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## Country Profile: Turkey

## The Facts

Location	Southeastern Europe and Southwestern Asia (that portion of Turkey west of the Bosphorus is geographically part of Europe), bordering the Black Sea, between Bulgaria and Georgia, and bordering the Aegean Sea and the Mediterranean Sea, between Greece and Syria
Languages	Official – Turkish Spoken – Kurdish and others
Nationality	Turkish
Religions	Mainly Muslim
Government	Republican Parliamentary Democracy
Head of Government	Prime Minister
Legislature	Unicameral Grand National Assembly of Turkey
Constitutional Document	Constitution of the Republic of Turkey
Economy	Turkey is the largest economy in the Middle East before Iran and Saudi Arabia, the 7th largest economy in Europe and the 15th largest economy in the world. Member of the G20 and the European Union Customs Union. Turkey is also one of the world's newly industrialized countries. The country is among the world's leading producers of agricultural products; textiles; motor vehicles, ships and other transportation equipment; construction materials; consumer electronics and home appliances. In recent years, Turkey had a rapidly growing private sector, yet the state still plays a major role in industry, banking, transport, and communications.
Currency	Turkish Lira (TRY)
GDP (2012)	Total – TRY 1,419.09 billion Per capita – TRY 18,950 Real GDP growth – +3%
Population	79,749,461 (approx.)
Percentage of population	Turkish – 75% Kurdish – 18% Others – 7%
Area	783,562 km <sup>2</sup>
Time zone	EET (UCT +2) EEST (UCT +3)
Public Holidays	13
Climate	Temperate



Sources: Central Intelligence Agency, International Monetary Fund, Wikipedia

## Turkey

The Turkish economy has shown remarkable performance with its steady growth over the last eight years. A sound macroeconomic strategy in combination with prudent fiscal policies and major structural reforms in effect since 2002 has integrated the Turkish economy into the globalized world, while transforming the country into one of the major recipients of FDI in its region.

The structural reforms, hastened by Turkey's EU accession process, have paved the way for comprehensive changes in a number of areas. The main objectives of these efforts were to increase the role of the private sector in the Turkish economy, to enhance the efficiency and resiliency of the financial sector, and to place the social security system on a more solid foundation. As these reforms have strengthened the macroeconomic fundamentals of the country, the economy grew with an average annual real GDP growth rate of 5.2 percent over the past nine years between 2002 and 2011.

The visible improvements in the Turkish economy have also boosted foreign trade, while exports reached USD 135 billion by the end of 2011, up from USD 36 billion in 2002. Similarly, tourism revenues, which were around USD 8.5 billion in 2002, exceeded USD 23 billion in 2011. Significant improvements in such a short period of time have registered Turkey on the world economic scale as an exceptional emerging economy, the 16th largest economy in the world and the 5th largest economy when compared with the EU countries, according to GDP figures (at PPP) in 2011. While many economies have been unable to recover from the recent global financial recession, the Turkish economy expanded by 9.2 percent in 2010, and 8.5 percent in 2011, thus standing out as the fastest growing economy in Europe, and one of the fastest growing economies in the world.

## The Turkey Business Climate

Turkey is a country offering significant opportunities for foreign investors with its geographically perfect position to function as a gateway between Europe, Middle East and Central Asia. The opportunities exist not only in the dynamic domestic market, but also throughout the region. There are several reasons to invest in Turkey:

- **Successful economy:**
  1. Booming economy (USD 230 billion to USD 736 billion of GDP from 2002 to 2010)
  2. Sustainable economic growth (4.8 percent annual average real GDP increase for the last 8 years)
  3. Promising economy with a bright future as it is expected to be the fastest growing economy among the OECD members during 2011-2017 with an annual average real GDP growth rate of 6.7 percent
  4. 16th largest economy in the world and 6th largest economy compared with the EU in 2010
  5. Institutionalized economy fueled by over USD 94 billion of FDI in the last 8 years and ranked as the 15th most attractive FDI destination for 2008-2010 (UNCTAD)
- **Qualified and competitive labor force:**
  1. Over 25 million young, well-educated and motivated professionals
  2. Increasing labor productivity combined with decreasing real unit wage
  3. 4th largest labor force compared with the EU
  4. The longest working hours, and the lowest sick day leaves per employee in Europe (53.2 hours worked per week and annual average of 4.6 sick days per employee)
  5. Approximately 500,000 graduates from 156 universities
  6. Around 663,000 high school graduates, including one third from vocational and technical high schools \*2010 data

- **Liberal and reformist investment climate:**
  1. A dynamic and mature private sector with USD 114 billion worth of exports and an increase of 225 percent between 2002 and 2010
  2. Business-friendly environment with average of 6 days to set-up a company, while the average in OECD members is more than 13 days
  3. Highly competitive investment conditions
  4. Strong industrial and service culture
  5. Equal treatment for all investors
  6. More than 25,000 companies with international capital
  7. International arbitration
  8. Guarantee of transfers
- **Strategic location:**
  1. A natural bridge between both East-West and North-South axes, thus creating an efficient and cost effective outlet to major markets
  2. Easy access to 1.5 billion customers in Europe, Eurasia, the Middle East and North Africa
  3. Access to multiple markets worth USD 23 trillion of GDP
- **Low taxes and incentives:**
  1. Corporate Income Tax reduced from 30 percent to 20 percent
  2. Individual Income Tax varies from 15 percent to 35 percent
  3. Tax benefits and incentives in Technology Development Zones, Industrial Zones and Free Zones could include total or partial exemption from Corporate Income Tax, up to 80 percent grant on employer's social security share, as well as land allocation.
  4. R&D and Innovation Support Law
  5. Region and sector-based incentive system
- **Large domestic market:**
  1. 35 million internet users in 2010, up from 4 million in 2002
  2. 62 million GSM users in 2010, up from 23 million in 2002
  3. 46 million credit card users in 2010, up from 16 million in 2002
  4. Over 102 million airline passengers in 2010, up from 33 million in 2002
  5. 28.5 million international tourist arrivals in 2010, up from 13 million in 2002

## Setting up a Business in Turkey

The following text provides a detailed summary of the bureaucratic and legal issues an entrepreneur needs to deal with when incorporating and registering a new company / firm in Turkey. It outlines the process which needs to be undertaken when setting up a commercial or industrial firm with a maximum of fifty employees and start-up capital of ten times the economy's per-capita gross national income (GNI).

- **Complete and notarize articles of association, signature declaration of the managers, copies of all manager's identity cards or passports and commercial books:** Prepare notarized articles of association (3, 1 original), notarized signature declarations (2 copies) and notarized identification cards of company / firm managers (2 copies). The documents for incorporation are not liable to the stamp tax, in accordance with changes to the Stamp Tax Law (as of January 1, 2004). The charge for certification shall be paid to the notary public for completing the articles of incorporation. The amended charge schedule for notarizing incorporation documents is as follows:
  1. Articles of association (3 copies, each consisting of ten pages): TRY 900 (approximately).
  2. Signature declarations of company managers (2, each one consisting of 5 signatures): TRY 100 (approximately).



- **Deposit a percentage of capital to the account of Competition Authority:** In order to register with the Commercial Registry, company founders need to acquire the original receipt from Ziraat Bankası, showing that 0.04% of the company's / firm's capital has been paid to the Competition Authority at a public bank or the central bank.
  - **Deposit the initial capital in a bank and acquire the certificate of paid-in capital:** The total capital of the company / firm can be paid within 3 months after registration, if it is not paid beforehand. Please note the following alternative; 25% of the capital may be paid in the 1st three months after company registration, with the remaining balance of it paid within three years of incorporation.
  - **File the required documents at the Trade Registry Office:** Founders are required to send the notice form for incorporation, the commitment letter, and the chamber registration statement to the Trade Registry Office. Limited liability company formation does not need an application from court. Founders can start the registration procedure, after obtaining the documents listed below:
    1. For every separate shareholder who is not a Turkish citizen, 1 copy of the shareholder's passport notarized by a Turkish notary.
    2. For every separate shareholder who is a Turkish citizen or for a Turkish representative of such shareholder, 2 verified copies of the identification card.
    3. 3 copies of a notification form of establishment (kuruluş bildirim formu).
    4. 3 copies of the notarized articles of association.
    5. Receipt of bank deposit from the Competition Authority Account (0.04% of the company's / firm's capital).
    6. An undertaking (taahhütname) signed by the approved company representatives.
    7. For everybody approved to represent the founders of the limited liability company, 2 copies of the signature.
  - **Pay registration fee, establish tax identity:** The Commercial Registry Office informs the Tax Office and the District Employment Office of the incorporation of the company / firm. The Registry organizes a declaration in the Commercial Registration Gazette within approximately ten days of registration of the company. A tax identity plaque needs to be acquired from the local tax authority once the Commercial Registry Office informs the local tax authority. The Registry Office also informs the Ministry of Labor and Social Security, Directorate of the Social Security Institution of company incorporation. A social security number is required from the appropriate Social Security Administration office, and all company employees need to complete registration with that office. he charge for registration for a limited liability company has grown to TRY 555:
    1. Publication or advertisement charge: TRY 0.23 for each word.
    2. Start-up notice: TRY 38
    3. Trade Registry Gazette charge: TRY 1.50
    4. Publication: TRY 90–460
    5. Charge for registration of manager's signature
    6. 1st manager's signature: TRY 250
    7. Every extra manager's signature: TRY 198.85
- Charge schedule for yearly membership in the Istanbul Chamber of Commerce (dependent on capital):
1. TRY 1 – 999 (capital): TRY 70
  2. TRY 1,000 – 24,999 (capital): TRY 100
  3. TRY 25,000 – 249,999 (capital): TRY 150
  4. TRY 250,000 – 999,999 (capital): TRY 200
  5. TRY 1,000,000 and more (capital): TRY 225



- **Have a notary verify the legal books:** The founders are required to verify the legal books the same day as company registration with the Commercial Registry. The notary public are required to inform the Tax Office regarding the commercial book verification. Charge schedule for legal book verification:
  1. Verification up to 100 pages: TRY 45
  2. Verification up to 200 pages: TRY 56
- **Follow up with the tax office on Commercial Registry's notification:** The Commercial Registry Office informs the Tax Office and the Social Security Administration of the incorporation of the company. Generally, to accelerate registration, company representatives must check if the notification has been obtained. A tax officer arranges a determination report at company headquarters, and it is a requirement that there be at least 1 approved signature in this report. In accordance with "The Law Number 4884 Regarding the Amendments on Turkish Commercial Code, Tax Procedure Law, Stamp Act, Labor and Social Security Law" Trade Registry Officers must submit the company establishment form. This form contains notification of the tax number for the tax authority.

### Types of Business Structures in Turkey

A foreign company may perform business in Turkey in one of the following ways:

- **Joint Stock Corporation (Anonim Şirket, A.S.):** The stock capital is divided into shares. A shareholder's liability is limited to the capital they subscribed and paid. A minimum of five shareholders and TRY 50,000 is needed to start the company. A stock certificate is issued. In the following businesses, the company structure is compulsory as a corporation (A.S.) by the related laws and decrees:
  1. Banking & Insurance
  2. Reinsurance
  3. Securities, Real Estate, and Venture Capital Investment Companies
  4. Intermediary Institutions (Brokerage Houses)
  5. Financial Leasing, Factoring, Consumer Financing
- **Limited Liability Company:** A Limited Company in Turkey can be set with at least 2 founders. The founders can be real persons or legal entities. Similar to Joint Stock Companies in other respects, Limited Companies cannot issue stock certificates. Minimum capital requirement is TRY 10,000. The liability of the shareholders is limited with the share capital. Nevertheless, shareholders of a limited liability company are responsible for tax and social security liabilities of the company, if it is in default and if tax office cannot collect outstanding taxes from the assets of the company. In other words, each shareholder is responsible for the unpaid taxes for its shareholding ratio in the company capital.
- **Commandite Company (Komandit Şirket):** A Commandite Company is a type of company established to carry out a business under a trade name. Whereas the liability of some shareholders is limited to the capital subscribed and paid by the shareholder (commanditer), for some shareholders there is no limitation of liability. The liability of legal entities will be in proportion to their shares. There is no minimum capital requirement. The rights and obligations of the shareholders are determined by the Articles of Association.
- **Collective Companies (Kolektif Şirket):** A Collective Company is similar to a Commandite Company, except only real persons can be shareholders of a Collective Company and the liability of the shareholders is limited to the capital subscribed and paid by the shareholder. Like a Commandite Company, a Collective Company is set up carry out a business under a trade name without a requirement of minimum capital, where the rights and obligations of the shareholders are also set out in the Articles of Association.
- **Liaison Office:** Companies based abroad can open liaison offices in Turkey provided if commercial activities are not carried out through these offices. Such an office may be established with the permission of the Foreign Investment Department (FID) under the Turkish Prime Ministry. Foreign banks may also open representative offices subject to the permission of the Banking Regulatory and Audit Committee (BDDK). The expenses of the liaison offices must be met by bringing foreign exchange from abroad. Under the present legislation, salaries received from a liaison office are not subject to income tax irrespective of the nationality of the employee. Liaison offices may be only involved with non-commercial activities in Turkey; they may not be engaged in any type of commercial activity. They are required to report their activities to the FID at the end of each year.



- **Branch:** Foreign companies may operate through a branch in Turkey. The branch is represented by the branch representative based on the power of attorney to be issued by the parent company. The provisions applicable to branches for the registration of investments, import of capital and remittance of profits are the same as for a company. Branch can be established with the permission of the Ministry of Commerce and Industry. The branch does not have separate articles of association but the parent's articles of association will be applicable as the scope of activity of the Turkish branch. The branch does not have a separate shareholders' assembly, which will take the related resolutions for the operations of the company, but these should be executed by the board of the parent of the Turkish branch. There is no minimum capital requirement for branch establishments. Branches are also subject to liquidation such as a subsidiary company which takes 12 to 18 months.

## Taxation

Turkey has one of the most competitive corporate tax rates in the OECD region. The new Corporate Tax Law that was enacted on June 21, 2006 has made some important amendments to the current applications and also included new concepts in the tax legislation. With the new Corporate Tax Law in place, Turkish corporate tax legislation now has noticeably clearer, more objective and better harmonized provisions which are in line with international standards. The following are some common taxes for business:

- **Corporate income taxes:** In Turkey, the basic corporate income tax rate levied on business profits is 20%.  
Withholding taxes on selected payments of resident corporations:
  1. Dividends are subject to 15%.
  2. Interest on treasury-bill and treasury bonds derived by resident corporations is subject to 0%.
  3. Interest on other bonds and bills derived by resident corporations is subject to 0%.
  4. bank deposits are subject to 15%.
  5. Profit shares paid by participation banks in consideration of participation accounts are subject to 15%.
  6. REPO agreements are subject to 15%.Withholding taxes on selected payments of non-resident corporations:
  1. Dividends are subject to 15%.
  2. Interest on treasury-bill and treasury bonds derived by non-resident corporations is subject to 0%.
  3. Interest on other bonds and bills derived by non-resident corporations is subject to 0%.
  4. bank deposits are subject to 15%.
  5. Profit shares paid by participation banks in consideration of participation accounts are subject to 15%.
  6. REPO agreements are subject to 15%.
- **Individual income tax:** The personal income tax rate varies from 15% to 35%.
- **Value added tax (VAT):** The generally applied VAT rate varies between 1%, 8%, and 18%. Commercial, industrial, agricultural, and independent professional goods and services, goods and services imported into the country, and deliveries of goods and services as a result of other activities are all subject to VAT.



- **Banking and insurance transaction tax:** Banking and Insurance company transactions remain exempt from VAT but are subject to a Banking and Insurance Transaction Tax. This tax applies to income earned by banks, for example on loan interest. The general rate is 5%, while interest on deposit transactions between banks is taxed at 1% and sales from foreign exchange transactions at 0.1%.
- **Stamp duty:** Stamp duty applies to a wide range of documents, including contracts, agreements, notes payable, capital contributions, letters of credit, letters of guarantee, financial statements, and payrolls. Stamp duty is levied as a percentage of the value of the document at rates ranging from 0.165% to 0.825%.
- **Tax on wealth:** There are three kinds of taxes on wealth: inheritance and gift taxes, property taxes, and motor vehicle tax. Buildings and land owned in Turkey are subject to real estate tax at the following rates:
  1. Residences 0.1%
  2. Other buildings 0.2%

## Investment Incentives in Turkey

There are seven investment zones in Turkey can enjoy tax incentives:

- Prioritized development zones
- Technology development zones
- Organized industrial zones
- Free zones
- Research and development
- Private educational corporations
- Cultural investments and enterprises

VAT exemptions include but are not limited to the following transactions:

- Export of goods and services.
- Roaming services rendered in Turkey for customers outside Turkey (i.e. non-resident customers) in line with international roaming agreements, where a reciprocity condition is in place.
- Petroleum exploration activities.
- International transportation.
- Deliveries made to diplomatic representatives, consulates and international organizations with tax exemption status and to their employees.
- The supply of machinery and equipment, including importation, to persons or corporations that are VAT taxpayers and that have an investment certificate issued by the relevant authority.
- Services rendered at harbors and airports for vessels and aircrafts.
- Social and other exemptions apply to deliveries made to the government and other related organizations for cultural, educational, health and similar purposes.
- Banking and insurance transactions are exempted from VAT as they are subject to a separate banking and insurance transactions tax at a rate of 5%.
- Tax exemptions are provided for earnings derived by corporations from their overseas branches and both their domestic and overseas ventures if they meet certain conditions.
- Research and development allowances.
- Deductions from the tax base of corporations related to certain donations, aid or sponsorship expenditures for sport activities.



## Immigration and Visa Requirements

To work in Turkey, you must apply to the nearest Turkish mission to obtain work permit and visa. Your passport, visa application form and a letter from your employer are just needed for your application. Other documents should be submitted to the Turkish Ministry of Labor and Social Security (MLSS) by your employer within ten working days after your application.

You may find the list of those documents in the MLSS's website (<http://www.csgb.gov.tr>). Applications are finalized by the MLSS within thirty days at the latest. Right after your arrival in Turkey (before starting to work), you should be registered at the local police department within one month to obtain the necessary residence permit.

## Banking Requirements

A foreigner moving to Turkey may open a bank account by visiting a branch. Most banks offer a choice of accounts to suit the customer's needs, and provide a wide range of services. Accounts are usually approved on the same day, and access to telephone and Internet banking can be activated shortly afterwards. There are three types of accounts:

- **Current account:** These are generally free but non-interest bearing. Charges apply to overdrafts and additional services
- Savings account
- Deposit account

Joint accounts are available; it is important to stipulate whether a single or joint signatures are required to withdraw funds when opening a joint account. Accounts in a foreign currency are also available.

The following documents are required in order to open an account:

- Copy of passport
- Republic of Turkey Tax Identification Number: most banks can help customers obtain this number. The registration procedure is simple and straightforward and takes place at the Finance and Tax Office
- Completed proof of signature form
- Proof of address (such as a recent utility bill)

## Reference

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