becomes the language through which an investor expresses credibility, transparency, and economic intent. When the structure aligns with the investor’s strategy, treasury logic, and governance rhythm, the Turkish entity behaves as a stable, bankable, and scalable platform; when it does not, even legally compliant operations encounter operational drag.

12.1 Local Subsidiary Models and the Architecture of Incorporation

Establishing a local subsidiary in Türkiye is administratively straightforward, but the strategic architecture built at this stage determines long-term governance stability, bankability, capital mobility, and operational credibility. The two principal corporate forms—the Joint Stock Company (A.Ş.) and the Limited Liability Company (Ltd. Şti.)—appear similar at the level of statutory formation. Yet, they behave differently when viewed through the lenses of treasury operations, governance signalling, exit pathways, and institutional perception.

The A.Ş. format is the natural chassis for investors who anticipate

external capital, multi-stakeholder governance, layered oversight mechanisms, and long-term scalability. Shares can be transferred without notarial formalities; preferred-share mechanics can be easily embedded; board committees can be institutionalised; and the governance framework aligns with the expectations of financial institutions familiar with international corporate law standards. An A.Ş., therefore, integrates smoothly into regional or global holding architectures. Banks, regulators, and institutional counterparties often view an A.Ş. as a higher-signalling governance format that subtly improves onboarding, accelerates cross-border payment processing, and supports access to credit facilities. In ecosystems where perception and documentation discipline carry operational consequences, the A.Ş. form creates structural credibility.

The Ltd. Şti., by contrast, excels in operational efficiency. It is the default form for wholly owned subsidiaries, local business units, and structures prioritising rapid implementation over capital-market optionality. Its governance footprint is compact; decision-making can be centralised; and routine intercompany flows—service fees, loans, working-capital injections, and cash sweeps—operate predictably when documentation standards are upheld. Although share transfers require notarisation and specific corporate actions involve more formal procedures, the Ltd. framework remains economically efficient for concentrated ownership models in which investors do not require complex shareholder-rights engineering or sophisticated capital structures.

The formal incorporation process in Türkiye is fast and digitally enabled. When documentation and shareholder credentials are prepared, same-day establishment is common through the centralised registration system. Yet the actual architectural work precedes registration. The articles of association must align with shareholder-control dynamics; signature authorities must reflect internal governance logic and banking expectations; capital must

be structured in a manner consistent with dividend planning, treasury flows, and the company's operational volatility; and board or manager-level frameworks must be designed to produce documentary coherence that withstands scrutiny from banks, auditors, and regulators.

Foreign investors often underestimate how early decisions create future constraints—or opportunities. Board composition directly affects bank account authorities and KYC timelines. Capital levels influence credit onboarding and the rhythm of future dividend distributions. Share-transfer mechanics shape exit flexibility. The design of representation powers determines how easily treasury operations will be approved and executed. A subsidiary created through administrative minimalism may satisfy compliance requirements, but one built through architectural intent becomes an integrated node in the investor's capital chain, governance spine, and long-term operational strategy.

In Türkiye, incorporation is not a clerical act. It is the foundational design stage of a company's operating system. When treated as a governance exercise rather than a statutory formality, it produces an entity that scales cleanly, moves capital efficiently, and maintains institutional credibility across its lifecycle.

12.2 Holding Company Frameworks: Models, Jurisdictions and Strategic Architecture

Cross-border holding companies operate as the strategic command centres of international investment structures. They define how governance flows, how capital is deployed and extracted, how risk is insulated, and how exit optionality is engineered. For investors entering Türkiye, the question is not simply whether a foreign holding company is necessary, but how its jurisdiction, governance spine and capital mechanics shape the investment's long-term institutional footprint.

Direct ownership of the Turkish subsidiary remains the cleanest configuration. It eliminates interposed layers, simplifies governance channels, and creates immediate transparency for banks reviewing shareholder credentials, beneficial ownership trails, and onboarding documentation. For wholly owned, closely held or operationally integrated subsidiaries—where external capital, multi-investor platforms or complex exit mechanics are not anticipated—direct ownership minimises complexity and facilitates a predictable banking and regulatory experience.

A foreign holding layer becomes essential where jurisdictional neutrality, multi-investor alignment, enhanced governance standards or future exit pathways are strategic priorities. European jurisdictions—most notably the Netherlands, Luxembourg, Ireland and the UK—remain the dominant platforms for Turkish inbound investment. Their appeal lies not merely in their treaty networks but in mature legal systems, board-level governance traditions, multi-class share capabilities, hybrid-instrument mechanics and predictable dispute-resolution environments. These jurisdictions also provide upstream flexibility: exits occur at the holding level, co-investors can be onboarded without disturbing the Turkish entity, and financing structures can be standardised across multi-jurisdiction portfolios.

However, access to treaty benefits operates through substance and beneficial-ownership discipline. Turkish tax authorities increasingly require foreign holding companies to demonstrate board-level decision-making capacity, local directors with actual authority, office presence, financial capability and governance documentation that reflects real economic substance. Structures that exist solely to transmit cash flows—or whose decision-making trails originate in Türkiye—face elevated risks under both domestic anti-avoidance rules and the Principal Purpose Test (PPT). Treaty entitlement becomes behavioural: the holding jurisdiction must be where decisions genuinely occur.

In parallel with European hubs, the UAE, particularly DIFC and

ADGM, has emerged as a strategic platform for regional investors and global capital entering Türkiye. The UAE's modern corporate codes, common-law courts, tax neutrality, and institutional investor ecosystem enable flexible capital structuring, efficient treasury coordination, and rapid onboarding of international investors. For private equity, family offices and institutionalised multijurisdictional groups, a UAE holding company functions as a scalable distribution hub across Türkiye, the Middle East and Europe.

Cross-border holding structures must also be evaluated through the lens of Turkish Controlled Foreign Corporation (CFC) rules under Article 7 of the Corporate Tax Law (KVK). A foreign company controlled more than 50% by Turkish shareholders, earning over 25% passive income and subject to an effective tax burden below 10%, may be taxed in Türkiye on undistributed profits. For offshore holding companies, treasury platforms, passive investment vehicles or entities that consolidate returns from multiple assets, CFC exposure becomes a structural constraint. It is not merely a technical provision—it is a substance and governance test. Entities lacking personnel, management capacity or commercial justification are more vulnerable to CFC classification, making governance trails and operational logic critical components of sustainable architecture.

A further constraint emerges from the Place of Effective Management (POEM) risk. Under Article 3 of the Corporate Tax Law, a foreign company may be treated as a full Turkish tax resident if strategic or executive decisions are effectively made in Türkiye. This analysis overrides incorporation location and relies heavily on behavioural evidence: email metadata, ERP approvals, signature patterns, treasury authorisations, and board decision trails. For holding companies whose formal governance resides abroad but whose executives habitually operate from İstanbul, POEM exposure creates a material risk of worldwide taxation in

Türkiye, treaty disruption and cascading uncertainty across the group's tax profile.

Capital architecture often drives holding-level design. Türkiye's Notional Capital Allowance (NCA)—a synthetic interest deduction on qualifying equity injections—creates a structural incentive to capitalise the Turkish entity through clean, transparent routes. When equity passes through a properly substantiated holding structure, the annual NCA deduction compounds into a long-term effective-tax advantage that interacts favourably with dividend strategies and future capital returns. Cross-border debt, conversely, introduces withholding tax exposure, potential VAT implications, and stamp tax risks unless exemptions apply. These dynamics influence whether shareholder-level returns are extracted through debt, equity, hybrids or upstream share transactions.

At its best, a holding company operates as the operational and institutional spine of the investment. It allows investors to raise external capital, onboard partners, ring-fence risk, streamline governance, and execute exits without disturbing the Turkish operating entity. When designed intentionally—balanced between substance, flexibility and capital efficiency—it becomes a long-term asset. When designed casually or with insufficient governance logic, it introduces friction that accumulates across banking interactions, cross-border payments, tax administration and exit execution.

For sophisticated investors, a holding structure is not a decorative layer. It is the chassis through which capital, governance and strategy are executed. A well-built structure amplifies value creation. A poorly built one restricts it.

12.3 Effective Management Architecture and POEM Risk in Cross-Border Groups

The Place of Effective Management (POEM) has become one of the most strategically significant determinants of corporate residency outcomes for international groups connected to Türkiye. POEM is not a theoretical construct. It is a behavioural test that examines where strategic, financial and commercially decisive actions are actually taken—regardless of where a company is incorporated, where its registered office is located or how its board resolutions are drafted. For multinational groups with regional or global platforms that interface with Türkiye, POEM represents a defining element of structural risk.

Türkiye applies POEM through the domestic concept of the “place of management” under Article 3 of the Corporate Tax Law (KVK), supported by administrative practice and OECD-aligned interpretive frameworks. In recent years, Türkiye has enforced this standard with increasing assertiveness. Foreign holding companies, treasury hubs, investment vehicles, coordination centres and offshore special-purpose entities that conduct managerial activity from Türkiye—even informally—are exposed to reclassification as full Turkish tax residents. Such a reclassification triggers worldwide taxation, treaty disruption and potential challenges to beneficial-ownership claims central to treaty-based withholding tax relief.

Türkiye’s approach is firmly behavioural. It prioritises where decisions are conceived, shaped, negotiated, authorised and operationalised—not where documents are signed. Authorities analyse executive routines, reporting structures, approval hierarchies, financial control processes, treasury practices, and the locus of strategic decision-making. If these indicators point to Türkiye, the jurisdictional formalities of the foreign entity carry limited protective value.

This behavioural analysis increasingly relies on digital evidence.

Authorities examine metadata patterns: IP traces, email-origin footprints, ERP approvals, workflow logs, video-conference attendance records and device-level histories. Remote governance does not dilute POEM; it intensifies it. A board meeting physically held abroad may be disregarded if pre-meeting deliberations, financial modelling, executive recommendations or ultimate sign-off occurred in Türkiye. What matters is the substantive management rhythm—not ceremonial compliance.

Groups that maintain foreign holding companies in the UAE, the Netherlands, Luxembourg, the UK or Ireland encounter these risks most acutely. These jurisdictions provide governance sophistication and treaty networks, but they also rely heavily on demonstrable substance and managerial capability. Where ultimate decision-makers reside in Türkiye, where treasury approvals originate in Türkiye, or where executives habitually direct cross-border operations from Türkiye, authorities may deem the entity effectively managed in Türkiye—regardless of where the corporate seal is kept.

POEM interacts directly with other structural dimensions.

A foreign holding company deemed effectively managed in Türkiye may face:

- full Turkish corporate tax residency and worldwide income taxation,
- denial of treaty benefits due to lack of beneficial ownership or insufficient substance,
- reclassification of passive income streams under CFC or anti-avoidance rules,
- erosion of the holding's credibility for financing or treasury functions,
- structural misalignment between intended governance design and observed behaviour.

The result is a high-stakes alignment problem: governance architecture must match managerial reality. If decision-making

is intended to occur abroad, the organisation must create an evidentiary trail—board meetings, financial approvals, capital-allocation decisions, treasury authorities and executive workflows—that genuinely reside in that jurisdiction. Conversely, if Türkiye is the operational nerve centre, the structure must be transparently designed on that basis rather than relying on formal offshore arrangements that contradict behavioural evidence.

For modern cross-border groups, POEM is not managed solely through documentation. It is managed through discipline of behaviour—where decisions are taken, where executives operate, where approvals originate and how governance is expressed in daily operations. When these elements align, residency outcomes become predictable and defensible. When they diverge, POEM becomes Türkiye’s mechanism for restoring coherence between economic reality and fiscal classification.

12.3.1 Evidence-Based POEM Criteria

Türkiye’s assessment of the Place of Effective Management (POEM) is built on a comprehensive, evidence-driven examination of managerial behaviour. Formal governance artefacts—board minutes, registered offices, or notarised resolutions—carry weight only to the extent that they align with the demonstrable location of strategic and commercially significant decision-making. In practice, authorities interpret POEM as a behavioural footprint composed of executive routines, digital evidence, approval chains and organisational conduct rather than ceremonial documentation.

The core question is always the same: where does the company think?

This inquiry is answered through observable patterns, not declared intentions. Authorities reconstruct the enterprise’s managerial rhythm by analysing where strategic decisions are initiated,

debated, authorised, and operationalised. If the functional evidence points to Türkiye, the foreign entity may be classified as a Turkish tax resident, regardless of its formal corporate seat, legal incorporation, or nominal oversight structures.

The Turkish framework treats the following indicators as decisive:

Executive and Board-Level Behaviour

Authorities examine where key executives habitually act—where budgets are approved, strategic initiatives are authorised, treasury decisions are made, and commercial policies are set. If senior leadership operates from Türkiye, even informally or through remote channels, the effective centre of management may be deemed Turkish.

Reporting Lines and Escalation Pathways

Management architecture is reconstructed through email patterns, workflow approvals, decision escalations and audit trails. If strategic matters routinely escalate to individuals located in Türkiye, this behavioural reality outweighs foreign-registered board meetings that carry limited substantive involvement.

Financial and Treasury Control

Treasury approvals, capital-allocation decisions and intercompany funding policies provide some of the clearest signals of managerial location. Where liquidity decisions, hedging approvals, funding mechanics or investment authorisations are executed from Türkiye, authorities treat this as strong evidence of domestic managerial authority.

ERP, System and Digital Metadata

In the modern compliance environment, Türkiye places significant weight on metadata. Authorities analyse IP-based system access logs, digital signature timestamps, device histories, video-conference participation records and ERP-origin

approvals. These signals form the factual backbone of POEM analysis, demonstrating where decision-makers operate on a day-to-day basis.

Strategic Meeting Cadence

A board meeting held abroad is not determinative if preparatory discussions, decision modelling, strategic evaluations or final approvals occur in Türkiye. Türkiye evaluates where managerial intent is formed, not merely where signatures are applied. Remote participation reinforces location-based patterns rather than obscuring them.

Commercial and Operational Authority

Where procurement decisions, pricing policies, investment approvals, supply-chain design, or market-entry strategies are shaped, refined, or directed from Türkiye, authorities treat this as evidence of effective local management. If commercial policy originates in Türkiye, the centre of management is presumed to be there.

Decision-Making Consistency

Türkiye's POEM approach is cumulative. No single indicator determines residency; instead, authorities evaluate whether the organisation's behaviour forms a coherent managerial narrative. When decision-making patterns consistently point to Türkiye across governance, finance, commercial operations and digital metadata, the factual presumption shifts toward domestic residency.

The consequence of a POEM finding is not merely interpretive.

A foreign entity treated as effectively managed in Türkiye becomes a full Turkish tax resident, subject to worldwide taxation and potential limitations on treaty benefits—particularly where beneficial ownership or substantive presence is insufficient. This makes POEM an inherently structural risk for cross-border

groups whose senior executives, founders or decision-making teams operate partially or predominantly from Türkiye.

In this environment, POEM cannot be managed solely through nominal governance arrangements.

It requires a deliberate alignment between strategy, governance, digital infrastructure, and executive behaviour. Organisations that engineer this alignment achieve predictable residency outcomes. Those whose structural design diverges from behavioural evidence face reclassification risks that can reshape the fiscal and operational architecture of their global structure.

12.4 Capitalisation Strategy: Equity, Debt and Hybrid Instruments

Capitalisation in Türkiye functions as the financial spine of the operating entity—the structure through which stability, borrowing capacity, tax efficiency and treasury credibility are expressed. The composition of the capital stack is not simply a balance-sheet choice; it is a governance signal interpreted by banks, regulators and tax authorities as an indicator of long-term resilience, operational discipline and the integrity of the group's financial architecture.

Equity remains the foundational pillar. A well-capitalised subsidiary is perceived as a stable counterparty, capable of absorbing shocks and sustaining growth without overreliance on short-term liquidity. Strong equity positions facilitate bank onboarding, accelerate transaction processing and support larger credit lines. Equity also underpins dividend distribution capacity and shapes the company's ability to withstand sector cycles, FX volatility and acquisition-driven expansion. Thin capitalisation, by contrast, introduces friction unrelated to tax risk: banks hesitate, treasury approvals slow, and routine cross-border transactions trigger additional questions. Equity strength, therefore, functions

not only as a financial metric but as a behavioural indicator of institutional commitment.

Shareholder loans offer flexibility across intra-group liquidity management, working capital alignment, expansion financing, and treasury optimisation. Their effectiveness in Türkiye depends on coherence: a loan must be supported by clear documentation, a defined maturity, commercially sensible pricing, and repayment behaviour consistent with the written agreement. When these elements align—supported by transfer-pricing analysis and reflected accurately in statutory records—banks process loan flows predictably. Where inconsistencies arise, such as ambiguous maturities, irregular amortisation schedules or gaps between contract terms and actual behaviour, banks intervene, not as a legal restriction but as a prudential response under AML and transaction-monitoring standards. Intercompany financing, therefore, operates as a behavioural test of governance discipline.

Hybrid instruments occupy the strategic space between equity and debt. Preferred equity, convertible instruments, subordinated notes and structured funding mechanisms allow investors to separate voting rights from economic rights, manage dilution risk, anticipate future co-investment or embed exit logic. Hybrids are effective only when their financial characteristics, accounting treatment, risk profile and governance mechanics operate coherently across the group. Türkiye's institutional environment evaluates these instruments through the same behavioural lens applied to direct equity and debt: documentation must be consistent, treasury behaviour must mirror contractual terms, and financial-statement presentation must reflect the hybrid's intended function within the capital stack.

Thin-capitalisation rules further elevate the importance of capital design. Where related-party debt exceeds Türkiye's statutory debt-to-equity thresholds, the excess portion of interest is recharacterised as non-deductible and simultaneously treated as a deemed dividend. This dual treatment triggers withholding

tax and requires restatement in statutory ledgers, effectively transforming a financing decision into a tax event. For this reason, leverage planning, interest-rate analysis, transfer-pricing documentation and behavioural alignment must be engineered as a single system. Capital architecture cannot be segmented into tax, treasury and governance silos; it must operate as an integrated design.

A structurally coherent capital stack behaves as a narrative:

- Equity expresses long-term commitment.
- Debt expresses discipline and liquidity management.
- Hybrids express strategic foresight.

When these components reinforce one another, the Turkish subsidiary becomes bankable, predictable and institutionally credible across its lifecycle. When they conflict—when documentation diverges from behaviour, when leverage lacks commercial justification or when capital accounts do not reflect economic reality—friction emerges in banking, tax administration and everyday treasury operations.

In Türkiye, capitalisation is therefore an architectural decision. The correct configuration strengthens the operating platform, stabilises risk perceptions, and lays a durable foundation for scalable, compliant, and tax-efficient growth.

12.5 Capital Reduction Mechanics

Capital reduction in Türkiye is a controlled legal and financial operation that recalibrates the balance sheet, restructures shareholder economics, and, when executed correctly, enables efficient downstream repatriation without disturbing the integrity of the company's governance or tax posture. Although the Turkish Commercial Code formally prescribes the mechanics, the objective complexity lies in aligning legal procedures, tax classifications,

banking practices, and intercompany documentation into a single, coherent process.

The legal sequence is structured around three pillars:

- a shareholder resolution authorising the reduction;
- a creditor-notification and objection period designed to preserve balance-sheet integrity; and
- registration and announcement at the Trade Registry.

These steps ensure that reductions reflect a deliberate corporate act rather than an informal movement of funds. For multinational groups, this formalism functions as an evidentiary anchor: it provides the documentation trail that banks, auditors and regulators expect before processing large outbound transfers.

From a tax perspective, the classification of the capital being reduced is decisive. Reductions funded by original paid-in capital—amounts that entered the entity as genuine equity contributions—are typically tax-neutral. They represent a return of capital, not a distribution of profit. Conversely, reductions involving reserves, revaluation surpluses or retained earnings may be characterised as dividend-like outflows depending on the composition of equity. This creates a structural requirement: the capital accounts must be clean, historically consistent and capable of demonstrating the origin of each layer of equity. Where ambiguity exists—such as undocumented injections, historical misclassifications, or mismatched accounting treatments—banks and tax authorities will request clarification, and the reduction may be subject to withholding tax depending on the nature of the outflow.

For foreign investors, capital reduction often operates as a post-investment optimisation tool. After large capex cycles or restructuring events, the subsidiary may retain excess equity relative to its operating footprint. Reducing capital in such circumstances allows the group to extract funds without relying on dividends or intercompany loan repayments, each of which

carries separate tax and transfer-pricing implications. However, unlike dividends, capital reductions must demonstrate that the underlying funds were contributed initially as equity and not generated through domestic operations. This alignment between historical capital trails, statutory accounts and corporate-governance records is the central determinant of whether the transaction proceeds without friction.

Banks interpret capital reduction through a prudential lens. Large outbound transfers are processed efficiently only when documentation is complete: the shareholder resolution, the registry announcement, the updated capital structure, and the accounting entries evidencing the reduction. Behavioural consistency also matters. A subsidiary that manages equity movements transparently—clean records, predictable governance, stable intercompany positions—moves through the banking system without delay. Structures characterised by informal capital flows, undocumented shareholder contributions, or inconsistent reserve movements are subject to heightened review, not because capital reductions are restricted, but because the governance trail lacks coherence.

In cross-border settings, capital reduction must also align with the upstream holding company's architecture. If the reduction is intended to fund acquisitions, portfolio reallocations, or share purchase programmes at the holding level, the intercompany documentation must reflect this commercial logic. When upstream and downstream records align, reductions become part of a smooth capital-cycling rhythm. When they diverge, reductions create avoidable friction, including delays, additional queries and, in some cases, questions around beneficial ownership or withholding-tax exposure.

A well-executed capital reduction therefore functions as a structural instrument: a way to right-size capital, optimise balance-sheet ratios, enable repatriation without resorting to dividend mechanics, and maintain tax efficiency across the

investment lifecycle. Treated casually, it becomes a point of friction. Treated architecturally, it becomes an elegant tool of long-term capital design within Türkiye's corporate environment.

12.6 Governance Architecture, Shareholder Controls and Decision-Making Design

Governance architecture in Türkiye is not a decorative layer around the corporate structure; it is the operating system that determines how an investment expresses authority, manages risk, allocates responsibility and translates strategy into day-to-day behaviour. Where the legal form provides the chassis, governance provides the steering. Banks, regulators and tax authorities do not evaluate governance conceptually—they consider it behaviourally: how decisions are made, how they are documented, how authority is exercised and whether the organisation's internal conduct matches its declared structure.

In Türkiye's institutional environment, governance functions through three interlocking domains: shareholder-level control, board-level oversight and operational authority. The quality of the investment's experience—its ability to move capital, interact with banks, execute treasury flows, withstand audits and implement strategy—depends on how coherently these domains reinforce one another.

Shareholder-level controls define the strategic perimeter. Shareholder agreements, governance charters and investment documents set the framework for veto rights, reserved matters, information rights, transfer mechanics and conflict-resolution pathways. These instruments become particularly important in joint ventures, multi-investor platforms and structures designed for external capital. Their purpose is not to introduce rigidity but to provide clarity—an explicit allocation of control that allows the entity to operate predictably even when ownership dynamics

evolve. When these controls are deliberately designed, they provide stability across financing rounds, partial exits, board changes, and operational stress. When they are vague or omitted, day-to-day decision-making drifts into informality, undermining both bank confidence and organisational discipline.

Board composition and board mechanics form the core of governance. Under Turkish corporate law, the board is the organ through which the company expresses its will. How the board is structured, who sits on it, what authority it holds, and how consistently it operates are all interpreted as signals of governance maturity. Effective boards in Türkiye exhibit a clear division of roles, a coherent approval rhythm, and a documentation footprint that aligns with the entity's operational behaviour. Board resolutions, meeting minutes and decision logs must not only exist—they must tell a consistent story about who is directing the business, how decisions escalate and how authority is exercised. Banks, auditors and regulators routinely examine these documents to assess institutional reliability. When board-record behaviour diverges from actual corporate behaviour—such as decisions made outside the board or inconsistencies in approval flows—friction arises immediately.

Operational governance is expressed through the delegation of authority. Signature powers, spending limits, contract-approval hierarchies, treasury workflows, FX-transaction authorisations, and intercompany payment approvals must be documented in a manner that banks can quickly verify without interpretive ambiguity. The delegation matrix becomes a practical tool at every interaction point between the company and the financial system. Where the matrix is clear, consistent and mirrored in internal behaviour, banking operations move efficiently. Where it is inconsistent, undocumented or circumvented, banks slow the process—not as a legal restriction, but because governance ambiguity constitutes a prudential risk. Payment delays, FX-transfer questions and repeated requests for clarification often

stem not from regulatory constraints but from unclear or conflicting authority signals inside the organisation.

Shareholder agreements and governance charters add a strategic overlay. They allow investors to design bespoke control frameworks that accommodate future capital infusions, minority-protection needs, partner onboarding, staged exits or multi-tiered ownership structures. These documents create the decision-making architecture through which the investment evolves. When aligned with board mechanics and operational authority, they stabilise the investment's long-term governance rhythm. When misaligned—when shareholders retain rights that are not reflected in board practice, or when the board assumes authority not clearly granted—governance becomes unstable, and institutional confidence declines.

Behavioural coherence is the unifying principle. Türkiye's institutional systems—banking, tax administration and regulatory oversight—evaluate governance not only through formal structures but through the company's behavioural footprint. Decision logs, approval flows, treasury actions, internal controls and ERP audit trails reveal how governance operates in practice. When the behavioural record aligns with the governance architecture, the entity is perceived as disciplined and reliable. When the behavioural record contradicts the structural design—when authority is exercised outside established channels or when decisions lack clear documentation—banks respond with caution, and regulators increase scrutiny.

In Türkiye, governance architecture is therefore an operational infrastructure, not an administrative obligation. It enables the company to scale, move capital cleanly, manage cross-border flows, stabilise bank relationships and withstand evidentiary review when required. The entity becomes predictable—internally and externally—when governance design, documentation and day-to-day behaviour form a single coherent narrative. A structure that achieves this coherence becomes a durable asset

in its own right, amplifying operational capacity and institutional trust throughout the investment's lifecycle.

12.7 Ownership Transitions, Exit Pathways and Long-Term Structural Flexibility

Ownership transitions are not episodic events in Türkiye—they are structural tests of whether an investment has been architected intelligently. When the ownership spine is clean, documented and strategically positioned, exits occur smoothly, capital returns flow predictably, and investor transitions leave the operating company unaffected. When the structure lacks coherence, even a routine share transfer becomes an exercise in friction, tax exposure and avoidable negotiation complexity.

Türkiye's exit mechanics are operationally straightforward. The system accommodates fast share transfers, corporate reorganisations, staged exits, investor onboarding and upstream restructurings. The difference between a seamless exit and a constrained one lies almost entirely in structural design: where the shares sit, how capital accounts have been maintained, whether intercompany balances are clean, whether the governance framework is transparent and whether the entity's documentation can withstand diligence pressure.

The most efficient exit pathway in Türkiye is an upstream share sale carried out by a non-resident shareholder. When the shareholder has no permanent establishment in Türkiye, and the shares are not attributable to such an establishment, the gain is, as a rule, exempt from Turkish taxation. This structural rule—one of the most consequential in the Turkish investment environment—creates a powerful incentive to position ownership at the holding level. The holding company becomes the strategic interface: it hosts investor onboarding, financing rounds, partial exits and buyouts while the Turkish operating entity remains

institutionally untouched. This is why sophisticated investors rarely hold Turkish shares directly; they have them through a jurisdiction designed for clear treaty entitlement, predictable governance and efficient exit execution.

By contrast, an asset sale executed by the Turkish subsidiary triggers a materially different tax profile. Corporate tax applies to gains on asset disposals. VAT may arise depending on the nature of the assets. Additional transfer-specific levies may apply, and the sale may require counterparty notifications, regulatory steps, or operational adjustments. Asset sales remain viable—particularly in carve-outs, selective acquisitions or reorganisations—but they are tax-heavier, operationally disruptive and dependent on the internal readiness of the operating company. For this reason, asset sales are rarely positioned as the primary exit route unless the commercial strategy requires asset-level granularity.

Partial exits and investor onboarding introduce their own architectural demands. Share-class mechanics, transfer rules, information rights, reserved matters, pre-emption frameworks and drag/tag provisions must be designed in advance. These rights influence not only governance but also tax neutrality: poor design can trigger unintentional transfers, valuation disputes or avoidable taxation. When ownership transitions occur at the holding level, these dynamics remain upstream, insulated from the Turkish entity's statutory accounting, corporate law compliance, and banking relationships. When transitions occur at the Turkish level, every adjustment reverberates through regulatory processes, bank approvals and operational consistency.

In practice, exit readiness is a measure of structural discipline. Buyers in Türkiye place considerable weight on the integrity of capital accounts, the clarity of intercompany positions, the consistency of statutory ledgers and the visibility of governance behaviour. Undocumented capital movements, unexplained loan balances, informal shareholder arrangements, missing board approvals, or inconsistent financial-statement treatment

immediately appear as diligence red flags. These issues slow execution, reduce valuation, introduce holdbacks or escrow requirements, and increase negotiation friction. Conversely, a structure built with clean capital accounts, documented funding trails, stable intercompany behaviour and a coherent governance framework moves through diligence with pace and institutional confidence.

Reorganisations—mergers, spin-offs, cross-border realignments, or holding-layer migrations—benefit from jurisdictions that provide predictable participation exemptions, neutral share-transfer regimes, and robust corporate law frameworks. When investors use these jurisdictions as the structural anchor, they can adjust the architecture without triggering unnecessary corporate, withholding, or stamp tax exposure. This flexibility is especially relevant for long-horizon investors, private-equity platforms and family offices that expect the structure to evolve as strategy, partners or capital flows change.

Ultimately, exit is not a closing event—it is a structural capability. A scalable, bankable Turkish investment is one in which ownership can transition without operational disruption, tax leakage, or governance uncertainty. When ownership architecture is coherent—clean capital accounts, transparent intercompany positions, disciplined documentation, and a predictable governance spine—the structure compounds value over successive investment cycles. When it is not, the structure becomes a constraint that diminishes optionality precisely when flexibility is most valuable.

A Turkish investment with structural flexibility behaves like an asset class: transferable, financeable, tax-efficient and resilient across market cycles. One without that flexibility becomes static, regardless of its commercial strengths.

12.8 Share Buybacks as a Structured Form of Repatriation

Share buybacks operate at the intersection of capital policy, governance design and tax structuring. In Türkiye, they are neither purely financial manoeuvres nor passive capital adjustments—they are intentional repatriation tools that allow investors to extract value, realign ownership positions or manage capital structure without triggering the mechanical consequences typically associated with dividends or reductions of equity.

Under the Turkish Commercial Code, a company may acquire its own shares within statutory limits, provided that the transaction is supported by distributable reserves or excess capital and complies with the capital-maintenance principle. This legal framework gives companies a controlled mechanism for returning value to shareholders while preserving the integrity of paid-in capital and maintaining a clear separation between operational liquidity and structural equity.

From a tax perspective, buybacks occupy a middle ground. The mere repurchase of shares does not automatically constitute a dividend. Instead, the tax outcome depends on what happens next: whether the repurchased shares are cancelled, held as treasury stock, or reissued. Cancellation may create dividend-like consequences depending on the composition of equity and the availability of reserves. Reissuance may trigger different characterisations depending on valuation, timing and the economic logic of the transaction. This variability is why buybacks are best understood not as a single tax event but as a sequence of legally distinct steps, each of which must be documented and positioned coherently.

For cross-border investors, buybacks serve as an alternative channel for releasing capital when reserve availability, minority-protection mechanisms, shareholder agreements or financing covenants constrain dividend flows. When structured deliberately,

a buyback allows investors to monetise equity positions without disturbing the Turkish company's operational profile, triggering unnecessary withholding tax, or altering the governance balance within the remaining shareholder pool.

Banks interpret buybacks through a documentation lens. They expect a clear board resolution authorising the transaction, a reconciliation of distributable reserves, a transparent source of funds, and a contractual or shareholder-level justification for the repurchase. Treasury behaviour—how the payment is executed, whether the company's liquidity profile supports the outflow, and whether the transaction aligns with the entity's governance rhythm—becomes part of the bank's assessment of whether the buyback is a commercially coherent step rather than an irregular capital movement.

For multinational groups, buybacks also interact with upstream structures. When the Turkish subsidiary repurchases shares from a foreign holding company, the transaction may influence the holding-level tax position, treaty availability, exit timelines, and intra-group capital planning. The buyback must therefore be calibrated not only to Turkish rules but also to the holding jurisdiction's tax treatment of capital returns.

In private equity, VC, and family office settings, buybacks often serve as precision tools. They can clean up cap tables, retire early-round investors, rebalance control, support management-incentive plans, respond to shareholder deadlocks, or prepare the structure for future financing rounds. In these contexts, buybacks are not reactive—they are components of long-term capital architecture, deployed to sustain coherence across changing ownership dynamics.

When structured strategically, share buybacks reinforce the core principle running through Türkiye's corporate landscape: capital must move in a way that is economically intelligible, legally grounded and institutionally predictable. A well-designed

buyback achieves all three. It delivers value without destabilising equity structure, maintains governance clarity, and ensures that repatriation occurs through a mechanism capable of withstanding regulatory, banking and tax scrutiny.

In Türkiye, a buyback is never just a return of capital—it is a design choice within the broader architecture of ownership, governance and long-term exit planning.

12.9 Structural Coherence and the Lifecycle of a Turkish Investment

Structural coherence is the defining force that determines whether a Turkish investment evolves into a durable, scalable and tax-efficient platform—or a rigid framework that struggles to adapt as the organisation grows. In Türkiye, corporate architecture is not an overlay; it is the operating system through which banks, regulators, auditors and counterparties interpret the institution's intent, risk posture and long-term trajectory. When the components of this architecture reinforce one another, the investment behaves predictably across business cycles. When they conflict, friction emerges even in the absence of any formal regulatory restriction.

The underlying logic becomes visible early. A clear holding structure, a stable capital base, coherent intercompany balances and disciplined governance produce a behavioural rhythm that banks recognise as institutional maturity. Treasury flows are processed smoothly. Compliance queries diminish. Shareholder actions—capital injections, dividends, buybacks, reorganisations—become operational rather than interpretive. Conversely, structures built through incremental fixes, undocumented adjustments, or reactive funding behaviour accumulate inconsistencies that eventually surface during bank onboarding, tax audits, transfer pricing reviews, or exit transactions.

The lifecycle of a Turkish investment exposes these structural choices with increasing clarity. In the growth phase, governance discipline supports predictable liquidity management; in maturity, capital architecture influences dividend capacity and financing efficiency; during transition or exit, clarity of ownership mechanics, equity accounts, and intercompany positions determines whether the structure can withstand diligence without triggering value erosion. A well-aligned architecture absorbs shocks—currency volatility, liquidity tightening, regulatory shifts, shareholder disputes—because its internal logic is consistent. Weak structures amplify those shocks.

Tax stability is equally a function of structural discipline. Capital accounts that reconcile cleanly with statutory records, shareholder loans documented and executed in accordance with contractual terms, and treasury behaviour aligned with transfer-pricing positions all reduce exposure to disputes. The most contentious tax cases in Türkiye often arise not from aggressive planning but from inconsistent behaviour: intercompany loans that do not behave like loans, capital movements unsupported by governance documents, or dividend distributions executed without matching reserve availability. Structural coherence resolves these issues before they materialise by ensuring that economic logic and formal records move in parallel.

Exit readiness provides the most visible test. Buyers price structural clarity into their models. Clean equity histories, transparent reserve accounts, predictable intercompany patterns and stable governance frameworks accelerate diligence. They reduce the need for indemnities and allow the buyer to focus on operational fundamentals rather than forensic reconstruction. Structures lacking this coherence—entities with undocumented capital flows, inconsistent statutory accounting, opaque shareholder loans, or irregular treasury behaviour—slow execution, depress valuation, and introduce avoidable holdbacks or conditions

precedent. In this respect, coherence is not administrative hygiene; it is enterprise value.

The same logic applies to reorganisations—mergers, spin-offs, cross-border restructurings or the repositioning of holding layers. Jurisdictions with predictable participation exemptions, neutral share-transfer regimes or flexible company-law frameworks allow structural evolution without unnecessary tax or transaction friction. When the entire architecture is aligned, reorganisations occur at the holding level, leaving the Turkish operating entity untouched. When misalignment exists, even minor adjustments create cascading fiscal consequences.

Ultimately, structure is an economic instrument. It can either enhance the investment's ability to scale, shift capital efficiently, onboard new shareholders, withstand volatility and exit cleanly—or it can constrain each of these outcomes. A coherent structure behaves like an asset class: bankable, transferable, resilient. A fragmented structure behaves like an operational liability, consuming managerial attention and eroding value at every inflexion point.

In Türkiye, long-term success is rarely a function of legal form alone. It is the result of an architecture in which governance, capital flows, tax outcomes, and institutional behaviour tell the same story. When that story is consistent, the investment becomes a platform. When it is not, the investment becomes a collection of disconnected parts. Structural coherence is what converts a commercial opportunity into a sustainable enterprise.

12.10 Notional Interest Deduction and the Economics of Equity Strengthening

Türkiye's notional interest deduction (NID) transforms paid-in equity from a passive balance-sheet component into an active mechanism of capital efficiency. Its purpose is straightforward but strategically significant: to reward companies that reinforce their equity base by allowing a notional return on qualifying new paid-in capital to be deducted from the corporate tax base. The deduction functions not as a financial yield but as a structural incentive, encouraging long-term capital commitment in an institutional environment where equity strength carries both regulatory and commercial weight.

The mechanism's design mirrors Türkiye's broader philosophy of behavioural taxation. Rather than rewarding leverage, it rewards resilience. Investors injecting genuine cash equity into a Turkish subsidiary create a recurring, tax-effective benefit without generating cash outflows, interest obligations, or increased financial risk. The deduction compounds annually as long as the equity remains within the company and continues to support income-producing activity. For groups navigating investment cycles, scale-ups, M&A integrations or balance-sheet optimisation, NID shifts equity from a static requirement to a tax-efficient lever that strengthens financial posture without increasing external indebtedness.

Its institutional impact is broader than its tax mechanics. Turkish banks interpret strong equity bases as indicators of stability, creditworthiness and long-term commitment. Entities with reinforced equity encounter smoother onboarding, fewer compliance queries and stronger treasury support. They are viewed as lower-risk borrowers, and their liquidity planning becomes more flexible. Regulators similarly view robust capitalisation as a corporate-governance signal—evidence that the entity can absorb volatility, withstand macroeconomic cycles

and maintain operational continuity. NID therefore intersects with governance, banking, treasury and risk-management frameworks in ways that extend far beyond its statutory language.

The deduction's defensibility hinges on documentation. Authorities expect clear evidence that capital was genuinely contributed, remains within the entity, and supports operational substance. Capital trails—bank confirmations, shareholder resolutions, trade registry records, accounting entries—must align consistently. Capital that is injected solely to extract the tax benefit and subsequently withdrawn through unexplained intercompany movements or circular flows undermines the deduction's defensibility and may trigger reclassification. Türkiye's institutional ecosystem reads behaviour: equity must behave like equity.

When deployed intentionally, NID influences the sequencing of capital injections, the calibration of holding structures and the composition of the capital stack. Equity routed through a coherent, transparent, well-maintained ownership platform maximises the deduction's strategic effect. In combination with hybrid instruments or shareholder loans, NID allows investors to engineer a capital architecture that balances resilience, flexibility and tax efficiency. For example, equity may be used to strengthen the base financial position, while supplementary funding is provided through intercompany loans aligned with transfer-pricing logic. The deduction enhances the economic return of the equity layer, while the loan structure introduces repayment flexibility—a calibrated design that reinforces both governance and financial strategy.

The deduction also interacts with Türkiye's broader anti-avoidance framework. Because the benefit applies only to genuine equity, not artificial leverage or synthetic capital flows, it is inherently aligned with substance-based taxation principles. It supports transparency in capital movements, enhances the traceability of shareholder funding and reduces the attractiveness of thin-

capitalisation practices by offering a tax-efficient alternative. In this sense, NID functions as an institutional tool: it nudges capital structures toward stability, supports long-term investment horizons and aligns tax outcomes with economic substance.

From a lifecycle perspective, NID enhances exit dynamics. Buyers evaluate the strength and clarity of capital accounts when determining valuation, debt capacity and working-capital adjustments. A Turkish subsidiary with a well-documented equity history and accumulated NID benefits presents a cleaner, more attractive profile during diligence. Conversely, entities with ambiguous capital movements or undocumented contributions encounter friction that influences valuation and transaction timing.

Ultimately, Türkiye's notional interest deduction is not merely a tax incentive—it is a structural capital-policy instrument woven into the country's institutional fabric. It rewards behaviour that strengthens the entity, enhances bankability, improves fiscal efficiency and increases long-term resilience. When equity is designed intentionally, documented coherently and aligned with the broader architecture of the investment, NID compounds these advantages across the full lifecycle of the Turkish operation.

CHAPTER 13

INCENTIVES, FREE ZONES AND TÜRKİYE'S INVESTMENT PROMOTION ARCHITECTURE

Türkiye's incentive architecture functions as a performance-driven operating system—rewarding investors not for structural intent but for verifiable economic behaviour, institutional coherence and sustained contribution across production, technology, employment and export cycles.

“In Türkiye, incentives do not reward declarations; they reward behaviour. Only when operations mirror the economic logic of the incentive does the system become a strategic multiplier.”

Türkiye's incentive ecosystem rewards not only investment volume but demonstrable economic contribution, documentation integrity and export-driven performance. For investors, the real value lies in understanding how each incentive interacts with the project's capital structure, operating model and sector positioning. When an investment's day-to-day reality matches its declared incentive profile—whether employment, exports, technology development or regional contribution—the system delivers continuity and becomes a genuine multiplier of returns. When treated merely as a compliance exercise, disconnected from operations, incentives do not sustain themselves, and their financial impact gradually erodes.

13.1 Türkiye's Incentive Logic and the Investment Behaviour Framework

Türkiye's incentive ecosystem is built on a straightforward but demanding principle: incentives reward demonstrated economic impact, not the promise of it. Eligibility, utilisation and continuity all depend on how closely a project's actual behaviour matches the commitments that underpin the incentive. This creates a framework in which incentives operate not as isolated fiscal benefits, but as an operational discipline embedded into the investment's lifecycle.

Across all major incentive schemes—regional investment incentives, strategic investment programmes, export-linked supports, R&D and technology regimes, and free-zone mechanisms—the underlying architecture is the same. The investor declares a specific economic objective: capital expenditure, employment creation, export intensity, technology development or regional contribution. The incentive structure then requires this declared intent to be consistently reflected across the legal, financial and operational dimensions of the business. Corporate documentation, accounting and payroll records, production and export cycles, treasury processes, and regulatory notifications must all point in the same direction. Incentive continuity depends on the coherence of these layers.

The system is designed around traceability. Authorities expect the economic footprint of the investment—its workforce, procurement pattern, production output, export behaviour or R&D focus—to be measurable through objective data. Companies that perform best within the incentive regime are those that create internal processes capable of producing clean, verifiable signals: accurate payroll data for employment incentives, transparent export documentation for customs-related supports or well-defined cost-centre structures for R&D incentives. When these signals align, incentives function predictably and without interruption.

Türkiye's incentive mechanisms also operate with a lifecycle perspective. The benefit is not concentrated at the beginning; it grows as the project maintains alignment with the criteria over time. Investments that consistently meet thresholds, sustain activity levels and preserve an operational footprint that matches their declared incentive profile capture the full value of the system. By contrast, projects that view incentives as a one-off gain often face continuity issues, as their operational behaviour eventually diverges from their stated economic purpose.

For foreign investors, the central insight is that Türkiye's incentive regime rewards consistency of behaviour rather than the complexity of structure. A well-designed holding architecture, clear capitalisation, disciplined documentation and stable governance significantly strengthen the credibility of the incentive position. Banks, auditors and regulators converge when the company presents a coherent narrative: what it committed to do, what it is doing in practice and what its data objectively demonstrates.

Incentives in Türkiye are therefore more than financial instruments. They form part of the investment's governance infrastructure. When integrated correctly, they enhance returns, stabilise long-term cost structures and reduce fiscal friction. When treated as a procedural formality detached from day-to-day operations, they lose both impact and reliability. This governance alignment is what transforms incentives from administrative tools into strategic assets.

13.2 The Regional Investment Incentive Scheme: Structure, Behaviour and Lifecycle Performance

Türkiye's Regional Investment Incentive Scheme is one of the country's most effective policy tools for directing long-term capital formation. Despite its geographical branding, it is not a simple discount mechanism tied to a location. The scheme operates as a behaviour-based architecture that uses regional classifications, incentive intensities and benefit profiles calibrated to reward projects that generate a sustained, traceable economic footprint in areas targeted for deeper industrialisation.

The framework divides all provinces into six regions, with incentive intensity increasing as the region's developmental priority rises. Yet for investors, the real leverage does not come from the region number itself. It arises from how effectively the project's operating rhythm—employment structure, capital expenditure timing, procurement patterns and capacity utilisation—aligns with the scheme's logic. Incentives do not materialise solely because a facility is located in a particular region; they only activate when the project's operational footprint is visible, verifiable, and consistent.

Regional classifications and incentive intensities (corporate tax reductions, social security support and investment-contribution rates) are periodically updated under Council of Ministers decisions and Ministry communiqués. Investors should assess the current incentive map rather than relying on static zone definitions.

The scheme favours front-loaded commitment and medium-term operational stability. Strategic investments may also benefit from VAT refunds on construction-related expenditures and support for qualifying investment financing, including support for interest or insurance premiums, provided that the project meets the scale and value-added thresholds of the strategic scheme. Projects that genuinely anchor themselves in the region—building a stable workforce, maintaining production continuity and integrating

local procurement where feasible—tend to capture the full value of the incentive. Projects that treat the region as a formal address rather than a production ecosystem often see incentives weaken as the operational footprint diverges from the expectations embedded in the certificate.

Three operational levers shape lifecycle performance under the scheme:

Capital documentation discipline.

Machinery lists, capex invoices, localisation data and commissioning records must form a coherent, auditable trail. Because many benefits activate only when materialisation is proven, documentation discipline is central to the system's credibility.

Employment and operational continuity.

Employment levels and production behaviour directly influence the sustainability of incentives. Projects that view workforce stability as a strategic objective—rather than a temporary compliance requirement—experience far fewer interruptions in support mechanisms.

Economic traceability.

Authorities expect measurable, data-driven signals of regional impact: production logs, export cycles, procurement flows and capacity metrics. When these signals align, benefits such as VAT exemptions, customs-duty relief, social-security support and interest-rate advantages function predictably and without friction.

Investors who calibrate their governance structure, reporting systems and on-the-ground operations align better with the scheme's behavioural expectations, resulting in a smoother lifecycle: faster processing of incentive certificates, fewer queries during monitoring and more reliable access to benefits. Conversely, projects with weak internal controls or fragmented

documentation lose value not because incentives are unavailable, but because operational behaviour fails to support sustained utilisation.

In this sense, Türkiye's Regional Investment Incentive Scheme operates as a strategic multiplier for projects that build organisational coherence and long-term regional presence. For foreign investors, the key insight is clear: the scheme rewards behaviour rather than form. When the operational realities of the investment mirror the economic logic of the incentive, the mechanism becomes a stable and durable component of the project's overall value architecture.

13.3 Technology, R&D and Innovation Incentives: The Teknopark and R&D Ecosystem

Türkiye's technology and R&D incentive regime functions as an integrated ecosystem built around traceability, continuity and measurable innovation output. Rather than rewarding generic claims of "high-tech intent," the system evaluates whether a company's actual behaviour reflects genuine R&D depth, knowledge creation and technological advancement. Incentives activate only when the business model, staffing profile, project documentation and cost architecture collectively demonstrate authentic innovation activity.

At the centre of this ecosystem lies the Technology Development Zone (Teknopark) model. Teknoparks offer more than tax advantages; they create a structured environment that requires companies to institutionalise R&D discipline. To maintain eligibility for corporate-tax exemptions and to qualify for income-tax incentives and certain social-security advantages, a company must employ technically qualified staff, pursue projects with verifiable milestones and ensure that its R&D work occurs within a physically and operationally traceable framework. Teknoparks

reward continuity—sustained engagement, measurable progress and data-supported project outputs—rather than sporadic or purely paper-based activity.

Income exempted under Technopark and R&D regimes must be tracked through auxiliary ledgers to segregate taxable and exempt operations, ensuring clean alignment between project-based revenue, cost allocation and statutory reporting. This ledger-level discipline has become a defining hallmark of compliance.

The same behavioural architecture applies to R&D incentives outside Teknoparks. Projects are expected to exhibit three hallmarks of genuine technological development:

Technical depth.

The project must address a clear scientific or technological challenge, going beyond routine engineering or adaptation work.

Documentary coherence.

Time sheets, cost centres, project files, and deliverables must form a consistent, auditable chain from initiation to completion.

Operational traceability.

Authorities increasingly rely on data trails—employee roles, prototype logs, procurement patterns, IP filings—to verify that declared R&D activity matches the company's operational reality.

Türkiye's incentive regime is also integrated with broader industrial and financial policies. R&D expenditure reduces the corporate tax base; personnel engaged in qualifying activities benefit from reduced income-tax withholding and social security costs; and companies may access grants, soft-loan mechanisms, and commercialisation support when their innovation output demonstrates market potential. The cumulative effect is an ecosystem that links tax benefits to measurable intellectual-

value creation, turning documentation and process discipline into strategic assets rather than administrative burdens.

For foreign investors, the strategic leverage lies in architecture, not exemptions. Companies that establish transparent R&D governance through project-approval committees, milestone reviews, time-tracking discipline and version-controlled documentation experience predictable incentive activation and minimal friction during audits or inspections. Organisations with weak internal controls often find that incentives exist on paper but underperform in practice.

Teknoparks also shape corporate design. Locating technical teams inside the zone, structuring IP ownership coherently and aligning employment contracts with R&D criteria create a behavioural profile that strengthens the credibility of the incentive position. Banks, auditors and regulators often interpret strong R&D governance as a signal of institutional capability, improving the company's standing in financing, grant evaluations and strategic collaborations.

Within Türkiye's broader incentive architecture, the innovation regime delivers maximum value when aligned with the investor's long-term technology strategy. The benefits are cumulative rather than transactional; they reward sustained documentation quality, operational consistency and credible pathways to innovation. When a company's day-to-day behaviour reinforces the logic of technological development, the R&D ecosystem becomes a durable competitive advantage—reducing cost, lowering fiscal drag and accelerating the monetisation of intellectual output.

13.4 Free Zones: Operational Architecture, Export Behaviour and Incentive Continuity

Türkiye's free zones function as high-discipline economic platforms built around export commitment, operational traceability and regulatory consistency. They are not conventional tax-exempt industrial parks, but performance-driven ecosystems in which incentives are activated only when the company's behaviour reflects sustained export orientation, clean documentation and institutional governance. For foreign investors, free zones deliver meaningful long-term value when approached as strategic operating bases rather than short-term fiscal opportunities.

The model's core logic is behavioural alignment. Corporate-tax exemptions apply only to manufacturing income generated within the zone, and payroll-related incentives benefit companies whose employment structure directly supports export operations. These advantages materialise when the investment demonstrates the signals authorities expect: a clearly identifiable production footprint inside the zone, verifiable export cycles, compliant logistics flows and governance capable of sustaining long-term eligibility. Incentive continuity is therefore inseparable from operational discipline.

Payroll incentives in free zones have undergone significant refinement in 2024–2025, particularly regarding the 85% export-income threshold and the definition of qualifying wage costs. Authorities now evaluate payroll structures through a behavioural lens: whether staffing patterns, role definitions and SGK declarations reflect a genuinely export-oriented operating model. Companies that maintain engineering, production, software or logistics teams physically and operationally within the zone experience smooth continuity of payroll incentives. In contrast, entities that rely on off-zone staffing, hybrid workflows or outsourced labour face heightened scrutiny—even when

headline export ratios appear compliant. The modern supervisory approach links payroll relief directly to verifiable economic activity within the zone, elevating workforce mapping, shift records, access logs and task documentation as core compliance evidence.

Cost allocation must ensure that only qualifying free-zone activities benefit from exemptions. Shared-service structures and multi-entity supply chains are frequently scrutinised for indirect support of domestic activities. Inspectors assess segmentation through payroll mapping, procurement flows and functional documentation.

Operational eligibility rests on three pillars:

Production and location integrity

Authorities expect value-creating activities—manufacturing, assembly, processing or software development—to occur physically and operationally within the zone. Production logs, workforce allocation, utility records and facility-level documentation must consistently confirm this. When core activity shifts outside the zone, even partially, incentive durability weakens.

Export verification

Free zones reward exports, not the declaration of exports. Export invoices, customs records, logistics data and foreign-exchange receipts must form an integrated audit trail. Companies with disciplined documentation experience predictable continuity; fragmented records often lead to delays or deeper regulatory review. The wage-income exemption applies only if at least 85% of the enterprise's FOB-based revenues derive from exports, consistent with Free Zone Regulation Article 51.

Operational behaviour

Staffing profiles, procurement patterns, subcontracting decisions and production cadence must display a genuine export-driven business model. Sudden shifts, inconsistent activity levels or

unexplained production gaps may trigger scrutiny even when the company appears formally compliant.

Free zones also influence treasury and supply-chain architecture. Consistent foreign-exchange inflows validate export-driven activity and simultaneously strengthen the company's banking profile. Many investors underestimate this dual effect: free-zone exports generate both a tax advantage and behavioural credibility in the eyes of banks, auditors and trade counterparties. This mirrors the broader behavioural logic of the Turkish financial system, where coherent FX inflows enhance both compliance perception and credit posture.

For manufacturing and technology-oriented businesses, free zones offer a structural platform that integrates tax incentives with organisational design. Locating production, engineering or software teams within the zone aligns payroll incentives with real operational needs. Companies that organise staffing, workflow and procurement logic around the zone's behavioural expectations achieve low-friction, predictable incentive utilisation.

The model's durability lies in its lifecycle approach. Free-zone incentives are intended to accompany a business through scale-up, consolidation and export expansion. They create cumulative economic value rather than one-off gains. Projects that evolve their governance, documentation and operational footprint in line with the zone's requirements maintain eligibility with minimal uncertainty. By contrast, companies that treat the zone as a fiscal shelter rather than an export ecosystem gradually lose alignment, leading to underperforming incentives.

For sophisticated investors, free zones deliver their highest value when embedded within a clear corporate architecture: transparent ownership, clean capitalisation, stable governance, verifiable operations and a coherent export narrative. When these layers reinforce one another, free zones become not only tax-

efficient locations but high-performance operational platforms capable of sustaining competitive advantage at scale.

13.5 R&D Centres and Design Centres: Strategic Cost Architecture and the Economics of Law No. 5746

Türkiye's R&D and Design Centre regime plays a structural role in the country's investment landscape. For organisations operating in technology, engineering or product development, the regime reshapes far more than payroll costs—it influences the economics of talent retention, capability building and long-term operational scale. In a market where qualified technical labour is both abundant and globally mobile, Türkiye's incentives function as an anchor mechanism that rewards sustained, measurable and documentable innovation activity.

At the heart of the regime are coordinated fiscal levers designed to reduce the marginal cost of high-skilled labour. Payroll is the most significant cost component in most R&D operations, and the incentive architecture recognises this by applying relief exactly where economic friction is concentrated. Income-tax withholding relief applies to a significant portion of employee wages, while employer-side social-security contributions are partially offset. For investors, these reductions carry direct financial consequences: payroll-related relief materially improves EBITDA projections, strengthens valuation models and enhances the scalability of technical teams.

The regime also interacts with capital-expenditure cycles. Qualifying R&D infrastructure—such as testing equipment, specialised software and prototyping tools—benefits from accelerated depreciation or tax exemptions depending on the category. This reduces capital pressure in sectors where continuous upgrades are essential to stay technologically relevant.

The result is a cost architecture that supports constant innovation rather than sporadic, project-based development.

What distinguishes Türkiye's R&D regime is its emphasis on behavioural alignment. Incentives are not granted for nominal R&D labels or administrative structures. Eligibility depends on the presence of clearly defined projects, traceable workflows and a technical workforce that genuinely produces intellectual value. This aligns with Türkiye's broader documentation-based regulatory culture: project files, technical reports, time-tracking records and cost-centre structures form the backbone of compliance. Centres with disciplined internal systems experience predictable, low-friction access to benefits; those with fragmented documentation often face delays or uncertainty. For investors, this creates clarity: Türkiye rewards operational substance rather than mere formal declarations.

R&D and Design Centres also function as institutional signals. A company that establishes a centre and maintains verifiable innovation output demonstrates long-term capability building, governance maturity and a commitment to retaining technical talent. These attributes matter in Türkiye's financial ecosystem: banks, auditors and regulators view well-structured centres as indicators of institutional reliability, thereby strengthening the company's position in financing discussions, grant applications and strategic partnerships.

For multinational groups, the regime integrates cleanly with global tax standards. Relief is tied to actual activity performed within Türkiye, making the incentive compatible with transfer pricing principles, Pillar Two frameworks, and cross-border audit environments. Unlike regimes based on preferential tax rates, Türkiye's model is substance-driven and therefore resilient under international scrutiny.

In practical terms, the Law No. 5746 regime allows investors to redesign cost structures, scale engineering and design teams

more efficiently and build durable competitive capabilities. Within Türkiye's broader incentive architecture, R&D and Design Centres remain among the most reliable and strategically meaningful instruments for companies that make, design or innovate as core components of their business model.

13.6 Technology Development Zones: Intellectual Capital, Fiscal Efficiency and the 4691 Incentive Model

Türkiye's Technology Development Zones function not as ordinary tax-advantaged districts, but as curated ecosystems where intellectual capital, fiscal efficiency and institutional discipline converge. For companies that generate high-value intellectual property or develop export-oriented technology, the regime provides a structural advantage: it lowers the effective cost of innovation while embedding activity within a governance framework that rewards substance, continuity and documented performance.

What distinguishes the Technology Development Zone model is its focus on the economic architecture of innovation. Instead of offering broad, undifferentiated relief, the regime targets the friction points that most materially influence a technology company's financial trajectory. Income derived from qualifying research, development and software activities is exempt from corporate tax, enabling companies to convert their innovation output directly into retained capital. In sectors where reinvestment capacity determines competitive pace, this becomes a powerful tool for strengthening balance sheets and accelerating product cycles.

Payroll economics are equally central. Personnel costs—typically the most significant single cost component of technology operations—benefit from income-tax withholding relief and

employer-side social-security support. For organisations competing for highly skilled engineers, software developers and technical specialists, these measures lower the marginal cost of acquiring and retaining talent. The result is a more scalable cost structure and improved EBITDA performance, particularly in growth phases where team expansion is essential.

Beyond fiscal relief, Technology Development Zones reinforce institutional credibility. Companies operating within these zones are perceived as having stronger reporting standards, clearer operational footprints and more disciplined project governance. Financial institutions, investors and counterparties often treat zone participation as a proxy for operational rigour, reducing integration friction during acquisitions and strengthening a company's narrative in capital-raising and exit processes.

The incentive framework also supports capital-intensive development. Equipment acquisitions for qualifying R&D and software activities benefit from specific tax advantages, reducing upfront investment burdens. This is particularly relevant for industries such as industrial automation, electronics, telecommunications, medical technologies and defence, where continuous infrastructure upgrades are inherent to product development.

From the perspective of multinational groups, the regime aligns with international tax standards because the incentives are rooted in real economic activity performed in Türkiye. This activity-based, substance-driven structure aligns well with contemporary global frameworks, including Pillar Two, where substance-based carve-outs remain an essential safeguard against artificial increases in effective tax rates.

In practical terms, Türkiye's Technology Development Zones reshape the economics of building and scaling technology. They enable companies to retain a greater share of the value they create, grow technical teams more efficiently and operate within

an institutional environment that rewards credible, traceable innovation. For investors, the regime functions as both a financial lever and a governance signal, strengthening the competitive position of technology-driven businesses across domestic and international markets.

13.7 Export Incentives, Grants and Performance-Based Support Programs

Türkiye's export incentive architecture is built on a performance logic: incentives activate not because a company plans to export, but because it consistently demonstrates export behaviour that is traceable, verifiable and aligned with the country's strategic trade priorities. Grants, cost-sharing programmes and cash-support mechanisms operate as an integrated system in which the investor's operational footprint matters more than the formal application process.

At the centre of this system lies the principle of data-backed export intensity. Authorities evaluate not only the existence of export invoices but also the integrity of the entire export process chain—customs filings, logistics confirmations, foreign-exchange receipts, supplier relationships and the continuity behind them. Companies with clean, consistent data trails benefit from smooth access to support mechanisms; those with fragmented records often experience friction even when they appear eligible on paper.

Türkiye's export-focused programmes operate through three behavioural channels.

First, market-development behaviour. Support for market-entry studies, trade missions, fair participation and brand-building initiatives requires companies to demonstrate measurable steps toward establishing a sustained international presence. The system rewards persistence—multi-year branding efforts, repeat

visits and structured market research—rather than isolated promotional activity.

Second, cost traceability and documentation quality. Expense-based supports, such as marketing reimbursements, consultancy grants, or digital promotion incentives, work only when the company shows a transparent link between the costs incurred and the export objective. Clean invoices, service contracts, deliverables and payment flows form the backbone of eligibility; what the company spent, why it spent it and how it relates to exports must align.

Third, export performance and lifecycle consistency. Performance-linked supports—export credits, freight subsidies and sectoral programmes—follow a lifecycle perspective. Regular export cycles, stable FX inflows and consistent operational capacity matter more than marginal invoice totals. When export behaviour displays rhythm and scale, incentives activate predictably.

Among Türkiye's most strategic export-support mechanisms is the Turquality/Brand Support Programme, which provides multi-year, performance-based funding for international brand-building, market expansion, architectural design, overseas store operations and global marketing initiatives. Unlike transactional supports, Turquality rewards long-term brand strategy, corporate governance maturity and sustained international presence—aligning closely with the system's behavioural logic. The programme functions as a multi-year institutional capacity-building mechanism rather than a transactional reimbursement scheme.

Export incentives also integrate directly into the treasury and governance architecture. Steady FX inflows strengthen a company's banking profile, support trade-finance capacity and improve counterparty credibility. As a result, export incentives generate a dual effect: they reduce the marginal cost of international activity while simultaneously enhancing institutional standing.

For technology, manufacturing and service exporters, Türkiye's performance-based support ecosystem delivers maximum value when woven into the core design of the business. Companies that align procurement cycles, logistics planning, staffing and documentation with their export narrative unlock incentives as a natural extension of operations. Companies that treat incentives as administrative reimbursements often struggle to maintain continuity because their behaviour lacks the visibility and rhythm that the system is structured to reward.

Strategically, Türkiye's export incentives are infrastructure multipliers. They accelerate market expansion, subsidise capability building, reduce marginal export costs and strengthen the company's institutional footprint abroad. The investors who benefit most are those who recognise that the system is engineered to scale with consistent, demonstrable export behaviour, not opportunistic usage.

13.8 Sector-Specific Incentives: Strategic Alignment and Operational Fit

Sector-specific incentives in Türkiye operate on a simple institutional truth: every sector has a behavioural fingerprint, and the incentive regime rewards companies whose operating model matches that fingerprint. Labels, classifications or application forms matter far less than whether the organisation's day-to-day reality reflects the economic logic that the incentive architecture is designed to promote.

Technology-driven sectors—software, R&D, digital services, med-tech and advanced engineering—operate under a behaviour profile defined by measurable intellectual output, documented research cycles and technical workforce continuity. Their incentives reward exactly this: traceable project files, milestone-driven development, technical staffing discipline and the ability

to produce evidence-based innovation. Türkiye's incentive architecture reads continuity, not declarations. Sustained innovation activity and coherent technical governance trigger incentives far more reliably than nominal statements of R&D intent.

In logistics, export-oriented manufacturing and global supply-chain operations, incentives follow the rhythm of throughput. Shipment consistency, customs compliance, FX-flow stability and alignment with Türkiye's strategic role in regional trade corridors form the behavioural signals that authorities expect. Companies in these sectors capture the full value of incentives when their physical supply-chain footprint and financial flows mirror the country's export-integration logic. When throughput is stable, documentation is coherent, and workflows are disciplined, incentives become structural rather than episodic.

Service-intensive sectors—tourism, education, healthcare and professional services—are evaluated through a different behavioural lens. Incentives here reward demand sustainability, workforce quality and the ability to generate foreign-currency inflows. The behavioural signature is stability: predictable utilisation patterns, continuity in service delivery and strong quality-assurance mechanisms. Entities that institutionalise training, service-level governance, and customer-experience standards meet incentive expectations with far greater reliability than those that treat the sector purely as a transactional one.

Across all industries, Türkiye's underlying incentive logic remains constant. The system rewards companies whose operating model, documentation quality, governance discipline and long-term behaviour align with the strategic expectations of their sector. Incentives lose effectiveness when structure and behaviour diverge—when investors pursue a sectoral classification for fiscal gain but operate outside that sector's economic logic. Structural misalignment eventually leads to reduced continuity, increased monitoring and erosion of benefit.

For investors, the strategic question is therefore not Which incentives are available? But which incentive architecture aligns with how this business creates value? When that alignment is achieved, sector-specific incentives become structural amplifiers of competitiveness—reducing fiscal drag, improving governance coherence and strengthening institutional credibility. When behaviour and structure move in different directions, incentives degrade into short-term subsidies with limited strategic effect.

13.9 Incentive-Driven Corporate Structuring and Long-Term Strategic Fit

In Türkiye, incentives are not peripheral add-ons—they are structural forces that shape how a company positions itself, capitalises its operations and designs its long-term footprint. When viewed through this architectural lens, the fundamental question shifts away from “Which incentives can we claim?” toward a more strategic inquiry: “Which incentive ecosystems are compatible with the way this business actually creates and sustains value?”

The companies that achieve the strongest outcomes are those that align their corporate structures, governance models, and capital flows with the behavioural expectations embedded in Türkiye’s incentive architecture. Incentive regimes reward operational consistency, not fiscal creativity. A structure that mirrors the economic logic of an incentive will generate durable financial advantages; a structure that relies on form rather than substance will meet friction as soon as operational behaviour diverges from the incentive’s intended purpose.

The choice between a Free Zone, a Technology Development Zone, an R&D Centre, a Regional Investment Incentive Certificate or a Strategic Investment Scheme is therefore not a simple fiscal comparison.

Each of these regimes expects a distinct operating rhythm:

- Free zones reward sustained export behaviour, stable throughput and verifiable FX inflows.
- Technology Development Zones reward innovation density, documented technical workflows and IP creation.
- R&D Centres reward traceable project cycles, technical staffing discipline and measurable research outputs.
- Regional and Strategic Schemes reward long-horizon capital commitment, workforce continuity, and an operational footprint firmly anchored in the region.

When the legal entity, governance framework and operating model align with these behavioural expectations, incentives become stable, low-friction components of the investment lifecycle. Incentive continuity then becomes a natural by-product of operational clarity rather than a compliance challenge.

This alignment directly influences corporate design.

A company targeting a free-zone profile must structure production, staffing and logistics around an export-centric operating model. A technology investor strengthens incentive integrity by centralising IP creation, engineering teams and technical governance within a Technology Development Zone entity rather than dispersing them across multiple entities. Capital-intensive industries—energy, manufacturing, advanced materials—achieve long-term stability by embedding their capex cycles within regional or strategic schemes that mirror the asset's economic lifespan.

When incentives are approached through this strategic lens, corporate structure becomes more than an administrative container—it becomes the machinery through which incentives generate compounded value. Structures built solely for tax optimisation but misaligned with operational reality gradually lose incentive continuity. Structures built around commercial

logic, lifecycle needs, and incentive-compatible behaviour become self-reinforcing, delivering durable competitive advantage.

In Türkiye, incentives reward strategic fit—not form.

When corporate structure, operational rhythm and incentive logic move in the same direction, incentives stop behaving like temporary cost reducers and start functioning as structural accelerators of long-term competitiveness.

Türkiye's incentive ecosystem operates as a structural framework rather than a collection of isolated fiscal tools. When incentives align with governance, capital architecture, and the business's behavioural rhythm, they evolve into a long-term competitiveness engine. Yet, by design, incentives are only one layer of the broader investment landscape. Their effectiveness is ultimately measured in how they translate into operational performance, sectoral execution and sustained institutional credibility.

The next chapter shifts the lens from incentive design to sector-specific operating realities—how industries in Türkiye interact with regulatory structures, compliance expectations, market dynamics and cross-border value chains. Where Chapter 13 explains how incentives reward behaviour, Chapter 14 examines how different sectors express that behaviour in practice: through production cycles, supply-chain architecture, service models, technology intensity, and export performance.

This transition reflects the underlying truth of Türkiye's investment environment:

An incentive framework achieves its full potential only when embedded within a sectoral model that consistently produces the economic signals the system is built to recognise.

CHAPTER 14

TAX GOVERNANCE, PREDICTIVE COMPLIANCE AND THE FUTURE OF CORPORATE TAX OPERATIONS IN TÜRKİYE

Türkiye's tax environment is evolving from a form-based regime into a data-driven architecture in which taxpayer risk is defined by behavioural patterns, system traceability and institutional coherence rather than by individual filings.

"In Türkiye, the tax administration no longer evaluates what companies declare once a year; it evaluates how they behave every day in their data."

Türkiye's tax administration is undergoing a structural shift. Compliance is no longer defined by on-time filings or the mechanical accuracy of statutory accounts. It is increasingly shaped by data behaviour, institutional traceability and the organisation's ability to present a coherent fiscal narrative across its entire operational footprint. As the tax authority moves toward predictive analytics, cross-platform data matching and near real-time verification, corporate tax operations must evolve from a reactive reporting function into a proactive governance capability.

This transformation gives tax a fundamentally different strategic role. The consistency of e-Ledger data, the alignment between transaction flows and documentation, the integrity of intercompany funding logic, the stability of VAT behaviour and the clarity of withholding patterns now form the behavioural indicators through which the system assesses taxpayer risk.

In this environment, tax governance becomes the discipline of managing how the organisation behaves, not merely what it reports.

Companies that operate with internal transparency, disciplined data architecture and predictable decision-making rhythms experience lower regulatory friction, smoother interactions with banks and auditors, and more stable audit outcomes. Those that continue to treat tax as an annual reporting obligation face rising complexity as the administration increasingly evaluates compliance at the speed of data, not at the pace of declarations.

For foreign investors, this shift requires a different operating model—one that integrates tax, treasury, incentives and governance into a single, unified institutional posture. The ability to anticipate how the administration reads transactional behaviour, interprets anomalies and identifies structural risks becomes a source of competitive differentiation. As Türkiye accelerates digitalisation and aligns with global reporting trends, tax governance will influence not only compliance outcomes but also the broader resilience, investability and credibility of the corporate structure.

14.1 Türkiye's Digital Tax Architecture and the Logic of Data-Driven Compliance

Türkiye's tax system has transformed into a digitally integrated infrastructure in which compliance is defined not by the forms submitted, but by the coherence of the underlying data. The administration no longer relies primarily on retrospective, document-heavy audits; instead, it evaluates taxpayers through real-time behavioural analysis, using digital records to detect anomalies, patterns and structural inconsistencies. Tax compliance in Türkiye has therefore become an exercise in data governance, not merely a test of statutory correctness.

At the centre of this ecosystem lies the suite of e-transformation tools—e-Invoice, e-Archive, e-Ledger, e-Waybill, e-Expense Note, e-Reconciliation, e-Notification and related platforms. Each captures a different dimension of economic activity, but the real strength of the system emerges from how these layers interact and cross-validate one another.

Türkiye's e-document ecosystem creates an integrated visibility framework over procurement, retail, export, import and intercompany flows. The administration compares invoices to ledgers; ledgers to bank movements; payroll entries to withholding filings; VAT returns to export documentation; and intercompany flows to transfer-pricing disclosures. When these data chains align, compliance risk remains low and supervisory processes move smoothly. When they diverge, the system generates friction long before a formal audit begins.

This is not a punitive model; it is a predictive model. The tax authority uses behavioural indicators to distinguish companies that operate with institutional discipline from those whose behaviour does not align with their declared business model. VAT refund applications, cross-border payment behaviour, sector-specific risk profiles and irregular withholding patterns all contribute to this assessment. Companies with clean, traceable data enjoy faster refund cycles, fewer queries and more predictable interactions; those with structural inconsistencies are automatically routed into higher-scrutiny channels.

For investors, this environment elevates the strategic importance of internal controls and data quality. Tax data must integrate seamlessly with treasury, procurement, sales, HR, logistics and intercompany accounting. Systems that generate fragmented or inconsistent outputs—such as manual postings, undocumented adjustments, or mismatched invoice flows—undermine both compliance reliability and institutional credibility. By contrast, companies that maintain disciplined data-governance

frameworks find that Türkiye's digital architecture works in their favour, reducing friction and stabilising supervisory processes.

This shift toward data-driven oversight also reshapes corporate operating models. Intercompany arrangements must produce a coherent economic narrative. VAT behaviour must follow logical input-output patterns; funding flows must mirror documented capital or loan structures; and incentive utilisation must align with operational data rather than rely solely on procedural claims. Within this framework, a company's data becomes its most important tax document.

Türkiye's digital tax architecture is therefore not simply an administrative modernisation—it is the foundation of a new compliance paradigm. As the system evolves toward real-time analytics and integrated supervisory platforms, companies that treat tax as a data discipline will operate with stability, reduced friction and stronger institutional standing. Those that rely on traditional, form-based approaches risk falling out of step with a system that reads behaviour long before it reviews declarations.

14.2 Predictive Audit Models, Risk Signals and Institutional Expectations

Türkiye's audit environment is shifting from retrospective examination to predictive, data-driven risk analytics. The tax administration no longer waits for anomalies to surface through annual filings; instead, it anticipates risk by analysing behavioural patterns captured in real-time digital data. As a result, tax audits are evolving from backwards-looking corrective exercises into forward-looking assessments of structural consistency and institutional discipline.

At the core of this predictive architecture lie three interconnected categories of signals:

1. Transactional Data Signals

The administration cross-matches e-Invoices, e-Ledgers, POS data, import–export records, e-Waybill flows and banking information. Türkiye also performs sector-based data profiling (SDDP), ranking taxpayers by behavioural alignment and cross-sector risk indicators.

The system flags patterns that diverge from the company's declared business model or from sector norms, including:

- unusual or erratic margin volatility,
- VAT positions inconsistent with benchmark ratios in the sector,
- input–output chains that do not match production capacity,
- inventory–turnover cycles that contradict revenue behaviour,
- sudden spikes in exemption use,
- import–sales ratios that break economic logic.

When several anomalies cluster together, the taxpayer is categorised as behaviourally risky long before a formal audit is initiated.

2. Structural Consistency Signals

The predictive model evaluates the business's architecture—not just its transactions.

Signals include:

- persistent thin-capitalisation behaviour or erratic related-party borrowing;
- transfer-pricing patterns that contradict the entity's functional profile;
- depreciation schedules inconsistent with asset registers;
- incentive-linked entities showing operational drift from their incentive logic;
- treasury flows that contradict capital structure;

- subsidiaries behaving inconsistently with stated business models (e.g., a “limited-risk” distributor carrying entrepreneurial risks).

Structural inconsistency is considered a high-order risk factor because it signals that the organisation is likely to remain misaligned over time.

3. Behavioural Continuity Signals

The system analyses whether compliance behaviour is stable and repeatable, such as:

- irregular VAT refund patterns or opportunistic refund behaviour,
- year-end clusters of adjustments or reconciliations,
- mismatches between payroll data, withholding filings and SGK declarations,
- export flows without rhythm or continuity,
- incentive-based entities whose operations no longer reflect their incentive profile.

Predictive systems view continuity as a proxy for governance strength. Erratic behaviour signals institutional instability—even if individual returns are technically correct.

The Core Implication

In Türkiye, tax risk does not emerge from isolated errors.

It emerges from behavioural inconsistency.

The system evaluates patterns, not episodes.

Governance, treasury, incentive use, transfer pricing and operational data form a single behavioural footprint.

Banks, auditors and regulators—who use comparable data-matching models—read the same signals. Thus, a company’s tax behaviour directly informs its broader institutional credibility.

Organisations with stable patterns—clean documentation, coherent data flows, predictable treasury behaviour, traceable export cycles and disciplined intercompany settlements—experience significantly lower friction across all supervisory channels.

The predictive system does not classify taxpayers as compliant or non-compliant; it classifies them as behaviourally consistent or behaviourally inconsistent.

This is why, in Türkiye, tax management has evolved beyond a reporting function.

It has become an architecture of behaviour, data rhythm and institutional governance.

14.3 Tax Governance Frameworks and the Architecture of Internal Controls

Tax governance in Türkiye has become a structural component of how institutions assess a company's behaviour, rather than a supplementary compliance layer sitting alongside reporting. As the administration shifts toward cross-platform data matching and predictive analytics, governance is interpreted through patterns—how decisions are made, how data is generated, how documentation aligns with behaviour and whether fiscal signals remain consistent over time. In this environment, governance serves as the internal architecture that stabilises the organisation's tax posture throughout its operational lifecycle.

The starting point is organisational clarity. Tax-sensitive decisions—pricing commitments, procurement sequencing, capital deployment, intercompany settlements, payroll configuration, incentive utilisation and treasury flows—must be embedded in a defined authority matrix. Türkiye's digital systems read ambiguity as risk. When decision rights drift or

functions operate without a clear escalation route, behavioural inconsistencies inevitably surface across e-Invoice, e-Ledger, VAT, payroll and banking data. When authority is disciplined and traceable, the organisation emits a coherent pattern that aligns with its declared operating model.

Internal controls function as the practical expression of this architecture. Controls no longer serve as checklists or post-factum validations; they shape behaviour by ensuring that underlying economic activity, documentation and reporting remain aligned. Procurement must follow VAT logic; payroll must mirror withholding and SGK structures; intercompany flows must reflect transfer-pricing architecture; incentive-linked activity must match project files, staffing composition and cost-centre behaviour. In Türkiye's predictive environment, a company's control framework is evaluated not for its formal existence but for the behavioural consistency it produces.

Data discipline forms the centre of gravity. Türkiye's digital tax architecture interprets data with a level of granularity that makes system configuration, coding logic, approval chains and ERP architecture strategically consequential. Manual journals, inconsistent naming conventions, fragmented cost-centre structures or undocumented adjustments distort the fiscal footprint and generate risk signals independent of intent. Companies that treat data as a governance asset—configuring ERP taxonomies, locking approval routes, maintaining version-controlled documentation and enforcing coding discipline—operate with significantly lower friction across audits, refunds, banking reviews and incentive continuity.

Documentation operates as an institutional narrative. Board minutes, pricing policies, intercompany agreements, project files, incentive dossiers, capex trails and export records must collectively articulate the same economic reality demonstrated by transactional data. Türkiye's administrative practice places a high weight on whether documentation and behaviour reinforce each

other. When documentation describes one model and operational data signals another, the system interprets the divergence as a structural inconsistency, regardless of technical compliance.

Continuity completes the governance framework. Türkiye's predictive systems measure behavioural rhythms over time: stable VAT patterns, consistent payroll signals, regularised intercompany settlements, predictable funding flows, and sustained incentive-linked activity. Continuity is interpreted as institutional maturity; erratic patterns, year-end spikes or episodic corrections are viewed as instability even when filings are technically accurate. Companies that produce consistent patterns across the year operate with lower risk, smoother supervisory interactions and reduced audit intensity.

In this landscape, tax governance in Türkiye functions as the integrated operating backbone of the enterprise. Authority design, internal controls, data discipline, documentation coherence and behavioural continuity collectively define how the organisation is perceived. Companies that structure these components into a unified system experience predictability and institutional stability. At the same time, those relying on form-based compliance fall increasingly out of sync with a tax environment operating at the speed of data rather than the rhythm of declarations.

14.4 Intercompany Transactions, Funding Flows and Transfer Pricing Behaviour in a Predictive Environment

Intercompany transactions in Türkiye now operate inside a supervisory model that evaluates behaviour rather than documentation alone. The administration no longer assesses transfer pricing as a static compliance file supported by a benchmark study; it interprets intercompany flows through the organisation's data footprint—how payments move, how

functions behave, how margins stabilise, and whether the company's operational reality aligns with the economic story it declares. Transfer pricing has therefore shifted from a rule-based exercise into an architecture of behavioural coherence.

This transformation begins with the principle that intercompany charges must behave like genuine economic flows. In Türkiye's digital environment, every settlement leaves a trace—invoice timing, bank movement patterns, currency flows, payment regularity, working-capital exposure, cost-centre allocation and margin rhythm. A policy that is robust on paper but contradicted by transactional behaviour is treated as structurally risky. By contrast, even a complex pricing model appears low-risk when cash flows, ledger patterns and functional signals remain consistent with the declared profile.

Funding flows sit at the centre of this behavioural assessment. Türkiye's predictive systems read capital-versus-debt decisions through patterns, not formal labels. A company heavily funded by shareholder loans that displays repayment inconsistencies, irregular interest postings, or year-end adjustments signals thin-capitalisation behaviour, even when leverage technically falls within statutory limits. Conversely, an entity with disciplined interest accrual, predictable amortisation and liquidity patterns consistent with its risk profile emits a low-risk funding signature.

Documentation and loan behaviour must reinforce each other. Shareholder loans with clear terms but payment rhythms that diverge from those terms—rolled interest, sporadic repayments, unexplained capitalisations—are interpreted as governance inconsistencies. The system prioritises economic reality over written agreements. Türkiye's digital infrastructure automatically captures these discrepancies: ERP postings, e-ledger entries, banking footprints, and foreign-exchange behaviour collectively reveal whether a loan behaves like a loan or functions as disguised equity.

Intercompany settlements follow the same logic. Management fees, cost allocations, royalties and support charges are expected to produce predictable, periodic and liquidity-aligned payment trails. Companies with erratic settlement cycles, mismatched liquidity capacity or adjustments unsupported by operational activity are flagged for behavioural inconsistency. Türkiye's systems analysis not only determines whether the price is arm's length, but also whether the entity behaves like the type of counterparty it claims to be—routine distributors with routine margins, service recipients with functional capacity, R&D entities with genuine innovation activity, free-zone manufacturers with export-aligned value retention.

Transfer-pricing documentation remains necessary, but its role has evolved. Master Files, Local Files and benchmarking studies articulate structural intent; data behaviour demonstrates structural truth. Türkiye increasingly compares the two. A limited-risk distributor showing volatile profitability, a cost-plus service provider carrying significant inventory exposure, or an R&D centre with minimal technical payroll—these are not interpreted as compliance issues but as narrative inconsistencies between declared and actual functions.

Incentive-linked entities receive additional scrutiny. Free-zone manufacturers that transfer material value out of the zone through royalties or management fees weaken their incentive logic. Entities within Teknopark allocating substantial costs to non-innovation functions undermine their incentive profile. R&D centres whose intercompany allocations reduce domestic value creation contradict the behavioural expectation embedded in Law No. 5746. In a predictive environment, the alignment between transfer pricing and incentive logic becomes a single narrative rather than two parallel frameworks.

The organisations that perform strongest in Türkiye's predictive compliance landscape adopt a unified intercompany operating model—pricing policies that match functional substance, funding

flows that reflect commercial reality, settlement rhythms aligned with liquidity, documentation that narrates behaviour, and data architecture that embeds transfer-pricing logic consistently across ERP, treasury and statutory systems. When these components reinforce each other, intercompany flows become low-friction and structurally credible.

Türkiye's predictive system does not penalise complexity; it penalises incoherence. Where structure, documentation and behaviour move in the same direction, the company emits a stable, low-risk institutional signal.

Where they diverge, the system identifies the inconsistency long before an audit begins.

14.5 VAT Behaviour, Input–Output Consistency and Real-Time Indirect Tax Risk

VAT has become the most behaviour-sensitive component of Türkiye's digital tax architecture. Because every commercial signal—invoice creation, stock movement, production cycles, export filings, import declarations, POS output, and ERP postings—flows through an electronic system, the administration now evaluates VAT not as a monthly declaration but as an ongoing behavioural pattern. In this environment, the critical question is no longer whether a return is technically correct; it is whether a company's VAT behaviour is economically coherent, data-consistent, and operationally traceable.

At the heart of Türkiye's indirect-tax visibility lies input–output consistency.

The administration examines whether purchase volumes, production capacity, labour intensity, inventory turns, and sales outputs form a credible economic chain. Sudden jumps in deductible VAT, unexplained input accumulation, output levels

inconsistent with workforce size or throughput, and deduction ratios that diverge from sector norms are not treated as filing anomalies; they are treated as behavioural inconsistencies. Predictive models assign risk not for error, but for patterns that break

commercial logic.

Real-time controls extend across the entire data ecosystem.

Every VAT-relevant signal is automatically cross-matched:

- e-Invoice / e-Archive data: whether descriptions, timing, volumes and counterparties align with the supply chain and revenue model.
- e-Ledger postings: whether accounting treatment, classification and VAT codes reflect the underlying transaction reality.
- Customs declarations: whether import cycles correspond to input usage, production volume, pricing patterns and inventory behaviour.
- ERP inventory records: whether the cost of goods sold, bill of materials, waste ratios and material consumption align with VAT deduction levels.
- Bank movements: whether cash-flow behaviour can plausibly support the declared VAT position, particularly for entities with persistent refunds.
- Export documentation: whether FOB values, logistics flows, and foreign-exchange receipts match zero-rated outputs.

When these systems reinforce each other, VAT becomes administratively quiet—refunds progress, audits narrow, and supervisory friction remains low.

When they diverge, the system surfaces anomalies long before any manual review begins.

Refunds amplify this behavioural architecture.

Türkiye's refund system no longer operates as a document-checking mechanism; it serves as a credibility assessment. Entities with stable rhythms—predictable export cycles, consistent input-output patterns, disciplined documentation and sector-aligned deduction ratios—move through the refund pipeline with minimal interruption. Entities with structural volatility—irregular credits, disproportionate purchases, mismatched customs flows or end-of-period adjustments—are automatically routed into higher-scrutiny channels.

Sector expectations form a second behavioural layer.

Manufacturers must exhibit material-consumption ratios consistent with capacity, yield, wastage and production logic. Service entities must demonstrate labour-to-output coherence. High-tech entities must show intangible-cost patterns aligned with their value-creation model. Sector outliers are not treated as errors; they are treated as economic inconsistencies.

Intercompany VAT flows further intensify visibility.

Management fees, allocations, shared services and royalties must reflect economic purpose and functional capability. If a company's transfer-pricing narrative describes high value-added activity, yet its VAT footprint shows minimal domestic input usage, the system reads the divergence as an economic inconsistency. In Türkiye's predictive architecture, VAT behaviour becomes one of the most potent indicators of functional truth.

The strongest performers in this environment share common behavioural signatures:

- stable and logical VAT-credit cycles,
- input-output ratios that reflect real economic activity,
- supply chains whose data trails reinforce production reality,
- export behaviour that follows a coherent, traceable cadence,
- documentation that mirrors operational truth,
- ERP data that aligns with sector logic,

- and no sudden, unexplained behavioural breaks.

In Türkiye, VAT risk does not emerge from mistakes; it arises from inconsistency.

A technically accurate VAT return is low-value if the surrounding data pattern contradicts it.

A complex VAT footprint becomes low-risk when its behavioural rhythm is coherent.

Türkiye's indirect-tax environment has therefore become a structural credibility test.

VAT reveals whether the organisation's operational reality, financial posture and data signals are aligned. When they are, VAT becomes a stabilising force. When they are not, VAT becomes the system's quickest and most straightforward indicator that something in the economic narrative does not hold together.

14.6 Withholding Tax Logic, Cross-Functional Consistency and Institutional Perception

Withholding tax in Türkiye serves as a behavioural signal indicating whether a company's payroll structure, procurement model, intercompany architecture, and service flows align with its actual economic footprint. In the predictive compliance environment, WHT is no longer treated merely as a collection mechanism; it is an analytical lens through which the administration evaluates institutional coherence. A company's withholding behaviour—its rhythms, its irregularities, its long-term patterns—communicates how the organisation honestly operates.

The first behavioural layer is payroll coherence.

Salary withholding, social security filings, and monthly personnel declarations must reflect the organisation's scale, functional

profile, and commercial logic. A company reporting high-value activities but maintaining unusually low payroll, or entities with volatile headcount cycles unrelated to output levels, send signals of structural inconsistency. Predictive systems read payroll volatility as one of the strongest early-warning indicators, because payroll is the most direct measure of operational substance. Consistent payroll patterns signal organisational stability; erratic ones raise behavioural questions independent of technical correctness.

The second layer is service-flow and classification logic.

Every consultancy fee, technical service payment, royalty charge, and intercompany management-fee settlement generates a real-time withholding footprint visible to tax authorities. Türkiye's digital systems analyse whether the withholding treatment matches the underlying economics, not the contractual label. Payments classified as "service" but exhibiting royalty-like features, or transactions declared as "technical service" despite lacking technical substance, create classification mismatches that predictive models flag immediately. Even when the rate applied is technically defensible, a pattern that contradicts the company's stated operating model or transfer-pricing narrative triggers scrutiny. In Türkiye's behavioural architecture, WHT must reflect economic reality rather than formal wording.

The third layer concerns intercompany alignment.

Group-level payments—management fees, service allocations, support charges, shareholder costs—must follow a coherent economic purpose. Routine entities should not bear entrepreneurial-level service fees; limited-risk distributors should not absorb excessive royalties; and incentive-benefiting entities should not lose value due to misaligned intercompany flows. Predictive systems cross-match withholding filings with TP documentation, staffing profiles and operational data. When WHT behaviour reinforces the broader economic logic, risk remains low. When it undermines that logic—even subtly—WHT

becomes an immediate diagnostic tool surfacing inconsistencies long before a formal audit.

The fourth behavioural dimension is institutional perception.

Banks, auditors and regulators interpret withholding patterns as a proxy for governance quality. Stable payroll withholding, treaty-aligned rates, clear documentation and predictable filing behaviour strengthen institutional credibility. By contrast, erratic remittances, unexplained rate changes, last-minute corrections or unclear service descriptions diminish confidence—even without a legal dispute. Because banking data feeds into tax-visibility systems, behavioural inconsistencies detected by banks increasingly influence tax-side perception. In Türkiye's integrated supervisory landscape, WHT is one of the strongest public-facing signals of institutional integrity.

This architecture transforms withholding from a routine tax obligation into a structural indicator.

The administration is not simply asking, "Was the correct rate applied?"

It is evaluating:

"Does this company's withholding behaviour accurately reflect the economic reality of how it operates?"

When the answer is yes, withholding becomes stabilising—supporting risk assessments, improving audit outcomes and reinforcing credibility across the supervisory ecosystem.

When the answer is no, WHT becomes the system's earliest and most reliable behavioural trigger, surfacing institutional inconsistency even where no formal error exists.

In Türkiye's predictive environment, withholding tax is therefore not about form; it is about narrative.

It is a real-time signal of whether the organisation's internal rhythms—payroll, procurement, intercompany behaviour and functional allocation—tell a coherent economic story. Companies that manage WHT as part of a unified governance architecture operate with low friction and high institutional trust. Companies that treat it as a transactional duty risk sending inconsistent signals into a system engineered to detect them instantly.

14.7 Cross-Border Payments, FX Behaviour, Banking Dynamics and Tax Visibility

Cross-border payments in Türkiye sit at the intersection of tax administration, banking supervision and foreign-exchange management. In a predictive compliance environment, these flows generate behavioural signals that extend far beyond withholding obligations. Every outbound transfer—royalties, service fees, interest, reimbursements, licensing charges or cost-sharing allocations—forms part of a real-time visibility grid used by both banks and the tax authority to evaluate the structural coherence of the organisation. Cross-border behaviour has therefore become one of Türkiye's most revealing institutional indicators.

The first visibility layer is foreign-exchange behaviour.

Türkiye maintains a liberal FX regime, yet the system tracks whether inflows and outflows reflect the organisation's declared operating model. Exporters with irregular FX repatriation patterns, service entities with disproportionate outbound payments, or companies whose FX deficit is chronically inconsistent with scale or sector norms all raise behavioural questions. Predictive systems treat FX behaviour as an economic-substance signal: stable inflows and rational outflows indicate operational coherence; volatility or unexplained pressure points signal structural misalignment.

The second visibility layer emerges through banking dynamics.

Banks monitor cross-border transfers through compliance engines that assess purpose, documentation and economic rationale. A royalty classified as a service, a service fee inconsistent with staffing or functional capability, a large intercompany payment unsupported by liquidity logic—each generates automated alerts. Because bank data feeds directly into the supervisory ecosystem, inconsistencies detected at the banking layer often translate into heightened tax-side attention. In Türkiye, bank compliance and tax compliance function as two halves of a single visibility architecture.

The tax authority provides the third behavioural lens, evaluating cross-border payments through three interconnected dimensions:

Withholding Alignment

Treaty positions, characterisation logic and economic substance must converge. A high-value “technical service fee” paid by an entity without technical staff, or a recurring royalty paid by a routine distributor, signals behavioural inconsistency even if the withholding rate is technically correct. Predictive systems prioritise economic coherence over contractual wording.

Transfer-Pricing Consistency

Cross-border charges must match the functional and risk profile of the Turkish entity. Predictive analytics compare settlement patterns with TP narratives, identifying discrepancies such as routine entities receiving entrepreneurial-level allocations or R&D-incentivised entities shifting value offshore through aggressive cost-sharing. Data must reflect the TP story—not contradict it.

Liquidity Logic

Intercompany settlements must align with the entity’s cash-flow capacity and operational rhythm. Large year-end transfers, sudden clearing movements or payments inconsistent with

working-capital behaviour are flagged as structural anomalies. Türkiye's digital infrastructure interprets liquidity-inconsistent patterns as behavioural risk rather than technical error.

Across these three layers, cross-border flows behave as economic-narrative signals, not merely tax events. An organisation with aligned FX patterns, coherent banking posture and TP-consistent withholding appears institutionally stable. One with fragmented signals seems risky, even if every individual payment is legally compliant.

In this architecture, the strategic question has shifted. It is no longer:

"Did we apply the correct rules?"

It is:

"Do our cross-border flows present a coherent economic story?"

When the answer is yes, cross-border activity strengthens the company's institutional credibility, stabilises its tax posture and reduces supervisory friction.

When the answer is no, the system detects behavioural inconsistencies long before a formal audit begins.

In Türkiye's predictive environment, cross-border payments function as a structural expression of how the organisation thinks, finances, coordinates and governs itself. Companies that manage these flows as part of a unified tax, treasury, and governance architecture operate with clarity and resilience.

Treating them as isolated administrative tasks signals instability in a system engineered to observe behaviour continuously.

14.8 Incentive Behaviour, Documentation Integrity and Sustainable Eligibility in a Predictive System

In Türkiye, incentive regimes—free zones, R&D Centres, Technology Development Zones, regional investment schemes and export-support programmes—operate increasingly under a model of behavioural verification. Eligibility is no longer determined by formal declarations, annual applications, or procedural checklists; it is sustained by the company's daily operational footprint, as reflected across digital tax systems, payroll structures, intercompany settlements, export cycles, and project documentation. In a predictive environment, incentives reward structural alignment rather than episodic compliance.

The foundation of sustainable eligibility is operational coherence.

A free-zone manufacturer must demonstrate a traceable production footprint inside the zone; an R&D Centre must maintain active research cycles supported by technically qualified staff and auditable project files; a Teknopark entity must generate innovation-linked outputs rather than administrative activity. Türkiye's digital infrastructure interprets payroll patterns, invoicing logic, procurement flows and export behaviour as indicators of whether an incentive-driven entity is behaving consistently with its declared functional profile. When behaviour drifts—even incrementally—continuity weakens.

The second pillar is documentation integrity.

Incentive files are no longer evaluated solely for completeness. The administration assesses whether the documentation narrates a coherent economic story. Project files, engineering reports, milestone deliverables, export dossiers, capex records, depreciation schedules, transfer-pricing agreements and intercompany contracts must reinforce one another. When documentation aligns with operational data, eligibility remains

stable; when documentation and behaviour diverge—such as an R&D Centre claiming innovation activity but showing minimal technical payroll—predictive systems treat the discrepancy as structural risk. In Türkiye’s digital ecosystem, documentation has become part of the organisation’s behavioural evidence.

The third pillar is fiscal behaviour, especially VAT, withholding and payroll signals.

Incentivised entities must demonstrate fiscal patterns that reflect their economic logic:

- VAT refund cycles aligned with consistent export behaviour,
- payroll structures proportionate to the declared functional model,
- withholding patterns consistent with technical and operational activity,
- intercompany pricing that preserves—rather than drains— incentive-linked value creation.

Predictive systems cross-match these fiscal indicators to determine whether incentive usage is grounded in real economic activity. When the budgetary footprint conflicts with the incentive profile, supervisory friction rises—even if the entity technically meets formal criteria.

The final pillar is behavioural continuity.

Modern incentive regimes are designed for scalability. They reward entities that exhibit steady production cycles, consistent R&D engagement, stable staffing and predictable export rhythms. Companies with episodic activity, volatile volumes or sudden operational shifts appear structurally unstable, prompting earlier and deeper review. Continuity is interpreted not as a by-product of compliance, but as a core indicator of institutional maturity.

Türkiye’s incentive architecture, therefore, operates as a

behavioural ecosystem rather than a static list of fiscal benefits. Sustainable eligibility arises when:

- the operating model mirrors the incentive's economic intent,
- documentation reflects actual activity and reinforces it,
- data behaviour remains coherent across tax and regulatory systems,
- and the organisation demonstrates continuity rather than opportunism.

In this predictive landscape, the fundamental question is no longer:

"Did we meet the incentive conditions?"

But

"Does our behaviour consistently demonstrate the conditions we claim to meet?"

When the answer is yes, incentives become stable, low-friction components of long-term strategy.

When the answer is no, the system tests behavioural reliability long before reviewing formal declarations.

In Türkiye's evolving environment, incentives reward alignment—not assertion.

14.9 Building a Predictive-Ready Operating Model: Integrating Tax, Treasury, Data and Governance

A predictive tax environment requires an operating model in which tax, treasury, data architecture and governance operate not as separate technical silos but as interdependent components of a single institutional system. Türkiye's digital infrastructure evaluates behaviour across these domains simultaneously, meaning the organisation's risk posture is shaped not by isolated events but by the patterns produced through its daily operating rhythm. Companies that thrive under this model design internal architectures capable of generating consistent, verifiable signals across every layer of economic activity.

Data integrity sits at the centre of this architecture.

Every fiscal outcome—VAT patterns, withholding behaviour, transfer-pricing signals, incentive eligibility, inventory movements and funding logic—ultimately rests on the accuracy and discipline of the organisation's ERP environment. A modern operating model treats data as a strategic asset: coding structures, workflow logic, user permissions, chart-of-accounts design, approval chains and system configurations must follow controlled, repeatable processes. When the data layer is coherent, the company's fiscal posture becomes predictable; when data is fragmented or manually overridden, compliance reliability deteriorates regardless of managerial intent.

The second pillar is treasury–tax alignment.

In Türkiye's visibility ecosystem, treasury behaviour is inherently tax-visible, and tax behaviour directly influences banking perception. Cash-flow rhythms, intercompany settlements, FX inflows and outflows, loan repayments, capital injections and dividend policies create patterns that digital systems interpret as indicators of financial stability or structural risk. A predictive-ready operating model ensures tight coordination between treasury

and tax through structured calendars, liquidity governance, settlement protocols and decision-rights frameworks. When treasury movements reflect the economic narrative underlying the tax posture, risk declines; when they contradict it, friction increases.

The third pillar is governance discipline.

Decision rights, board oversight, documentation routines and policy frameworks determine whether the organisation behaves stably and predictably. Governance provides the behavioural guardrails that prevent operational drift. Predictive systems reward companies whose governance produces continuity—steady staffing patterns, consistent functional allocation, logical pricing frameworks, sustained incentive-aligned activity and coherent intercompany arrangements. Governance converts tax alignment from a compliance exercise into an organisational reflex.

A fourth dimension is functional integration.

In Türkiye's digital ecosystem, risk often emerges at the intersection of functions—procurement that breaks VAT logic, payroll that contradicts withholding obligations, intercompany flows that misalign with TP frameworks, and incentive-benefiting entities whose operations drift from required profiles. A predictive-ready operating model reduces interface risk by embedding tax logic directly into procurement, sales, HR, finance, logistics, engineering, R&D and treasury workflows. Tax becomes an upstream design parameter of operations, not a downstream reviewer correcting issues after they appear in the data.

The final component is behavioural continuity.

Türkiye's predictive systems measure rhythm as much as correctness. A company with steady VAT cycles, consistent withholding behaviour, disciplined intercompany settlements, predictable FX movements and logical export patterns appears structurally reliable. Organisations with volatile rhythms,

episodic corrections or year-end behavioural spikes are viewed as inherently more risky—even when technically compliant. Continuity becomes an institutional signal in its own right.

A fully integrated operating model produces four outcomes that define success in Türkiye’s predictive architecture:

- Low friction: refunds, incentives, bank processes and supervisory interactions proceed smoothly.
- Institutional credibility: behavioural patterns signal stability, not opportunism.
- Resilience: tax and regulatory risk are managed structurally rather than manually contained.
- Predictability: the organisation operates on an intelligible behavioural rhythm, reducing uncertainty across stakeholders.

In Türkiye’s evolving tax environment, compliance excellence is no longer the product of stronger controls alone—it is the product of organisational design. A predictive-ready operating model transforms tax from a reactive reporting function into a strategic capability that strengthens the organisation’s positioning, credibility and long-term scalability.

14.10 Statutory Accounting and Reporting Snapshot

Türkiye’s statutory accounting framework is one of the most influential behavioural indicators through which tax authorities, banks, auditors, and regulators assess an organisation’s internal coherence. In a predictive compliance environment, the alignment between statutory ledgers and operational data is not merely a technical requirement—it is a primary signal of institutional discipline. For foreign investors, understanding the statutory layer is essential to navigating Türkiye’s integrated, data-driven regulatory landscape.

Statutory accounting in Türkiye is governed by the Tax Procedure Law (VUK), which adopts a prudence-oriented, form-driven approach that differs materially from IFRS. Whereas IFRS prioritises economic substance and fair-value representation, VUK emphasises documented form, realisation principles and strict evidence trails. The coherence between these two frameworks—VUK for statutory obligations and IFRS for group reporting—forms a critical behavioural test. When the two reporting tracks contradict one another without explanation, Türkiye’s digital systems interpret the divergence as a signal of structural weakness.

Mandatory electronic bookkeeping under VUK—including the journal, general ledger, and statutory inventory register—requires monthly synchronisation with bank movements, e-Invoice records, procurement data, payroll flows and operational outputs. In this architecture, statutory books act as an anchor: they must reconcile cleanly with VAT returns, withholding filings, e-Ledgers, cash flow statements, intercompany schedules, and export documentation. When these layers align, risk declines; when they diverge, structural questions emerge even before an audit is initiated.

Independent audit requirements further reinforce this behavioural model. Entities that exceed statutory thresholds for assets, turnover, or employee count are subject to a mandatory independent audit. These audit reports carry disproportionate weight in Türkiye’s institutional ecosystem: banks treat them as credibility markers, tax authorities evaluate their internal-control commentary as behavioural evidence, and regulators read them as indicators of governance maturity. A clean audit opinion strengthens the organisation’s risk profile; a qualified or emphasis-of-matter paragraph often triggers cross-institutional scrutiny.

Year-end statutory processes—inventory counts, provisioning policies, depreciation practices, foreign-currency remeasurement, and transfer-pricing documentation—form the most visible

annual cycle of compliance. Türkiye's tax ecosystem reads these processes as behavioural signals: whether the organisation conducts physical counts, whether provisioning aligns with sector expectations, whether depreciation is applied consistently, and whether year-end adjustments reconcile logically with operating reality.

Inflation accounting under VUK, reinstated from 2024 onward, adds another behavioural dimension. Entities must restate non-monetary assets, equity items and cost bases when CPI thresholds are exceeded, applying coefficients published by the Revenue Administration. Inconsistencies between inflation-adjusted statutory accounts and IFRS reporting sets generate immediate visibility across supervisory systems, making alignment and documentation essential.

Ultimately, statutory accounting in Türkiye is not merely a compliance obligation. It is the interpretive foundation upon which every regulatory actor—tax authorities, banks, auditors, counterparties and investors—evaluates the organisation's structural soundness. When statutory books, economic activity, data behaviour and governance narratives reinforce one another, the company appears disciplined, predictable and institutionally credible. When they diverge, the organisation enters the predictive risk landscape, even if individual filings are technically accurate.

In Türkiye's modern tax environment, statutory discipline is not a closing task; it is a continuous behavioural asset.

Türkiye's tax environment ultimately channels every behavioural signal—data integrity, intercompany coherence, VAT logic, funding patterns, payroll discipline, statutory accuracy—into a broader institutional question: how does the judicial system interpret the organisation's economic reality when disputes arise? The digital architecture described throughout Chapter 14 operates

as the evidentiary backbone of modern tax litigation. Courts no longer examine filings in isolation; they evaluate whether the organisation's behaviour, documentation and economic footprint form a consistent and credible narrative.

In this environment, litigation becomes the final test of tax governance.

Judges interpret economic substance through the same behavioural indicators that the administration monitors: input-output ratios, incentive eligibility signals, cross-border payment patterns, transfer-pricing alignment, payroll consistency, e-Ledger coherence and the internal logic of funding structures. When these signals reinforce one another, the taxpayer's position gains institutional credibility. When they conflict, formalistic arguments give way to substance-driven judicial reasoning.

Chapter 15 builds on this shift.

It examines how courts weigh contemporaneous evidence, interpret inconsistencies across digital systems, assess the credibility of intercompany arrangements, and how judicial reasoning is increasingly shaped by the behavioural footprints embedded in Türkiye's e-document infrastructure. Where Chapter 14 explained how the administration reads taxpayer behaviour, Chapter 15 describes how the courts judge it.

In Türkiye's modern tax ecosystem, compliance, behaviour and judicial interpretation have merged into a single continuum. Chapter 15 begins at that intersection.

CHAPTER 15

CROSS-BORDER TAXATION, DOUBLE TAX TREATIES AND INTERNATIONAL STRUCTURING DYNAMICS

Cross-border taxation in Türkiye has shifted from rate-focused optimisation to a substance-driven architecture, in which capital flows, functions, and risks must align with a coherent international narrative.

“In Türkiye’s treaty network, relief is no longer earned on paper; it is earned in how a structure behaves.”

Türkiye’s treaty network provides a structurally coherent environment for multinational operations, but it rewards only those structures whose behaviour, documentation and functional reality align with treaty logic. As cross-border regulation becomes increasingly substance-driven and digitally monitored, international tax strategy shifts from formal optimisation to architectural coherence.

In this landscape, inbound investors must align capital routing, holding preferences, intercompany funding, IP positioning and profit-repatriation models with Türkiye’s treaty footprint, anti-fragmentation rules and OECD-aligned transparency standards. Outbound Turkish groups face the same behavioural thresholds in reverse: substance, economic attribution and documentation integrity must support the group’s global footprint.

Cross-border taxation therefore becomes an institutional

discipline — the junction where international strategy, domestic regulation and group-level economics converge. The following sections analyse how Türkiye’s treaty network operates in practice, how behaviour sustains or undermines relief and how substance has become the defining determinant of sustainable cross-border outcomes.

15.1 Treaty Network Architecture and Türkiye’s Position in the Global Tax Map

Türkiye’s double-tax treaty network is both extensive and strategically positioned. It anchors the country within a cross-regional investment corridor spanning Europe, the Middle East and Central Asia, while maintaining alignment with OECD transparency and anti-avoidance standards. In practice, the treaty network functions not only as a legal infrastructure but also as a stabilising mechanism for cross-border flows — reducing juridical double taxation, providing rate certainty, and framing behavioural expectations around beneficial ownership, economic substance, and functional attribution.

Three characteristics define Türkiye’s strategic position in the global tax architecture:

Geostrategic adjacency paired with regulatory interoperability

Türkiye connects EU-aligned regulatory ecosystems with the capital and trade dynamics of MENA and Central Asia. For investors constructing regional hubs or multi-jurisdictional platforms, this dual alignment allows capital, services and IP to circulate through a coherent treaty corridor without fragmenting governance or substance requirements.

Alignment with OECD substance, transparency and anti-avoidance norms

Türkiye actively incorporates beneficial-ownership standards,

PPT-based anti-abuse rules, MAP mechanisms and transparency principles into treaty interpretation. This places behavioural coherence above formal structuring, reinforcing the shift from rate-driven planning to narrative-driven economic alignment.

Practical usability for both inbound and outbound strategies

The network supports inbound holding structures, capital-injection routes, and repatriation models, while also enabling outbound investments by Turkish groups into EU, MENA, and Asian markets. It provides a predictable environment for dividends, interest, royalties, services, and capital gains treatment, integrating treaty relief with domestic law to reduce friction and support treasury efficiency.

In a global environment increasingly governed by data-driven transparency and substance-based entitlement, Türkiye's treaty network functions as a governance perimeter: it defines not just how cross-border flows are taxed, but how they must behave to remain credible. The sections that follow examine this behavioural architecture in detail — from capital-gains rules and treaty-based withholding outcomes to beneficial-ownership tests, PE thresholds and cross-border financing dynamics.

15.2 Capital Gains Under Treaties

Capital-gains taxation under Türkiye's treaty network is one of the most strategically significant components of cross-border structuring because it influences holding-company design, exit economics and long-term investment architecture. While domestic law generally taxes gains on the disposal of shares in Turkish companies, treaties frequently reallocate taxing rights to the seller's jurisdiction—provided that the shares do not derive their value principally from immovable property located in Türkiye and provided that the seller satisfies the behavioural conditions embedded in modern treaty interpretation.

In practice, treaty-based exemption from Turkish capital-gains taxation hinges on three behavioural tests:

1. Beneficial-ownership and economic-control coherence

Treaty protection applies only when the seller is the genuine economic owner of the shares, not merely the formal holder. Türkiye applies a substance-driven approach: the jurisdiction where strategic decisions are made, risks are controlled, and economic benefits accrue must align with the entity claiming treaty relief. Shell holding companies, intermediary vehicles or entities with limited authority fail this test even when the treaty text appears favourable.

2. Anti-abuse standards (PPT, substance-over-form and treaty-shopping doctrines)

Most treaties applicable to inbound disposals incorporate the Principal Purpose Test directly or interpretatively. Türkiye examines whether the holding chain was designed primarily to capture favourable capital-gains outcomes. Factors such as low-substance holding platforms, circular funding, rapid pre-disposal reorganisations or short-term share transfers undermine treaty access. Behavioural inconsistency—rather than the presence of formal documents—is the decisive signal.

3. Immovable-property-rich rule and value-creation attribution

Where more than a material portion of a Turkish company's value derives from Turkish immovable property (directly or indirectly), source-state taxing rights typically remain with Türkiye. Even in structures that appear to fall outside this rule, the administration evaluates where economically significant value was created: local operations, workforce, assets, and functional contribution can shift taxing rights back to Türkiye under the value-creation principle, mainly where treaty wording permits broad interpretation.

For multinational groups, these rules shape not only the exit event but the entire investment lifecycle. Holding-company selection, the positioning of intermediate entities, capital-structure design, long-term governance patterns, and functional allocation must be calibrated from the outset to ensure that exit routes remain credible—not merely theoretical. Treaty exemptions do not operate as mechanical tools; they operate as behavioural privileges.

In Türkiye’s predictive compliance ecosystem, capital-gains relief becomes sustainable only when the investor’s corporate architecture, functional footprint and cross-border narrative support the position that value was created—and is owned—in a manner consistent with treaty logic. Exit planning, therefore, is not a closing-stage exercise; it is an architectural decision embedded into the first day of investment.

15.3 Withholding Tax Outcomes on Dividends, Interest, Royalties and Services Under Treaty Relief

Cross-border payments serve as the operational interface through which multinational groups engage Türkiye’s treaty network in real time. Domestic withholding tax (WHT) rates establish the statutory baseline; treaties recalibrate it into a strategic architecture governing capital mobility, treasury efficiency, and value extraction. In Türkiye’s predictive compliance environment, treaty relief only activates when behaviour, documentation, and economic reality converge. Forms initiate the request; behaviour sustains the entitlement.

At the centre of this framework lies the concept of beneficial ownership—a substantive test that evaluates who genuinely controls, enjoys and assumes the risk of the income. Türkiye does not treat helpful ownership as a merely formal designation.

The administration examines governance authority, treasury practices, control over income, decision-making autonomy, and the functional and financial capacity to bear the risks inherent in the underlying activity. Entities that function as pass-through vehicles, conduit intermediaries or administrative platforms—even if contractually named as recipients—struggle to satisfy this behavioural test. In practice, Türkiye applies a look-through approach: it examines not only who legally holds the income but also who controls it economically.

Treaty relief is therefore not a question of paperwork; it is a question of economic substance, expressed through staffing, management behaviour, treasury flows, board-level decision-making and the operational logic of the group. If the holding structure lacks structural integrity—limited decision-making capacity, immediate upstream distributions, mismatched treasury authority or circular flows—treaty reductions on dividends, interest, royalties, or services may be denied under both the beneficial ownership test and the Principal Purpose Test (PPT).

Within this behavioural environment, each category of cross-border payment follows its own structural logic.

Dividends represent the clearest expression of economic return. Treaties typically compress Türkiye's dividend WHT range, often subject to ownership thresholds or direct-investment conditions. Where the shareholder demonstrates real substance—governance presence, capital at risk, management oversight—the reduced rates apply predictably. For inbound investors, this minimises the volatility of repatriation planning; for outbound Turkish groups, it provides stable pathways for upstream capital redeployment. Dividend efficiency ultimately depends on coherence: a routine-risk entity distributing unusually high profits or an incentive-benefiting subsidiary extracting value in a manner inconsistent with its incentive profile sends behavioural signals that weaken treaty reliability.

Interest payments sit at the intersection of financing strategy and economic coherence. Reduced treaty rates narrow the spread between gross and net cost of capital, making intercompany loans, treasury-centre arrangements and structured debt tools materially more efficient. Yet interest flows must reflect genuine credit behaviour: repayment discipline, risk allocation, liquidity capacity and economic justification. Türkiye evaluates whether the borrower's functional profile supports the leverage, whether repayment patterns align with contractual terms, and whether the lender has actual lending capacity. Treaty relief protects coherent financing structures; it does not rehabilitate debt patterns that contradict economic reality.

Royalties are the most substance-sensitive category. Because royalty payments imply the monetisation of intellectual property, the treaty narrative must align with functional substance: ownership, development, maintenance, enhancement and risk control. Türkiye analyses staffing, R&D investments, engineering behaviour and functional allocation to determine whether the payee is the valid economic owner of the IP. Rates may be reduced under treaties, but only when the financial story is credible. In a predictive audit system, routine-risk Turkish entities paying high-value royalties to low-substance foreign affiliates trigger immediate behavioural scrutiny—even if the treaty text appears favourable.

Service fees—particularly management, technical and support services—require the tightest narrative coherence. Türkiye examines whether the service was actually performed, whether the foreign entity had the functional capacity to deliver it, whether the Turkish entity's workforce contradicts the need for the service, and whether documentation, time records and deliverables align with reality. Treaties may reduce or eliminate service-fee WHT depending on sourcing rules, but only when the service narrative is both economically justified and operationally traceable. In this context, treaty relief becomes contingent on behavioural visibility:

staffing signals, duration of involvement, functional contribution and cost-to-benefit consistency.

Across all payment types, three strategic principles determine sustainable treaty outcomes:

- Treaty relief is behavioural, not declarative — it activates only when operational reality supports the treaty position.
- Substance must align with value — income must flow to the entity that genuinely performs functions, bears risks and creates or owns value.
- Economic coherence outweighs formal compliance — the system rewards organisations whose cross-border behaviour mirrors their declared treaty logic.

For sophisticated investors, Türkiye's treaty network is more than a rate-reduction table; it functions as a structural enabler of capital mobility, value extraction and cross-border governance. When group behaviour, narrative consistency and institutional discipline reinforce one another, treaty benefits flow predictably. When they diverge, the treaty becomes operationally unreliable—long before the law itself is challenged.

15.4 Permanent Establishment Thresholds, Digital Presence and Functional Attribution Under Modern Treaties

Permanent establishment (PE) exposure has become one of the defining strategic variables in international tax planning, particularly as business models decentralise, digital platforms expand their functional reach, and operational footprints shift across jurisdictions. Türkiye's treaty network adopts classical OECD standards, but the administration interprets them through a contemporary, behaviour-driven lens. The practical question is no longer whether a taxpayer satisfies the formal PE threshold; it is whether the taxpayer's behaviour, staffing, digital interaction

and commercial presence collectively form a coherent economic footprint in Türkiye.

Türkiye evaluates PE exposure across three interlocking lenses—physical footprint, functional activity and digital presence—each supported by increasingly data-rich supervisory systems.

The physical-footprint lens remains the traditional anchor of PE analysis: fixed places of business such as offices, warehouses, manufacturing sites or construction projects. Treaties generally impose duration tests, but Türkiye interprets these thresholds behaviourally rather than mechanically. The focus is on continuity, not calendar arithmetic. Digital audit systems cross-match logistics flows, customs clearances, project management data, subcontractor presence, onsite staffing patterns and inventory movements to determine whether an operation is effectively “fixed” in Türkiye, even when formal contractual terms attempt to fragment or rotate activity. In this architecture, physical presence is verified through operational traceability rather than declarations.

The functional-activity lens represents the modern shift in PE interpretation. Türkiye evaluates whether dependent agents, sales teams, technical personnel or local representatives habitually play a material role in concluding or facilitating contracts. Titles are irrelevant; behavioural contribution is decisive. Suppose personnel—employees or agents—negotiate terms, influence pricing, provide customer interaction that drives revenue, conduct demos, coordinate logistics, or otherwise participate meaningfully in the value-creation cycle. In that case, these activities may collectively form a behavioural PE even without formal signing authority. The system looks for functional consistency: whether the local presence meaningfully contributes to the commercial outcome. PE exposure, therefore, arises not only from what the organisation signs in Türkiye, but from what the organisation actually does in Türkiye.

The digital-presence lens reflects the realities of platform-based business models. Türkiye has not yet introduced a standalone “significant digital presence” test, and digital taxation currently relies on DST and classical PE rules. Nevertheless, the administration recognises that modern economic participation may occur without servers, leased premises or traditional staff. Sustained user engagement, localisation of digital services, integration with Turkish payment systems, reliance on Turkish logistics infrastructure, customer-support footprints, and systematic access to Turkish markets all contribute to a behavioural presence. In practice, the analytical question is shifting from “Is there a server located in Türkiye?” to “Is Türkiye a functional part of the platform’s value chain?” Digital PE evaluation is therefore performed through a web of signals: payment flows, customer interaction patterns, subscription cycles, service maps, logistics dependencies and content localisation.

Across these three lenses, Türkiye applies a unifying principle: PE determination ultimately depends on functional attribution. The administration evaluates where economically significant functions are performed, where assets—tangible or intangible—are deployed, and where strategic and operational risks are controlled. Digital systems verify these narratives through payroll footprints, travel data, invoicing patterns, ERP metadata, contract flows, CRM records and import/export activity. These data streams reveal whether the organisation’s declared treaty position accurately reflects its operational reality. Stability between narrative and behaviour reduces exposure; divergence amplifies it.

In this environment, PE risk management requires architectural alignment rather than defensive drafting. A business model that genuinely keeps entrepreneurial functions, negotiation authority and value creation outside Türkiye—and ensures that local interactions remain preparatory or auxiliary—forms a coherent non-PE narrative. But when local teams operate as de

facto commercial drivers, when customer engagement becomes embedded locally, or when digital platforms function as integrated market operators, the economic presence becomes structurally unavoidable even in the absence of offices or formal signatory authority.

Türkiye's substantive approach reframes PE not as a compliance barrier but as a governance discipline. Organisations that align staffing patterns, operational responsibilities, contract mechanics, intercompany charging models, and treasury flows with their declared treaty positions achieve stable, predictable outcomes. Those that rely on formalistic interpretations, while their behaviour signals a deeper economic presence, face escalating scrutiny in a supervisory ecosystem that reads behaviour in real time.

In an era where nexus increasingly follows economic participation rather than physical installation, coherence becomes the cornerstone of sustainable structuring. Permanent establishment exposure in Türkiye is ultimately determined not by architectural declarations but by behavioural consistency—by whether the organisation's actions match the treaty position it seeks to assert.

15.5 Managing Cross-Border Losses, Tax Credits and Relief Mechanisms in Global Structures

Loss utilisation and relief coordination form the hidden architecture of cross-border taxation. While multinational groups often concentrate on withholding outcomes, transfer pricing, or permanent establishment exposure, the long-term economics of an international structure depend heavily on how efficiently losses are deployed, how tax credits interact with domestic limitations, and how relief mechanisms flow through the group's global value chain. In Türkiye, these dynamics are shaped by both treaty-based principles and domestic constraints on loss

mobility, requiring forward-looking design rather than reactive optimisation.

The first structural determinant is loss of ring-fencing. Türkiye does not permit cross-border consolidation, group relief or international loss pooling. Losses incurred abroad cannot offset Turkish profits, and Turkish losses cannot shield foreign income unless the foreign income is taxable in Türkiye under specific sourcing rules. This jurisdictional separation forces groups to engage in strategic functional allocation long before losses materialise: allocating risk-bearing and volatile functions to jurisdictions where loss absorption is deepest, and placing steady-margin or incentive-aligned functions in Türkiye where profitability is expected over time. Loss planning is therefore not a recovery exercise—it is an architectural decision about where value creation, risk ownership and volatility should reside within the group.

A second determinant is the operationalisation of foreign tax credits (FTC). While treaties provide the legal basis for eliminating juridical double taxation, it is the credit mechanism under Turkish domestic law that determines the final economic outcome. Türkiye applies a conventional credit system, subject to strict documentary thresholds, credit caps, proof-of-payment requirements and the condition that foreign taxes must be “final”. In practice, timing mismatches, administrative delays in foreign jurisdictions, and the interaction between commercial accounting and statutory reporting often constrain the creditworthiness of issuers. Groups must therefore integrate FTC considerations into treasury planning—determining not only when foreign income should be repatriated, but also from which jurisdiction and in what sequence, to maximise credit absorption and minimise structural leakage.

A third strategic variable involves the distinction between branches and subsidiaries. Foreign branch losses of a Turkish company do not automatically flow into Türkiye’s tax base, and

recapture rules may apply if the branch later becomes profitable. Conversely, subsidiaries create clean ring-fencing but offer no cross-border offsets. This creates a structural tension: branches provide operational immediacy but introduce asymmetry; subsidiaries protect against asymmetry but restrict mobility. In a supervisory environment where behavioural evidence increasingly determines where value is attributed, the branch–subsidiary decision becomes a question not only of tax economics but of narrative coherence—whether the chosen structure accurately reflects how the group operates.

Loss dynamics also depend on timing arbitrage and lifecycle matching. Türkiye allows a five-year carry-forward period, while many foreign jurisdictions allow significantly longer windows—or indefinite carry-forwards. These mismatched fiscal lifecycles create pressure during investment ramp-up phases, particularly for capital-intensive industries, R&D-heavy operations, phased manufacturing models and international scale-ups. Groups must synchronise investment rollouts, depreciation curves, revenue ramp-ups, incentive availability, and expected loss horizons across jurisdictions. Effective planning requires aligning the economic lifecycle of each investment with the fiscal lifecycle of each jurisdiction so that losses mature in the right place at the right time.

A further layer emerges from treaty interplay and relief sequencing. Some treaties compress withholding without materially affecting credit outcomes; others create incentive asymmetries that influence where income should be recognised relative to where losses sit. Advanced groups model these interactions across the global structure, testing not only the nominal treaty rates but also the behavioural and timing elements that determine whether relief will actually be usable. In a world where transparency norms, anti-fragmentation rules and substance standards are converging, relief mechanisms are no

longer technical accessories—they are strategic levers embedded in treasury architecture and governance design.

Ultimately, the management of losses, credits and relief pathways is a question of architecture rather than reaction. Structures built around aligned lifecycles, coherent functional allocation, predictable credit absorption and disciplined documentation turn relief mechanisms into stabilisers of long-term profitability. Structures that treat losses as isolated events create leakage, mismatches and avoidable friction across the group's footprint.

In Türkiye's international tax environment, sustainability does not arise from maximising relief in one jurisdiction. It arises from ensuring that each jurisdiction's relief rules support, rather than fragment, the group's global value chain. In this ecosystem, loss utilisation becomes an exercise in predictive governance—designing a structure in which every jurisdiction's fiscal constraints reinforce the multinational group's overall economic narrative.

15.6 Cross-Border Financing Architecture, Thin Capitalisation Rules and Interest Deductibility Dynamics

Cross-border financing has become one of the most structurally determinative elements of multinational design. It shapes the group's capital cost, liquidity mobility, treasury risk posture and long-term value-extraction strategy. In Türkiye, financing decisions must operate within a supervisory environment that combines thin-capitalisation rules, interest-deductibility limitations, withholding outcomes, transfer-pricing expectations and behavioural scrutiny embedded into digital tax systems. As global tax norms increasingly require substance-aligned capital structures, the financing strategy becomes not merely an optimisation exercise but a test of governance coherence.

The starting point is Türkiye's thin capitalisation framework, which examines whether related-party debt is proportionate to the borrower's operational scale, asset base, risk profile and functional mandate. While the rules provide a numerical framework, their practical application has shifted toward substance: the administration assesses whether the Turkish entity's role in the group justifies the level of leverage it carries. A company with limited-risk functions, low staffing or a modest operational footprint carrying substantial intercompany loans sends an inconsistent behavioural signal, even if benchmarking studies support the interest rate. In Türkiye's predictive environment, thin-capitalisation analysis is fundamentally a question of whether the capital structure reflects the entity's true economic purpose. When it does not, excess interest is recharacterised as disguised profit distribution—triggering both non-deductibility and withholding tax exposure under the Corporate Tax Law.

Interest deductibility adds a second analytical layer. Deductibility is not assessed solely through formal compliance; it is evaluated through the behaviour of the funding relationship. Digital systems monitor whether repayment patterns follow a logical rhythm, whether interest accrues in line with liquidity capacity, and whether settlements align with the loan's commercial terms. Irregular repayments, year-end interest spikes, unexplained deferments or treasury movements inconsistent with loan duration undermine deductibility long before any statutory cap is reached. Türkiye's digital audit systems read financing behaviour as a proxy for governance quality: whether liquidity management, capital allocation and funding decisions follow disciplined internal rules. When behaviour and documentation diverge, deductibility weakens even where the structure appears compliant on paper.

A third dimension is withholding tax outcomes, especially where treaties materially reduce domestic WHT on interest. Treaty relief

narrows the gross–net gap only when the lender demonstrates genuine beneficial ownership, economic substance and independent decision-making capacity. Offshore entities with circular cash flows, minimal functional presence or automatic upstream distributions face increasing scrutiny—not because the treaty text is ambiguous, but because their behaviour contradicts the narrative required to activate relief. In Türkiye’s predictive environment, treaty-reduced interest outcomes reinforce well-designed financing models; they do not salvage structures that lack substance.

The fourth determinant is transfer-pricing alignment. Benchmarking studies and loan-pricing reports articulate policy intent, but the administration increasingly evaluates whether economic behaviour corresponds to the borrower’s functional profile and risk-bearing capacity. Digital systems capture daily treasury patterns: liquidity buffers, repayment calendars, capital injections, debt rollover behaviour and the entity’s ability to service loans through operating cash flows. When TP policy and funding behaviour align, deductibility becomes stable and predictable. When they conflict—routine entities carrying entrepreneurial leverage, or subsidiaries absorbing financing beyond their economic role—the structure attracts early-warning signals regardless of the documentation’s technical strength.

A contemporary financing model must also incorporate global substance expectations, shaped by anti-hybrid rules, OECD Pillar Two standards, anti-fragmentation principles and the global movement toward tax regimes that interrogate capital structures through behavioural evidence. Türkiye increasingly absorbs these standards into its digital oversight architecture by analysing the economic significance of the financing relationship:

- Is the level of debt proportionate to the entity’s operational footprint?
- Do board approvals, covenants and treasury protocols demonstrate genuine risk management?

- Are repayment terms consistent with liquidity flows and market conditions?
- Does the funding model reflect an accountable governance framework rather than a tax-driven design?

Digital systems cross-match payroll intensity, asset utilisation, intercompany settlement behaviour, bank movements and functional allocation to validate whether the financing structure mirrors economic reality.

Ultimately, cross-border financing in Türkiye evolves beyond pure cost-of-capital optimisation. It becomes a governance mechanism—one that stabilises capital flows, anchors institutional credibility and ensures that the entity's economic story aligns with its capital architecture. Structures that integrate thin-cap discipline, treaty logic, operational substance, treasury regularity and transfer-pricing coherence generate predictable deductibility and low audit friction. Financing models that rely on form over substance trigger supervisory visibility, reduce deductibility and erode institutional trust.

In modern tax systems, financing behaviour is one of the clearest indicators of whether governance and economics are aligned. For multinational groups, a coherent financing strategy is not an auxiliary tax tool; it is a structural component of global tax architecture—one that embeds long-term sustainability into cross-border operations and elevates the organisation's institutional profile within Türkiye's increasingly behaviour-driven system.

15.7 IP Migration, Intangible Structuring and Royalty Flows in a Treaty Environment

Intangible assets sit at the centre of modern value creation, and cross-border IP strategies increasingly depend on how jurisdictions interpret substance, beneficial ownership and functional contribution. Türkiye's treaty network follows OECD standards, yet the practical interpretation of royalty flows, IP allocation and intangible migration reflects Türkiye's institutional expectations: economic coherence, functional visibility and behavioural transparency. In this environment, treaty provisions operate as a gateway, not a shield; sustainable outcomes arise only when substance, narrative and data align.

Beneficial Ownership as a Behavioural Test

Türkiye applies beneficial ownership not as a formal share-registry concept but as a substantive inquiry into economic control, functional capacity, and risk assumption. A recipient qualifies only when it can enjoy and dispose of the income in its own right — not when it merely intermediates flows as a conduit, pass-through or administrative shell.

Authorities test beneficial ownership through operational signals:

- Does the offshore entity maintain or develop the IP it licenses?
- Does it hold the financial and operational risk associated with its exploitation?
- Are personnel, decision-making rights and technical capabilities consistent with ownership?
- Do treasury flows and governance behaviour demonstrate absolute control?

Where economic reality shows back-to-back arrangements, circular distributions, or insufficient functional depth, treaty-reduced royalty rates may be denied under both the beneficial

ownership and PPT standards, Türkiye uses a look-through lens: legal form matters, but economic substance determines eligibility.

Functional Attribution Within Türkiye

Royalty deductibility and treaty protection depend heavily on whether the Turkish entity is genuinely a licensee or contributes meaningfully to the development, enhancement, maintenance, security, or exploitation (DEMPE) of the intangible.

Türkiye's digital systems cross-reference:

- R&D spending patterns,
- staffing allocations,
- project files and innovation outputs,
- intercompany cost allocations,
- payroll intensity of technical teams.

If Turkish engineers or product teams materially enhance the underlying asset, the economic story shifts. The entity becomes a co-creator rather than a passive user, creating tension with outbound royalty flows. In such cases, Türkiye may require value-based attribution or deny deductibility where the contractual narrative contradicts the operational footprint.

Pricing Discipline and Treaty Consistency

Treaty-reduced royalty rates must be supported by transfer-pricing logic. Benchmarking analyses demonstrate pricing intent, but Türkiye evaluates behavioural coherence:

- Do royalties track revenue patterns or fluctuate opportunistically?
- Are payments proportionate to the entity's functional profile and risk capacity?
- Does the Turkish entity retain sufficient return to reflect its contribution?
- Are arrangements stable and long-term, or reactive and year-end concentrated?

Routine-risk entities paying high-value royalties, or incentive-benefit entities transferring disproportionate value offshore, attract predictive scrutiny even when treaty relief is available.

IP Migration: Inbound and Outbound

IP migration — whether into or out of Türkiye — is among the most scrutinised cross-border events. Although Türkiye does not impose a standalone statutory exit tax, transfer-pricing rules require valuation and economic justification whenever economically significant functions or rights move across borders.

Inbound migrations trigger:

- valuation requirements,
- asset classification choices,
- alignment of subsequent royalty charges with functional reality,
- capitalisation impacts under statutory accounting.

Outbound migrations require:

- exit valuations where DEMPE functions historically existed in Türkiye,
- evidence of new functional capacity in the recipient jurisdiction,
- governance demonstrating real relocation of decision-making and technical capability.

Consistent with global norms, Türkiye tests whether migrations mirror actual realignment of functions, assets and risks — not paper reallocations. Digital systems validate this by cross-matching R&D profiles, payroll movements, project lifecycles and historical activity.

Incentives and Value Retention

IP and royalty structures are subject to heightened scrutiny when the Turkish entity benefits from incentive regimes, such as free

zones, technology parks, R&D centres, or regional investment schemes. If value created under these incentives is extracted through aggressive royalty flows, both the incentive position and the treaty narrative weaken.

Türkiye expects either:

- proportional intangible value to remain with the incentivised entity, or
- proof that offshore IP ownership legitimately predates the incentivised activity.

Behavioural misalignment — such as R&D carried out in Türkiye while IP value accumulates abroad — is treated as a structural inconsistency.

A Coherence-Based Framework

Across all dimensions, Türkiye's approach to IP structuring is coherence-driven:

- Substance must match contractual ownership.
- Functional behaviour must match the pricing model.
- Treasury flows must match governance reality.
- Incentive use must match value creation.
- Treaty entitlement must match actual economic contribution.

Treaties provide relief where structures display functional authenticity, behavioural stability and transparent ownership. They give far less protection where the economic narrative is thin or inconsistent.

For sophisticated investors, sustainable intangible structuring requires more than treaty analysis. It requires an operating model in which functional reality, data behaviour and economic rationale reinforce each other — because in Türkiye's predictive environment, royalty flows succeed only when they reflect the true economics of the business.

15.8 Cash Repatriation, Exit Planning and Post-Investment Structuring Pathways

Cash repatriation is the moment when international structuring becomes economically visible. It is where treaty mechanics, capital design, functional substance and behavioural consistency converge into actual flows leaving Türkiye. In modern cross-border governance, repatriation is not a year-end procedure; it is a lifecycle design question, shaped by how value is created, documented and distributed across the group.

Dividend Pathways and Treaty-Enabled Equity Mobility

Türkiye's treaty network typically compresses dividend withholding for qualifying shareholders, particularly when direct-investment thresholds are met. Yet in practice, dividend efficiency is determined not only by rates but by the coherence of the entity's functional profile, capital structure and governance behaviour.

Predictive systems analyse:

- whether profit margins match the entity's documented role,
- whether incentives (free zone, R&D, technology-park regimes) align with distribution patterns,
- whether distributions follow a stable rhythm or appear opportunistic,
- whether retained earnings behaviour aligns with sector norms.

Routine entities distributing outsized margins, or incentive beneficiaries extracting value in ways that weaken their incentive narrative, immediately trigger behavioural queries. Sustainable dividend repatriation is therefore achieved not by rate optimisation but by architectural coherence — distributions must reflect how and where value was actually created.

Interest-Based Repatriation and Funding Behaviour

Interest flows are eligible for treaty relief, but only when the underlying funding structure is economically sound. Türkiye's digital infrastructure reads funding not as a contractual arrangement but as a behavioural ecosystem.

Authorities evaluate:

- the capital-to-debt balance,
- repayment discipline,
- liquidity capacity,
- the timing and volatility of settlements,
- whether cash-flow patterns reflect sustainable leverage.

Lumpy repayments, year-end postings, thin-capitalisation signals or interest accruals disconnected from liquidity reality undermine deductibility and weaken treaty protection. In Türkiye's predictive environment, interest-based repatriation is viable only when funding aligns with the entity's functional footprint, treasury discipline and capital-structure logic.

Royalties and Service Fees as Behaviour-Sensitive Channels

Royalty and service-fee repatriation provide flexible pathways for remunerating IP, management functions or technical capability. Yet they are the most behaviour-sensitive channels.

Türkiye tests:

- whether the Turkish entity is genuinely a licensee or a value creator,
- whether workforce intensity contradicts the offshore IP narrative,
- whether management services reflect actual decision-making and functional mapping,
- whether documentation aligns with project files and payroll signals,
- whether payments follow predictable commercial logic or opportunistic timing.

Treaty outcomes survive only when functional substance, economic rationale and behavioural transparency reinforce the payment logic. Where documentation and behaviour diverge, treaty relief

becomes fragile even when technical conditions appear satisfied.

Exit Planning and Treaty-Protected Capital Gains

Exits transform structural theory into realised economics. Treaty relief on capital gains — commonly available for share disposals in entities that are not immovable-property-rich — can materially shape investor outcomes. Yet Türkiye evaluates gains not solely through formal treaty text but through economic attribution.

Authorities examine:

- whether the Turkish entity has a permanent establishment of the seller,
- whether hidden value is attributable to immovable assets,
- whether Turkish teams contributed materially to value creation,
- whether strategic control, asset development or risk assumption occurred in Türkiye.

The decisive question becomes: Where was value actually created?

Treaty protection remains durable only when the value's origin aligns with the jurisdictional logic of the exit structure.

Post-Investment Structuring and Lifecycle Realignment

Once value has been repatriated, groups often re-optimize the Turkish footprint: reinjecting capital, selling shares, redeploying functions or restructuring debt. These moves succeed only when the Turkish operation maintains a stable institutional presence:

- clean governance,
- consistent intercompany behaviour,

- sustainable incentive alignment,
- predictable treasury flows,
- transparent functional substance.

Structures that demonstrate opportunistic extractions without operational continuity encounter friction in banking, regulatory and tax interactions — because behavioural volatility signals weakened institutional reliability.

A Coherence-Driven Repatriation Framework

In Türkiye's predictive tax environment, repatriation is credible only when value exists in the jurisdiction in the same logical way it was created. The strategic question is not:

"Which repatriation channel has the lowest rate?"

But

"Which channel reflects the economic behaviour of the Turkish entity?"

- Dividend flows must mirror value creation.
- Interest flows must mirror funding logic.
- Royalty flows must mirror functional contribution.
- Service fees must mirror operational involvement.
- Capital gains must mirror the location of economic activity.

When these elements align, repatriation becomes smooth, predictable and institutionally credible. When they diverge, even technically permissible channels become operationally fragile.

Cash repatriation, therefore, is not a compliance event — it is the behavioural expression of how the organisation operates. In Türkiye, repatriation succeeds when governance, substance, data and treaty logic speak the same economic language.

15.9 Tax Transparency, Reporting Frameworks and Global Information-Exchange Dynamics

Tax transparency has become one of the defining forces of modern cross-border structuring. In Türkiye's environment, transparency is not a policy trend; it is a data ecosystem in which every jurisdictional touchpoint — group reporting, intercompany pricing, cross-border payments, beneficial-ownership declarations and economic-substance signals — is now visible across multiple supervisory layers. In this environment, global reporting frameworks shape not only compliance obligations but the very architecture of multinational operations.

The New Reporting Perimeter: CbCR, Master File and Local File Interoperability

Türkiye's transfer-pricing documentation regime aligns with OECD standards, creating a tri-layer architecture:

- Country-by-Country Reporting (CbCR) for ultimate parents exceeding global thresholds,
- Master File for large Turkish taxpayers with significant group-level relevance,
- Local File (annual TP report) for all entities engaging in related-party transactions.

While each document serves a different purpose, the Turkish administration evaluates them as a single behavioural narrative. The system assesses whether:

- the global allocation of profit (CbCR) is consistent with the Turkish entity's functional profile,
- the Master File's description of the value chain matches staffing, payroll and operational intensity in Türkiye,
- The Local File's transactional detail aligns with e-Invoices, e-Ledgers and statutory accounts.

Transparency is therefore not the production of forms; it is the production of coherence.

Automatic Information Exchange and Beneficial Ownership Visibility

Türkiye participates in the Common Reporting Standard (CRS) and actively exchanges financial-account information with partner jurisdictions. This enables the administration to verify:

- offshore accounts held by Turkish resident entities or shareholders,
- cross-border flows routed through holding jurisdictions,
- income streams inconsistent with declared profiles,
- treaty-relief claims lacking economic ownership.

Beneficial ownership is thus not a static registry concept. It becomes a functional signal, shaped by:

- board-level approvals,
- treasury authority,
- cash-flow timing,
- risk control,
- operational decision rights.

Transparency frameworks elevate beneficial ownership from a formal requirement into a behavioural test.

Global Anti-Avoidance Standards: PPT, BEPS and Substance Expectations

Modern treaties embed anti-abuse standards — most notably the Principal Purpose Test (PPT) — which Türkiye interprets through behavioural analysis. Authorities assess whether the primary purpose of a structure, flow or transaction is consistent with commercial logic rather than treaty optimisation.

In practice, this means evaluating:

- whether holding entities exhibit genuine decision-making,

- whether IP structures reflect real R&D and asset management,
- whether intercompany prices are consistent with DEMPE substance,
- whether reorganisations are aligned with functional relocation,
- whether debt structures reflect actual capital needs.

Transparency and substance are now inseparable. Structures lacking behavioural credibility fail both tests simultaneously.

DAC6-Style Disclosure Trends and Türkiye's Direction of Travel

Although Türkiye has not yet implemented an EU-style mandatory disclosure regime, the administration increasingly expects early visibility of:

- intercompany restructurings,
- IP relocations,
- intra-group financing arrangements,
- treaty-dependent flows,
- hybrid or platform-based models.

This expectation is not expressed as a formal reporting requirement but as a behavioural standard: taxpayers that proactively disclose complex arrangements face significantly lower scrutiny during subsequent audits. In a transparency-driven ecosystem, early disclosure is seen as a sign of institutional maturity.

Transparency and Banking: A Parallel Reporting System

Banks in Türkiye now function as parallel transparency nodes. Their internal compliance systems capture:

- purpose codes for cross-border transfers,
- supporting documentation for service payments,
- follow-up queries on high-value or repeated intercompany flows,

- behavioural discrepancies between cash-flow patterns and declared business models.

Because banks share risk-analysis frameworks with regulators, inconsistent behaviour detected in the financial system often triggers tax-side attention. Banking transparency and tax transparency are therefore fused.

The End of Legacy Structuring: Transparency as a Structural Force

Legacy structures — thin holding companies, low-substance IP platforms, conduit entities, artificially leveraged subsidiaries — lose viability in a transparency ecosystem because visibility renders inconsistencies explicit.

Türkiye's digital infrastructure amplifies this trend by aligning:

- tax-authority data,
- bank data,
- customs data,
- social-security records,
- cross-border reporting streams.

In this architecture, global tax transparency is not merely a compliance layer; it is a discipline that forces organisational design to reflect economic reality.

Strategic Implication

For multinational groups, transparency frameworks convert cross-border taxation into a behavioural science:

- reports must align with substance,
- substance must align with governance,
- governance must align with value creation,
- value creation must align with cash-flow behaviour.

When these elements reinforce one another, transparency becomes a stabilising force — reducing audit friction, clarifying treaty eligibility and strengthening institutional credibility. When

they diverge, transparency transforms inconsistencies into immediate supervisory signals.

In Türkiye's predictive and transparency-driven ecosystem, global reporting frameworks do not merely record tax outcomes — they shape them.

Cross-border taxation ultimately converges on a single structural requirement: coherence. Treaties, transfer-pricing frameworks, financing models, IP strategies, repatriation channels, and transparency mechanisms deliver stability only when the organisation's global architecture aligns with its own narrative. In Türkiye's predictive environment, this behavioural alignment determines not only the tax cost of international flows but also the institution's credibility across regulators, banks, auditors, and counterparties.

Chapter 16 moves from the global perimeter to the transactional core — examining how cross-border strategy, domestic tax logic and deal mechanics interact in Turkish M&A, how tax risks are priced, how structures respond to incentive regimes, and how governance discipline becomes a decisive differentiator in due diligence, valuation and post-deal integration.

CHAPTER 16

M&A TAX ARCHITECTURE, TRANSACTION STRUCTURING AND DEAL EXECUTION DYNAMICS IN TÜRKİYE

M&A tax architecture in Türkiye operates as a high-visibility decision matrix in which structuring, valuation, diligence and post-closing behaviour converge into a single institutional narrative that ultimately defines transaction credibility and long-term value retention.

“In Türkiye, an M&A deal is not judged by the structure agreed at signing, but by the behavioural footprint it produces across the system.”

M&A tax strategy in Türkiye determines risk transfer, valuation logic, and the transaction’s institutional perception long before closing.

Cross-border M&A activity in Türkiye sits at the intersection of tax architecture, regulatory coordination and transaction-level risk governance. In a market where valuation models, legal structuring, carve-out readiness, financing flows and post-closing obligations are all tightly intertwined with tax outcomes, deal structuring becomes a discipline of strategic calibration rather than a mechanical application of rules. Successful investors interpret Türkiye’s tax environment not as a static set of provisions but as a dynamic execution ecosystem—one where technical rules, behavioural signals and supervisory expectations directly influence deal economics.

For both financial sponsors and strategic buyers, the tax dimension of an M&A process begins well before signing and continues long after closing. Pre-deal preparation must consider target-level data integrity, incentive continuity, intercompany pricing posture, withholding tax exposure on legacy payments, and the operational credibility of the target's fiscal footprint. During negotiations, decisions around share vs. asset deals, earn-outs, vendor financing, debt push-down opportunities, indemnity design and W&I coverage interact with Türkiye's tax rules in ways that can materially reshape value.

Türkiye's evolving digital tax infrastructure adds a further layer: predictive audit behaviour. Intercompany funding patterns, VAT traceability, export signals, payroll consistency, transfer-pricing coherence and incentive alignment all influence the buyer's assessment of both historical risk and future tax posture. In this environment, deal structuring must account for how the administration interprets data, not only how the law is written.

For high-stakes transactions, competitive advantage emerges from designing a transaction path that:

- minimises tax leakage across acquisition, ownership and exit phases,
- preserves—rather than disrupts—the target's incentive eligibility,
- enables efficient repatriation and post-closing cash mobility,
- stabilises historical tax positions through transparent contractual allocation of risk,
- aligns the acquired entity with a predictive-ready governance model from day one.

16.1 Buy-Side vs. Sell-Side Tax Priorities and Transaction Readiness Signals

In Türkiye's M&A environment, buy-side and sell-side tax priorities diverge sharply. The system evaluates companies based on their behavioural footprint rather than solely on formal compliance. Transaction readiness has therefore become a question of whether the target's fiscal signals form a coherent, stable and institutionally credible economic story.

For the buy-side, the central objective is to determine whether the target produces predictable tax behaviour. Buyers analyse VAT patterns to understand whether input—output flows follow a rational economic rhythm. They review withholding traces to see whether the business's functional profile aligns with the payments it makes, and they evaluate intercompany flows to verify whether they genuinely support the transfer-pricing narrative rather than merely restating it. The reliability of the ERP environment and e-Ledger data is essential, as Türkiye's digital infrastructure relies on these datasets. When filings, incentives, cash behaviour and operational activity align, the buy-side gains confidence. When they diverge—even subtly—predictive risk concerns emerge long before a formal audit would.

The sell-side, by contrast, focuses on narrative discipline. The objective is not to “clean up” the target superficially, but to ensure that behaviour, documentation and systems reinforce one another. Incentive-linked entities must demonstrate that their operational model genuinely supports their incentive profile. Intercompany balances must be rationalised to avoid distorting the economic picture. Payroll, withholding and functional allocation must reflect how the business actually operates. A target with consistent behavioural signals enters negotiations with materially more substantial leverage than one whose internal footprint appears fragmented or opaque.

In Türkiye, transaction readiness manifests across three interconnected dimensions:

Data coherence: Do ERP records, e-Ledgers, VAT filings and payroll data collectively point to a stable operating model?

Structural clarity: Is the capital structure credible? Are intercompany positions disciplined? Does the incentive footprint make economic and regulatory sense?

Narrative consistency: Do functions, contracts, numbers and operational practices tell the same story?

When these layers align, value erosion is minimal, diligence is smoother, and SPA protections become proportionate. When they do not, the deal becomes less about discrete tax exposures and more about behavioural uncertainty—a factor that Türkiye’s predictive oversight amplifies rapidly.

16.2 Share Deal vs. Asset Deal Tax Dynamics in Türkiye

The choice between a share deal and an asset deal in Türkiye ultimately comes down to where risk sits, how value transfers and how institutions will read the business’s future economic footprint. Both structures can achieve similar commercial outcomes, but they interact with Türkiye’s tax system in fundamentally different ways. Those differences shape pricing, SPA protections, W&I structuring and post-closing integration far more than the headline tax rules might suggest.

Share Deals: Continuity and Full Historical Visibility

A share deal preserves the legal entity and all its associated rights and obligations. The company’s VAT rhythm, withholding trace, incentive history, intercompany flows, payroll patterns, e-Ledger data and ERP footprint remain unchanged. In Türkiye’s digital

tax environment, this means the buyer does not simply inherit a business—it inherits the full behavioural archive of that business.

For this reason, share deals require deeper diligence:

- Are VAT inputs and outputs consistent over time?
- o payroll and WHT patterns match the functional structure?
- Do intercompany charges align with the transfer-pricing narrative?
- Does the incentive profile reflect real operational behaviour?
- Does the ERP environment produce clean, coherent data?

If these signals align, continuity works to the buyer's advantage. If they do not, the buyer inherits systemic noise that Türkiye's predictive ecosystem will detect quickly.

Asset Deals: Clean Start, High Transactional Visibility

An asset deal offers a different architecture. The buyer purchases selected assets (or a business line) and leaves the legal entity and its history behind. This provides ring-fencing and reduces exposure to legacy risks. However, asset transactions in Türkiye trigger their own tax consequences and operational challenges:

VAT generally applies.

Incentives do not automatically follow the transferred assets and may be disrupted if the activity shifts outside the defined perimeter.

Contracts, licences and workflows may need to be rebuilt or migrated.

ERP, payroll and intercompany architecture must be created or transferred into a new entity.

The buyer gains a fresh fiscal identity but must also reconstruct the entire operational narrative around systems, contracts

and workforce. The risk is lower; the integration workload can be higher.

Seller Considerations

Sellers typically prefer share deals because they provide a clean exit and allow incentives to remain with the entity. Asset deals, by contrast, may disrupt incentives or leave the seller with a residual entity that no longer has a sustainable operational footprint.

Buyer Considerations

For buyers, the trade-off is between:

- continuity with inherited risk (share deal), versus
- clean slate with increased build-out requirements (asset deal).

A buyer facing a target with noisy data, legacy intercompany flows, inconsistent incentives or irregular VAT behaviour may lean toward an asset deal. A buyer who values operational continuity, licences, permits, workforce stability and embedded incentive structures often gravitates toward a share deal.

A Decision Shaped by Behaviour, Not Theory

In Türkiye, this choice is rarely theoretical. It depends on:

- the coherence of the target's data footprint,
- the practicality of transferring incentives,
- the level of integration friction the buyer is prepared to absorb.

The strongest deals arise when the structure matches the nature of the asset:

- continuity-heavy, licence-heavy, workforce-dependent businesses → share deals,
- legacy-heavy, inconsistent or structurally outdated businesses → asset deals.

The ultimate question is not which model is cleaner on paper, but which structure provides the most stable long-term operating platform within Türkiye's modern tax governance environment.

16.3 Tax-Neutral Mergers, Demergers and Share-for-Share Exchanges: The Strategic Architecture of KVK 19/20

Türkiye's tax-neutral reorganisation regime under Articles 19 and 20 of the Corporate Tax Law (KVK 19/20) forms the structural backbone of group restructuring, post-acquisition integration and pre-deal optimisation. The statutory language is concise, but its strategic capacity is significant: it enables companies to reshape their legal, operational, and capital architecture without triggering immediate taxation—provided that economic continuity and balance-sheet integrity are preserved.

At the core of the regime lies a simple but powerful principle: if a transaction does not create an economic exit, it should not give rise to a tax charge. This principle anchors three primary reorganisation tools—mergers, demergers and share-for-share exchanges—each serving different needs in the M&A lifecycle but governed by the same continuity-driven logic.

Tax-Neutral Mergers

In a merger, one company transfers all of its assets and liabilities to another, and the shareholders of the absorbed entity receive shares in the surviving entity. When the statutory conditions are met—including continuity of ownership and book-value transfer—the transaction is treated as tax-neutral. The absorbed company recognises no gain, and the surviving entity inherits tax attributes within defined limits.

For investors, tax-neutral mergers allow:

- post-acquisition consolidation,

- elimination of redundant legal entities,
- debt and capital structure realignment,
- operational streamlining,
- group-wide treasury, governance and TP integration.

Neutrality stabilises these steps by ensuring that integration does not trigger valuation-based taxation.

Tax-Neutral Demergers

Demergers allow a company to split its assets, liabilities or business lines into a new or existing entity. When executed under KVK 19/20, assets are transferred at book value, and the shareholders acquire shares in the receiving entity in proportion to their prior ownership.

Demergers in Türkiye are used to:

- separate business lines before a sale,
- isolate regulated or incentive-linked activities,
- create dedicated group platforms for carve-outs,
- support risk segregation and investment structuring.

As long as proportionality and book-value continuity are respected, neutrality holds—allowing a clean structural separation without taxation.

Share-for-Share Exchanges

Share swaps enable an entity to acquire another by issuing its own shares as consideration. Where statutory requirements are satisfied:

- No taxable gain arises for the transferring shareholders, and
- The acquiring entity recognises the incoming shares at book value.

This tool is particularly significant for foreign investors building Turkish holding structures, aligning group ownership, or integrating acquisitions without immediate cash leakage.

The Continuity Principle

The credibility of the KVK 19/20 regime rests on genuine continuity, which Türkiye interprets through substance-driven criteria:

- assets and liabilities must transfer at book value,
- shareholders must maintain proportional participation,
- The transaction must reflect a fundamental reorganisation, not a disguised sale.

If a reorganisation resembles a liquidation in economic substance—even where no formal liquidation is initiated—Türkiye may deny neutrality and treat the transfer as taxable. The regime, therefore, does not function as a concession; it is the fiscal expression of ongoing business continuity.

Strategic Impact Across the Deal Cycle

Tax-neutral reorganisations reduce friction in ways that materially influence the entire M&A lifecycle:

- integration becomes operationally smoother,
- cash remains internal rather than consumed by tax,
- incentive structures (free zones, R&D centres, investment certificates) remain intact,
- asset realignment becomes predictable and institutionally coherent.

For sophisticated investors, KVK 19/20 is less a compliance tool and more a structural enabler—a framework that allows them to redesign legal form while preserving economic substance.

16.4 Asset Transfers, Book-Value Continuity and the Operational Tax Logic of Turkish M&A

Asset transfers in Türkiye sit at the opposite end of the spectrum from share deals: they offer structural precision and legal isolation, but they do so within a transactional architecture where every movement of value becomes immediately visible across tax, regulatory and financial systems. Türkiye's institutional environment does not treat an asset sale as a mechanical reallocation of items on a balance sheet; it interprets it as a discrete economic event captured simultaneously through VAT channels, stamp-tax documentation, corporate-tax gain recognition, and the digital audit framework that interlinks tax authorities, banks, customs, and social-security institutions. In this setting, asset transfers are not low-definition transactions. They are high-resolution fiscal events, viewed through multiple institutional lenses the moment they occur.

At the core of Türkiye's approach is economic segmentation. Unless the transferred assets constitute a genuine "branch of activity," the system evaluates each component independently. Fixed assets may be subject to corporate tax on embedded gains, determined by comparing transfer values with tax bases, both of which are indexed for inflation under inflation accounting. Inventory is recognised at sales value. Intangibles, software rights, licences, customer relationships and operational capabilities each create their own valuation trails. This segmented methodology ensures that every economic element becomes legible to institutions from day one, rather than being absorbed behind the continuity of a legal entity.

Stamp tax adds a distinct evidentiary layer. Asset transfers must be documented, and these instruments typically fall within the scope of stamp duty unless drafted within an exemption framework. Although the tax itself may be modest, it anchors Türkiye's emphasis on documentation integrity. In practice,

legal drafting, valuation logic and transaction evidence must be coordinated from the outset to ensure that the stamp-tax footprint aligns with the transaction's economic narrative and institutional expectations.

Asset sales also intensify balance-sheet visibility. Turkish institutions—banks, auditors, incentives authorities, regulatory bodies—expect disposals to reflect commercial rationale and economic coherence. Valuation reports, reconciliations, ERP consistency, and accounting entries must present transactions that make sense within the broader operational story of the business. Where disposals lack economic clarity, the system interprets them as behavioural inconsistencies, triggering scrutiny not because of the transfer itself but because it disrupts the behavioural coherence on which Türkiye's supervisory environment relies.

From the investor's perspective, asset deals provide a clean entry: the buyer acquires the operational components it wants without inheriting legacy exposures. But this clarity carries operational responsibility. The buyer must reconstruct ERP architecture, payroll and SGK systems, VAT coding, contractual rights, licences, and incentive-linked workflows. The legal identity may be clean, but the operational identity must be built deliberately and quickly, because Türkiye's digital systems begin reading the new entity's behavioural signals immediately.

For sellers, the calculus differs. Share deals typically preserve incentives, allow a complete exit, and avoid leaving behind a non-viable residual entity. Asset deals, in contrast, may disrupt entitlements to incentives or remove economically essential components from the existing structure. This is why sellers often prefer share deals unless the asset perimeter has been strategically shaped in advance.

In Türkiye's M&A environment, asset transfers do not function as simplified alternatives to share deals. They function as high-

definition transactions—detailed, exposed and institutionally interpreted in real time. When designed coherently, this visibility becomes a strategic advantage, enabling precise integration and predictable supervisory interactions. When misaligned, it amplifies every inconsistency. Ultimately, asset deals are successful when the transaction narrative, the documentation trail and the resulting operational behaviour all point in the same direction—producing an institutional footprint that is economically credible, operationally stable and fully aligned with Türkiye’s modern tax-governance environment.

16.5 Funding Architecture: Debt Pushdown, Equity Infusion and the Institutional Logic of Cross-Border Financing

Financing an acquisition in Türkiye is never a purely capital-sourcing decision; it is a governance exercise interpreted through a digital ecosystem in which every fund movement becomes immediately visible. Türkiye’s interconnected compliance infrastructure—VAT systems, withholding platforms, bank reporting, e-Ledger trails and treasury monitoring—means that financing behaviour is not just observed; it is continuously evaluated. In this environment, the funding architecture becomes a structural expression of credibility, discipline and economic intent.

Debt pushdown is the most scrutinised element. Türkiye allows leverage to sit where economic risk genuinely resides, but the system tests this proposition through data, not documentation. Loan size must correspond to operational scale. Debt service must match cash-generation capacity. Interest patterns must reflect liquidity realities rather than end-of-year adjustments. If a routine-function entity carries entrepreneurial-level leverage, or if repayment behaviour contradicts the stated economics of the deal, the loan’s deductibility weakens regardless of how well it is

drafted. Thin-capitalisation rules, transfer-pricing expectations, and interest-limitation mechanisms converge here: they do not penalise leverage per se; they penalise leverage that contradicts the business's behavioural footprint.

Türkiye's interest-limitation rule—an EBITDA-like cap imposed through Presidential Decree—adds another structural constraint. In leveraged acquisitions, deductibility depends not only on pricing comparability but also on the ratio between financing costs and operational profitability. This shifts deal modelling from a purely legal calculation to a dynamic stress test of future cash cycles, integration plans and post-closing margin trajectories. Financing terms must therefore be engineered to withstand not merely statutory limits but predictive data interpretation.

Cross-border loans introduce a second layer of visibility. Outbound interest payments are screened simultaneously by banks, tax authorities and, where relevant, the Central Bank. These institutions do not examine loan contracts in isolation; they analyse whether treasury behaviour aligns with the capital structure, whether repayment discipline is credible and whether the funding pattern resembles real commercial leverage or a tax-driven construct. Loans with no plausible economic anchor—no proportionality, no operational rationale, no governance trail—trigger scrutiny even when priced at arm's length.

Equity infusion sends a different institutional message. Strong capitalisation enhances credibility with banks, supports regulatory interactions, and provides a behavioural anchor for the newly acquired entity. Equity lacks the deductibility advantage of debt, but it aligns cleanly with Türkiye's governance expectations: it stabilises liquidity, strengthens balance sheets, and signals long-term commitment. Türkiye's compliance ecosystem rewards this stability, interpreting robust equity as a marker of disciplined stewardship rather than a mere funding choice.

The most durable structures blend both instruments.

A balanced model—equity providing the stabilising base and debt optimising—aligns with Türkiye’s preference for proportionate leverage, transparent governance and predictable payment behaviour. Excessive debt density disrupts institutional symmetry; overly conservative capitalisation ignores optimisation opportunities. The system rewards equilibrium.

The monthly compliance rhythm amplifies these dynamics. Every interest payment, capital injection, intercompany transfer or treasury adjustment appears simultaneously across multiple datasets. Inconsistencies—such as cash flow timing that contradicts loan terms, interest accruals uncorrelated with liquidity patterns, or debt movements unsupported by board-level governance—are not treated as clerical issues. They are behavioural signals.

In this environment, the credibility of the funding architecture depends on three pillars:

- Leverage proportionality — Does the debt burden match the operational scale and economic purpose of the acquisition?
- Treasury discipline — Do repayments, accruals and liquidity patterns reflect a stable and internally coherent financial behaviour?
- Documented governance — Do board approvals, covenants, intercompany agreements and treasury protocols form a traceable decision-making chain?

When these pillars reinforce one another, deductibility becomes predictable, financing becomes institutionally credible, and the acquisition integrates smoothly into Türkiye’s supervisory landscape. When they diverge, even technically compliant financing structures lose stability, attracting scrutiny and reducing long-term tax efficiency.

In Türkiye’s modern M&A ecosystem, financing is not an afterthought.

It is the architectural language through which the transaction explains itself to the institutions that will observe it for years.

Debt and equity are therefore not merely balance-sheet tools—they are behavioural signals.

The most successful investors treat funding not as a tax variable but as a governance instrument, designing capital structures that are economically rational, operationally consistent and immediately legible within Türkiye's data-driven compliance environment.

16.6 SPA Structuring, Tax Allocation and W&I Insurance Behaviour in the Turkish Deal Environment

Share Purchase Agreements in Türkiye operate at the junction of legal drafting, tax visibility and institutional interpretation. In a jurisdiction where companies are evaluated through continuously updated digital records—VAT filings, withholding data, e-Ledgers, SGK traces, banking flows and ERP behaviour—the SPA is not merely a contractual instrument. It is the structural narrative through which the institutions will understand, evaluate and later supervise the transaction. The agreement must therefore align with Türkiye's approach to business, rather than solely with the parties' intended risk allocation.

Tax allocation sits at the core of this architecture. Türkiye's predictive environment means past exposures are rarely abstract. They express themselves in recurring patterns: VAT-ledger mismatches, inconsistent withholding behaviours, undocumented expenses, payroll irregularities, incentive misalignments and intercompany flows that lack a functional foundation. Buyers expect disclosures that mirror the target's actual data footprint, not generic representations that bear no resemblance to institutional signals. A disclosure that contradicts

e-Ledger reality holds no persuasive force. An indemnity that assumes a theoretical exposure, but ignores behavioural risk, provides limited value. In Türkiye, the SPA must map directly onto the company's factual patterns; otherwise, it produces a narrative that institutions cannot recognise.

Indemnities follow the same behavioural logic. Most meaningful tax exposures in Türkiye arise from conduct—irregular VAT patterns, payroll practices that do not match functional reality, transfer-pricing arrangements unsupported by substance, or incentive footprints inconsistent with staffing and activity. Accordingly, indemnity drafting must focus on how the company behaved, not merely how it filed. Türkiye's digital environment cross-checks filings against behaviour, meaning that indemnities referencing only statutory errors overlook the types of exposures that authorities actually detect.

W&I insurance amplifies these dynamics. Insurers underwriting Turkish transactions evaluate risks with the same behavioural lens as tax authorities:

- e-Ledger integrity
- VAT rhythm consistency
- payroll accuracy and SGK alignment
- intercompany coherence
- incentive eligibility behaviour
- cash-flow traceability

Coverage breadth depends less on how impressive the SPA looks and more on whether the underlying data tells a coherent economic story. A target with stable, predictable rhythms enjoys broader coverage and more attractive premiums. A target with fragmented data, inconsistent coding, unexplained anomalies or structurally weak transfer-pricing foundations triggers exclusions, reduced capacity or a complete lack of appetite. Underwriting becomes a form of behavioural audit, executed in parallel with the deal.

Türkiye's monthly compliance cadence equally shapes pricing mechanisms. Locked-box structures dominate the market because Türkiye's reporting rhythm makes value leakage detectable in real time. Completion accounts are feasible only when the target exhibits clean month-end processes, coherent ERP behaviour and disciplined reconciliations—conditions not universally present. Working-capital definitions must incorporate Türkiye-specific items such as VAT balances, incentive-linked receivables, intercompany settlements, and treasury flows, each of which serves not only as an accounting entry but also as a behavioural indicator.

MAC provisions also reflect local reality. Türkiye's macroeconomic environment renders broad MAC clauses commercially unrealistic; parties focus instead on narrowly defined, observable shocks. Market volatility is not treated as exceptional. Behavioural instability—irregular data, inconsistent ERP outputs, payroll misalignment or incentive fragility—carries far greater weight.

Institutional interpretation continues beyond signing. Banks, regulators and tax authorities often review SPAs during account onboarding, capital flows, shareholder registrations or transaction-driven notifications. An SPA aligned with Türkiye's data logic accelerates these processes; an SPA whose narrative contradicts institutional signals delays them. The institution does not rely on representations—it depends on behaviour.

Ultimately, SPA design in Türkiye is an exercise in narrative coherence. The agreement must reflect:

- the target's behavioural history, as observed through digital datasets;
- the buyer's intended operating model, including governance, functional allocation and treasury structure;
- the institutional logic, which interprets the company through recurring evidence, not contract language.

When these elements converge, the SPA becomes a stabilising

mechanism—reinforcing pricing logic, clarifying risk allocation and enabling smooth onboarding after closing. When they diverge, the transaction becomes fragile because the story in the SPA cannot be reconciled with the company's data.

In Türkiye's data-driven M&A ecosystem, an SPA does not merely allocate risk; it must explain the transaction in the same language the institutions use to understand it. That alignment is the determinant of whether a deal integrates cleanly—or becomes a long-term source of friction.

16.7 Post-Merger Integration: Data Behaviour, Institutional Visibility and the First Operational Convergence Cycle

Post-merger integration in Türkiye is not an internal housekeeping phase; it is the moment when the acquired company begins to produce signals that will help institutions understand the new ownership model. In a jurisdiction shaped by monthly VAT filings, e-Ledger data, payroll flows, SGK declarations, banking records and ERP outputs, integration becomes visible almost immediately. Türkiye does not wait for an audit to evaluate a newly acquired entity—it reads the integration through the behavioural rhythm of the first reporting cycles.

The first requirement is stabilising data behaviour. ERP mapping, invoice sequencing, stock-movement coding, VAT categorisation and cost-centre architecture must be recalibrated so the acquired entity speaks the same institutional language as the buyer. Legacy anomalies—erratic VAT periods, mismatched e-Ledger entries, payroll codes that contradict functional roles, or intercompany flows misaligned with operational substance—cannot simply be parked or deferred. Türkiye's cross-system data checks will surface these inconsistencies within weeks. Integration succeeds

only when filings reflect coherent workflows rather than cosmetic corrections.

The second dimension is aligning functional allocation and intercompany economics. Most acquired entities retain historical functional footprints that no longer align with the buyer's value-creation model. Legacy management-fee structures, outdated royalty arrangements, cost allocations unsupported by current functions or treasury flows disconnected from risk ownership undermine credibility in Türkiye's ecosystem. Authorities read substance through behaviour—where people work, where decisions are made, where risk is controlled, and how liquidity moves. Intercompany pricing must therefore be redesigned immediately and implemented operationally, not merely drafted.

Governance behaviour forms the third pillar. Signatory patterns, approval hierarchies, treasury protocols, delegated authorities and contract-execution rhythms must converge with the buyer's governance spine. Türkiye evaluates governance not through board minutes but through observable markers: who signs, who authorises, who approves payments, how invoices flow, and where management accountability sits. A mismatch between legal governance and behavioural governance signals institutional instability, triggering unnecessary friction in banking, tax and regulatory processes.

Workforce integration is equally visible. SGK filings, payroll categorisation, staffing-intensity patterns and cost allocations reveal whether the workforce structure genuinely supports the intended operating model. Transitions that are not reflected promptly in statutory filings create inconsistencies across datasets, weakening institutional perception and complicating future incentive continuity.

Incentivised entities amplify these pressures. Free zones, R&D centres, technology development zones and investment-certificate regimes rely on sustained behavioural alignment—

activity location, staffing continuity, export rhythm, and documentation patterns. Integration decisions that disrupt these conditions, even unintentionally, jeopardise incentives at the precise moment the buyer expects stability. Incentive continuity is not a legal exercise; it is a behavioural one.

Banks serve as immediate validators of integration quality. During onboarding, they test whether cash-flow behaviour, ownership logic, signatory alignment, and operational consistency align with the narrative presented in the SPA and post-closing documentation. Where the signals align, banking flows open smoothly; where they diverge, onboarding slows, and cash mobility becomes constrained. The bank's interpretation is often the earliest indicator of how other institutions will read the new structure.

Türkiye's compliance ecosystem ultimately rewards synchronisation. When VAT data, e-Ledgers, payroll flows, intercompany settlements, treasury movements and month-end reconciliations all point in a single direction, the transaction becomes institutionally "quiet"—predictable, credible, and low-friction. When the signals conflict, integration becomes not just operationally challenging but institutionally noisy, increasing visibility across supervisory systems.

In Türkiye, post-merger integration succeeds when the acquired entity stops behaving like the organisation it once was and begins acting like a coherent component of the buyer's architecture. The first twelve months create the behavioural archive that institutions rely on for years. Under Türkiye's data-driven paradigm, the real closing of a deal occurs only when the company's behaviour demonstrates that the acquisition has taken root.

16.8 Carve-Out Structuring, Perimeter Design and Tax Separation Logic

Carve-outs in Türkiye are not administrative asset extractions; they are structural separation exercises that must withstand a compliance ecosystem built on data coherence, behavioural credibility and cross-platform visibility. Because Türkiye interprets companies through monthly VAT cycles, payroll filings, SGK declarations, e-Ledgers, bank flows and ERP outputs, a carve-out succeeds only when the separated perimeter can function as a stand-alone economic entity from day one, with a fiscal identity that institutions can read clearly and consistently.

The first determinant is perimeter design. A carve-out drafted purely on paper rarely survives Türkiye's digital scrutiny. The perimeter must reflect the economic reality of the activity being separated: where value is created, how workflows operate, which teams deliver which functions, how procurement maps to production and how sales flows support the operating model. When assets are transferred without the teams that operate them, or when revenue streams are carved out without the corresponding cost base, the resulting entity produces immediate behavioural inconsistencies. Türkiye's systems—VAT/e-Invoice patterns, e-Ledger mapping, SGK data and cash-flow trails—surface these inconsistencies almost instantly.

Once the perimeter is defined, the second determinant is tax separation logic. Türkiye's ecosystem reads legacy data sincerely; historical footprints do not disappear simply because a contract says they do. Historical VAT behaviour, functional staffing intensity, intercompany flows, incentive-linked patterns, and treasury rhythms all become inherited signals for the new entity upon transfer. If the carve-out inherits these patterns without the underlying substance, the new entity appears artificially thin or operationally incoherent. Suppose the perimeter does not inherit these behaviours. In that case, the new entity must

build a credible, stand-alone identity from its very first reporting cycle—requiring immediate re-engineering of VAT cycles, intercompany arrangements, pricing logic, payroll mapping, and ERP architecture.

The third dimension is incentive continuity. Free-zone regimes, R&D centres, Teknopark structures and investment incentives attach to activity, location and behavioural consistency—not to share ownership. Carve-outs that disrupt staffing levels, alter workflows, shift physical locations or reassign project ownership may inadvertently terminate incentive eligibility. Leaving incentives behind in a residual entity, while extracting the teams or assets that actually generate the incentive-qualifying output, creates valuation asymmetry that both buyer and seller must recognise. Incentive migration is behavioural, operational and location-based; it cannot be engineered solely through legal drafting.

The fourth determinant is intercompany disentanglement. Legacy charges—management fees, royalty arrangements, cost-sharing frameworks, loans, cash-pooling structures and group functions—rarely fit the new perimeter without redesign. Reproducing historical flows without functional justification signals incoherence; eliminating them overnight without transitional architecture signals instability. Türkiye's predictive systems interpret both scenarios as behavioural risk. A carve-out must therefore build an intercompany architecture that reflects the business's new functional map while still producing consistent patterns across treasury, invoicing, pricing, and documentation.

The final and often underestimated dimension is data migration. ERP configuration, e-Ledger continuity, invoice coding, cost-centre logic, historical adjustments and exception-handling templates must transfer cleanly. Türkiye's digital infrastructure does not treat system misalignment as clerical noise; it interprets miscodings, gaps, disruptions or fragmented data as structural anomalies. A carve-out that launches with misaligned VAT coding,

mismatched ledgers or incomplete data mapping enters the supervisory ecosystem with an immediate risk profile—regardless of how polished the legal perimeter may appear.

In Türkiye, a successful carve-out is not defined by how neatly assets are transferred, but by whether the resulting entity behaves like a coherent, operationally credible, institutionally stable business from its first VAT return, first payroll cycle and first e-Ledger close. When perimeter design, incentive logic, intercompany flows, workforce structure and data architecture align, the carve-out transitions cleanly into its new identity. When they do not, separation becomes a prolonged tax-visibility challenge—an issue not of form, but of behaviour.

16.9 Tax Structuring for SPA, Pricing Adjustments and Value-Protection Mechanisms

In Türkiye, the Share Purchase Agreement serves not only as a legal framework but also as the economic and behavioural blueprint for allocating tax risk, protecting value, and setting the conditions for post-closing integration. Because Türkiye's compliance ecosystem evaluates companies through monthly filings, data-driven supervisory signals and incentive-linked behaviour, SPA drafting must reflect institutional realities—not just contractual clauses. Tax structuring becomes an architecture of alignment: the SPA must anticipate how the company behaves, how the institutional system interprets that behaviour and how post-closing signals will be read.

The first source of structural tension arises from the gap between the target's historical behaviour and the buyer's intended operating model. A company with irregular VAT cycles, withholding patterns that do not match its functional footprint or legacy intercompany flows lacking economic rationale creates pricing uncertainty that no representation can thoroughly neutralise. Türkiye's predictive

audit logic makes these inconsistencies visible regardless of contract wording. Accordingly, SPA design must calibrate warranties, disclosures and indemnities around behavioural risk—not merely around technically identifiable exposures.

Working-capital adjustments are central to Turkish SPA negotiations because they stabilise enterprise value by ensuring that short-term fiscal positions—VAT receivables, incentive-related balances, intercompany settlements and treasury movements—do not distort pricing. In Türkiye, these accounts are not just accounting entries; they are behavioural indicators. VAT balances reflect input-output consistency, incentive-linked receivables reflect activity alignment, intercompany positions reflect transfer-pricing discipline, and treasury flows reflect liquidity governance. SPA definitions of working capital, net debt and locked-box protections must be drafted with these behavioural considerations in mind. When they reflect the Turkish institutional logic, value is preserved. When they do not, asymmetry enters the deal.

Value protection depends equally on the credibility and design of the indemnity framework. In Türkiye, indemnities must reflect both historical tax liabilities and the behavioural footprint that may influence future assessments. A target with inconsistent VAT documentation, erratic withholding logic, weak transfer pricing substance, or fragile incentive eligibility carries exposure that extends far beyond past filings. Caps, survival periods, limitation mechanisms and dispute-resolution clauses must therefore reflect how the administration will interpret the target's post-closing behaviour—not merely what diligence teams document pre-closing.

W&I insurance reinforces this behavioural framework. Insurers underwriting Turkish transactions rely on a data-driven lens similar to that used by tax authorities and banks. Stable VAT patterns, consistent payroll coding, disciplined e-Ledger logic, predictable intercompany settlements and a coherent ERP

structure broaden coverage, reduce carve-outs and stabilise premiums. By contrast, fragmented data, inconsistent filings or unexplained anomalies narrow the scope and elevate exclusions, sometimes making tax lines uninsurable. In Türkiye, underwriting functions as a behavioural audit: coverage is granted not on the complexity of tax law but on the coherence of underlying signals.

International deal mechanics—escrow structures, earn-out formulas, holdback arrangements, locked-box versus completion-account methodologies—play an outsized role in protecting value. Locked-box structures are widely preferred because Türkiye’s monthly compliance rhythm makes value leakage observable in real time. Completion accounts remain viable but require exceptionally disciplined month-end controls and a clean ERP environment—conditions that weaker targets often cannot meet. Market practice gravitates toward mechanisms that align with institutional data rather than those that rely solely on contractual theory.

MAC clauses follow the same logic. Türkiye’s macroeconomic environment is dynamic; broad or market-based MAC provisions are commercially unrealistic. Parties focus on narrow, observable, data-verifiable triggers. The SPA must avoid wording that treats normal Turkish economic volatility as a deal-breaker.

Post-signing, SPA coherence becomes externally visible as institutions—banks, regulators and tax authorities—examine SPAs during onboarding, capital transfers, shareholder notifications and incentive confirmations. When SPA drafting aligns with Türkiye’s institutional logic, these processes move smoothly. When the SPA contradicts observable data—such as stating functions that are inconsistent with payroll filings or asserting pricing models that have not yet been implemented—the institutional ecosystem disregards the contract and relies on factual patterns.

Ultimately, SPA tax structuring in Türkiye is defined by architectural alignment. The SPA must reflect:

- the target's historical behavioural footprint,
- the buyer's intended post-closing operating model, and
- the supervisory logic through which Türkiye reads companies.

When these three layers reinforce one another, pricing stabilises, risk allocation becomes credible, and the transaction transitions smoothly into the integration phase. When they diverge—even with technically accurate drafting—the SPA becomes structurally fragile, because the narrative it presents does not match the signals the system will later observe.

In Türkiye's modern environment, an SPA protects value not by the density of its clauses but by the coherence between legal structure, economic reality and institutional behaviour.

16.10 Post-Closing Tax Integration, Behaviour Reset and the First 12-Month Operating Blueprint

Post-closing integration in Türkiye is not an administrative continuation of the deal; it is the phase in which the buyer must re-engineer the acquired company's tax behaviour, governance rhythm and operational identity within an ecosystem that reads businesses through recurring digital signals. Türkiye's compliance environment interprets VAT chains, withholding traces, payroll filings, e-Ledger coherence, treasury movements and intercompany flows in real time. As a result, the integration footprint becomes visible—and judged—starting with the first month. PMI in Türkiye is therefore not a procedural task; it is a behavioural transformation.

The priority is stabilising data behaviour. ERP mapping, invoice coding, stock-movement logic, payroll cycles, and withholding-

tax routines must be aligned with the buyer's operating model before legacy inconsistencies begin generating risk alerts. Historical irregularities—erratic VAT deductions, incomplete documentation, mismatched ledger entries, or structurally inconsistent intercompany behaviour—cannot be masked through formal filings; Türkiye's predictive systems detect incoherence at the data-trail level. The correction must occur at the workflow layer. A filing that is technically accurate but behaviourally inconsistent will not withstand scrutiny.

The second requirement is redesigning functional allocation and intercompany architecture. Most acquired companies carry historical patterns—legacy management-fee structures, outdated cost-allocation models, treasury arrangements no longer aligned with risk profiles, or royalty models unsupported by functional substance. These cannot simply be rolled forward under new ownership. Türkiye's systems verify substance through activity, not through policy documents. If the target's staffing intensity, reporting hierarchy, cost structure or transactional flows contradict the declared post-closing transfer-pricing narrative, institutions read the mismatch as structural instability. Functional allocation must therefore reflect actual behaviour, not just contractual language.

A third dimension is governance discipline. Türkiye does not evaluate governance by reference to organisational charts; it evaluates governance through signals—board-approval trails, signatory authority, invoice sequencing, treasury routines, payment calendars and the texture of month-end closings. An entity that adopts the buyer's formal policies but continues to behave like its legacy self—in cash timing, ERP use, managerial responsibilities or contract approval workflows—will present a contradictory institutional profile. Governance adoption must be behavioural, not cosmetic.

Incentive continuity introduces another strategic layer. Free zones, R&D centres, technology-development zones and investment-

incentive regimes attach to economic activity, staffing, documentation and location—not to ownership. If integration disrupts any of these elements, the incentive position weakens even when formal requirements are ostensibly met. Reassigning teams, migrating functions, altering operational workflows or adjusting procurement and sales patterns may trigger scrutiny unless aligned with incentive logic. Incentives survive only when the underlying economic behaviour stays coherent.

Behavioural continuity is the final determinant. Predictive systems reward companies that exhibit stable, internally consistent patterns:

- VAT cycles that match supply-chain behaviour,
- payroll and SGK filings that reflect functional allocation,
- intercompany settlements that follow disciplined calendars,
- documentation that matches transaction logic,
- and month-end routines that produce clean e-Ledger outputs.

When these signals converge, the integration process becomes institutionally “invisible.” When they diverge—delayed postings, inconsistent coding, liquidity spikes, or misaligned flows—the system identifies risk long before an audit.

In Türkiye, PMI success is defined by synchronisation. Legal completion, operational transition, financial alignment and tax behaviour must converge into a unified institutional footprint. The objective is to create a behavioural narrative in which the acquired company ceases to operate as a legacy organisation and begins functioning as a coherent component of the buyer’s architecture. This transformation—not the signature date—is what truly completes the deal.

Under Türkiye’s modern compliance paradigm, the real closing of an M&A transaction does not occur at signing. It appears in the months that follow, when the company proves—through its

data, behaviour and governance—that it is aligned with its new institutional ecosystem.

16.11 Exit Architecture: Divestment, Cross-Border Reorganisation and Post-Deal Structural Realignment

Exit is not the end of an investment cycle; it is the point at which a group's entire cross-border operating structure is re-evaluated and, where necessary, re-engineered. Whether executed through a share sale, an asset sale, a partial divestment or a complex reorganisation, Türkiye interprets exit events through a behavioural and evidence-driven lens. The key question for institutions is not “how the disposal was drafted” but “how the group will function after closing.” Exit, in this environment, becomes an architectural decision.

A foundational distinction lies between share exits and asset exits, as the two interact with Türkiye's tax and regulatory systems in fundamentally different ways. Share deals engage the participation exemption, treaty-reduced withholding outcomes and beneficial-ownership tests. They focus on whether the seller is entitled to relief and whether the buyer inherits a coherent economic footprint. Asset exits, by contrast, trigger VAT, possible recapture of incentives, stamp-duty considerations and recognition of embedded gains—particularly when inflation-adjusted tax bases apply. Choosing the correct route shapes price, cash-flow timing, diligence intensity and the long-term governance perimeter of the structure.

Exits involving offshore share transfers add a further analytical layer. While Türkiye does not maintain a dedicated indirect transfer regime, authorities evaluate whether the offshore transaction effectively shifts Turkish-source value when the foreign entity derives its value predominantly from Turkish assets or operations.

This behavioural assessment becomes particularly relevant when the offshore seller is closely connected to a Turkish operating entity or when the Turkish businesses form the core contributors to the value of the foreign holding. In such cases, institutions may look through the offshore entity to assess whether the transaction effectively represents a disposal of Turkish assets.

Incentive regimes impose additional constraints. Companies benefiting from Technology Development Zone incentives, free-zone regimes, R&D-centre status, or Investment Incentive Certificates face recapture risk if their qualifying activity is discontinued or migrated. A post-exit change in functional intensity, location, project continuity or staffing allocation may trigger clawback provisions, loss of customs exemptions or the reassessment of VAT suspensions. An exit strategy must therefore incorporate incentive-continuity mapping: which incentives remain, which expire, and which require post-deal operational commitments to stay intact.

Following an exit, many multinational groups undertake upstream or cross-border reorganisations. Türkiye does not recognise corporate migrations or redomiciliation; a foreign entity cannot “move” into or out of Türkiye as a matter of law. Groups must therefore restructure through alternative mechanisms: establishing new holding companies, transferring shares into new layers, liquidating outdated vehicles, or reorganising by contribution-in-kind. At the same time, authorities evaluate these steps through the behavioural continuity standards that govern KVK 19–20. Only reorganisations that preserve proportional ownership, functional integrity, and balance-sheet continuity qualify for tax neutrality. Transactions that resemble economic disposals—even if formally structured as reorganisations—fall outside the neutrality regime.

The behavioural dimension extends to the place of effective management (POEM). A foreign holding company formed as part of an exit strategy may be treated as a Turkish-resident company

if decision-making, board oversight, or strategic control remains in Türkiye. Board meetings held in Türkiye, signature authority exercised from Türkiye, or decision papers prepared by Turkish-based executives can collectively signal substantive control. POEM findings override formal residence claims, exposing the foreign vehicle to full Turkish taxation and potentially resetting the group's global tax architecture.

Intangibles and functional migration add further sensitivity. The outbound transfer of IP, know-how, algorithms, data clusters, customer lists or strategic functions—even without an explicit sale—can create a deemed-value-shift scenario. Türkiye evaluates these movements through transfer-pricing principles, disguised profit-distribution rules and substance doctrines. Where future economic benefits move offshore, authorities may assert that a taxable event has occurred. Similar issues arise when key decision-making functions or senior-management capabilities relocate abroad: value creation follows the functions, and value creation drives tax attribution.

Private wealth structures and family-office arrangements introduce additional considerations. For Turkish-resident individuals, outbound restructurings involving foreign holding companies, trusts or foundations may affect participation-exemption eligibility, step-up opportunities and the classification of passive-income flows. Where individuals exert control or retain economic benefit, Türkiye may apply domestic rules to tax underlying income—even if the structure lacks legal personality under foreign law. Distributions or transfers into such vehicles may be analysed under disguised profit-shifting doctrines or assessed as contributions to controlled foreign entity-like arrangements.

Capital-flow sequencing becomes strategically decisive. Repatriating proceeds from an exit requires navigating withholding tax rules, treaty standards, beneficial ownership tests, and banking compliance requirements. Incorrect ordering

can create unnecessary leakage or trap cash in intermediate jurisdictions. Institutions evaluate not only formal entitlements but also whether the flow of funds aligns with the group's functional and governance logic—cash must move in a way that matches the group's post-exit value chain.

A post-exit operating model also requires a complete transfer-pricing reset. DEMPE analyses must be recalibrated to reflect new functional profiles. Intercompany agreements must be refreshed or replaced. Benchmark studies must be updated to ensure that the revised value chain is economically coherent. Without realignment, historical TP models may become structurally inconsistent with the group's new reality, producing controversy long after the deal closes.

Legacy intercompany arrangements—service agreements, licences, guarantees, financing arrangements, cost-sharing mechanisms—must also be re-engineered. After an exit, these agreements frequently misalign with the group's new risk distribution and operational footprint. If not redesigned, they create tension across jurisdictions and introduce avoidable areas of scrutiny. Türkiye expects the post-exit structure to reflect actual economic behaviour in its intercompany architecture.

A coherent exit architecture, therefore, integrates four dimensions:

- the tax and economic divergence between share and asset routes,
- the constraints created by Türkiye's non-recognition of migration and strict reorganisation standards,
- the sequencing of capital flows and treaty-consistent repatriation,
- and the alignment of post-deal governance, value chains and intercompany logic with the group's new structure.

In Türkiye's evidence-based environment, exit is not a discrete event. It is the first chapter of the following structure. Whether the post-deal organisation is stable, tax-efficient, and institutionally

credible depends on how well its behaviour aligns with the new architecture's logic.

16.12 Capital Impairment, Corporate Recovery Measures and Institutional Expectations

Capital impairment in Türkiye functions not merely as a statutory test but as an institutional signal—an indicator of a company's governance discipline, financial resilience and the credibility of its decision-making framework. When accumulated losses erode a company's paid-in capital by one-half or two-thirds, the Turkish Commercial Code obliges the board to confront the erosion transparently, evaluate recovery paths and adopt corrective measures. The regime is not punitive; it is a behavioural framework designed to ensure that companies facing financial stress address it with clarity, accountability and structured remediation.

Under TCC Article 376, the board must take one of several formal actions depending on the level of impairment: capital injection, debt-equity conversion, subordination of shareholder loans, operational restructuring, asset rationalisation or—where unavoidable—plans for liquidation. Each measure sends its own institutional message. A timely capital injection demonstrates shareholder commitment and strengthens the company's standing with banks and regulators. Subordination of shareholder loans signals an intention to support creditors. Operational restructuring communicates that management is addressing root causes rather than symptoms. Inaction, by contrast, is interpreted not as caution but as instability.

Türkiye's institutional ecosystem detects impairment quickly because multiple channels read the company's balance sheet simultaneously. Tax filings, SGK declarations, financial-statement submissions, e-Ledger patterns and bank monitoring

systems collectively reveal erosion long before a formal board announcement. When a board acts promptly—initiating capital repair steps, renegotiating bank facilities, tightening operational controls or mapping a structured recovery plan—the company maintains institutional trust. When action is delayed or cosmetic, visibility increases and external stakeholders tighten their posture.

In the M&A environment, capital impairment carries disproportionate strategic weight. It influences valuation, not because losses reduce enterprise value arithmetically, but because impairment disrupts the narrative coherence that investors rely on. A company with impaired capital raises questions about financial governance, liquidity management, risk oversight and the quality of strategic decision-making. Buyers examine whether impairment is due to cyclical volatility, one-off shocks, structural deterioration, or governance lapses. Each root cause demands a different deal architecture. Pre-closing remediation may be required to reset the company's institutional profile; post-closing integration may need to prioritise governance stabilisation, treasury redesign or capital structure optimisation.

Impairment also affects transaction timing and structuring. Where capital erosion is severe, banks may restrict lending, auditors may heighten the emphasis of their emphasis-of-matter notes, and regulatory bodies may scrutinise continuity assumptions more closely. A deal involving an impaired company must therefore incorporate capital-repair sequencing into its transactional roadmap. Whether capital injection occurs pre-closing, is built into the SPA as a condition precedent, or is executed post-closing as part of a broader integration plan. The sequencing affects cash-flow modelling, risk allocation, valuation adjustments and sometimes even the feasibility of incentive continuity.

For regulators, impairment behaviour is a proxy for governance capacity. Companies that address impairment with structured plans, transparent reporting and operational discipline maintain institutional credibility—and, with it, smoother regulatory

interaction. Companies that neglect impairment signals find themselves in a higher-visibility profile, with consequences ranging from increased audit attention to tighter banking controls and constrained credit access.

Türkiye's capital-maintenance regime, therefore, operates as a behavioural stabiliser. It embeds transparency, accountability and financial discipline into a company's institutional footprint, ensuring that stresses are handled with governance integrity rather than deferral. When impairment triggers a strategic response—recapitalisation, operational redesign, balance-sheet repair or structural optimisation—the company emerges with stronger institutional standing. When treated as a procedural formality, impairment becomes a compounding risk, influencing valuation, financing capacity and the broader transaction environment.

In this sense, capital impairment in Türkiye is not merely a balance-sheet event. It is a test of whether a company's governance framework and shareholder base can respond coherently to stress in a system that rewards behavioural clarity.

16.13 Closing Perspective: Strategic Coherence as the Essence of M&A in Türkiye

M&A activity in Türkiye ultimately rewards investors who approach transactions not as isolated events but as integrated systems—systems in which legal structuring, tax architecture, operational behaviour, financing logic and institutional perception converge into a single, coherent narrative. A transaction does not truly begin with valuation models, nor does it end at signing. It unfolds across a continuum where each decision, from pre-deal preparation to post-closing integration, leaves a trace in Türkiye's data-driven compliance environment.

Because Türkiye operates on a monthly visibility cycle—capturing

VAT patterns, payroll rhythms, e-Ledger structures, intercompany movements, treasury behaviour and incentive-linked activity—every phase of the M&A lifecycle becomes part of the deal's institutional footprint. Perimeter design, carve-out logic, incentive continuity, SPA drafting, tax allocation, W&I coverage, onboarding, governance resets and the behavioural patterns of the first twelve months all become observable signals. Türkiye's digital ecosystem interprets these signals not as administrative noise but as indicators of credibility, stability and economic substance.

Success in this environment depends on strategic coherence. When capital structure, tax design, functional allocation, governance discipline and integration planning reinforce one another, institutional traction emerges naturally. Transactions integrate more smoothly, risk allocation becomes more predictable, financing interactions become more efficient and regulatory processes proceed with fewer interruptions. The system rewards deals that produce consistent signals across time, data channels and behavioural patterns.

The opposite is equally valid. When legal form, operational behaviour and data traces diverge—when a structure points in one direction, but monthly filings point in another—the transaction becomes fragile. Misalignment is not an abstract risk; it becomes visible, measurable and ultimately determinative. Türkiye's institutions respond not to intention but to behaviour. A mismatch between contractual design and the company's operational reality triggers supervisory friction, affects cash flow visibility, undermines incentive profiles, and complicates integration.

For this reason, M&A in Türkiye is not simply the reallocation of ownership. It is the orchestration of signals across legal, financial, operational and governance dimensions. The transactions that endure—those that integrate cleanly, retain value and maintain

institutional credibility—are those that present a coherent economic narrative across the entire investment lifecycle.

When this coherence is achieved, the result is more than regulatory certainty. It generates organisational momentum, strengthens creditworthiness, stabilises tax outcomes and positions the combined business as a structurally credible participant in Türkiye's modern economy. In a market where behavioural clarity is a strategic asset, coherence is not merely an advantage—it is the essence of successful M&A.

As the lifecycle of an M&A transaction in Türkiye converges toward operational stability, a new dimension of strategic visibility emerges: how the combined entity will be interpreted, challenged or validated within Türkiye's judicial and administrative landscape. The behavioural architecture established during pre-deal structuring and post-closing integration serves as the foundation for assessing disputes, conducting audits, and shaping institutional interpretations.

In this sense, every transaction ultimately enters a second governance arena—one where documentation, data coherence, functional attribution and monthly compliance traces evolve from deal-execution tools into evidentiary assets. Türkiye's courts, tax administration and supervisory bodies read companies through the same behavioural signals that shaped the transaction itself; the difference is that, in Chapter 17, these signals determine not deal value, but legal resilience.

Where Chapter 16 explains how transactions are designed, executed and absorbed into the institutional ecosystem, Chapter 17 examines what happens when that ecosystem tests the transaction. Litigation strategy, audit behaviour, evidentiary standards and dispute-resolution mechanisms become extensions of the same coherence logic that governs deal success.

In Türkiye, the ability to sustain a transaction does not depend solely on technical correctness. It depends on whether the economic narrative, functional structure, governance rhythm and compliance behaviour form a story that withstands institutional scrutiny. Chapter 17, therefore, shifts the lens from transaction architecture to dispute architecture—the environment in which coherence is defended, challenged and ultimately adjudicated.

CHAPTER 17

TAX RISK MANAGEMENT, DISPUTE STRATEGY AND LITIGATION BEHAVIOUR IN TÜRKİYE

Tax risk management and litigation in Türkiye function as a behavioural stress test of the organisation's entire architecture—governance, data, documentation and economic substance are evaluated as a single, continuous signal rather than as isolated events.

“In Türkiye, a tax dispute is not a contest of footnotes—it is a verdict on whether your behaviour, systems and story truly match.”

Tax disputes in Türkiye test the coherence of a company's narrative—documentation, behaviour and economic substance must converge into a unified story.

Tax risk in Türkiye is no longer defined solely by technical interpretations of legislation; it is increasingly shaped by behavioural visibility, data coherence and the institutional signals companies generate across their operating footprint. As the tax administration accelerates digital monitoring, anomaly detection and pattern-based audit selection, the line between compliance and controversy now reflects how consistently an organisation behaves—not simply how thoroughly it discloses.

Litigation, in turn, is not an isolated battleground but part of a broader ecosystem of behavioural expectations, negotiation

dynamics and institutional memory that shapes future interactions as much as present disputes. In Türkiye's modern environment, companies no longer mitigate risk by reacting to findings—they reduce risk by shaping the signals they emit.

Chapter 17 frames tax risk, disputes and litigation not as operational interruptions but as the ultimate test of whether a company's architecture and behaviour genuinely align with the standards of a digital, data-driven regulatory order.

17.1 The Anatomy of a Tax Audit: Behaviour, Triggers and Digital Selection Logic

Tax audits in Türkiye are no longer driven by random sampling or traditional red-flag lists; they are now based on behavioural inconsistencies detected by the administration's digital infrastructure. The system reads filings, e-Ledgers, cash-flow signals and intercompany patterns as parts of a single behavioural narrative. In this environment, an audit begins not with a notice but with a signal—a data point that disrupts the company's usual rhythm. Understanding this logic is essential for managing both visibility and expectation.

The starting point is the administration's interpretation of economic behaviour. Türkiye's digital systems follow how a company "moves" over time: the cadence of its VAT cycles, the proportionality between payroll and revenue, the coherence of input–output flows, the stability of withholding patterns and the alignment of intercompany charges with functional substance. When these elements reinforce each other, the company appears low-risk. When they diverge—even slightly—predictive visibility increases long before a formal audit is launched.

Audit triggers in Türkiye typically arise from pattern breaks rather than isolated events. A sudden shift in VAT payables while turnover remains stable; an unexpected accumulation of

refund balances; an intercompany fee inconsistent with staffing intensity; or management and royalty payments made from an incentivised entity—all of these are evaluated not as stand-alone anomalies but as signs of behavioural misalignment. The system is not judging legality; it is testing whether behaviour and declarations point in the same direction. Türkiye also applies structured pre-assessment procedures, such as İzaha Davet, which allows taxpayers to clarify predefined inconsistencies before a formal audit begins.

Sectoral logic adds another layer of interpretation. Each industry has a natural operating rhythm: manufacturing displays specific input ratios; software companies follow predictable cost profiles; wholesale trading shows distinctive margin structures. When a company's behaviour departs from the expected pattern in its sector without a credible explanation, its predictive score increases accordingly. Türkiye does not penalise operational uniqueness, but it expects uniqueness to be economically justified. Sectoral rhythm operates as a baseline expectation rather than a rigid benchmark.

Türkiye's digital audit ecosystem also includes e-Yoklama, e-Tebliğat and pre-audit document-request lists (e-Denetime Hazırlık), which enable the administration to review key records electronically before initiating a full audit.

Once an audit is opened, the administration evaluates the company across three interlocking layers:

- Numeric layer: declared amounts, reconciliations, adjustments
- Structural layer: functions, risk allocation, incentive footprint, intercompany logic
- Behavioural layer: workflow discipline, documentation habits, approval patterns, data quality, operational rhythm

The behavioural layer increasingly shapes the interpretation of the other two, because it provides the narrative context through which

all data is understood. As Türkiye's audit infrastructure interprets numbers through behaviour, the behavioural layer becomes the lens through which all other findings are ultimately filtered.

In Türkiye's modern environment, disputes rarely arise solely from the statute; they occur when the administration believes the company's behaviour does not support its declared position. An audit, therefore, is not only an examination of numbers—it is an assessment of how the company thinks, acts, documents and explains itself.

Companies that understand this anatomy manage risk not by hiding exposure, but by shaping their signals. When filings, data patterns, operations and governance align, audits become predictable. When they diverge—even subtly—technically compliant positions may still become vulnerable.

17.2 Managing Tax Controversy: Negotiation Dynamics, Institutional Expectations and Settlement Strategy

Tax controversy in Türkiye operates through a blend of legal interpretation and institutional behaviour. Disputes seldom arise as purely theoretical disagreements over statutory wording; they are shaped by how the tax administration reads a company's conduct, the consistency of its historical data patterns and the credibility of its economic narrative when challenged. Managing controversy is therefore not a reactive defence exercise but a strategic process built on coherence, transparency and disciplined preparation. Türkiye offers two structured settlement routes—*tarhiyat öncesi uzlaşma* (pre-assessment settlement) and *tarhiyat sonrası uzlaşma* (post-assessment settlement)—each functioning within strict procedural timelines.

The trajectory of any dispute is influenced first by the company's behavioural posture at the moment the issue emerges. When

filings, e-Ledger records, intercompany flows and payroll data exhibit stability and internal logic, the administration approaches the matter with greater openness. When the behavioural record signals volatility—irregular VAT cycles, unexplained reversals, weak documentation, disproportionate margins or incentive misuse—the negotiation begins from a position of institutional caution. In Türkiye, credibility is not asserted verbally; it is demonstrated through the behavioural footprint the company has already produced.

Narrative discipline is the cornerstone of effective controversy management. Arguments gain traction not because they are technically sophisticated, but because they align with how the company actually operates. A defence based on abstract legal reasoning, unsupported by functional reality, internal policy or data continuity, weakens the taxpayer's position. Conversely, when a company presents a coherent explanation that connects its functions, risks, assets and workflows into a consistent economic rationale, the administration's resistance softens. Türkiye's dispute-resolution culture responds to coherence—not volume, not rhetoric.

Settlement mechanisms—whether reconciliation sessions, penalty-reduction procedures or negotiated assessments—function most effectively when the company demonstrates operational transparency. The administration does not expect flawless compliance; it expects predictable behaviour. A taxpayer that presents disciplined governance, repeatable decision-making processes and well-documented tax-sensitive activities expands the scope for constructive settlement. In this context, settlement is not treated as a concession by the administration but as recognition that the company's overall behaviour aligns with institutional expectations, even where specific items are disputed.

Penalty-relief mechanisms reinforce this behavioural logic. Under VUK Article 376, taxpayers who waive litigation may obtain substantial reductions in assessed penalties. Timely payment may

also trigger additional statutory reductions. These mechanisms operate as behavioural incentives: taxpayers who demonstrate good-faith alignment with institutional processes gain materially more favourable outcomes.

Timing is equally decisive. Companies that engage early and maintain complete, internally consistent records retain control over the narrative. Those who delay, submit fragmented information, or shift explanations cede interpretive momentum to the administration. In Türkiye, disputes are not resolved through surprise—they stabilise through early clarity.

Cross-border groups must also maintain narrative alignment between Türkiye and the headquarters. Inconsistencies between local explanations and global policies signal structural incoherence and reduce the credibility of the position presented in negotiations. The administration responds far more favourably when intercompany agreements, group transfer-pricing documentation, and international tax policy reinforce the narrative presented locally, and when harmonised messaging signals discipline—one of the most valuable assets in controversy management.

Even when a dispute progresses toward litigation, behavioural credibility remains central. Courts evaluate the dispute through the lens of economic substance, functional alignment and documentation integrity. A company that has operated transparently, maintained coherent internal policies, and treated tax governance as part of its operational infrastructure enters litigation from a position of strength.

Ultimately, managing tax controversy in Türkiye is about shaping the environment in which the dispute unfolds. Companies that display coherent behaviour, credible governance and a clear economic narrative experience more predictable outcomes, smoother negotiations and more durable settlements. Those who rely solely on technical arguments without behavioural alignment

face prolonged uncertainty, regardless of the statutory merits of their case.

A strong controversy strategy is, in essence, the continuation of a strong compliance strategy. In Türkiye's data-driven regulatory ecosystem, the two are inseparable.

17.3 Litigation Behaviour, Court Dynamics and the Judicial Interpretation of Substance in Türkiye

Litigation in Türkiye is not merely the final phase of a tax dispute—it is the moment when the taxpayer's entire behavioural history is tested under judicial scrutiny. Courts do not evaluate disputes in isolation; they read them through the operational, financial and documentary patterns the company has produced over time. In this setting, technical interpretation matters, but behavioural credibility often determines the persuasive force of the taxpayer's narrative.

Türkiye's judicial pathway follows a three-tier structure:

- Tax courts (first instance),
- Regional administrative courts (istinaf, second tier),
- Danıştay (Council of State, final review authority).

Among these, Danıştay jurisprudence remains the decisive anchor, shaping the substantive doctrine applied across audits, settlements and lower-court decisions. The tax authority increasingly calibrates its audit stance and interpretive logic to align with Danıştay's principles on recharacterisation, deductibility, disguised profit distribution, beneficial ownership and permanent establishment assessments.

The modern judiciary prioritises economic substance, but substance is not interpreted abstractly through OECD terminology; it is examined through concrete operational evidence. Judges ask

whether the company has behaved consistently with the position it asserts:

- Do intercompany payments reflect real contributions?
- Do incentives align with actual activity?
- Does the organisational rhythm match the functional model claimed?

Where behaviour diverges from narrative, judicial scepticism intensifies—regardless of how sophisticated the legal argument may appear.

Consistency across systems is central.

If a taxpayer characterises itself as a limited-risk distributor, yet displays entrepreneurial margins or inventory exposure, the inconsistency weakens the entire defence. Likewise, when a company claims to provide only routine services, but its payroll data reveals significant R&D or strategic capabilities, courts focus on the behavioural truth rather than contractual labels. Litigation becomes a test of alignment between filings, workflows, governance signals and economic reality.

Documentation retains weight only when it reflects real activity.

Contemporaneous records—ERP extracts, transfer-pricing files, expense documentation, incentive paperwork, board approvals, intercompany agreements—carry persuasive value because they trace behaviour over time. Documents created retroactively or explicitly crafted for litigation lack credibility. Turkish courts resolve tax disputes by applying established principles, not post hoc reconstructions.

Institutional credibility plays an understated but powerful role.

Taxpayers who demonstrate stable behaviour, transparent cooperation during audits and coherent internal policies enter litigation with a reputational advantage. Their conduct signals discipline and good faith. In contrast, fragmented data, abrupt

changes in operational logic or unexplained margin patterns raise doubts about the authenticity of the taxpayer's position—even when the legal argument is technically defensible.

Courts increasingly apply a proportionality test: margins, staffing, functions and risk allocation must align with the economic reality of the business model. Disproportionate arrangements suggest artificiality; proportionality signals genuine substance. This evolving doctrine places behavioural coherence at the centre of judicial evaluation.

Effective litigation strategy in Türkiye, therefore, requires more than statutory interpretation. It demands a narrative rooted in operational truth—a story that connects legal arguments to actual behaviour, objective functions, concrete risks and observable data. The persuasive force of the defence comes not from doctrinal complexity but from whether the company's behaviour makes its interpretation believable.

Ultimately, courts favour outcomes grounded in economic reality, operational transparency and institutional discipline. A taxpayer who approaches litigation with coherent data, consistent behaviour and a credible economic narrative stands on solid ground. A taxpayer who relies primarily on technical analysis without behavioural alignment faces a structurally uphill challenge.

In Türkiye's modern compliance environment, litigation is not a separate battlefield—it is the final, visible expression of whether an organisation has behaved in a manner consistent with the standards of substance, coherence and credibility that the judiciary expects.

17.4 Designing a Forward-Looking Tax Risk Framework: Governance, Preparedness and Institutional Resilience

A forward-looking tax risk framework in Türkiye cannot rely on episodic checks, reactive compliance or legacy control matrices. It must operate as an institutional capability—a behavioural infrastructure that enables the organisation to anticipate supervisory logic, produce stable signals across reporting cycles and maintain a coherent economic identity under a data-driven regulatory order. In Türkiye, where the administration interprets behaviour as much as it interprets law, resilience emerges from how well a company designs and governs its own internal signals.

The foundation is a governance discipline.

Tax risk management begins with decision architecture: who approves transactions, how treasury interacts with tax, how cross-functional workflows escalate anomalies, and how the board exercises oversight of fiscal exposure. Governance determines whether the organisation's operational urgency aligns with its fiscal discipline. Predictable approvals, documented decision-rights and structured escalation routines reduce behavioural volatility. When governance is improvised, incomplete or inconsistently applied, even technically accurate companies appear unstable within Türkiye's digital visibility matrix.

The second pillar is preparedness.

Preparedness means structuring operations on the assumption of scrutiny, not in anticipation of avoiding it. ERP configurations must reflect real economics rather than historical shortcuts. Transfer-pricing policies must be embedded in daily operations rather than treated as annual documentation exercises. Incentive utilisation must follow genuine functional activity and be supported by contemporaneous evidence. Procurement, cash management, payroll, inventory controls, cost allocations and

intercompany settlements all generate institutional signals. When these signals reflect coherent economic behaviour, risk declines; when they reflect shortcuts or retroactive justification, visibility increases. In this context, controlled foreign company (CFC) exposure is one of the most material international pressure points for Turkish-resident shareholders, particularly where offshore cash accumulation, passive-income patterns or low-tax jurisdictions intersect with Türkiye's global transparency expectations.

The third component is continuity.

Türkiye's regulatory ecosystem reads companies through rhythm. Regular VAT filings aligned with commercial reality, stable payroll cycles, predictable withholding flows, disciplined intercompany settlements and consistent month-end closures create a profile of institutional maturity. Irregularities—sudden reversals, atypical spikes, one-off documentation surges or abrupt changes in pricing—generate attention not because they are inherently non-compliant but because they break continuity. The system interprets discontinuity as uncertainty. Continuity, by contrast, becomes a proxy for credibility.

Institutional resilience also depends on organisational memory.

Stable tax posture requires not only documents but also the reasoning behind them: why a structure was adopted, why a margin was set, and why a risk was accepted. This memory is critical during audits, disputes, leadership transitions or system upgrades. Organisations lacking institutional memory tend to repeat exposure patterns; those that preserve it become progressively more coherent and predictable.

A forward-looking tax risk framework does not seek to eliminate uncertainty—instead, it aims to institutionalise coherence. In Türkiye's evidence-driven environment, coherence is the most valuable currency a company can hold. It shapes how the administration perceives the taxpayer, how disputes unfold, how

predictable litigation outcomes become, and how sustainably the organisation operates across cycles of change.

Ultimately, tax risk in Türkiye is not merely a legal concept. It is the cumulative expression of behaviour, documentation, governance and economic identity. Companies that succeed are not those that avoid scrutiny, but those whose operational discipline makes scrutiny uneventful. Where filings reflect behaviour, where systems reinforce substance and where governance produces clarity, audits become predictable, disputes resolve proportionately, and the organisation maintains durable institutional credibility.

17.5 Dispute & Remedies Toolbox — Türkiye's Institutional Approach to Resolution

Türkiye's dispute-resolution mechanisms are not merely procedural options; they serve as diagnostic tools through which institutions assess a company's behavioural discipline. Each remedy—reconciliation, voluntary disclosure, penalty reduction or correction—is designed to test whether the taxpayer's operational reality, data footprint and governance signals align with the position it wishes to defend.

Accordingly, the question for sophisticated taxpayers is never "Which remedy is technically available?" but rather "Which remedy best reflects the behaviour this organisation has already produced?"

Reconciliation: The First Test of Behavioural Coherence

Reconciliation functions as the administration's opening assessment of whether the taxpayer's operational signals support its statutory claims. The negotiation is shaped less by doctrinal argument and more by the stability of the taxpayer's behavioural archive: the rhythm of VAT filings, the consistency of e-Ledger

patterns, the proportionality between payroll and revenue, and the economic logic underlying intercompany flows.

When these data channels reinforce one another, reconciliation becomes a structured dialogue. When they do not—when the organisation's economic story fractures across systems—the room for movement narrows immediately.

Voluntary Disclosure: A Behavioural Realignment Mechanism

Voluntary disclosure is treated not as an admission of error but as an indicator of institutional maturity. The regime evaluates whether the taxpayer is capable of repairing its behavioural footprint through transparent correction, supported by contemporaneous data and an internal narrative that aligns with commercial reality.

Disclosures that reconstruct behaviour through clean evidence restore credibility. Disclosures built on fragmented data or retroactive rationalisation do not.

Penalty Reductions: Institutional Reading of Intent and Discipline

Penalty-reduction mechanisms—particularly those under Article 376—operate as behavioural signals. Institutions read early payment, organised documentation and stabilised governance as indicators of alignment. These signals influence not only the penalty outcome but also future institutional perceptions.

Where behavioural noise persists, penalty reductions may remain technically available but practically difficult to implement, because credibility has not been re-established.

Correction Requests: A Test of Data Architecture Integrity

Correction procedures succeed only when the company's underlying data architecture is coherent. Türkiye's digital ecosystem interprets corrections systemically, asking whether

the inconsistency being corrected is isolated or symptomatic of deeper structural noise.

A taxpayer whose VAT trails, payroll flows and ledger logic already align can correct errors cleanly. A taxpayer relying on fragmented, exception-heavy systems often triggers broader scrutiny simply by requesting a correction.

Türkiye's Real Remedy: A Behaviour-Aligned Evidentiary Ecosystem

Across all mechanisms, Türkiye rewards one capability above all: the ability to present a contemporaneous evidentiary record that mirrors actual behaviour. This ecosystem depends on:

- ERP data that reflects real economic function,
- cash-flow patterns that align with commercial logic,
- intercompany pricing grounded in functional substance,
- incentive documentation tied to demonstrable activity,
- and a governance rhythm consistent with operational conduct.

In Türkiye, documents persuade only when they correspond to behaviour—not when they attempt to substitute for it.

The Strategic Interpretation

Türkiye's dispute-resolution framework is best understood as a behavioural continuum:

- reconciliation tests behavioural coherence;
- voluntary disclosure tests behavioural correction;
- penalty reductions test behavioural discipline;
- correction procedures test behavioural architecture.

Technical merits matter. Behavioural credibility decides.

In a system where institutional visibility is continuous and data-driven, the most potent remedy is not a legal provision but a coherent organisational footprint—one in which economic

behaviour, operational systems, and declared tax positions move in the same direction.

In Türkiye's modern regulatory environment, tax disputes are resolved not by procedural manoeuvring but by the clarity of the signals a company produces—its data integrity, governance rhythm and the coherence between its economic behaviour and its declared tax posture. Chapter 17 demonstrated that controversy, settlement and litigation are all extensions of the same principle: institutions respond to behavioural truth.

Chapter 18 builds directly on this foundation. If Chapter 17 explains how Türkiye interprets behaviour once a dispute emerges, Chapter 18 examines the parallel architecture through which non-tax supervisory bodies—regulators, auditors, financial crime authorities, data protection agencies, and sectoral supervisors—read companies using the same data-driven lens. Where tax scrutiny tests economic substance, regulatory scrutiny evaluates operational integrity, documentation maturity and institutional resilience.

Taken together, these two chapters frame a single strategic reality: in Türkiye, credibility is not asserted—it is observed. And the organisations that thrive are those whose behaviours, systems and governance practices produce a self-reinforcing narrative across every institutional touchpoint.

CHAPTER 18

COMPLIANCE CULTURE, BOARD OVERSIGHT AND THE INSTITUTIONAL RESPONSIBILITY OF DOING BUSINESS IN TÜRKİYE

Compliance in Türkiye has become a long-horizon institutional contract—an adaptive operating system through which boards, regulators, banks and counterparties continuously assess whether an organisation’s behaviour, data and decisions are genuinely aligned with its declared identity.

“In Türkiye, compliance is not a checklist—it is the behavioural contract that determines whether an organisation is trusted or merely tolerated.”

Compliance in Türkiye has evolved into a structural language—one that institutions read not through declarations, policies or formal submissions, but through the behavioural signals a company produces every month. VAT cycles, payroll patterns, e-Ledgers, withholding flows, incentive reporting and banking behaviour together create a composite profile that defines the organisation’s credibility, stability and long-term resilience.

In this landscape, compliance is no longer the administrative layer of the organisation. It is the operating system through which companies are understood. A firm whose filings, cash-flow rhythm, governance decisions and functional logic move in concert appears predictable; one whose data reveals volatility

or inconsistency appears high-risk, even when technically compliant.

Board oversight transforms this behavioural footprint into institutional discipline. Türkiye's regulatory ecosystem expects boards not only to approve decisions but also to shape how the organisation thinks and behaves. Treasury governance, intercompany posture, incentive discipline, capital decisions and risk escalation mechanisms all become visible institutional signals—read by tax authorities, banks, regulators and counterparties alike.

Chapter 18, therefore, approaches compliance as a long-term institutional contract rather than a statutory obligation. It examines how companies cultivate behavioural coherence, how boards convert governance into stability, how institutions read corporate behaviour across interconnected systems, and how compliance failures quickly translate into broader organisational risk.

Türkiye's modern regulatory environment rewards organisations that behave consistently, document contemporaneously and align their operational reality with their declared economic identity. Compliance, in this sense, is not the cost of doing business—it is the architecture through which a business earns trust.

18.1 Compliance as an Operating Philosophy, Not an Administrative Function

Compliance in Türkiye is interpreted through behaviour, not paperwork. Monthly VAT declarations, payroll submissions, e-Ledgers, withholding streams, incentive reports and banking flows collectively form a behavioural map that institutions use to assess whether a company is stable, coherent and institutionally credible. These recurring signals operate like a heartbeat: when the rhythm is steady, the organisation is viewed as low-risk; when

the rhythm breaks, supervisory visibility increases—even in the absence of formal non-compliance.

A genuine compliance culture emerges only when the organisation treats compliance as an operating philosophy rather than a departmental activity. This requires routines built into daily operations rather than end-of-month checklists. Functions must follow predictable approval paths, documentation must be produced contemporaneously, and operational teams must internalise that compliance is not an external expectation but a core part of the company's economic identity.

Türkiye's data-driven oversight environment detects behavioural stability long before it detects technical errors. Companies that maintain coherent input–output VAT logic, consistent payroll behaviour, aligned intercompany flows and disciplined ERP routines present themselves as reliable institutional actors. Those who treat compliance as “form-filling” generate behavioural noise: sudden ledger corrections, erratic withholdings, unexplained cash patterns or irregular documentation surges—all of which elevate visibility, even when statutory filings appear clean.

Accurate compliance, therefore, is not the avoidance of mistakes—it is the construction of a stable behavioural footprint. In Türkiye, behaviour and documentation are inseparable: documentation proves the activity, and behaviour proves the documentation. When these two move together, the organisation cultivates institutional credibility; when they diverge, compliance becomes reactive and fragile.

18.2 Board Oversight: Turning Governance into Institutional Stability

Board oversight in Türkiye is not a ceremonial responsibility—it is the structural mechanism through which an organisation's behavioural discipline is shaped, stabilised and made visible across institutions. In a regulatory ecosystem that reads companies through digital patterns rather than aspirational governance statements, the board becomes the architect of coherence: the body that ensures decisions, approvals and economic activity align with the organisation's declared identity.

Türkiye's institutions interpret board behaviour not through minutes or policy documents, but through the operational signals that flow from governance decisions. Treasury authorisations reflect the board's risk appetite; capitalisation choices reflect its long-term vision; intercompany pricing and settlement discipline reveal its approach to proportionality; and incentive management demonstrates its commitment to regulatory integrity. Each of these dimensions produces data patterns—visible to tax authorities, banks, regulators and counterparties—that collectively define how the organisation is perceived.

Effective oversight requires the board to remain closely connected to tax-sensitive and compliance-sensitive processes: transfer-pricing allocations, cross-border funding, incentive usage, workforce architecture and month-end financial behaviour. Türkiye's environment expects directors to understand how these activities generate institutional signals, how those signals shape predictive risk, and how governance decisions influence the company's visibility profile.

Boards that monitor these dynamics proactively create a stabilised institutional footprint. Their decisions flow consistently through treasury routines, ERP behaviour, documentation trails and intercompany logic. Institutions read this coherence as discipline. Conversely, boards that engage reactively—only intervening

when problems surface—create behavioural noise: fragmented data, sudden reversals, irregular authorisations or inconsistent policy implementation. In Türkiye’s digital ecosystem, this noise increases visibility faster than any statutory misstep.

Governance discipline, therefore, becomes a structural asset. When the board connects commercial strategy with regulatory expectation—ensuring that funding models, capital flows, incentive usage and operational roles are all anchored in economic logic—the organisation produces predictable patterns that build institutional credibility. Where this alignment breaks down, compliance becomes episodic, explanations become reactive, and supervisory scrutiny intensifies.

In Türkiye’s modern regulatory architecture, board oversight is not an upper-tier formality. It is the organisation’s stabiliser—its method of converting commercial decisions into a coherent behavioural narrative that can withstand the scrutiny of institutions that observe not what the board says, but what the organisation repeatedly does.

18.3 Institutional Responsibility: How Companies Are “Read” Across Systems

Institutional responsibility in Türkiye extends far beyond statutory compliance. It reflects how an organisation is interpreted across the multiple systems that observe its behaviour. Tax authorities, banks, regulators, social security institutions, and commercial counterparties all “read” companies through their own behavioural lenses. Each system captures a different dimension of reality, yet all converge on the same underlying question: Does the organisation behave in a stable, coherent and economically credible manner?

The tax administration interprets a company through its VAT rhythm, withholding-tax behaviour, transfer-pricing

alignment, incentive footprint and the internal consistency of e-Ledger data. Banks read an entirely different layer: cash-flow legitimacy, governance discipline, documentation quality and the predictability of treasury behaviour. Social-security systems analyse workforce stability and the proportionality between staffing patterns and economic activity. Sectoral regulators evaluate licensing posture, operational rhythm and the company's adherence to industry-specific behavioural norms. Counterparties read contractual discipline, payment behaviour and operational reliability.

Each of these channels provides only a partial view. But when combined, they create a behavioural mosaic—a unified institutional profile that defines how the organisation is perceived. A company achieves institutional credibility when all these channels reinforce the same economic story. When VAT behaviour aligns with banking flows, when payroll data align with functional allocation, when incentives are supported by real activity, and when documentation reflects genuine operational logic, the organisation appears stable and low-risk.

The opposite dynamic is equally visible. When systems point in different directions—when payroll intensity contradicts the transfer-pricing narrative, when cash-flow patterns do not match invoicing logic, when incentive claims are not supported by activity, or when e-Ledger data diverges from commercial behaviour—institutional visibility rises, even when no formal non-compliance exists. In Türkiye's environment, inconsistency itself becomes a form of risk.

Institutional responsibility, therefore, requires shaping not only what the organisation files, but what it signals. It demands behavioural coherence across every channel through which the company becomes visible, in a system where data flows function as evidence, institutional responsibility ultimately means ensuring that filings, commercial activity, internal controls, and operational rhythms converge into a single, consistent, and credible narrative.

18.4 Internal Controls, Documentation Culture and the Discipline of Evidence

Internal controls in Türkiye are meaningful only when they reflect actual behaviour. The institutional ecosystem does not evaluate compliance based on the existence of policies but on the coherence of day-to-day execution. Documentation, therefore, is not a defensive afterthought; it is the evidentiary foundation on which the organisation's entire behavioural narrative rests.

The distinction the tax administration increasingly draws is between documentation that naturally arises from activity and that is manufactured later to justify an outcome. The first reflects operational truth; the second reflects reactive posture. Türkiye's systems—particularly e-Ledgers, e-Invoices, bank-verified cash flows and timestamped approval trails—make this distinction visible with unusual clarity. Files that align with commercial timing, functional allocation and transaction logic reinforce credibility. Documents created retrospectively, especially where workflows appear inconsistent, weaken the institutional narrative even when technically compliant.

A mature documentation culture is therefore built on contemporaneity and internal consistency. ERP coherence becomes a central component: invoice coding, stock movements, approval chains, contract metadata, intercompany settlements and treasury workflows must all reflect the same economic story. Where ERP behaviour diverges from policy intentions—or where manual overrides attempt to correct structural inconsistencies—Türkiye's digital infrastructure detects the gap long before an auditor issues a formal request.

Internal controls must operate as behavioural anchors. Their purpose is not to replace operational truth with administrative structure, but to ensure that workflows reflect policy, that evidence is created as activity occurs and that governance decisions leave a traceable institutional footprint. Approvals, reconciliations,

delegation protocols, treasury confirmations and documentation routines serve as real-time indicators of institutional discipline. The consistency of these indicators—rather than their volume—determines how credible the organisation appears across tax, banking and regulatory systems.

The discipline of evidence, therefore, is not about producing more documents; it is about creating documents that match reality. In Türkiye's data-driven environment, patterns speak louder than templates. When internal controls, documentation behaviour and operational activity move in synchrony, institutional credibility strengthens. When they diverge, supervisory visibility increases automatically—not because the organisation is non-compliant, but because it appears behaviourally uncertain.

In this sense, internal controls are not merely risk-mitigation tools. They are the infrastructure through which the organisation expresses its identity. A coherent evidence trail demonstrates maturity, transparency and stability. A fragmented or retrospective trail signals fragility. Türkiye's institutional environment interprets the difference immediately.

18.5 Employment Tax Architecture and the Expatriate Framework

Payroll in Türkiye is not treated as a mechanical output of HR processes; it is one of the most visible behavioural signals through which institutions assess the organisation's operational integrity. Monthly wage declarations, social security filings, electronic payment trails, and the alignment of payroll with accounting and functional structures collectively define an organisation's compliance rhythm. When payroll behaviour matches the organisation's economic footprint, authorities interpret the business as disciplined and coherent. When payroll diverges from operational reality—through inconsistent classifications,

irregular declarations or disjointed approval chains—the organisation’s institutional profile becomes noisy long before any formal challenge arises.

In this environment, payroll is both a compliance mechanism and a governance statement. Salaries must be paid through the banking system; SGK filings must reflect the functional allocation of personnel; and incentives claimed through R&D centres, Technology Development Zones, or free zones must be supported by precise workforce activity. Türkiye’s digital systems treat payroll as a real-time indicator of where functions actually reside. Headcount composition, role transitions, overtime patterns, social security bases, and incentive-linked declarations collectively reveal the organisation’s operational truth.

For expatriate employees, the tax framework becomes even more sensitive because expatriate presence often sits at the intersection of treaty rules, transfer pricing, permanent establishment exposure, and corporate governance. Income taxation depends not merely on the source of remuneration but on the expatriate’s functional connection to Türkiye. The law applies traditional rules, but the administration interprets them through behavioural indicators: the number of days physically spent in Türkiye, the degree of managerial influence, the presence of decision-making authority and whether the Turkish entity can be regarded as the “economic employer.”

Even where a double tax treaty grants an exemption for short-term assignments, the exemption applies only when the foreign employer bears the cost and does not recharge remuneration to the Turkish entity. Once a recharge occurs—whether through a service agreement, a cost-sharing mechanism, or a transfer-pricing model—the Turkish company becomes the fiscal employer, and full payroll obligations arise automatically. In Türkiye’s data-verified environment, any misalignment between functional behaviour and payroll treatment becomes

immediately visible through SGK declarations, invoice patterns, and intercompany flows.

The expatriate framework also incorporates treaty-based tie-breaker tests when dual residency is possible. Permanent home, centre of vital interests, habitual abode and nationality must be evaluated not only legally but behaviourally: where the individual conducts their managerial activity, where their financial decisions are implemented, where their role influences the organisation's risk profile. Residency analysis is no longer a purely legal exercise; it is a behavioural mapping of economic presence across jurisdictions.

A further dimension concerns the interaction between expatriate arrangements and permanent establishment (PE) risk. Expatriates who negotiate contracts, supervise operations, or hold functional authority within Türkiye may unintentionally create or increase PE exposure for their foreign employer. In practice, Turkish authorities assess expatriate behaviour through travel records, payroll data, intercompany charges and workflow documentation. A poorly structured assignment may trigger dual consequences: full payroll obligations at the Turkish level and a jurisdictional nexus risk at the foreign level.

Finally, expatriate design must integrate transfer pricing. Cost-allocation mechanisms, managerial service fees, and cross-border recharge models must reflect the expatriate's actual functional contribution. Türkiye evaluates these flows through staffing intensity, decision-rights evidence and the coherence of local operations. Assignments lacking functional justification—even when documented—are treated as shareholder-level activities rather than operational support, with consequences for deductibility and WHT.

Within Türkiye's compliance architecture, employment tax is therefore not an isolated payroll task. It is a multi-channel institutional signal that touches HR, tax, transfer pricing,

PE analysis, data governance and incentive management. Organisations that design expatriate frameworks behaviourally—not just contractually—achieve predictable outcomes and maintain institutional credibility across systems. Those who rely on formal labels that contradict operational reality face unnecessary visibility in an environment where payroll is one of the most powerful indicators of economic substance.

18.6 Data Governance and KVKK Snapshot

Türkiye's personal-data framework mirrors the structural logic of the GDPR but applies its own institutional expectations—expectations that emphasise documentation depth, behavioural consistency and demonstrable governance maturity. Under the Personal Data Protection Law (KVKK), the quality of an organisation's data governance is not measured solely by policy language; it is measured by whether daily behaviour reflects controlled processing, auditable routines and predictable handling of personal data. In Türkiye's regulatory environment, KVKK compliance is interpreted as a core institutional signal, shaping how regulators, banks and counterparties assess the organisation's operational integrity.

A KVKK-compliant organisation must maintain transparency notices, consent structures, internal governance protocols, destruction-retention schedules and processing inventories that are contemporaneous with real activity—not drafted retroactively as administrative formality. Türkiye's supervisory culture distinguishes sharply between documentation that emerges naturally from operational behaviour and documentation created solely to backfill compliance gaps. The latter weakens credibility, even when formally accurate.

Most companies must register with VERBIS, the national Data Controllers' Registry, unless they fall under an exemption threshold periodically updated by the Personal Data Protection

Board. For multinational groups, this threshold-driven regime requires periodic reassessment, as structural or operational changes—such as growth in headcount, new business lines, or cross-border flows—may bring the entity into scope. VERBIS registration itself is not the institutional signal; the behavioural alignment between registration content, internal workflows and real data-processing patterns is what authorities read.

Cross-border data transfers sit at the centre of Türkiye's supervisory focus. Transfers require an adequacy decision, the use of standard contractual clauses approved by the Authority, or, in the absence of either, specific authorisation for the proposed transfer mechanism. While GDPR offers conceptual parallels, Türkiye's approval model is more documentation-heavy, emphasising process governance and internal control structures. For multinational groups with integrated systems, this creates a dual-layer obligation: align the GDPR and KVKK frameworks, while ensuring that local documentation demonstrates process-level accountability rather than relying on global templates.

KVKK differentiates explicitly between “explicit consent” and “legitimate interest” as legal bases for data processing. Explicit consent must be freely given, informed and specific, and Türkiye expects that the consent mechanism itself—its timing, method and content—reflects genuine autonomy rather than blanket acceptance. Legitimate interest may be invoked where processing is necessary and proportionate, but companies must demonstrate, through documented assessments, that the individual's rights are not overridden. Regulators examine whether the chosen legal basis matches operational behaviour; mismatches are interpreted as governance weaknesses.

In Türkiye's data-driven institutional ecosystem, inconsistencies in data governance create immediate visibility. Banks evaluate legitimacy and governance quality partly through the organisation's approach to KVKK, as data-handling discipline influences onboarding risk, transaction monitoring and

enhanced due diligence triggers. Sector regulators view KVKK frameworks as indicators of maturity, particularly in finance, telecommunications, health services and e-commerce. For corporate counterparties, a strong KVKK posture reduces friction by signalling predictable operational behaviour, reducing contractual uncertainty and facilitating faster onboarding.

Ultimately, KVKK compliance functions as a behavioural audit of the organisation's internal logic. It reveals whether data flows match the organisation's stated model—how it interacts with customers, how it structures HR processes, how it controls internal access and how it manages cross-border systems. In Türkiye, data governance has become one of the most consequential institutional signals: a test of whether the organisation behaves with the discipline expected of a credible, resilient actor in a digitally supervised ecosystem.

18.7 Compliance Failures as Institutional Risks

Compliance failures in Türkiye generate consequences that extend far beyond statutory penalties. They reshape the organisation's institutional profile—its credibility before banks, the tax administration, regulators and commercial counterparties. In a supervisory ecosystem built on behavioural interpretation, a compliance lapse is not merely a legal breach; it is a signal that the organisation's internal discipline has fractured. That signal carries operational, financial and reputational weight long after the underlying issue is corrected.

In Türkiye, the most immediate institutional consequence appears in the banking system. Banks assess compliance posture not only through KYC and onboarding files but also through the rhythm of payroll payments, supplier settlements, tax remittances, documentation quality, and the clarity of transactional trails. Disruptions—late filings, irregular salary flows, undocumented fund movements, or mismatches between accounting and tax

records—trigger enhanced due diligence long before MASAK becomes involved. Even minor inconsistencies can delay transactions, freeze onboarding processes or increase the level of scrutiny applied to the company's day-to-day banking activity. In this environment, the practical cost of compliance failure is often the loss of transactional fluidity.

Regulatory exposure compounds this risk. Incentives such as R&D, Technology Development Zones, free-zone advantages or investment credits rely on behavioural conformity. An inconsistency in documentation, staffing patterns or cost allocation can jeopardise an entire incentive position—not because the underlying activity is invalid, but because supervisory systems detect behavioural noise. Incentive regimes expect stability: stable reporting, stable payroll logic, stable documentation. Deviations, even temporary, invite review and possible clawbacks. For companies operating in incentive-heavy sectors, compliance instability becomes a direct financial risk.

Tax audit frequency is similarly affected. Türkiye's digital systems weigh behavioural consistency; when a company's patterns appear volatile, the predictive score driving audit selection intensifies. Compliance failures—missed filings, abrupt reversals, unexplained adjustments, weak documentation, inconsistent intercompany flows—create visibility regardless of technical legality. The system reads instability as a governance signal. A company that exhibits behavioural volatility enters a higher-frequency audit cycle, in which even compliant positions must be repeatedly defended.

In the M&A landscape, compliance weaknesses translate into valuation drag. Due diligence teams view irregularities as structural risks that may require indemnities, escrow mechanisms, or purchase-price adjustments. Payroll inconsistencies, undocumented intercompany charges, incentive vulnerabilities, data-protection gaps or weak internal controls can shift negotiations materially. The issue is not the cost of

remediation but the uncertainty it projects. Buyers pay premiums for predictability; compliance failures signal the opposite.

Anti-Money Laundering (AML) exposure adds another institutional layer. MASAK's framework hinges on behavioural monitoring rather than isolated transactions. Sub-threshold but repetitive transfers, circular flows, inconsistent onboarding, or unexplained counterparties trigger alerts even when each transaction is technically compliant. Penalties for KYC failures, reporting omissions or documentation lapses can be significant, but the greater risk lies in the institutional noise they generate. Once flagged, the company operates under heightened banking and regulatory scrutiny, often for years.

The most material consequence of compliance failure is not the statutory fine—it is the cumulative behavioural imprint left across systems. Tax authorities see irregularity; banks see risk; regulators see inconsistency; counterparties see uncertainty. These impressions compound and influence every future interaction.

A company that understands this dynamic designs its compliance architecture to minimise noise rather than merely to avoid penalties. In Türkiye's environment, behavioural consistency is the foundation of institutional credibility. Compliance lapses disrupt that consistency. They create a narrative of instability that remains visible across digital systems, due diligence platforms and supervisory cycles long after the technical issue is resolved.

In this sense, compliance failures are not isolated operational mistakes—they are institutional risks that shape how the organisation is perceived, monitored and valued.

18.8 Building a Sustainable Compliance Culture in Türkiye

A sustainable compliance culture in Türkiye cannot be constructed through manuals, isolated control points or periodic audits. It must emerge from the organisation's behavioural DNA—its routines, data discipline, decision-making cadence and the institutional logic that governs how people act, record and justify economic activity. In a regulatory ecosystem that interprets behaviour as a proxy for integrity, sustainability depends on embedding compliance into the organisation's lived reality rather than its formal policies.

The first foundation is transparent governance and ownership. Boards and senior management must treat compliance as strategic infrastructure rather than a legal expense. This means that risk assessments, tax-sensitive decisions, treasury operations, intercompany transactions, and incentive utilisation must be viewed through an institutional lens—not merely a procedural one. Governance ownership is visible in how quickly issues are escalated, how consistently policies are enforced and how confidently the organisation can explain its economic story to supervisory authorities. In Türkiye, the board's approach to compliance is not an internal matter; it becomes part of the company's observable behavioural footprint.

The second foundation is integrated operational routines. Compliance becomes sustainable only when it is embedded in daily workflows. Procurement, treasury, HR, sales, logistics, R&D, and intercompany operations must produce data that is immediately usable for VAT filings, payroll declarations, transfer-pricing documentation, incentive reporting and MASAK compliance. If compliance depends on manual fixes at month-end, the system will inevitably produce behavioural noise—noise that Türkiye's digital infrastructure interprets as risk. Embedded routines transform legal obligations into operational reflexes.

The third foundation is predictable data behaviour. Türkiye's supervisory systems read the organisation's digital footprint as a behavioural narrative. Stability of VAT cycles, proportionality between payroll and revenue, the rhythm of intercompany settlements, coherence in cost allocation, and consistency in accounting-tax alignment all contribute to the company's institutional identity. Predictability is not about eliminating variation; it is about ensuring that variations have clear economic explanations. Unpredictability, even when lawful, creates visibility. Predictability, even when complex, builds credibility.

The fourth foundation is institutional learning. A sustainable compliance culture requires that organisations retain not just documents but also the reasoning behind decisions. Why a structure was chosen, why a risk was escalated, why a position was taken, why a process was designed a particular way—these rationales must be captured, stored and transmitted as part of the company's institutional memory. Without this learning architecture, organisations repeat risk behaviours, lose the contextual logic behind their filings, and become vulnerable during audits, disputes or management transitions. Türkiye's regulatory environment rewards institutions that can articulate the evolution of their compliance posture over time.

When these elements work together, compliance becomes more than a defence strategy—it becomes a competitive advantage. Regulators, banks, due diligence teams, and commercial partners interpret stable behavioural patterns as signals of maturity and reliability. Operational discipline reduces audit friction. Coherent data flows accelerate banking processes. Strong governance reduces valuation uncertainty during M&A. Institutional learning ensures compliance continuity even as teams or structures change.

In Türkiye, a sustainable compliance culture is ultimately an expression of institutional identity. It signals that the organisation behaves with the discipline, transparency and proportionality expected of a credible actor in a data-driven supervisory order.

Sustainability arises not from the absence of errors but from the presence of coherent behaviour across cycles of growth, scrutiny and change.

18.9 Closing Perspective: Compliance as a Long-Term Institutional Contract

Compliance in Türkiye operates as a long-horizon commitment—an implicit institutional contract between the company and the ecosystem surrounding it. This ecosystem is not limited to regulators. It includes banks, tax authorities, social security institutions, sectoral regulators, auditors, commercial partners, and, increasingly, the digital platforms that synthesise the organisation's behaviour into risk signals. In such an environment, compliance becomes the architecture through which trust is earned, preserved and reinforced.

At its core, this contract rewards behavioural consistency. Companies that present stable VAT rhythms, coherent payroll patterns, predictable intercompany flows, disciplined documentation and proportional margins signal that their internal reality aligns with their declared economic identity. This alignment reduces visibility, accelerates regulatory interactions, stabilises credit relationships and positions the organisation as a low-risk actor. In Türkiye's supervisory environment, consistency is interpreted as credibility.

The second component of this contract is transparency. Not absolute disclosure, but behavioural transparency: the kind that shows why decisions were made, how functions operate, how risks are managed, and how flows of funds reflect the organisation's actual economic storyline. Transparency is demonstrated through workflows, approval trails, documentation habits and the proportionality of the company's functional footprint. Institutions

are increasingly less interested in what the organisation says and more interested in what the organisation does.

A third component is proportionality. Türkiye's ecosystem expects companies to behave in a manner proportionate to their scale, sector, functions, and risk profile. Excessively complex structures, disproportionate fee arrangements, inconsistent margins, or artificially shifting functions create behavioural noise and supervisory friction. By contrast, proportionality—between functions and margins, staffing and risk allocation, incentives and activity—communicates economic truth. Proportionality is therefore not an accounting characteristic; it is a behavioural signal.

The fourth component of this contract is continuity. Companies that sustain coherent behaviour over time—filings that reflect operations, incentives supported by real substance, and workflows aligned with policy—earn institutional trust. Continuity ensures that changes in management, growth cycles, restructuring or integration events do not produce disruptive behavioural patterns. In Türkiye, continuity is interpreted as institutional maturity.

When these components come together, compliance ceases to be a regulatory cost. It becomes the strategic infrastructure through which companies secure long-term operational continuity, reduce institutional visibility, and establish a more predictable relationship with supervisory bodies. It becomes part of the organisation's competitive advantage—supporting M&A readiness, funding access, incentive eligibility and reputational resilience.

In Türkiye's modern regulatory paradigm, compliance is not a defensive shield. It is the organisation's behavioural identity. It is the company's long-term positioning strategy. It is the architecture through which an institution signals that it operates with discipline, coherence and credibility in a system that evaluates behaviour as much as declarations.

By viewing compliance through this institutional lens, companies secure not only today's certainty but tomorrow's strategic traction—ensuring that their behaviour aligns with the expectations of an ecosystem where consistency itself has become a core driver of stability and trust.

Türkiye's regulatory environment interprets companies through the long arc of their behaviour. Compliance, governance discipline and institutional coherence form the foundation—but they are not the end of the story. Once an organisation establishes a predictable compliance identity, the system begins to read how that identity supports broader operational responsibilities: commercial obligations, sector-specific rules, contractual discipline, and the administrative interfaces that shape daily business life.

In this sense, Chapter 18 concludes the internal dimension of institutional behaviour. The next stage extends this logic outward—into licensing regimes, operational permits, industry-specific compliance, cross-agency documentation flows and the regulatory ecosystems that govern how companies function beyond tax.

Chapter 19, therefore, shifts the focus from how a company behaves internally to how that behaviour positions the company within Türkiye's wider regulatory architecture. The transition moves from the behavioural core to the operational perimeter—where institutional credibility becomes the gateway to smoother approvals, faster regulatory interactions and a more resilient commercial footprint.

Chapter 19 explores this external dimension, showing how Türkiye's sectoral, administrative and licensing frameworks interact with the behavioural identity established in the preceding chapters.

CHAPTER 19

EMPLOYMENT TAX AND EXPAT FRAMEWORK IN TÜRKİYE

Employment taxation in Türkiye is not a payroll subroutine; it's the recurring data spine that tells every institution whether your organisation is real, disciplined and strategically aligned with its own narrative.

“In Türkiye, payroll is not a payslip—it is the monthly data stream through which institutions decide whether your organisation is credible.”

Employment taxation in Türkiye sits at the intersection of tax law, social security architecture, banking transparency, residency analysis, and intercompany behaviour. The system reads payroll not as a back-office procedure but as a recurring institutional pulse: a monthly sequence of declarations, SGK filings, withholding flows and bank-verified salary movements that collectively define how disciplined, transparent and economically coherent the organisation appears. In Türkiye's digital compliance environment, payroll is not simply a statutory obligation; it is an institutional narrative.

Foreign investors entering the Turkish market quickly discover that payroll outcomes shape far more than compensation planning. They influence how tax authorities interpret functional alignment, how banks assess the legitimacy of cash flow, how regulators measure operational substance, and how the broader ecosystem evaluates organisational maturity. A payroll structure that aligns HR, tax, accounting, immigration and transfer pricing creates credibility. Misalignment across any of these channels

results in immediate visibility issues and disrupts the company's institutional footprint. Payroll inconsistency—no matter how small—becomes one of the clearest behavioural red flags in Türkiye's monitoring architecture.

This chapter examines Türkiye's employment-tax ecosystem as a behavioural system rather than a mechanical process. It explains how residency rules, shadow payroll mechanics, economic-employer doctrine, social security coordination, expat structuring, immigration procedures, and intercompany charges collectively determine whether an organisation appears coherent or fragmented. In Türkiye, payroll is the point where personal presence intersects with corporate behaviour—and the system treats that intersection as a decisive expression of institutional truth.

19.1 Payroll as Behavioural Infrastructure in Türkiye

Payroll in Türkiye operates as a structured monthly ritual, where every element—salary payment timing, SGK declarations, withholding flows, ledger entries, bank-traceable transactions and contract records—converges into a single behavioural narrative. The tax authority, SGK, banks and regulators read this narrative simultaneously, each interpreting payroll as a proxy for internal discipline.

Türkiye requires a unified monthly declaration that consolidates withholding and social-security obligations. This creates a tight loop between HR operations, tax reporting and accounting controls. Discrepancies between these data channels are rarely treated as clerical errors; they signal structural inconsistency. When salary payments do not match payroll declarations, when SGK data diverges from functional allocation, or when ledger

entries fail to reflect economic reality, the system interprets these mismatches as indicators of weak governance.

The visibility created by bank-based salary transfer requirements intensifies this scrutiny. All salary payments must pass through the banking system, allowing institutions to compare declared payroll data against actual cash movements. This alignment expectation transforms payroll into a public compliance benchmark. Even minor deviations—late payments, irregular sequences or mismatches between declared and paid amounts—can elevate a company’s risk profile.

Türkiye’s behavioural model expects payroll to align with operational reality. A company whose workforce intensity, cost structure and functional footprint are inconsistent with its declared payroll profile appears economically incoherent. Conversely, an organisation whose payroll patterns reinforce its sectoral rhythm, functional model and commercial logic appears institutionally stable. In Türkiye, payroll outcomes are not internal metrics; they are external signals that shape institutional trust.

19.2 Shadow Payroll Architecture and the Visibility Logic of Cross-Border Employment

Shadow payroll in Türkiye is not a technical accommodation for expatriates—it is one of the system’s primary tools for reconciling cross-border compensation with local economic reality. Whenever an employee performs work in Türkiye but receives part or all of their remuneration abroad, the Turkish entity is required to operate a shadow payroll that records the complete compensation base for withholding tax, social security contributions (where applicable), and unified monthly filing. The purpose is simple: Türkiye reads compensation through behaviour, not geography.

If an employee contributes to Turkish operations—whether

through a formal secondment, a hybrid assignment, a rotational presence or remote work—the system expects their economic footprint to appear in payroll records. The individual’s salary may be paid in New York, London or Berlin, but if the benefit of their work accrues to Türkiye, the Turkish operation must reflect the remuneration. Failure to record this creates three overlapping inconsistencies: an unreported payroll base, an incomplete SGK assessment, and a behavioural mismatch between functional activity and declared workforce intensity.

Türkiye’s supervisory logic treats these mismatches as indicators of undeclared economic presence. A gap between intercompany recharge patterns and payroll filings, between local supervision and expatriate cost absorption, or between immigration documentation and salary reporting is not interpreted as a paperwork oversight—it is read as a structural inconsistency. Shadow payroll, therefore, is not an administrative afterthought; it is the mechanism through which Türkiye aligns functional reality with fiscal identity.

Shadow payroll obligations arise even where the foreign employer maintains the leading payroll. In a dual-pay model, Türkiye still expects the host entity to record the entire cost base—including allowances, bonuses, equity compensation and benefits-in-kind—because the behavioural footprint must be complete. The system does not distinguish between “home” and “host” elements; it distinguishes between activity performed for Türkiye and activity performed elsewhere. Where Türkiye bears the economic burden—either directly through recharge or indirectly through functional benefit—shadow payroll becomes mandatory.

This logic applies equally to secondees, short-term assignees and remote workers whose roles integrate into Turkish operations. Even without a local employment contract, the behavioural test dominates: who directs the work, who benefits from it, and where the economic value materialises. If Türkiye is the answer to these questions, payroll visibility must follow.

19.3 Tax Residency, Economic Employer Doctrine and the Substance of Expat Assignments

Türkiye determines individual tax residency through a blend of presence, ties and economic attribution.

The statutory presence test—the 183-day threshold—remains a core component, but in Türkiye’s behavioural system, it does not operate in isolation. The administration prioritises economic logic over counting days. It examines where strategic decisions are taken, where the employer derives value, how integrated the individual is in local governance, and whether the employee’s work forms part of the Turkish business model.

Where an individual appears to be resident in more than one jurisdiction, double tax treaties apply a sequential tie-breaker framework: permanent home, centre of vital interests, habitual abode, and nationality, with unresolved cases referred to competent-authority procedures. Crucially, Türkiye applies these rules with a substance-driven lens. A treaty position unsupported by functional activity, cost patterns, or decision-making behaviour is unlikely to be persuasive.

Expat assignments often carry multi-jurisdictional exposure long before the 183-day mark is reached. An individual may be treaty-resident abroad yet still be taxable in Türkiye if the Turkish entity bears their remuneration or if their activities materially advance the Turkish business. Economic burden routinely outweighs geographic presence. Cost recharge, management-fee structures, intercompany allocations and functional supervision all feed into this assessment.

The “economic employer” doctrine is central to Türkiye’s interpretation. A foreign employment contract does not shield an individual from Turkish payroll obligations if their work is directed locally or if the Turkish operation benefits from their services. Where intercompany charges mirror the individual’s role, the

connection becomes explicit. In such cases, Türkiye expects either a whole local payroll operation or, at a minimum, a shadow payroll that captures withholding and social security exposure. Any gap between contractual arrangements, immigration documentation and payroll filings becomes a behavioural red flag.

Türkiye views expat assignments through the lens of economic truth. It asks: Who controls the work? Who receives the benefit? Where is the value created? When these questions point to Türkiye, residency and payroll obligations follow—even when the formal employment structure suggests otherwise.

19.4 Social Security Architecture and Totalisation Logic

Social security for expatriates in Türkiye follows the same behavioural philosophy as taxation: substance, not form, drives the outcome. By default, individuals working in Türkiye fall under the Turkish social-security regime unless a bilateral totalisation agreement allows continued home-country coverage. These agreements—particularly under the A/T No. 3 framework with Germany, the Netherlands, Austria and Belgium—provide temporary exemptions, but only where the employee holds a valid assignment-linked, contemporaneous and verifiable Certificate of Coverage.

Türkiye treats these certificates as evidentiary documents, not theoretical protections. They must align with the individual's role, presence pattern and functional integration into Turkish operations. A certificate that contradicts economic reality—for example, where the employee is deeply embedded in the Turkish governance structure—may be disregarded in practice, leading to retroactive exposure of contributions.

The distinction between tax treaties and social-security agreements is essential. They operate independently. An expatriate

may be exempt from SGK under a totalisation agreement, yet remain fully taxable in Türkiye under economic-employer logic. Conversely, an individual may be covered by Turkish social security while remaining treaty-resident abroad. Organisations must therefore treat tax and SGK frameworks as parallel, not interchangeable, compliance channels.

For multinational groups, the documentation chain—assignments, contracts, cost allocations, reimbursement mechanics, coverage certificates, and payroll records—must form a single, coherent story. Where these components diverge, Türkiye interprets the inconsistency as behavioural instability, with SGK liabilities frequently arising years after the assignment.

19.5 Immigration Compliance, Work-Permit Governance and Institutional Visibility

Immigration governance in Türkiye is not an isolated administrative layer—it is directly intertwined with payroll, tax residency, PE exposure and the economic-employer doctrine. Work permits, residence permits and assignment documentation collectively determine whether the expatriate's presence aligns with the company's declared workforce footprint. When these elements are inconsistent, Türkiye interprets the misalignment as a behavioural irregularity rather than a mere procedural lapse.

A foreign individual performing work in Türkiye without a valid work permit does not simply breach immigration rules; they create an institutional inconsistency that affects every other compliance channel. Payroll filings no longer match the visible workforce. Shadow payroll obligations are triggered but unfulfilled. Intercompany charges imply economic activity that is not reflected in immigration documentation. Treasury flows and management approvals contradict the declared staffing structure.

In Türkiye's ecosystem, each of these inconsistencies signals governance noise and elevates PE and payroll visibility.

Work-permit categories also send behavioural signals. Short-term permits must reflect genuine temporary assignments; long-term permits imply integration into local business processes. Titles and job descriptions must match functional reality—mismatches between immigration filings and payroll or SGK roles are interpreted as structural misrepresentation. Immigration compliance, therefore, forms part of the company's institutional identity: the system expects the documents to describe the economic truth.

Residence permits operate similarly. They are not treated as passive immigration documents but as indicators of where the expatriate maintains economic and personal ties. Extended stays without payroll visibility, cost recharge or functional documentation create one of the most recognisable audit triggers in Türkiye's expat ecosystem. Alignment between physical presence, HR records, payroll filings, and corporate benefits is essential.

In this framework, immigration compliance becomes an extension of governance discipline. When immigration, payroll, residency analysis and intercompany arrangements reinforce each other, the organisation presents a clear institutional footprint. When they diverge, visibility across all supervisory channels increases.

19.6 Incentives, Expatriate Roles and Restricted Eligibility in R&D, Design Centres and Technology Zones

Expatriate employees play a material role in Türkiye's incentive ecosystem—but only when their presence aligns with the substance-driven expectations of incentive regimes. Free zones, R&D Centres, Design Centres, and Technology Development Zones apply tax benefits not based on employment categories, but on economic contribution, location, and the nature of the activity performed.

Under Temporary Article 67 of the Income Tax Law, certain foreign experts, researchers and technical personnel may benefit from income-tax exemptions where their activities fall within the statutory scope of R&D, innovation or design. However, Türkiye evaluates eligibility through behavioural evidence: job descriptions, SGK records, project documentation, time-tracking, and the functional relevance of the expatriate's work. Labels do not suffice; operational truth prevails.

Assignments structured through employer-of-record (EoR) models, foreign contractor arrangements or remote-only engagements often fail the behavioural tests unless supported by straightforward project integration and contemporaneous evidence. The system does not object to alternative engagement structures; it objects to structures that obscure functional reality. Where expatriates operate under non-employment models but behave like employees—regular working hours, integration into project workflows, managerial responsibilities—the incentive footprint becomes unstable.

For companies benefiting from free-zone exemptions or R&D incentives, expatriate management must be synchronised with documentation practices. Activity logs, project mandates, supervision patterns and benefit allocations must align with the incentive framework. Any divergence between expatriate

behaviour and the documentation of incentives invites retrospective review. Incentive regimes reward discipline, not formality.

19.7 Remote Work, Cross-Border Employees and Hidden PE Signals

Remote work involving Türkiye introduces a second layer of complexity: the risk that a foreign employer inadvertently creates a taxable presence through an employee based in Türkiye. The concept is not theoretical—Türkiye evaluates remote-work arrangements through economic attribution, decision-making behaviour, revenue connection and functional integration.

A foreign individual working from Türkiye “for their foreign employer” may trigger PE concerns if their activities involve managerial authority, contract negotiation, business development, R&D contribution, or operational oversight that materially supports the foreign entity’s business. Even without contractual signing authority, habitual participation in commercial functions can be interpreted as a PE indicator.

Cost recharge amplifies this exposure, as the economic burden test links the expatriate’s work to a Turkish nexus. Intercompany invoicing for remote employees’ work is treated as explicit evidence of economic activity performed for the foreign employer through Türkiye. Conversely, remote workers who perform only back-office support, with no managerial influence or revenue connection, typically present lower risk—but only if the behavioural evidence corroborates that position.

The visibility of remote work arises from banking flows, payroll mismatches, immigration records, SGK registrations, and intercompany charges. A remote worker who appears in procurement approvals, ERP access logs or managerial workflows

creates digital fingerprints that contradict the formal narrative. Türkiye reads these signals holistically, not transactionally.

For multinational groups, remote-work policies must therefore incorporate explicit guardrails: role definitions, access controls, commercial engagement restrictions and documentation pathways. Without these elements, remote work becomes an unmonitored vector for the creation of PE.

19.8 Payroll as a Monthly Behavioural Scorecard: Data Integrity and Institutional Rhythm

Payroll is Türkiye's most structured and predictable compliance cycle. The monthly rhythm—salary calculations, withholding tax filings, SGK declarations, ledger postings, bank-verified salary transfers—forms a behavioural dataset that authorities, banks and auditors use to interpret institutional stability.

Where payroll mirrors the economic life of the company, Türkiye reads the organisation as credible. Where payroll behaviour diverges—unexpected fluctuations, unexplained allowances, inconsistent bonus patterns, mismatches between SGK roles and functional descriptions—the system detects noise.

Payroll discrepancies also automatically affect other datasets. VAT filings may not align with payroll-linked operational costs. Intercompany charges may exceed the functional profile supported by SGK records. Work-permit documentation may conflict with payroll titles. Treasury flows may contradict employment intensity. These cross-system inconsistencies become institutional signals.

Because payroll touches tax, SGK, immigration, banking and accounting simultaneously, it is one of the strongest indicators of institutional coherence. Companies that design payroll with behavioural discipline—clean data, stable patterns, aligned

documentation—create an institutional advantage that extends far beyond HR.

Türkiye evaluates expatriate structures, payroll patterns and employment behaviour as part of a unified visibility ecosystem. When payroll, residency logic, immigration documentation, and social security positioning follow a coherent narrative, institutional friction diminishes, and workforce arrangements become predictable. When these elements diverge—even slightly—the system reads the organisation through a heightened-visibility lens.

Chapter 19 has therefore examined how Türkiye interprets labour-related signals. The next chapter expands this behavioural architecture outward, into operational licensing, sector-specific regulations, public-law obligations and the administrative interfaces that govern day-to-day business activities.

Chapter 20 shifts the focus from employment behaviour to the broader regulatory perimeter—where institutional identity is tested across permits, certifications, sectoral approvals and the cross-agency systems that define operational legitimacy in Türkiye’s modern regulatory environment.

CHAPTER 20

MULTI-AGENCY VISIBILITY AND INSTITUTIONAL COHERENCE IN TÜRKİYE

Türkiye's regulatory ecosystem operates as an interconnected visibility grid where every institution reads a different slice of the same behavioural fingerprint—turning tax data, payroll patterns, cash-flow signals and documentation habits into a unified assessment of corporate credibility.

“In Türkiye, institutions don't coordinate—but they converge. One behavioural inconsistency becomes visible everywhere.”

In Türkiye's regulatory landscape, institutions operate through different mandates but observe the same corporate behaviour. The tax administration reads filings, e-Ledgers and operational patterns. Banks read cash flow discipline, documentation quality, and governance signals. Social security authorities read workforce continuity. Sector regulators read activity alignment and licensing posture.

Each evaluates a different dataset, yet all are watching the same economic narrative unfold.

The result is a multi-agency visibility model in which inconsistencies rarely remain contained within a single institution. Behavioural signals carry across systems. A payroll anomaly becomes a banking signal. A documentation gap becomes a regulatory hesitation. A mismatch between VAT patterns and

commercial activity simultaneously alters the company's risk posture across institutions.

In this environment, companies operating in Türkiye must recognise that institutional perception is cumulative. Compliance, tax architecture, payroll logic, treasury behaviour and documentation discipline combine into a single, integrated footprint—one that determines how the system interprets the organisation's credibility, stability and long-term governance maturity.

This chapter examines how Türkiye's institutions collectively read corporate behaviour, why coherence across systems matters, and how multi-agency visibility has become a fundamental dimension of operating credibility.

20.1 A Unified Reading: How Multiple Institutions Interpret the Same Behavioural Footprint

Although Türkiye's institutions have different mandates, the system's digitalisation has created an environment in which behavioural signals converge. A company's filings, banking flows, payroll declarations and governance routines no longer sit in separate silos; they produce a shared behavioural rhythm observable across channels.

Tax authorities examine VAT traces, withholding patterns, intercompany settlement logic and the integrity of e-Ledgers.

Banks evaluate financial discipline, the legitimacy of cash movements and the stability of operational routines.

Social security authorities read the workforce model through payroll declarations, continuity of employment and functional allocation.

Regulators across sectors observe whether the company's operational footprint aligns with its licensing and economic activity.

These perspectives differ in their technical frameworks but are unified in their reading of consistency.

When filings, cash movements, workforce signals and documentation align, the company presents a coherent identity. When they diverge, the system interprets friction—not as an isolated procedural issue, but as a behavioural instability that affects the organisation's credibility.

Türkiye's modern compliance environment, therefore, rewards companies that produce a stable, realistic and proportionate narrative across all institutional lenses.

20.2 Behavioural Signals: Why Institutions Focus on Rhythm, Not Declarations

Türkiye's institutions increasingly prioritise behavioural continuity over formal statements. The decisive question is not whether a company can articulate a compliance position, but whether its data points, workflows and operational signals reflect the same story.

Behavioural coherence emerges from routine:

- VAT filings that mirror commercial activity
- payroll cycles that match workforce structure
- cash-flow movements that align with operational needs
- intercompany settlements that reflect functional substance
- documentation created contemporaneously with activity

When these elements reinforce each other, institutions read it as predictable.

When they appear uncoordinated—even if technically correct—the system interprets instability.

This approach applies across the entire ecosystem.

A business with coherent tax behaviour generally enjoys smoother banking interactions, more predictable regulatory responses and lower visibility across supervisory channels. Conversely, behavioural breaks—including irregular payment patterns, abrupt changes in VAT posture, or inconsistencies between headcount and functional claims—generate systemic attention, because each institution reads the exact misalignment from a different perspective.

20.3 Cross-Institutional Friction: How Inconsistency in One Area Becomes Visibility Everywhere

In Türkiye, inconsistencies do not remain confined to the institution that first identifies them. They propagate across systems because each authority interprets similar behavioural themes.

A mismatch between VAT patterns and sales activity may cause the tax administration to seek clarification, but it also influences how banks view the company's commercial rhythm.

A workforce discrepancy triggers SGK questions, but it also affects the credibility of transfer-pricing claims and functional allocation.

A documentation lapse increases the risk of a tax adjustment and simultaneously raises concerns about the reliability of governance in regulatory interactions.

A sudden change in cash flow behaviour may prompt banking questions and affect how the tax administration interprets intercompany or incentive-related activity.

This does not represent a formal, coordinated audit model.

It is the natural result of a system in which multiple institutions observe different aspects of the same economic reality.

Companies that maintain internal coherence significantly reduce the likelihood of cross-institutional friction. Those whose behaviour is fragmented experience heightened visibility even when no single issue, viewed alone, would have triggered concern.

20.4 Multi-Agency Stability as a Component of Governance

In Türkiye's environment, governance is evaluated not only through board minutes or formal processes but through the behavioural stability the company produces across institutions.

A well-governed organisation demonstrates:

- consistent decision-making routines
- a predictable approval chain
- disciplined treasury behaviour
- contemporaneous documentation
- transparent allocation of functions and responsibilities
- proportional staffing relative to activity
- transparency in intercompany flows

These elements shape a governance profile that is observable in every institutional channel.

A board that oversees tax, cash flow, workforce structure and compliance posture produces a unified behavioural identity.

A board that intervenes only episodically or reacts to issues only after they manifest can make inconsistencies across systems visible.

Governance, therefore, acts as the internal anchor that prevents

behavioural fragmentation and stabilises the company's multi-agency profile.

20.5 Multi-Institutional Coherence as a Strategic Asset in Transactions

For investors, multi-agency coherence is not merely a compliance attribute—it is a determinant of transaction credibility and valuation.

During diligence, buyers examine whether tax filings, payroll cycles, banking flows and operational activity align.

Inconsistency increases transaction friction: longer diligence cycles, stricter SPA protections, narrow W&I coverage and more conservative working-capital and net-debt adjustments.

A company with stable behavioural patterns enjoys smoother diligence, fewer conditionality requirements and stronger institutional credibility post-closing.

In Türkiye's environment, institutional coherence becomes a transaction asset.

It reduces uncertainty for buyers, simplifies onboarding at banks, stabilises incentive continuity and accelerates post-deal integration.

It also increases the organisation's resilience during supervisory processes that occur long after closing, when the behavioural footprint is read through the lens of the new ownership model.

Multi-agency visibility in Türkiye is neither punitive nor burdensome. It reflects a regulatory environment that reads companies by their behaviour, not their declarations.

Firms that present clear and consistent behavioural signals—across tax, payroll, bank flows, documentation, intercompany activity and governance—experience a more predictable institutional environment and lower systemic friction.

This chapter frames the institutional logic through which Türkiye interprets corporate activity.

In the next chapter, the focus widens once more—from governance resilience and institutional oversight to the deeper behavioural architecture that underlies Türkiye's entire tax ecosystem. Where Chapter 20 examined how organisations are perceived across regulatory channels, Chapter 21 explores the structural logic behind that perception: how tax becomes the organisation's behavioural signature, the mechanism through which institutions interpret coherence, credibility and economic identity.

CHAPTER 21

TAX AS THE ARCHITECTURE OF ORGANISATIONAL BEHAVIOUR IN TÜRKİYE

In Türkiye, tax operates as the organisation's behavioural operating system—translating its decisions, workflows and governance logic into a single, institution-visible narrative that defines credibility across every supervisory channel.

“In Türkiye, tax is not the end product of behaviour—it is the architecture through which behaviour becomes visible.”

Tax in Türkiye functions as the connective tissue between behaviour, documentation and institutional credibility. It is the composite signal that reveals whether a company's internal design, governance reflexes and operational workflows align with the expectations of a data-driven ecosystem. As demonstrated across the earlier chapters of this book, Türkiye does not separate tax from organisational reality. It reads the organisation through tax.

The companies that thrive in Türkiye are those that understand this architecture: VAT trails that mirror commercial logic, payroll cycles that reflect workforce truth, intercompany flows backed by functional substance, and governance decisions that project behavioural predictability. In this jurisdiction, tax ceases to be an after-the-fact result and becomes the behavioural footprint of the enterprise.

21.1 Tax as a Behavioural Narrative, Not Merely a Fiscal Outcome

Türkiye's institutions evaluate companies based on patterns—monthly VAT filings, payroll declarations, banking flows, incentive utilisation, transfer-pricing documentation, and e-Ledger continuity. These patterns reveal more about an organisation's discipline than any individual transaction or statutory declaration. Tax is where these patterns converge.

In this environment, tax is not simply a compliance requirement; it is the narrative expression of how an organisation functions. A company with coherent VAT trails demonstrates real operational flow. A company with stable payroll records signals a high level of governance maturity. A company with aligned transfer-pricing positions shows internal consistency. When these components align, the tax system reads the organisation as stable, credible and well-controlled. When they diverge, visibility increases even in the absence of technical non-compliance.

Tax becomes the authoritative expression of internal truth.

21.2 The Institutional Logic Behind Türkiye's Tax Visibility

Türkiye's tax system is built on documentation, data integrity and behavioural continuity. This structure does not merely streamline administration; it reveals the organisation's internal coherence in real time. Each dataset—VAT, withholding tax, e-Ledger, payroll, intercompany charges—functions as an institutional sensor.

These sensors are synchronised across authorities. The tax administration sees the revenue engine. SGK sees labour truth. Banks see cash-flow integrity. MASAK sees a risk posture. Customs sees trade reality. When these signals reinforce each other,

predictability follows. When they conflict, institutions respond—not punitively, but diagnostically.

In this multi-institutional environment, tax serves as the point of convergence. It is where operational behaviour becomes institutionally legible.

21.3 Tax as Organisational Architecture and Strategic Capability

The core proposition running through this book is that tax in Türkiye is an architectural discipline. It structures the organisation's economic identity and operational rhythm. When tax logic is embedded into daily decisions—pricing, treasury, contracting, staffing, intercompany flows—the organisation becomes more resilient because its institutional footprint becomes more stable.

Well-designed tax architecture:

- aligns filings with workflows,
- anchors documentation to functional truth,
- reflects governance discipline,
- stabilises institutional perception, and
- strengthens transaction readiness and exit value.

In this sense, tax becomes a capability—one that transforms compliance into institutional coherence and operational credibility.

21.4 The High-Frequency Discipline of the Turkish System

The monthly cycle—VAT, payroll, withholding, e-Ledger, bank reconciliation—is Türkiye’s institutional heartbeat. Companies that align with this rhythm experience reduced friction, faster transactional clearance and more transparent institutional dialogue. Companies that operate outside it encounter avoidable visibility.

In Türkiye, tax exposes the organisation’s operational reflexes. It shows whether decision-making is structured or improvised, whether governance is proactive or reactive, and whether documentation is a living process or a retroactive exercise. The companies that excel are not those with the most complex structures, but those with the most coherent ones.

21.5 Tax as the Final Expression of Corporate Substance

Every chapter preceding this one has examined one dimension of substance—legal form, governance, incentives, cross-border design, workforce structure, transaction execution, compliance culture. Tax is where these dimensions converge and become measurable. It is the final institutional representation of organisational substance.

In Türkiye’s system, tax is not the by-product of corporate structure; it is the structural articulation of it.

Companies that integrate tax into their operating model unlock the system’s predictability. Those who treat it as a periodic reporting task encounter institutional noise.

This chapter concludes the book's analytical sequence and positions the reader for the dual closing that follows.

The Conclusion distils the system into a single strategic proposition: in Türkiye, tax is an institutional capability that determines credibility, resilience and long-term value.

The Epilogue widens the aperture—showing how Türkiye's future will reward organisations whose behaviour, data and governance converge into a unified institutional story.

These final sections do not introduce new mechanisms; they synthesise the entire behavioural, documentary and institutional architecture into a forward-looking operating model for investors, executives and boards.

CONCLUSION

TAX AS AN INSTITUTIONAL CAPABILITY IN TÜRKİYE

Tax in Türkiye has evolved beyond compliance.

It has become the visible imprint of organisational behaviour, data integrity and governance maturity. Across the chapters of this book—from corporate structuring to incentives, from cross-border planning to transfer pricing, from M&A execution to litigation behaviour—a single theme emerges:

- An organisation succeeds in Türkiye when tax is integrated into its institutional design.
- The companies that thrive are those whose operational truth is visible in every data stream:
- VAT cycles that reflect commercial activity,
- Payroll patterns that match functional reality,
- Intercompany flows aligned with economic substance,
- And governance decisions supported by contemporaneous evidence.

In Türkiye's digital regulatory environment, tax coherence is not achieved through technical arguments but through behavioural alignment.

When operations, data and governance reinforce a unified economic story, the organisation becomes credible, resilient and institutionally stable.

EPILOGUE

BEHAVIOUR, INSTITUTIONS AND THE FUTURE OF DOING BUSINESS IN TÜRKİYE

Türkiye is entering a new era—one defined by visibility, data integration and behavioural interpretation.

The regulatory ecosystem no longer evaluates companies based on isolated documents but on interconnected patterns of behaviour.

The future belongs to institutions that recognise a simple truth:

- Behaviour is strategy.
- Governance is infrastructure.
- Coherence is a competitive advantage.

As Türkiye's regulatory systems converge—digital tax analytics, bank-level oversight, MASAK monitoring, KVKK governance, sectoral supervision—an organisation's economic identity will be determined by its ability to project a stable, proportionate and credible behavioural footprint.

The companies that will lead in this environment are not those that merely comply, But those whose actions, data and decisions reinforce a single institutional story—One that aligns with Türkiye's evolving regulatory order.

GLOSSARY

A. Institutional & Administrative Architecture

Administrative Visibility

The multi-agency interpretive layer is created by tax filings, banking data, SGK information, customs flows and digital records.

Behavioural Footprint

The pattern of filings, payroll cycles, VAT trails, transfer-pricing positions and bank movements that institutions use to assess consistency.

Documentation Spine

The digital record set is produced by e-Invoice, e-Archive, e-Dispatch and e-Ledger systems.

Institutional Rhythm

Türkiye's 30-day compliance cadence that governs VAT, withholding/SGK returns, ledger closings and operational transparency.

Institutional Memory

Longitudinal datasets that allow institutions to evaluate taxpayer behaviour over time.

Predictive Compliance

Data-driven supervision using risk-scoring engines, e-audit modules and behavioural algorithms.

B. Corporate Tax Architecture & VUK Framework

Corporate Income Tax (CIT)

Tax on commercial profits is determined under Türkiye's statutory accounting rules.

Temporary Tax

Quarterly prepayments are aligned with corporate income tax liability.

Tax Procedure Law (VUK)

The framework governing documentation, evidence standards, record-keeping and penalties.

Notional Interest Deduction (NID)

A deemed-interest deduction for qualifying cash capital contributions.

Participation Exemption

Exemption for qualifying dividend income and capital gains from share disposals.

Thin Capitalisation

Interest-deduction limitations triggered when related-party debt exceeds statutory leverage thresholds.

Controlled Foreign Company (CFC)

A foreign entity is subject to taxation in Türkiye when the passive-income and ownership criteria are met.

Transfer Pricing (TP)

Arm's-length pricing requirements for related-party transactions.

Advance Pricing Agreement (APA)

A binding agreement on future transfer-pricing methodology.

C. VAT, Indirect Taxes & Transaction Architecture

Value Added Tax (VAT)

Transaction-based tax forms are Türkiye's primary mechanism for visibility.

Reverse Charge VAT

A mechanism shifting VAT liability to the recipient for cross-border services.

Input VAT Credit

The deductibility of VAT incurred on goods and services used in taxable activities.

VAT Refund Mechanism

A documentation-intensive process for the recovery of accumulated input VAT.

Stamp Tax

A tax on contracts, agreements and designated legal documents.

Banking and Insurance Transactions Tax (BITT)

A levy on banking and insurance revenues rather than profits.

Special Consumption Tax (SCT / ÖTV)

Sector-specific excise taxes applied to designated product categories.

D. Payroll, Social Security & Employment Architecture

Unified Withholding and Social Security Return

The combined monthly declaration covering tax withholding and SGK premiums.

Social Security Institution (SGK)

The authority responsible for labour registration, contribution oversight and payroll visibility.

Economic Employer Doctrine

A substance-based payroll-nexus rule applied in cross-border assignments.

Shadow Payroll

A parallel payroll arrangement is used to ensure local withholding and SGK compliance for expatriates.

E. International Taxation, Treaties & Cross-Border Structuring

Permanent Establishment (PE)

The domestic- and treaty-based threshold that forms taxable presence.

Multilateral Instrument (MLI)

The OECD instrument modifies treaty rules, including PE definitions and anti-abuse provisions.

Pillar Two / Global Minimum Tax (GloBE)

The OECD's 15% minimum tax regime applies to large multinational groups.

Qualified Domestic Minimum Top-Up Tax (QDMTT)

Türkiye's domestic minimum tax mechanism ensures alignment with Pillar Two.

DEMPE Functions

The OECD substance framework for intangibles: Development, Enhancement, Maintenance, Protection, Exploitation.

Hybrid Mismatch

A tax outcome caused by the divergent classification of entities or instruments across jurisdictions.

F. FX, Banking & Treasury Operations

FX-Denominated Contracts

Contracts governed by Türkiye's currency-usage rules under Decree No. 32.

Resource Utilisation Support Fund (RUSF)

A levy on foreign-currency loans, determined by maturity and borrower type.

Cash-Pooling

A centralised liquidity management structure used in group treasury operations.

Intercompany Loans

Financing arrangements within a corporate group are subject to thin capitalisation, transfer pricing, and withholding tax rules.

G. Corporate Forms, Governance & Legal Identity

Joint Stock Company (A.Ş.)

A capital company suitable for scalable or regulated operations.

Limited Liability Company (Ltd.)

A flexible corporate form used across sectors.

Branch Office

A taxable commercial presence without separate legal personality.

Liaison Office

A non-commercial representative entity is prohibited from revenue-generating activity.

Place of Effective Management (POEM)

The residency test is based on where strategic management decisions are made.

Registered Capital System

A governance model allowing authorised capital increases without repeated shareholder approvals.

H. Customs, Trade & Supply-Chain Architecture

EU–Türkiye Customs Union

The framework allows tariff-free movement of industrial goods with the EU.

BILGE System

Türkiye's digital customs-declaration and risk-management platform.

Electronic Commerce Customs Declaration (ETGB)

A simplified customs mechanism for small-parcel e-commerce shipments.

Carbon Border Adjustment Mechanism (CBAM)

The EU's carbon-linked import compliance framework is relevant to Turkish exporters.

I. Incentives, R&D & Innovation Architecture

Technology Development Zones (TDZ / Teknopark)

Zones offering tax incentives for software and R&D activities.

R&D Law No. 5746

Türkiye's statutory framework for R&D and design-centre incentives.

Free Zones

Export-focused zones offering tax exemptions and customs advantages.

Regional Investment Incentive Scheme

Türkiye's region- and sector-based investment-promotion structure.

J. M&A, Transaction Structuring & Execution

Share Deal

Acquisition of equity in a target company with its existing liabilities and tax posture.

Asset Deal

Acquisition of selected assets and liabilities, enabling perimeter definition and risk isolation.

Warranty & Indemnity (W&I) Insurance

Insurance covering representations and warranties in M&A transactions.

Carve-Out

Separation of a business line or asset perimeter into a standalone transaction execution structure.

Post-Merger Integration (PMI)

Alignment of tax, operational, governance and data systems following completion of an acquisition.

K. Risk Management, Audits & Litigation

Risk Analysis and Scoring System (RASS)

The Revenue Administration's algorithm-based audit-selection engine.

Special Irregularity Penalties

Penalties under VUK for documentation or reporting non-compliance.

Administrative Appeal

Türkiye's structured dispute-resolution mechanisms before litigation, including pre- and post-assessment settlement.

Judicial Review

The three-tier court hierarchy: Tax Court →Regional Administrative Court →Council of State (Danıştay).

L. Data Governance, Privacy & Digital Compliance

Data Protection Law (KVKK)

Türkiye's statutory framework for personal-data governance.

VERBIS

The mandatory data-controller registry under KVKK.

E-Documentation Suite

The integrated system of e-Invoice, e-Archive, e-Dispatch and e-Ledger filings that forms Türkiye's transactional visibility infrastructure.

DOING BUSINESS IN TÜRKIYE-Corporate Structuring & Tax Architecture Framework is not another surface-level market guide – It is a structured, analytical architecture for understanding one of the world’s most dynamic and data-driven business environments. Written from more than twenty-five years of hands-on advisory experience, this book reframes Türkiye not as a collection of regulations, but as a high-frequency institutional system where rhythm, documentation and behavioural coherence determine predictability.

In Türkiye, clarity is engineered, not assumed. Investors soon discover that monthly VAT cycles, digital reporting systems, banking visibility and documentation discipline form the country’s true operating infrastructure. This book shows readers how Türkiye’s institutions “read” companies – through patterns, signals and data alignment – revealing why consistency is not merely compliance, but a core driver of credibility and long-term operational stability.

Rather than offering generic checklists, the book delivers a deep strategic framework spanning market entry structures, cross-border taxation, corporate governance, financing architecture, regulatory onboarding, M&A execution, incentive regimes, treasury behaviour, transfer pricing, employment tax, and litigation strategy. Each chapter exposes the underlying logic behind the rules, turning complex mechanisms into actionable, durable insight.

Readers will learn:

- Why Türkiye’s digital tax ecosystem behaves like an information architecture rather than a traditional regulatory system.
- How documentation forms the backbone of institutional trust – and how companies can design coherence from day one.
- How foreign investors can anticipate audit behaviour, manage risk structurally, and build operating models aligned with Türkiye’s predictive compliance environment.
- How strategic clarity emerges not from macroeconomic variables, but from the repeatable rhythm of filings, flows and patterns that define corporate behaviour in Türkiye.

Whether you are an investor, executive, advisor or corporate decision-maker, **DOING BUSINESS IN TÜRKIYE-Corporate Structuring & Tax Architecture Framework** equips you with the architecture, reasoning and institutional perspective required to build resilient, well-designed, long-term operations in one of the world’s most structurally sophisticated emerging markets.

Doing Business in Türkiye