

# How to do business Investors' guide Turkey





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# Message of the president

**M. Rifat Hisarcıklođlu**  
President of DEİK and  
Union of Chambers  
and Commodity  
Exchanges of Turkey



It is my great pleasure to introduce this “Investors’ Guide Turkey”, written in collaboration with Deloitte, intended to introduce our country to the international business community and provide key information about current economic issues, the investment environment, and the general business framework of our country.

The opportunities are real and very exciting. Turkey already ranked as the 15<sup>th</sup> largest economy in the world and ranked 6<sup>th</sup> largest economy in Europe in terms of purchasing power parity. Turkey has been one of the fastest growing of the OECD countries for many years but its achievements since the economic reforms of 2001 are remarkable by any standards. There have been 27 consecutive quarters of unbroken economic growth, with GDP expanding by 7% a year on average. Turkey has enjoyed the sort of growth rates in the years ahead usually only to be found in South East Asia.

The figures tell their own story. Turkey in 2009 is a manufacturing country, a major producer of a diverse range of industrial project. Turkey has the largest and most dynamic economy in the entire arc of countries from central Europe, down through Balkans and Eastern Mediterranean, through the Middle East and North Africa. Turkey exports more than 200 countries and has a trade volume reaching to 340 billion dollars. Two thirds of Turkish exports go to the advanced industrial countries of the European Union, North America, and the OECD. Turkey is the sixth largest trading partner of the European Union. Turkish contractors are currently handling overseas projects worth a total of 130 billion dollars at the end of 2008. There are 24 Turkish companies within the list of 100 biggest companies in Islamic world.

There are many opportunities in Turkey for international investors in particular. In the last 5 years, Turkey has implemented several reforms in order to improve conditions for foreign investors. Consequently, only in the last 5 years, it attracted foreign direct investment over 70 billion dollars and the number of companies with foreign capital operating in Turkey reached to 20.000. Despite the global crisis, the amount of inward FDI was 17.7 billion USD for 2008 with only a slight decrease. Total foreign direct investment in Turkey has reached to 80 billion dollars.

Last year, according to the United Nations Conference on Trade and Development (UNCTAD), Turkey also ranked 23<sup>rd</sup> in the world and 9<sup>th</sup> among the emerging markets in terms of attractiveness as an FDI destination. Turkey also ranked 59<sup>th</sup> out of 181 economies in Ease of Doing Business Rank of the World Bank, 41<sup>st</sup> out of 121 economies in Forbes Doing Business Index and 15<sup>th</sup> most attractive economy for the location of FDI in UNCTAD’s World Investment Prospects Survey 2008-2010.

We welcome foreign investors and promise them a vital and exciting environment in which they can look forward to sharing the opportunities of rapid growth. Companies well-established here will be able to reap the rewards, while late-comers will have missed the opportunities I mentioned.

From its establishment till today, Foreign Economic Relations Board (DEİK) has been a trail-blazer in establishing new links between the Turkish business world and its counterparts elsewhere. Its 24 founding member institutions represent the entire Turkish private sector. The organisation, which among other things has set up no less than 82 Bilateral Business Councils under its umbrella, has just gone through a major restructuring operation which will make its work even more efficient.

Union of Chambers and Commodity Exchanges of Turkey (TOBB), DEİK's umbrella organization, has a crucial contribution to DEİK's work via its international network. TOBB is represented in Association of Balkan Chambers, World Chambers Federation and Association of Mediterranean Chambers of Commerce and Industry at the level of Chairman. It is also represented in Eurochambers, Islamic Chambers of Commerce and Industry and Organization of the Black Sea Economic Cooperation Business Council at the level of Board Member. So, I believe DEİK will continue to use this invaluable network in order to establish new business contacts between Turkish and foreign business circles.

I very much hope that this business guide will succeed in its aim of encouraging business people to take advantage of the enormous opportunities which are to be found in Turkey today. On this occasion, I would like to thank Deloitte most sincerely to cooperate with us in preparing this business guide.

# Message from the chairman of the executive board

**Rona Yırcalı**  
Chairman of DEİK  
Executive Board



DEİK (Foreign Economic Relations Board of Turkey) was founded in 1988 to promote the economic and commercial relations of Turkish businessmen abroad along with the broader goal of ensuring the overall integration of the Turkish economy into the global economy.

As a consequence of the economic liberalization policies of the 1980s, Turkey became a prominent actor in international trade as well as an attractive hub for foreign direct investments. In fact, DEİK has earned considerable credit for achievement as an institution that makes every effort to open the Turkish economy up to the world economy.

According to the IMF, the Turkish economy is the 15<sup>th</sup> biggest economy in the world in terms of purchasing power parity, with a growth rate of 6.3% and a foreign trade increase of 386% between 2002 and 2008. When we look at Turkey's most powerful sectors, we see that Turkey is the 2<sup>nd</sup> largest manufacturer of flat glass in the world, the number one textile and TV manufacturer in Europe, and the number one exporter of cement in Europe. Turkey has the world's 8<sup>th</sup> largest ship construction industry and Turkey is within the first 10 most popular tourist destinations in the world.

Due to the enactment of the new Law for Foreign Direct Investment, foreign investors have gained equal rights with Turkish investors. Accordingly, the value of foreign direct investments reached 50 billion US dollars in the past 3 years.

In this new era, the priorities of DEİK include fostering production of goods and services which have high added value and competitive power, providing market diversity and depth, contributing in attracting the investments involving high technology to Turkey, and supporting the trademark of Turkish brands and providing them the opportunity to have activities in the global arena.

In addition to its routine meetings, DEİK organized more than 363 activities, 279 in Turkey and 84 abroad, and hosted 18 Presidents and 20 Prime Ministers of various countries in the previous year. Additionally, DEİK coordinated very significant meetings where many of the most distinguished persons in the world could meet with Turkish and foreign businessmen.

One of the most valuable DEİK publications, "Investors' Guide Turkey", has been prepared in cooperation with Deloitte this year. In this respect I sincerely thank Deloitte to join us in our endeavour to illuminate foreign businessmen and investors abroad about the business opportunities, legal framework and economical situation of Turkey. I hope that Turkey will be promoted because of this publication, and new projects, enterprises, and cooperation will be established which will render Turkey one of the biggest economies in the world.

I sincerely believe that with the guidance of DEİK as a pioneering legal organization serving Turkey's integration into the world, Turkey will become further involved with the world.



# Foreword

It is a great pleasure for Deloitte Turkey to cooperate with the Foreign Economic Relations Board of Turkey ("DEIK") to contribute to the development of Turkey's economic, commercial, industrial and financial relations with foreign countries as well as international business organizations and communities. We all observe that DEIK plays a very important role in achieving the integration of Turkey's economy into the global economy. This integration certainly requires development of business relations with foreign countries and attraction of foreign direct investment into Turkey. In this respect, DEIK acts as an intermediary between the public and private sectors through its close working relations with both sides.

We observe that Turkey is getting more and more in line with the global business standards as a result of the economic liberalization policies of the 1980's followed by harmonization of tax, investment and business related legislation with the global applications through the enactment of new Customs Law in 1999, new Law for Foreign Direct Investment in 2003 as well as the New Corporate Income Tax Law in 2006 which has introduced transfer pricing rules for transactions between related parties in line with the standards of the Organization for Economic Cooperation and Development (OECD). These are all very important legislative developments in Turkey for foreign investors in accordance with the global standards. It is even more important for all foreign investors in today's global economic environment which is now facing a crisis of unknown depth and duration, to very carefully take into account the prevailing tax and business related regulations when making their investment decisions to assess the inherent risks and opportunities in starting, maintaining, restructuring and ceasing their operations in a particular country.

Again it is a great pleasure for Deloitte Turkey to closely cooperate with DEIK in preparing "Investors' Guide Turkey" in an attempt to provide foreign investors with a concise tax and business guide to help them with their investment decisions.



**Güler Hülya Yılmaz**  
Tax Partner  
Deloitte Turkey

We hope that the Guide will provide potential and existing investors with an overview of what is possible when structuring an investment in Turkey and which factors must be considered when deciding whether to acquire an existing Turkish company.

As Deloitte Turkey, we sincerely share the belief of both Mr. Rona Yırcalı and Mr. Rifat Hisarcıkloğlu that with the guidance of DEIK as a pioneering legal organization serving for Turkey's integration into the world, Turkey will gain more and more importance and will undertake more and more important roles that it already deserves in the global business arena.

The information provided in the guide is not exhaustive and unless otherwise indicated, is based on the relevant legislation and conditions existing at **February 2009**. Readers are advised to consult with professionals, such as independent and certified accountants and consultants as well as legal counsel before making their investment decisions and/or taking any formal action. Professionals of Deloitte Turkey would be pleased to provide any support needed in this respect.

Yours sincerely,









# 1. Turkey in general

## 1.1. Geography, political and economic background

The Republic of Turkey covers about 814,578 square kilometers, at the junction between Europe and the Middle East. The continents of Europe and Asia are separated by the Bosphorus Straits. Turkey is composed of seven geographical regions: Marmara Region, the Black Sea Region, the Mediterranean Region, the Eastern Anatolia Region, the Southeastern Anatolia Region, the Aegean Region and the Central Anatolian Region. Turkey has a coastline of about 8,000 kilometers. The Anatolian Land is surrounded by the Black Sea in the north, the Aegean and Marmara Sea in the west and the Mediterranean Sea in the south. The capital city is **Ankara** which is located in the Central Anatolian Region. Turkey's neighbors are: Greece, Bulgaria, Georgia, Azerbaijan, Armenia, Iran, Iraq and Syria. Turkey's geographical coordinates puts its time scale two hours ahead of "Greenwich Mean Time" (GMT) and the table below shows the time differences between Turkey and the major world cities.

### City Hours Ahead or Behind Turkey

Berlin	-1
Paris	-1
Rome	-1
London	-2
New York	-7
Los Angeles	-10
Singapore	+6
Tokyo	+7
Sydney	+8

The official language is Turkish; all official documents which are to be submitted to the government authorities must be in Turkish. English is used as an international language in trade and business circles. Since the 1920s Turkey has based its culture and economic development on Western principles. Links with Europe and the United States are strong.

Turkey has been a parliamentary democracy since 1923. The Republic of Turkey, which was founded on 29 October 1923, is a secular republican parliamentary democracy based on division of power between various ruling bodies.

Its unicameral parliament, the Grand National Assembly (Türkiye Büyük Millet Meclisi - TBMM), which includes 550 seats representing the 81 Turkish provinces is the legislative body. The Constitution of Turkey establishes the legal framework. The President is elected by the TBMM for a term of 7 years, while the members of the Parliament are elected for a 5-year period (the last election was held in July 2007). The Republic of Turkey has a tripartite legal system. Civilian and military jurisdiction is separated.

The main executive body is the Council of Ministers, consisting of a Prime Minister and twenty five ministers. Independent Courts have the judicial power. Turkey is a secular state. The freedom of worship for all religions is protected under the Constitutional Law.

## 1.2. Current political administration and government structure

The current President of the Republic of Turkey is Mr. Abdullah Gül who was elected in August 2007. The current Prime Minister is Mr. Recep Tayyip Erdoğan who was re-appointed after the general elections held in July 2007. He is the head of the Justice and Development Party ("AKP") which has won nearly half of the Parliamentary majority in July 2007 elections.

## 1.3. Currency

The domestic currency is the Turkish Lira ("TL" - TRL) with effect from 1 January 2009. As a result of the enactment of Law No. 5083 published in the Official Gazette on 31 January 2004, the new currency unit had been introduced as "New Turkish Lira" (TRY) effective from 1 January 2005. As of 1 January 2009, the old banknotes denominated in YTL have been withdrawn from circulation and new banknotes denominated in TL have been put into circulation again. "YTL" banknotes will continue to be in circulation until the end of 2009.

## 1.4. Population

Approximately 75% of Turkey's population which consists of about 75,517,100 people (according to a December 2008 estimate) lives in cities.

The population growth rate, which has decreased sharply in recent decades, has been about 1.31% per year; demographers project the population to increase to 80-85 million in the next 20 years, which compares with the largest current EU member state Germany that has 83 million inhabitants today, but whose population is projected to decrease to around 80 million by the year 2020.

In 2008, around 75% of the population was classified as urban (compared to 27% in 1960), and the process of urbanization is expected to continue for the foreseeable future. About 25% of the population is concentrated around the Sea of Marmara.

The most populated cities of Turkey are İstanbul (about 12.6 million), Ankara (about 4.5 million) and İzmir (about 3.6 million).

### 1.5. E-Government in Turkey

E-government project in Turkey is coordinated by the Prime Ministry of Turkey and a Public Committee. After Turkey signed the E-Europe project which was discussed in European Union Leaders Conference held in mid-2001, the Prime Ministry of Turkey gave a start to the project.

MERNIS is one of the big steps of the e-government project which identifies every citizen with an identity number, which will ease most operations in social life and state-related operations. This step has been effective from November 1, 2006. During the transition period between 1 November 2006 and 1 January 2007, both the identity number and tax number was used together by the citizens. By the beginning of 2007 only identity number has began to be valid. With this identity number, a citizen is able to identify himself/herself e.g. in tax offices, university applications, bank operations shortly in all state related operations. Not only does this project decrease red tape spent in bureaucratic transactions causing loss of time and money, but it also provides security for citizens and the State.

As a result of the work done, the context of E-Transformation Turkey plan, the number of web sites with "gov.tr" domain rose from 1647 in 2003 to 6775 in 2007. Similarly, the number of other public web sites rose to 1138 in 2003 to 11.725 in 2007.

The objective of the e-government strategy of Turkey is to finalize the infrastructure and operationalize the main E-government portal through which all public services could be accessed by 2010.

### 1.6. International relations

The Republic of Turkey attaches great importance to establishing strong and lasting regional and international ties based on mutual understanding and cooperation.

Turkey actively participates in a wide range of leading regional and international organizations such as the United Nations, the North Atlantic Treaty Organization (NATO), Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO), Economic Cooperation Organization (ECO), Organization for the Islamic Conference (OIC), Black Sea Economic Cooperation (BSEC), International Bank of Reconstruction and Development (IBRD), International Monetary Fund (IMF), the Group of Twenty Finance Ministers and Central Bank Governors (G20 Developing Nations), and Asian Development Bank. Turkey is in the EU Customs Union since 1996 and an EU accession country since October 2005.

In Helsinki European Council Summit in December 10-11, 1999, Turkey was officially recognized without any precondition as a candidate state on an equal level with other candidate states. The Accession Partnership for Turkey was prepared within the framework of Turkey's ability to fulfill the Copenhagen political criteria. In December 2002 EU declared that if Turkey fulfills the Copenhagen political criteria, it would open accession negotiations with Turkey by December 2004. At the European Council on December 16-17, 2004 the Council decided to open accession negotiations on October 3, 2005. The negotiations are open-ended and are not expected to finish before ten years.

## 2. Turkish economy

### 2.1. Main Economic Indicators

Its diversified economy, proximity to Europe, Middle East, North Africa and Eurasia, integration with European markets, a young and vibrant work force, crisis experienced businessmen and economy management make Turkey one of the most powerful economies in the region. The main economic indicators are given below:

	2007	2008
<b>GDP (billion \$ / in current prices)</b>	656.6	741.8
<b>GDP Growth Rate (%)</b>	4.5	1.1
<b>GDP per Capita (Nom.\$)</b>	9,333	10,436
<b>FDI Inflow (billion \$)</b>	19.1	14.4
<b>FDI Outflow (billion \$)</b>	-743	-35
<b>Unemployment (%)</b>	9.9	10.3
<b>Consumer Price Inflation (%)</b>	8.61	10.54
<b>Export (billion \$)</b>	107.2	132.0
<b>Import (billion \$)</b>	170.0	201.8
<b>External Debt (billion \$)</b>	247.1	284.4

Source: TUIK, Central Bank of Turkey,

Being the commercial center of southeastern Europe, Middle East and Eurasia, Turkey is becoming an increasingly important economic and diplomatic country in the region. Between 2001 and 2007, Turkey's GDP have increased by 242% totaling to USD 656.6 billion and she became the 15<sup>th</sup> largest economy in the world.

### Economic Indicators Forecast

	2009	2010
<b>GDP (billion \$ / nominal)</b>	657.626	752.996
<b>GDP Growth Rate (%)</b>	0.4	1.9
<b>GDP per Capita (\$)</b>	13,174	13,446
<b>Export (billion \$)</b>	116.860	122.764
<b>Import (billion \$)</b>	151.811	161.265

Source: The Economist Intelligence Unit Forecasts, Jan. 2009

The Turkish economy has grown steadily over the last 27 quarters with an average rate of 7%. This growth is expected to continue in coming years with a lower rate due to the global financial crisis. After the 2001 financial crisis, Turkey made important structural reforms which have led to improve her financial system. Therefore, Turkey is relatively less affected by the global crisis. Although nowadays Turkey has to deal with debts which mostly belong to private companies, effects of the global financial crisis to Turkey are not going to be an internal one on the most part, but it is going to be an external one as less demand for exports. Also previous crisis experience of Turkish businessmen and economy officials make Turkey more resilient to the global financial crisis today.

## 2.2. International Trade

	2002	2003	2004	2005	2006	2007	2008
<b>Export (\$)</b>	36,059,089	47,252,836	63,167,153	73,476,408	85,534,676	107,271,750	132,002,612
<b>Import (\$)</b>	51,553,797	69,339,692	97,539,766	116,774,151	139,576,174	170,062,715	201,822,882
<b>Volume (\$)</b>	87,612,886	116,592,528	160,706,919	190,250,559	225,110,850	277,334,464	333,825,494
<b>Balance (\$)</b>	-15,494,708	-22,086,856	-34,372,613	-43,297,743	-54,041,498	-62,790,965	-69,820,270

Source: TÜİK

Between 2001 and 2007, foreign trade has increased by 281% and exports have increased by 242% as well and reached USD 107 billion in 2007. In 2008, the foreign trade accounted for 333.8 billion USD. Automotive and iron and steel are the major export items, while oil and natural gas are major import items.

In 2008, Turkey mainly exported to Germany, the United Kingdom, the United Arab Emirates, Italy and France whereas she mainly imported from Russia, Germany, China, the United States and Italy.

### Main Exports (\$-2008)

Vehicles other than railway	18,299,890
Iron and steel	14,948,504
Machineries, mechanical appliances, boilers and parts thereof	10,260,093
Electrical machinery and equipment	8,003,852
Articles of apparel and clothing accessories knitted	7,832,879
Mineral fuels and oils	7,531,482
Articles of iron and steel	5,746,210
Pearls, precious stones, coin	5,384,155
Articles of apparel and clothing acc.not knitted	5,326,310
Plastics and articles thereof,	3,562,395
Fruit	2,854,331
Ships, boats and floating structures	2,647,845
Salt, sulfide, earth, plastering mat., lime, cement	2,280,427
Other made-up textile articles	2,097,914
Furniture	1,890,115
Rubber and articles thereof	1,807,689
Aluminium and articles thereof	1,775,810
Cotton. cotton yarn and cotton fabric	1,632,015
Preparations of vegetables and fruits	1,440,495
Man-made filaments	1,336,688

Source: TÜİK

### Main Imports (\$-2008)

Mineral fuels and oils	48,207,184
Iron and steel	23,157,625
Machineries, mechanical appliances, boilers and parts thereof	22,515,382
Electrical machinery and equipment	13,868,030
Vehicles other than railway	12,790,092
Plastics and articles thereof,	9,385,397
Pearls, precious stones, coin	5,653,770
Organic chemicals	4,421,328
Pharmaceutical products	4,360,040
Optical instruments and apparatus	3,442,138
Copper and articles thereof	3,275,912
Paper and paperboard	2,604,034
Aluminium and articles thereof	2,539,440
Cotton. cotton yarn and cotton fabric	2,330,337
Articles of iron and steel	2,227,035
Rubber and articles thereof	2,219,352
Cereals	2,137,315
Miscellaneous chemical products	1,732,506
Man-made staple fibers	1,695,433
Inorganic chemicals	1,684,512

Source: TÜİK

**Principal Destinations of Exports (\$-2008)**

<b>Germany</b>	12,958,895
<b>United Kingdom</b>	8,168,650
<b>U.A.E</b>	7,981,284
<b>Italy</b>	7,816,821
<b>France</b>	6,622,261
<b>Russia Fed.</b>	6,481,663
<b>U.S.A</b>	4,290,146
<b>Spain</b>	4,051,264
<b>Romania</b>	3,981,895
<b>Iraq</b>	3,912,191
<b>Netherlands</b>	3,143,422
<b>Switzerland</b>	2,857,127
<b>Greece</b>	2,430,549
<b>Saudi Arabia</b>	2,197,152
<b>Ukraine</b>	2,184,289
<b>Bulgaria</b>	2,149,395
<b>Belgium</b>	2,122,550
<b>Iran</b>	2,028,452
<b>Israel</b>	1,935,244
<b>Azerbaijan</b>	1,666,091

Source: TUIK

**Principal Origins of Import (\$-2008)**

<b>Russia Fed.</b>	31,317,596
<b>Germany</b>	18,682,114
<b>China</b>	15,642,623
<b>U.S.A</b>	11,971,409
<b>Italy</b>	11,008,455
<b>France</b>	9,021,719
<b>Iran</b>	8,199,594
<b>Ukraine</b>	6,106,808
<b>Switzerland</b>	5,588,284
<b>United Kingdom</b>	5,323,540
<b>Spain</b>	4,546,842
<b>South Korea</b>	4,089,879
<b>Japan</b>	4,021,871
<b>Romania</b>	3,546,851
<b>Saudi Arabia</b>	3,322,455
<b>Algeria</b>	3,262,176
<b>Belgium</b>	3,148,361
<b>Netherlands</b>	3,048,262
<b>India</b>	2,457,525
<b>Kazakhstan</b>	2,331,992

Source: TUIK





### 2.3. Foreign Direct Investments

Foreign investors find Turkey attractive for a number of reasons:

- The Government maintains a liberal policy towards all forms of foreign investment
- The market is large and continuously growing
- The location is unique: between Asia and Europe
- The labor force is relatively cheap and abundant
- There is Customs Union with the EU since 1 January 1996
- Turkey has Free Trade Agreements with EFTA and 11 countries (Israel, Macedonia, Croatia, Bosnia Herzegovina, Morocco, Palestine, Tunisia, Syria, Egypt, Georgia, Albania); Free Trade Agreements with additional countries are planned and on the way
- There are several privatization projects under progress

In the last six years in particular, Turkey has started to draw increasing amounts of foreign capital thanks to a rapid recovery from the 2001 crisis, large privatization projects, and prolonged stability coinciding with the excessive liquidity in international markets. Last year, according to the United Nations Conference on Trade and Development (UNCTAD), Turkey ranked 23<sup>rd</sup> in the world and 9<sup>th</sup> among the emerging markets in terms of attractiveness as an FDI destination. Turkey also ranked 59<sup>th</sup> out of 181 economies in Ease of Doing Business Rank of the World Bank, 41<sup>st</sup> out of 121 economies in Forbes Doing Business Index and 15<sup>th</sup> most attractive economy for the location of FDI in UNCTAD's World Investment Prospects Survey 2008-2010.

Being the world's 15<sup>th</sup> economy and Europe's 6<sup>th</sup> economy, Turkey has recently been home to numerous significant investments by attracting more than 50 billion USD for the last 3 years.

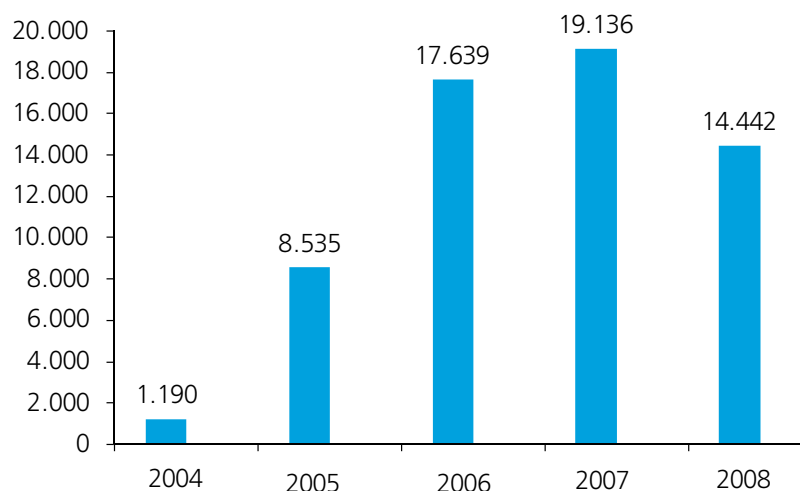
In 2003 when the new investment law was ratified, there were about 6,500 foreign companies operating in Turkey, whereas as of 2007 there are more than 18,300 foreign companies operating in Turkey. Despite the global crisis, the amount of FDI is 14.5 billion USD for 2008 with only a slight decrease.

**FDI Inflows by Origin of Countries (million \$)**

	2007	2008
<b>European Countries</b>	<b>12,600</b>	<b>11,008</b>
Germany	954	1,048
France	368	680
Netherlands	5,443	1,767
United Kingdom	702	2,281
Italy	74	219
Other EU Countries	5,059	5,013
Other European Countries (excl. EU)	<b>373</b>	<b>289</b>
African Countries	<b>5</b>	<b>83</b>
U.S.	<b>4,212</b>	<b>848</b>
Canada	<b>11</b>	<b>24</b>
Central and South America & Caribbean	<b>494</b>	<b>60</b>
<b>Asia</b>	<b>1,405</b>	<b>2,129</b>
Gulf Countries	311	1,746
Near and Middle East	297	223
Other Asian Countries	797	160
<b>Other</b>	<b>36</b>	<b>1</b>
<b>Total</b>	<b>19,136</b>	<b>14,442</b>

Source: Central Bank of Turkey

**FDI Inflows (million \$)**



Source: Central Bank of Turkey

### FDI Inflows by Sectors

Sectors	2008
Agriculture, Hunting, Forestry and Aquaculture	44
Mining	168
Manufacturing Industry	3,734
Food, Beverage and Tobacco	1,278
Textile	189
Chemicals	121
Machinery	219
Automotive	67
Other	1,860
Electricity, Gas, Water	1,034
Construction	887
Wholesale and Retail	2,059
Hotels and Restaurants	27
Transportation, Telecommunications and Logistics	169
Financial Intermediary Institutions	5,456
Real Estate	656
Other Social and Personal Services	208
<b>Total</b>	<b>14,442</b>

Source: Central Bank of Turkey

The cumulative sector breakdown of foreign capital financed companies between 1957-2007 shows that 30% of these companies operate in wholesale and retail sector; 19% of them operate in manufacturing sector and 15% of them operate in real estate, renting and business activities. Construction (9%); transport, storage and communications (9%); hotels and restaurants (7%); other community, social and personal service activities (6%); mining and quarrying activities (2%); agriculture, hunting, fishing and forestry (2%) and electricity, gas and water supply (1%) constitute other sectors.

### Turkish Outflow Investments

2000	1.029
2001	604
2002	283
2003	505
2004	815
2005	1.065
2006	1.677
2007	2.275
2008	2.604
2003-2008	8.922
1991-2008	12.635

Source: Central Bank of Turkey

The Turkish companies have become important investors abroad and have recently accomplished significant projects and have bought world's leading brands including Godiva, Razi, Trader Media East and Grundig. Moreover, the Turkish contractors have recently undertaken projects accounting for 135 billion USD as of end of 2008. Accordingly, 23 Turkish contracting firms partake among the world's largest 225 contracting firms ranking.

The Turkish companies have invested in the sectors of banking, white goods and telecommunication in the Eastern Europe, energy, consumer goods, industry, tourism, finance and logistics in the Eurasia, chemicals, industry and logistics in the Gulf countries and food, textile and automotive in the Middle East.

For more information on Merger and Acquisitions please refer to Deloitte's "Annual Turkish M&A Review 2008" and "Private Equity Confidence Survey 2009 – first half year" ([www.deloitte.com.tr](http://www.deloitte.com.tr))



# 3. Industrial outlook

Financial markets are in turmoil; prices for oil and other commodities are fluctuating wildly; housing, automotive, and other industries are fighting for survival; millions of people are unemployed – the litany of woes continues as many nations slip into a global recession. Yet, even amid the economic upheaval, opportunities and positive signs exist: Medical and technology advances are continuing apace; greening initiatives are moving forward; and governments, corporations, and citizens around the world are collaborating to identify real and lasting solutions to today's and tomorrow's challenges.

This 2009 industry outlook features Deloitte and DEIK's insights, analyses, and projections for the following industry sectors both in global and local aspects:

- Aerospace and Transport Sector
- Automotive
- Financial Services Industry
- Consumer Business
- Energy and Resources
- Life Sciences and Health Care
- Technology, Media and Telecommunications
- Real Estate
- Tourism, Hospitality and Leisure

## I. Global Aspect\*

### Aerospace and Transport Sector

The large commercial aircraft sector is expected to generate most of its revenue from Asia Pacific Japan (APJ) and the Middle East, due to the current economic climate. In the next two decades, Boeing forecasts delivery of 29,400 new commercial aircraft worth \$3.2 trillion. In the short term, however, airline companies worldwide will continue to struggle with the global economic recession, fuel price fluctuations and the difficulty in raising ticket prices, which might impact airplane and engine purchase orders in 2009. Fortunately, the multi-year backlog for airplane production at the major commercial aircraft companies appears to be solid, with expected 2009 deliveries on the order of 900 large commercial airplanes. Business aviation forecasts for the coming decade are quite robust: Honeywell's 2008 forecast predicts 17,000 new business aircraft valued at \$300 billion. Because of the global credit squeeze, however, there may be short-term customer financing challenges for some portion of the backlog for business jets. Thus, we would expect that 2009 may see a falloff in business jet orders, production and deliveries.

The challenge for the airline industry is to ease the growing pains of product and process innovation to realize the potential for technology advances. For example, aerospace process innovation will need to continue attacking structural cost reduction opportunities via industry-wide implementation of digital product definition tools and processes, as well as outsourcing parts manufacturing to lower-cost countries. Commercial airline order backlogs from China and the Middle East are robust and appear to be solid. By focusing on product innovation, process improvements and new revenue opportunities, Aerospace and Defense companies will be well-positioned to take advantage of an economic turnaround.

\* Resource: Industry Outlook 2009, Challenging times, emerging opportunities, February 2009, Deloitte

## Automotive

Pressures from plunging sales, frozen credit markets, global competition, higher raw material and, until recently, gasoline prices, and growing consumer demand for more fuel-efficient vehicles are driving a transformation of the industry across its entire value chain. With an extraordinary drop in third and fourth quarter sales, the entire industry has been put into crisis mode. There is no question that the automotive industry is in turmoil. The global financial crisis has begun to negatively impact automotive Original Equipment Manufacturers (OEMs) around the world. The financial crisis has manifested itself in the automotive sector in very tight global credit markets for OEMs, dealers and consumers. This in turn has had a dramatic impact on consumer demand, with double digit year-over-year sales declines leading to sales levels not seen since the early 1980s. As bad as 2008 is shaping up to be in terms of retail sales, the 2009 forecast points to even sharper declines in the coming year. The fight for share in a shrinking market will likely prompt consolidations and alliances at the OEM level around the globe. Expensive or scarce credit for vehicle purchases and dealership floorplan financing is expected to continue through 2009. Credit is the life blood of dealerships and is used to finance vehicle inventories. Lenders' reluctance to extend financing and/or increased interest charges could have a devastating effect on already-struggling dealerships. The refusal of captive finance entities as well as banks to extend retail financing to consumers with poor credit could potentially eliminate three out of every four customers, driving further sales declines. The lack of credit could open up interesting possibilities in terms of program collaborations, vehicle assembly alliances, and partnerships around the globe.

Watch for more merger and acquisition activity, both for OEMs and suppliers. Consumer interest in alternative fuels and greener vehicles is driving other industry changes. Most observers believe that automotive has turned the page on the internal combustion (IC) engine as its sole powertrain solution. Manufacturers are adapting the IC engine to alternative fuels such as ethanol and other bio-fuels; however, the end game likely will be the all-electric powertrain – although it will take time to get there. In this unstable dynamic environment, virtually all major automakers are looking to collaborate with other automakers to jointly develop new technology like hybrid powertrains, share components such as transmissions, or fill excess production capacity by assembling vehicles for other OEMs. The industry transformation that is underway will see the rise of a variety of partnerships and other forms of collaboration that only few years ago did not seem possible. A dramatic change in the increased proliferation of global platforms is very likely. These global platforms will truly be common platforms in some cases possibly sharing over 70 percent of their components. These global platforms will substantially reduce costs and speed time to market. Finally, OEMs that capture the services business – and, most importantly, keep it after warranties expire – will gain not just in sales and profit, but also in reduced costs and greater customer satisfaction and loyalty. All are key components to helping automotive companies survive what is expected to be a very challenging year.

## Financial Services Industry

The banking and securities industry enters 2009 in an unprecedented state of turmoil and dislocation. What started as a credit issue in the subprime niche of the mortgage market has extended to all corners of the financial services industry, and all corners of the globe. What was a financial crisis is now a full-blown economic crisis with global impact. As the industry continues its crisis-related evolution in 2009, five emerging trends indicate a paradigm shift that would affect not only financial institutions but also borrowers, investors and regulators;

**1. Intervention, regulation and the role of government.** In many parts of the world, the discussion concerning the future role of the government in the industry will continue and begin to take more concrete shape. Look for the following to begin to be addressed in 2009:

- The restructuring of the regulatory agencies involved in the banking industry.
- The possibility of an explicit market stability regulator and regulatory oversight over any large firm (including nonbanks and hedge funds) that could threaten financial stability.
- The reform of the business proposition of and restructuring of government-sponsored entities.
- New requirements from the regulators that provide greater public disclosure and improved transparency from financial institutions.
- Increased regulatory coordination from a global perspective.

## **2. The move from 'alpha to beta' markets.**

Due to the turmoil in the financial markets, the pursuit of alpha – high-return/high-risk profile products – dramatically decreased as a strategy in 2008. From investment banking to hedge funds, those businesses with high-risk/high-return business models have been negatively impacted. Moving forward, it is likely that regulators may try to limit exposures and customers will be more risk-averse. This shift could have a number of implications including: governance and “exit strategies” for these high-risk businesses are becoming increasingly important, and institutions may need to refocus their businesses on more traditional, simpler products, with more predictable returns.

**3. De-leveraging.** The world financial system is undergoing massive de-leveraging. Many institutions, such as banks, hedge funds and private equity firms have become less leveraged. Some are implementing economic capital models to enhance risk management disciplines. The implication for banks and other non-bank financial institutions is that returns on equity will be lower than in recent years.

**4. Fragmentation to consolidation.** For nearly two decades, consolidation has been creating larger entities across many segments of the financial services industry, and the current crisis has dramatically accelerated that trend. If the notion of “too big to fail” was a concern before, it will be a greater concern in 2009 and beyond as weaker entities fail or are absorbed by larger, more successful players. The flight to quality will continue to reinforce this trend as corporations look to the strongest and largest players for their financial services needs.



**5. From buyer beware to seller beware.**

In the last year or so, many financial institutions have taken on the responsibility to support products by putting structured investment vehicles or SIVs on the balance sheet, injecting money to restore the “buck” in money market funds, and covering losses for auction rate securities. These efforts have been undertaken to restore the public’s trust and confidence in financial products – and to avoid damage to the institutions’ reputation. As they enter 2009, financial institutions will likely return to basics. This could mean placing greater emphasis on more relationship-based and less transaction-based businesses in 2009, and promoting product simplicity, transparency, and enterprise risk management. Expect to see future products that provide far more clarity and greater assurances regarding likely performance, risks, and outcomes.

Banking and securities organizations should consider staying focused on the things they can control by: Maintaining their “fortress balance sheet”, Reassessing risk management and overall governance, Pursuing cost and organizational efficiency, Striving for fair and ethical treatment of customers, and Looking for opportunities to acquire and grow.

Regardless of the length and breadth of the downturn, it seems clear that global regulators plan to move forward with regulatory reform aimed at enhancing regulatory oversight, risk management, leverage and liquidity. Financial institutions will need to respond to any new standards – and business models – accordingly.



## Consumer Business

A tainted-milk scandal in China and e-coli-related recalls of tomatoes and salsa in the United States are drawing heightened attention to the need for consumer products (CP) companies to more closely manage and evaluate their supply chain risks on a global scale, while concurrently trying to improve efficiency and extract optimal value in troubled economic times. Supply chain concerns, sustainability/social responsibility, branding imperatives, and an evolving regulatory environment are among the top issues facing consumer products companies in 2009. Factoring in a consumer spending slowdown in the market, CP companies likely will find themselves playing a zero-sum game: The only way they will be able to grow significantly in the coming year is through strategic acquisitions or by stealing market share from competitors.

Forward-thinking CP companies are recognizing that automating their business and supply chain processes can help to significantly improve product quality, add organizational agility, and reduce costs.

Sustainability and social responsibility offer CP companies growth opportunities through new products and marketing. For many organizations, "green" product sales are growing faster than sales overall. Furthermore, CP companies are addressing increasing cost inflation by reducing packaging costs and by employing stealthy price increases. A recent, broad-based survey of consumers and cause marketing experts found that a company's investments in social marketing, cause marketing and corporate social responsibility initiatives enable it to charge an average premium of 6.1 percent – and consumers say they are willing to pay a premium for brands viewed as "green."

Effective branding is always important in the consumer products sector, but it is expected to become a front-burner issue in 2009. In troubled economic times, consumers are inclined to scrutinize each purchase more closely, particularly in terms of branded versus private label products. CP companies will need to clearly differentiate their products from competitors' if they hope to grow (i.e., steal) market share in 2009. Consumers have to believe that a product is safer, of higher quality, or tastes better to make paying an up-charge worthwhile. When consumers can't differentiate, their tendency is to buy private label – especially when pennies count. If poor economic conditions persist into 2009, watch for continued growth of private label products, countered by aggressive marketing efforts by name brands. Similarly, CP companies should avoid competing on price to the exclusion of all else, particularly in increasingly commoditized categories such as electronics, fashion and processed foods. Those brands that differentiate on other attributes will be the winners of the future.

M&A becomes an important tool as domestic markets grow slowly and offer CP companies limited ability to raise prices. Setting aside expansion in emerging markets, the only way to grow in a big way is through strategic acquisitions and the juggling of product portfolios. Those CP companies that have the capital to do this should be able to work through the current economic downturn by acquiring and maximizing access to new markets as a source of growth.



## Energy and Resources

The world's economy is no longer impacted by record high energy prices; it's being driven by the economic downturn and continuing credit crisis. These constraints, in turn, are pushing down energy prices because of slowing demand – and that trend is expected to continue in the coming year. The new mantra for the Energy and Resources sector? "As the economy goes, so goes energy." To survive in this altered landscape and to prepare for an eventual economic upswing, energy companies in 2009 should focus on maintaining liquidity, promoting operational efficiency, and expanding their long-term reserves through the drill-bit and acquisitions.

Concurrent with managing the fallout from volatile commodities prices, oil and gas companies in 2009 will continue to need to address the longer-term, two-sided issue of increasing demand and constrained supply. Despite the recent slowdown in demand – a result of the economic downturn and developed nations' increased energy efficiency – the world's need for energy is increasing at an ever-faster pace. Analysts agree that fossil-based energy – oil, gas and coal – will remain a dominant source of energy through the predictable future; however, supply is not keeping pace with demand. Oil and gas are getting harder and more costly to find and produce; accessible reserves today are located in difficult places such as deep waters and arctic regions. In addition, countries such as Saudi Arabia, Russia, China, Venezuela, Brazil and Malaysia, which own the world's largest reserves of oil and gas, continue to limit or restrict access to international oil companies (IOCs). Finally, the ongoing threat of natural disasters or geopolitical conflicts also jeopardizes energy prices and supply levels.

While oil and gas prices are temporarily depressed, there is little doubt that prices – and demand – will continue their rise as we move out of the global economic crisis.

On a positive note, fluctuating energy prices and tightened supplies may stimulate the development of energy-efficient technologies and processes that can be leveraged by a number of industries. Energy-intensive, manufacturing-based sectors such as Automotive, Aerospace and Defense, and Consumer Products have considerable incentive to look at options to lower their plants' energy bills, including onsite- or co-generation, solar and wind power, and energy-efficient, demand-side equipment.

Among the top issues facing power and utility companies in 2009 is the continued trend toward rising input costs (e.g., coal, natural gas) and increased construction risks, as the sector seeks to build out new infrastructure (both generation and transmission) to meet demand in environmentally responsible ways.

In light of the challenges faced by the sector, the 2009 outlook for Power and Utilities could best be termed as "stable." The current financial crisis suggests that investors will look for investments in "hard asset" companies with healthy balance sheets and stable earnings – which is the profile of much of this sector. Also, companies should be able to attract capital on reasonable terms if state regulators provide rate relief where needed, and show an inclination to support a flexible, long-term construction strategy. While growth in demand for energy may slow down or falter in the short term, the sector will continue to grow its asset base (and earnings) consistent with the need to meet the requirements for environmentally friendly energy supplies.

## Life Sciences and Health Care

Now, more than ever, stakeholders in the industry's three major sub-sectors – health care providers, health plans, and life sciences companies – must balance short-term needs to control costs, fill product pipelines and connect with consumers with the longer-term imperative to radically transform expensive, cumbersome and inefficient systems that threaten the sustainability of their organizations.

The news for health care providers in 2009 is more bad than good. If the economy continues to have problems, all industries will be negatively impacted, hospitals included. Yet, even in the current environment there are still pockets within health care where providers can make money, particularly service lines such as orthopedics, cardiology, and some areas of oncology. As they look ahead to the coming year, health care providers first and foremost must make sure they are financially stable. The typical provider is not an overly wealthy organization. Although hospitals and health systems generally manage expenses to revenues, and have been able to achieve thin, positive operating margins in recent years, the financial picture for 2009 looks murkier. Credit-worthiness will be tougher to achieve, with anticipated near-term downgrades three to one over upgrades.

Health plans in 2009 should focus on blocking and tackling as a way to navigate through the struggling economy. This means being extremely efficient, challenging cost structures, managing and allocating capital with an eye toward liquidity and debt structure, and looking at all aspects of the way information flows throughout their organizations. For many health plans, provider negotiations could be quite challenging in 2009. Providers are experiencing increased bad debt and ever-tightening margins, which can heighten tensions in contract discussions with health plans.

Finally, life sciences companies are facing growing challenges around their traditional, physician-focused sales and marketing model. Sales and marketing are all about creating demand. As the industry becomes more consumer-oriented, life sciences companies need to rethink the steps they take around demand creation. The markets of the future will be less physician-centric; other stakeholders will be involved in the product evaluation and purchase process and companies need to understand how to engage them. This will be particularly challenging in light of increasing regulatory constraints around patient education and information.



## Technology, Media and Telecommunications

Technology companies may be able to offset some of the growth challenges they face in 2009 by identifying revenue opportunities in niche markets that might not have been as interesting when revenue was more robust.

Technology companies should develop a support services plan for their non-first-generation products or they risk being underpriced and displaced by specialty niche service providers. In past economic downturns, mergers and acquisitions in the technology sector have actually increased. M&A activity could once again help to spur sector growth, particularly in the form of small acquisitions funded out of companies' R&D spend. In addition to identifying creative revenue-producing opportunities, technology companies will be looking to reduce costs and maximize enterprise efficiencies in the coming year. Similarly, as the amount of economic uncertainty grows and risk increases, it is important for technology companies to more systematically stage their investments in research and development (R&D). Challenging economic times can create incredible opportunities for innovators, and technology is the home of innovation. Expect to see significant new disruptive capabilities emerge – both in products and services – and interesting new ways of doing business result from this economic crisis.

Digitization has created a number of industry-wide challenges that will continue into 2009 and beyond. Among these are protecting intellectual property, sustaining historical revenue streams, and finding ways to utilize and monetize emerging new platforms for traditional content – including print, filmed entertainment, and recorded music – as well as user-generated content and other new services, applications and formats that compete for consumer mindshare and time.

The increase in digital content and number of new distribution channels – a result of rising Internet penetration, shifting demographics, and changing consumption habits (more Internet usage, a continuing decline in TV viewership, the extraordinary growth of interactive games) – is having a dramatic impact on the M&E (Media and Entertainment) supply chain. Combine that reality with the growing consumer demand for content that is available at any time on any platform, and the current M&E supply chain structure appears inadequate.

While this new ecosystem will take years to develop, 2009 will mark the beginning of its evolution. To prepare, companies should begin to assess the capabilities they have – or must develop – to remain relevant, maximize and implement new business models and supporting infrastructures, and facilitate alignment with key supply chain partners.

The M&E sector has tended to be resistant to (although not immune from) traditional economic downturns because its products and services are among the few affordable pleasures left to consumers in a tight economy. In fact, the last two times the economy experienced a downturn, movie ticket and DVD sales went up. It is likely that people will continue to indulge themselves in the small pleasures of DVD consumption, interactive game-playing, online entertainment, books, social networking and television while eschewing big-ticket items such as cars, refrigerators and computers. Advertising budgets will go down, but guerilla marketing and other innovative platforms for reaching consumers may thrive. The game business will continue to prosper, albeit perhaps at a slower pace, as will many Internet-related businesses. Newspaper readership will continue to decline, but books and DVDs will be sold in perhaps greater numbers. 2009 is expected to be a year of contrasts: Although more mature media outlets such as publishing and traditional advertising may struggle for survival, Internet upstarts and game companies likely will be riding a wave of digital success, either absolute or comparative.

As per telecom industry, wireline's demise is being hastened by the phenomenal growth of wireless, which – despite irritating connectivity reliability issues that are still being resolved – is rapidly becoming consumers' communications technology of choice. After all, why use an old-fashioned wireline phone when your snazzy new wireless model offers on-the-go voice, text, Internet, video, music and a directory with all of your important contacts?

The emergence of non-traditional competitors in the telecom space also indicates that wireless data is the future. Google is making the source code for its Android mobile platform freely available, banking that an open-architecture approach will spur development of a wide variety of applications, as well as cheaper and faster phones. Clearwire's WiMax is pushing wireless data as its core service and Apple's iPhone is redefining the handset, particularly in the area of video consumption. Wireless carriers must remain alert to both threats and opportunities presented by these and other market entrants. Wireless won't be the only focus for telecom carriers in 2009. Major players are expected to continue their move into media, competing with cable companies for the coveted subscriber "triple play" of telephony, broadband and media services. The goal is to bundle multiple communication services to increase subscriber "stickiness." The paradox is that the new "smart phones" are much more than phones; they are digital cameras, GPS devices, MP3 players and more. These feature-rich devices provide amazing new subscriber capabilities but they also challenge carriers to question what they are subsidizing, since carrier revenue does not necessarily benefit from some of these advanced features. However, carriers will likely continue to invest in increasing service capabilities as they move toward a data-dominated market.

As difficult as 2009 may prove to be, the telecom sector could look back on it as one of those historic inflection points that defined the future of the industry – a future that is data- and services-driven, not voice-based. This shift will require telecom companies to transform their strategies and operations to support and leverage advances.

## Real Estate

Following several years of spectacular returns for the commercial real estate industry, global credit problems that began in the U.S. residential subprime market have spilled over into the commercial debt markets, resulting in suppressed transaction volumes and limited access to financing. While real estate remains a relatively good investment option, especially in light of the recent volatility of competing asset classes such as stocks and bonds, the real estate sector itself faces several challenges in 2009 that are symptomatic of a general economy in distress.

In terms of magnitude, commercial real estate's biggest concern is debt maturity. Quite a few companies have debt coming due in 2009; however, it is becoming increasingly difficult to access credit to refinance that debt. If companies can't secure financing, they can't operate. Even those commercial real estate firms which have debt maturity into 2010 and 2011 and are looking to purchase distressed assets to build-out their portfolios are finding it difficult to obtain financing. The end result: Nothing is selling and business is grinding to a halt.

Overall, the outlook for commercial real estate in 2009 is neutral to slightly negative. Private real estate returns are expected to remain relatively attractive, although lower than in recent years. And while fundamentals remain relatively strong in certain markets, the economy is curtailing overall growth and increasing cap rates. Also, there is growing concern about commercial mortgage-backed securities (CMBS), most of which will mature in 2010-2012. If there is no market for these securities, the impact on the sector could be extremely negative. As they wait for financing (and deals) to flow again, commercial real estate investors can take comfort in the fact that the sector is not as overbuilt relative to previous economic downturns or to the housing market, and that real estate continues as a relatively attractive investment option, both at home and abroad.

## **Tourism, Hospitality and Leisure**

The combination of a housing debacle, credit crunch and rising unemployment has placed the economy at or near recession – leaving fewer money available for consumers' leisure travel and other forms of entertainment. Corporations, meanwhile, are implementing cost-cutting measures such as reducing employee air travel and scaling-back or eliminating group meetings at convention hotels and destination resorts. Economic difficulties are expected to continue well into 2009, affecting how and where people travel. According to Deloitte's October 2008 travel survey, 38 percent of respondents said they expect to spend less on vacation/leisure travel over the next 12 months, nearly double the 21 percent who expect to spend more.

On the whole, THL companies can expect to be under continued duress well into 2009, but smart hospitality organizations with innovative and cost-effective programs will be able to increase customer loyalty and drive demand.

With economic conditions becoming more challenging by the day, building brand value is more important than ever. The competition for customers and market share is expected to intensify in 2009; therefore, the ability of a hotel, restaurant, and cruise line or vacation destination to crisply define and consistently deliver on a distinct brand promise can help to increase demand and build customer loyalty.

While the 2009 forecast for the THL sector is somewhat negative, the outlook is slightly rosier than for other industries. Businesses will continue to cast a discerning eye on employee travel and group meetings at resort properties but road-warriors will press on. From a leisure travel perspective, consumers seem to be hanging on to their vacations and timeshare properties. They may take a shorter trip in 2009 and travel by car rather than air, but people love to stay in hotels, visit amusement parks, casinos and historic sites, and eat at restaurants because they have positive experiences there. THL companies which continue to focus on building customer loyalty and look for opportunities to grow, particularly overseas, should be able to navigate, and even prosper, in these troubling times.

## II. Local Aspect \*

### Aerospace, Transport Services and Defence Industry in Turkey

Turkey enjoys a privileged position at the crossroads among Europe, Caucasus, Middle East and Central Asia. As a result of being a regional logistics base, Turkey's transportation sector partakes among principal sectors in terms of economic growth and employment.

With the influence of economical development and the EU accession period, the modernization of transportation sector has been already kicked off through privatizations and foreign direct investments. There are several ongoing projects on especially infrastructure and many privatizations have been realized mostly through build-operate-transfer (BOT) contracts. Moreover, Transportation Master Plan Strategy Report has been recently prepared for the Turkish Ministry of Transportation, which encompasses numerous project proposals on infrastructure, traffic and management of transport modes.

#### Turkish Transportation Sector Statistics

	2006	2007
<b>Railways</b>		
Length of main lines (km)	8,697	8,697
Passenger traffic (m passenger-km)	5,277	5,553
Goods traffic (m tonne-km; incl private wagons)	11,242	12,108
<b>Sea</b>		
Passenger traffic (m person-miles; domestic)	753	843
Goods loaded (.000 tonne; incl domestic, excl transit)	78,783	80,383
Goods unloaded (.000 tonne; incl domestic, excl transit)	154,540	171,405
<b>Road</b>		
Length of motorway (km)	1,987	1,987
Length of state and provincial roads (km)	61,764	61,912
Passenger cars (no.)	6,140,992	6,472,146
Total road vehicles (no.)	10,936,714	11,695,611
Passenger traffic (m person-km; domestic)	187,593	209,115
Goods carried (m tonne-km; domestic)	177,399	181,330
<b>Air</b>		
Domestic passengers (.000)	28,800	31,971
International passengers (.000)	32,884	38,382
Cargo handled (.000 tonne, incl domestic)	1,347	1,547

Source: Turkish Ministry of Transportation

\* This section is prepared by DEİK

In order to realize a nostalgic dream, the revival of the historical Silk Road as a part of international transportation came into agenda in 2006. Turkey has a primary role as a natural bridge within the Silk Road project, which links the Asian economies with high shares in world trade and Europe, due to its strategic geographic location, its proximity to the international transport routes, its renovated transport infrastructure and strong road fleet.

Road transport is the main means of freight and passenger transportation. The 43% of Turkey's total export was carried by road in 2008 to 57 countries by 1453 road transportation companies operating in Turkey. The Turkish Government aims to modernize existing roads and launch new projects. The estimated cost for modernization and construction of the roads is 37 billion TL. Roads which will be modernized are;

- Denizli-Antalya Motorway 135 km
- Şanlıurfa-Habur Border Gate Motorway 400 km
- İpsala-Malkara Motorway 54 km
- İskenderun-Antakya-Cilvegözü Motorway 70 km
- Havsa-Malkara Motorway 87 km
- Gerede-Amasya-Erzincan-Erzurum-Ağrı-Gürbulak Border Gate Motorway 1300 km
- Ankara-Samsun Motorway 400 km
- Trabzon-Şanlıurfa Motorway 550 km
- Urfa-Diyarbakır-Gürbulak Motorway 650 km
- Ankara-Pozantı Motorway 316 km
- Aydın-Denizli Motorway 182 km

As a part of the project of Silk Road, construction of Black Sea Ring Highway, which has a total length of 7140 kilometers and crosses the borders of 12 Black Sea Economic Cooperation (BSEC) member countries, takes place among upcoming projects. To ease traffic jam in Istanbul, construction of a third Bosphorus bridge and a underwater tunnel is on the agenda. Bridges that span the İstanbul strait will be privatized as well.

Turkey has a railway of 8,697 km owned by public institution, TCDD. However since most of the railways are old and inefficient, the Turkish government aims to modernize railways through various projects. Construction of Ankara-İstanbul, Ankara-Konya, Ankara-İzmir and İstanbul-Bulgaria highspeed lines are on the agenda.



Turkey has targeted to become a center for railway freight traveling by realizing and completing The Strait Rail Tube Crossing and Commuter Railway Upgrading (MARMARAY) Project, which will connect Turkey to the Trans-European Network. The total length of the Project is approximately 76 km and total amount is estimated as 3 billion USD. Once the project is completed, Turkey will become an essential center for railway freight among Europe, Central Asia and the Middle East. Developing rails for more freight cargo is required. 23,5 billion USD is allocated for railways by 2023.



Turkey also has a leading role in Kars-Tbilisi-Baku Railway Project, which is an alternative route within the contemporary Silk Road. Known as the 'Iron Silk Road', Kars-Tbilisi-Baku Railway Project creates an alternative route to the existing West-East corridor through Iran. The total length of the project is 124 kilometers. 92 kilometers will pass through Turkey and the rest will pass through Georgia. Other railways which will be modernized are:

- Halkalı-Kapıkule,
- Ankara-İzmir,
- Bandırma-İzmir,
- Bandırma-Bursa-Osmaneli,
- Ankara-Sivas,
- Sivas-Erzincan-Erzurum-Kars,
- Kayseri-Şefaatli,
- Eskişehir-Antalya,
- Konya-Mersin,
- Lake of Van North Passage,
- Kars-Tbilisi

Domestic and international flights are operated by state-owned company, Turkish Airlines (THY) as well as some private airlines.



Source: Turkish Ministry of Transportation

There are 67 airports in Turkey:

- 23 airports which are open to both domestic and international flights,
- 41 airports are being operated, 18 of which are open only to domestic flights.
- 12 airports which are only open to protocol and military.
- 10 airports which are open to only private use
- 4 airports which are only open to use of Turkish Aviation Association.

The estimated cost for airport modernization and construction is 4 billion TL. Construction of airports in Bingöl, Iğdır, Hakkari Yüksekova, Şırnak, Kütahya-Afyon-Uşak, İstanbul, Çukurova and Diyarbakır takes place among upcoming projects.

İstanbul-İzmit, İzmir, Adana-Mersin and Samsun are the major ports for domestic and international freight and passenger transportation. In order to increase quality and productivity, ports of Bandırma and Samsun will be privatized for 36 years.

Apart from aforementioned upcoming projects, 10 logistics villages will be built in Halkalı, Köseköy, Kayseri, Samsun, Eskişehir, Balıkesir, Yenice, Erzurum, Mersin and Aydın.

Turkey spends 3-4 billion USD annually in arms procurement. The proportion of defense systems produced locally is 25%. In 2005 Turkey ranked as the fourth biggest country in defense imports while standing at 28<sup>th</sup> in defense exports.

Turkey has traditionally made modest efforts to become self-sufficient in basic defense industrial activities. Starting in the second half of the 1970s, these capabilities were expanded through several vital investments, particularly into the defense electronics and aerospace fields. In 1985, Undersecretariat for Defense Industries (SSM), a government entity charged with coordinating and financing the development of the defense industry, was established. Since its establishment in 1985 the SSM has been entrusted with the responsibility of a fairly large number of defense industry projects, valued about 30 billion dollars.

But the imbalance between the local production and the imports led Turkey to pursuit of a stable local defense industry infrastructure. In May 2004, SSM decided to cancel three major projects, including the multi-billion dollar attack and tactical reconnaissance (ATAK) helicopter programme, and instead introduced a new procurement model to boost ailing local industry. The initial goal is to increase the proportion of defense systems produced locally from the current 25% to 50% by 2010. The next stage proposes an increase in exports of defense products and services to around 1 billion USD per year by 2011 from the current 200-300 million USD per year. The SSM target for defense exports are 1.8 billion USD between 2006 and 2016.

Meanwhile under the new offset directive adapted on February 2007, offset arrangements should generate work that will boost the local industry as well as its exports equal to around 50% of the contract value. The policy resulted in Turkish defense industry companies, which number around 67 including 15 military-owned companies, increasing turnover to 1.6 billion USD in 2005.

The prime mover on the aerospace side of Turkey's defense industry is TAI (TUSAS Aerospace Industries). It has been co-producing the needed air planes and helicopters by the Turkish Air Force. Another Turkish company Aselsan, has established itself as the leading electronic systems house in Turkey as well as having a major capability in radars and optronic systems. Roketsan is one of the few companies in Europe with the capability to design, develop and manufacture artillery rocket systems (ARS). FNSS Savunma Sistemleri is the largest manufacturer of tracked armored fighting vehicles (AFVs) in Turkey. Another company Otokar has developed and placed in production a complete range of 4x4 reconnaissance vehicles. Makina ve Kimya Endustrisi Kurumu (MKEK) is the main manufacturer of ammunition, small arms and other weapons in Turkey and is also a major subcontractor to other Turkish defense contractors. TLFC has extensive facilities involved not only in the upgrading of AFV and artillery systems but also in production. It has upgraded over 4,000 tanks and the center has developed and put into production specialized versions including ambulances, command post and engineer squad vehicles. The main repository of naval shipbuilding and repair experience remains resident within state-owned hands at Naval Shipyard. The navy's other major surface acquisition is the locally designed and built 12 MilGem corvette ships. Also, a private company Yonca Onuk designed and built most of the fast patrol craft in service with the Coast Guard.

Besides Turkish companies, there are many foreign companies working for Turkish defense industry. Imtech, RMK Marine Shipyard, German Minehunter Consortium of Abeking & Rasmussen and Lurssen Werft and Dearsan Shipbuilding and Repair Company are some of them. Beneath the surface, the Gölcük shipyard has experience working under the license of Germany's Howaldtswerke-Deutsche Werft (HDW) in constructing submarines.

Turkish defense industry is expected to continue its growth in the future due to Turkey's geographic and strategic position. At the same time with the new legislations and incentives for the local defense industry to grow, Turkey's export and import in the sector will be more balanced in the future as well.



## Automotive Sector in Turkey

Turkey, the 16<sup>th</sup> automotive manufacturer in the world, is Europe's largest bus manufacturer and 2<sup>nd</sup> light commercial vehicle manufacturer. The Turkish automotive sector includes production of trucks, buses, trailers, midi and mini buses and passenger cars with a capacity of 1.5 million vehicles. Until the global financial crisis got deeper in the last quarter of 2008, the manufacturing numbers were in a steady rise in recent years.

Turkish automotive sector started in 1967 as a domestic production. Over the years industry imported foreign models and produced them for domestic market under the protection of high tariffs. As customs union came into effect in 1996, tariff protection for the industry finished. After this point many global brands such as Honda, Toyota, Hyundai joined the already existing brands like Renault, Ford, Fiat in Turkish automotive industry. Today there are 18 manufacturers and 900 component makers in Turkey. Prior to the crisis they were employing over 230,000 people.

## Automotive Exports (Amount)

	2006	2007	2008
Production	1,026,427	1,132,951	1,171,917
Export	706,402	829,879	920,763
Export/Prod. (%)	69	73	79

Source: Automotive Manufacturers' Association (OSD)

Automotive sector exports 80% of its production. 90% of the exports go to Europe. In 2008 the Turkey exported \$18.3 billion worth of vehicles. Where as the import was \$12.8 billion. As the effects of the global financial crisis reflect on global trade, both exports and imports are expected to decrease in 2009.

## Automotive Production (Amount)

	2006	2007	2008	2008/2007 (%)
Automobiles	545,682	634,883	621,567	-2.1
Commercial Vehicles	441,898	464,531	525,543	13.1
Tractor	38,847	33,518	24,807	-26
<b>Total</b>	<b>1,026,427</b>	<b>1,132,932</b>	<b>1,171,917</b>	<b>4.3</b>

Source: Automotive Manufacturers' Association (OSD)

## Financial Services Industry (FSI) in Turkey

Turkish banking sector mostly dominates the Turkish financial system. By the end of 2007, assets of the banking sector constitute 88% of the financial sector. Major reforms were carried out in the finance and banking sectors between 1999 and 2002. "The Banking Sector Restructuring Program" was initiated in May 2001 with the aim of modifying the banking sector into a sound and competitive structure consistent with sustainable growth. Banking legislation was adjusted to international regulations, BIS recommendations and European Union banking directives. Also in line with the previous principles and the BASEL (Banking Supervision and Auditing) Committee principles, a banking law was issued in 2005 to regulate the sector. With the new structure of the banking system and improvements in the Turkish economy, Turkish banking sector had significant growth in the bank's balance sheets and changes in their structure.

There are 49 banks, 9,304 branches and 182,667 employees in Turkish banking system by the end of 2008. Total assets of the banking sector is 434 billion USD (733 billion TL) which constitutes 75% of Turkish GDP. Total assets were 485 billion USD (563 billion TL) by the end of 2007. Although there seems to be a decrease in total assets in dollar terms during 2008, actually there was a 30% increase in Turkish Lira terms (As the global financial crisis got deeper at the last quarter of 2008, dollar gained value over Turkish Lira).

In 2008 the number of branches increased by 1,180 (15%), employee number increased by 14,904 (9%). Even during the last quarter of 2008, when the global financial crisis got deeper and many European and American banks got smaller, 268 new branches opened and 1,140 new employees were hired.

Total loans were 218 billion USD (368 billion TL) at the end of 2008, which was half of the total assets. Loans increased 29% in 2008 (in TL). 44% of the loans were institutional and commercial, 32% of the loans were personal and 24% of the loans were for small and medium sized enterprises.

Although global financial crisis affects Turkish banking sector, it has some advantages according to other countries. These are;

- There is no toxic product,
- Turkish banking sector is conventional, wide spread, mainly constituted from deposits and have a wide spread of customer net,
- Weight of the individual loans are not much in the GDP,
- Turkish banking sector started very late to the mortgage system and the interest rates are fixed.
- Due to some politic and financial developments, Turkish banking sector pushed on the brakes starting from the beginning of 2007 and
- Turkish banking sector has the crisis experience.

For more information on FSI sector please refer to "Türkiye Finans Sektörü Raporu - Düünden bugüne ve yarına..." report at [www.deloitte.com.tr](http://www.deloitte.com.tr)

### Main Indicators of the Turkish banking sector and National Income

Billion USD	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Loans	27	29	51	28	30	48	74	112	149	234	218
Deposit	33	44	102	81	84	111	143	181	211	295	259
Total Assets	58	67	155	116	130	179	229	296	346	485	434
GDP	-	-	265	197	230	305	390	481	526	659	573*

Source: Banks Association of Turkey (BAT), BRSA, Turkstat  
\* 2008 estimation

## Consumer Business in Turkey

Agriculture and food industry is one of the leading sectors of Turkey with rich resources, huge potential of fish products and livestock. Edible nuts, frozen fruits and vegetables, confectionery products, poultry, dairy products, oil and vast variety of fresh vegetables and fruits are produced in Turkey and are exported to numerous countries.

Textile accounts for 20% of total industrial production and around 10% of total GDP in Turkey which is world's 4<sup>th</sup> largest clothing supplier with more than 35,000 textile companies. Cotton clothing, knitted clothing, woven clothing and accessories as well as home textile products constitute main products in the sector. Thanks to strong leather sector of Turkey, footwear industry is a well-developed industry as well. Turkey is world's 5<sup>th</sup> manufacturer of floor-coverings including hand-woven and machine-made rugs and mats.

Turkey is Europe's second largest producer of white goods with production of refrigerators, washing machines and other household appliances. In addition to establishing production units in the eastern Europe, Eurasia and Asia, like Russia, Romania and China, some of the Turkish white goods and electronic appliances producers also bought world's leading brands in 2008.

Furniture sector is one of the most important sectors in Turkey with its huge export potential. Metal office furniture, wooden furniture, seats for automobiles and seats convertible into beds constitute the major items of production and export in the sector.

## Exports in Textile Sector (000 \$)

	2007	2008	Annual Change (%)
Silk (silkworm cocoon, crude silk, silk fiber, silk-woven hosiery)	3,390,868	3,522,574	3.9
Fleece wool, bristle	238,560,584	240,485,795	0.8
Cotton	1,656,387,637	1,661,737,014	0.3
Other herbal fibers for weaving	30,911,917	29,351,594	-5.0
Artificial filament	1,282,811,544	1,368,244,258	6.7
Artificial and discrete fiber	1,082,577,249	1,066,810,443	-1.5
Shoulder pads, felt, unwoven hosiery, special fibers	208,319,716	226,008,241	8.5
Special woven hosiery, hosiery for weaving, embroidery	672,450,337	701,709,195	4.4
Imbued, smeared or covered hosiery for weaving	328,882,838	341,110,542	3.7
Woven fabric	1,033,701,311	1,149,089,988	11.2
<b>Total Textile Export</b>	<b>6,554,050,000</b>	<b>6,807,831,000</b>	<b>3.9</b>

Source: Union of Exports

Around 1,400 companies operate in the cosmetics sector. Shampoos, depilatories, products for bath, lip and eye make-up products, deodorants, perfumes and baby care products are major items in the sector. Turkey partakes among world's leading laurel and olive oil soap producers.

Given to its cultural heritage of jewelry, Turkey ranks among world's top jewelry producers and exporters with modern techniques in the sector.

As per Deloitte's "Global Powers Of The Consumer Products Industry" report, Arçelik ranked 2<sup>nd</sup> and Vestel ranked 3<sup>rd</sup> in Africa and Middle East region in terms of net sales.

## Top Africa/ME consumer products companies, 2006

Company name	Africa/ME rank	Top 250 rank	Sector	Country	FY06 net sales (US\$mil)
Steinhoff International	1	116	Home Furnishings and Equipment	South Africa	5,344
Arcelik	2	127	Home Furnishings and Equipment	Turkey	4,885
Vestel	3	162	Electronic Products	Turkey	3,672
Groupe ONA	4	183	Food, Drink and Tobacco	Morocco	3,326
Tiger Brands	5	235	Food, Drink and Tobacco	South Africa	2,532

**Top 10 home furnishings and equipment companies, 2006**

Company name	Product sector rank	Top 250 rank	Country	Region	FY06 net sales (US\$mil)
Sanyo	1	30	Japan	Asia/Pac	18,964
Whirlpool	2	32	United States	North America	18,080
Electrolux	3	46	Sweden	Europe	14,109
BSH	4	67	Germany	Europe	10,437
Steinhoff International	5	116	South Africa	Africa/ME	5,344
Arçelik	6	127	Turkey	Africa/ME	4,885
Miele	7	164	Germany	Europe	3,578
SEB	8	182	France	Europe	3,331
Gree Electric Appliances	9	199	China	Asia/Pac	2,989
Ashley Furniture	10	204	United States	North America	2,964

Again, as per Deloitte's "Global Powers Of The Consumer Products Industry" report, Arçelik ranked 6<sup>th</sup> in Top 10 home furnishing and equipment companies in the world in terms of net sales.





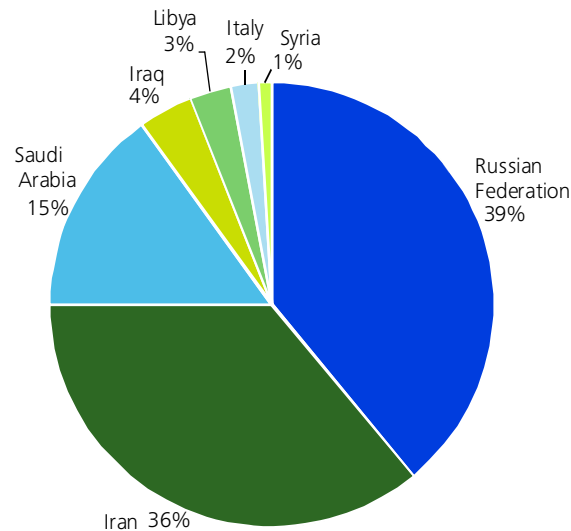
## Energy and Resources in Turkey

Turkey is an important energy consumer as well as an important hub for energy supplies transportation. Turkey's primary energy consumption was 106 million TEP in 2007. 29.2 MTEP was produced at home and the rest was imported. Primary consumption is expected to rise 6% annually (average annual increase in the world is 1.8%) and reach to 220 MTEP by 2020. Total \$130 billion of investment is needed in the energy field by 2020 in Turkey to meet the energy needs.

Except coal (mostly lignite), currently Turkey has very limited mineral resources. TPAO (The Turkish Petroleum Corporation) has invested \$500 million in exploration in Black Sea region where 10 billions barrels of potential reserves thought to be lying. Although she mostly imports her oil and natural gas, Turkey is becoming a hub for energy supplies. There is Baku-Tbilisi-Ceyhan (BTC) and Iraq-Turkey crude oil pipelines which bring oil from Azerbaijan and Iraq. BTC's capacity was 1 million barrels in 2008. With some technical changes it will reach to 1.2 million barrels in 2009. Capacity of the Iraq – Turkey pipeline is 1.6 million bpd. Also Trans – Anatolian pipeline project is planned to carry Russian and Kazakh oil from North of Turkey to the South beginning 2010. From Ceyhan, a big port in the South of Turkey where the oil Trans – Anatolian pipeline ends, the oil will be shipped to other parts of the world. Also there is Tupras refinery in Ceyhan. The crude oil is refined at Tupras and refined products are sold both domestically and internationally. So, Ceyhan area on the Mediterranean coast has become a focal point of the international crude oil trade.

There are two Russian-Turkish natural gas pipelines (West and Blacksea), one Azerbaijani-Turkish natural gas pipeline (Baku-Tbilisi-Erzurum) and one Iranian-Turkish natural gas pipeline transmits natural gas to Turkey. 32.2 billion cm<sup>3</sup> natural gas imported from these pipelines. Additional 5.6 billion cm<sup>3</sup> natural gas imported in LNG form from Algeria and Nigeria.

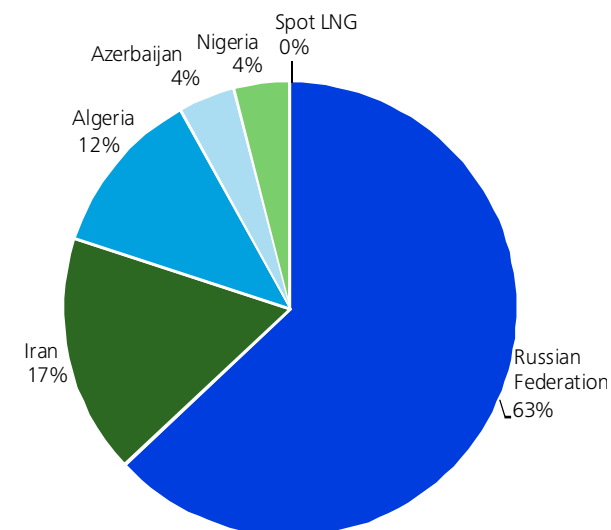
## Turkey's Main Resources of Oil (2007)



Source: Energy Market Regulatory Authority

Turkey realizes 90% of her oil import from three countries, namely Iran, Russian Federation and Saudi Arabia.

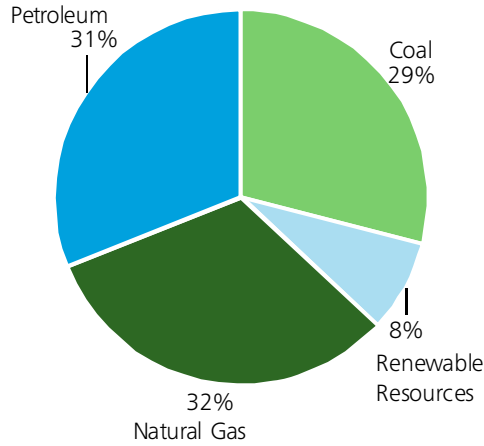
## Turkey's Main Resources of Natural Gas (2007)



Source: Petroleum Pipeline Corporation

Turkey makes 90% of her natural gas import from three countries, namely Iran, Russian Federation and Algeria.

### Energy Consumption in Turkey According to Resources (2007)



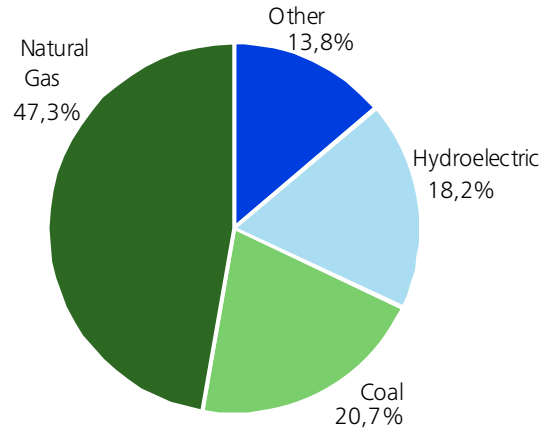
Source: Turkish Ministry of Energy and Natural Resources

On the energy supplies transportation side, already one fourth of Azeri natural gas goes to Greece. Nabucco gas pipeline has planned to connect Central Asian natural gas to Central Europe through Turkey. Also Turkey is building a link to the Egypt – Jordan – Syria – Lebanon gas pipeline. The link will be connected to the Turkish natural gas network. Another under sea pipeline is planned to be built between Ceyhan and Israel. The gas from the pipeline will be transferred to India from Red Sea by ship. Energy Market Regulatory Agency (EPDK) is the independent regulator who controls the standards of the electricity, natural gas, petroleum and LPG in Turkey.

Turkey's demand for electricity is growing fastest after China. Between 2002 and 2007 annual average growth in electricity demand grew 8%. However in 2008 with the affects of the global crisis this rate fell to 3.5%. As iron, steel, cement and textile industries slowed down, the commercial use of electricity decreased as well. It is expected to accelerate again in the second half of 2009.

Turkey has 40,835 MW installed capacity. Commercial and industrial sectors use 62% of the electricity, whereas residential consumers use 24% of it. Government owns 57% of Turkey's installed capacity which was as high as 98% until recently. The Turkish Electricity Distribution Company (TEDAŞ) is a government company and it is the

### Main Resources in Electricity Production (2007)



Source: Turkish Ministry of Energy and Natural Resources

It distributes and sells electricity in 21 regions and to 29.4 million customers. To attract foreign investment and have efficiency in both production and distribution, government continues privatizations in the field. It sold Başkent Electricity Distribution Corporation (BEDAŞ) and Sakarya Electricity Distribution Company (SEDAŞ) to private companies. In recent years government changed the laws and regulatory framework for energy industry. The industry has been modeled according to European Union's regulatory framework and industry structure.

As Kyoto agreement signed by Turkey in 2008, she needs to increase the renewable energy production in coming years. With the changes in regulatory framework, government also gives buying guarantees with increased prices. As a result of this new attempt many international and local companies have started to invest in the field. Some of these companies include General Electric, BP and Spain's Iberdrola. Also an electricity interconnection net between Turkey, Syria, Egypt, Iraq, Jordan, Lebanon and Libya is planned to be built.

For more information on Energy and Resources, please refer to Deloitte's "Türkiye Doğal Gaz Piyasası - Gelişmeler 2008" and "Sürdürülebilir Enerji: Yatırım Değişimi ya da İklim Değişimi" reports at [www.deloitte.com.tr](http://www.deloitte.com.tr)

## Life Sciences and Health Care in Turkey

Turkey has been going through a comprehensive healthcare restructuring thanks to liberalizations and attempts to develop and scale up its healthcare services by continuously improving quality. Due to its quality of medical care, geographical advantage and affordable prices, Turkish medical groups are rapidly becoming providers of healthcare for international patients especially from Russian Federation, Europe, Balkan countries, Middle East and Middle Asia.

As private investors entered the healthcare market at the beginning 1990s, the private sector investments doubled that of public within the last decade. Currently, there are 305 private hospitals with 13,300 beds that account for 7% of Turkey's total capacity. There are 17 healthcare institutions composed of 22 hospitals which are accredited by "Joint Commission International", and this number accounts for 15% of the total accredited hospitals in 27 countries across the world.

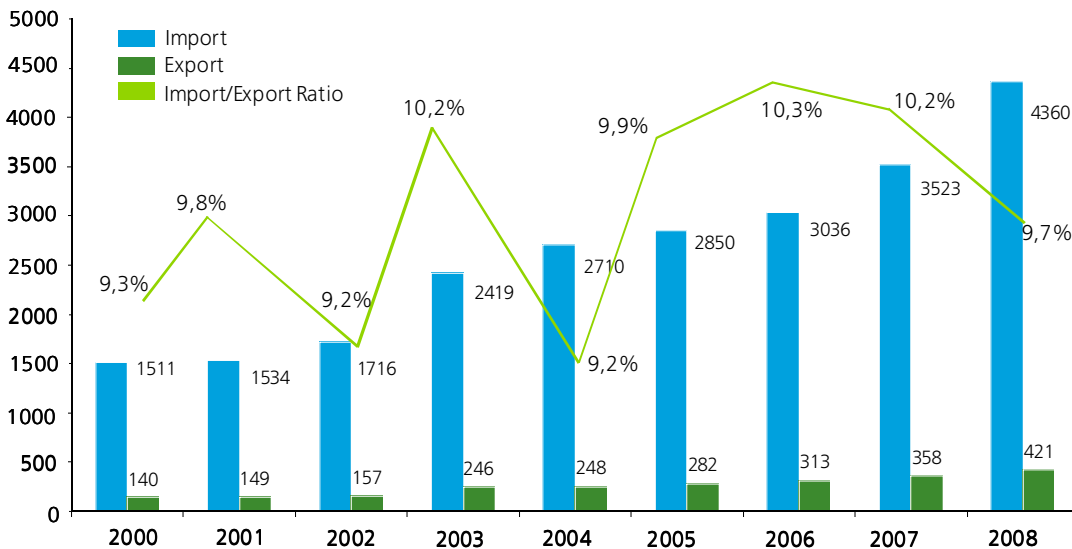
Oncology (medical and surgery), organ transplantation, neurosurgery, cardiology and cardiovascular surgery, orthopedics and traumatology, obstetrics and gynecology, ophthalmology, plastic surgery and dental services are major fields in which Turkish healthcare has expertise.

Moreover, as Pharmaceutical Research and Manufacturers of America (PhRMA) mentioned, Turkey is a country that could develop into a globally competitive powerhouse in pharmaceutical research, manufacturing and exports, due to its human resources, geographic proximity to major markets and rapidly evolving domestic pharmaceutical market. 90% of purchased products are made in-country in Turkey which is world's 16<sup>th</sup> drug-making country.

There are 43 production facilities in Turkey 14 of which are foreign companies. Bayer from Germany, GlaxoSmithKline from the United Kingdom, Aventis Pharmaceuticals Inc., Baxter and Pfizer from the United States, Roche and Novartis from Switzerland, Sanofi from France have manufacturing operations in Turkey. EIS Eczacıbaşı, Abdi İbrahim, Fako, İlsan İltaş, Mustafa Nevzat, İbrahim Ethem and Bilim are the leading Turkish pharmaceuticals manufacturers.

For more information on LS&HC, please refer to "Türkiye'de ve Dünyada Sağlık Ekonomisi – 2008" at [www.deloitte.com.tr](http://www.deloitte.com.tr)

## Foreign Trade of Pharmaceutical Products



Resource: Pharmaceutical Manufacturers' Association of Turkey

## Construction and Real Estate in Turkey

Construction is an important sector in Turkey with 5.5% - 6.5% share in the GDP during the last five years period. Also construction materials sectors such as cement, iron, steel, glass, ceramics etc. are very well developed and deeply rooted with the sector. Turkish construction firms are not only active in the country, but many of them engaged in different projects especially in Middle East, Central Asia, Balkans and North Africa. According to "Engineering News Record" magazine, 23 Turkish firms were ranked among the top 225 international contractors in 2008.

The construction sector had grown steadily between 1980 and 1988. With the liberalization of the economy and the increase in interest rates, the investment costs raised after 1988. As a result of higher costs and lower demand, investment from the government and the financial sector was low and the sector's growth slowed. Construction sector grew 22.4% during the period of 1993 and 2003, which was lower than the general Turkish economy's growth rate: 26,13%.

By 2004 the growth rate for the sector started to rise again. In the first half of 2005 the number of construction licenses grew 40% according to the previous year's same period. The growth continued in 2006. By 2007, the growth rate started to deteriorate as the general economy in the country and in the world began to slow down.

Real estate market followed the similar expansion and shrink period as the construction sector. After 2001 the real estate sector has been an important part of the economic growth. 10.6% of the GDP in 2007 came from real estate ownership where rentals and real estate services accounted for 4% of the real estate. Although home ownership is at 72%, more than half of the population is under 29. So, the demand for homes is expected to rise. Also according to "The Property Guide" magazine Turkey was the first in future potential in real estate sector (2007). According to the magazine the prices are lower than Europe and especially real estates in big cities and the coastal areas will appreciate in the future.

## Yearly Change in the Construction Sector, GDP and the Construction Sector's Share in GDP

Year	Construction Sector (%)	GDP (%)	Construction Sector's Share in GDP (%)
2003	7,8	5,3	5,5
2004	14,1	9,4	5,8
2005	9,3	8,4	5,8
2006	18,5	6,9	6,4
2007	5,7	4,6	6,5

Source: TUIK

Housing Development Administration of Turkey (TOKI) is the public authority which provides housing for low and middle income groups. It is the biggest player in the sector and it works under a special law frame. It provided credits to over one million housing units and completed 250,000 units between 2003 and 2007. TOKI has targeted to build 500,000 units by 2011.

Turkish construction materials sector is the third largest sector in Turkey and it constitutes 13.1% of all exports. The sector is not only serving to Turkey, but it is providing materials to the surrounding geographies of Turkey. Turkey is the biggest cement exporter in Europe and the third largest in the world. She is the 11<sup>th</sup> largest exporter of steel with an average 11% growth in the last five years.

Turkish contracting firms abroad generated \$ 130 billion business volume by the end of 2008 in 68 different countries. There were 14 Turkish companies in "The Top 225 International Contractors" list made by "Engineering News Record" magazine in 2005. By 2007, this number reached to 22 and 23 Turkish firms were ranked among the top 225 international contractors in 2008.

For more information on Real Estate, please refer to "**Real Estate Investment in Turkey: From reluctance to appetite**" report at [www.deloitte.com.tr](http://www.deloitte.com.tr)



## Technology, Media and Telecommunications in Turkey

Turk Telekom owns the national infrastructure and was the government monopoly on fixed line services before 2005. 55% of it privatized to Saudi Oger in 2005, another 15% was privatized to small shareholders in May 2008 and the rest belongs to the state. With the privatization of Turk Telekom, telecom sector has been in a big change. There were 19.1 million subscribers by the end of 2007. It decreased to 17.5 million subscribers by the end of 2008. Because of the increasing prices that the company charges to its customers, company's revenues did not decrease in 2008. 67% of the company's revenues were from fixed line customers and 15% of it was from broadband. Turk Telecom expects the continuation of decrease in the number of fixed line customers and increase in the number of broad band customers. By the end of 2003, Turk Telecom's monopoly on fixed line voice transmission and infrastructure finished. Though, the company still dominates the market.

There are three GSM operators in Turkey. Turkcell is the largest GSM operator with 35.4 million subscribers at the end of the first half of 2008. Vodafone had 17 million subscribers and Avea had 11 million subscribers at the same period. By the end of 2008, there were about 66 million active mobile phone subscribers in Turkey.

Turkey has a large market for IT and it is expected to grow in a fast pace. Turkey ranks 11<sup>th</sup> in internet users. 30% of the 17 million households in Turkey are connected to the internet. 95% of the market belongs to Turk Telekom's internet division TTNNet. And the rest belongs to smaller companies which buy space from Turk Telekom and resell it to private users. By 2011, penetration rate for broadband users are expected to rise to 60%. There were 4.5 million broadband internet users at the end of 2007. In six months, this number increased to 5.2 million. The estimated number for the end of 2008 was 6 million users.

The number of internet users expected to rise as government's recent announcement to lower the Special Communication Tax from 15% to 5% for internet connections becomes effective from 1 March 2009. Also there is a new law for R&D firms to use the existing special economic zones as incubators for new technology firms, property rights issue remains an obstacle for technology firms.

**Telecoms/technology market, 2005-08 (€ billion)**

Year	Technology	Telecoms	Total
2005	3.2	10.7	13.9
2006	3.8	11.5	15.3
2007	4.4	12.8	17.2
2008*	5.7	15.1	20.8

**Source:** Turkish Informatics Industry Association

By 2006, there were 4843 print media publications in Turkey and 85 television channels. Also Turkey ranks 11<sup>th</sup> in largest number of internet users in the world. The number of jobs were approximately 42 thousand in the same year. Magazines constitute 57.1% of the total number of publications. Newspapers are the most influential in Turkish media. Doğan Media Group (the biggest media group) and The Turkuvaz Group are the biggest media groups in Turkey. Kanal D, Show TV, ATV and Star TV have the biggest market share in television market. Whereas Posta, Hürriyet, Sabah and Zaman are the biggest among the newspapers. Currently AGB Nielsen Media Research is the only ratings monitoring company and a debate of establishing a second one is continuing.

### Tourism Arrivals and Revenues

Year	Tourist Arrivals	Annual Change (%)	Tourism Revenues (million \$)	Annual Change (%)
1991	5,517,897	2.4	2.654	-17.7
1992	7,076,096	28.2	3.639	37.1
1993	6,500,638	-8.1	3.959	8.8
1994	6,670,618	2.6	4.321	9.1
1995	7,725,885	15.8	4.957	14.7
1996	8,614,085	11.5	5.650	14.0
1997	9,689,004	12.5	7.002	23.9
1998	9,752,697	0.7	7.177	2.5
1999	7,487,285	-23.2	5.203	-33.4
2000	10,428,153	39.3	7.636	46.8
2001	11,618,969	11.4	8.090	5.9
2002	13,256,028	14.1	8.473	4.7
2003	14,029,558	5.8	13.203	55.8
2004	17,516,908	24.9	15.888	20.3
2005	21,124,886	20.6	18.154	14.3
2006	19,819,833	-6.2	16.851	-7.2
2007	23,341,074	17.8	18.487	9.7
2008	29,756,458	27.4	21.910	18.5

Source: Ministry of Culture and Tourism

### Tourism, Hospitality and Leisure in Turkey

Turkey is one of the most preferred tourism destinations in the world. Besides its abundant archaeological and historical sites, hunt tourism, winter sports, faith tourism, thermal resorts, congress and fair tourism and medical tourism are attracting more foreign visitors every year. According to the UN World Tourism Organization, Turkey ranks 9<sup>th</sup> and 10<sup>th</sup> in the world in terms of international tourist arrivals and tourism receipts, respectively.

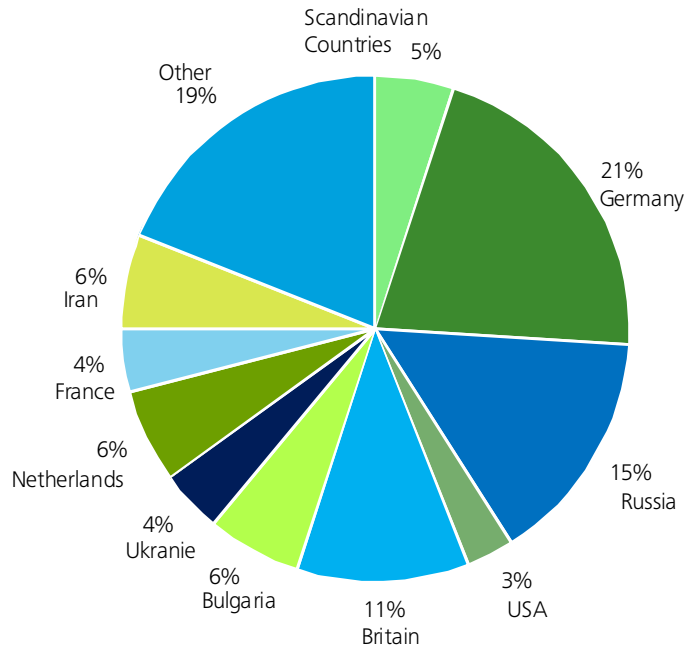
The Turkey Tourism Strategy 2023 which has been recently launched shows ambitious targets of the Turkish government to take place among 5 most preferred destinations in the world by 2023 by attracting 50 million tourists per year. The strategy also includes constituting nine cultural and tourism zones, 10 tourism cities, 11 cruise ports, nine marinas and one airport. The Strategy presupposes establishment of seven tourism development corridors which are Thrace Culture Corridor, the Silk Road corridor, Faith Tourism Corridor, Olive Corridor, Western Black Sea Corridor, Plateau Corridor and Winter Corridor.

In 2008, the number of tourist arrivals reached 29.75 million with an annual change of 27.4%. Antalya, a coastal province in the Mediterranean Region receives approximately one third of the total foreign tourists visiting Turkey, while İstanbul and towns in the Aegean region constitute other leading destinations for foreign visitors, who are mainly coming from the European Union countries.

Tourism is one of the most advantageous sectors for foreign investments, as Turkish Government aims to diversify the tourism sector by providing several incentives for the investors in the sector. Turkey, one of the world's leading countries in terms of geothermal resources, strives to improve health tourism by building new facilities in the fields of medical and thermal tourism, SPA-Wellness, and tourism for handicapped and elderly people. Turkish government also aims to improve winter tourism by allocating new areas for new winter sport facilities. Congress and fair tourism is another priority in the tourism strategy. İstanbul, Ankara, Antalya, İzmir, Konya, Bursa and Mersin have been considered as the leading provinces for congress and fair tourism.

Moreover, several projects regarding sport tourism is in the agenda where new golf courses are being recently constructed especially in one of the most important tourism cities, Antalya. İstanbul will be the European Capital of Culture in 2010, which will also create numerous investment projects as well.

**Tourists by Country of Origin (2008)**



Source: Ministry of Culture and Tourism

# 4. Incentives and financing

## 4.1. Types of Incentives Available

The purpose of the general investment incentive program is to; encourage, support and orient investments, in line with international commitments, in conformity with the objectives of Development Plans and Annual Programs, in order to reduce regional disparities within the country, create new employment opportunities, while taking advantage of advanced and appropriate technologies with greater added value and to realize international competitiveness.

A set of incentives specifically designed to encourage investments is available in Turkey. Mainly, these incentives can be classified as follows:

- a) Investment incentives
- b) Export - oriented incentives
- c) Other tax / non-tax incentives

## 4.2. Investment Incentives

### 4.2.1 State Aids

The state incentives consist of application of reduced corporate income tax rates on earnings to be derived from the investments made in specified sectors and regions (effective from 28 February 2009), application of reduced corporate income tax rates in case of movement of certain types of investments to the regions specified (effective from 28 February 2009), customs duty exemption, VAT exemption and credit allocation from the Budget. In order to qualify for the state incentives, it is necessary to obtain an investment incentive certificate before the investment is initiated. To be eligible for incentives; the investments should amount to the following values:

- A minimum value of TRL 200,000 and maximum value of TRL 2,000,000 for small and medium- sized enterprises (SMEs)
- A minimum value of TRL 1,000,000 for enterprises other than SMEs
- A minimum value of TRL 200,000 for financial leasing companies

### ***Application of Reduced Corporate Income Tax Rate on Earnings Derived from the Investments in Specified Sectors/Regions:***

With effect from 28 February 2009, a reduction of up to 90% in the corporate income tax rate will be possible on those earnings to be derived from the investments realized based on investment incentive certificate to be obtained from the Undersecretariat of Treasury in the specified regions and cities (to be determined by the Council of Ministers) in all the sectors, excluding the following:

- Finance and insurance,
- Investments in the form of joint ventures,
- construction commitment work,
- Investments on Build-Operate Model (Law No. 4283),
- Investments on Build-Operate-Transfer Model (Law No. 3996),
- Investments made based on mining lease ("redevance") agreements

### ***Reduced Corporate Income Tax Rate Application Possibility on Earnings to be derived from the Production Plants in Certain Sectors which are moved to the Specified Regions until 31 December 2010:***

With effect from 28 February 2009, a reduction of up to 75% in the corporate income tax rate will be possible for earnings to be derived from the production plants in such sectors as textile, ready-to-wear and leather clothes business, which are to be moved until 31 December 2010 to those cities to be specified by the Council of Ministers (those usually located in the regions having priority for development) for a period of the following five years from the date of movement of the investment to the specified regions- provided that an employment opportunity is provided to at least 50 workers in such plants.

### ***Import Duties Exemption***

Exemption from customs and other import duties on imported investment goods is available in many cases. 100% exemption from customs duties is usually granted if the investment is supported by an investment incentive certificate.

Within the scope of R&D Investments, importation of machinery and equipment and raw, semi-processed materials and operating supplies are eligible for customs duties and fund levies exemption as well as the importation of used facilities and secondhand machinery and equipment under certain conditions.

### ***Value Added Tax (VAT) Exemption for Imported and Locally Purchased Machinery and Equipment***

Machinery and equipment imported or locally purchased within the scope an investment incentive certificate are exempt from VAT. It should be noted that purchases of services, operating supplies, spare parts and materials are not within the scope of VAT exemption even if they are related to machinery and equipment.

### ***Loan Interest Support***

The Treasury also provides support with respect to the interest on those loans that are borrowed for the purpose of realizing investments based on an investment certificate. Interest support is provided for investment projects by SMEs, research and development projects, environmental projects and projects in the regions having priority for development.

The Treasury supports for interest are 5% for TL loans, 2% for foreign currency loans. The Treasury provides interest support for the loans that has a maturity of more than a year. Interest support is provided for a maximum period of 4 years.

### ***Resource Utilization Support Fund (RUSF) Exemption:***

External foreign exchange loans used within the scope of an investment incentive certificate are exempt from RUSF of 3%.

## **4.2.2. Regional Investment Incentives**

Investment incentives are applied in the cities located in the regions having priority for development, those cities where income per capita is below USD 1,500 (Adıyaman, Afyonkarahisar, Ağrı, Aksaray, Amasya, Ardahan, Bartın, Batman, Bayburt, Bingöl, Bitlis, Çankırı, Diyarbakır, Düzce, Erzincan, Erzurum, Giresun, Gümüşhane, Hakkari, Iğdır, Kars, Kırşehir, Malatya, Mardin, Muş, Ordu, Osmaniye, Siirt, Sinop, Sivas, Şanlıurfa, Şırnak, Tokat, Uşak, Van, Yozgat), those cities which have a negative socio-economic development index (Artvin, Çorum, Elazığ, Kahramanmaraş, Karaman, Kastamonu, Kilis, Kütahya, Nevşehir, Niğde, Rize, Trabzon, Tunceli) and the provinces of Bozcaada and Gökçeada within Çanakkale.

### ***Cancellation of Income Withholding Tax Liability on Salaries***

There is an incentive provisionally in effect until 31 December 2009, under certain conditions through cancellation of income withholding tax liability calculated on the salaries of the employees working for the employers whose investments are located in the cities where the income per capita is below USD 1,500 or the cities which have a negative socio-economic development index.

### ***Support for Social Security Insurance Premium-Employer's Share***

A financing support by the Turkish Treasury is provisionally available until 31 December 2009 with respect to 100% of the employer's share of the social security premium for the employees employed in organized industrial zones or industry zones and 80% of the employer's share of the social security premium for the employees employed outside these zones within the cities enumerated above.

### ***Energy Support***

20% of the electricity expense is financed by the Treasury for those operating in certain sectors provided that the minimum number of employees, as specified by Law No. 5084, are employed. 0.5 point is added to 20% for each extra employee employed over the minimum number. However, the maximum financing ratio is limited to 50% for organized industrial zones or industry zones and 40% for other locations (provisionally available until 31 December 2009).

#### 4.2.3. Research and Development Incentives

##### ***R&D Expenditures Allowance***

According to Corporate Income Tax Law, companies that conduct R&D activities which are approved by the Council of Science and Technical Research, universities and entities specialized in the subject of the research as "R&D activities " and have the following characteristics can benefit from an allowance equal to 100% of the R&D expenditures in addition to deduction of the expenditure itself.

- a) Searching for new technical information aimed at development of science and technology and/or for the purpose of elimination of uncertainties in certain scientific and technical areas,
- b) Searching for development of new production methods, processes and operations,
- c) Development of new products, materials and equipments, operations and systems via new methods as well as production of new techniques and prototypes by studies on designs and technical drawings
- d) Searching for new technology that will result in cost reduction, quality improvements, and increase in performance level
- e) Development of new and original software

R&D expenditures allowance which cannot be used due to insufficient corporate income profits, can be carried forward to be used in the following years.

##### ***Tax Exemptions Provided for Operations in Technology Development Zones***

According to Technology Development Zones Law, Technology Development Zones (TDZ) may be formed by private sector companies within Turkey together with universities or high technology institutes exclusively for the purpose of carrying out Research and Development activities (including production of software) aimed at promoting technology development activities in Turkey.

TDZ is to be operated by an Operating Company. Operating Company must be established in the form of a corporation. At least one of the founding shareholders of the Operating Company has to be a university, a high technology institute or a state R&D institute. Legal entities with domestic or foreign capital may participate in the Operating Company either as founding or participating shareholders.

The following tax exemptions are available through TDZ Law\*:

- a) **Provisional Tax Exemption for the Operating Company:** Profits derived by a TDZ Operating Company from operation in TDZ in accordance with Law No. 4691 is exempted from income and corporate income tax until 31 December 2013.
- b) **Provisional Tax Exemption for Individuals/Entities Operating in TDZ:** Individuals or entities that carry out R&D and software development activities within a TDZ are also exempt from income and corporate income taxes on their income derived from such activities until 31 December 2013.
- c) **Provisional Tax Exemption for the Salaried R&D Personnel Employed in TDZ:** Salaries of the personnel employed in TDZ to carry out R&D and software development activities are exempt from all kinds of taxes until 31 December 2013.
- d) **VAT Exemption:** Deliveries of software (for system management, data management, internet, mobile and military command control applications etc.) developed as a result of the activities performed in TDZs are exempt from VAT until 31 December 2013.

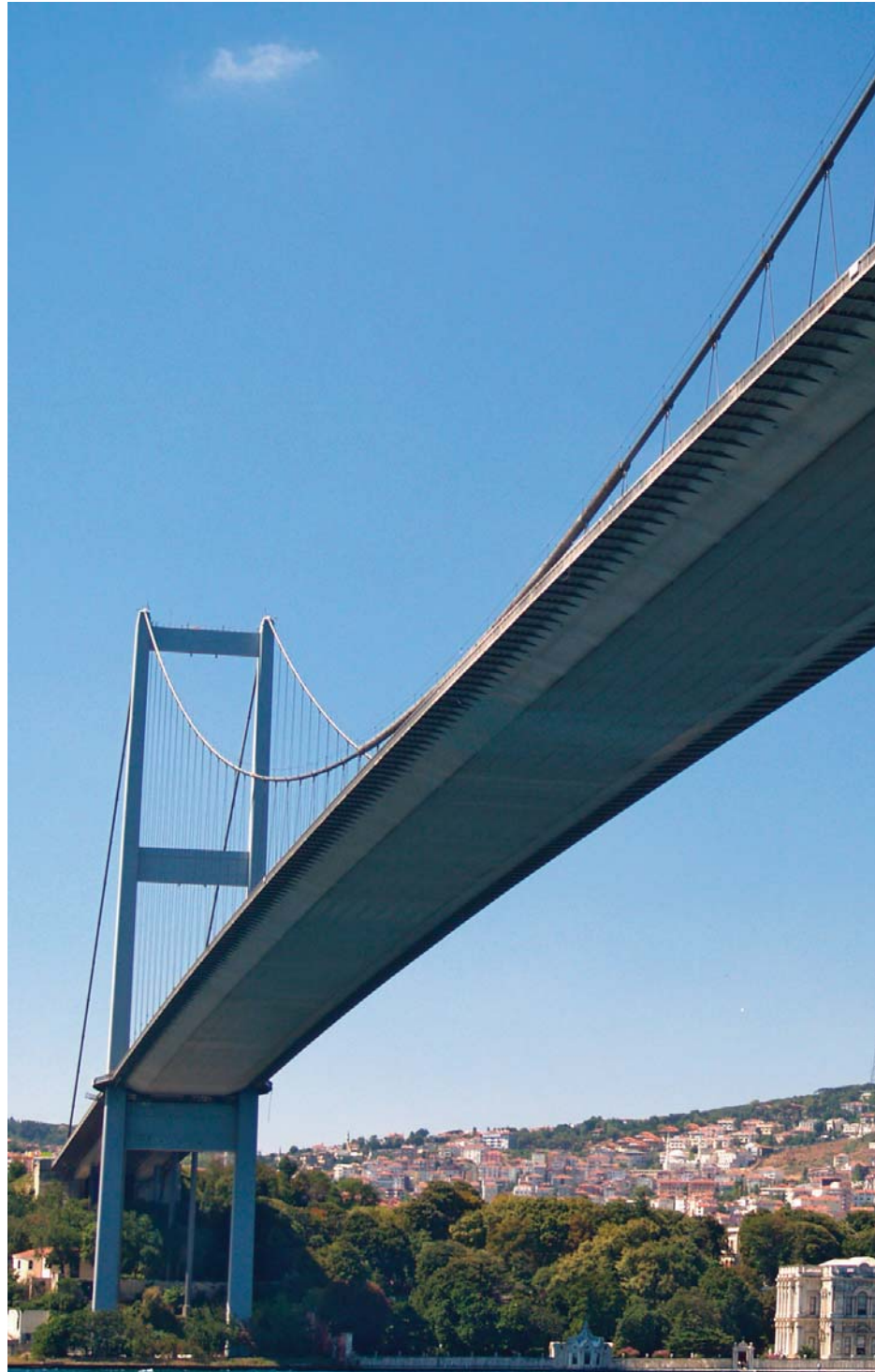
\* The exemptions indicated in a), b) and c) above are also applicable to the Tübitak Marmara Research Center Technology FTZ Operator, income/corporate income tax payers operating in this FTZ and the salaried personnel working in this FTZ as software developer or researcher engaged in R&D activities.



#### 4.2.4. Supports for Small and Medium Size Enterprises (SMEs)

There are various supports provided by “KOSGEB” (Administration for Support and Development of SMEs) for the new entrepreneurs and business enterprises operating in manufacturing sector and employing 1-150 workers.

- Consultancy and training supports
- Technology research and development support
- Support for industrial intellectual property rights (for obtaining patents, industrial design registration certificate etc.)
- Information Technology supports (for computer software, support to start e-business)
- Quality development supports (for test analysis, CE labeling)
- Supports for marketing research and promoting for exports
- Supports for development of international cooperation / collaboration
- Regional development supports
- Entrepreneurship development supports





### 4.3. Export-Oriented Incentives

#### Tax Exemptions for Operations in Turkish Free Trade Zones

Turkish Free Trade Zones (FTZs) are the areas specified by the Council of Ministers within the political borders of Turkey but considered outside the customs borders, where all types of industrial, commercial and certain types of service activities are encouraged through certain tax exemptions and incentives with the following objectives:

- increasing export-oriented investment and production,
- accelerating the inflow of foreign capital and technology,
- procuring the inputs of the economy in an economic and orderly fashion,
- increasing the utilization of external finance and trade possibilities.

The Council of Ministers of Turkey is authorized to specify and determine the location and boundaries of FTZs in Turkey.

There are 21 FTZs which are currently operating in Turkey based on the relevant legislation in effect as of February 2009.

It is possible both for individuals and legal persons to operate in FTZs regardless of their residency status. In all cases, in order to operate in FTZs, it is compulsory to obtain an "Operation License" from the General Directorate of Free Trade Zones (GDFTZ) governed by the Undersecretariat of Foreign Trade.

If the application is accepted by the GDFTZ, an Operation License is granted for an appropriate period usually varying between 10-30 years (up to 99 years for very special projects) taking into consideration the request of the applicant, the type of activity to be conducted, the amount of the investment and other issues as applicable for each FTZ.

**Important changes have been made in FTZ Legislation through Law No. 5084 with effect from 6 February 2004.**

	Name / Location	Operator	Year of Starting Operations
1	<b>Mersin</b>	MESBAŞ	1987
2	<b>Antalya</b>	ASBAŞ	1987
3	<b>Aegean FTZ</b>	ESBAŞ	1990
4	<b>Istanbul Atatürk Airport FTZ</b>	İSBI	1990
5	<b>Trabzon</b>	TRANSBAŞ	1992
6	<b>Istanbul Leather and Industry FTZ</b>	DESBAŞ	1995
7	<b>East Anatolia FTZ</b>	DASBAŞ	1995
8	<b>Mardin</b>	MASBAŞ	1995
9	<b>Istanbul Stock Exchange International Securities FTZ</b>	ISE	1997
10	<b>Izmir Menemen Leather FTZ</b>	İDESBAŞ	1998
11	<b>Rize</b>	RISBAŞ	1998
12	<b>Samsun</b>	SASBAŞ	1998
13	<b>Istanbul Thrace FTZ</b>	ISBAŞ	1998
14	<b>Kayseri</b>	KAYSER	1998
15	<b>European FTZ</b>	Avrupa Serbest Bölgesi Kurucu ve İşletici A.Ş.	1999
16	<b>Gaziantep</b>	GASBAŞ	1999
17	<b>Adana – Yumurtalık</b>	TAYSEB	1999
18	<b>Bursa</b>	BUSEB	2001
19	<b>Denizli</b>	DENSER	2001
20	<b>Kocaeli</b>	KOSBAŞ	2001
21	<b>Tübitak Marmara Center Technology Research</b>	TUBITAK	2002

The most important change is that income and corporate income tax exemptions in Turkish FTZs have been abolished with effect from 6 February 2004. However, those users already operating in Turkish FTZs based on a valid operation license obtained prior to 6 February 2004 shall still continue to benefit from income and corporate income tax exemptions within the limit of the operation period specified in their operation licenses.

The exemption from income withholding tax on the salaries of personnel employed in Turkish FTZs and the exemption from levies and duties, which were available until 31 December 2008, are no longer available starting from 2009.

However, income withholding tax exemption will continue to be available starting from 1 January 2009 only for those companies that are engaged in manufacturing within Turkish FTZs provided that certain conditions are satisfied as per FTZ General Communiqué No.1 about application of income withholding tax exemption on salaries. The major condition required is that the manufacturing company must export at least 85% of the total FOB value of the products manufactured within the Turkish FTZ. This exemption shall be provisionally applicable until the end of the year in which Turkey becomes full member of the European Union (EU).

The income tax exemption mentioned above does not cover withholding tax to be imposed on dividends to be distributed. Accordingly, dividends to be distributed by companies established and operating in Turkish FTZs to their shareholders shall be subject to 15% dividend withholding tax.

**From among those users that obtained an operation license for production activities on 6 February 2004 or thereafter; only those earnings of such users which are generated from the sales of goods that are produced within Turkish FTZs shall be exempt from corporate income tax until the end of the year in which Turkey becomes full member of the European Union (EU).**

Foreign exchange gains to be derived from collections of receivables from customers as well as income derived from additional charges made to customers for their late payments shall benefit from income / corporate income tax exemption, provided that they are related to the FTZ activities within the scope of the operation license.

***Transfer of Profits/Liquidation Proceeds from FTZs:***

It is free to transfer profits, sale and liquidation proceeds obtained in FTZs to the other parts of Turkey as well as abroad. The only restriction is that the export of capital in kind from Turkey is subject to the permission of the Undersecretariat of Treasury.

***Trading with Turkey:***

Goods that are sent to a FTZ from Turkey are treated according to the Foreign Trade Regime and considered exported from Turkey. Similarly, goods forwarded to Turkey from FTZs are subject to the Turkish Foreign Trade Regime and considered as imported under this Regime. Effectively, the Foreign Trade Regime does not apply to transactions between FTZ and other countries, nor does it apply to the transactions among the FTZs. Goods and services may freely be sent from FTZs to destinations outside Turkey.

***Compulsory Contribution ("special levy") To Be Made In Case of Trading:***

A compulsory contribution is required to be made by the FTZ users to the Special Account in the Central Bank of Turkey at a rate of 0.5% of

- a) the CIF value of the goods imported into Turkish FTZs from foreign countries, (FTZ users who are not manufacturers and obtained operation license after 6 February 2004 are not subject to this contribution payment as of 1 May 2007)
- b) the FOB value of the goods exported from Turkish FTZs to Turkey, (FTZ users who are not manufacturers and obtained operation license after 6 February 2004 are not subject to this contribution payment as of 1 May 2007)

### ***Tax Exemption Under “Inward Processing Regime” (IPR)***

Purchase of raw materials, spare parts and packing materials to be used in manufacturing of products which will be exported within the framework of an inward processing certificate or inward processing permission are exempt from customs duties.

Agreements, documents, declarations (including customs declarations) to be used with respect to transactions within the framework of inward processing permission are exempt from stamp tax and duties.

### **State Aids Supporting Export Activities (Non-tax Incentives)**

- Support for R&D activities
  - Support for the activities for the environment protection
  - Support for participation in specialized international fairs organized in Turkey and abroad
  - Marketing research support
  - Support for opening and operation of shops in foreign countries and promotion of such activities
  - Training supports
  - Supports for export refund in agricultural products
  - Supports for development / promotion of Turkish trademarks in foreign countries
- “Turquility - From Turkey”**
- Support for export financing through Turkish Eximbank Loans
  - Support through insurance programs of Turkish Eximbank

## **4.4. Other Tax/Non-Tax Incentives**

### **Corporate Income Tax Holiday for Private Education Enterprises and Operations of Rehabilitation Centers**

There is a five-year corporate income tax holiday for earnings derived by private education enterprises (pre-school, primary and secondary schools) and rehabilitation centers operated by tax – exempt foundations and associations established for public benefits. The tax holiday starts from the first operation year.

### **Support of Sports activities Through Sponsorship**

Sponsorship expenses are deductible from corporate income tax base depending on the sports activities being carried out on an amateur or professional basis: 100% for amateur sports activities, 50% for professional sports activities.

### **Cultural Investment Incentives**

Cultural Investments Incentive Law (Law No. 5225) provides employment, energy and immovable property allocation support in order to promote cultural investments and protect cultural inheritances.

The Ministry of Culture and Tourism is authorized to allocate immovable property for the investors for a fixed period.

Also, there is a discount for the income withholding tax and social security premium employer’s share with respect to the salary payments made to the personnel employed by the investors who support the construction repair/operation of the immovables used for cultural activities as well as documentation, archiving and protection of cultural assets.

Additionally, there is energy support (20% of electricity and natural gas consumption are financed by the Treasury for 5 years) for these types of investments.

### **Deductible Expenses and Donations for Cultural Values and Natural Resources**

Expenses and donations incurred for the activities related to protection, development, maintenance of Turkish Cultural Values and Inheritance with respect to the Law on Protection of Cultural Values and Natural Resources (Law No. 2863) is deductible from the corporate income tax base.

In addition there is a VAT exemption on restoration, restitution and building surveying projects within the scope of the Law on Protection of Cultural Values and Natural Resources.

## Exemptions for Ships Registered in the International Ship Registry of Turkey (ISRT)

The exemptions for ships registered in the International Ship Registry of Turkey are as follows:

- Income/Corporate income tax exemption on income from operation and transfer of ships.
- Agreements to be concluded for purchase/sale, mortgage registration, freight as well as loan agreements related to such ships are exempt from stamp taxes, duties and banking and insurance transaction tax.
- Wages and remuneration paid to the employees working in ships and yachts which are registered in the International Ship Registry of Turkey are exempt from income tax and any kind of duties

## 4.5. Financing

### Loan Interest Supports

There are loan interest supports for investments in priority development regions R&D and environmental investments, and investments of SMEs within the framework of an investment incentive certificate, provided that the loan term exceeds 1 year. The interest supports are 5 points for TRL loans and 2 points for foreign currency loans.

The above-mentioned interest supports are also available for 6 to 12 month-term loans related to R&D investments of operational equipments within the first operational year.

The interest supports are limited to certain amounts according to location and types of investment on project basis. The maximum interest support amounts are as follows:

- TRL 300,000 for R&D and environmental investments
- TRL 200,000 for SME investments
- TRL 1,000,000 for investments in priority development regions
- TRL 100,000 for operational loans obtained for R&D investments

There is no loan interest support for investments through financial leasing and for investments of used machinery and equipment.

## Resource Utilization Support Fund ("RUSF") - Levy on Foreign Loans

External foreign currency denominated loans obtained by residents of Turkey for a period of less than one year (on the average) are subject to a levy (a compulsory contribution to "Resource Utilization Support Fund" – RUSF) of 3% of the principal on the borrowing date.

However, external foreign currency loans, obtained by banks and finance companies, are not subject to RUSF even if they are used for a period of less than one year.

There is an exemption from RUSF, provided that external foreign currency loans are obtained within the scope of an investment incentive certificate (pls also refer to 4.2.1.).

Additionally, RUSF is applied at the rate of 0% currently on those loans granted in Turkey in terms of Turkish Lira or foreign currency for the purpose of export financing as well as the foreign loans obtained by residents of Turkey for export financing purposes (including those loans granted for financing of foreign currency generating activities within the scope of export incentive certificate, inward processing permission certificate or tax and duty exemption certificate).

### Financial Leasing

Effective for agreements concluded on or after July 1, 2003, the tax treatment of financial leases has been changed in Turkey in line with the International Financial Reporting Standards (IFRS).

The changes which reflect the IFRS treatment of leases are summarized below:

Subject	Previous Tax Treatment (Prior to 1 July 2003)	Tax Treatment After 1 July 2003
Depreciation	Leasing company is eligible.	Lessee is eligible.
Tax accounting for lease payments	Leasing company treat all the lease amount as taxable income.  Lessee treats all the lease payments as corporate income tax deductible item	Leasing company should differentiate between the interest income and principal. Only the interest income is taxable.  Lessee should differentiate between the interest and principal. Only the interest is corporate income tax deductible

The new regime is applicable to all lease agreements (i.e. operational lease and financial lease) irrespective of the status of their parties. In this context, a leasing transaction between a lessor who is not registered as a financial leasing company under the relevant legislation and a lessee will be treated as financial leasing for tax purposes if the lease agreement have any of the following circumstances:

- The lessor transfers ownership to the lessee by the end of the lease term,
- The lease agreement contains a bargain purchase option,
- The lease term covers more than 80% of the economic life of the leased assets,
- The present value of the minimum lease payments at the inception of the lease is greater than or equal to 90% of the fair value of the lease asset.

In addition, lease agreements of immovable assets can be considered as financial leasing if the lessee acquires the asset or the asset is transferred to the lessee at the end of the renting period.

The following specialized types of leases shall not be treated as lease agreements for tax purposes:

- a) Lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights,
- b) Licensing agreements for such items as motion picture films, video recording, plays, manuscripts, patents and copyrights.

## **Export Financing\*\***

Turk Eximbank is a state-owned bank acting as the Turkish government's major export incentive instrument in Turkey's sustainable export strategy. As Turkey's official export credit agency, Turk Eximbank has been mandated to support foreign trade and Turkish contractors/investors operating overseas.

Türk Eximbank's main objectives are promoting Turkey's exports through diversification of exported goods and services by increasing the share of Turkish exporters in international trade, finding new markets for traditional and non-traditional export goods and providing exporters and overseas contractors with support to increase their competitiveness and to ensure a risk-free environment in international markets. As a means of aiding export development, Turk Eximbank offers specialized financial services through a variety of credit, insurance and guarantee programs.

Turk Eximbank supports exporters, export-oriented manufacturers, overseas investors and companies engaged in foreign currency generating services with short-, medium- and long-term cash and non-cash credit programs. Moreover, export receivables are discounted in order to increase export volume and to ease access into new and target markets through the promotion of sales on deferred payment conditions.

Turk Eximbank's main sources of funds are direct funding from the Treasury through capital increases and transfers from extra-budgetary funds as well as through borrowing from commercial banks and international financial markets.

\*\* Source: [www.eximbank.gov.tr](http://www.eximbank.gov.tr)



# 5. Business regulations and requirements

## 5.1. Foreign Investment Rules

Foreign Investment Directorate (FID) was established in 1986 and constitutes as a part of the Undersecretariat of Treasury (UT). The FID is authorized to:

- guide and assist foreign investors in exploring investment opportunities in Turkey,
- negotiate bilateral investment protection and promotion agreements

In 1987, Turkey signed and ratified the Convention on ICSID (International Center for Settlement of Investment Disputes) and MIGA (Multinational Investment Guarantee Agency).

New **Foreign Direct Investment (“FDI”) Law** was launched on **17 June 2003**. The objective of the New FDI Law is to regulate the principles to encourage foreign direct investments; to protect the rights of foreign investors; to define investment and investor in line with international standards; to establish a notification-based system for foreign direct investments rather than screening and approval; and to increase foreign direct investments through established policies.

New Foreign Direct Investment (“FDI”) Law is based on a policy that shifts from ex-ante control to a promotion and facilitation approach with minimal ex- post monitoring to continuously improve an investor-friendly climate for growth and development. Turkish Foreign Investment Regulations encourage real persons and legal entities resident abroad to invest in Turkey, to engage in commercial activities, to participate in partnerships, to purchase shares, to open branch offices and to establish liaison offices.

With the new Law, all permits granted by the General Directorate of Foreign Investment have been abolished. As a result, all transactions for establishing a company with foreign capital will be the same as local companies. Foreign investors are entitled to establish or participate in any of the company types designated by Turkish Commercial Code and Code of Obligations. Thus, foreign investors have the same rights as the Turkish nationals have. The national treatment principle is applicable by all means. With respect to this principle, no additional approvals and authorizations are required for the establishment of the foreign companies, branches and participation to the existing companies. However establishment of liaison offices is subject to the approval of the Undersecretariat of Treasury.

The foreign investors are no longer required to bring a minimum capital of USD 50,000 since this obligation was abolished as a result of the introduction of the new Foreign Direct Investment Law. Foreign investors are now required to bring those capital amounts which are required by the Turkish Commercial Code. As per the Turkish Commercial Code, limited liability companies require a minimum capital amount of TRL 5,000 and joint stock companies (corporations) require a minimum capital of TRL 50,000 for the purpose of establishment.

Any form of company as defined and included in the Turkish Commercial Code is acceptable.

All rights, exemptions and privileges granted to local capital and business will be available under the same conditions to foreign capital and businesses working in the same field.

Companies having a legal entity with foreign capital in Turkey have the same rights to own or use land as domestic investors. The new Law reassures these rights. However, the principle of reciprocity is still valid for foreign individuals.



## General Principles of Foreign Direct Investments under the New Foreign Direct Investment (FDI) Law

**1) Purpose and Scope of FDI Law:** The objective of the new FDI Law is to encourage foreign direct investments; to protect the rights of foreign investors; to define investment and investor in line with international standards; to transform the current screening and approval system into a notification based system for foreign direct investments; and thus regulate the principles to increase foreign direct investments through established policies.

**2) Freedom to invest and national treatment:** Unless there are no international agreements or special legal provisions to the contrary;

- a) Foreign investors are free to make direct investments in Turkey
- b) Foreign and Turkish investors are subject to equal treatment

**3) Expropriation and Nationalization:** Foreign direct investments shall not be expropriated or nationalized except for expropriating or nationalizing ensures a public interest and a compensation is paid.

**4) Transfers Abroad:** Foreign investors can freely transfer net profits, dividends, proceeds from the sale or liquidation of all or any part of an investment, compensation payments, amounts arising from license, management and similar agreements, reimbursements and interest payments arising from foreign loans through banks.

Accordingly, it is no longer necessary to register royalty, cost sharing, management service and similar types of agreements with the Foreign Investment Directorate of the Treasury.

**5) Acquisition of Immovable Property by Foreign Investors:** According to the FDI Law, Foreign investors may freely acquire immovable property or have limited rights on real estate through a legal entity incorporated under the Turkish Commercial Code.

According to Article 36 of the Title Deed Law, the companies in Turkey established by foreign investors are entitled to acquire real estate to carry out their activities set forth under their Articles of Incorporation. However, the real estate acquisitions by companies in Turkey with foreign investors at the military zones, security zones and strategic zones are subject to the permission of the Turkish General Staff.

**6) Settlement of Disputes (based on the new FDI Law):** For the settlement of disputes arising from investment agreements subject to private law and investment disputes arising from public service concessions contracts and conditions which are concluded with foreign investors, foreign investors can apply either to the authorised local courts, or to national or international arbitration or other means of dispute settlement, provided that the conditions in the related regulations are fulfilled and the parties agree thereon.

**7) Assessment of Capital in-kind To Be Contributed By Foreign Investors:** Capital in-kind is valued according to the regulations of the Turkish Commercial Code. However, in case the shares of a company resident abroad are contributed as capital in-kind by foreign investors into a Company in Turkey, the values to be determined by the courts or other relevant authorities in the home country of the foreign investor or international institutions performing valuations will be acceptable.

**8) Employment of Foreign Personnel:** Work permits for foreign personnel to be employed in companies, branch offices and organizations to be established within the scope of the FDI Law are granted by the Ministry of Labor and Social Security.

**9) Liaison Offices:** The General Directorate of Foreign Investment may grant permission to foreign legal entities in order to open a liaison office in Turkey provided that they are not engaged in any commercial activities in Turkey.

Please refer to section 7.8 (Liaison Offices) for further information regarding establishment and tax status of liaison offices.

## 5.2. Foreign Trade

After the economic liberalization program was adopted in 1980s, Turkey decided to liberalize its import and export regulations, which has led to a dramatic increase in foreign trade. The most significant phenomenon in Turkey's foreign trade policy is **the Customs Union** established between the EU and Turkey as of 1 January 1996. This development initiated the period needed for the legal infrastructural consistency of foreign trade strategy with the EU's norms, and thus both import and export regimes have been made consistent with the regulations of the EU.

### General Principles of Turkish Customs and Foreign Trade Regulations

Turkish Customs Code is generally in line with the Customs rules of the EU.

The relevant authorities that regulate foreign trade are as follows:

- a) The Undersecretariat for Foreign Trade (UFT): It regulates all aspects of foreign trade.
- b) The Undersecretariat for Customs: It is responsible for the implementation of foreign trade regulations at the customs borders

**Turkish Customs Tariff:** Customs duties are levied at the time of importation on the customs duty base determined based on the customs valuation principles and according to the Customs Tariff Position Numbers.

**Determination of Customs Duty Base:** Customs duty base is determined in accordance with the principles of Agreement on Implementation of Article VII of the GATT.

### Determination of VAT Base for Imported

**Goods:** The VAT base is the sum of the following items:

- The value of the imported goods which is base to the customs duty assessment, in case of duty base is not available, the CIF value of the goods, in cases where the CIF value is unknown, the value which is determined by the Customs Administration.
- All kinds of taxes, duties and fees paid in importation.
- Other costs and expenses incurred until the registration of the customs return as well as any price and exchange differences to be computed upon the value of the goods.

### Major Customs Regimes Applied:

- Bonded Warehouse Regime (\*)
- Inward Processing Regime (\*)
- Outward Processing Regime (\*)
- Temporary Importation Regime (\*)
- Processing Under Customs Control Regime (\*)
- Transit Regime
- Export Regime

**Customs Duty Penalties:** There are 2 types of penalties which are defined in the Customs Legislation;

- Penalties to be charged on operations that result in tax loss
- Fines relating to irregularities (procedural non-compliance)

Fines shall be applicable regardless of whether the action of the taxpayer is deliberate or not.

(\*) These are referred to as "Customs Regimes with Economic Impact."

## Imports

Importing into Turkey remains subject to various regulations and laws governed by the import regime decree. These laws and regulations define a system of import tariffs, modified by special agreements between nations and customs tax exemption and/or allowances provided for some products. In accordance with the rules of the Turkish import regime, imports can be classified into three groups:

### **1) Imports which are subject to permission:**

Permission may be required from different authorities such as the Ministry of Agriculture and Rural Affairs, Ministry of Health, Ministry of Defence, Ministry of Environment and Forestry, Turkish Atomic Agency etc. Furthermore, some goods can only be imported by authorized institutions such as weapons (to be imported by the Army), money paper (to be imported by the Central Bank of Turkey) etc.

**2) Imports which are prohibited:** The import of certain items is completely prohibited.

**3) Goods which can be freely imported:** Most goods can be freely imported subject to the payment of customs duties and certain funds (if any) at the varying rates. With the exception of imports subject to permission, all imports may be realized through the intermediation of any bank authorized to operate a foreign exchange position.

**Documentation for Imports:** Turkey is in the Customs Union since 1 January 1996. The import documentation procedures are generally in line with the European Union System. The original copy of the invoice must accompany the goods to be imported. Import permission (if required) is to be presented to the Customs for the purpose of Customs clearance of the goods.

All the documents and information must be kept for a period of 5 years for the purposes of control by the Customs Authorities.

**Import Duties:** As a result of the Customs Union between Turkey and EC; Turkey eliminated all customs duties applied to imports of industrial products from the EC and started to apply Community's Common Customs Tariff for imports from the third countries

Customs duty exemption is provided within the framework of an investment incentive certificate. Customs duty relief is also available to the companies in Turkey which import goods that will be used in manufacturing of the goods to be exported.

Value Added Tax (VAT) is levied on imports at the applicable rates (1%, 8%, 18%). The VAT paid on goods imported is recoverable as "input VAT" against the output VAT calculated on sales of goods and services. Effective from 1 August 2002, the standard VAT rate of 18% has started to be applied instead of the higher VAT rates. The difference between the standard VAT rate and higher rates (26% and 40% which were applicable prior to 1 August 2002) is now compensated through "Special Consumption Tax" (SCT) which started to be applied with effect from 1 August 2002.

**Imports under Incentives:** Imports of machinery and equipment within the framework of an investment incentive certificate are regulated by the Incentive Legislation and such imports benefit from VAT and customs duty exemptions.

### **Conditions Required To Qualify as "Importer":**

Every natural or legal person that has tax registration number can qualify as an importer. However according to the Customs legislation, importers must submit an information file that includes registration certificate from the Chamber of Commerce or Industry, copy of Trade Registry Gazette, list of authorized signatures and power of attorney to the related Customs Administration.

## Exports

Export procedures have been relaxed by an export regime intended to increase Turkey's export volume. All goods can be freely exported, except for those subject to license by the UFT. Such exports include rice, oilseeds, vegetable oils, animal feed, fertilizers, and live animals. Certain items require the approval of other Ministries, and there are a few items whose export is forbidden.

### ***Rules Governing the Protection of Turkish Currency in the case of exports prior to 8 February 2008:***

Foreign currency revenues for the goods exported for commercial purposes must be brought into Turkey by exporters within 180 days. There are certain exceptions to this general rule. If 70% of the foreign exchange from exports is brought into Turkey and sold to a bank for conversion to Turkish Lira within 90 days from the export transaction, then the exporter can freely use the remaining 30%; he may either bring it to Turkey or use it outside Turkey.

### ***Rules governing the Protection of Turkish Currency with effect from 8 February 2008:***

Exporters are free whether to bring to Turkey the foreign currency revenues with respect to the goods exported for commercial purposes, (this new rule is effective from 8 February 2008).

### ***Conditions Required To Qualify As "Exporter":***

Every legal person, natural person or joint-venture that has a tax registration number and is a member of related exporters' association can be an exporter. In addition, according to the Customs legislation, exporters must submit an information file that includes registration certificate for the Chamber of Commerce or Industry, copy of Trade Registry Gazette, list of authorized signatures and power of attorney to the related Customs Administration.

## 5.3. Registration and Licensing

The following formalities apply to the establishment of all business entities:

- Registration of trademarks is to be made in accordance with the regulation governing protection of trademarks.
- Registration of trade name is to be made with the Ministry of Industry and Commerce.
- All trading entities are required to register with the Chamber of Commerce or Chamber of Industry in the location of their operations
- Permits to start operations must be obtained from the municipal authorities.
- Registration with the provincial office of the Ministry of Labor and Social Security is required.
- Real estate contributed as capital (if any) must be registered with the Title Deed Office.

Prior to establishment, registration with the local tax office is required.

## 5.4. Price Controls and Competition Law

In general, Turkey has no price controls. However, the government does set prices for some items. Furthermore, prices of medicines are under the control of the Ministry of Health.

Turkish Legislation prohibits unfair competition through the relevant rules of the Code of Obligations, the Turkish Commercial Code and specific laws enacted exclusively for the purpose of protection of competition, namely Anti-Dumping Law and Law related to Protection of Competition.

Mergers and Take-over of those companies with a total market share of more than 25% or a total sales volume of more than TRL 25 million are subject to the permission of the Competition Protection Council.

In case of failure to apply to the Competition Protection Council within the required period for notifications of mergers or take-over or failure to obtain the permission for the merger/takeover transaction, penalties are applied.

## 5.5. Exchange Controls

### Relevant Legislation

Monetary transfers from Turkey are regulated by Law No. 1567 governing the Protection of the Value of Turkish Currency and Decree on Protection of the Value of Turkish Currency which includes further regulations with respect to transfers of foreign currency and capital, loan transactions and monetary transfers for various transactions.

### Inward Direct Investment

Companies and individuals can freely invest in Turkey without any restriction on the amount or form of the investment. The most widespread investment vehicle is the Turkish subsidiary company. There are no local shareholding or directorship requirements. Foreign investors may also invest in the shares of any local companies through portfolio investment.

### Repatriation of Funds

The regulations relating to the remittance of foreign capital and dividends out of the country are set out in Law No. 1567 governing the Protection of the Value of the Turkish Currency. According to these regulations, foreign investors have the same rights and obligations as Turkish investors. The regulations also guarantee the transfer of profits, fees, and royalties and the repatriation of capital in the case of a liquidation or sale.

There are no restrictions on the remittance of dividends, interest, and royalties to foreign countries based on the new Foreign Direct Investment (FDI) Law. However, on certain types of income payable to non-residents, income tax or corporate income tax is to be withheld at source.

**a) Dividends:** Foreign investors/shareholders that hold a certain portion of the share capital of a company resident in Turkey can receive their dividends through banks without any restriction. At the request of the foreign investor company, transfer of such profits is made, and the Foreign Investment Directorate (FID) of the Undersecretariat of Treasury (UT) is to be informed of the details of the transaction.

Following the completion of its accounting period, a company may transfer abroad dividends that were declared at the annual general meeting of its shareholders provided that the dividend withholding tax is properly calculated, declared and paid to tax office. According to the Directive governing the application of the FDI Law, companies with foreign capital are required to fill in annually a form whereby they are required to report to the FID of the UT the following information by the end of May of the following year together with balance sheet and income statement with respect to the year reported:

- Information about the company
- Information about the capital structure (percentage of shares by shareholders)
- Information about foreign shareholders
- Information about dividend transfers (amount transferred in terms of both TRL and its USD equivalent, the country to which transfer was made, date of transfer)
- Information about payments of license, know-how, technical assistance and franchise fees
- Information about foreign trade (import/export)
- Information about number of personnel
- Information about production volume
- Information about the investments realized in the year concerned

Based on the new FDI Law, companies with foreign capital are only required to provide information as to the transfers realized abroad through a form (Annex 1 attached to the Directive governing the application of the FDI Law).



**b) Interim Dividend Distributions:** According to the Turkish Commercial Code, companies can distribute dividends from the earnings derived in previous accounting years. According to the new Corporate Income Tax Law, companies are now allowed to distribute interim dividends subject to certain limits as specified in the Corporate Income Tax Law General Communiqué No. 1 provided that the necessary provisions are also included in their Articles of Association with respect to interim dividend distribution. (However, this application is now suspended due to a High Court Decision) Public companies which are listed in the Istanbul Stock Exchange can also distribute interim dividends according to the relevant provisions of the Turkish Capital Market Law. Interim dividend distribution is subject to dividend withholding tax depending on the taxation status of the shareholder receiving the interim dividend.

**c) Management, License, Know-How, Technical Assistance Fees, Royalties and Franchising Agreements:** All management fees and royalties can be transferred by companies resident in Turkey in terms of the foreign currency of the recipient country.

If the payments are based on annual turnover or on similar allocation basis, an agreement should be concluded between the foreign investor (the beneficiary/licensor) and the company in Turkey (the user of the license/licensee). Based on the new FDI Law, there is no longer an obligation for such agreements to be registered with and approved by the FID.

**d) Cost Sharing Agreements:** Costs incurred by headquarters located abroad may be allocated to Turkish branches (to the extent that the charges are relevant to the income generating activities of the Turkish branch and calculated through distribution keys to be determined in accordance with the arm's length principle. Please refer to section "8.11. Cost Sharing/Cost Allocations" for further details.

**e) Earnings of Foreign Employees (Expatriates):** Foreigners employed in Turkey are allowed to transfer their wages in foreign currency after the deduction of relevant taxes.

**f) Other Monetary Transfers:** In general, any amount of foreign currency may be transferred out of the country regardless of the underlying reason for the transfer. However, transfers of US\$50,000 or more are to be reported by the transferring bank to the Central Bank of Turkey within 30 days from the date of transfer.

**g) Utilization of Dividends:** Dividends not distributed and kept as extraordinary reserves may be added to the share capital. Addition of extraordinary reserves to share capital is not regarded as dividend distribution and therefore they are not subject to dividend withholding tax.

### **Transfers of Shares in a Turkish Company with Foreign Capital**

Share transfers from foreign shareholders to domestic shareholders or other persons or entities resident in Turkey no longer require permission from the FID. The sales value of the shares can be determined by the parties.

Information on share transfers made between current domestic or foreign shareholders or to any domestic or foreign investor outside the company is to be submitted via "FDI Share Transfer Data Form" to the FID within one month following the realization of the share transfer.

Additionally, companies with domestic share capital are also required to inform the FID within one month from the date of share transfer through submission of the form related to share transfers (Annex III of the Directive) in case;

- a) a foreign shareholder participates in the capital of the company, or
- b) share capital increase in the company is financed through participation of a foreign shareholder

Based on the rules of the new FDI Law, share transfers in companies with foreign shareholders and foreign capital do not require any permission from the FID.

## Outward Direct Investment (Capital Transfers)

The Treasury allows Turkish residents to realize outward direct investments through transfers of capital in cash via banks or in terms of capital in-kind in accordance with the Customs Legislation (the permission requirement for capital transfers of more than USD 5,000,000 is abolished with effect from 30 December 2006).

### 5.6. Accounting Principles and Statutory Books

As per the Turkish Tax Procedures Code, all resident companies and Turkish branches of foreign entities are required to keep statutory books based on the Uniform Chart of Accounts and in accordance with the accounting principles explained in Accounting System Application Communiqués ("Turkish GAAP"). Statutory books must be kept for a period 5 years. There are initiatives for harmonization with the International Financial Reporting Standards (IFRS) through the Capital Market Law as well as the Draft Turkish Commercial Code (DTCC).

DTCC prescribes that all the accounting systems of Turkish enterprises shall be arranged in conformity with Turkish Accounting Standards, which will be further enforced according to the internationally accepted financial standards.



# 6. Employment law and practice

Employment in Turkey is mainly governed by the Turkish Labor Law and Trade Union Law.

## 6.1. Employees' Rights and Remuneration

### Types of Job Contracts

Based on new Turkish Labor Law, there are four different types of job contracts:

- a) Job contracts for "Temporary" and "Permanent" Work
- b) Job contracts with "Definite Period" and "Indefinite Period"
- c) Job contracts for "Part-time" work
- d) Job contracts for "Work-upon-call"

Job contract does not have to be concluded in a specific format. However, if a job contract is signed for a definite period, it must be concluded in writing.

Job contracts are exempt from stamp tax and other duties.

### Principle of "Equality" Among Employees

Any kind of discrimination among employees with respect to language, race, gender, political opinion, philosophical approach, religion or similar criteria is prohibited by Law. Discrimination based on the gender of an employee is not allowed when determining the amount of remuneration for employees working in the same or equivalent jobs.

In case of violation of the principle of equality, the employee who is subject to discrimination can request monetary compensation.

### Working Hours and Overtime

According to the Labor Law, the maximum normal working hours is 45 hours per week. In principle, 45 hours should be distributed equally to the working days. However, based on the new rules introduced by the new Labor Law, working hours may be distributed unevenly over the working days provided that the total daily working hours do not exceed 11 hours a day and that the parties agree on the uneven distribution of the working hours over the working days.

Hours exceeding the limit of 45 hours per week are to be paid as "overtime hours". Payment for the overtime hour must be 1.5 times the regular hourly wage/salary. Instead of the overtime payment, employees may be granted a free time of 1.5 hours for each overtime hour worked.

Overtime hour worked during weekends and public holidays is to be paid twice as much as the regular hourly rate. These rates are the minimum set by Law and may be increased based on a collective or bilateral agreement between employees and the employer. Total overtime hours worked per year may not exceed 270 hours.

### Annual Paid Vacation

There are five paid public holiday per year (January 1<sup>st</sup>, April 23<sup>rd</sup>, May 19<sup>th</sup>, August 30<sup>th</sup>, October 29<sup>th</sup>) plus two paid periods of religious holiday which is eight days in total.

Employees are entitled to paid annual vacation for the periods indicated below, provided that they have worked for at least one year including the probation period:

<b>Years of Work</b>	<b>Minimum Paid Vacation Period</b>
1 – 5 years (inclusive)	14 days
5 – 15 years	20 days
15 years and longer	26 days

These benefits are the minimum set by the Law and may be increased based on a collective or bilateral agreement.

In principle, paid vacation period cannot be unilaterally divided by the employer. However, the total period can be divided into three parts (at most) based on the agreement between the employer and the employee, provided that a part of the vacation period would not be shorter than 10 days.

If a job contract is terminated either by the employer or the employee, the vacation pay earned by the employee as of the date of termination must be paid.



### **Payment Procedures for Wages and Salaries:**

According to the Law on the amendments on Turkish Labor Law, wages and salaries are required to be paid in terms of TRL to the bank account of the employee. Unless the wage and salary amounts are paid to the bank account of the employees, an administrative penalty amount of TRL 100 per employee (per month) is charged to the employer. It is possible to denominate wages/salaries in terms of a foreign currency. In this case, wages/salaries shall be paid in TRL calculated on the basis of the related foreign currency rate prevailing as of the payment date.

Wages/salaries cannot be paid in terms of promissory notes or any other forms of negotiable instruments. According to the relevant rules of the new Turkish Labor Law, employees whose salaries are not paid within twenty days following the regular payment date for reasons other than force majeure, are allowed to refrain from work.

### **Maternity Leave:**

According to the relevant rules of the new Turkish Labor Law, female employees are now permitted to have a paid maternity leave period of eight weeks prior to and eight weeks after giving birth (i.e. a total paid maternity leave period of 16 weeks). It is also possible to optionally take unpaid maternity leave of up to six months in addition to the paid leave period of 16 weeks.

### **Obligation to Employ the Disabled, Handicapped and Ex-Convicts:**

Those employers that have more than 50 employees are required by Labor Law to employ a certain number of disabled and handicapped persons as well as ex-convicts. In private sector, the number of disabled/handicapped persons employed must consist of 3% of the total number of employees while the number of ex-convicts to be employed must correspond to 2% of the total number of employees. In case of failure to comply with this obligation, an administrative penalty of TRL 1.357 per each disabled/handicapped or ex-convict person not employed (per month) is charged to the employer.

### **Bonuses and Profit Sharing**

Bonuses equal to one month's salary are usually paid four times a year, in March, June, September, and December. There is no obligation as to the number of times of bonus payment during a year. Timing for bonus payments can be decided between employees and the employer. Profit sharing is optional. There is no obligation for employers to distribute a share of profits to their employees.

## **6.2. Social Security and Unemployment Insurance Payments**

### **Social Security Premium Payments:**

Social security premiums (as a percentage of employee's gross earnings) are payable by both employers and employees. **Table 6.02** shows the rates that apply in the case of office employees in the private sector. Rates for employees working in specific sectors (like mining, oil/gas exploration) may vary depending on the risk category of the work performed.

Maximum and minimum bases for calculation of monthly social security premium are **TRL 4,329** and **TRL 666** respectively, for the first half of the year 2009. Foreigners making social security contributions in their home countries do not have to pay the Turkish social security premiums if there is a reciprocal agreement between the home country and Turkey.

**Table 6.02 Social Security Premiums (Office Employees)**

Type of Risk	Employer's Share (%)	Employee's Share (%)	Total (%)
Short-term risks	1-6.5 <sup>(a)</sup>	-	1-6.5 <sup>(a)</sup>
Long-term risks	11	9	20
General Health Insurance	7.5	5	12.5
Contribution to Unemployment Insurance	2	1	3
<b>Total</b>	<b>21.5<sup>(a)</sup></b>	<b>15</b>	<b>36.5<sup>(a)</sup></b>

<sup>(a)</sup> The rates change with respect to risk categories of jobs. Depending on the risk category, the employer's share varies between 1% and 6.5%.

**Compulsory Contributions to Unemployment Insurance Plan (Unemployment Insurance Premium Payments):**

Employees, employers and the State are required to make a compulsory contribution to the Unemployment Insurance Plan at the rates of 1%, 2% and 1%, respectively of gross salary of the employee (subject to a maximum base). The current monthly maximum base is TRL 4,329 which is the same as the maximum base applied in calculating social security premiums.

Like the social security premium payments, unemployment insurance premiums are also to be paid on a monthly basis. Employers are able to deduct such contributions from their taxable income. On the other hand, employee's contributions are deductible from the income tax base of the employee.

A foreign individual who remains covered under the compulsory social security system of his home country that has a social security agreement in effect with Turkey is not liable for insurance payments to the Turkish social security. The proof of foreign coverage is to be filed with the local social security office. If the employee is not subject to a foreign social security, full contributions would generally be imposed.

Turkey has bilateral Social Security Agreements currently with the following countries:

- Albania
- Austria
- Azerbaijan
- Belgium
- Bosnia Herzegovina
- Canada
- Turkish Republic of Northern Cyprus
- Czech Republic
- Denmark
- France
- Georgia
- Germany
- Libya
- Luxembourg
- Macedonia
- Netherlands
- Norway
- Quebec
- Romania
- Sweden
- Switzerland
- UK

Unemployment insurance premiums are declared and paid to the Social Security Organization together with social security premium contributions.

### 6.3. Termination of Employment

Based on the relevant provisions of the Labor law, employers and employees are required to give specified notice periods prior to terminating employment, as summarized in **Table 6.03**, below.

**Table 6.03 Required Minimum Notice Periods for Employers and Employees**

Length of Service	Length of Notice Period
0 –6 months	2 weeks
6 –18 months	4 weeks
18–36 months	6 weeks
More than 36 months	8 weeks

There are two types of termination for a job contract:

- 1) Termination with notification
- 2) Termination without notification based on justifiable reasons

#### Termination with Notification

Both the employee and the employer may terminate a job contract concluded for an indefinite period based on the notice periods indicated in **Table 6.03**, above. The Employer may terminate job contract by paying the salary of the employee corresponding to the notice period.

#### Termination without Notification Based on Justifiable Reasons

Both the employer and employee have the right to terminate job contract without notice under the following conditions:

- Reasons of health
- Cases arising from misconduct and the similar reasons
- "Force Majeure" events that prevent employee from working for a period exceeding one week.



### Termination Indemnity (Severance Pay)

A lump-sum termination indemnity is to be paid to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such indemnity pay is calculated on the basis of thirty days' pay per year of employment at the gross rate of pay applicable at the date of retirement or leaving. However, the thirty days' payment per year of employment may not exceed a semi-annually determined limit which is TRL 2,260.05 for the first half of year 2009. Indemnity may be agreed to be paid at an amount higher than the limit indicated above if there is a provision in the contract of employment. Termination indemnity paid within the limit specified is exempt from income withholding tax. However, the amounts of indemnity paid in excess of the limit shall be subject to income tax.

The reasons on the basis of which employees are entitled to receive termination indemnity are as follows:

- a) Leaving workplace due to the compulsory military service (for males)
- b) Retirement (in order to receive old age, retirement pension or disability allowance from the relevant insurance institutions)
- c) Voluntary termination by female employees within one year from the date of marriage.
- d) Death of the employee

### 6.4. Labor Management Relations

In practice, employees' influence on management is not strong in Turkey.

Unionization of labor is permitted under the general framework of Turkish Labor Law.

Collective bargaining agreements are negotiated by the Unions on behalf of employees.

### 6.5. Employment of Foreign Individuals

In Turkey, all foreign nationals to be employed by resident companies need to obtain a **work permit** to be issued by Ministry of Labor and Social Security. Besides the work permit, a working visa and a residence permit has to be obtained from the Ministry of Internal Affairs in order to work and reside in Turkey.

The first requirement for both working and residing in Turkey is to obtain a work permit. A foreigner intending to stay in Turkey is also required to obtain a residence permit from the authorities at his or her place of residence. Generally, the residence permit is a formality, provided that the foreigner is able to support himself or herself financially. If financial support is to come from earnings from employment in Turkey, the permit will only be issued if the foreigner possesses skills not available in the Turkish labor market.

#### Work Permits

For companies established in accordance with Law No. 4875 (governing foreign investments in Turkey), an application has to be made to the Ministry of Labor and Social Security to obtain work permit for each foreign employee. The Ministry of Labor and Social Security reviews and approves such work permits without imposing restrictions.

Enterprises that seek to employ foreign personnel must apply to the Ministry of Labor and Social Security to obtain work permits. Work permits are given to technical and administrative personnel provided that the applicants have sufficient technical and administrative skills for the vacancies they wish to fill. Work permits can also be issued to foreign representatives of branch offices to carry out the establishment procedures of branch.

The application for work permit should be made prior to the arrival of the foreign employee in Turkey. Since the processing of an application by the Ministry of Labor and Social Security may take a few months, it is advisable that the application be filed by the local employer a few months before the planned commencement of employment of the foreign individual concerned.

The documents and information to be submitted to the Ministry of Labor and Social Security for the work permit are listed below:

**Documents to be submitted by the Employee:**

- 1) Petition requesting the work permit, addressed to the Ministry of Social Security and Labour
- 2) Foreign Personnel Application Form,
- 3) Notarized and apostilled copy of the passport - first three pages and the pages on which the visas are issued,
- 4) Notarized and apostilled copy of diplomas (graduate and post graduate),
- 5) Curriculum Vitae Form,
- 6) 10 passport sized photographs,
- 7) Power of Attorney (to be notarized and apostilled)

**Documents to be submitted by the Employer:**

- 1) Petition requesting the working permit, addressed to the Ministry of Social Security and Labour,
- 2) Balance sheet and profit/loss statement of the preceding year that are approved by the relevant tax office,
- 3) For legal entities which will employ foreign expert in the scope of engineering, architecture, contractor and consultancy services; the copy of the contract executed with the foreign personnel, and payroll evidencing that a Turkish engineer/ architect has been employed for the same profession.

It should be noted that the Ministry of Labour and Social Security may request additional documents to issue the work permit.

If the applicant is an engineer / architect, a "diploma equivalency certificate", documents from the professional institution (chamber) evidencing the membership, and that the applicant has not been prohibited to work as an architect / engineer, are also required. If the applicant is an engineer / architect but will not work in this position, then an undertaking of the employer stating this will be required.

After receiving the work permit, foreign national has to apply himself or herself for a residence permit together with the work permit and residence registration slip obtained from the district office.

### **Working Visa**

To obtain the authorisation to work in Turkey depends on securing a work permit. After the work permit is issued, the foreign individual is required to apply to the Turkish Consulate in his/her home country so as to obtain a working visa. In case of application from abroad, application for a working visa should be made to the relevant Turkish Consulate within at most 30 days from the date of obtaining the work permit.

### **Residence Permit**

Following the issuance of a work permit and a working visa, the foreign individual must apply for a residence permit to the Ministry of Internal Affairs within 30 days from the date of entry into Turkey. This application is made in practice to the relevant Security Department of the Police together with the work permit and working visa.

Foreign nationals who remain in the employment of a parent company resident abroad do not need residence permits, provided that they do not receive emoluments from the company resident in Turkey and that they are in Turkey on a temporary basis (for example, to assist in negotiations or the commencement of operations).



# 7. Choice of business entity

## 7.1. Principal Forms

Companies that are established by foreign investors in Turkey under the provisions of the Turkish Commercial Code, either on their own or with Turkish partners, are regarded as Turkish companies and entitled to all the rights granted to companies founded by Turkish citizens. Turkish Commercial Code, in its provisions related to the formation of companies, makes no essential distinction between Turkish citizens and foreigners, nor does it distinguish between partners and founding partners, be they Turkish or foreigners.

According to the Turkish Commercial Code (TCC), legal forms of business entities may be classified as follows:

- Corporations (“Anonim Şirketi” – A.Ş.)
- Limited Liability Companies (“Limited Şirketi” – Ltd. Şti.)
- Ordinary Partnerships (“Adi Ortaklık”)
- Limited Partnerships (“Komandit Şirket”)
- Registered Partnerships (“Kollektif Şirket”)
- Limited Partnership Divided Into Shares (“Sermayesi Paylara Bölünmüş Komandit Şirket”)
- Sole Proprietorships

The major guidelines for the choice of legal status by a foreign investor in Turkey are as follows:

- The choice of legal status for operations should be between establishing either a branch, which does not constitute a separate legal entity, or a subsidiary company. A liaison office may also be incorporated, however, it would not be sufficient for a long-term operations due to the prohibition on commercial activities.
- The Foreign Investment Directorate (FID) of the Undersecretariat of Treasury (UT) treats branch offices and independent affiliated companies in almost the same manner.
- There are no significant establishment formalities for a branch or subsidiary company.
- The foreign head office is liable for obligations incurred by the branch.
- Branches have limited tax liability, they are taxed on only the income derived in Turkey, while subsidiary companies have full tax liability, i.e. taxed on worldwide income (see **Chapter 8**).
- Branches and subsidiaries both benefit from tax incentives.
- Branches are not required to provide for legal reserves whereas subsidiary companies have to provide the legal reserves in accordance with Turkish Commercial Code.

Foreign firms that decide to operate in Turkey usually establish either corporations (A.Ş.) or limited liability companies (Ltd. Şti.).

**Table 7.1. Comparison of The Three Most Common Types of Legal Presence**

	Corporation (A.S.)	Limited Liability Company (Ltd)	Branch
Legal Status	Independent legal entity	Independent legal entity	Legally dependent on its headquarters
Tax Status	Full tax liability (resident)	Full tax liability (resident)	Limited tax liability
Number of shareholders	Min: 5 / Max: No limit	Min: 2 / Max: 50	N/A
Capital Requirements	Minimum Total Capital: TRL 50,000	Minimum Total Capital: TRL 5,000 (minimum capital per shareholder: TRL25)	No specific limit required
Executive Body	Board of Directors (BOD)	Managing Partners and/or Manager	Branch Manager
Responsibility of Shareholders for tax and public liabilities	Limited to the amount of capital contributed.	Liability is in proportion to the share in capital.	The headquarters will be liable.
Corporate Income Tax Rate	20%	20%	20%
Dividend Withholding Tax Rate	15% (if profit is distributed)	15% (if profit is distributed)	15% (if profits are remitted)
Legal Reserves	Must be provided	Must be provided	N/A

## 7.2. General Rules for Establishment of Companies by Foreign Shareholders

### 1) Permission from the Foreign Investment

**Directorate (FID):** As a result of the changes made in the Turkish Foreign Investment Legislation in June 2003, there is no longer a permission requirement from the FID of the UT.

### 2) Permission from the Ministry Industry and Commerce (MIC):

Permission from the MIC is no longer required for establishment of both corporations and limited liability companies. However, the establishment of following types of corporations is still subject to the permission of the MIC:

- Contribution Banks (formerly “Special Finance Institutions”)
- Banks
- Holdings
- Insurance Companies
- Financial Leasing Companies
- Factoring Companies
- Companies providing services in the field of consumer finance and credit cards
- Asset management companies
- Companies operating as licensed warehouses
- Companies operating as licensed agricultural warehouses
- Companies to be listed in the Merchantile Exchange
- Corporations authorized in trading of foreign currencies (foreign exchange dealers)
- Corporations subject to the regulations of the Capital Market Board
- Corporations that will operate as Department Stores
- Corporations established as the Founder and Operator of a Turkish Free Trade Zone

**3) Minimum Capital Requirement:** There is no longer a minimum capital requirement for foreign investors (previously, there was a minimum capital requirement of USD 50,000 per each foreign investor). The relevant rules of TCC are applicable with respect to the minimum capital required for establishment.

#### Minimum Capital

Type of Company	TRL	USD (*)
Corporation	50,000	29,631
Limited Liability Company	5,000	2,963

(\*) Based on the exchange rates prevailing as of 28 February 2009.

### 4) Number of Shareholders Required for Establishment:

#### Number of Shareholders

Type of Company	Minimum	Maximum
Corporation	5	No limit
Limited Liability Company	2	50

**5) Types of Activities:** No limitation unless prohibited by Law.

### 6) Limitation for Foreign Shareholding

**Percentage:** There is no limitation with regard to percentage of share held by foreign shareholder. There are certain limitations only for specific sectors like telecommunication, operation of ports etc.

### 7.3. Corporations

#### Formation

Turkish Commercial Code allows two different methods of formation for corporations:

1. Formation in a single step, in which the founders contribute the whole capital stock.
2. Formation by successive subscription, in which some or all of the capital stock is raised by public subscription.

In the latter case, the founders draw up proposed Articles of Incorporation and a prospectus on the basis of which interested parties may subscribe to the capital stock. A corporation may be formed with a minimum of five registered shareholders. A corporation is free to choose its trade name on the condition that this name reflects the scope of the activity of the corporation in question. In order to establish a corporation, the Articles of Association must be prepared, signed, and notarized before the Notary Public.

The Articles must include:

- A trade name
- The duration of the life of the corporation (which may be indefinite)
- Corporate objectives and fields of activity
- The split of contributed capital
- The number and groups of authorized shares of the capital

Articles of Incorporation and a document representing that all the capital has been committed by shareholders (one fourth to be paid within three months and the remaining to be paid within three years at the latest from the registration date of the Company) must be submitted to the Ministry of Industry and Commerce.

Formation permit for corporations which require permission of the authority, is issued by the Ministry of Industry and Commerce. A corporation shall be registered in the Trade Registry where the head office of such corporation is located. A corporation is considered incorporated when it is registered before the Trade Registry and its Articles of Association is announced in the Trade Registry Gazette.

#### Publicly Held Companies

Corporations whose shares or bonds are offered to public must be registered with the Turkish Capital Market Board; the executive body governing the operations of publicly held companies. Only those companies established in the form of a corporation may go public and their shares can be traded on Stock Exchange. Public corporations are subject to the regulations of the Turkish Capital Market Board. These regulations cover financial reporting/audit requirements, disclosure and announcement of a prospectus for issuance of shares to the public, and the authorized share capital.

#### Capital

Corporations may be formed with a minimum capital of TRL 50,000. The subscribed share capital is to be paid in cash or in kind.

Each shareholder's liability is limited to the value of his or her shares, and share certificates may be in bearer or registered form. Founding shares may be issued to the founding members at the date of formation. These shares may entitle the holders to additional dividends.

#### Legal Reserves

Five percent of a company's profit after tax (or alternatively profit before tax) is set aside as the first apportionment of legal reserves (First Legal Reserve – FLR) to recover any unforeseen losses that may occur in the future. FLR must be provided until its cumulative balance reaches 20% of paid-in capital. A second apportionment of legal reserves (Second Legal Reserve – SLR) must be calculated as 10% of the amount of profit decided to be distributed (except for 5% of paid-in share capital- set aside as "First Dividend") to shareholders. (see **Table 7.02**).



**Table 7.02 Sample Computation of Taxes and Legal Reserves (Assuming that all profits are distributed)**

	<b>TL</b>
Profit Before Tax	100.00
Corporate Income Tax (TL 100 x 20%) <sup>a</sup>	(20.00)
<b>Profit After Corporate Income Tax</b>	<b>80.00</b>
- First Legal Reserves (TL 80 x 5%) <sup>b</sup>	(4.00)
<b>Distributable Profit</b>	<b>76.00</b>
- First apportionment of dividends (5% of paid-in capital) <sup>c</sup>	(20.00)
<b>Balance after First Dividends</b>	<b>56.00</b>
- Second Legal Reserves (56/11)	(5.09)
- Second apportionment of dividends (to be distributed in accordance with a decision by the shareholders' general meeting)	50.91
<b>Total Dividends Distributed (20 + 50.91)</b>	<b>70.91</b>
<b>Dividend Withholding Tax (DWT) (15% * 70.91)<sup>d</sup></b>	<b>(10.64)</b>
<b>Net Dividends (70.91-10.64)</b>	<b>60.27</b>
<b>Total Tax Burden</b>	<b>30.64</b>

a. The computation assumes that the corporation has no tax-exempt income and non-deductible expenses. The 20% rate is effective from 1 January 2006.

b. FLR is to be provided until its total cumulative balance reaches 20% of paid in capital.

c. Paid-in capital is assumed to be TRL 400.

d. Dividend Withholding Tax is applied at 15%.

Other extraordinary reserves are optional and are determined by Articles of Association or by a decision of the general assembly.

A company is managed by its Board of Directors (BOD) comprising a minimum of three persons. A director must also be a shareholder unless he is the representative of a legal entity shareholder. There is no limitation in the Turkish Commercial Code for the maximum number of persons in the BOD. The directors are elected at the General Assembly meeting for a certain time period by the shareholders or by the Articles of Association. However, this period can not exceed three years. They may be re-elected for a next period of three years. The BOD designates individuals authorized to represent the company and determines the details concerning signatory powers. Foreigners may also be appointed as members of the BOD.

## Meeting and Votes

The general assembly of a corporation is the supreme authority and is composed of all shareholders. There are two types of general assembly meeting:

1. **The ordinary general assembly meeting**, which is to be held at least once a year within three months following the end of the accounting period.
2. **The extraordinary general assembly meeting**, which may be held as often as deemed necessary.

In a general assembly meeting, the shareholders have the right to modify the Articles of Incorporation; appoint directors and auditors; approve the income statement, balance sheet, statutory auditors' and directors' reports; ratify the acts of the directors and acquit BOD; and make all important decisions that may not be delegated to any other body by Law.

The shareholders also have the right to approve the dividend distribution proposal of the directors as well as the amounts of the directors' emoluments.

A general assembly meeting is called by the BOD or, if the BOD fails to perform its duties, by the statutory auditors. One or more shareholders, representing at least one-tenth of the shares (minority shareholders), can at any time request extraordinary general assembly meeting. This request must be in written form, designating the purpose.

In general, a simple majority of votes represented at general assembly meetings is sufficient to pass a resolution and make elections to office. However, certain decisions require a quorum of two-thirds or more of the shares (i.e. changing legal type of the company and increasing the share capital). Some decisions like conversion of the company or increasing the shareholders' subscription (not capital) requires a quorum of all of the shares and a voting majority of 100%.

Liquidation of the company, acquisition of the company by public enterprises requires a quorum of two-thirds of the shares and a voting majority of one-half of those present; if a quorum is not reached at the first call, a quorum of only one-half of the shares is required at the second call and a voting majority of one-half of those present.

In the case of issuing of debentures, profit distribution, an increase or decrease of capital, the approval of directors, or amendments to the Articles of Incorporation, a quorum of one-half of the shares is required and a voting majority of one-half of those present; if a quorum is not reached at the first call, a quorum of only one-third is required at the second call and a voting majority of one-half of those present.

#### **Statutory Audit Requirements**

Individuals must be appointed as statutory auditors and must not be related to any board member, although they can hold shares in the company. Their audit is generally considered to be almost purely a formality. In the event that the number of statutory auditors exceeds one, they constitute a board and act as a body. The number of statutory auditors may not exceed five. The first statutory auditors of a corporation are appointed for one year. In the years following the establishment, they are appointed by the General Assembly Meeting for at most three years.

In addition to statutory auditors, corporations may also appoint independent auditors (certified public accountants or the equivalent), but such an audit is not compulsory except for banks and publicly held companies. Corporations with more than 250 shareholders, as well as concerns that issue securities for public offering are obliged to register with the Capital Market Board (CMB). Registered companies must provide the CMB at regular intervals with information on their financial positions as audited by independent auditing firms. The CMB has accounting standards, which are very similar to the International Financial Reporting Standards (IFRS).

#### **Publication of Information**

Any changes in the Articles of Association of a corporation must be announced in the Official Trade Registry Gazette as well as the announcement of the Articles of Association. The resolutions regarding the transfer of head office or the minutes of the general assembly must also be announced in the Official Trade Registry Gazette.

An annual report is required for each accounting period and must be made available for inspection by all shareholders fifteen days prior to the annual general meeting.

Banks and insurance companies have to submit their quarterly and annual reports to various agencies, and their financial statements must be published in a newspaper. The format of financial statements must be in accordance with the standards approved by the related public authorities governing the operations of banks and insurance companies.

#### **7.4. Limited Liability Companies**

Limited liability companies differ from corporations with respect to the minimum number of shareholders and capital requirements. In the case of limited liability companies, no share certificates are issued to represent paid up capital. The registration of shareholders constitutes the legal record of ownership. Limited liability companies require a minimum of two shareholders.

The conditions for the formation of limited liability companies are as follows:

- The founders must be at least two individuals or legal entities, and the number of shareholders may not exceed fifty. The shareholders' financial liability with respect to unpaid taxes and the similar public charges is in proportion to their shares in the capital of the company (with effect from 29 July 1998).

- The minimum capital requirement for a limited liability company is TRL 5,000 which is divided into shares of TRL 25 or a multiple thereof. Each shareholder receives a share of the net profit in proportion to the amount of capital paid up.
- In the organization of limited liability companies whose shareholders exceed twenty, there must be at least one statutory auditor whose duties and authority are the same as those of the statutory auditors of corporations.

### 7.5. Branches

Previous pre-permits issued by the Undersecretariat of Treasury - General Directorate of Foreign Investment (GDFI) were abolished through the new Foreign Direct Investment Law. Branches can be established under the provisions of Turkish Commercial Code with the permission of the Ministry of Industry and Trade.

According to the regulations, to establish a branch, a foreign company is required to get permission from the Ministry of Industry and Trade, Domestic Commerce Directorate. The documents required are as follows:

1. A translated version of Articles of Association
2. Permission granted from the Ministry of Industry and Trade
3. Power of Attorney for the Branch Manager
4. Signature Circular of Branch Manager
5. For a Turkish branch manager, copies of Identification Card (Notarized before a Notary Public), for foreign branch manager, copies of the photo bearing identification pages of their passports, as notarized and apostilled,

### 7.6. Partnerships

Partnerships are not a common vehicle for foreign investment. Although they are considered as legal entities (except "ordinary partnerships") under the Commercial Code, they are not recognized as such for tax purposes. Instead, the partners are assessed as individual income taxpayers on their respective shares of the profits.

A corporate entity can be a partner of an ordinary partnership. As for limited partnerships, all partners must be real persons. Limited partnerships and Limited Partnership Divided Into Shares are the two most common types of partnerships in use.

### 7.7. Joint Ventures

Foreign companies may establish joint ventures with individuals or ordinary limited partnerships in order to perform a certain project and to share the resulting profit. Joint ventures may either choose to register with the tax office to be subject to corporate income tax or the parties establishing the joint venture may each be liable to tax individually, according to their status, on their respective shares of the profits. Joint ventures should be established for projects that will be completed within a certain period of time. The parties forming the joint venture should jointly undertake the project. "Consortia" in which each party undertakes to conclude a different part of the job do not fall within the category of joint ventures.

### 7.8. Liaison Offices

Liaison offices are not permitted to perform any commercial activity in Turkey. Their activities are limited to representation and gathering of information. The FID initially gives a three - year term permission for the establishment of such liaison office. A liaison office's expenses must be covered by funds sent by the head office abroad. The liaison office may not collect revenues on its own account in Turkey.

A liaison office is not itself subject to corporate income tax or personal income tax as it is not permitted to generate any income from its activities. However, it should maintain statutory books and file the necessary documentation to public authorities when required. Employees of a liaison office are not subject to income tax provided that their salaries are paid from abroad in terms of a foreign currency (i.e. the salaries must not be paid from Turkish sources).





### 7.9. Mergers, Acquisitions, Conversions, De-mergers, Share Swaps

According to Article 147 of the TCC, the companies that will merge are required to have the same legal form. Accordingly, it is not possible for a limited liability company (Ltd. Şti.) to merge with a corporation (A.Ş.). One of the companies has to change its legal form. Conversion of legal form is treated the same as a takeover.

If merger of companies is realized in accordance with those provisions of the Turkish Corporate Income Tax Law governing tax-free mergers, any income resulting from the merger is not subject to corporate income tax. Only the profit of the dissolving company for the partial accounting period ending as of the date of merger is subject to taxation. Carry-forward tax losses of the dissolved company can be utilized by the takeover company under certain conditions.

Tax-free full and partial de-mergers as well as share swaps can be realized based on the relevant rules of the new Corporate Income Tax Law.

The transaction of merging or dissolving itself is exempt from Value Added Tax provided that the transactions are realized in accordance with the conditions specified in the new Turkish Corporate Income Tax Law.



# 8. Corporate income taxation

The previous Corporate Income Tax Law (Law No. 5422) was replaced by a new Law (Law No. 5520) (published in the Official Gazette on 21 June 2006) including a number of significant changes and introducing new concepts with the intention to bring Turkey more in line with the international applications and to fully address international tax issues of multinational companies as well as issues relevant to Turkish companies with extensive trade and manufacturing operations in foreign countries. Some of the rules of the New Turkish Corporate Income Tax Law apply retroactively from 1 January 2006.

## 8.1. Entities Liable for Corporate Income Tax

In Turkey, income and earnings of corporations, limited liability companies, Turkish branch offices of foreign firms, joint ventures, cooperatives and public enterprises are subject to corporate income tax. State Economic Enterprises and trading bodies of foundations and associations are also regarded as corporate income taxpayers and subject to corporate income tax.

## 8.2. Residence and Non-Residence

Residence is of considerable importance for corporate income taxation. Residents are fully liable under the Turkish tax system (that is, they pay taxes based on their worldwide income). Non-residents have limited liability and are subject to tax on only their business earnings derived in Turkey.

Corporations have full liability to Turkish taxation if their legal headquarters (as indicated in the taxpayer's Articles of Incorporation) or their business centers are in Turkey. Business center means the place where business transactions are actually concentrated or carried out. All companies established with foreign capital under the Commercial Code of Turkey have full liability.

Foreign companies investing in Turkey usually have corporate status abroad and their legal and business headquarters are outside of Turkey. For this reason, foreign companies or foreign members of joint venture companies are usually regarded as having limited liability under the Corporate Income Tax Law and are subject to tax only on their business income and earnings derived in Turkey.

Under Turkish Tax Legislation, for the income of a non-resident company to be taxable, the company must have a place of business or a permanent representative in Turkey and the earnings must have been realized either at this place of business or through this representative. Even if these conditions are fulfilled, if a company's business headquarters are not in Turkey and it sells in other countries—but not in Turkey—the goods purchased in Turkey for export purposes, the company will not be taxed on the earnings derived from this business. On the other hand, all the commercial earnings derived in Turkey (in a place of business or through permanent representatives) by foreign legal entities having a place of business or branch offices or permanent representatives in Turkey shall be taxable.

## 8.3. Taxable Income

Taxable corporate income is determined by taking into consideration all business-related expenses, income, tax losses and deductions in accordance with the provisions of Articles 8, 9, 10 and 11 of the new Corporate Income Tax Law.

## 8.4. Corporate income tax Rates

Effective from 1 January 2006, the Turkish corporate income tax rate is reduced from 30% to 20%. Please refer to **Table 8.05** for a computation of the tax burden of a resident corporate income taxpayer assuming that profit is distributed.

## 8.5. Dividend Withholding Tax

With effect from 23 July 2006, the dividend withholding tax rate is increased from 10% to **15%** on distributions of profit to non-resident shareholders and amounts repatriated by a branch to its head office. Dividends distributed by a resident Turkish entity to another resident Turkish entity continue to be exempt from dividend withholding tax.



**Table 8.05 Tax Burden of a Resident Corporate Income Tax Payer (Assuming that profits are distributed and legal reserves are ignored)**

	TL
Corporate Income	100
Corporate Income Tax (20%)	-20
Net Income After Corporate Income Tax	80
Dividend Withholding Tax (15%)	-12
<b>Total Tax Burden</b>	<b>32</b>
Net Profit After Taxes	68

## 8.6. Treatment of Losses

Tax losses may be carried forward for five years provided that the losses for each year are shown separately in the corporate income tax returns. Tax losses may not be carried back. If a company incurs losses as a result of which share capital is impaired or the company becomes insolvent ("technical bankruptcy"), shareholders are to take the necessary actions to repair the equity in accordance with Article 324 of the Turkish Commercial Code.

## 8.7. Participation Exemption

### a) Exemption of Participation Gains Derived from Turkish (Resident) Participations

Dividends received by a resident corporate income taxpayer or a Turkish branch of a foreign entity from a Turkish (resident) company are exempt from Turkish corporate income tax.

### b) Exemption of Participation Gains Derived from Foreign (Non-Resident) Participations

Dividends received from foreign participations will be exempt from corporate income tax in Turkey provided that all of the following conditions are satisfied:

- The foreign company paying the dividend must have corporation or limited liability company characteristics;
- The Turkish recipient must own at least 10 percent of the paid-in capital of the foreign company for a continuous period of at least one year as of the date of the derived income;

- The profits of the foreign participation out of which dividends are paid must be taxed at an effective tax rate of at least 15% (20% where the profits are derived from financial operations including financial leasing, insurance or investments in securities);
- The dividends from the foreign participation must be remitted to Turkey by the deadline for filling the corporate income tax return for the year in which the dividends are derived.

## 8.8. Capital Gains Taxation

### 8.8.1. Turkish Holding Companies

Under new rules, with effect from 1 January 2006, capital gains derived from the sale of foreign participations that have been held for at least two years (730 days) by an international holding company (in the form of a corporation) resident in Turkey are exempt from corporate income tax. To qualify as an international holding company, the following requirements must be met:

- At least 75% of the total assets (excluding cash items) must comprise foreign participations for a continuous period of at least one year;
- The Turkish company must hold at least 10% of the capital of each foreign participation;
- The foreign participation must have corporation or limited liability company characteristics.

### 8.8.2. Sale of Participation Shares and Immovable Property

Based on the relevant rules of the new Corporate Income Tax Law effective from 21 June 2006, a corporate income tax exemption is granted for 75% of the capital gains derived from the sale of participation shares and immovable property that have been held for at least two years provided that the gains from such transactions are kept in a special reserve account under "Shareholders' Equity" for five years and that the sales proceeds are collected by the end of the second calendar year following the year of sale. Liquidation of the company or distribution of the reserves within five years is a violation to apply the exemption.

Those corporate income taxpayers that are commercially engaged in continuous trading of participation shares and immovable property cannot benefit from this capital gain exemption.

### 8.9. Controlled Foreign Companies (CFC)

The CFC rules, which apply from 1 January 2006, will be triggered where a Turkish resident company controls, directly or indirectly, at least 50% of the share capital, dividends or voting power of a foreign entity and the following conditions are satisfied;

- 25% or more of the gross income of the CFC is composed of passive income items such as dividends, interests, rents, license fees or gains from the sale of securities which are outside the scope of commercial, agricultural or professional income;
- The CFC is subject to an effective tax rate of lower than 10% in its country of residence; and
- The annual total gross revenues of the CFC exceeds the foreign currency equivalent of TRY 100,000.

If the above requirements are met, the profits of the CFC will be included in the profits of the Turkish company in proportion to the Turkish company's share in the capital of the CFC, regardless of whether such profits are distributed, and will be taxed currently at the Turkish corporate income tax rate of 20%.

### 8.10. Transfer Pricing

The new Corporate Income Tax Law has introduced transfer pricing rules that are in line with the OECD Transfer Pricing Guidelines. The transfer pricing rules have been effective from **1 January 2007**.

According to the transfer pricing rules, transactions (i.e. the sale or purchase of goods and services) between related parties (both resident and non-resident) must be in line with the **arm's length principle**. Otherwise, the related profits will be treated as having been wholly or partially distributed in a disguised way via transfer pricing and subject to both corporate income tax and dividend withholding tax depending on the tax status of the recipient of the disguised profit. The rules provide for three traditional transfer pricing methods listed in the OECD Transfer Pricing Guidelines: 1) the Comparable Uncontrolled Price (CUP) method, 2) the Cost-plus Method and 3) the Resale Price Method. When these are not appropriate, taxpayers may use other methods as necessary.

Other acceptable methods include profit-based methods in the OECD Transfer Pricing Guidelines (e.g., the profit-split method and the transactional net margin method) as well as unspecified methods which prove to be the best method based on the particular circumstances of the taxpayer.

Taxpayers also have the option of concluding an advance pricing agreement (APA) with the Turkish Ministry of Finance to determine the transfer pricing method. The selected method would apply for a maximum period of three years, provided that the conditions effective at the time the APA is agreed remain unchanged. APAs may be unilateral, bilateral or multilateral.

Taxpayers are required to prepare/maintain documentation to support transfer prices determined and used.

#### **Declaration of Related Party Transactions:**

All corporate income taxpayers are required to complete a **"Form Relating to Transfer Pricing, Controlled Foreign Companies and Thin Capitalization"** and submit it to their tax office together with their corporate income tax returns.

#### **Annual Documentation Report Requirement:**

Corporate income taxpayers registered with the Large Taxpayers Tax Office (LTTTO) must prepare annual transfer pricing documentation report regarding their both cross-border and domestic related party transactions. Those corporate income taxpayers not registered with LTTTO must also prepare annual documentation report regarding only their cross-border related party transactions. All documentation must be prepared by the time corporate income tax returns are filed. Taxpayers must retain the documentation reports and submit it to the Tax Authorities upon any official request.

As long as a domestic related party transaction between two Turkish corporate entities does not cause a loss of revenue to the Turkish Treasury, it will be deemed to be at arm's length for tax purposes.

### 8.11. Cost Sharing/Cost Allocations

Costs incurred by headquarters located abroad may be allocated to Turkish branches and deducted through distribution keys to be determined in accordance with the arm's length principle, provided that the costs incurred abroad are directly related to the commercial activities of the Turkish branch.

In order to ensure tax deductibility, the following conditions must be satisfied:

- **Benefit Test:** The services underlying cost contribution arrangements or cost sharing agreements must be performed in reality. The payment must be related to the services which contribute to generation and securing of revenues in Turkey.
- The group company in Turkey receiving the service must really need the service concerned.
- The portion of the cost to be allocated with respect to the services provided for the benefit of the Turkish recipient must be in compliance with the arm's length principle. The allocation/distribution key of the costs shared must be at arm's length.
- The relevant supporting documentation must be maintained.

### 8.12. Anti-Tax Haven Rules

Any cash/accrued payments to parties including the business offices of Turkish Resident Companies located in those jurisdictions engaged in "**harmful tax competition**" (usually tax haven countries), to be specified by the Council of Ministers, will be subject to a **30% withholding tax** regardless of the type of income derived by the party resident in a country engaged in harmful tax competition. The Council of Ministers is expected to announce these tax heaven countries by taking into consideration the taxation system of the country where the earnings are derived as well as the capacity to exchange information.

The Council of Ministers has the authority to reduce the WHT rate to 0% for particularly specified transactions which are in line with the arm's-length principle. If the transactions involve the import of a commodity, acquisition of participation shares or dividend payments, the withholding tax will not be imposed provided that the pricing is considered to be at arm's length.

### 8.13. Thin Capitalization Rules

Under the new rules, that portion of the loans granted by shareholders or related parties which exceeds **three times** the equity at any time within an accounting period is deemed to be thin capital. In case the loan is obtained from a related bank or a related financial institution, then half of such loans will be taken into consideration in determination of thin capital amount. Accordingly, loans from related party banks or financial institutions will not trigger the rules unless the amount of the borrowing exceeds **six times** the equity.

For thin capitalization purposes, "related parties" are defined as shareholders and persons related to shareholders that own, directly or indirectly **10%** or more of the shares, the voting rights or the right to receive dividends of the company. The equity amount to be determined in accordance with the Tax Procedures Code at the beginning of the accounting period shall be the equity to be considered in determination of thin capitalization.

Interest, foreign exchange losses and any similar expenses incurred on the exceeding portion of the related party loan are considered as non-deductible for corporate income tax purposes and thus subject to corporate income tax. In addition, the interest and any relevant expenses corresponding to that portion of the loan exceeding three times the equity will be deemed as "hidden profit distribution" or a "remittance of profits" (in the case of non-residents operating in Turkey through a permanent establishment) as of the last day of the accounting period in which the conditions for application of thin capitalization rules are satisfied. Such hidden profit distributions will be made subject to dividend withholding tax at 15%, depending on the taxation status of the recipient of the hidden profit. Double Tax Treaties may reduce the rate of dividend withholding tax down to 10% or even 5% depending on the country of residence of the recipient of the dividends.

The following loans are not within the scope of Turkish thin capitalization rules:

- Loans from third parties under a **non-cash guarantee** provided by shareholders or related parties,
- Loans extended to shareholders or related parties under the same conditions as they are obtained from third-party banks, financial institutions or capital market institutions (i.e. “**pass through loans**”)
- Loans received by financial leasing and factoring companies.

Comparison of the provisions of thin capitalization under the new rules and the previous regime is provided below:

Explanation	Previous Thin Capitalization Rules (Abolished)	New Thin Capitalization Rules (in effect)
<b>Relevant Legislation</b>	Article 16 of the Abolished CT Law (Law No. 5422)	Article 12 of New CT Law (Law No. 5520)
<b>Definition of “Related Party”</b>	Not clear, no objective criteria: “related either directly or indirectly”	At least 10% of shares or voting power must be held either directly or indirectly.
<b>Definition of Equity for the purpose of determination of debt /equity ratio</b>	No definition	<u>Defined as:</u> Equity amount to be determined in accordance with the Tax Procedures Code <u>at the beginning of accounting period</u>
<b>Debt / Equity Ratio</b>	No specific ratio indicated. There is a subjective description: “significantly higher as compared to those of similar companies”	3:1 (the portion exceeding three times the equity)
<b>Period of using related party loan</b>	No objective definition: “continuous use” (9 months/1 year deemed to be continuous based on Court Case decisions – subjective)	No specific period is indicated. That part of the related party loan exceeding 3 times the equity <u>at any time within an accounting period</u> is deemed as thin capital.
<b>Differentiation as to the status of the Lender (independent bank, related bank, non-financial entity)</b>	No clear differentiation exists in the abolished CT Law	There are explanations in this respect in the New CT Law. If the lender is a related bank, debt/equity ratio to be applied is 6:1.

## 8.14. Taxation of Branches of Foreign Companies

Branches of foreign companies are considered to have limited tax liability based on the income derived in Turkey. Business income derived by a Turkish branch of a foreign entity is subject to corporate income tax at 20% effective from 1 January 2006 based on the new Corporate Income Tax Law.

Additionally, branch profits after deduction of 20% corporate income tax will be subject to 15% withholding tax in case profit is transferred. See **Table 8.14** for a sample computation of tax burden on a branch.

Income items other than business income derived by non-resident corporate entities are subject to withholding tax at the following rates:

- Professional service earnings such as consulting, supervision, technical assistance and design fees - 20%
- Earnings derived from the sale or transfer of intangible assets such as copyrights, patents and trademarks - 20%
- Royalties - 20%
- Dividends distributed – 15%

**TABLE 8.14 Tax Burden of a Branch**

	TL
Branch Profits Before Tax	100.00
<b>Corporate Income Tax (20%)</b>	<b>20.00</b>
Profit after Corporate Income Tax (Withholding Tax Base)	80.00
<b>Withholding Tax (15% * 80)</b>	<b>12.00</b>
<b>Total Tax Burden</b>	<b>32.00</b>

### 8.15. Liquidation

Liquidation involves the conversion of assets into cash, settlement of liabilities and distribution of the surplus to the shareholders in proportion to their equity. Capital gains (asset realization value less book value) are subject to corporate income tax. Net liquidation proceeds (after tax) can be repatriated.

Liquidation is started by a court decision at the company's request or at the request of creditors and a fairly lengthy process lasting eighteen to twenty-four months.

### 8.16. Assessments, Payments and Tax Audits

The accounting period for tax purposes (tax year) is normally the calendar year. However, companies may have tax years other than the calendar year, appropriate to their business and subject to the prior approval of the Ministry of Finance.

#### Returns, Assessments and Payments

Corporate income tax return is due to be filed by the 25<sup>th</sup> day of the fourth month after the end of the accounting year (i.e. in case of the calendar year, the return is due by April 25<sup>th</sup> of the following year). The corporate income tax is payable by the end of the month in which tax return is due to be filed (i.e. by the end of April for the companies using calendar year as fiscal year). The balance sheet and income statement for the relevant period must also be filed together with the corporate income tax return.

Delays in the payment of taxes are made subject to a monthly delay charge at the rate of 2.5% (effective from 21 April 2006). The Council of Ministers is authorized to amend the delay charge rate, at any time.

If a taxpayer fails to file a return, the tax authorities may do ex-officio assessment. In case of fraudulent transactions (specified in Article 359 of Turkish Tax Procedures Code) there may be imprisonment penalties charged from one year to three or five years in addition to the monetary tax penalties.

Advance corporate income tax payments must be made based on 20% of quarterly profits, as shown in the corporate income taxpayer's quarterly income statement.

The advance corporate income tax must be declared until the 14<sup>th</sup> of the second month following the quarterly period (i.e. within 44 days) and paid until the 17<sup>th</sup> day of the second month following the quarterly period. If the advance corporate income tax payments made during a year exceed the actual corporate income tax amount calculated on the annual corporate income tax return, the excess may be credited or paid back to corporate income taxpayer upon written application to tax office.

#### Role of Accounting Professionals and Tax Auditors

Until June 1989, there were no regulations in Turkey related to the accounting profession. The Law of Certified Public Accountancy And Sworn Certified Financial Consultancy (Law No. 3568) basically defines the profession and indicates the rights and responsibilities of accountants and tax auditors. Certain transactions and documentation require certification by sworn financial consultants (similar to certified public accountants in the US practice).

Inspections for tax purposes are carried out by government tax inspectors under the supervision of the Ministry of Finance and the district tax offices (the latter deal with the auditing of small companies). Controls are strict and tax inspectors from the Ministry of Finance make spot checks of tax returns. Nowadays, tax inspections are mainly focused on related party transactions and transfer pricing applications as a result of the introduction of transfer pricing rules with effect from 1 January 2007.

The period of statute of limitations for tax inspections is five years.

# 9. Individual income taxation

## 9.1. Residence and Non-Residence

In general, individuals residing in Turkey are liable for personal income tax on all of their income derived in and outside Turkey. However, individuals who do not reside in Turkey but receive part of their income from Turkey are liable for income tax only on their income derived in Turkey. The former is known as “full liability taxpayers”, and the latter as “limited liability taxpayers”.

Expatriates who reside in Turkey for more than six months in one calendar year are generally considered as having permanent residence in Turkey and are taxed on their worldwide income. Foreigners who are in Turkey for a fixed period on a temporary assignment are not regarded as resident taxpayer in Turkey, even if they stay for more than six months.

In determination of the extent of Turkish tax liability of an expatriate, the relevant provisions of double tax treaties should also be considered.

In order for wages to be taxable in Turkey, the services must be performed or benefited in Turkey; the payment must be made in Turkey; or if the payment is made in a foreign country, it must be transferred to the account of a company in Turkey.

Personnel sent to Turkey by companies with headquarters outside Turkey in order to carry out assembly work or perform any other specific task are taxed on emoluments paid by the local employer covering their costs in Turkey. On the other hand, the emoluments that such personnel receive with respect to their position in their home country and paid by the head office abroad are not subject to Turkish taxation. However, consideration (in the form of wages, salaries or attendance or other fees) received outside Turkey by chairmen, directors, other officials or the auditors of companies located in Turkey is considered to be earned in Turkey (and therefore subject to Turkish taxation) if it has been charged to the account of a company or individual resident in Turkey.

Regardless of their nationality, most Turkish residents, unless covered by an exemption, are subject to personal income tax. The emoluments of employees of some non-resident companies are exempt from income tax if they meet the following conditions:

- The employer is non-resident.
- The emoluments are paid in terms of a foreign currency.
- The emoluments are paid from gains of the employer outside Turkey and not deducted from the tax base in Turkey as a wage and salary expense.

The income tax exemption mentioned above is effectively applicable only to employees of liaison offices.

## 9.2. Taxable Income

### Types of Income

Income tax is levied on the following types of income:

- Business profits (Commercial Income)
- Agricultural profits
- Salaries and wages (defined further below)
- Income from professional services (such as services rendered by lawyers, tax consultants, engineers etc.)
- Income from immovable property (mainly rental income)
- Income derived from securities (interests, dividends)
- Other income (capital gains and nonrecurring income)

Each income item is defined in the Income Tax Law.



All income arising from an individual's employment is subject to personal income tax. As a rule, all benefits received from the employer (in cash or in kind) fall within the definition of emoluments, however, there are some exceptions to this general rule (for example, equipment that the employer owns but assigns to the usage of the employee do not give rise to assessment). Social security contributions (including contributions to be paid to the Unemployment Insurance Plan starting from 1 June 2000) are also allowable expenses, as well as additional insurance premiums against sickness and life policies.

Additionally, employees are granted particular amount of subsistence allowance varying according to their spouse's working status and the number of their children.

### 9.3. Individual Income Tax Rates

The progressive income tax rates for personal income (with effect from 1 January 2009) are shown in **Table 9.03**.

**Table 9.03 Individual Income Tax Rates for 2009**

Taxable Income (TRL)	Rate (%)
Up to 8,700	15
Between 8,701 – 22,000	20
Between 22,001 – 50,000	27
Above 50,000	35

### 9.4. Assessments and Payments

The tax year for individuals is calendar year and thus ends on 31 December. The filing and payment schedules vary according to the type of income. Generally individuals must file their income tax return by 25 March of the following year. The income tax must be paid in two equal installments by the end of March and July.

On the other hand, individuals earning commercial and/or professional service income are required to make advance income tax payments based on 15% of quarterly profits shown in their quarterly income statements. Advance income tax of a quarterly period is to be declared within 14<sup>th</sup> day of the following second month of the end of the quarterly period and paid on the 17<sup>th</sup> day of the following second month of the end of the quarterly period.

If the advance income tax payments during a year exceed the actual income tax liability to be declared on annual individual income tax return, the excess may be credited against other tax liabilities. Any remaining tax can be paid back to the taxpayer upon written application to the tax office. If Tax Authorities find out that the difference between the actual advance income tax amount declared and the income tax amount which must have been declared is greater than 10% of the income tax that must have been declared, a tax loss penalty and delay interest shall be calculated on the missing portion of the declaration over 10%.

Income Tax is withheld at source from a wide range of payments, including employment income. Generally, employees and a number of other individuals are not required to submit annual individual income tax returns if the tax withheld at source constitutes the final tax burden.

If an individual's only source of income is his salary and he receives salary only from one employer, he does not have to file annual income tax return. If the individual works for more than one employer, the salaries received from the other employers have to be declared by an annual income tax return, provided that the salaries received from the other employers exceed TRL 19,800 and 22,000 for the year 2008 and 2009, respectively.

# 10. Withholding taxes and double tax relief

## 10.1. Major Withholding Tax Rates

Withholding tax rates vary depending on the type of income. The Council of Ministers is authorized to amend the rates.

Major rates currently in effect are shown in **Table 10.01**.

## 10.2. Double Tax Treaty Relief

Turkey has Double Tax Treaties with 70 countries which provide relief from double taxation. Withholding tax rates are applied at the lower of local tax rate and treaty tax rate. **Table 10.02** shows the countries included in Turkey's tax treaty network as well as the reduced withholding taxes applied on dividend and royalty payments based on the relevant provisions of the Double Tax Treaties concerned.

**Table 10.01 Major withholding tax rates on payments to resident and non-resident corporations**

Type of Income	For residents (%)	For non-residents
<b>Income from professional services</b>	<b>20</b>	<b>20</b>
<b>Income from construction and repair work extending to more than one year:</b>	<b>3</b>	<b>3</b>
<b>Dividends:</b>	15 <sup>(1)</sup>	15
<b>Interest:</b>		
- On foreign loans from foreign states, foreign banks and financial institutions	0	0 <sup>(2)</sup>
- On Treasury Bills and Government Bonds	0	0
- On Turkish Lira and foreign currency deposit accounts (regardless of the length of maturity period)	<b>15</b>	<b>15</b>
<b>Repo income</b>	15	15
<b>Capital gains on share certificates (provided that they are traded in the Istanbul Stock Exchange and held for more than one year)</b>	0	0
<b>Royalties and immovable property:</b>		
- on payments for the right to use (copyrights, patents, know-how etc.)	- <sup>(3)</sup>	20
- on payments for the transfer of ownership of copyrights, patents and trademarks	- <sup>(3)</sup>	20

**(1)** Dividends distributed by a Turkish company to another Turkish company are exempt from dividend withholding tax, however, dividends distributed by a Turkish company to real persons are subject to 15% dividend withholding tax.

**(2)** Interest on foreign loans obtained from those financial entities that grant loans exclusively to the group companies are still subject to 10% withholding tax. In order to eliminate 10% withholding tax, the lenders must qualify as a financial institution in their country of residence and additionally they must be providing loans to the public, not only to the companies in a specific group.

**(3)** Payment of royalties by a Turkish company to another resident Turkish company is not subject to income withholding tax. 20% withholding tax applies on royalty payments made by resident Turkish companies to non-residents.

**Table 10.02 Countries with which Turkey has Tax Treaties and Principal Treaty Withholding Tax (WHT) Rates**

	Country of Recipient	Date of Entry into force	WHT Rates on dividends paid from Turkey <sup>1</sup>			WHT on
			Major Ownership	Major Rate (%)	Minor Rate (%)	Royalty (%)
1	<b>Albania</b>	1 January 1997	25%	5	15	10
2	<b>Algeria</b>	1 January 1997	-	12	12	10
3	<b>Austria</b>	1 January 1974	25%	15	15	10
4	<b>Azerbaijan</b>	1 January 1998	-	12	12	10
5	<b>Bahrain</b>	1 January 2008	25%	10	15	10
6	<b>Bangladesh</b>	1 January 2004	-	10	10	10
7	<b>Belarus</b>	1 January 1999	25%	10	15	10
8	<b>Belgium<sup>2</sup></b>	1 January 1992	10%	15	15	10
9	<b>Bosnia and Herzegovina</b>	1 January 2009	25%	5	15	10
10	<b>Bulgaria</b>	1 January 1998	25%	10	15	10
11	<b>Croatia</b>	1 January 2001	-	10	10	10
12	<b>Czech Republic</b>	1 January 2004	-	10	10	10
13	<b>Denmark</b>	1 January 1991	25%	15	15	10
14	<b>Egypt</b>	1 January 1997	25%	5	15	10
15	<b>Estonia</b>	1 January 2006	-	10	10	5, 10
16	<b>Ethiopia</b>	1 January 2008	-	10	10	10
17	<b>Finland</b>	1 January 1989	25%	15	15	10
18	<b>France</b>	1 January 1990	10%	15	15	10
19	<b>Germany</b>	1 January 1990	10%	15	15	10
20	<b>Greece</b>	1 January 2005	-	15	15	10
21	<b>Hungary</b>	1 January 1993	25%	10	15	10
22	<b>India</b>	1 January 1994	-	15	15	15
23	<b>Indonesia</b>	1 January 2001	25%	10	15	10
24	<b>Iran</b>	1 January 2006	25%	15	15	10
25	<b>Israel</b>	1 January 1999	-	10	10	10
26	<b>Italy</b>	1 January 1994	-	15	15	10
27	<b>Japan<sup>3</sup></b>	1 January 1995	25%	10	15	10
28	<b>Jordan</b>	1 January 1987	25%	10	15	12
29	<b>Kazakhstan</b>	1 January 1997	-	10	10	10
30	<b>Kuwait</b>	1 January 1997	-	10	10	10
31	<b>Kyrgyzstan</b>	1 January 2002	-	10	10	10
32	<b>Latvia</b>	1 January 2004	-	10	10	5, 10
33	<b>Lebanon</b>	1 January 2007	15%	10	15	10
34	<b>Lithuania</b>	1 January 2001	-	10	10	5, 10
35	<b>Luxembourg</b>	1 January 2006	25%	10	15	10
36	<b>Macedonia (FYROM)</b>	1 January 1997	25%	5	10	10
37	<b>Malaysia</b>	1 January 1997	25%	10	15	10
38	<b>Moldova</b>	1 January 2001	25%	10	15	10
39	<b>Mongolia</b>	1 January 1997	-	10	10	10
40	<b>Morocco</b>	1 January 2007	25%	7	10	10

**Table 10.02 Countries with which Turkey has Tax Treaties and Principal Treaty Withholding Tax (WHT) Rates (continues) (\*)**

	Country of Recipient	Date of Entry into force	WHT Rates on dividends paid from Turkey <sup>1</sup>			WHT on
			Major Ownership	Major Rate (%)	Minor Rate (%)	Royalty (%)
41	Netherlands <sup>4</sup>	1 January 1989	25%	10	15	10
42	Norway	1 January 1977	25%	15	15	10
43	Pakistan <sup>5</sup>	1 January 1989	25%	10	15	10
44	People's Republic of China	1 January 1998	-	10	10	10
45	Poland	1 January 1998	25%	10	15	10
46	Portugal	1 January 2007	25%	5	15	10
47	Qatar	1 January 2009	25%	10	15	10
48	Romania	1 January 1989	-	15	15	10
49	Russia	1 January 2000	-	10	10	10
50	Serbia and Montenegro	1 January 2008	25%	5	15	10
51	Singapore	1 January 2002	25%	10	15	10
52	Slovakia	1 January 2000	25%	5	10	10
53	Slovenia	1 January 2004	-	10	10	10
54	South Africa	1 January 2007	25%	10	15	10
55	Saudi Arabia	Expected to enter into force soon	20%	5	10	10
56	South Korea	1 January 1987	25%	15	15	10
57	Spain <sup>6</sup>	1 January 2004	25%	5	15	10
58	Sudan	1 January 2006	-	10	10	10
59	Sweden	1 January 1991	25%	15	15	10
60	Syria	1 January 2005	-	10	10	10, 15
61	Tajikistan	1 January 2002	-	10	10	10
62	Thailand	1 January 2006	25%	10	15	15
63	Tunisia	1 January 1988	25%	12	15	10
64	Turkish Republic of Northern Cyprus	1 January 1989	25%	15	15	10
65	Turkmenistan	1 January 1998	-	10	10	10
66	Ukraine	1 January 1999	25%	10	15	10
67	United Arab Emirates	1 January 1995	25%	10	12	10
68	United Kingdom	1 January 1989	25%	15	15	10
69	United States of America	1 January 1998	10%	15	15	5, 10
70	Uzbekistan	1 January 1997	-	10	10	10

\* Double Tax Treaties with Ireland, Switzerland, Oman, Yemen and Philippines are still pending to be signed.

1. If the Treaty WHT rate is greater than the local dividend WHT rate of 15%, the local rate which is lower shall be applicable.

2. Where the dividend is not subject to corporate income tax in Belgium, both the major and minor rates shall be applied at 10%.

3. The major rate applies if the recipient shareholder in Japan is a company that holds, during the six month period immediately preceding the closing date of the accounting period (for which dividends are distributed) at least 25% of the Turkish company paying the dividends. Otherwise, the dividend WHT rate is 15%.

However, considering that the local Turkish dividend WHT rate is 15%, the major and minor rate shall be applied at 15% if the amount of the Turkish tax charged on the income of the company paying the dividends in Turkey is less than 40% of the income of the accounting period that ended immediately before the dividend became payable.

4. Where the Netherlands company which receives the dividend is not subject to Netherlands company tax with respect to the dividend (i.e. in case Dutch participation exemption conditions are satisfied), a major rate of 10% applies.

5. The additional condition required to apply the major rate of 10% is that the Turkish company paying the dividends must be engaged in industrial activities, otherwise the rate is applied at 15%.

6. The additional condition required to apply the major rate of 5% is that the dividends must be distributed from the profits which have been made subject to Turkish corporate income tax at the general rate of 20%. Otherwise, the rate is to be applied at 15%.

Under Turkey's Double Tax Treaties, income derived from foreign countries is either excluded from consideration in Turkish tax computation or double taxation is eliminated through tax credit mechanism. Accordingly, tax paid in treaty countries is deductible from tax assessments in Turkey.

For detailed information, applicable tax treaties should be referred to.

Among the benefits offered by the tax treaties are relief from Turkish withholding taxes on dividends and royalties. Treaty rates are shown in **Table 10.02**. **Table 10.03** below compares some non-treaty rates with the rates generally offered under double tax treaties.

### 10.3. Unilateral Relief

In the case of countries that do not have a tax treaty with Turkey, tax paid in foreign countries on income derived by fully-liable taxpayers can be deducted from the annual individual income tax or corporate income tax to be paid. The amount of foreign tax credit can not exceed Turkish income tax or corporate income tax amount calculated on earnings derived from the foreign country.

**Table 10.03 Comparison of Non-treaty (Local) Rates With the Rates Generally Available Under Double Tax Treaties<sup>(\*)</sup>**

Type of Payment	Non-treaty Rate (%)	Treaty Rate (%)
Commercial (such as banking or insurance charges, commissions, storage or transportation payments, production payments or cross charges)	0	0
<b>Professional (such as engineering, consulting or tuition payments, technical or assembly work):</b>		
If the period of presence in Turkey is shorter than 183 days per year	20	0
If the period of presence in Turkey is 183 or more days per year	20	20
If work is carried out outside Turkey	20	0
<b>Royalties (such as payments for licenses, know-how and intangible rights):</b>		
For contracts in the form of rents (entitling to the right of use)	20	10
For contracts in the form of transfers or assignments of rights	20	10

<sup>(\*)</sup> The specific provisions of the relevant Double Tax Treaty must always be checked and professional advice must be sought prior to the application.

# 11. Other taxes

## 11.1. Value Added Tax

Value Added Tax (VAT) is levied on goods delivered and services rendered in connection with commercial, industrial, and agricultural activities and professional services in Turkey, as well as on goods imported and professional services received from abroad. Persons who deliver such goods or perform such services are liable for VAT. In general, VAT arises when a service is performed, goods are delivered or an invoice is issued prior to delivery of goods or, in the case of imports, when import clearance document is filed with the Customs Authority.

**Major exemptions** are as follows:

- Exports of goods and services
- Deliveries of sea, air and rail transport vehicles to the sea, air and rail transportation operators, as well as deliveries and services related to manufacturing of such vehicles (including rectification, repair and maintenance services)
- International transport
- Certain types of imports specified in the Customs Duties Legislation
- Specified supplies of goods and services for educational, cultural, social, military purposes.
- Services performed within Turkish Free Trade Zones.
- Tax-free mergers and de-mergers realized according the relevant provisions of the Corporate Income Tax Law.
- Transportation of crude oil, gas and other by-products through cross-border pipelines.
- Diplomatic deliveries
- Services rendered for vessels and aircraft at harbours and airports
- Deliveries of goods and services to those dealing with oil exploration activities within the scope of Petroleum Law.
- Deliveries of machinery and equipment to investors within the scope of an investment incentive certificate

VAT rates are shown in **Table 11.01**. VAT incurred on purchases of inventory, fixed assets, supplies and other goods and services are recorded as input VAT and offset against the output VAT calculated on deliveries of goods and services. When the output VAT calculated is greater than the input VAT paid/ incurred on purchases, the output VAT in excess of the input VAT is paid to tax office as "VAT Payable".

In cases when input VAT paid / incurred on purchases is greater than the output VAT calculated, the input VAT in excess of the output VAT is carried forward to the following months so as to be offset against the output VAT to be generated through sales in the following months.

**Table 11.01 Value Added Tax Rates**

Types of Supply	Rate (%)
Most supplies (including services) <sup>(1)</sup>	18
Basic foodstuffs, Books, Education Services by Private Schools, Touristic Services	8
Agricultural products sold as raw materials, newspaper, used cars, houses with a net area of up to 150 m <sup>2</sup> <sup>(2)</sup>	1
Delivery of the textile and leather products	8
Luxury goods and entertainment services rendered by discos, bars etc.	18
Medical products and devices	8
Automobiles with cylinder capacity of more than 2000 cc	18

**(1)** VAT rates for deliveries in certain sectors (e.g. computers, furniture, housing etc.) were provisionally reduced in March 2009 from 18% to 8% so as to support certain sectors in economic downturn.

**(2)** The VAT rate on delivery of houses with a net area of 150m<sup>2</sup> or more shall provisionally be applied at 8% (instead of 18%) between 17 March-15 June 2009 to support construction/housing sector during the economic downturn.

## Reverse Charge VAT Mechanism

If certain services (e.g. professional services like engineering, legal consultancy, design etc.) from non-residents are received or benefited by a resident company in Turkey under certain conditions defined by the VAT legislation, VAT is required to be paid by the resident company purchasing/importing the service under the "reverse charge mechanism" and monthly Reverse Charge VAT return (VAT Return No. 2) is required to be filed by the company for the monthly period in which the transactions are realized.

Turkish resident company treats the Reverse Charge VAT paid as an Input VAT and offsets it against the output VAT declared on the Regular VAT return (VAT Return No. 1). However, if there is no sufficient output VAT to offset, the VAT paid on a reverse charge basis constitutes a cash-flow burden on the Turkish company that has purchased the services concerned.



## 11.2. Special Consumption Tax (SCT)

SCT is an indirect tax (excise tax) which has been introduced with effect from 1 August 2002. Unlike VAT, SCT is applied only at once by the party that becomes liable as a result of occurrence of the taxable event for the particular types of products as specified in the lists attached to SCT Law. Thus, SCT constitutes a cost for those parties who are not held liable to calculate and declare such tax however, incur the cost of SCT on their purchases from those taxpayers who are liable to calculate SCT on their deliveries.

SCT is applicable to only certain types of goods specified and enumerated in the lists attached to the SCT Law. There are four lists of products attached to the SCT Law.

- **List I:** Natural gas, petroleum products and various kinds of solvent products and by-products
- **List II:** Vehicles
- **List III:** Cigarettes, tobacco products, alcoholic drinks, non-alcoholic beverages
- **List IV:** Durable consuming goods and luxury goods such as cosmetics, perfumes, white goods like refrigerators, washing machines etc., electronic appliances like recorders, television etc.

The Council of Ministers is authorized to change the rates of SCT, impose fixed amounts of SCT instead of proportional taxation in accordance with the SCT Law. Application of SCT and the general ranges of SCT rates are indicated in the following table:

List No.	Types of Products	Taxable Event	SCT Rates
<b>List I (Sub-list A)</b>	Petroleum products, natural gas, LPG, petrol derivatives	Importation and production of the goods concerned	Fixed amount depending on the Customs Tariff Position Number (CTPN) of the product
<b>List I (Sub-list B)</b>	Solvent and various types of solvent derivatives (toluen, exsol, solvent- naphta etc.)	Importation and production of the goods concerned	Fixed amount depending on the CTPN of the product.
<b>List II</b>	Vehicles subject to registration	First Acquisition	Proportional Tax: Rates vary between <b>0.5-84%</b> depending on the CTPN of the vehicle. (The SCT rates for certain vehicles were provisionally reduced in March 2009 so as to be applied until 15 June 2009 in order to support the automotive industry during the economic downturn)
	Vehicles not subject to registration	Importation, or delivery of the vehicles by its manufacturer, auction sale of the vehicles before SCT is levied on.	
<b>List III (Sub-list A)</b>	Alcoholic drinks, non-alcoholic beverages	Importation or delivery of the goods by its manufacturer and auction sale of the goods before SCT is levied on.	Higher of proportional tax / minimum fixed amount, per liter of alcohol in goods: rates vary between <b>25-275.6%</b> depending on CTPN.
<b>List III (Sub-list B)</b>	Cigarettes, tobacco products	Importation or, delivery of the goods by its manufacturer, auction sale of the goods before SCT is levied on.	Both fixed amounts and proportional SCT: The rates are 30% and 58%.
<b>List IV</b>	Those consumer goods which are used to be subject to high VAT rate (26%) prior to 1 August 2002 such as cosmetics, perfumes, fur, air-conditioners, refrigerators, receivers, recorders and various electronic appliances etc.	Importation or, delivery of the goods by its manufacturer, auction sale of the goods before SCT is levied on.	Proportional: <b>6.7%</b> or <b>20%</b> depending on the CTPN of the goods. (The SCT rates for certain items in this list-air conditioners, white goods, electrical home appliances, radio/television etc. were provisionally reduced to zero in March 2009 to be applied until 15 June 2009 in order to support certain sectors during the economic downturn)

### 11.3. Property Tax

Property tax is levied on buildings (0.1% for houses; 0.2% for business premises) and land (0.1% for undeveloped/regular land; 0.3% for parceled land) located in regular districts based on their annual value in Turkey. These rates are applied as twice in the districts which are located in metropolitan municipality border line. There is a partial exemption at a rate of 25%, if the related property is used as residence.

### 11.4. Inheritance and Transfer Tax

Inheritance and transfer tax is levied on free transfers such as gifts and inheritances and varies between 1% and 30%, depending on the amount of the transfer concerned and the way the property is transferred (as inheritance or gift). The inheritance and transfer tax rates to be applied to inheritance and free transfers for the year 2009 are provided below:

**Table 11.04 Inheritance and Transfer Tax Bases and Rates (2009)**

Inheritance / Transfer Tax Base	Inheritance Tax Rate (%)	Transfer (Gift) Tax Rate (%)
First TL 160,000	1	10
Next TL 350,000	3	15
Next TL 760,000	5	20
Next TL 1,500,000	7	25
Above TL 2,770,000	10	30

### 11.5. Stamp Tax

Stamp taxes are levied on a wide range of transaction documents. The maximum limit of stamp tax to be imposed per document is TRL 1,136,904.10 (for 2009).

A brief summary of stamp taxes relating to major business transactions are shown in **Table 11.05** below:

**Table 11.05**

Selected Stamp Taxes	
Taxable Document	Stamp Tax Rate
Contracts with a monetary amount	0.75% of the amount concerned (*)
Letters of guarantee	0.75% of the amount (*)
Payrolls	0.6% of the gross salary

(\*) The stamp tax amount per document may not exceed TRL 1,136,904.10 are (effective for the year 2009).

### 11.6. Motor Vehicle Tax

Motor Vehicle Tax is levied annually on motorized vehicles and boats, according to a specific tariff. The individuals and the entities registered as the owners of motor vehicles are obliged to pay motor vehicle tax. The payments are made in two equal installments in January and July of each year. The amount of tax varies depending on the age, engine capacity and type of vehicle or boat.

### 11.7. Bank and Insurance Transaction Tax

Bank and insurance transaction tax (BITT) is levied on any favorable amount which arises from the transactions carried out by banks and insurance companies. The general rate of BITT is 5% of the favorable amount received by a bank or insurance company as a result of a transaction subject to BITT. The BITT rate is applied as 1% on the following transactions:

- a) favorable amounts received from deposit transactions among banks,
- b) favorable amounts received from money market transactions between banks and brokerage companies operating according to the Capital Market Law,
- c) favorable amounts received as a result of purchase and sale as well as repurchase (“repo”) transactions of government securities,
- d) favorable amounts received as a result of sale of government securities prior to maturity.

The Council of Ministers is authorized to amend these rates.

There is no longer BITT applied on foreign currency sales since the BITT rate used to be applied at 0.1% on foreign currency sales has been reduced to zero with effect from 1 May 2008.

### 11.8. Special Communication Tax

Companies which sign concession agreements with the Telecommunications Authority, pursuant to the Telegram and Telephone Law, or establish or operate telecommunications infrastructure or provide telecommunications services via general license or authorization granted by the Telecommunications Authority are required to pay special communication tax.

The following transactions are subject to special communication tax.

- a) Every kind of mobile telecommunication operation services (including sales of prepaid cards): **25%**
- b) Radio and television broadcasting services via cable and satellite platforms: **15%**
- c) Cabled, wireless and mobile internet service providing activities: **5%** (effective from 1 March 2009)
- d) Other telecommunication services (i.e. those outside the scope of the services defined in a), b) and c) above): **15%**

Special communication tax return is filed on a monthly basis and the tax is paid on the 15<sup>th</sup> of the following month. Special communication tax is treated as non-deductible expense and it cannot be offset against other taxes.

# 12. How Deloitte can help?

If you are considering opening up a new affiliate in Turkey or if you have just done so, Deloitte Turkey can be your partner in achieving this challenging task in all aspects of your requirements.

Our experienced professional can:

- Understand your specific business needs and advise on how to adopt to management needs in Turkish market,
- Advise on Turkish fiscal matters,
- Assist you in all stages of establishing a fully functioning company,
- Help you set up your marketing and sales organization in a way that can succeed in the dynamics of the Turkish market,
- Be flexible and provide tailor made services to your specific needs.

Our services are focused in six core areas:

- Strategic and operational Management
- Marketing and Sales
- Information Technology
- Human Capital
- Fiscal Advice

## **Strategic and Operational Management**

For an efficiently performing company you will need to identify the local strategies and closely monitor the performance of your new company against these local strategies and establishing the necessary tools and systems for an effective corporate performance management process.

We can assist in setting up strategic targets and business plans, identifying key performance indicators, designing and implementing management reports and information systems. Furthermore, we can design individual performance systems linked with corporate performance to ensure your employees are also working to achieve the same targets.

We can also help you set up the appropriate business processes and organization structure.

## **Marketing and Sales**

To tackle a new market, you will need the appropriate marketing and sales strategies and structure. We can assist in identifying customer relations strategies, market and customer segmentation with the local profiles, establish your customer relationship management processes and systems. We can also work with you in identifying the right business partners.

## **Information Technology**

We can define business requirements and implement information systems to enable your new organization to efficiently function from day one. We are business partners with Oracle and SAP in the ERP technologies area, and have alliances with leading customer relationship management softwares.

## **Human Capital**

Recruiting the right human resources may be a key to your success in the Turkish market. We can identify and manage the recruitment process of your local resources. We can also design the appropriate human capital systems such as compensation schemes, career plans and performance systems.

## **Fiscal Advice**

Our tax experts providing comprehensive tax consulting services can guide you in choosing the appropriate legal corporation structure to meet your specific needs. They can also support in completing all legal administrative work required in the incorporation phase of the company.

Deloitte, being a sector oriented and specialized tax expert company, is able to respond easily to daily manipulations of legislation, and imperceptible risks /opportunities created instantly by market conditions.

You can find further details below about our comprehensive tax consulting services.

## 12.1. Corporate Income Tax Certification (Compliance) Services

### What is Tax Certification (Compliance)?

The main purpose of tax certification is to audit, ensure and secure the accuracy of income and corporate income tax bases. In tax certification services, financial statements and tax returns are audited and certified within the framework of tax legislation and Turkish accounting principles. Tax certification reports are submitted to the tax offices within two months following the submission of annual corporate income tax return.

### What are the advantages of tax certification services?

- Not primarily investigated by the Ministry of Finance
- Avoidance of erroneous applications on time
- Efficient consultancy
- Value adding service

### *Deloitte tax compliance services include:*

- Identification of client needs
- Comprehensive audit
- Tax computations and controlling
- Reporting
- Tax consultancy

## 12.2. Financial Services Industry Tax Advisory Services

Deloitte tax consulting services for financial institutions:

- a. Tax certification services
- b. Interpretation and evaluation of current legal regulations and special regulations of deposit and investment banking
- c. Analysis of individual, corporate, commercial and private banking products from a tax point-of-view.
- d. Taxation of capital and money market, and over-the-counter transactions
- e. Taxation of capital gains from securities and derivative instruments
- f. Taxation of transactions in the Turkish Derivatives Exchange
- g. Taxation analysis and evaluation of factoring and leasing companies' legislation
- h. Tax aspects on international leasing
- i. Taxation of foreign/domestic investment funds and pension funds.
- j. Evaluation of companies subject to Banking Regulation and Supervision Agency and Capital Market Board legislations within the frame of the regulations they have to abide by and which directly affect the tax assessment
- k. Tax Incentive Legislation appropriate to financial institutions
- l. Taxation of insurance company's particular products, statutory provisions and brokerage company's operations
- m. Taxation of reinsurance operations
- n. Solutions, reporting about private investigations in financing companies
- o. Stamp Tax, Duties, BITT, RUSF, Fire Insurance Tax and Exchange Law interpretation and examination
- p. Taxation of portfolio investments of foreign investors

### 12.3. International Tax Advisory Services

- International tax planning advisory
- Interpretation and examinations of tax treaties
- Advisory on "Double tax treaties and elimination of double taxation"
- Tax Advisory on international disputes, and intermediation with the Ministry of Finance
- Evaluation of international tax treatment for Private Projects
- Advisory on tax incentives for foreign investors
- Advisory on tax incentives for outbound investments
- Taxation of profit distribution in foreign partnerships
- Tax advisory on international leasing agreements
- Tax advisory on Franchising and Benchmarking
- Tax advisory on corporate income taxation for non-residents
- Tax aspects of "International Holding" companies
- Tax aspects of trademark, patent, license fee payments
- Tax advisory on borrowing from abroad

### 12.4. Mergers and Acquisitions

Instead of starting from scratch, you might prefer to acquire a Turkish company already working in your field of expertise. Our mergers and acquisitions professionals can assist you in this venture.

We have significant M&A experience in a wide range of industries. Therefore, we can understand your specific M&A needs. We can guide you in all stages of the transaction including negotiations if needed.

Our Services on mergers and acquisitions including Tax Due Diligence, Acquisition Structuring and Post Acquisition Restructuring achieve the following goals:

- Developing alternative deal structures that maximize long-term returns
- Considering the post-acquisition structuring alternatives
- Identifying tax and accounting issues associated with cross-border transactions
- Surfacing "deal breakers" early in the process, before significant resources are expended
- Quantifying the amounts, timing and uncertainties around expected future cash flows
- Identifying the issues to effect the purchase price
- Suggesting strategies to improve operating results and after-tax cash flows
- Helping clients manage the newly acquired operation for effective tax management
- Identifying the alternatives in case of an exit



## 12.5. Taxation of Individuals

### Personal income tax

Successful tax planning relies on a sensitive balance between your income and potential tax amount. Today, taxation of securities and other income have a complex and flexible structure. Thus investors are forced to revise and alter their investment decisions.

The crucial point is to make decisions on time and navigate appropriately. Through the global contacts provided by the Deloitte network, Deloitte Turkey aims to provide worldwide assistance wherever your business requires it.

### Turkish Taxation of Foreign Nationals and Global Employer Services

From compliance with labor and tax laws in various countries to the fairness and appropriateness of policies and procedures, the challenges can be staggering. This is why many companies in Turkey rely on our innovative strategies for international compensation, incentive, medical, and retirement plans, among many others.

## 12.6. Indirect Tax Services

Our indirect tax advisory services:

- VAT Compliance, Consultancy and Risk Analysis
- Preparation of VAT Refund Certification Reports
- VAT Applications on Off Shore Transactions
- Customs Procedures and Import Taxes
- Stamp Tax Applications and Risk Analysis
- BITT Applications
- Resource Utilization Support Fund Applications
- Special Consumption Tax Applications

## 12.7. Transfer Pricing Services

### Are you aware about your transfer pricing risks and your documentation obligations arising from the new Turkish Transfer Pricing Rules?

Deloitte Turkey transfer pricing practice is a part of a global network of tax professionals and economists experienced and specialized exclusively in transfer pricing services. The Deloitte global network has an extensive presence throughout North America, Europe, Asia, Australia and Latin America, and brings a truly international and specialized perspective to transfer pricing issues and trends. As a result, you have the access to the global resources you need, wherever you need them. We employ a unified approach to understanding your organization's business objectives and aligning our services appropriately.

Deloitte Turkey have the experience in providing transfer pricing services within a wide range of industries, including:

- Life sciences and health care
- Energy and resources
- Manufacturing (automotive, chemical etc.)
- Financial services industry (banks, pension funds etc.)
- Telecommunications

Deloitte Turkey Transfer Pricing Practice covers all parts of the transfer pricing spectrum, providing the following services through a full time dedicated interdisciplinary team exclusively specialized in transfer pricing:

1. Local transfer pricing documentation services
2. Global transfer pricing master file documentation studies
3. Planning for the right transfer pricing policy
4. Analysis of transfer pricing implications of different business structures (toll manufacturing, stripped risk distributor, "sogo shosha", etc.)
5. Review of intra-group services and headquarter cost allocation studies
6. Transfer pricing audit defense support
7. Advance pricing agreements (APAs)

### 12.8. Tax and Customs Litigation Consultancy Services

- Consultancy services during the Tax Investigation Processes
- Tax Disputes
- Tax Court Cases
- Consultancy about management of dispute resolution against the Tax Administration (Amendment, Application Through Complaint, Reduction in Penalties, Repentance and Adjustment)
- Participation to the Customs Processes
- Consulting about management of dispute resolution against the Customs Administration (Amendment, Appeal, Application to the Judiciary, Case Consultancy)
- Consulting Services on tax administration affairs

### 12.9. Customs and Foreign Trade

Customs and foreign trade advisory services:

- Customs and Foreign Trade Transactions Audit and Determination of the Risks
- Advisory Services on Technical Customs Issues like Classification of the Goods, Origin, and Customs Valuation
- Advisory Services on Customs Procedures Including Customs Procedures with Economical Impact like Inward Processing, Outward Processing, Temporary Importation, and Bonded Warehouses
- Advisory Services on Indirect Taxes and Funds in Foreign Trade
- Disputes on Customs and Foreign Trade, Penalties and Litigation Management
- Planning, Documentation, Project and Pre-Authorization Services Regarding Investments
- Customs and Foreign Trade Cost Analysis
- Customs Brokers and other Third party Relation Management
- Legislation Support and Firm Specific Trainings

### Authorized customs consultancy services

- Determination of entries and exits to/from bonded warehouses
- Determination of stocks of the bonded warehouses for six-month periods
- Pre-examination of bonded customs warehouse application files
- Determination of the compliance of the transfer of bonded customs warehouses
- Determination of the A.TR and EUR.1 certificates' compliance to the related legislation prepared by Authorized Exporters.
- Determination of the origin of the goods subject to the application of Authorized Exporter certificate
- Determination of the goods' compliance subject to temporary importation procedure for the reason of extension of the duration
- Determination of the goods' compliance subject to inward processing procedure for the reason of extension of the duration
- Determination of the goods compliance subject to end use procedure
- Determination of the exports resulted from the private goods produced by using the temporary imported goods under the complete exemption.
- Determination of acquittal for the goods subject to procedure under customs control.



# Appendix:

## Useful Links and Addresses

Organization	Web - site	Address	Phone
<b>Undersecretariat of Foreign Trade</b>	<a href="http://www.foreingtrade.gov.tr">www.foreingtrade.gov.tr</a>	İnönü Bulvarı, No:36 06510 Emek - Ankara	+ 90 (312) 204 75 00
<b>Central Bank of Turkey</b>	<a href="http://www.tcmb.gov.tr">www.tcmb.gov.tr</a>	İstiklal Cad. No: 10 06100 Ulus - Ankara	+ 90 (312) 310 36 46 4 Lines
<b>Undersecretariat of Treasury</b>	<a href="http://www.treasury.gov.tr">www.treasury.gov.tr</a>	İnönü Bulvarı, No:36 06510 Emek - Ankara	+ 90 (312) 204 60 00
<b>Ministry of Finance</b>	<a href="http://www.maliye.gov.tr">www.maliye.gov.tr</a>	İlkadım Cad., TBMM Karşısı, Dikmen - Ankara	+ 90 (312) 415 17 08
<b>Turkish Revenue Administration</b>	<a href="http://www.gib.gov.tr">www.gib.gov.tr</a>	İlkadım Cad. 06450 Dikmen - Ankara	+ 90 (312) 415 29 00 + 90 (312) 415 30 00
<b>Ministry of Foreign Affairs</b>	<a href="http://www.mfa.gov.tr">www.mfa.gov.tr</a>	Dr. Sadık Ahmet Cad. No:8 Balgat 06100 Ankara	+ 90 (312) 292 10 00
<b>Ministry of Industry and Commerce</b>	<a href="http://www.sanayi.gov.tr">www.sanayi.gov.tr</a>	Eskişehir Yolu, 7. Km, ODTÜ Karşısı, No:154 Ankara	+ 90 (312) 219 65 00
<b>Ministry of Labor and Social Security</b>	<a href="http://www.calisma.gov.tr">www.calisma.gov.tr</a>	İnönü Bulvarı, No:42, Emek - Ankara	+ 90 (312) 296 60 00
<b>Customs Administration</b>	<a href="http://www.gumruk.gov.tr">www.gumruk.gov.tr</a>	Hükümet Meydanı 06100 Ulus - Ankara	+ 90 (312) 306 80 00
<b>Capital Market Board (CMB)</b>	<a href="http://www.spk.gov.tr">www.spk.gov.tr</a>	Eskişehir Yolu, 8. Km No:156 06530 Ankara	+ 90 (312) 292 90 90
<b>State Planning Organization</b>	<a href="http://www.dpt.gov.tr">www.dpt.gov.tr</a>	Necatibey Cad. 108, 06100 Yüce-tepe - Ankara	+ 90 (312) 294 50 00
<b>Privatization Administration</b>	<a href="http://www.oib.gov.tr">www.oib.gov.tr</a>	Ziya Gökalp Cad., No:80 06600 Kurtuluş - Ankara	+ 90 (312) 430 45 60
<b>State Institute of Statistics</b>	<a href="http://www.tuik.gov.tr">www.tuik.gov.tr</a>	Necatibey Cad. No:114 06100 Çankaya - Ankara	+ 90 (312) 410 04 10
<b>Istanbul Stock Exchange (ISE)</b>	<a href="http://www.imkb.gov.tr">www.imkb.gov.tr</a>	Reşitpaşa Mah. Tuncay Artun Cad. 34467 Emirgan - İstanbul	+ 90 (212) 298 21 00
<b>Union of Banks</b>	<a href="http://www.tbb.org.tr">www.tbb.org.tr</a>	Nispetiye Cad. Akmerkez, B3 Blok, Kat:13 34340 Etiler - İstanbul	+ 90 (212) 282 09 73
<b>Union of Chambers and Markets ("TOBB")</b>	<a href="http://www.tobb.org.tr">www.tobb.org.tr</a>	Atatürk Bulvarı, No:149, Bakanlıklar - Ankara	+ 90 (312) 413 80 00
<b>Istanbul Chamber of Commerce</b>	<a href="http://www.ito.org.tr">www.ito.org.tr</a>	Reşadiye Cad. 34112 Eminönü - İstanbul	+ 90 (212) 455 60 00
<b>Istanbul Chamber Of Industry</b>	<a href="http://www.iso.org.tr">www.iso.org.tr</a>	Meşrutiyet Cad. No:62 Tepebaşı - İstanbul	+ 90 (212) 252 29 00
<b>Association of Foreign Investors</b>	<a href="http://www.yased.org.tr">www.yased.org.tr</a>	Barbaros Bulvarı, Morbasan Sok. Koza İş Merkezi, B Blok Kat:1, Balmumcu Beşiktaş - İstanbul	+ 90 (212) 272 50 94
<b>Union of Chambers of CPAs of Turkey</b>	<a href="http://www.turmob.org.tr">www.turmob.org.tr</a>	Gençlik Cad., No:107 Anıttepe - Ankara	+ 90 (312) 232 50 60
<b>Investment Support and Promotion Agency</b>	<a href="http://www.invest.gov.tr">www.invest.gov.tr</a>	Kavaklıdere Mah. Akay Cad. No:5 Çankaya 06640 - Ankara	+ 90 (312) 413 89 00



### **Dış Ekonomik İlişkiler Kurulu**

TOBB Plaza Talatpaşa Cad.  
No:3 Kat:5 34394  
Gültepe Levent İstanbul  
Tel: 90 (212) 339 50 00  
90 (212) 270 41 90  
Fax: 90 (212) 270 30 92

TOBB - Atatürk Bulvarı  
No.149 06640  
Bakanlıklar, Ankara  
Tel: 90 (312) 413 82 21

119334, Leninskiy Cad.  
No: 45, Kat:2, Ofis 346  
Moskova  
Tel: +7 (495) 935 82 24

**www.deik.org.tr**  
**info@deik.org.tr**

### **Deloitte Türkiye**

Sun Plaza  
Dereboyu Sok. No:24  
34398 Maslak, İstanbul  
Tel: 90 (212) 366 60 00  
Fax: 90 (212) 366 60 15

Armada İş Merkezi  
A Blok K:7 No:8  
06510, Söğütözü, Ankara  
Tel: 90 (312) 295 47 00  
Fax: 90 (312) 295 47 47

Punta Plaza\*  
1456 Sok. No:10/1 Kat:12  
Daire: 14-15  
Alsancak, İzmir  
Tel: 90 (232) 463 79 92

**www.deloitte.com.tr**  
**www.verginet.net**  
**tr.vergi@deloitte.com**

\* Our office in İzmir will be operative after June 1, 2009.

DEİK, the gateway of Turkish private sector to the world, was founded in 1988 in order to monitor and further develop Turkey's economic, commercial, industrial and financial relations with foreign countries and international organizations.

DEİK operates through Bilateral Business Councils which are established by a cooperation agreement signed with foreign counterparts. Business Councils consist of two sides; one is Turkish side and the other one is a counterpart organization in the relevant country.

DEİK works for developing its cooperation with international organizations and attaches great importance to the regions and sectors in which activities of Turkish businessmen are intensive or developing, and organizes activities with the participation of high level representatives of those sectors and regions.

Headquartered in Istanbul, DEİK has representatives in Ankara, Washington and Moscow. DEİK also has representatives in 43 Chambers of Commerce and/or Industry in 35 industrial cities of Turkey as well as in Turkish Republic of Northern Cyprus.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 165,000 professionals are committed to becoming the standard of excellence.

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