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Investment in Türkiye

Tax Services

2024

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Preface

In 2024, Türkiye's investment landscape experienced significant economic developments, driven by strategic reforms and evolving incentives to attract foreign and domestic capital. Among the highlights, Türkiye, with a GDP of $1.024 trillion, ranks as the 17th largest economy in the world as of 2023, according to International Monetary Fund. As of September 2024, the country attracted $7.67 billion in FDI, reflecting an 8% increase compared to the same period in the previous year. These metrics, combined with initiatives like the "Technology-Oriented Industry Action Program" and the "Centre of Attraction Program," underscore Türkiye's commitment to fostering innovation, sustainable growth, and regional economic development.

This document provides a comprehensive guide to Türkiye's investment environment, including:

- Detailed insights into tax regulations and corporate requirements.
- Analysis of sector-specific opportunities and investment incentives.
- Guidance on labor laws and international trade policies.
- Regional and sector-based support mechanisms.

All information presented has been meticulously updated to incorporate the latest developments and legislative changes up to November 2024. We trust this guide will serve as an essential resource for navigating the evolving economic landscape in Türkiye.

Timur ÇAKMAK

Head of Tax,
Partner

1. Country Profile

1.1 General Information

Geography and Climate

Türkiye is situated at the junction of Europe and Asia. The European part of the country is called Thrace (Trakya) and the Asian part is named Anatolia (Anadolu).

The location on two continents has been a central feature of the Turkish history, culture and politics. The country shares

borders with Greece and Bulgaria to the northwest, with Georgia, Armenia and Iran to the east, Iraq and Syria to the south.

The Black Sea to the north, the Aegean Sea to the west, and the Mediterranean Sea to the south are connected by the Bosphorus, the Sea of Marmara and the Dardanelles, a water way known as the Turkish Straits.

The climate of coastal regions shows features of a transition between a Mediterranean and Black Sea climate. Summers tend to be hot and dry except for the Black Sea coast. While spring and fall are warm and temperate, winters are cold, but the number

of snowy days is few. The inner land is more snowy and colder in winter. The coldest months of the year are January and February, while the hottest are July and August.

History and Government

The Republic of Türkiye was established in 1923. The new Republic looked to the West for industrialization and the establishment of a secular political system under the guidance of the new Republic's first President Mustafa Kemal Atatürk, whose reforms constituted the framework for the development of the modern Turkish Republic. Türkiye has enjoyed multi-party politics since 1946. Türkiye is a unitary parliamentary republic. Legislative power is vested in the Grand National Assembly of Türkiye with 600 members. The members are elected for a period of five years. The executive branch is vested in the president of Türkiye, where power is often delegated to the Cabinet members and other officials. The president is both the head of state and government, as well as the military commander-in-chief. The legal system is largely based on continental European models. A Constitutional Court is also entitled to cancel legislation passed by the Parliament. It can cancel those laws, or parts of them, which it decides to be incompatible with the Constitution.

Foreign Relations of Türkiye

Türkiye is a founding member of the United Nations (UN), the Organization of Islamic Cooperation (OIC), the Organization for Economic Co-operation and Development (OECD) and the

Organization for Security and Co-operation in Europe (OSCE), a member state of the Council of Europe and NATO.

Since 2005, Türkiye is in accession negotiations with the European Union. The negotiations have been launched with the adoption

of the Negotiation Framework by the Council of the European Union. Türkiye and European Union's relations cover 3 elements. These are; the application of Copenhagen Criteria's, the application of EU acquis and the strength of civil society dialogue. According to the basis, negotiations are keeping up with European Union.

Türkiye was an associate member of the Western European Union from 1992 to 2011, and signed the EU Customs Union agreement in 1995.

Türkiye is also a member of the G20 industrial nations which brings together the 20 largest economies of the world.

Population and Language

The population of Türkiye

According to the Population Services Law No. 5490 acted in 2006, new population registration system, which will be the main data source of population censuses, was established in the country.

The results of the latest census states that the population is approximately 85.372.377 as of 31.12.2023.

The proportion of population living in cities is 93%

The number of people living in Istanbul is 15.655.924. Most populated provinces are Ankara, Izmir, Bursa and Antalya. Bayburt is the least populated province in Türkiye, with a population size of 86.047.[2]

The half of the population is below age 34 in Türkiye

The median age of the population in Türkiye is 34 while the median age is 33,2 for males, it is 34,7 for females[3].

The proportion of the population at ages between 15 and 64 is 68,3 %

People between the ages of 15-64 are the working group, which constitute 68,3% of the total population. The age group 0-14 form the 21,4% of the overall population, while the 10,2% of the population is made up by people at 65 and over[4].

1-2-3-4 www.tuik.gov.tr

1.2 Economy and Currency

Economy

Türkiye has marked a remarkable rate of growth after 1980's. This has been attributed to three factors, namely a shift from agriculture towards industry and service activities, the modernization of the existing industry and technology transfer, and the effect of international trade and competition.

Significant improvements in such a short period of time have registered Türkiye on the world economic scale as an exceptional emerging economy.

Up until 2002, total FDI into Türkiye stood only at USD 15 billion, while the country has since attracted around USD 240 billion of FDI during the 2003-2021 period. Türkiye's performance in economic development saw its income per capita increase from USD 3,608 in 2002 to USD 13,110 in 2023. Türkiye has a global market access at the nexus of Europe, Asia and Africa, thus creating an efficient and cost-effective hub to major markets.[5]

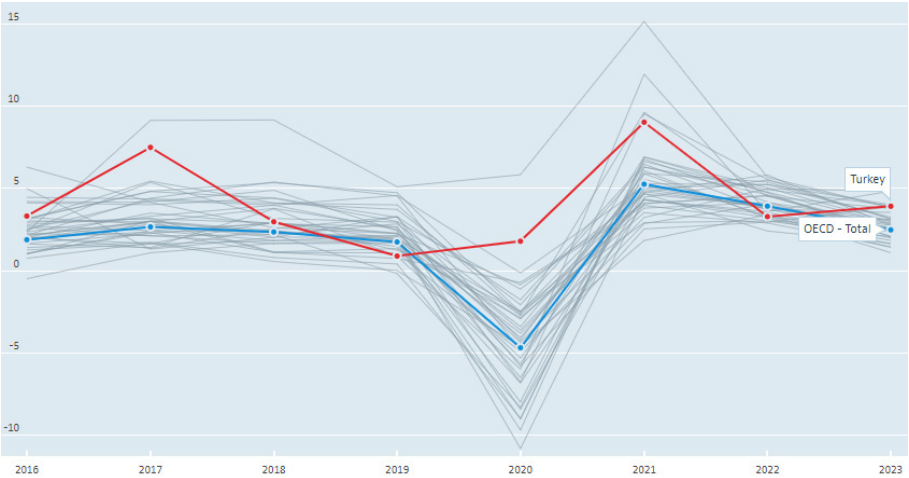
GDP current prices and growth rates of GDP are as follows:[6]

Years	GDP Current Prices (TRY Million)	Growth Rate (%)
2010	1,105,101	9,2
2011	1,294.893	15,2
2012	1,416.798	1,4
2013	1,567.289	4
2014	1,747.362	2,9
2015	1,952.638	6,1
2016	2,608.526	3,2
2017	3,106.537	7,4
2018	3,724.388	2,8
2019	4,320,191	0,9
2020	5,046,883	1,8
2021	7,209,040	11
2022	15,011,776	5,5
2023	26,276,307	4,5

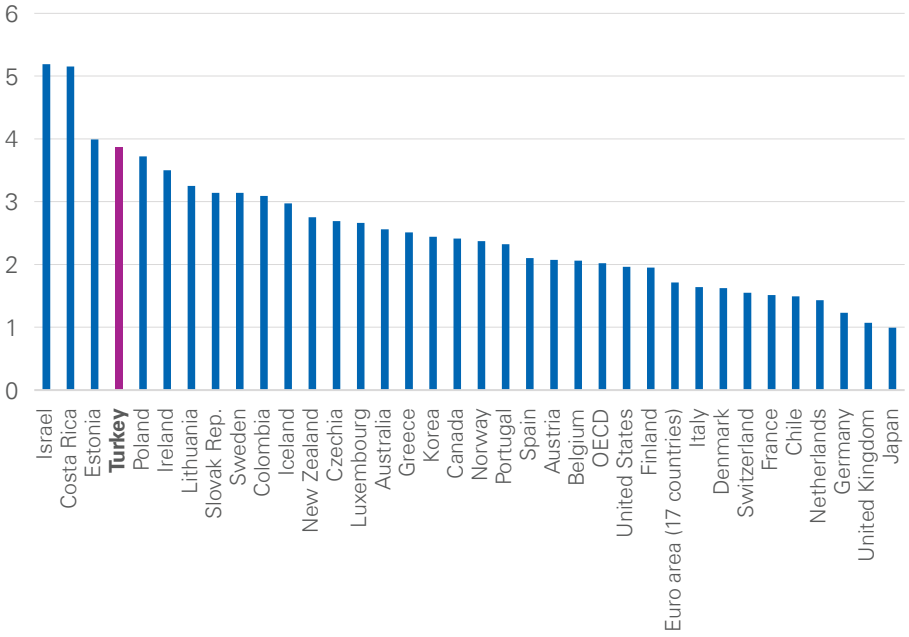
The liberalization of capital movements and the willingness of foreign creditors to lend to Turkish investors contributed to the high growth rate of private investment.

[5] http://www.invest.gov.tr
[6] www.tuik.gov.tr

Real GDP forecast-Total, Annual growth rate (%), 2016 – 2023



Annual growth rate (%) forecast for 2025



Türkiye attaches a high priority to the encouragement of foreign investment and provides a variety of incentives.

[7] [8] www.data.oecd.org

Currency

The Turkish currency is called Turkish Lira (TL/TRY), which was introduced, instead of New Turkish Lira as from January 1, 2009. In addition, six digits were dropped from Turkish Lira denominations as from January 1, 2005. On the other hand, together with the (TRY), Kurush (Kr), which is a hundredth of (TRY), has become in use again as from January 1, 2005.

The Turkish Central Bank has issued notes of TRY5, TRY10, TRY20, TRY50, TRY100 and TRY200. There are also coins in circulation in denomination TRY 5, TRY 1, Kr 50, Kr 25, Kr 10, Kr 5 and Kr 1.

The following table shows the Central Bank's exchange rate of Turkish Lira, to other major currencies as of December 31, 2023.

Country	Currency	TRY value[9]
US	1 USD	29.4382
Europe	1 Euro	32.5739
Great Britain	1 Pound Sterling	37.4417
Switzerland	1 Swiss Franc	34.9666
Japan	100 Japanese Yen	20.7467

[9] www.tcmb.gov.tr

Inflation

Turkish economy has experienced high inflation rates for more than a decade, but there was significant improvement in reducing the inflation rates under the stabilization program run since 2001. On the other hand, the currency and debt crisis that has been going on in Türkiye since 2018 has caused high inflation in recent years.

The following table shows the inflation rates of past 11 years.[10]

Years	Producer Price Index (Annual %)	Consumer Price Index (Annual %)
2013	6.97	7.40
2014	9.36	8.17
2015	5.71	8.81
2016	9.94	8.53
2017	15.47	11.92
2018	33.64	20.30
2019	7.36	11.84
2020	25.15	14.60
2021	79.89	36.08
2022	97.72	64.27
2023	44.22	64.77

[10] www.tuik.gov.tr

1.3 Employment Conditions

Residence and Work Permits

Most foreigners enter Türkiye without a Visa and they can stay in the country up to 3 months. In cases where a visa is required, it may be obtained at the airports.

A foreign individual sent by a foreign company to carry out business on its behalf in Türkiye has to obtain a work permit from the Ministry of Social Security and Labour Affairs and a work visa from the Turkish consulate. (There is also a website named www.goc.gov.tr available for online application)

However, a work permit is not required for foreigners in Türkiye who are temporarily appointed for the following conditions;

- Installation of machinery and equipment imported to Türkiye, maintenance and repairing, taking delivery of equipment, training on how to use of the equipment or for the repairing of the failed machinery in Türkiye; only if the stay does not exceed three months in a year with effect from the date of entry into Türkiye and the condition has to be proved with documents
- Foreigners who visit Türkiye for the purpose of training on using of goods and services which are exported from Türkiye or imported to Türkiye; only if the stay does not exceed three months in a year with effect from the date of entry into Türkiye and the condition has to be proved with documents.

Opening Hours

Office hours of large scaled companies are from Monday to Friday from 8:30 am to 5:30 pm. Shopping hours are basically from Monday to Saturday from 9:00 am to 7:30 pm. However, on Sunday some have longer shopping hours. Government institutions do not have office hours on weekends. Banks are open till 5:00 pm from Monday to Friday. Automatic teller machines are widespread all over Türkiye.

Cost of Living and Housing

Living in Türkiye is not expensive for foreigners from EU and the USA. Except for certain locations, housing and the cost of living is cheaper compared to that in their home countries.

Cost of Living Index for Each Country in 2023[11]

Country	Consumer Price Index	Rent Index	Consumer Price Plus Rent Index	Groceries Index	Restaurant Price Index	Purchasing Power Index
Switzerland (Bern)	114,2	50,2	83,5	113,9	109,5	118,7
Germany (Berlin)	62,9	26,1	45,3	50,9	56,2	107,6
Australia (Sydney)	75,3	39	57,9	73,3	66,2	110,9
Denmark (Cophenhagen)	78,6	30,4	55,5	62,4	91,9	105
United States (Washinton DC)	72,4	47,1	60,3	71,4	70,8	115,7
Canada (Toronto)	66,1	33,4	50,4	64,2	62,8	102,1
Finland (Helsinki)	67,5	22,7	46	58,2	70,4	98,8
Netherlands (Amsterdam)	68,6	33,4	51,7	57,4	67,6	107,8
Sweden (Stokholm)	62,9	22,7	43,6	55,2	64,3	101,2
South Africa (Cape Town)	37,8	14	26,4	30,1	34,8	83,9
Norway (Oslo)	88,6	30,9	60,9	81,8	90,6	95
South Korea (Seoul)	70,4	17,5	45	87,5	37,6	85,5
Austria (Vienna)	66	23,1	45,4	58	63,5	91,2
United Kingdom (London)	61,5	30,3	46,6	47,7	67,9	98,9
France (Paris)	68,7	24,6	47,5	65,1	66,9	86,2
Japan (Tokyo)	64,6	20,8	43,6	66,5	37,9	100,4
Israel (Jerusalem)	76,4	30,4	54,4	63,8	85	80,5
Singapore	85,9	85,3	85,6	74	58,4	95,6
Belgium (Brussel)	65,6	22,4	44,9	54,5	69	94,5
Italy (Rome)	61,3	20,5	41,7	51,9	61,9	66,5
Spain (Madrid)	50,6	21,7	36,7	41	51,5	82,5
India (Delhi)	22,4	5,5	14,3	23,3	15,7	64,6
Poland (Warsaw)	38,6	16	27,8	30,8	34	64
Greece (Athens)	54,6	12,9	34,6	42,4	50,1	41,9
China (Shanghai)	39,2	18,8	29,4	41	27	62,3
Türkiye (Istanbul)	28,1	7,2	18,1	23,2	18,3	31

[11] http://www.numbeo.com/

2. Opportunities for Investors

2.1 Incentives for International Investors

Türkiye has been restructuring its economy since 1980 along the lines of a more liberal economic policy. In this context, more emphasis is being placed on private sector especially in productive sectors of economy and the role of State is limited to infrastructure development and the provision of public services.

The economic policy aims to diminish unemployment, to realize technology transfers, to privatize State Economic Enterprises, to overcome the deficit in the balance of payments and especially to increase the integration of the economy with the world economy and to attract more foreign capital to the Country. Türkiye also uses the option of fiscal incentives to channelize domestic and foreign investments for industrial development and rural-urban integration.

These incentives or tax expenditures are usually available to investors for the promotion of private investment activities in selected sectors/regions depending on the scale of investment and in the following forms:

2.2. Investment Incentive Regime

The Turkish Government introduced two incentive packages in 2016 ("centre of attraction" and "super incentives" which provide comprehensive support to the qualified investments.

The "centre of attraction" programme aims to balance the development level within the regions through increase in employment, production and exports whereas "super incentives" aim to meet any critically important current or future requirements of Türkiye, develop technologic capacity in the fields that technologically Türkiye fall behind, reduce dependency on imports/foreign sources, improve Türkiye's competitive power and support R&D focused investments.

The investment incentive regime as a general aims to further accelerate inbound investments over the course of the next few years and contribute to the employment with the new incentive programmes.

Classification of investments

General investments:

The investments that are not qualified as a special type of investment are subject to general incentives. These incentives are customs duty and VAT exemption on the purchase of investment goods (i.e. machinery and equipment). For the investments in the 6th region, the general incentives are expanded with income withholding tax. Social security employer premium relief is added to the ship construction investments in the shipyards.

The minimum investment expenditure should be TRY 3 million for the first two regions out of six regions and TRY 1 million 500 thousand for the rest of the regions.

Regional and sector-based investments:

Türkiye is separated into six regions based on the development level of the districts/cities in these regions. The first three zones represent more developed regions, respectively, whereas the last three show relatively less developed zones in Türkiye.

The investment areas that are listed in the Investment Incentive Regime are determined based on the economic and industrial conditions of the regions. The investments in these regions and in the specified areas can be entitled to the incentives granted for the investments in these regions.

The qualification of investments for such incentives should be evaluated on an investment basis before application to Ministry of Industry and Technology for an Investment Incentive Certificate.

Prioritized investments:

This type of investments can benefit from the incentives that are granted to the investment in the 5th region. If the investments are located in the 6th region, investors can be entitled to incentives to be granted to this region. Investments in the below industries can qualify as prioritized investment:

- Investments regarding railway transportation, sea transportation or airway of load and/or passengers
- Test center investments for products in medium high and high technology industry
- Accommodation investments for tourism purposes that are in the scope of Protection and Development of Culture
- and Tourism or the accommodation investments for thermal tourism that are entitled to regional incentives
- Investment projects in defence industry to be approved by the Undersecretaries for Defence Industry.
- Mine extraction and/or mine processing investments of investors holding an exploration license issued under Mine Law (excluding certain specific investments)
- Day care centres, kindergartens, and primary, secondary, and high school investments to be made by the private sector members.
- Aircraft training (Aviate, Repair and Maintenance) investments
- Products developed as a result of R&D projects that are supported by Ministry of Science, Industry and Technology, Small and Medium Sized Enterprises Development Organization and the Scientific and Technological Research Council of Türkiye.
- Investments in motor vehicles industry with a minimum investment amount of TRY300 million and auto components/ supply industry (i.e. engine production investments with a minimum investment amount of TRY75 million, investments in components and transmission components of engines and electronics of automotive with a minimum investment amount of TRY20 million)

- Investments in coal based electricity generation power plants (under a valid mining and prospecting license).
- Except for un-incentivized investments, energy efficiency oriented investments with the below properties pursuant to the approval of Energy and Natural Resources:

  a. An annual energy consumption of 500 tons of equivalent oil, which will be realized in the manufacturing industry plants;

  b. Annual minimum of 500 tons of equivalent oil energy consumption,

  c. Should be held in the existing manufacturing facility

  d. Energy savings by at least 15% per unit of production

- Waste heat-based electricity generation investments where the electricity is generated through waste heat recovery facilities. (Excluding natural gas-based power generation plants).
- Liquefied natural gas and underground gas storage investments with a minimum investment amount of TRY50 million
- Carbon and fibre production and production of composite materials made of carbon and fibre together with production of carbon and fibre investments
- Production of products in the high technology industries defined based on the OECD Technology Intensity Classification such as aircraft and spacecraft, pharmaceuticals, Office, accounting and computing machinery, Radio, TV and communication equipment and Medical, precision and optical instruments
- Exploration investments of investors holding an exploration
- license or Certificate issued under Mining Law
- Turbine and generator production investments related to renewable energy generation and rotor production (for wind energy generation)
- Integrated investments for producing aluminium flat goods with special technique identified in incentive legislation
- Licensed warehousing investments
- Nuclear energy generation power plants
- Laboratory complex investment where laboratories for research and reference, consumer safety and infectious diseases, drugs and medical equipment analysis and control and test and research centre units for reproduction of experimental animals

- Greenhouse investments based on automation 25 decare and above with a minimum investment amount of TRY5 million
- Investments subject to environmental license under environmental permit and license regulation
- Elderly/disabled care and wellness facility investments 100 person and above with a minimum investment amount of TRY5 million
- Medium-High Technology investments with a minimum amount of TRY500 million
- Software and information goods production investments in specialized free zones
- Industrial facility investments, including the manufacture of electricity or hydrogen powered transportation vehicles
- R&D and environmental investments
- Data center investments

Strategic investments:

A strategic investment should altogether qualify the below:

- The minimum fixed amount of the investment should exceed
- at least TRY50 million.
- Total imports related to the investment good should exceed USD50 million in the latest year.
- Expected added value to be provided by the potential investment should be minimum 40%.
- The total domestic production capacity of the final good to be
- produced should be less than the imports.

Investments entitled to incentives applicable in a successive region:

The investments satisfies one of the below properties can benefit from the incentives granted to a successive region with respect to reduced corporate tax and social security premium

- Investments made in the Organized Industrial Zones (OIZ) or in industrial zones for manufacturing industrial investments,
- Investments that are made by an investor with at least 5 individuals or corporate shareholders and provides an integration of the investments to be made in a common operating area.operating area.

If the investment is in the 6th region, 2 years to social security employer contribution and 5 points to the investment contribution rate are added to the current incentives applicable in that region.

On the other hand, investments to be made in the first three regions (excluding İstanbul), will be entitled to the incentives provided to the investments in the 4th region (higher amount of incentives) if the investment is in the scope of medium-high technology investments under the definition of OECD technology density.

However, in the organized industrial zones or industrial zones in Istanbul Province, with the exception of completely new investments, the regional supports in the 1st region are applied to the investments amounting to a minimum of 5 million TL in the subject of medium-high technology investments.

In addition, Outside of the organized industrial zones or industrial zones in Istanbul Province, with the exception of completely new investments, the regional supports in the 1st region are applied to the investments amounting to a minimum of 10 million TL in the subject of medium-high technology investments.

As part of regional incentive practices, investments to be made in the districts of the provinces of the 1st, 2nd, 3rd and 4th Region included in Annex-7 benefit from regional support provided to a sub-region of the province where the district is located; investments made in organized ındustrial zones (OIZ) or in industrial zones of these districts benefit from regional support provided to the two sub-regions of the province in which they are located.

Investment incentive

Investment incentives are available to investors through an "Investment Incentive Certificate" ("IIC"), which is obtained from the General Directorate of Incentive Practices and Foreign Capital under the Ministry of Industry and Technology ("Authority").

In order for an investment to be granted an IIC, the minimum investment expenditures should be at least TRY 3 million for the first two regions and TRY 1 million 500 thousand for other regions. It should be noted that the investment projects are still subject to Authority evaluation in order to be granted any incentives.

The incentives under an Investment Incentive Certificate are summarized below for each type of investment:

Incentives	Customs duty	VAT	Reduced rate CIT	SS employer	Land allocation	Interest support	Income w/h tax	SS employee	VAT refund
General Investment	✓	✓		✓ **			✓ *		
1st region	✓	✓	✓	✓	✓				✓ *** ****
2nd region	✓	✓	✓	✓	✓				✓ *** ****
3rd region	✓	✓	✓	✓	✓	✓			✓ *** ****
4th region	✓	✓	✓	✓	✓	✓			✓ *** ****
5th region	✓	✓	✓	✓	✓	✓			✓ *** ****
6th region	✓	✓	✓	✓	✓	✓	✓	✓	✓ *** ****
Large scale	✓	✓	✓	✓	✓	✓	6th region	6th region	✓ *** ****
Strategic	✓	✓	✓	✓	✓	✓	6th region	6th region	✓ *** ****
Prioritized	✓	✓	✓	✓	✓	✓	6th region	6th region	✓ *** ****

*For the investments in the 6th region,

**For the ship construction investments in the shipyards

*** Non-recoverable VAT with respect to the construction part of an investment with minimum fixed amount of TRY500 million will be refunded to the investors. This incentive will be granted to the investors until 31 December 2023.

**** For construction expenditures to be made until 31/12/2025 within the scope of investment incentive documents for the manufacturing industry and tourism

x: Not applicable

2.3. Application of Incentives

Customs duty exemption:

100% customs duty exemption is available on the imported machinery and equipment

Value Added Tax ("VAT") exemption:

100% VAT exemption for both domestic purchase of and import of machinery and equipment for the qualified investments (Under the VAT Code, importation of machinery and equipment under an IIC is not subject to VAT, as well as local purchases of machinery and equipment).

In addition, Construction expenditures which is made until 31/12/2025 within the scope of investment incentive documents for the manufacturing industry and tourism are exempt from VAT.

Corporate tax reduction:

Statutory corporate tax rate has recently been increased to 25% for 2024 .

Regional and sector-based, prioritized and strategic investments are entitled to benefit from corporate tax reduction limited to the tax savings that reach the investment contribution rate.

Government provides a corporate tax reduction from 50% up to 90% depending on the location and the amount of the investment.

For investment incomes to be made between 1/1/2017 and 31/12/2022 within the scope of investment incentive certificates for the manufacturing industry, this rate is applied as 100%

Social security employer premium contribution:

This incentive is provided only for the investments in the 6th region limited to 10 years and to the premium contribution corresponding to the minimum wage amount.

Allocation of Land:

Land can be provided to the investors as a right of easement or usage right for 49 years by the Ministry of Finance. (Subject to the provisions of Law no. 4706)

Interest support on financing:

Government contributes also to interest payments on the investment loans with a maturity of at least one year granted in the scope of incentive regime. Interest support is limited to 70% of the total projected investment amount registered on the IIC and granted only to the investments in the 3rd, 4th, 5th and 6th regions.

Interest support is grated in a range of 3 to 7 points for Turkish Lira denominated loans and up to 2 points for foreign currency and foreign exchange loans. The maximum amount of interest support among investments other than strategic investments is TRY1.8 million which is provided for investments in the 6th region.

Interest support for strategic investments is the highest with a limitation of 5% of the fixed investment amount but can reach up to TRY50 million.

Income withholding tax:

This incentive is granted to investors only for the investments in the 6th region limited to 10 years.

VAT refund:

This incentive is granted to investors for investments with a minimum fixed amount of TRY500 million and limited to the refund of non-recoverable VAT with respect to the construction part of the investment. This incentive will be granted to the investors until 31 December 2023.

In addition, VAT of construction expenditures which is made between 1/1/2017 and 31/12/2021 within the scope of investment incentive documents for the manufacturing industry is refundable.

2.4 "Super incentives"

With the Super Incentives a flexible incentive system has been initiated. The new model is a very important milestone where the development of our investment incentive system is concerned. Through this model, a special incentive system unique to each investment project put forward for support can now be developed.

The programme envisages a project basis support which will enable a flexible and customized incentive mechanism to the qualified investments. The qualification of an investment will be determined based on whether these investments meet the current or future requirements of Türkiye in line with the targets set in the development plans and annual programs and/or whether they could ensure continued supply, reduce dependence on foreign sources, achieve technologic transition, be innovative, and add value as well as being R&D focused.

As this incentive mechanism is a part of Incentive Regime, investors are required to obtain an Investment Incentive Certificate from the Ministry of Industry and Technology in order to benefit from the incentives.

The incentives granted to the investors in the scope of "super incentives" mechanism can be summarized as follows.

- VAT and customs duty relief VAT refund possibility
- Reduced tax rates or tax exemptions (corporate tax) Social security employer premium support
- Income withholding tax support Qualified personnel salary support Interest support or Government grants Capital contributions
- Support on energy expenses Government purchase guarantee
- Land allocation and free of charge transfer of the land
- Infrastructure support
- Facilitation in bureaucratic process

It should be noted that Ministry of Industry and Technology is the authority to evaluate the projects and grant the incentives/supports (all or limited) to the investors for the qualified investments.

2.5. Technology-oriented industry action programme

The Technology-Oriented Industry Movement Program which is also known as ''from end-to-end localization'' that the Ministry of Industry and Technology and it came into force with the decisions of the President published in the Official Gazette.

Within the scope of Technology-Oriented Industry Action Program, it will be decided to support to "strategic investments" regarding the production of the products in the Priority Product List which meet the criteria determined by the legislation.

- Investments in products on the Priority Product List.
- Minimum investment amount TRY10 million.
- The incentives granted to the investors in the scope of "Technology-oriented industry action programme" mechanism can be summarized as follows.
- VAT and customs duty relief VAT refund possibility
- Reduced tax rates or tax exemptions (corporate tax)
- Social security employer premium support
- Income withholding tax support Interest support
- Land allocation of ınvestment place
- Social security employee premium support

The Ministry of Industry and Technology has the authority to evaluate projects and provide incentives / support (all or limited) to investors for qualified investments.

2.6 "Centre of Attraction" Programme

Turkish Government has recently amended the "Centre of Attraction" programme. The programme aims to balance the development level within the regions through increase in employment, production and exports and vitalising the investment environment in relatively less developed regions (as before the amendment)

The incentives under this package will be granted by the Ministry of Industry and Technology and only to the qualifying manufacturing investments.

The recently announced incentive programme covers 23 comparatively distressed cities. There are minimum investment amounts for different investment areas within these 23 cities in the scope this incentive programme.

The qualified investments will be entitled to the incentives with the same conditions and periods that are provided to the investments in the 6th region. The incentives granted to the investors in the scope of "centre of attraction" programme can be summarized as follows..

- Customs duty exemption
- Value Added Tax ("VAT") exemption
- Corporate tax reduction
- Social security premium contribution support
- Income withholding tax relief
- Energy support up to TRY 10 million

2.7 Incentives regarding Research, Development and Design Activities

Basic incentives and supports set forth under the Law No. 5746 pertaining the Support of Research and Development Activities for the R&D investment projects are as follows;

- 100% of all eligible R&D and innovation expenditures made within technology centres, R&D centres (which should employ at least 15 (may increase to 30 for specific sectors) full-time equivalent R&D personnel), R&D and innovation projects supported by governmental institutions, foundations established by law, or international funds and design expenditures made within design centres (which should employ at least 10 full-time equivalent design personnel) and design projects supported by the above institutions can be deducted from the corporate income tax base. 100% deduction can be increased to 150% through satisfaction of certain criteria.

- Salaries of R&D, design and support personnel are exempt from income withholding tax at the different percentages (80%-90%-95%) depending on their doctorate diploma, master's degree and bachelor's degree.
- 50% of the employer's contribution of social security premiums is supported by the Ministry of Finance for each R&D, design and support personnel.
- All documents made out regarding R&D, innovation and design facilities within the scope of the Law No 5746 (R&D Law) are exempt from Stamp Tax.
- All imported goods for use in the researches regarding R&D, innovation and design facilities within the scope of the Law No 5746 (R&D Law) are exempt from Customs Duty.

2.8 Incentives for Technology Development Zones

- Income derived from software, design and R&D activities performed in the Technology Development Zones ("TDZ") by the taxpayers (doing business in these zones) are exempt from income and corporate income tax.
- Salaries of R&D, design and support personnel related to the R&D, design and support activities in these zones and out of the zones (limited to certain personnel and applicable to certain portion of income) are exempt from income tax and stamp tax.
- 50% of the employer's contribution of social security premiums is supported by the Ministry of Finance for each R&D, design and support personnel provided that their salaries are exempt from income tax.
- Delivery of goods and services which are produced exclusively in these zones and in the form of system management, data management, business applications, industrial, internet, mobile and military command control application software are also exempt from VAT.

2.9 Incentives for Free Trade Zones ("FTZ")

Türkiye aims to encourage production and export activities, fasten the foreign capital inflow and technology in Türkiye as well as developing the international trading activities through the grant of these incentives to investors.

Investors should obtain a special license to be able operate in the FTZs. These licenses are provided for a period from 15 years to 45 years based on the type of the operator (e.g. lessee, manufacturer, investor, etc.)

The following incentives are granted to investors investing into the Free Trade Zones. These incentives are applicable until the end of the fiscal year in which Türkiye fully accesses to the EU:

- The income derived from the sale of goods that are manufactured by license holders in FTZ is exempt from income or corporate income tax (Corporate income tax exemption does not cover the dividend distributions). Moreover, income derived by the license holders having a valid license obtained before February 6, 2004 can also benefit from corporate tax exemption until the expiration date of their licenses.
- The salary payments made by taxpayers operating in FTZ to their employees are exempt from income tax, provided that the taxpayers export at least 85% of annual production (i.e. FOB values). (Council of Ministers is authorized to decrease or increase this rate).
- The documents and transactions regarding operations in FTZ are exempt from stamp tax and charges.
- In addition to the abovementioned incentives, the delivery of goods and performance of services in free trade zones are excluded from VAT under VAT Code without any time limitation.

3. Foreign Trade & Customs

3.1 Foreign Trade Legislation

Some of the applicable laws that regulate foreign trade activities are:

- Customs Law No: 4458
- Customs Regulation
- Regulation regarding AEO (Regulation Regarding Simplification
- of Customs Operations)
- Import Regime Decree
- Export Regime Decree
- Law on the Prevention of Unfair Competition in Imports No: 3577
- Law on Regulation of Foreign Trade No: 2976
- Decree on the Regime of Technical Regulations and Standardization
- Free Trade Zone Law No: 3218
- Anti - Smuggling Law No: 5607
- Value Added Tax Law numbered 3065
- Special Consumption Tax Law No: 4760
- Decrees and Communiques Regarding Additional Customs Duty (ACD)
- Decrees and Communiques Regarding Additional Financial Obligation (AFO)

3.2 Customs Regimes and Synopsis of Customs Transactions

In Turkish Customs Legislation, there exist 8 customs regimes which are:

- Release for Free Circulation Regime
- Transit Regime
- Customs Warehousing Regime
- Inward Processing Regime
- Processing Under Customs Control Regime
- Temporary Importation Regime
- Outward Processing Regime
- Exportation Regime

Established companies with a valid tax number can perform importation/ exportation. Exporters should also be a member of relevant exporters union. After a customs declaration is submitted by customs broker, computer system evaluates the data and designates a line for the transaction.

Basically, there are three lines:

- Red line (means physical control/inspection and document control)
- Yellow line (means document control)
- Green line (means no control)

Depending on the goods, their origin and regime, some documents should be submitted for import customs clearance: commercial invoice, pro forma invoice (when final commercial invoice does not exist at

the time of entry); A.TR, EUR.1,Form A or EUR-MED if applicable; depending on the consignment freight and/or insurance invoice, Certificate of Origin if applicable, Value Declaration Form, Packing List, Inspection/ Control/ Surveillance Certificate etc. (if importation is subject to certification).

Some of the documents that should be submitted for export customs clearance are commercial invoice, A.TR/certificate of origin if applicable, packing list etc. Customs Code Article 60 and Customs Regulation Article 114 provide more details about documents that should be attached to customs declarations. Specifications related to customs duty, excise duty and documentations such as required certificates are designated according to HS number of product (12-digit code is used in Türkiye).

3.3 Türkiye and the EU

After the EU Türkiye Association Agreement of 1963, Türkiye signed a Customs Union agreement with the EU in 1995 which seeks to promote trade and economic relations. Türkiye is a candidate country to EU since 1999 and an accession country since 2005.

Türkiye is the EU's 6th largest trading partner, both in exports and imports. The EU is by far Türkiye's number one import and export partner as well as source of foreign direct investment

(FDI). EU exports to Türkiye are dominated by machinery, transport equipment and chemical products. Türkiye's exports to the EU are mostly transport equipment, textile articles followed by machinery. Türkiye's main export markets are the EU (41,3%), UK, Iraq, USA Russia and UAE. Imports into Türkiye come from the following key markets: the EU (32,2%), China, Russia, USA and India. (European Commission Trade, 2024)

The customs union is based on free circulation of goods and preferential treatment is applicable for industrial goods and processed agricultural goods (Customs Union between EU and Türkiye doesn't cover agricultural goods, services and ECSC goods). According to Council Decision about Rules of Implementation Customs Union between Türkiye and EC numbered 2006/10895, in order to enjoy preferential treatment goods that should be delivered directly to Türkiye with an A.TR Certificate (this is a movement certificate rather than a certificate of origin). But, if it is necessary to deliver over 3rd country, goods should be under customs observation of the country and it should be proved to Turkish Customs Authorities that the goods are not further processed

in 3rd countries. The information and description of goods on the invoice and customs declaration should correspond with the information on the A.TR certificate (an A.TR certificate should be submitted to customs administration within 4 months and if it is issued retrospectively or it is duplicated, this should be indicated on the remarks section of the certificate).

On the other hand, Türkiye has signed Free Trade Agreement with EFTA (Norway, Iceland, Switzerland and Liechtenstein) and other various countries and 22 of these agreements are in force

(including those with Republic of Korea, Chile and Georgia). Türkiye also has a Preferential Trade Agreement with Iran since 1st January of 2015.

3.4 Turkish Import Regime

The Import Regime reflects both Türkiye's international rights and obligations and the country's economic needs. The Import Regime Decree is prepared every year, published in the official journale by December 31 and put into force by January 1. Import Regime Decree indicates the rates of the customs duties separately for countries and country groups and the products are classified under seven lists which are:

- Agricultural products (List: I)
- Industrial products (List: II)
- Processed agricultural products (List: III)
- Fish and fishery products (List: IV)
- Suspension list (List: V)
- List of goods used in civil aircraft eligible to relief from customs duties (List: VI)
- List of agricultural products that will benefit from reduced customs tax within the scope of end-use application (List: VII)

3.5 Customs Valuation

The customs value of goods is determined to apply ad valorem rates of customs and excise duties. i.e.; VAT, SCT, anti-dumping duties and some other applicable funds. Türkiye accepted provisions of the WTO Agreement on Customs Valuation. Customs Valuation is regulated between articles 23 – 31 of Customs Law. The law primarily defines the customs value as the transaction value of imported goods which is the price actually paid or payable for the goods considering necessary adjustments of the import related costs and charges. Other components of customs value; such as TP adjustments and Royalty payments have a complex structure that has to be evaluated carefully regarding customs value.

3.6 Anti-Dumping and Anti-Subsidy Practices

Ministry of Economy carries out dumping and subsidy investigations relating to unfair pricing practices of companies or countries exporting to Türkiye. According to results of the investigation an anti-dumping duty or countervailing duty may be set up over goods of such companies or such countries.

3.7 Resource Utilization Support Fund (RUSF)

RUSF on importation depends on the terms of payment. RUSF is applicable on importations which have the defined terms of payments in relevant regulations. There are some applicable exemptions such as importation via an incentive certificate, inward processing regime or temporary importation regime. According to article 3/d of Council of Minister's Decree of RUSF numbered 88/12944 dated May 1988, imports conducted through acceptance letter of credit, deferred payment letter of credit or cash against goods shall be subject to RUSF which is calculated over the amount of invoice. The current RUSF rate is 6% for importation on credit basis. Furthermore, RUSF is accepted as import duties. Please note that regarding the Ministers' Decree numbered 2015/7511 and dated 10.04.2015, import RUSF rate has been determined as 0% on various products basing on their HS Codes.

3.8 Additional Customs Duty (ACD)

Additional customs duty (ACD) is one of the customs duties that is collected by the customs administrations during the importation. The additional customs duties are regulated via Supplementary Decrees for Import Regime Decree which are issued by the Presidential Decree directly.

ACD is based on the ''origin'' of the goods, not on the status of the products. If the product is cleared in the European Union (EU) and sent to Türkiye with A.TR Certificate, no customs duty is applied since the goods are in free circulation. On the other hand, ACD might be applied according to the goods' origin. Even if the goods are in free circulation, if it is not EU originating, ACD is applied based on originating country. If the goods are imported with A.TR Certificate and if the declarant can prove that the imported goods are EU or Turkish originating by issuing "certificate of origin", imported goods are exempt from ACD. However, when preferential origin is certified for the goods originated from the countries of a diagonal cumulation of origin system, based on free trade agreements of Türkiye, the additional customs duty shall not apply.

Additionally, Türkiye has Free Trade Agreements (FTA) with some countries, those countries are also exempt from ACD when preferential origin is certified (EUR.1/EURMED, etc) for the goods.

Other than these, depending on the originating country, ACD is applied. Please also note that applicable penalties regarding missing of declaration and payment of ACD will be also 3 times of actual duties as customs duties because Customs Law applications is valid for ACD.

3.9 Additional Financial Obligation (AFO)

Additional financial obligation (AFO) is one of the customs duties that is collected by the customs administrations during the importation. We observed that AFO is applicable via Supplementary Decrees for Import Regime Decree which are issued by the Presidential Decree directly. It has been applied for some HS codes and countries for the past years and last year the scope (the number of HS Codes and the countries) of the AFO was expanded. AFO is based on the ''origin'' of the goods, not on the status of the products. Even if the goods are in free circulation, AFO is applied based on originating country if the goods are imported with A.TR Certificate and if the declarant can prove that the imported goods are not originating excepted countries by issuing "certificate of origin", imported goods are exempt from AFO.

3.10 Authorized Economic Operator (AEO)

As of 21.05.2014, Türkiye has launched Authorized Economic Operator (AEO) Program which facilitates foreign trade operations and minimize lead times and costs. The certificate privileges involve local clearance, authorized consignor status, using lump sum guarantees, issue A.TR circulation, issue EUR.MED invoice declaration, submit incomplete declaration& documents, simplified declaration, lab report facilitations, less documentation and physical controls, control priorities.

AEO certificate will be obtained by reliable Turkish resident companies, operating at least 3 years who has adequate traceable documentation, financial solvency and practicing safety and security measures. The AEO program brings recognition and competitive advantage to companies in the long run.

With the new amendment (as of 21.02.2020), the AEO holders should prepare "Annual Report" and keep it within the company to be presented when requested by the customs administration. This report should be covered the 5% of the annual import/warehouse/export/transit transactions in green line. Accordingly, this new amendment clarifies the responsibilities of the AEO holders such as training, past and current transactions audit as well as obtaining advisory.

3.11 Recycling Contribution Fee (RCF)

RCF serves the aim of "ensuring the protection of the environment, which is the common existence of all living creatures in line with the principles of sustainable environment and sustainable development" within the scope of Article 1 of Environmental Law No. 2872.

The goods / products and its procedures and principles subjected to RCF are determined by the same law and Recycling Contribution Fee occurs as a result of the releasing of products and goods to the domestic market in Türkiye.

Recycling Contribution Fee is a tax-like burden to be levied from taxpayers to collect a certain amount of recycling contribution fee from sales points for bags and from releaser/importers for other products subjected to RCF.

Numerous companies have responsibilities regarding to RCF in concern with goods that are using to conduct their operations. Companies shall analyze the goods under the RCF, determine their obligations and within the frame of these obligations, they shall fulfill required notifications, declarations and payments for aforementioned goods on time. The declarations are submitted through e-declaration system. In 2020 (for a specific pandemic situation) it is determined to be declared in 2 periods (6 months terms). Since the year 2021 declarations should be submitted quarterly.

4. Company Law Requirements

4.1 Available Business Structures

Individuals and legal entity investors intended to conduct business activities in Türkiye realize their business activities in various legal forms. While deciding among those commercial structures, factors such as business plan, exit strategy, organizational structure, minimum capital, shareholders' responsibility, liability and responsibility of the executives, audit and penalties prescribed are taken into account.

The commercial structure which investors may prefer shall be determined completely according to their needs. In other words, there is not only single structure applicable and accurate for each private investor, but there are tailored solutions for each of them.

Most commonly, investors tend to incorporate companies, branches or liaison offices in Türkiye to conduct their business activities. For the corporate entities incorporated in Türkiye, the Turkish Commercial Code numbered 6102, which is in force as of July 2012, shall be applicable.

4.2 Subsidiary Types: Joint Stock Companies ("JSC") and Limited Liability Companies ("LLC")

The Joint Stock Company (in Turkish: Anonim Sirket, A.Ş.) and the Limited Liability Company (in Turkish: Limited Şirket, Ltd.) are the most common forms of companies under Turkish Commercial Law.

Although, the investors are free to opt for the business structure they wish to pursue, some of the businesses are subject to compulsory establishment types as per the relevant applicable laws and regulations. Some of the businesses that need to be established as joint stock companies may be listed as follows:

- Banks
- Insurance Companies
- Financial Leasing Companies
- Factoring Companies
- Holding Companies
- Stock exchanges
- Venture Capital Investment Companies
- Independent Auditing Firms

4.3 Joint Stock Companies (JSC)

Number of shareholders

A joint stock company may be formed by at least one shareholder and such shareholders may be real persons or legal entities as well as residents or non-residents in Türkiye. There is no upper limit to the number of shareholders. However, JSCs with more than 500 shareholders are subject to Capital Markets Board regulations.

Shareholders' liability

Liabilities of the shareholders of JSCs are limited with the capital they have contributed..

Permission

Incorporation of JSCs are not subject to any permit or licenses in principle. However, in case it is specifically regulated under the Turkish Laws, the relevant Ministry and/or Regulatory Authority's permit may be required for certain scope of activities (i.e. banks, energy generating companies etc.).

Articles of association

Documents of incorporation, mandatory information in the articles of association and incorporation procedures have been regulated under TCC in detail. Primarily, the founders shall prepare the articles of association, which include the provisions on the company's

basic structure and bodies in which the unconditional payment of whole capital is undertaken; afterwards, the articles of association is submitted to the system named MERSIS (The Central Registry System) and either the founders' signatures in these articles of association is affixed and certified at the notary public or signed in front of the trade registry officer. The company is deemed to have acquired its legal personality after its registration at the relevant trade registry.

Share Capital

The minimum capital required for the incorporation of JSC is TL 250.000-. In JSCs adopting the registered capital system where the board of directors is authorized to increase the capital up to the prescribed upper limit, the start-up capital cannot be less than TL 500.000-. Furthermore, for the JSCs which are subject to a special legislation (banks, insurance companies, payment institutions, power producers etc.), a higher minimum capital amount may be required.

Items that can be contributed as capital: Assets which can be contributed in JSCs as capital are as follows;

- Money, receivables, valuable papers and shares pertaining to equity companies
- Intellectual property rights
- Movables and all kinds of immovable
- Usufruct rights of movables and real estates
- Commercial enterprises
- Assets used under a right such as transferable electronic media, domains, names and marks
- Mine licenses and other similar rights which have such economic value
- Any kind of asset which can be transferred and evaluated in cash

Properties upon which right in rem, pledge or injunction is established; performances of service; commercial reputation; and undue receivables cannot be contributed to JSCs as capital.

The properties, including, but not limited to intellectual property rights and virtual platforms and media, which can be transferred or assigned in cash, with no limited real rights or attachment or injunction or other encumbrances thereon, may be submitted as capital in kind.

Payment of the Capital

It is not mandatory to wholly pay the capital of JSC in cash before the registration. At least 25% of the cash capital contributed

to the JSC shall be paid to a blocked account to be opened in a bank before the registration at the trade registry. This amount blocked at the bank is released only after the JSC's registration is authenticated by a registry letter or if the company is refunded to its owners upon a confirming letter by the registry office (within 3 months) if the company is not incorporated. For the payment of the portion up to 75% of the cash capital, which is not paid

during incorporation, parties may decide on a maximum term of 24 months as of the date company is registered. In order to increase the capital, previous capital shall be paid in full and Certified Public Accountant Report should be provided regarding payment of the existing capital.

Bodies of the Company

Shareholders of the JSC are not involved in the company's daily activities in connection with their shareholding capacity. The board of directors ("BoD") that will manage the JSCs is elected by the general assembly, and the decisions on the JSC's basic structure are also taken by the general assembly.

i. General Assembly

Meetings: JSC's general assembly may convene ordinarily or extraordinarily. Ordinary general assembly meetings are held within 3 months as of the end of each term of activity, and negotiations are conducted and decisions are taken in this meeting for the election and release of the board of directors, financial statements and annual report, how profit is utilized and other necessary issues. Extraordinary meetings on the other hand are held when it is deemed necessary (such as advance dividend distribution, loss of capital, capital increase etc.).

Attendants: The primary attendants of these meetings are the shareholders. In addition to the shareholders, representative of the Ministry of Trade shall also attend the general assembly meetings of banks, financial leasing companies, factoring companies, insurance companies, companies subject to Capital Markets Law (companies that issue capital market instruments, offer them to public, investment companies, portfolio management companies etc.), and to regular JSC general assemblies provided that certain types of decisions will be negotiated (i.e. capital increase, mergers and divisions, change of field of business etc.).

Duties and authorities: There are some inalienable duties and authorities of general assembly, which may be exemplified as follows:

- Amendment of the articles of association
- Appointment of board members, determining their terms, remunerations and rights such as attendance fee, bonus, premium, deciding on their release and dismissing them.
- Termination of the company.
- Wholesale of a substantial amount of company's assets.

ii. Board of Directors

Management: Board of directors is the main body which ensures the management and representation of the JSCs. The activities which the JSCs will conduct in order to achieve its goals are planned and implemented by the board of directors.

Number of members: Board of directors may consist of one or more members.

In case a legal entity is appointed as a member of board of directors, a real person representative should be appointed to act on behalf of the legal entity director for execution of functions as director.

Appointment of the members: The members are elected under the articles of association during incorporation and by the general assembly resolution afterwards.

Qualifications: Being a member does not require shareholding. Legal persons may become members as well as real persons. Industry-specific legislations may require special conditions for membership.

Term of office and termination of membership: Term of office of board members shall not exceed 3 years. The members whose term has expired may be reelected. Membership is terminated due to reasons such as the expiration of the term of office, resignation, discharge or death.

Inalienable duties and authorities: Some of the administrative duties and authorities granted to the JSC's board of directors may not be transferred. The major inalienable duties and authorities may be exemplified follows;

- High-level management of the company and providing the instructions about them
- Determining the management structure of the company.
- Establishing the necessary order for accounting and financial audit, and financial planning to the extent required by the company's management.
- Keeping the share ledger, board of directors' resolution ledger and general assembly's meeting and negotiation ledgers.
- Notifying the court in case of indebtedness.

Transfer of management: All duties and authorities of the board of directors apart from the inalienable duties and authorities stipulated in the TCC may be transferred to one or some of the members or third parties under a board decision to be taken in the framework of an internal directive issued on the basis of a provision in the articles of association that allows such transfer.

Meetings: The board of directors may gather at the company's headquarters or any other place when necessary. Board of directors may also meet electronically under an optional arrangement made in the articles of association.

Meeting and decision quorum: Meeting quorum is the majority of members, while decision quorum is the majority of members attending the meeting. These quorums may be increased by the articles of association.

Liquidation

The TCC regulates the legal framework for the liquidation of the joint stock companies. The companies may resolve to enter into liquidation, if they have decided to do so due to economic, financial, managerial, operational and strategic reasons.

Pursuant to the TCC, liquidation shall be conducted by the Board of Directors unless liquidator is appointed by the articles of association or a General Assembly resolution. Liquidator may be a shareholder or any other third party. At least one of the liquidators having the representative authority shall be a Turkish citizen and reside in Türkiye.

During the liquidation process, company shall maintain its corporate entity to the extent required by the liquidation activities, however the phrase "under liquidation" shall be added to the trade name of the company until the completion of the liquidation procedure.

The remaining assets of the company, after payment of its debts and the refunding of the share value to the shareholders are completed, shall be divided among the shareholders, in proportion to their contribution to the company's capital and privileges

unless otherwise is stipulated under the articles of association. Distribution may only be realized after the three months (3) waiting period has been terminated, waiting period is calculated as of

the date that the last announcement to the creditors is made at the Turkish Trade Registry Gazette. The completion of liquidation may take from 4 months to 12 months or more depending on the current situation of the company (i.e. debts, ongoing litigations etc.).

Contracted Attorney

JCSs with a capital of TL 1.250.000 or above are obliged to retain a lawyer under contract as per the Turkish Attorneyship Law.

4.4 Limited Liability Company (LLC)

Relevant explanations under the JSCs shall be taken into account for the matters that are not addressed under this section.

Number of shareholders

An LLC may be formed by at least one shareholder and such shareholders may be real persons or legal entities as well as residents or non-residents in Türkiye. Number of shareholders are regulated to be maximum 50.

Shareholders' liability

LLC shareholders are liable to the company only with the amount of subscribed capital and in proportion to their capital contribution with regards to third party receivables. LLC shareholders are jointly and severally liable for public receivables such as taxes and social security debts with their own/personal assets. Such liability occurs only if the tax office cannot collect outstanding taxes from the assets of the company.

Articles of association

It is required to sign the articles of association of LLCs in front of the trade registry officer. The articles of association of LLCs do not have any different characteristic than the JSC's, other than the amount of capital, number of shareholders, and names of corporate bodies.

Share Capital

The minimum capital required for the incorporation of LLC is TL 50.000-. With the recent amendments to the TCC, LLCs are exempted from the payment requirement of the 25% of the subscribed capital before registration.

Transfer of Shares

Transfer of shares have certain recording and registration formalities. A share transfer agreement shall be executed through a notary public, and a shareholders resolution of the LLC should be obtained. Transfer of shares is required to be registered to the relevant trade registry.

Bodies of the Company

General Assembly

- Board of Managers: Board of managers is the main body which ensures the management and representation of the LLCs. At least one shareholder should be appointed as a manager in LLCs with unlimited signatory power to represent and bind the company. LLCs may also have non-shareholder managers provided that at least one shareholder is appointed as a manager with unlimited signatory power.
- In case a legal entity is appointed as a manager, one real person representative should be appointed who will act on behalf of the legal entity for execution of functions of the manager.
- Duties and responsibilities of the managers are as follows:
- Senior management and administration of the company; and giving necessary instructions.
- To determine the company's management organization in accordance with the law and AoA.
- To develop accounting, financial auditing and financial planning when necessary for the management of the company.
- To supervise whether the persons to whom one or more divisions of company management have been entrusted are acting in accordance with law, AoA, internal regulations and instructions.
- To establish a committee for early risk detection and management, except for small sized limited liability companies.
- To prepare the company's financial statements, annual report, and where necessary the group of companies' financial statements and annual report.
- To organize general assembly meetings and to execute general assembly resolutions.
- To notify the court should the company's liabilities exceed its assets

4.5 Other Forms of Doing Business in Türkiye

Liaison / Representative Offices

A liaison office may be established in Türkiye with the permission of the Ministry of Industry and Technology Incentive Administration and Foreign Investment Department (FID). Under the present regulations, a liaison office is not allowed to be engaged in any commercial activity. In other words, it cannot be authorized to

do business and to conclude contracts. Therefore, for instance, a liaison office cannot issue invoices or proforma invoices. All expenses of the liaison office incurred in relation to running the office (including the salaries) should be covered with the import of foreign currency sent by the parent company. Under the present regulations, regardless of nationality, remunerations to

the employees of the liaison office shall be exempted from Turkish income tax as long as the payment of the salaries is from a foreign source.

In accordance with the Communiqué related to Direct Foreign Investment Code, Liaison offices are granted with maximum 3 years permission upon first application. Liaison offices may apply for extension to FID before expiry date of permission. However, the permits obtained for market research or promotion of products or services of foreign company are not extended.

Liaison offices are obliged to submit annual activity report to FID until the end of May each year so as to inform the Ministry regarding their activities, amount of exchange transferred from abroad within the previous year.

Branch

Under Turkish law, a Branch Office acts and operates in the name and on behalf of the head office (headquarters) of the company which they are associated with. Accordingly, rights and obligations stemming from actions and operations belong to the parent company but not the Branch.

The day to day activity of a Branch Office is run by its manager who acts on a power of attorney granted to him/her by the parent company.

In case a Branch Office is requested to be incorporated by a foreign firm, then a person who is residing within Türkiye shall be appointed as a representative.

The branch will not have separate articles of association but the parent company's articles of association will be applicable. The Turkish Branch, therefore, will not have a separate legal personality.

At the operational stage, it may be more bureaucratic to run a branch since the change or authorization of the branch representative; increase of capital etc. requires parent's decisions. In other words, the branch will not have a separate shareholders' assembly, which will take the related resolutions for the operations of the company, but these should be executed by the board of the parent company of the Turkish branch.

The branches are subject to official liquidation process. Additionally, there will also be tax and accounting requirements to be fulfilled under the Turkish Law. In terms of corporate tax liability, branch is subject to same rates as a subsidiary company.

4.6 General Requirements for Joint Stock and Limited Liability Companies

Company with Sole Shareholder

Capital companies such as joint stock companies and limited liability companies may be established with a sole shareholder. Furthermore, the aforesaid companies which are already established are able to decrease the current number of shareholders to one shareholder through share transfers.

Moment of Establishment

The moment of approval of articles of association by the notary public or signing the articles of association before the trade registry officer by the company founders shall be deemed as the establishment moment of the company. The moment of acquirement of legal personality will be the moment of registration before the Trade Registry.

Web Site

Companies that are subject to independent audit are required to establish a website within 3 months as of their registration at the trade registry and to allocate a part of such website for publishing the legally required announcements.

Prohibition to Become Indebted to the Company

The shareholders shall not be indebted to the company unless the following conditions are met.

Shareholders may be indebted to the company provided that they do not have any due debts arising from capital subscription, and the total profit of the company along with the free reserves are adequate to cover the previous year's losses.

Group of Companies

"Group of Companies" and "Controlling Company" concepts are regulated under the TCC.

As per Article 195 of the TCC, if a company directly or indirectly;

a. controls the majority of voting rights,

b. is entitled to appoint number of members, which would suffice to establish a majority in the management body,

c. has the capacity to exercise majority voting rights on its own or with other shareholders arising out of a contractual relationship entered into with the same; or

d. controls another corporation via a contract or in any other manner,

it qualifies as a "Controlling Company" whereas the other company is "Affiliate".

If the principal place of business of one of these companies is located in Türkiye, these companies form a "Group" and the TCC puts special responsibilities upon the Controlling Companies (i.e. illegal use of control).

The BoD of the Affiliate must prepare an affiliate report within the first three months of the year regarding the transactions conducted with the Controlling Company. This report shall be presented at the annual ordinary general assembly of the company.

Independent Auditor

Under the TCC, companies are not obliged to have an internal auditor as a statutory organ. Companies to be subject to independent audit are determined by the Council of Ministers. Independent audit involves the inspection to ensure compliance with the Turkish Accounting Standards, Law and provisions of the Articles of Association regarding the financial statements. Financial statements and annual activity reports of the Board of

Directors that are subject to audit however failed to be audited are considered to be non-existent. The auditor shall be appointed by the general assembly whereas the group auditor shall be appointed by the general assembly of the parent company. The requirement to appoint auditor has been in force since January 2013 in accordance with the implementation of the new TCC.

Independent Audit Requirement under the New Commercial Code

As per the Presidential Decree numbered 8313 published in the Official Gazette dated 06.04.2024 to be effective as of 01.01.2024, companies must exceed at least two of the following three thresholds in two consecutive financial year as general threshold, in order to be subject to independent audit:

- Total assets of TL 150.000.000 and above
- Annual net sales revenue of TL 300.000.000 and above 150 employees and above

The Ministry has exclusive authority to reduce these thresholds in order to broaden the scope of independent audit. Companies operating in specific fields are also subject to independent audit without considering the abovementioned general criterion. Those

companies are mainly the ones operating in regulated markets such as Energy Market, Electricity Market, Petroleum Market, Insurance, CMB, BRSA etc.

5. Corporate Taxation

Corporate Income Tax Code (Law Nr: 5520) was announced in the Official Gazette dated 21 June 2006 and enforced as of 1 January 2006. The former Corporate Income Tax Code (Law Nr: 5422) dated 3 June 1949 and its annexes were abolished through enforcement of New Corporate Income Tax Code.

Corporate Income Tax Code brought significant changes in the existing tax implementations and also introduced some new concepts into Turkish tax legislation. By virtue of the provisions of the new Code, Turkish corporate tax legislation has become clearer and objective with respect to particular anti-avoidance regulations, such as thin capitalization" and "transfer pricing" in

line with the international tax literature. On the other hand, the new Code introduced some new concepts into Turkish tax legislation such as "Controlled Foreign Corporation" and "Tax Heavens".

5.1 Taxes on Corporate Income

Corporations Subject to Tax

The following entities are subject to taxes on income levied under the Corporate Income Tax Code, No. 5520

(i) Companies with Share Capital: Joint stock companies (JSC), limited liability companies (LLC) and limited partnerships divided into shares and similar foreign companies incorporated under Turkish Commercial Code are considered as capital companies. Funds which are subject to regulation and supervision of Capital Markets Board and similar foreign funds are also included here.

(ii) Co-operatives: Co-operatives founded under Co-operatives Law or under its special regulations and similar foreign co-operatives.

(iii) State Economic Enterprises: Commercial, industrial and agricultural organizations other than (i) and (ii) above, which are involved in continuous business activity and owned by or affiliated to central and local administrations, municipalities, and other public organizations.

(iv) Commercial, industrial and agricultural organizations other than (i) and (ii) above owned by or affiliated to foreign states, foreign state administrations and organizations are also treated as state economic enterprises.

(v) Economic entities owned by associations and charities: Commercial, industrial and agricultural organizations other than (i) and (ii) above, which are involved in continuous business activity and owned by or affiliated to associations and charities and similar foreign enterprises are economic entities run by foundations or associations. Unions are treated as association and congregations are treated as foundation.

(vi) Joint Ventures (JV) established between entities or individuals to render work with the objective of sharing profits under the joint responsibility are subject to corporate income tax.

State economic enterprises and economic entities run by foundations and associations, whether or not they have a) legal personality, b) independent accounting systems, or c) share capital or d) own business places and regardless of whether they are formed for the purposes of profit, are subject to taxes on income.

Territoriality

Taxpayers whose legal or business seats are located in Türkiye, are subject to corporate income tax on their worldwide income. In cases where both of the legal and business seats are not located in Türkiye, the entity is qualified as non-resident in Türkiye and will be subject to tax only on Turkish-sourced income.

The legal seat is determined in the Articles of Association and the business seat is the place, where business activities are concentrated.

Taxable Income

Corporate income tax is computed through multiplication of corporate income tax rate and the fiscal profits generated within a fiscal year. Fiscal profits (i.e. corporate income tax base) is calculated by addition of non-deductible items to net business profits and application of exemptions and carried-forward loss figures to the business profits.

5.2 Allowable Deductions

The net business income is determined through deduction of business-related expenses from the gross income generated within a fiscal year. As a principal rule, the expenses incurred for the purpose of generating and maintaining business income are treated as deductible for tax purposes. Apart from this, other particular deductible expenses are listed, but not limited to below:

- Taxes imposed on goods, such as real estate tax, stamp tax, registration duties and municipal fees
- Royalty payments for the use of patents, copyrights, know-how and trademarks provided that they are determined on an arm's length basis
- A specific bad debt reserve is allowed, where:

(a) The dispute on the receivable is under review by the Courts, or

(b) The receivable has not been paid after a formal notarized or written request to pay which does not exceed TRY14,000 (for year 2023),

(c) Special reserve requirements for non-performing loans defined in the Banking Law and related regulations.

- Business-related representation and entertainment expenses
- Travel expenses (including meals and lodging) are deductible if they are incurred for business purposes and are reasonable as compared with the importance of business. However, for year 2024, the deductible rent expense for each passenger car is limited with TRY 26,000 (VAT excluded) per month and depreciation expense is limited with TRY 790,000 (excluding VAT and Special Consumption Taxes) while VAT and Special Consumption Taxes are limited with TRY 690,000 for the taxpayers who are not engaged in rental or operation of these vehicles. In addition, only 70% of the expenses regarding passenger cars can be booked as expense by the taxpayers that are not engaged in rental or operation of these vehicles.
- Donations to governmental institutions, municipalities, villages, associations that pursue the public interest and foundations under the Civil Code with a tax exempt status granted by the Government, and organizations engaged with scientific research and development are deductible, up to 5% of taxable income of the relevant year

- All expenses and donations made for the construction of schools, health premises, dormitories, nursery schools, rest homes, rehabilitation centers, and all kind of donations and gifts made to these corporations for the construction of the mentioned premises or for the continuance of the activities of the existing premises
- Donations made in cash or in-kind for the natural disasters decided to be helped by President
- Sponsorship expenses for amateur sport activities determined by the relevant laws and 50% of sponsorship expenses for the professional sport activities
- Employee salaries and payment to the chairman, directors and auditors are deductible. Payments may be in the form of allowances, fees, premiums and bonuses. Payments in kind are also tax deductible but are deemed as salary and taxed as such.
- Interest costs; either as a direct charge or as depreciation expense, when capitalized
- Fees paid to the Employer's Union are deductible with the condition that monthly fees paid should not exceed the daily total payment of salaries

Deduction of the Venture Capital Fund

The amounts allocated as a venture capital fund will be deducted from taxable income starting from 01.01.2013.

Conditions for the deduction;

- The amount of funds allocated for the venture capital should not exceed 10% of the declared income, and the total amount of the fund should not exceed 20%year-end equity of the company.
- (Both conditions must be satisfied)
- Investment should be made into venture capital investment funds or partnerships which are established or will be established in Türkiye and subject to regulation and supervision of Capital Market Board until the end of the year of funds are allocated.
- The amount of allocated funds should be shown on the corporate tax return of the relevant year separately.

Deduction for services provided from Türkiye to non-resident corporations and individuals

The income derived from the services rendered in Türkiye to non- residents which are solely benefited out of Türkiye may be subject to a 80% deduction from corporate tax base provided that the entire profit is transferred to Türkiye by the date on which the corporate tax return for the accounting period in which such profit is made is submitted (the deduction rate of 80% is effective from 28 December 2023 and onwards to be applied to profits obtained as of 1 January 2023. The deduction rate was 50% before the relevant change). In case there is no sufficient corporate tax base for the deduction, the amount which is not deducted from the corporate income tax base cannot be carried forward.

The services within the context of this deduction are:

- Architectural, engineering, design, software, medical reporting, bookkeeping, data storage services and call center services
- Education and health services which are subject to relevant ministry's permission and supervision.

Incentive for cash capital increases

Effective from 01.07.2015, stock corporations (except for those operate in finance, banking and insurance sectors) will be able to deduct 50% of the interest to be calculated over the cash capital increases registered in Trade Registry from their taxable income. The deductible interest amount will be calculated by using the latest "annual weighted average interest rate applied over the "TRY" denominated commercial loans granted by banks" to be announced by Turkish Central Bank and for the period from the capital increase to the last day of the financial year.

According to Law No. 7338 on the Amendment on Tax Procedure Law and Certain Laws which has entered in force in the Official Gazette dated 26 October 2021 and numbered 31640, 50% rate will be applied as %75 for cash capital contributions made from abroad (by foreign shareholders) after 26 October 2021.

According to Law No.7417 which has been published in the Official Gazette and entered into force on 5 July 2022 and numbered 31887 which was effective from 5 July 2022 and onwards, this incentive can only be utilized separately for the accounting period in which the decision regarding the capital increase is taken or the article of association during the initial establishment stage is registered and for the four accounting periods following this period (which was available for an indefinite period before the mentioned law change). For newly established companies and for companies that increased their capital before the amending law was published on 5 July 2022, the five-year limitation started in 2022.In case of capital decrease in these periods, the decreased capital amount will not be taken into account in the incentive calculation.

Deduction of financial costs incurred for the acquisition of subsidiary (debt pushdown)

In accordance with the Article 20 of Law No.7440 published in the Official Gazette dated 12 March 2023 and numbered 32130, financial costs related to the purchase of shares, including the costs corresponding to the period following the mergers made within the scope of Article 19 of the CIT Law, can be deducted from the corporate income tax base. The exemption applies to the income and gains generated as of 1 January 2023.

5.3 Non-Deductible Expenses

The non-deductible expenses are also separately determined in the tax laws, but not limited to below:

Disguised Profit Distributions through Transfer Pricing

If a taxpayer entity conducts transactions with related parties, where the prices are not set in accordance with arm's length principle, the related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not treated as tax deductible for corporate income tax purposes. (Please refer to section 7 for further information).

Cost Allocation

Interest, commissions etc. paid to a parent company or branches outside Türkiye for purchases and sales carried out on behalf of a non-resident company in Türkiye and amounts allocated to meet the expenses and losses of the parent company and its branches outside Türkiye, are not tax deductible with the exceptions of;

- amounts related to the generation and continuation of income in Türkiye and allocated in line with the cost allocation keys determined in accordance with the arm's length principle, and
- travel expenses incurred by authorized persons sent from foreign countries in connection with the auditing and supervision of a branch in Türkiye.

Thin Capital

Interest, foreign exchange losses and other similar expenses related to the borrowings from related parties which are regarded as thin capital are treated as non-deductible expenses for corporate income tax purposes.

The Corporate Tax Law imposes a specific debt/equity ratio of 3:1 for consideration of thin capital. If the borrowing obtained directly or indirectly from shareholders or persons related to shareholders exceed three times the shareholders' equity of the company at any time during the relevant year, the exceeding portion of the borrowing will be treated as thin capital.

If the shareholder (or related party) providing the loan is qualified as a bank or a financial institution which operates in line with its own field of activity, then 50% of the borrowings obtained from these will be taken into consideration in the calculation of debt/equity ratio - hence the allowable debt/equity ratio will be increased to 6:1.

However, borrowings obtained from the intra-group credit companies which are only financing the relevant group companies cannot be taken into consideration as 50% in the calculation of debt/equity ratio.

Loans mentioned below (but not limited to) will not be qualified as thin capital;

- Loans obtained from 3rd parties against non-cash guarantees provided by shareholders or the persons related to shareholders,
- Loans obtained by companies' subsidiaries, shareholders or related persons from the banks and financial institutions or from the stock markets that are transferred wholly or partially to the company with the same term and conditions.

Excluding foreign exchange differences, the interests paid or calculated and other similar expenses over the thin capital (that exceeds the 3:1 debt equity ratio) is treated as dividend distributed to shareholders as of the last day of the accounting period in which thin capital conditions are satisfied.

Financial Expense Restriction

With the President's Decree No. 3490, published in the Official Gazette dated 4 February 2021, effective from 01.01.2021, 10% of the financial expenses (i.e. interest, commission, foreign exchange losses, and similar costs and expenses) incurred over the borrowings from external sources exceeding the shareholder's equity of a Turkish company will be regarded as disallowable expense. The President is authorized to re-determine the rate

per sectors. The credit institutions, financial institutions, leasing, factoring and finance companies are excluded from this application.

5.4 Exemptions

Exemptions are separately determined in the tax laws, but not limited to below:

Dividends - domestic participation exemption

Dividends received by a Turkish company and venture capital investment funds/ partnerships from a resident corporate taxpayer are not subject to corporate income tax. The exemption is also available for non-resident companies to the extent that the dividends are attributable to a Turkish permanent establishment or branch.

Dividends received by the companies from founder's shares that give a participation right to the profit of another resident company and from other redeemed shares are also exempt from corporate taxation. Capital gains are not covered under this exemption.

With the Law 7394 published in the Official Gazette dated 8 April 2021, income arising from the return of investment fund participation shares to the fund and the income generated through the year-end valuation of these funds are exempted from corporate income tax.

As per an amendment made in Article 5 of CIT Law brought with the Law 7456 published in the Official Gazette dated 15 July 2023 and numbered 32249, effective from the publishing date and onwards, except for income from shares in venture capital investment funds and shares in venture capital trusts, other investment fund participation shares and dividends obtained from the shares of investment partnerships cannot benefit from this exception.

Dividends – foreign participation exemption

Dividends received from non-resident subsidiaries are exempt from corporate tax upon provision of below conditions together.

the participation rate should be at least 10 %,

the participation should have been held at least for 1 year,

overall tax burden over these dividends must be at least 15 %, and

gain should be transferred to Türkiye until the date of filing of corporate tax return of the fiscal year in which the relevant gain is obtained.

Capital gains upon disposal of shares in foreign participations are not covered under this exemption. Under the same conditions, foreign branch profits may also be eligible for this exemption.

With the amendment made in Article 5/1-b of Corporate Income Tax Law by Law No. 7491 enacted on 28 December 2023, and to be applicable over the gains obtained starting from 1 January 2023, 50% of the dividends received from non-resident subsidiaries can be exempted from corporate income tax upon fulfilment of the below conditions altogether (regardless of the effective tax burden in the foreign jurisdiction over the dividends distributed):

- the foreign subsidiary is in the form of a joint stock company or a limited liability company,
- at least 50% of the paid-up capital of the foreign subsidiary is held by the Turkish-resident parent entity, and
- the profits are brought to Türkiye until the filing date of corporate income tax return of the fiscal year in which the relevant income is derived.

Capital gains exemption on the disposal of participation shares

Foreign participation shares

The capital gains derived by a resident company from the disposal of the shares of participations/subsidiaries whose legal and business centers are located out of Türkiye (i.e. shares of the

foreign subsidiaries) are exempted from corporate tax, where all the

following conditions are satisfied all together:

- At least 75% of total assets of the Turkish company, other than cash equivalents, should be composed of participation in foreign subsidiaries shares at least for an uninterrupted period of 1 year as of the date of the gain obtained,
- A Turkish joint stock company must hold at least 10% of shares of these foreign subsidiaries,
- The foreign subsidiary must be a company in the status of a joint stock or a limited liability company,
- The shares of the foreign subsidiary must be held by the resident joint stock company at least for 2 full years.

Domestic participation shares

75 % of capital gains arising from the disposal of participation shares and, founder's shares, pre-emptive rights and redeemed shares in other companies and investment fund participation shares are exempt from the corporate tax. Major requirements are (i) participation shares sold should have been held at least for two years; (ii) the exemption is applied in the year in which sale occurred and capital gain benefit from the exemption should be kept in a special reserve account at least for five years (iii) sales revenue should be collected until the end of second calendar year following sale year (iv) exempted amount cannot be transferred to another account (other than paid-up capital) or withdrawn from company within five years. In the case that company is liquidated within these 5 years' time, the exempted amount should be subjected to corporate tax.

With the Law No.7456 published in the Official Gazette dated 15 July 2023 and numbered 32249, effective from the publishing date and onwards, 50% exemption in relation to the disposal of immovable properties was reduced to 25%, for the immovable properties recorded in the assets of the companies prior to 15 July 2023. For the immovables acquired after the law's publication date, no capital gains exemption will be applicable.

Exemption for the gains derived from non-resident place of businesses and legal representatives

Gains derived by the companies through the place of businesses or legal representatives abroad are exempted from corporate tax upon fulfillment of certain conditions. These are, generally, among others,

(i) gains should be subject to at least 15% tax burden in accordance with the tax legislation of the relevant countries, (ii) gains should be transferred to Türkiye until the date of the filing of the corporate tax return of the fiscal year in which the relevant gain is obtained.

Exemption on Emission Premiums

New share issue premiums (Agio), which represent the difference between the nominal and sale values of shares issued by joint- stock companies, are exempt from corporation tax.

Exemption on Off-shore Construction and Technical Services Income

Offshore income from construction, repair, maintenance and technical services is exempt from corporate tax.

Exemption on Portfolio Management Income

Portfolio management income by securities investment funds and companies, the profits of real estate investment funds and companies (excluding those funds whose main field of activity is not operating a portfolio consisting of real estate, real estate projects and real estate-based rights, starting from 2023); venture capital investment funds and companies; pension, housing and wealth financing funds; and the portfolio management profits obtained by investment funds or companies which have portfolio based on the gold and precious metals dealing in exchange markets founded in Türkiye are exempt from corporate tax.

With the Law No.7524 enacted on 2 August 2024, in order to qualify the exemption granted to funds and partnerships (excluding pension investment funds) investing in real estate, at least 50% of the profits derived from their real estate investments must be distributed as dividends to their shareholders by the end of the second month following the month in which the corporate income tax return is submitted. This regulation will apply to the earnings generated starting from 1 January 2025.

Additionally, through the amendment made to Article 5 of the Corporate Tax Law, it allows companies to benefit from participation gain exemption over the dividends received from investment funds and partnerships that could not meet the conditions. This regulation will apply to the earnings generated starting from 1 January 2025.

Exemption on Education Services Income

Profits derived from education and rehabilitation services are exempt from corporate tax for a period of 5 years starting from commencement of such businesses under certain conditions.

Exemption for the income derived from industrial property

50% of the income derived from the leasing, transfer, sale, mass production in Türkiye and marketing of the inventions of the corporate taxpayers, which have patent or utility model registration, and which result from research, development, innovation and software activities carried out in Türkiye is exempted from corporate tax as from 01.01.2015, provided that certain conditions are satisfied. If the invention is used in the manufacturing of a product, 50% of the income derived from the sale of this product (limited to the portion of income attributable to the patented innovation) can also be tax exempt.

Exemption on conversion of foreign currency or gold deposits to Turkish Lira time deposit accounts:

For the taxpayers who convert their foreign currency denominated deposits in a Turkish bank or in a foreign bank account of a Turkish entity available on the balance sheet of 31 December 2021, into TRY until the due date of the fourth quarter advance CIT return for 2021, gains which are listed below shall be exempt from corporate income tax provided that these amounts are kept in foreign exchange protected TRY deposit accounts at least for 3 months by legal entities.

- Foreign exchange gains calculated over the conversion of foreign currency into TRY for the period from 1 October 2021 to 31 December 2021,
- If the conversion is done until the due date of the fourth quarter advance corporate income tax return for 2021, the foreign exchange gains up until the conversion date is also exempt from tax (i.e. foreign exchange gains in respect to the period between 01.01.2022 – conversion date)
- Although not within the scope of the above paragraphs, interest, profit shares and other earnings derived from the foreign currencies that were converted into TRY until 30 June 2024 and kept in foreign exchange protected TRY deposit accounts at least for 3 months.
- The tax incentive will apply to income derived from renewal of these TRY deposit accounts (after the maturity date) until 30 June 2024.
- The gold accounts that are converted into time deposit accounts will also benefit from similar tax exemptions.

If the money in the TRY time deposit account is not held until maturity, the taxes that were not paid due to the exemption will be collected from the taxpayer together with penalties and late payment interest.

Exemption in relation to the Istanbul Financial Center

Istanbul Finance Center ("IFC") Law numbered 7412 was published in the Official Gazette on 28 June 2022. Regulation regarding IFC was published on the Official Gazette on 7 July 2023. To join the IFC ecosystem and benefit from the incentives and other facilitating structures provided by the IFC, applicants must submit an electronic application on the IFC Portal and obtain a participant of certificate.

For the financial service export activities carried out by financial institutions which obtained participation certificates:

- 75% of gains derived from financial service export activities carried out in the IFC, is exempt from corporate income tax. Such exemption rate will be applied as 100% for the taxation periods from 2022 to 2031.
- Transactions and money received in favor of these transactions are exempt from banking and insurance transaction tax.
- Transactions related to those activities are exempt from all kind of fees, and documents/papers issued for these transactions are exempt from stamp tax.

50% of the earnings derived from the sale of goods or the brokerage services shall be tax exempt, provided that the goods are bought from and sold at abroad; and mentioned earnings are transferred to Türkiye until the due date of relevant corporate income tax return.

Exemption provided to Participation Finance Guarantee Joint Stock Companies

Through the amendment made by Law No. 7491 enacted on 28 December 2023, the Participation Finance Guarantee Joint Stock Companies (Katılım Finans Kefalet Anonim Şirketi), which are owned by participation banks and established to provide guarantees for any type of financing in accordance with the principles and rules of participation banking, has been exempted from corporate income tax.

5.5 Corporate Taxation

Computation of Corporate Income Tax

The statutory corporate income tax rate in Türkiye is 20%. The corporate income tax rate was increased to 22% for 3 consecutive years (i.e. 2018, 2019 and 2020) and to 25% for 2021. For 2022, the corporate income tax rate has been applied as 23%. With the Law number 7456 published on 15 July 2023, the corporate income tax rate for 2023 has been increased to 25% (starting from the advance tax returns to be filed after 1 October 2023).

Effective from 1 January 2022, the corporate income tax rate for financial sector companies including banks, financial leasing companies, electronic payment and money institutions, asset management companies, insurance companies and private pension companies was applied as 25% and it has been further increased to 30% for 2023 with the Law number 7456.

For year 2023, companies engaged in export activities will benefit from a reduction of 5% in their corporate tax rate, instead of the previous 1%. 1% reduction in the corporate income tax rate continues to apply for income derived from manufacturing activities of corporations that have been granted industrial registration certificates and are engaged in manufacturing activities. An additional reduction within the scope of manufacturing activities will not be applied to those who benefit from the reduction within the scope of to export activities.

As per to Law numbered 7256, effective from 1 January 2021, corporate tax rate reduction at the rate of 2% points is announced for the companies (other than banks, financial institutions, insurance companies and pension funds) offering at least 20% of their shares via their first initial public offering ("IPO") on the Istanbul Stock Exchange. The reduction is applicable for five years starting from the fiscal year in which the IPO is made.

With the Law No.7524 enacted on 2 August 2024, the corporate tax rate was increased to 30% from 25% for the companies operating projects under the build-operate-transfer ("BOT") model as per Law No. 3996, and the public-private partnership ("PPP") model as per Law No. 6428. This regulation will apply to the earnings generated starting from 1 January 2025.

Corporate income tax is calculated over annual fiscal profits of the taxpayer and each

taxpayer is taxed on stand-alone basis. Tax grouping is not allowed in Türkiye.

Corporate income taxpayers (excluding those operating in finance and banking sectors, insurance and reinsurance companies, pension companies and pension funds) those who declare their income regularly and pay the taxes within respective deadlines will benefit

5% tax discount if the other conditions in the related article met. Such deduction is limited to TRY6.9 million for the year 2024.

Introduction of domestic minimum corporate tax

With Article 36 of the Law dated 28/7/2024 and numbered 7524, the following Article 32/C titled "Domestic minimum corporate tax" was added to the Corporate Tax Law. According to this new regulation, corporate income tax calculated by a company cannot be lower than 10% of the corporate income before the deduction of discounts and exemptions.

When calculating the domestic minimum corporate tax, the following exemptions and deductions are deducted from the corporate profit mentioned in the first paragraph:

- Participation exemption for domestic income;
- Emission premium exemption;
- Return exemption for cooperatives;
- Sell and leaseback exemption;
- Fund income exemption;
- Venture capital fund discount;
- Disabled employee support discount;
- Earnings exempt from tax under the International Ship Registry and Free Zones Laws;
- Technology Development Zone, R&D and investment incentive discounts

From the domestic minimum corporate tax calculated within the scope of the first paragraph, the tax not collected due to the application of the reduced rate in accordance with the 6th, 7th and 8th paragraphs of Article 32 and the tax not collected in the relevant accounting period in accordance with the provision of Article 32/A due to the use of the investment contribution amounts in the incentive certificates obtained from the Ministry of Industry and Technology before the effective date of this article are deducted and the domestic minimum corporate tax to be paid is determined.

The provisions of this Article shall not apply to organizations that newly commence their activities, for the first three accounting periods.

The President is authorized to reduce the rate in the first paragraph to zero or increase it up to one time, separately or together, by sectors, fields of activity, business lines or production areas, and the Ministry of Treasury and Finance is authorized to determine the procedures and principles regarding the implementation of the article.

Thus, a tax security institution has been introduced for the determination of the corporate tax to be calculated by corporate taxpayers.

This article entered into force on the date of its publication to be applied to the earnings obtained in 2025 and the following taxation periods, and to the earnings obtained in the special accounting period starting in the calendar year 2025 and the following taxation periods of the corporations subject to special accounting period.

Advance Corporate Income Tax ("ACIT")

All resident and non-resident companies, who generate commercial or professional income and who are obliged to file annual corporate income tax return, are also required to file advance corporate income tax return and be subjected to corporate tax based on their actual quarterly profits.

With the amendment made in the Repeated Article 120 of Income Tax Law, the 4th ACIT return has been abolished and the ACIT return periods has been determined as follows effective by 2022 financial year:

- 1st ACIT Return: January-February-March
- 2nd ACIT Return: April-May-June
- 3rd ACIT Return: July- August- September

Advance corporate income tax paid during the year is offset against the final taxes calculated on the annual corporate income tax return. Any excess payment may be offset against other tax liabilities, and in the absence of such liabilities it is refundable upon the claim within one year.

Reduced-rate corporate tax under Investment Incentive Regime

Under Investment Incentive Regime; regional, sector-based, prioritized, large-scale and strategic investments are entitled to benefit from corporate tax reduction limited to the tax savings that reach the investment contribution rate. Government provides a corporate tax reduction from 50% up to 100% depending on the location and the amount of the investment. In the absence of any fiscal profit, it is possible for the tax saving to be carried forward without any time limitation.

With an Article added to CIT Law with the Law No.7338 (effective from 26 October 2021 and onwards to be applied to the investment expenditures made as of 1 January 2022), 10% of the amount determined by applying the investment contribution rate to the investment expenditure made within the scope of investment incentive certificate can be offset against other accrued tax liabilities (excluding special consumption tax and VAT), provided that taxpayers apply for such deduction by the end of the second month following the month in which the corporate tax return is submitted. Such offset amount can not exceed certain criteria specified in the relevant Article.

Additional tax for FY22

Through Article 10/27 of the Law Numbered 7440 published in the Official Gazette dated 12 March 2023, an additional and one-off tax, has been imposed on taxpayers for fiscal year 2022 to help address the damage caused by the earthquake in February 2023. Based on the relevant Article:

- Additional 10% corporate income tax will be applied over the exemption and deduction amounts reported on the CIT returns for 2022 and over the tax base subject to reduced corporate income tax rate within the scope of Investment Incentive Certificates in the corporate income tax return for 2022.
- Additional 5% corporate income tax will be applied over the deduction amounts due to participation exemption benefitted for the dividend obtained from foreign subsidiaries.

Such additional tax was payable in two instalments, where the due date of the first instalment was May 2023 and the second instalment was September 2023.

Tax losses

A loss incurred in any financial year can be carried-forward for 5 years against future profits for purposes of corporation tax. Tax losses cannot be carried back.

Tax Returns and Payments

The normal fiscal year-end is December 31st. Where the calendar year is not appropriate due to the nature of business, taxpayers may opt an alternative period to determine their fiscal year upon the permission to be obtained from the Ministry of Treasury and Finance.

The table below represents the deadlines for filing and payment of advance corporate income tax and annual corporate income tax.

Type of Tax Return & Payment	Period	Deadline for Filing Tax Return
Advance CIT Return	Quarterly	17th of the second month following the end of the quarter
Annual CIT Return	Annually	End of the fourth month following the end of the fiscal-year

Introduction of Domestic and Global Minimum Top-Up Tax under Pillar Two Law

Through the Articles 37 to 50 of the Law dated 28/7/2024 and numbered 7524, a Global Minimum Top-Up Tax, as well as a Qualifying Domestic Minimum Top-Up Tax ("QDMTT") was included into Turkish Corporate Tax Law, in line with the Pillar Two Global Anti-Base Erosion (GloBE) rules. Accordingly, the profits of affiliated enterprises belonging to multinational enterprise ("MNE") groups, with an annual consolidated revenue in the consolidated financial statements of the ultimate parent enterprise (prepared in accordance with the internationally accepted accounting standards) exceeding the Turkish Lira equivalent of EUR 750 million in at least two of the four accounting periods before the reporting accounting period, will be subject to Domestic and Global Minimum Top-Up Tax in the relevant fiscal period.

The minimum global corporate tax rate is 15%. The difference between 15% and the effective tax rate (ETR) of a MNE group calculated on jurisdictional basis and in accordance with the Pillar Two regulations will be collected as the Top-Up Tax. Top-up Tax in Türkiye will be considered zero, if the transitional safe harbour tests are passed.

Global Minimum Top-Up Tax will be calculated based on the Income Inclusion Rule (IIR) applying for fiscal years starting from 1 January 2024, and the Undertaxed Profits Rule ("UTPR") applying for fiscal years starting from 1 January 2025.

For the Turkish entities of a MNE group, QDMTTs must be declared and paid within 12 months after the accounting period ends, and for the Turkish based MNE groups the Global Minimum Top-up tax must be declared and paid at the end of the 15th month following the end of the accounting period.

Advance Profit Distribution

Limited liability and joint stock companies incorporated in accordance with the Turkish Commercial Code may distribute profits reported in their interim/quarterly financial statements as per New Turkish Commercial Code.

In order to distribute advance profits during the year, companies should report profits during first, second and third advance tax periods and take a decision in the general assembly. It is envisaged that up to 50% of the related periods' profits can be subject to distribution after the offset of taxes, previous years' losses and provisions for legal reserves.

In case the advance profit which is distributed during advance corporate tax quarters exceeds the final distributable dividend amount, the exceeding amounts will be settled from the legal reserves, if any. Also, in case the amount of legal reserves is not enough to offset the distributed advance dividend amount, the overpaid amounts will be rendered to the company by shareholders. Companies are obliged to offset the distributed advance profits to the relevant year-end profit before making any further dividend distribution.

Withholding tax on dividends

When dividends are paid out, the company is required to make a withholding from the dividends. The statutory rate for dividend withholding tax was 15%. According to Türkiye's Presidential Decision numbered 4936 which was published in the Official Gazette on 22 December 2021, the withholding tax rate on dividend distributions has been reduced to 10%. The Decision entered into force and is effective on the date of its publication.

Although the local rate for dividend repatriation is determined as 10%, the rate can be reduced through tax treaty provisions.

Dividends paid to a Turkish resident entity (i.e. Turkish holding company) or a Turkish branch of a foreign company is not subject to the withholding tax.

Withholding tax on branch profits

There will be a withholding on the branch profits of non-resident companies upon remittance of such profits to the headquarters. The rate of withholding tax is 10% which is applied on the distributable branch profits after the deduction of corporate income tax. The rate can be reduced through tax treaty provisions.

Controlled Foreign Corporation (CFC)

The profits of foreign companies controlled by tax resident companies or persons by means of the direct or indirect and separate or joint ownership of at least 50% of the capital, dividends or voting rights are subject to corporate income tax in Türkiye irrespective of whether distributed or not, if all of the following conditions are met:

- At least 25% of the gross revenue of CFC must be composed of passive income such as interest, dividend, rent, license fee, security sales gain etc.,
- The CFC should be subject to a tax burden lower than 10 % over its commercial income in its country,
- The CFC's total gross revenue in the relevant year should exceed the foreign currency equivalent of TRY 100,000.

The highest rate owned at any time within the relevant fiscal year should be taken into consideration as "Control Rate". If CFC distributes dividend over its profit, dividends that has already been taxed in Türkiye will not be subject to any additional tax in Türkiye. However, profits which has not been previously taxed in Türkiye will be subject to corporate tax when distributed. Taxes paid by CFC over its related profit in foreign countries will be offset against the corporate income tax calculated over this profit in Türkiye.

Foreign Tax Credit

Taxes paid abroad on profits transferred back to Türkiye may be credited against corporate income tax, but only to the extent that they do not exceed local corporate income tax calculated thereon.

Withholding Taxes Applicable on Certain Payments

In general, the Turkish Taxation System has the following types of withholding taxes applicable to corporations.

Multi-year Construction or Repair works

Progress payments for the construction and repair works lasting more than one year were subject to 3% withholding. Such construction works is taxed on completed project basis, and

the amount of withholding taxes paid on progress payments are deducted from the tax due at the end of the construction. According to Presidential Decision published in the Official

Gazette dated 4 February 2021, effective from 1 March 2022, the withholding tax rate over the progress payments made for multi- year construction and repair works has been increased to 5%.

Payments for Online Advertising

Effective from 01.01.2019, the payments made to those providing online advertising service or acting as an intermediary in delivering such services are subject to withholding tax regardless of the fact that the payee is tax registered in Türkiye or not, in accordance with Presidential Decree No.476 published on Official Gazette dated 19 December 2018. The withholding tax rates are as follows:

- Non-resident companies: 15%,
- Resident or non-resident Individuals: 15%,
- Resident companies: 0%.

Payments to Non-resident Entities

The following payments to non-resident companies are subject to withholding tax;

- Progress payments for the construction and repair works lasting more than one calendar year at 5%
- Professional fees at 20%,
- Rentals and royalties at 20%,
- Dividends and interests at 10%,
- Sales proceeds of copyrights, patents, trademarks etc. at 20%.

The rates applicable for payments to non-residents can be seen in Appendix IV in detail.

Withholding tax will not be applied to principal, interest and dividend payments for the borrowings obtained from foreign financial institutions and also insurance and reinsurance payments.

Withholding taxes over payments made to CFCs in line with the above regulation can be offset against the corporate income tax calculated over CFC's profit included in the tax return in Türkiye.

Payments to Tax Heavens

All sorts of payments made to the entities (including business places of resident companies in the relevant countries) that are established or operating in the countries which are announced by the President by taking into consideration whether there is an unfair tax competition or not and the exchange of information, would

be subject to withholding tax at a rate of 30 % until a new rate is determined by the President irrespective of the fact that;

- The said payments are in the scope of tax or not or,
- The entity that receives the payments is a taxpayer or not.

On the other hand, the President has authority to amend the above mentioned rate within certain limits and might use its authority

for each sort of payments or for each line of activities and sectors separately.

Payments to Resident Companies

The following payments to resident companies are subject to withholding tax:

- Progress payments for multi-year construction and repair works
- Interest on all types of bonds and bills
- Capital gains derived from the sale of bonds and bills issued on or after 1.1.2006 and from the sale of stocks quoted in Istanbul Stock Exchange (ISE) that are purchased on or after 1.1.2006 and held less than 1 year.
- Interest on bank deposits and repo income.

Withholding tax requirement for certain e-commerce activities

Through the amendments made to Article 15 of the Corporate Tax Law, the below listed payments were included into the scope of corporate tax withholding starting from 1 January 2025:

- Payments made by intermediary service providers and e-commerce intermediary service providers to service providers and e-commerce service providers for the activities within the scope of the Law No. 6563 (at rates varying from 15% to 25%)
- Payments made for the purchase of goods and services related to sectors or activities determined by the President.

Alternate Tax Basis

A non-resident company which does not have commercial income generated from a business in Türkiye and pays withholding tax

at source may file a corporate income tax return showing gross revenue and expenses and calculating the taxes payable on net income. If the tax computed is less than the tax deducted by withholding, then a claim may be made to refund the excess taxes paid. Otherwise, withholding taxes represent the final taxation for the non-resident companies.

Statute of Limitation

A tax return is not subject to question or additional assessment after the end of the fifth year following the year the tax liability was incurred. This period cannot be prolonged. However, the time taken for an administrative or court proceeding is not counted in the five years.

5.6 Bookkeeping Requirements

Based on Turkish Tax Procedural Code, Companies who keep their records per to the balance sheet method should maintain below legal books:

- Journal ledger
- General ledger
- Inventory ledger

Below are the certain critical issues for legal books that mentioned in the tax laws:

- Above legal books are subjected to public notary certification
- procedure.
- Legal books must be kept in Turkish (dual language can also be used), in terms of the Turkish Lira, and in line with the Turkish Uniform Chart of Account.
- Legal books should be printed as hardcopies if the company is not registered with e-invoicing/e-ledger systems.

E-invoice, e-ledger and e-archive systems has been introduced by the Turkish Revenue Administration to adopt the electronic transformation into tax environment. Through these systems, companies can create, store and submit their invoices, journals and ledgers electronically. Implementation of e-invoice, e-ledger and e-archive are mandatory for certain taxpayers, depending on the gross revenues and operations of the taxpayers. In recent years, Turkish Revenue Administration expanded the scope of taxpayers required to implement these electronic systems. As a general principle, taxpayers having gross revenue exceeding TRY 3 million for 2022 and onwards are required to implement e-invoice, e-ledger and e-archive, regardless of the operations of the taxpayers.

On the other hand, implementation of mentioned electronic documents are also mandatory for certain taxpayers, such as online intermediary and advertising service providers, taxpayers licensed by EMRA (Energy Market Regulatory Authority) for the goods listed under List (I) attached to the Special Consumption Tax Law; taxpayers manufacturing or importing goods listed under list (III) attached to the Special Consumption Tax Law, brokers/traders engaged in the trade of vegetables and fruits under Law Nr. 5957, as well as other group of taxpayers determined by the Turkish Revenue Administration.

6. Transfer Pricing Regulations

In Türkiye, transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The Transfer Pricing Communiqué No. 1 on disguised profit distribution via Transfer Pricing, dated November 18, 2007 sets details about implementation of the rules. Transfer Pricing Communiqué No. 2 was released as a supplementary document to the first communiqué on April 22, 2008. The transfer pricing regulations in Türkiye are created in line with the principles established by the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. With the 6728 numbered law which is in effective as of 09 August 2016; new regulations related to transfer pricing rules have been enacted. With the amendments made to article 13 of corporate tax law numbered 5520; Turkish transfer pricing rules have been more converged to OECD transfer pricing guidelines.

The law stipulates 10 % threshold to "related party" definition, it removes the strict hierarchy amongst transfer pricing methods, it allows certain type of "roll back" for APA agreements and removes 50 percent of tax penalties for taxpayers who fulfill timely and proper documentation requirements. Transfer pricing related regulations took effect as of 09 August 2016.

Presidential Decree numbered 2151 was published on the Official Gazette on February 24, 2020 regarding OECD BEPS Action 13 Country by Country Reporting and Transfer Pricing Documentation. Through the new Decree, OECD BEPS 13 Transfer Pricing and reporting requirements are now in effect in Türkiye.

BEPS 13 Documentation requirements

The Decision clearly states new documentation rules which are in line with OECD BEPS 13 reporting and documentation requirements. With the Decree, the transfer pricing documentation have been divided into 3; master file (MF), local file (LF) and country by country reporting (CbcR).

MF: The multinational taxpayers which have net sales and assets greater than 500 mil TRY are required to prepare MF.

LF: The LF requirement is same as the former annual transfer pricing report and all taxpayers which have cross border transactions (for large corporation taxpayers both domestic and cross border intercompany transactions) have to prepare local transfer pricing report. In addition companies operating in free trade zones are required to prepare transfer pricing report for their domestic intercompany transactions.

CbCR: The country by country reporting is for taxpayers which are belonging to a MNE group which have consolidated revenue of 750 mil Euro or above.

CBCR Notification requirement: With the Decision, notification requirement have been introduced. The Multinational entities covered, the reporting entity (whether ultimate parent entity or surrogate entity) and which entity will report CbCR should be notified to Turkish Tax Authorities by the end of June with a written petition to the Tax Authorities.

Other Amendments

The Presidential Decree also made the following amendments and additions to the existing transfer pricing rules in Türkiye. As known the Article 59 of new Law, numbered 6728, has introduced some amendments to article 13 of Corporate Tax Law numbered 5520 where Turkish transfer pricing rules have been more converged to OECD transfer pricing guidelines.

The Presidential Decree also includes such changes which were put into force with law 6728. The relevant changes are 10 percent threshold for related party definition, Recognition of Transitional Net

Margin and Profit Split Method, the rollback of APA and relief from 50 percent of tax penalty in case proper and timely documentation is in place.

The Decision also brings new rules to the former added rules such as

- The related party definition also includes real persons and their definition from Income Tax Code perspective.
- The APA period now covers 5 years instead of 3 years. The taxpayers have to submit the renewal of APA before 6 months (formerly 9 months) of the expire of the APA.
- The analysis term of the APA negotiation has been described as the evaluation of comparable transactions, function analysis, comparable search process, contract terms, transaction adjustments and other key terms.
- The hierarchy over transfer pricing methods have been eliminated.

6.1 Arm's Length Principle

Arm's length principle is defined as setting prices or amounts for the purchase or the sale of the goods or services between the related persons as the prices or amounts would be charged for the same transactions carried out with unrelated parties/ third parties.

The transfer pricing regulations state that taxpayers should select the best suitable transfer pricing methodology for setting the arm's length prices and amounts for the transactions with related persons. The selection of a transfer pricing methodology serves to find the most appropriate method for the nature of the intercompany transactions under consideration. Taxpayers will set the arm's length prices or amounts for their intercompany transactions by choosing one of the following methods stated in the article.

- Comparable uncontrolled price method: This method means that arm's length selling price applied by a taxpayer is determined by comparing with the market price stated for the comparable purchase or sale of the goods or the services between the unrelated parties.

- Cost plus: Arm's length price is calculated / determined by increasing the costs of the relevant goods or services with a reasonable rate of gross profit margin.

- Resale price method: Arm's length price is calculated/ determined by deducting a reasonable rate of gross sale profit margin from the price which will be applied for the resale of the relevant goods or services to the unrelated parties,

Transactional profit methods: Refers to the methods based on profits arising from the transactions between related parties in designation of arm's length price or return. These methods consist of transactional net margin method and profit split method. Transactional net margin method is based on the examination of an established net profit margin realized by the taxpayer resulting from a controlled transaction on certain relevant and appropriate basis such as costs, sales or assets. Profit split method refers to the arm's length split of total operating margin or loss between related parties realized from one or more related party transactions with regards to the functions performed and risks borne by each party.

In circumstances where an arm's length price or remuneration could not be identified via one of the methods mentioned above, another method which is consistent with the nature of the related party transaction and defined by the taxpayer can be utilized.

The related profit regarded as distributed wholly or partially in a disguised way via transfer pricing is treated either as dividend distributed or amount transferred to the headquarters for the non-resident entities as of the last day of the accounting period in which the conditions specified under the Article 13 of Corporate Tax Law 13 Article occur. Previous taxations will be adjusted for the parties involved. In order to make this adjustment, taxes assessed for the companies distributing the profit in a disguised way should be finalized and paid.

For intra-country group transactions, disguised profit distribution via transfer pricing would be applicable if treasury loss results from the domestic intercompany transactions of the corporate taxpayers. The treasury loss is defined as under declaration or late declaration of all type of taxes as a result of the prices or the amounts which are not in line with the arm's length principle.

6.2 Documentation Requirements

According to government decree and the Transfer Pricing Communiqué No. 1 taxpayers have two different documentation requirements; preparation of transfer pricing form and yearly transfer pricing report.

With the amendments made by the Article 59 of law numbered 6728, in circumstances where transfer pricing documentation obligations are fulfilled completely and in due time, tax penalty arising from under assessed or past due taxes by reason of disguised profit distribution will be imposed with a 50 percent discount (excluding the states which give rise to loss of tax through acts worded in 359th clause of Tax Procedure Law).

The Turkish Revenue Administration have released 4 Serial Number General Transfer Pricing Communique at 1 September 2020.which clearly explains the new BEPS rules introduced by 2151 numbered Presidency Decree. It also combines all other amendments made to General Communiqué on Disguised Profit Distribution through Transfer Pricing Serial No: 1.

The Communique includes new requirements which constitute an enlargement of the current legal requirements.

Documentation requirements in line with BEPS Action 13 have been introduced. This contains instructions for the further elaboration of the additional documentation requirements for multinational enterprises, including Country-by-Country Reporting (CbC Report), Master File and Local File.

Transfer Pricing Form

According to the regulations, all taxpayers are obliged to complete a form called "transfer pricing, controlled foreign company and thin capitalization form" attached to the company's annual corporate tax return. In this form, taxpayers are required to present all intra-group transactions that take place during the year and indicate the selected transfer pricing methods to test the arm's-length nature of the intra- group transactions. Taxpayers are also required to complete the 'controlled foreign company' and 'thin capitalization' sections.

There is a threshold for the amounts to be included in the Annual Transfer Pricing Form (Annex 2) which is attached to the Corporate Income Tax Return . Related parties with a limit exceeding 30.000 TL for each purchase or sale of goods or services within the related accounting period will be included in the form.

Local File

Corporate taxpayers registered with the Large Taxpayer Tax Office are required to document their international and domestic related party transactions in the annual transfer pricing reports. Companies registered with the Large Taxpayer Tax Office are typically the largest companies determined by reference to their turnover, payable taxes, and asset size and location being in Istanbul. All banks and insurance companies are also among the members of the Large Taxpayer Tax Office regardless of their location and size. Corporate taxpayers

who are not registered with Large Taxpayer Tax Office are required to prepare the transfer pricing annual reports including only their international transactions with related parties.

Additionally, all corporate taxpayers should document their transactions with their related entities and/or their branches that operate in Free Trade Zone in Türkiye.

Transfer Pricing Communiqué No. 4 sets forth details of the information that needs to be included in local file. According to the communiqué, transfer pricing reports should be prepared covering the following information and documents.

- Description of activities of the company, organizational structure, definition of the related parties (i.e., tax id number, addresses, phone number, etc.) and ownership information of these parties,
- All functions are performed and risks taken,
- Pricing lists of the products of the year (not required to be in the local file but should be kept ready)

Details of cost of goods (not required to be in the local file but should

be kept ready)

- The amount and invoice information about all transactions with related and unrelated parties within the year,
- All agreements signed with the related parties,
- Financial statements of related parties,
- Intra-group pricing policies,
- Intra-group accounting standards and policy differences if they exist,
- Ownership of intangible assets,
- Transfer pricing method selected by the company (comparability analysis, selected comparables whether external or internal),
- Calculations and assumption for reaching the arm's-length price,
- Calculations for reaching the arm's-length range, if applicable.

Corporate taxpayers who do not have international related party transactions and individual taxpayers are not required to prepare a yearly transfer pricing report. However, the above mentioned documents and information should also be submitted if requested by the tax authorities by corporate taxpayers other than those registered at Large Taxpayer Tax Office for their domestic operations performed with related parties and by the payers of income tax for their domestic and foreign operations performed with related parties during a calendar year.

The Government Decree and the General Communiqué state that documentation should be prepared by the tax return submission date, which is 25th of April for normal calendar year, and it should be submitted to the Tax Authority upon request. The decree and general communiqué state that if the transfer pricing documentation is prepared in a foreign language, Turkish translations also must be submitted to the tax authorities.

The Details of Communiqué Serial No. 4 which amends General Communiqué on Disguised Profit Distribution through Transfer Pricing (Serial No 1) has been published.

As stated above, with the Presidential Decree No. 2151 dated 24.02.2020, the definition of related party in Article 13 of Corporate Tax has changed; the hierarchy among transfer pricing methods were removed, penalty reduction was granted to taxpayers which fulfill transfer pricing documentation requirements and Advance Pricing

Agreements are allowed to be effective retrospectively. Likewise, within the scope of the Presidential Decree, the section of transfer pricing documentation was rearranged and sections of the master file, local file and country by country report were added. The Communiqué also explains with examples how to determine the 10 percent indirect and direct shareholder relationship so that will be considered for the parties to be considered as related parties within the scope of transfer pricing.

The Country by Country Report format and notification format are shared and presented to the taxpayers. Within the scope of the detailed explanations made with the Communiqué, it has been understood that Country by Country Report and Master File applications will be based on the OECD model.

Other highlights within the scope of the Communiqué are presented below.

- First CBCR report will be for year 2019 and will be delivered until the end of 2020. The MNEs which has consolidated revenue equal or more than 750 mil Euro are required to file CBCR. In case the ultimate parent entity or surrogate entity of such MNE is in Türkiye, CBCR will be filed to Turkish Administration.

- In case the ultimate parent entity or surrogate entity is located outside Türkiye, it is expected that Turkish taxpayers belonging to a such MNE will not locally file CBCR in Türkiye if Türkiye has an Qualifying Agreement with such country and other conditions hold.

- As of now, Türkiye has signed CBCR MCAA and it is possible to exchange reports with many countries. In case, Qualifying Agreement is not signed and activated with any Country then Turkish subsidiaries of an MNE will be required to locally file CBCR in Türkiye.

- In the Communiqué, it is stated that Ultimate Parent Entity of a MNE located in Türkiye may assign surrogate entities abroad Türkiye. However it is still mandatory for such MNE to file CBCR to Turkish Administration as well. With this description, it has been noted that even the ultimate parent company of a multinational entity group is in Türkiye, it may still appoint surrogate entity in a different jurisdiction to be able to make its CBCR automatically exchanged with other Authorities in the lack of a signed Qualifying Agreement for the first year of implementation.

- Once the notification is submitted within time, taxpayers still have chance to correct if necessary their notification until the end of the following month of the submission.

- Country by Country Reporting will be delivered to the Administration in xml format over the BTRANS system. The schema check of the transmitted XML files will be done during the BTRANS file upload, and incorrect files will be rejected.

- Taxpayers must complete their BTRANS applications before the first data transmission date.

- According to the Communiqué, the "notification form for country by country reporting" and "country by country report" can be sent by the taxpayer, as well as a certified public accountant with a consultancy agreement, or a sworn tax accountants with an income or corporate tax return compliance agreement (Tax Compliance Agreement) for the relevant period.

- Country by country report notification form, country by country report, transfer pricing form and transfer pricing report have been specified as documentation requirements for transfer pricing for taxpayers. As known; taxpayers who fulfill transfer pricing documentation requirements benefit 50 percent penalty reduction. In order to benefit from penalty reduction, taxpayers are also required to fulfill CBCR related requirements.

6.3 Advance Pricing Agreements (APA)

TThe methods determining the arm's length price or value for the related party transactions can also be agreed on with the Ministry of Finance upon the request of the taxpayer. The method determined via such agreement will be certain in the conditions and periods stated in the agreement, not exceeding five years.

A taxpayer can agree upon the methods to be used for determining the transfer prices for his intercompany transactions with the Ministry of Finance. The methods that are determined within the terms and conditions of the agreement could be used by the taxpayer for a maximum period of three years. The APA period covers three years. The taxpayers have to submit the renewal of APA before six months (formerly nine months) of the expire of the APA.

If the agreement is entered between one tax authority and a taxpayer, then it is called unilateral APA; and as transfer prices affect related enterprises that are located in other countries, there can be bilateral or multilateral APAs. In this respect, unless local laws and regulations provide guidance for tax authority and taxpayers, the mutual agreement procedure of applicable double tax treaties can be used to conclude bilateral or multilateral APAs.

Since the transfer pricing regulations went into effect on January 1, 2007, Turkish taxpayers have been entitled to enter into APAs with the Ministry of Finance for the determination of methods in relation to setting fees and prices for their transactions with foreign related parties (i.e., non-resident related parties) upon their request.

The main purpose of the application of APAs is to prevent potential tax related disputes and controversies in relation to transfer prices applied by taxpayers for their transactions with related parties.

Concluding an agreement with the TRA, taxpayers will be protected against potential tax risks and penalties that may be imposed by the tax authorities.

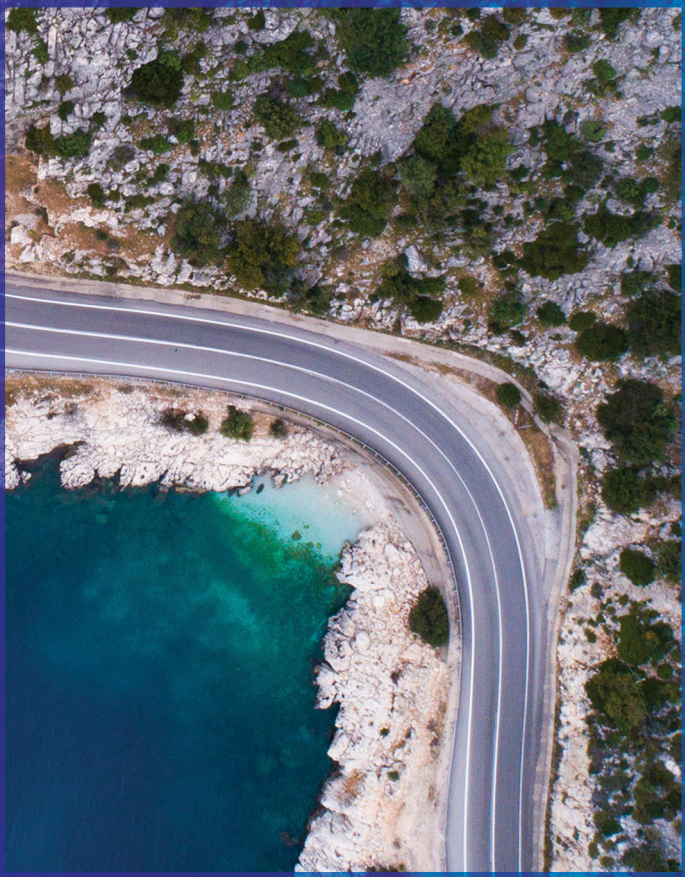
With the first ten unilateral and first bilateral APAs signed in Türkiye, we expect that there would be more unilateral APA applications from now on and this will pave the way for bilateral and multilateral APAs in the future. In addition, Article 59 of law numbered 6728 provides a certain roll back for APA for the prior years.

In December, 2017, Turkish Revenue Administration published a Communique regarding APA process which is under section 6 in the draft General Communiqué on Disguised Profit Distribution through Transfer Pricing Serial No: 1 through Transfer Pricing Communiqué No: 3. In the Communique, APA process was stated in detail in which the most important part was that APAs could be used with retrospective approach.

6.4 Mutual Agreement Procedures (MAP)

The Law No. 7338 on Certain Amendments on Tax Procedural Law and Certain Laws ("Law No. 7338"), published in the Official Gazette dated October 26, 2021, introduced the first regulations on mutual agreement procedures ("MAP"), provided under double tax treaties, in Türkiye. The law includes rules regarding the application of MAP and ensure the effective use of MAP to be able to solve tax disputes caused by cross-border transactions.

Considering that most of the cross-border tax controversies include transfer pricing cases, the effective use of MAP is very important for MNEs. Therefore, the new rules will be very important in encouraging taxpayer to apply for MAP in order to solve their cases and eliminate double taxation raised due to tax controversies between countries.



7. Indirect Taxation

7.1 Value Added Tax

Taxable Transactions

VAT applies to the following transactions:

- The supply of goods or services in the course of performing commercial, industrial, agricultural, or independent professional activities made in Türkiye by a taxable person.
- Goods and services imported into Türkiye
- Deliveries and services arising from other activities specifically stated in law.

VAT Taxpayer

A taxable person is any person or legal entity that has VAT liability in Türkiye. Any entity that has a fixed place of business or regularly carries out commercial or professional activities in Türkiye must register in Türkiye.

VAT registration is granted automatically by the tax office when a business registers for corporate income tax purposes.

Group registration: VAT grouping is not permitted under Turkish VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses: A non-established business may not register for only VAT. If a Turkish taxable person receives services from an entity that does not have a fixed place in Türkiye, VAT is accounted for using the reverse-charge mechanism.

The reverse charge applies if certain supplies subject to Turkish VAT are made by a person that is not resident in Türkiye or that does not have a permanent establishment or headquarters in Türkiye. It is a form of self-assessment for VAT through which the recipient of a supply of services accounts for the tax.

The reverse charge applies to the following services performed by non-residents without a fixed place of business in Türkiye:

- Services of independent professionals, such as engineering, consulting, data processing and provision of information
- Transfers of copyrights, patents, licenses, trademarks, know-how, and similar rights Import commissions
- Interest payments made to foreign entities other than banks and financial institutions
- Rent payments
- Transfer or assignment of the right to use capacity for the transmission, emission, or reception of signals, writings, images, sounds, or information of any nature by wire, radio, optical or other electromagnetic systems
- Other services not specified in this list but utilized in Türkiye

VAT rates

In Türkiye, the following VAT rates are applied:

- Standard rate: 20%
- Reduced rates: 1% and 10%

The standard VAT rate applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or exemption.

Examples of goods and services taxable at 1%

- Certain foods and beverages
- Used passenger cars
- Financial leasing services (with certain conditions)

Examples of goods and services taxable at 10%

- Pharmaceuticals and medical products
- Some construction equipment
- Ready-wear products, garments and textile products
- Admission charges for cinemas, theaters, and operas
- Some cleaning supplies
- Foods and beverages services
- Accommodation services
- Land sales

VAT Exemptions

Exemptions are classified in two different groups:

- The term "fully exempt" supplies refers to supplies of goods and services not subject to VAT and recovery or refund of the input VAT is possible (exempt with credit).
- "Partially exempt" supplies refer to supply of goods and services not subject to VAT but no right of input tax deduction.

Examples of fully exempt with credit supplies of goods and services are;

- Exports of goods and services
- Services rendered at marines and airports for marine and air conveyances
- Supplies to persons engaged in petroleum exploration
- Supplies of goods to investment certificate holders
- Sales to the Directorate of the Defense Industry
- Sales to diplomats or diplomatic entities based on reciprocity principle
- International transport
- Delivery of fertilizer and bait/feed Delivery of books and periodical publications excluding packaged publications
- Preventative medicine, diagnosis, treatment and rehabilitation services within the scope of medical institutions and organizations to non-resident individuals by individuals or legal entities permitted by the Ministry of Health.

Examples of partially exempt supplies of goods and services are;

- Leasing immovable property by an individual
- Financial transactions
- Supplies to certain cultural bodies
- Supplies by and to certain governmental bodies
- Water for agriculture
- The supply of unprocessed gold, foreign exchange money, stocks and bonds, duty stamps, scrap metal, plastic etc.
- Storage services performed at bonded warehouses or temporary storage places
- Delivery of goods or performance of services in free-trade zones and transportation to or from free-trade zones for export purposes.

Time of supply or service

Time of supply for goods takes place when they are delivered and for services it takes place when they are performed. However,

if the supplier issues an invoice before the time of supply, VAT applies to the extent that the supply is covered by the invoice. A prepayment or deposit does not result in a taxable transaction.

The time of supply for imported goods is either the date

of importation, or the date on which the goods leave a duty suspension regime.

Taxable Base

The taxable base of a transaction is generally the total value of the consideration received, not including the VAT itself. The VAT Law deals with the taxable base under four headings, namely the taxable base on deliveries and services, on importation, on international transportation, and special types of taxable base.

In case a consideration does not exist, is unknown or is in a form other than money, the taxable base is the market value.

Market value is the average price payable in the market for similar goods and services and is determined with reference to the Tax Procedural Law.

Recovery of input VAT

A taxable person may recover input VAT, which is charged on goods and services received for business purposes and related with taxable or fully exempt transactions.

Input tax includes VAT charged on goods and services supplied in Türkiye, VAT paid on imports of goods, and VAT self-assessed on reverse-charge services.

A valid invoice or customs document must accompany to recover input tax.

The right of deduction may be exercised in the tax period in which the purchase documents are entered into the recipient's books of account, until the end of following calendar year in which the taxable event takes place.

Non-deductible input tax: Input tax is not recoverable if it is charged on purchases of goods and services that are not used for business purposes and are considered to be non-deductible expenses for corporate tax purposes. In addition, input tax may not be recovered for partially exempt transactions (input VAT associated with passenger cars is recoverable only if they are rented or operated for a usage fee).

Partial exemption: An input tax deduction is granted for taxable supplies and for supplies that are VAT exempt with credit. An input tax deduction is not granted for partially exempt supplies. If a taxable person makes both taxable and partially exempt supplies, it may recover only input tax allocated to supplies that are taxable or fully exempt.

Refunds: If the amount of input VAT recoverable in a period exceeds the amount of output VAT payable in the same period the excess amount is carried forward to following periods without any limitation. It is possible to refund such carried forward VAT only in the below cases:

- Delivery of goods and services subject to reduced rate VAT
- Delivery of goods and services that are full exempt from VAT
- Delivery of goods and services that are subject to partial VAT withholding

The amount of the VAT refund can be claimed either in the form of offsetting to other tax liabilities or cash refund.

There is a 2 year time limitation for claiming VAT refund from beginning of FY2019 transactions.

Invoicing

Delivery of goods or performance of services should be invoiced within 7 days. Moreover, recipients of the supplies must retain copies of the invoices.

Foreign-currency invoices: An invoice issued for a domestic sale must be issued in Turkish lira (TRY). The invoice may also show the invoiced amount in a foreign currency if the TRY equivalents are stated. However, an invoice issued for an export sale may be issued in a foreign currency.

VAT returns and payment

- VAT 1 (ordinary VAT)

VAT 1 returns are filed on monthly basis and must be submitted and must be paid until the 28th day of the following month.

Even if there is no transaction in the relevant period, the nil declaration must be submitted.

- VAT 2 (reverse charge VAT)

VAT 2 returns are filed on monthly basis and must be submitted and must be paid until the 25th day of the following month.

If there is no transaction that is subject to VAT 2 then there is no declaration for relevant month.

VAT Communique of B2C e-Services Takes Effect

VAT communique regarding services provided electronically from parties that have no residence, workplace, registered head office and business center in Türkiye to individual customers with no VAT-registration (B2C) entered into force on January 1, 2018.

In return for an amount, services provided electronically from parties that have no residence, workplace, registered head office and business center in Türkiye to real persons who are not VAT taxpayer.

For registration, the service providers shall fill the form on https://digitalservice.gib.gov.tr before they declare VAT return numbered 3 for the first time. After this form is filled out electronically and approved, "VAT Registration Special for Electronic Service Providers" will be established for service providers by Large Taxpayer Office Directorate in İstanbul.

Electronic Service Providers will declare calculated VAT with numbered 3 Tax Return for the services provided electronically to real persons who are not VAT taxpayer in Türkiye. Tax Returns will be submitted electronically to the tax office on monthly basis through internet tax office until the evening of the 28th day of the month following the taxation period and the payment also will be done until the end of 28th of the month following the taxation period.

The taxpayers in this scope are not obliged to submit tax returns for the months where there is no service provided electronically.

7.2. Special Consumption Tax

Special Consumption Tax is an excise tax and it is imposed on the import, manufacture and first acquisition of a range of goods.

Special Consumption Tax was implemented in August 2002 by abolishing 16 different indirect taxes and funds in order to make the indirect taxation system harmonized. Unlike VAT, which is applied on each delivery, Special Consumption Tax is charged only once.

There are mainly 4 different product groups that are subject to Special Consumption Tax at different tax rates.

Scope of Special Consumption Tax

Goods in the Lists attached to the Special Consumption Tax Law are the subject of the tax.There are mainly 4 different product groups that are subject to special consumption tax at different tax rates;

- List I is related to petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents.
- List II is related to automobiles and other vehicles, motorcycles, planes, helicopters, yachts.
- List III is related to tobacco and tobacco products, alcoholic beverages and cola.
- List IV is related to luxury products (durable white goods, cellular phones, diamonds etc.).

Taxpayers of the Special Consumption Tax

Taxpayers of special consumption tax changes based on the lists. They are;

- For List I; manufacturers (including refineries) and importers of the petroleum products,
- For List II; Motor vehicle dealers, importers for special purpose or motor vehicle sellers through auction.
- For List III; manufacturers, importers or sellers through auction of tobacco, alcoholic beverages and cola.
- For List IV; manufacturers, importers or sellers through auction of luxury products.

8. Income Tax on Individuals

Income tax is unitary in nature. The source of income is defined in 7 categories: Business profits, agricultural profits, employment income, professional income, rental income, interest & dividends, and other income.

The category of "other income" covers income, which do not fall under the first 6 categories, mainly being capital gains and income from certain incidental transactions.

There are two main types of tax statutes: resident taxpayers, and non-resident taxpayers. Residents are taxed on their worldwide income, whereas, non-residents are taxed only on their Turkish source income.

Turkish citizens, who work abroad, even if employed by companies with headquarters situated in Türkiye or by the Turkish Government, are not subject to Turkish taxation in respect of income obtained and taxed outside Türkiye.

A foreigner who spends less than a continuous period of six months in Türkiye during a calendar year and whose centre of vital interest is not concentrated in Türkiye or who, although stays in Türkiye for more than six months but has come to Türkiye for a specific and temporary assignment (e.g. businessman, expert, press or radio correspondent), is regarded as non-resident and is taxed accordingly.

8.1 Taxable Income

Gross Income

Taxable gross income includes amounts received from the following sources:

- Income from commercial activities,
- Income from agriculture,
- Income from professional services,
- Income from employment services (wages and salaries),
- Income from movable properties (interest and dividends),
- Income from immovable assets and rights (rental income), and
- Other income and earnings (capital gains, etc.).

With some exceptions, income (or losses) from the above categories is combined.

Exclusions and Exemptions

Certain amounts received by individuals need not to be reported for tax purposes. The followings are specifically exempt:

- Annual rental income up to TRY 33.000,00
- Employment income wholly consisting of salaries derived from one resident employer, provided that all payments are taxed by withholding mechanism on payroll,
- Interest income which has been subjected to withholding tax at source,
- Half of dividend income received by a resident taxpayer from a resident corporation,
- Income derived by authors, sculptors, painters and composers, etc. and their heirs from copyrights and patent rights,
- Pensions and other social security compensations received up to certain levels,
- Reimbursement (made by the employer) of travelling expenses incurred by employees for business purposes,
- Salaries paid in foreign currency by the representative/liaison offices of foreign companies,
- Retirement and termination indemnity payments (maximum; TRY 35.058,58 for the first half of 2024)
- Capital gains from the disposal of Turkish corporation shares held for more than two years,
- Capital gains from the disposal of real estates retained by
- individuals for more than five years.

Deductions and Allowances

Turkish income tax law provides various deductions and allowances for each category of income. Some important deductions and allowances are explained below:

- Business expense deductions set out for companies are also applicable to individuals, to the extent that they relate to an individual's business income, and
- Compulsory pension contributions and social security premiums,

The following benefits are not taxable from the employee standpoint:

- Insurance premiums paid for the taxpayer and his family for death, sickness, disability, birth and education are deductible from the taxable salary. However, the insurance company should be established in Türkiye and monthly insurance premiums should not exceed those established by law,
- If meals are provided at the business premises, total payment made by the employer is tax exempted. Otherwise, only certain amount is exempted.
- Transportation provided by the employer,
- Accommodation provided by the employer, to the employees working in mining, factory and those whom the employee should provide accommodation in accordance with the special legislation. (which should be owned by the employer and not be more than 100 square meters),
- Children allowance up to the amount received by a government employee, for maximum two children,
- Indemnity and assistance payments for reasons of death, disability, illness and unemployment,
- Assistance paid to employees because of marriage and birth, limited to two months' salary.
- Donations to government offices, municipalities, villages, associations in the public interest and foundations under the Civil Code of up to 5 % of taxable income, and
- 50% of the life insurance premiums paid to the insurance companies established in Türkiye and 100% of the premiums for death, sickness, disability, motherhood, etc. up to 15% of declared income and with a maximum of the minimum wage/ salary for each member of the family. This deduction is not applicable for non - residents.

- Annual expenses incurred on education and health up to 10% of the income declared on the annual tax return are deductible,
- Effective as of 2022, an income tax and a stamp duty exemption apply to minimum wage. There is no income tax or stamp duty withholding on payroll. This exemption is also extended to higher-than-minimum wage earners, limited to the minimum wage amount.
- Rental income earners may either itemize expenses related to immovable or may deduct a lump sum of 15 % of gross rentals expenses,
- In calculation of taxable capital gains, the cost of assets whose disposal led to capital gains may be indexed to the inflation only if the inflation during the holding period is in excess of 10%. Non-residents are allowed to eliminate foreign exchange gains when calculating the taxable gains from disposal of Turkish securities.
- Income taxpayers those who declare their income regularly and pay the taxes within respective deadlines due to their commercial, agricultural or professional activities will benefit 5% tax discount as of 1st January 2018 if the conditions met

8.2. Income Tax Rates

The income tax rate is applied at progressive rates in Türkiye, from 15% to 40%.

The income tax rates and brackets applicable for income generated through personal investments (excluding employment income) in 2024 calendar year are as follows:

Income scales (TRY)	Rate (%)
Up to 110.000	15
110.001 -230.000	20
230.001 -580.000	27
580.001 – 3.000.000	35
3.000.001 and upwards	40

The income tax rates and brackets applicable for employment income in 2024 calendar year are as follows:

Income scales (TRY) Employment Inc.	Rate (%)
Up to 110.000	15
110.001 -230.000	20
230.001 -870.000	27
870.001 – 3.000.000	35
3.000.001 and upwards	40

Tax Credits

After tax has been calculated, credits against tax payable are allowed for;

- Tax withheld at source on certain income, and
- Foreign income tax that is limited to the amount of Turkish tax applicable to foreign income provided that the primary taxing right belongs to Türkiye and certain conditions are satisfied.

Tax Credit on Dividends

Resident taxpayers have to include 1/2 of gross dividends received from a resident company in their taxable income. Withholding tax paid at source, however, is wholly creditable against tax calculated on the return.

Tax Returns, Filing, Payments

Tax returns must be filed by the end of March in the following year.

Income tax is payable in two equal installments in March and July.

Non-residents are taxable on all earnings of income collected or realized in Türkiye unless exempted. The filing requirements and taxation systems on non-residents in general, are as follows:

- Income from commercial and agricultural activities must be included in the tax return,
- Salaries, income from services and proceeds of sale of rights, interest, rent and dividends are subject to withholding tax. No further filing is required, and
- The proceeds of sale of real estate and income from movables that have not been subjected to withholding tax must be declared on individual declarations.
- Individuals who gain more than TRY 3.000.000,00 need to report their income through an income tax return, although this income is derived from a single employer.
- Employees who change employment within the year and whose employment income from their second employer exceed the second income tax bracket (TRY 230.000,00 for 2024) are required to report this income through an annual tax return.

9. Labor

9.1 Labor Legislation

The Turkish Constitution of 1982 stands as the most prominent source and one, which takes precedence over other areas of legislation. The Labor Legislation in Türkiye consists, at present, of the following acts: the Labor Code numbered 4857, Social Security And General Health Insurance Law numbered 5510, Maritime Labor Act numbered 854, Act Concerning Labor/Management Relations in the Press numbered 5953, Occupational Health And Safety Law numbered 6331, Law On Trade Unions And Collective Labor Agreements numbered 6356, Unemployment Insurance Law numbered 4447, International Labor Force Law numbered 6735, Labor Courts Act numbered 7036, National Holiday and General Vacations Act numbered 2429, Turkish Labor Institution Act numbered 4904 and relevant regulations.

Weekly Working Hours and Vacations

In general the working week consists of a maximum of 45 hours. Weekly working hours may be unequally distributed throughout the working days of the week. However, employees must not work for more than a total of 11 hours in one day including overtime. In addition, working hours in a night shift must not exceed 7.5 hours per day.

Employees are entitled to use minimum subsequent 24 hours weekend holiday in a 7 days working period. Nevertheless, on condition of obtaining permission, it is possible to keep the workplace open 7 days a week. For example, large department stores can hold their workplaces open without holding a weekend holiday. In case the employees do not work on days accepted as national and general holidays in the laws, they are paid the wages pertaining to such day completely without any work correspondence and in case they do not go on holiday and work on such days, they are additionally paid the wage of one day for each worked day.

Under the National Holiday and General Vacations Act, the official holidays are the following:

- January 1st, New Year's Day.
- April 23rd National Sovereignty and Children's Day, 1 day.
- May 1st, Labor and Solidarity Day
- May 19th, Youth and Sports Day, 1 day.
- July 15th, Democracy and National Solidarity Day, 1 day
- August 30th Victory Day, 1 day.
- October 29th the Republic Day, starts at 13.00 pm. on October 28 and continues on October 29.
- Ramadan Holidays, 3.5 days, the dates vary, starts at 13:00 pm on the day before the religious day
- Sacrifice Feast Holidays, 4.5 days, the dates vary, starts at 13:00 pm on the day before the religious day

Overtime Work

Overtime work is defined as the working hours, which exceeds 45 hours in a week. Hourly wages for overtime is 50 % more than that for ordinary working hours. Where an employment contract stipulates less than 45 hours of work in a week, any work up to 45 hours that exceeds the weekly working hours provided by the contract are deemed as extra hours. The salary payable for each extra hour is 25% more than the salary payable for one standard hour of work. An employee who works overtime or extra hours is, at his discretion, entitled to request 1.5 hours of free time for each hour of overtime worked and 1.25 hours of free time for each extra hour worked, in lieu of increased salary. The total number of overtime hours worked per year may not exceed 270 hours.

When overtime work is undertaken in the weekend holiday or on official holidays, the employee is entitled to an additional full day working wage. The written consent of the employee must be obtained for overtime working.

Annual Paid Leave

Employees who have worked for at least one year, including the probation period, from the date of recruitment are entitled for annual paid leave. The right for annual paid leave cannot be waived.

The duration of annual paid leave to be allowed to employees cannot be less than;

- 14 working days for those having a service period between one year and five years (including five years),
- 20 working days for those having a service period more than five and less than fifteen years,
- 26 working days for those having a service period of fifteen years (included) and more.

In case of termination for any reason unused annual leave accrued must be paid to employee.

Employment Contracts

Work, which continues for maximum 30 workdays on account of its nature, is called temporary work, and work that lasts longer is called permanent work. In case of temporary work, a large number of provisions of the Labor Code are not applied.

Employment contracts that have duration of one year or longer should be concluded in written form.

It is not necessary to execute employment contracts at the office of the notary public, and employment contracts are exempt from all taxes, duties and charges. Nevertheless, should the notary public certify the contract; a fee must be paid to it. In cases where no written contract is made, the employer is obliged to present to the employee a written document indicating the general and special working conditions, daily or weekly work period, basic wage and wage additions, if any, wage payment period, term of contract, if definite, and the provisions that the parties should observe in case of termination within two months at the latest.

Work on Call Basis

The labor relation where it is agreed through a written contract that the action of working shall be performed when employee is required in relation with the work undertaken by him/her is a part-time labor contract based on on-call work. In such a case, if not otherwise stated in the employment contract, the working hours are accepted as 20 hours in a week and at least 4 hours in a day. The call should be made at least 4 days before the starting date of the work.

"Distant work" is a newly defined employment agreement, where the employer requests from the employee to perform his/her work at his/her home or via technological devices out of office and the terms of such agreement should be drawn in written.

Compensating Work

Employer has the right to request for compensating work within four months if the work is stopped due to the compulsory reasons or if the employees have holidays before and after the official and general holidays or work less than ordinary working hours or if a vacation right is given to the employee at his own request.

Compensating work cannot be more than three hours in a day and cannot also exceed maximum working hours which is 11 hours per day.

Termination of the Contract

The fixed term employment contracts terminates automatically at the end of the determined period without prior notice. Before terminating an employment contract with an indefinite term, a notice must be served to the other party.

Statutory Notice

The indefinite term employment contract will be considered as annulled in:

- 2 weeks from the date of notification for employment of 0-6 months,
- 4 weeks from the date of notification for employment of 6 months-1.5 years,
- 6 weeks from the date of notification for employment of 1.5 years-3 years, and
- 8 weeks from the date of notification for employment of exceeding 3 years.

These intervals, so called the period of notice, may be extended, but not curtailed, through contracts.

The employer may immediately terminate the employment contract by paying the salary corresponding to the notice period (payment in lieu of notice) in advance. Where an employment contract is terminated by paying in lieu of notice, all other entitlements arising from the employment relationship must additionally be taken into consideration.

Severance Pay

A severance payment in the amount of 30 days salary (limited with a semi-annually determined threshold) for each completed employment year is paid in the cases of the termination of the employment contract:

- by the employer without any cause;
- by the employee with just causes;
- because of the employee is taken under regular military service;
- because of retirement or disability, or single payment from the legal institution or the fund that the employee is related to;
- employee's own request by completing the required period of insurance and payment of premiums to take old-age pension;
- female employee's termination with her own will within one year beginning from her marriage date; or
- because of the employee's death.

Severance pay is assessed according to the last wage received and number of the years worked for the employer. Such payments are calculated at a minimum 30 days' wage per year of employment

at the rate of pay of which maximum amount is announced by the government applicable at the date of retirement or termination. In calculating the wage that will form the basis of the severance pay, any benefits other than wages that were given to the employee during the last year under various names and all privileges that accrue from the contract and can be measured in money will be taken into consideration.

Presently, the maximum severance pay for each year of employment is TRY 41.828,42 (for the period 01.07.2024 – 31.12.2024)

Collective Dismissal

Collective dismissal of the employees from a workplace is defined under Article 29 of the Turkish Labor Code. Accordingly, when the employer intends to dismiss employees in mass due to economic, technologic, structural and similar enterprise, business or work requirements, he/she notifies this to the business trade union representative, respective regional directorate and Turkish Employment Agency in writing at least thirty days in advance.

The dismissal of the following numbers of employees in accordance with their notice periods and on the same date or different dates within the same month is considered as mass dismissal:

- between 20 and 100, at least 10 employees
- between 101 and 300, at least 10 % of the employees
- 301 and more, at least 30 employees.

The notification should include information on the reasons of employee dismissal, the number and group of employees who will be affected and the period of time that the dismissal procedures will take place in.

Notices of termination become effective thirty days after the notification of regional directorate by the employer of his/her intention of mass dismissal.

In case the employer intends to employ employees for a work with the same qualifications within six months from the finalization of mass dismissal, he/she preferably invites qualified ones for the work. The employer who wishes to reemploy employees for work of same nature during this period publishes the situation through suitable means and notifies the former employees of the fact through the notary public. Employees who do not apply to the workplace within 15 days forfeit this right.

9.2 Labor Costs

Wage Regulation

There is no ceiling to the wages that can be given. On the other hand, wages cannot be below the minimum wage. The minimum conditions concerning wages have been specified in the Labor Code.

However, the restrictions stipulated by the law may be altered in favor of the employee. The representatives of the government, employees and employers determine the minimum wages to

be given in the agricultural and industrial sectors latest every two years. After 2016, the minimum wage has been determined annually.

Monthly minimum wage applicable for the period of 01.01.2024

– 31.12.2024 is determined as TRY 20.002,50 in gross terms. It is forbidden to employ employees at wages below this minimum.

The employer is obliged to pay or to advance to all employees using their annual vacation the wages for the vacation period before the employee starts his/her vacation. Wages for the weekend holidays, national holidays and general holidays that coincide with the annual paid vacation period are paid separately.

Bonuses and Other Extra Payments

There are no legal obligations in this respect. They are determined totally by the own accord of the parties. Should a certain sum be given as a monthly wage or bonus, there will be no tax advantages.

Any right or benefit provided to employee (regardless of whether it is stipulated by the TLC) customarily during employment (such as benefits provided three times consecutively) will be regarded as vested right. And any change in working conditions can be made with prior written notification to be served to employee.

Changes without following this procedure that are subsequently not accepted by the employee in writing within six business days, will not binding upon the employee.

In case the employee does not consent to such change within this period, the employer may terminate the employment contract by specifying in writing that such change was made for a valid reason.

9.3 Social Insurance - General Health Insurance

Social Insurance

All employees and functionaries are considered as secured from the moment they start to work. The employer is obliged to

submit the Social Security Institution ("Institution") the workplace notification at the latest on the date the insurance holder starts working.

Employers are obliged to notify the Institution the employees with an insurance holder employment report, before the date of

insurance start. However, in case the employment is notified by the

employer to the Institution;

a) at the latest on the date of starting to work for insurance holders

employed for workplaces of construction, fishing and agriculture,

at the latest up to the end of one month time period from the date they start to work for insurance holders who start working within one month from the date on which the insurance holders are employed for the first time in the workplaces which will submit the first workplace report to the Institution and for the ones who are employed during travel in the transportation vehicles which travel to foreign countries,

within month from the date of starting to work of contracted personnel who are not subject to unemployment insurance pursuant Unemployment Insurance Law Number 4447 and are employed by public administrations or of individuals who are employed by public administrations in order to work in abroad duties,

then it is considered that the submission is made before the start of insurance.

Social insurance covers work accidents and occupational diseases, illness, maternity, disability, old age and death.

In case a work accident occurs in connection with his job at the work place or in another location or an occupational disease occurs, he/ she receives assistance for treatment, is paid wages for the periods he/she is unable to work, and when necessary he/she is provided with artificial devices and appliances.

This insurance branch is applied in general illness, accident and disablement cases other than work accidents and occupational diseases. For this purpose a physician, hospitalization, medication and treatment give the employee assistance for examination.

The spouse, children and parents of the employee also benefit

from the sickness insurance.

The hospital treatments of the insured persons are carried out at the Social Security hospitals established for this purpose.

Maternity insurance provides for the extension of a certain and necessary assistance to the insured women and the non-insured wives of insured men in case of pregnancy and childbirth.

Social Insurance Premiums

Social security premiums are compulsory in respect of all persons earning salaries and wages.

Social insurance premiums are calculated on the basis of the monthly wages and are paid jointly by the employee and the employer at the following rates:

Branches	Employee (%)	Employer (%)	Total (%)
Short Term Social Security Branches including work accidents and occupational diseases (varies depending on the job)	-	2,25	2,25
Disability, Old Age, Death	9	11	20
General Health Insurance	5	7,5	12,5
Total Minimum	**14**	**20,75**	**34,75**
Unemployment Insurance	1	2	3

The above rates are applied to the gross total of salaries, wages and bonuses up to a current maximum monthly of TRY 150.018,90 for the period of 01.01.2024 - 31.12.2024.

The premiums are paid each month to the Social Insurance Institution at the place where the employee is employed prior to the 30th day of the following month.

In calculating the income withholding tax on the wages by the employer, the employee contribution (e.g. 15 %) is deducted from the withholding tax base.

General Health Insurance

As explained above, social insurance also includes health insurance. Furthermore, social insurance is compulsory. Individuals or enterprises, which wish to do so, cannot be released from the obligation of social insurance on the grounds that they have subscribed to a private health insurance scheme.

Social Security and General Health Insurance Law numbered 5510 is implemented on 01.01.2012. Accordingly, anyone residing in Türkiye will be covered by the General Health Insurance according to the conditions of the 60th article of the Social Security and General Health Insurance Law.

Effective from January 1, 2012 this law applies to foreigners who have been resident in Türkiye more than 1 year.

The foreigners are required to apply to Social Security Institution within the one month after the completion of one year residence without interruption in Türkiye. Otherwise, according to mentioned law article 102; these foreigners will be charged with interest applied by the Social Security Institution.

Foreigners entitled to social security in their home countries are not covered by the General Health Insurance in Türkiye.

In Türkiye many employers subscribe to private health insurance schemes for their employees in addition to the social insurance. They can, in this manner, ensure that their employees are examined and treated in better hospitals. However, a private health insurance is not obligatory. There are many insurance companies that offer health insurance schemes.

9.4 Rules Applicable to Expatriates

A foreign individual sent by a foreign company established abroad to carry out business on its behalf in Türkiye who has notified the Department of Social Security that he is insured abroad will not be subject to Social Security deductions in Türkiye in case they provide the official documents to Turkish Social Security that they are insured in their home country.

International Agreements

Türkiye has agreements with Germany, Austria, Belgium, Denmark, Sweden, Libya, Norway, UK, Switzerland, Netherlands, France,

T.R.N. Cyprus, Azerbaijan, Romania, Albania, Bosnia Herzegovina, Czech Republic, Georgia, Canada, Quebec, Macedonia, Luxembourg, Italy, Slovakia, Montenegro, Korea, Croatia, Tunis, Serbia, Hungary. Moldova, Kyrgyzstan, Mongolia, Poland and Iranian. In case of individuals who are nationals of one of the above countries, which have social security totalization agreements,

the provisions of the above agreements have to be considered to determine their social security status in Türkiye. Except in the cases referred to above, a foreigner employed by a Turkish company is liable for full Social Security deductions as is the case for a Turkish national.

9.5 Collective Agreements - Trade Union Rights

Matters pertaining to trade unions and collective agreements have been regulated by Law on Trade Unions and Collective Labor Agreements numbered 6356.

Collective Labor Agreements

According to the law, collective agreements are agreements concluded between the trade union and the employers' association or the non-affiliated employer for drawing up a service contract and regulating its content, termination and relevant matters.

Collective agreements can also contain provisions regulating the mutual rights and obligations of the parties, the implementation and supervision of the agreement and the methods to be applied for the settlement of the disputes.

Collective agreements have to be made in writing and can have duration of minimum one year and maximum 3 years. This period cannot be shortened or extended after the agreement has been signed.

The procedure for contracting a collective agreement has

been stipulated by the law. This consists of, in the stated order, determining the unions that will make the agreement and obtaining the certificate of authorization for making an agreement, calling

the other party to collective negotiations within 15 days from the date of receipt of certificate of authorization, specifying the venue, date and hour of the collective negotiations within 6 workdays following the forwarding of the call to the other party, carrying out the collective negotiations, and finally signing the agreement.

Strikes

The expression "strike" means any concerted cessation by employees of their work with the object of halting the activities of a given establishment or of paralyzing such activities to a considerable extent, or any abandonment by employees of their work in accordance with a decision taken to that effect by an organization. Lawful strike means any strike called by employees in accordance with this law with the object of safeguarding

or improving their economic and social position and working conditions, in the event of a dispute during negotiations to conclude a collective labor agreement.

Strike can be executed within 60 days provided that the notification has been made to the other party 6 days before. Unless the strike decision is taken or the strike date is notified to the other party, the authority to execute collective agreement will drop.

Strikes executed without fulfilling legal conditions will be deemed

as illegal strikes.

The cases of occupation of the workplace, slow-downs, decreasing efficiency and other types of job actions are subject to the same sanctions as illegal strikes. A strike or lockout that is in the nature of endangering public health or national security can be postponed for 60 days by the Council of Ministers.

Lockouts

Lock-out means any action taken by an employer or his representative, either upon his own initiative or in accordance with a decision taken by an organization, to collectively suspend employees from work in a manner that completely stops the activities in the workplace.

The employers' trade union, or the employer not belonging to any union, that is party to the dispute may take a decision to order a lock-out within sixty working days of the date on which the decision to call a strike is communicated to him and shall put

into practice within this period and the date of the lock-out shall be communicated to the opposite party six working days before.

Special arbitrator

The parties may agree to resort to special arbitration at any stage in the collective dispute involving rights and interests.

Provisions providing for recourse to special arbitration at the request of either of the parties may be included in the collective labor agreement.

Where the parties agree in writing to resort to special arbitration in a dispute involving interests, the provisions governing mediation, strike and lock-out, statutory arbitration shall not thereafter

apply. In the disputes involving interests, the decisions of special arbitration shall have the same force and effect as a collective labor agreement.

9.6 Mandatory Mediation

Recently, very important and remarkable change brought to Turkish labor system by law.

The mediation is a pre-condition for cases dependent on individual or collective bargaining employment contracts or cases of employee or employer claims and compensation demands and

for cases of employee reinstitution. The mediation condition has entered into force as of January 1, 2018.

Therefore since January 1, 2018, it is compulsory to first apply for mediation before filing for a litigation regarding employee-employer disputes.

The mediation is not a mandatory requirement in cases of pecuniary and non-pecuniary compensation claims or the filings for their detection or recourse based on work accidents or work related sicknesses.

The mediator informs the parties of the appointment and invites them to the first meeting. The mediation shall be concluded within three (3) weeks; however, if compulsory reasons exist, it can be extended for a one (1) additional week.

If a party fails to attend the first mediation meeting without a valid excuse, the party not participating in meeting will be held entirely responsible for cost of proceedings even if the issue is partially or completely resolved in that party's favor. If the parties settle in the presence of the mediator, unless otherwise is agreed among the parties, costs of mediation should be born equally by the parties. However, if there is no agreement at the end of the mediation and the issue is brought up to the court level, the party losing the lawsuit will also be required to cover the mediation costs. The parties can represent themselves or appoint a representative who can be an attorney but this is not a requirement.

If mediator's involvement resolves the dispute among parties, then the same dispute can no longer be litigated before Courts. In case such agreement cannot be reached via mediation, the parties' can apply to the court within specific periods stated in the relevant codes.

10. Taxation of Mergers, Acquisitions and Reorganizations

10.1 Mergers

The absorption of one or more companies into an existing company where the absorbed company is deemed to be dissolved without liquidation is defined as a merger under Turkish Commercial Law. Under the recent changes in Turkish Commercial Law companies of different legal type can also participate in a merger.

Taxable Mergers

A merger under the Turkish Commercial Law provisions is considered to be a taxable merger if the specific requirements for a tax free merger (pursuant to provisions of Articles 18, 19 and 20 of Corporate Tax Law) are not satisfied. In a taxable merger, the assets of the absorbed company are deemed to have been transferred at market value to the absorbing company which leads to taxable capital gains. The absorbing company is entitled to book the assets at their market values as their tax basis for depreciation purposes.

In a taxable merger, tax losses of the absorbed company cannot be transferred to the absorbing company. Nevertheless, the absorbed company can use the existing tax losses to offset against the capital gains arising from the transfer of assets through a taxable merger.

Tax Free Mergers

A merger under the Turkish Commercial Law provisions is recognized as a tax free merger (also referred to as a "takeover") if the following tests are satisfied all together:

- Both the absorbing and absorbed companies are tax residents
- The absorbing company incorporates all assets and liabilities of the absorbed company into its balance sheet on a carryover basis (i.e. the whole balance sheet is transferred on the basis of book values)
- Other procedural and filing requirements with respect to the merger are satisfied on a timely basis

Under a tax free merger

- The absorbed company is subject to the usual taxation rules for profits up to the date of the merger however the gains arising from the merger itself (and the related transfer of assets) is not calculated and taxed
- The absorbing company assumes all known or unknown tax liabilities of the absorbed company
- Tax losses of the absorbed company can be transferred to the absorbing company, if the absorbing company continues the business activities of the absorbed company minimum for 5 years following the date of the merger. However, tax losses that can be transferred to the absorbing company are limited to the shareholders equity of the absorbed company as of the date of the merger.
- With the Law No.7524 enacted on 2 August 2024, the carried forward VAT of the absorbed company can be transferred to the absorbing company as a result of a merger (and demerger or change of legal form of a company), but only after a VAT audit. No such requirement was existing before that date.
- The tax free merger does not affect the tax attributes of the absorbing company
- There are also tax exemptions in other laws (such as VAT, stamp tax, real estate transfer tax) in reference to a tax free merger conducted as per Corporate Tax Law provisions.

Simplified merger process

According to the Turkish Commercial Code, a simplified merger process is allowed if; one of the parties owns all shares that provide voting rights in the other company or the merging companies are sister companies. Through the simplified merger process, some obligations such as drafting of a merger report and providing the audit right to related institutions or persons stated in the Turkish Commercial Code will not be applied, hence

the merger can be implemented in a relatively less timeframe and administrative burden.

A simplified merger can also qualify as a "tax free merger" subject to the rules and conditions explained above.

10.2 Acquisitions

An investor may execute an acquisition in Türkiye either through acquisition of a company (share deal) or acquisition of a certain business (asset deal). The following represents the key considerations when planning an acquisition in Türkiye:

Regulations for Acquisition

There are no general government controls or restrictions on investments in assets, business entities or acquisition of other rights in Türkiye. However, certain specific business activities require a regulatory approval before change of ownership (e.g., banking and insurance, telecommunications, tobacco and alcoholic beverages, production and distribution of energy, etc.). A merger or acquisition transaction may also trigger approval requirement from Turkish Competition Board based on certain criteria.

Asset vs. Share Acquisition

A foreign company can acquire a Turkish company by acquiring either the assets or the shares of the target company. In case of an asset acquisition, this can be done either via a branch of the foreign entity, which is taxable in Türkiye on non-resident status, or via a Turkish subsidiary of the foreign company. The respective tax implications are summarized below:

10.2.1 Purchase of assets

Acquisition of assets can only be done through a Turkish company or a Turkish branch of a foreign company.

Purchase Price

In principle, the transfer of assets should be conducted at fair value, which should represent the market value. Transfers between related parties must be documented to comply with transfer pricing requirements.

Goodwill

In case of an asset-deal, the excess of the purchase price over the fair value of the assets being transferred represent the goodwill, which can be capitalized by the buyer and depreciated for tax purposes.

Turkish tax law does not require recognition of internally developed goodwill and rights in the tax basis balance sheet, so there is usually no tax basis cost for the goodwill in the seller's books and it, therefore, represents pure taxable income.

Depreciation

The depreciation period of assets are refreshed in an asset deal. The selling entity has the right to deduct all remaining net book value of assets as the tax basis cost against the transfer value; and the buyer has to book the assets at their transfer value and start depreciating a new term of useful life for each asset (as prescribed by the Communiqués of the Ministry of Finance).

Tax Attributes

The tax attributes (i.e. tax losses and incentives) are not transferred to a buyer in an asset deal. However, the selling entity has the right to use its existing tax losses and VAT credits against the taxable profits (such as capital gains) and VAT obligations arising from the asset transfer.

Value Added Tax ("VAT")

Transfer of assets through a regular asset purchase agreement is subject to VAT at regular rates depending on the type of assets being transferred (normally 20%).

Real estate properties that are included in the asset purchase agreement can be exempt from VAT if the real estate has been acquired before 15th July 2023 and held for at least 2 years by the Seller. The buyer has the right to get a deduction of the VAT incurred on asset deal against VAT generated from its sales.

However, the full recovery of VAT can take time depending on the VAT generation of the acquiring entity, which may lead to an additional cash flow problem on asset purchase transactions.

Transfer Taxes

In an asset deal, asset purchase agreement would usually be subject to 0.948% stamp tax on the basis of contract value whereas transfer of title to real estate is subject to a title deed registration fee of 2 % for both seller and buyer separately. In case of transfer of an existing agreement to the acquiring entity, stamp duty is payable at 1/4th of the stamp duty that was payable on the original agreement.

10.2.2 Purchase of shares

Acquisition of shares by a foreign entity has no immediate Turkish income tax consequences.

Goodwill

If the acquisition is via a Turkish branch or subsidiary, goodwill implicit in the share price cannot be recognized for tax purposes. There is no step-up availability for target company assets during a share acquisition.

Depreciation

A Turkish company buying the shares in another entity cannot depreciate the value of shares for tax purposes. The shares are booked at historical acquisition value and offset against future proceeds from sales as a tax basis cost.

Tax Attributes

A change in the shareholding will not have any effect on the tax attributes of the target company. Following the acquisition of shares, the target company can continue to carry forward its tax losses.

Value-Added Tax (VAT)

Share transfers by an individual are out of the scope of Turkish VAT. Where the transferor of shares is a corporate entity (e.g. a company or a branch) in Türkiye, the transaction is principally in the scope of Turkish VAT. In this case, transfer of shares (in Joint Stock Companies) are exempted from VAT, however sale of participation shares (in Limited Liability Companies) by a Turkish entity can potentially attract Turkish VAT at 20% unless the participation shares are held for a period of more than 2 years.

Tax Indemnities and Warranties

In a share deal transaction, the historical tax liabilities of the target (known or unknown) remain in the company and are acquired by the new shareholder(s). It is, therefore, usual for the buyer to ask for tax indemnities and warranties in a share acquisition.

Transfer Taxes

According to a change in stamp tax law (Number 6728), enacted on 29 September 2016, documents concluded for share transfers of joint-stock companies, limited liability companies and limited partnerships are exempted from stamp tax.

• Concerns for the Seller

Sale of assets

The sale of assets of an entity is subject to usual corporate tax on the gains realized from the sale of the assets. Losses arising from the sale of assets are available for immediate deduction or carry-forward. A potential exemption from corporate tax can be applicable over 25% of the capital gains derived from the sale of real estate property provided that the real estate has been acquired before 15 July 2023 and held for at least 2 years by the Seller. Additionally, a potential exemption from VAT can be applicable on transfer of real estate property provided that the real estate has been acquired before 15 July 2023 and held for at least 2 years by the Seller.

Sale of shares

The sale of shares in another corporation is subject to corporate tax on the gains realized from the sale of shares. Losses are available to off-set income from other activities of the entity. The corporate tax exemption on 75% of such gains is available under the conditions mentioned above (i.e. 2 year holding period and requirement to retain the gains in a special reserve account for at least 5 years).

If the seller of the shares is an individual, capital gains derived by individuals on the sale of shares (of a Joint Stock corporation) held for more than two years are fully exempt from personal income tax (Please note that, the proposed changes to the Income Tax Law may limit the exemptions granted to share sale transactions, however it is yet subject to further discussion and possible changes in the Parliament); otherwise, if the shares are held less than two years, then the capital gains are subject to personal income tax at usual rates (i.e. 15% to 40%). There are no similar exemptions for individuals in respect of capital gains arising from transfer of participation rights in a Limited Liability Company.

Please refer to our comments above with respect to VAT implications in case of share transfer transactions.

- **Comparison of Assets and Share Purchases**

In view of the above, please find below a summary of the tax considerations comparing an asset purchase transaction vs. a share purchase transaction:

	Advantages	Disadvantages
Asset Acquisition	Purchase price can be depreciated for tax purposes	Potential need to renegotiate the contracts, renew the licenses etc.
	Step-up in tax basis of assets is possible	Tax attributes like carried forward losses remain with the seller
	Previous tax liabilities not inherited by the buyer (except for certain anti-avoidance rules for related party transactions	More transactions costs (stamp duty, transfer taxes, registration fees etc.)
	Possible to acquire part of a business	Potentially represents more tax cost to the seller (compared to share acquisition)
Share Acquisition	Possible to purchase on net asset basis; hence lower capital outlays	Acquisition of potential tax liability due to difference between market value and book value of assets in the target company
	Likely to be more attractive to the sellers due to possible tax exemptions	Inability to recognize a goodwill for tax purposes
	Tax attributes like carried forward losses are also acquired with the company	Acquisition of contingent (unknown) tax liabilities with the company
	Continue to enjoy existing contracts, licenses, incentives etc.	Potential need for post-acquisition structuring if non-core assets are also acquired with the company

10.3 Corporate Reorganizations

Tax Free De-merger

There are two types of tax free de-merger allowed under the Turkish tax laws:

- A full de-merger is reorganization where a company is divided into two or more existing or new companies while the transferring company is dissolved, pursuant to the provisions of Article 19/3-a of Corporate Tax Law. This type of de-merger allows transfer of tax losses. By the introduction of the current Turkish Commercial Law effective from July 2012, it also became possible to implement such a de-merger from a Commercial Law perspective.
- A partial de-merger (also called a "partial de-merger") is reorganization where certain assets (i.e. participation shares or real estate property that has been held for a period of more than 2 years or complete production / service facilities) of a company are contributed into a new or existing company as capital in kind on a carryover basis, pursuant to the provisions of Article 19-3-b of Corporate Tax Law. However, carve-out of real estate properties in a tax free way through partial demerger is not possible after 1 January 2024. A reorganization of a Turkish branch of a foreign company by way of a partial de-merger has recently become possible provided that the transferee company is a tax resident. Tax implications are similar as a tax free merger, except that transfer of losses is not possible under a partial de-merger.

Tax Free Share Swaps

A share swap is a tax-free transaction if the acquiring company receives the target shares in exchange for its shares in such a way as to obtain the management and the majority of the shares of this company and in return giving the shares representing the capital of its own company to the shareholders of the target company. Although a tax-free share swap is principally defined as a non-cash transaction, up to 10% of the nominal value of the shares can be paid in cash to the shareholders of the target company.

Conversions

Conversions (i.e. change of legal form of a company) carried out under the requirements for tax-free mergers will not be considered as a taxable reorganization.

With the Law No.7524 enacted on 2 August 2024, as a result of a change of legal form of the company, the transfer of carried forward VAT to the new company is allowed only after a VAT audit.

Liquidations

A Turkish Corporation may liquidate its assets and distribute the proceeds to its shareholders through a formal liquidation process to be carried out in accordance with Turkish Commercial Law requirements.

In the taxation of liquidations, financial period is replaced by liquidation period, which starts when a company is put into liquidation. The period between this date and the end of the same calendar year, as well as every calendar year following this date, is considered as a separate liquidation period. When liquidation is finalized, the final liquidation profit or loss is computed and the liquidation returns, which were previously filed, are corrected and, if necessary, taxes overpaid are refunded.

The company will be subject to usual taxation rules during the liquidation period and will be required to maintain all legal bookkeeping and filing obligations as a normal company.

The repayment of capital to shareholders at the end of liquidation does not trigger any taxes, but distribution of excess profits, reserves (or hidden reserves such as the capital adjustment differences) to the shareholders will attract dividend withholding tax (applicable at 10% for year 2024, but may be reduced by Double Tax Treaty provisions). Note that it is a statutory requirement for the tax office to carry out a tax audit upon the closing of liquidation.

Declaration of Ultimate Beneficial Owner ("UBO")

In accordance with the Tax Procedure Law Communiqué No. 529 and dated 13 July 2021; it has become obligatory to declare UBO for legal entities and other organizations. The term UBO refers to the individuals who ultimately control or have ultimate influence over legal entities or other organizations.

The UBO information notification shall be made by corporate taxpayers, the person authorized to represent the company or the partner in the collective companies, one of the limited partners in the anonymous limited partnerships and the person with the highest shareholding ratio for the ordinary partnerships, the manager of

the trusts and similar organizations established in a foreign country whose management center is in Türkiye or whose manager resides in Türkiye.

On the other hand; banks, bank and credit card institutions, authorized institutions specified in the foreign exchange legislation, financing and factoring companies, intermediary institutions and portfolio management companies, payment institutions and electronic money institutions, insurance, reinsurance and pension companies, financial leasing companies, notaries, lawyers, certified public accountants, independent audit firms and some other individuals and institutions, upon request by the Revenue

Administration, shall submit the UBO information of the transactions carried out by their clients to the Revenue Administration.

For legal entities, the followings will be considered as the real

beneficiary;

- Individual shareholders who own more than 25 percent shares in the legal entity,
- If it is suspected that the individual shareholder holding more than 25 percent shares of the legal entity is not the UBO or if there is no individual shareholder holding such shares, the real person or persons who ultimately control the legal entity,
- In cases where the UBO cannot be determined as above, the real person or persons with the highest executive power.
- In entities such as unincorporated business partnerships;
- The individual or individuals who ultimately control the unincorporated entities,
- In case the UBO cannot be determined as above, the individual or individuals with the highest level of executive power before the unincorporated entity, will be considered as the real beneficiary and will be subject to notification.

In Trust and similar organizations; those who hold the title of founders, trustees, managers, auditors or beneficiaries or those who have influence over these organizations will be considered as UBO and will be subject to notification.

Corporate taxpayers, who are obliged to report, will submit their real beneficiary information in the annex of their advance and annual corporate income tax returns. Other taxpayers and other persons are obliged to submit the UBO information to the Revenue Administration in electronic form by the end of August of each year.

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11. International Corporate Taxation

Residency and Taxation of Non-Resident Entities

A company is considered to be resident in Türkiye if it has either its legal seat or place of effective management in Türkiye or both.

Legal seat refers to the place of official center of company, defined in, such as, the articles of association. The place of effective management refers to the place where the top management of the company is located. As a general rule, residence of a company is determined by the domestic rules of the contracting states.

However, in some cases provisions of tax treaties might be applied.

If neither of two conditions is met for the residency in Türkiye, then a company is considered to be non-resident for tax purposes.

Non-resident entities are subject to taxation in Türkiye only on their Türkiye sourced income.

Taxable status of the income of non-residents is determined -but not limited to these- based on the following income types:

- Profits from commercial (business) activities earned through a place of business or a permanent representative in Türkiye
- Income derived from professional services performed in Türkiye (or the fees that are obtained in Türkiye)
- Income derived from leasing or transfer of immovable properties, intangibles and machinery in Türkiye
- Interest income obtained from Türkiye
- Dividend income obtained in Türkiye
- Capital gains obtained from transactions performed in Türkiye or obtained in Türkiye

Foreign entities may operate in Türkiye to run a business in form of branch or through their subsidiaries as a separate legal entity. These forms are elaborated in more detail below. Besides, operations of non-resident entities might be considered to constitute a permanent establishment for tax purposes.

These create the concept of business place in local laws. Of course the provisions of tax treaties should also be taken into account.

Business profits of non-resident entities are assessed in the same way as that of resident companies for their Turkish sourced income (please refer to the "Corporate Taxation" section).

Permanent Establishment

Under Turkish Corporate Income Tax Legislation; the income derived by non-resident entities through their Permanent Establishment ("PE") or Permanent Representative ("PR") in Türkiye are subject to tax in Türkiye. Turkish Corporate Tax Law refers to provisions of Tax Procedural Law regarding the definition of PE and provisions of Income Tax Law regarding the definition of PR.

In this respect, a workplace (PE) is defined as the places of business which is dedicated/allocated to carrying out commercial, industrial, agricultural or professional activities. A business place of a non-resident entity operating in Türkiye solely for the purpose of buying or producing goods in Türkiye to be later exported is not considered as a PE.

On the other hand, a PR is defined as the person who is bound to a principal by a service or representation act, and is authorized to carry out transactions on behalf and on account of the principal for a definite or indefinite period of time.

There are no further specific definitions or guidelines in respect of the definition of a PE under domestic law. Based on the generally accepted interpretation of the above mentioned tax law provisions, the following are seen as common features of a PE of a foreign entity in Türkiye:

- There should be an income generating activity performed by the foreign entity (or its representatives) in Türkiye
- The foreign entity should have a fixed place of presence in
- Türkiye where the activities are concentrated
- There should be a close link between this fixed place of

- presence and income generating activities

Based on the above, it is usually accepted that Turkish tax laws follow the PE definition in OECD model tax treaties where the activities carried out in Türkiye which do not have strong connection with the income generation (i.e. the activities that have "preparatory or auxiliary" character) should not lead to recognition of a PE. On the other hand, the persons who carry out commercial transactions on behalf of a foreign entity may still lead to taxation in Türkiye if they are deemed as PR as explained above.

In contrast to domestic law provisions, warehouses and independent agents are generally not included in the definition of "permanent establishment" under Türkiye's treaties.

Branches

Branches are treated as non-resident entities for tax purposes and subject to corporate taxation in Türkiye on their profits generated in Türkiye.

Under local foreign investment legislation, a branch of a foreign company is a type of foreign direct investment and the establishment of a branch is subject to same requirements and procedures as a foreign company that intends to run a business in Türkiye. A branch office can only operate in the areas of activities of the head office. It is managed by a representative (could be a foreigner but is required to be a Turkish resident) who is appointed to this effect by a power of attorney. The representative must be authorized to represent the foreign entity in Türkiye before all public and private authorities. A Branch has to fulfill all statutory bookkeeping and filing requirements in Türkiye same as a usual resident entity.

Subsidiaries

Another form which can be used to run a business in Türkiye is to set up a subsidiary as a separate legal entity, which can be established in the form of a Limited Liability Company (Ltd.) or a Joint Stock Company (A.Ş). These two forms of companies are considered as Turkish resident for tax purposes and subject to corporate taxation on their worldwide income as opposed to PEs and Branches.

Withholding Taxation

The taxation of income received by non-resident entities in Türkiye is regulated under Article 30 of Corporate Income Tax Law.

According to the Article, parties who make the payment to non-residents are responsible for the withholding and payment of taxes. The general withholding tax rate is 15% under the article, however the President is authorized to determine the rates between the range of 0% and 30%.

Dividends

Dividends distributed to non-resident entities are subject to 10% withholding tax. The withholding tax applies when the dividends are actually distributed in cash or on account. The use of profits to increase the capital of the company is not considered as profit

distribution and hence not subject to dividend withholding taxation. This is the final tax for non-residents and there is no further filing requirement.

Profits of Branches in Türkiye are not subject to withholding taxation unless remitted to headquarters. 10% withholding tax applies at the remittance of these profits to head office. The transfer of PE profits is also subject to 10% remittance withholding. The local rate of 10% can be reduced through the use of tax treaties.

Royalties

Royalties paid to non-residents are subject to withholding tax at 20%. In a case that the non-resident company has a PE in Türkiye, no withholding tax applies, however those royalties should be declared and taxed in the annual corporate income tax return of the PE. This is the final tax for non-residents and there is no further filing requirement.

Gains received from the sale of copyrights, patents, trademarks and other intangible rights are subject to withholding tax at 20%.

The reduced rates of withholding tax for the royalty payments are available in all tax treaties of Türkiye and the rates vary between 5% and 15% (the general cap of 10% applies for nearly all tax treaties)

Interest

Interest paid to non-resident entities is subject to withholding taxation at the gross amount of interest paid to non-resident entity. In a case that the non-resident entity has a PE in Türkiye, no withholding tax applies, however the interest income should be declared and taxed in the annual corporate income tax return of the PE. This is the final tax for non-residents and there is no further filing requirement.

The general withholding tax rates applied on interest payments to non-resident companies is 10%, unless lower rate is provided by a tax treaty. The rate is applied as 0% for interests paid to foreign banks or states, or to international institutions for loans. Different rates may apply on interest regarding time deposits or certain financial instruments.

Capital Gains

In accordance with the provisions of Income Tax Law, capital gains received by non-residents upon disposal of participation shares and other assets are taxable in Türkiye if the related gains are deemed to be Turkish sourced. In reference to Turkish Income Tax Code provisions, a capital gain is deemed to be Turkish sourced if the sale transaction is performed in Türkiye or the transaction is evaluated in Türkiye (i.e. the payment is born by a Turkish taxpayer).

If capital gain, of non-resident entities is considered as Turkish sourced then it would be subject to corporate income tax at usual rate of 25% for fiscal year 2024. Furthermore, the remaining amount after corporate taxes would also be subject to 10% dividend withholding taxation (i.e. taxation of remittance of capital gains), unless the rate is reduced by a tax treaty. Hence, the effective tax rate may reach up to 32.5%.

Under many tax treaties of Türkiye, the taxation right over the capital

gains derived from the disposal of shares remains with the country of which the selling entity is a resident under the condition that the shares are held more than 1 year.

Professional Service Income

Professional service fees paid to non-resident companies are subject to 20% withholding if the service is rendered in Türkiye or the payment is made in Türkiye. Türkiye generally follows 183 days test in tax treaties. Accordingly, in most of the Turkish tax treaties, the professional services are taxable in Türkiye if the duration of services in Türkiye is more than 183 days in a 12 months period or the non-resident entity has fixed place of business in Türkiye.

Withholding tax rate is applied at 5% for professional services regarding oil exploration activities performed in Türkiye.

Income from Leasing of Tangible Assets

According to local rules, payments to non-residents for the lease of movable or immovable properties are taxable in Türkiye if the assets are in Türkiye or the relevant rights are used in Türkiye. Such leasing payments to non-residents are subject to withholding tax at 20%. The payments for the financial leasing, however, are subject to reduced withholding taxes at 1%.

Income from Multi-Year Construction and Repair Works

Payments for construction works and repair projects which spread more than one calendar year are subject to 5% withholding taxes.

Payments for Online Advertising

Effective from year 2019, the payments made to non-resident companies, providing online advertising service or acting as an intermediary in delivering such services, are subject to withholding tax at 15%.

Türkiye's Treaty Network

Türkiye's double tax treaty network consist of 102 countries; 91 of this are already in effect and 9 treaties (Palestine, Ivory Coast, Senegal, Somalia, Gabon, Burundi, Kenya, Burkina Faso, Hong Kong) have been signed but not yet in effect. In addition, 2 treaties (Uganda and Botswana) have been initialled but not yet in effect.

Please refer to Appendix 13.4 where the table for the treaty countries and relevant treaty provisions are summarized.

In addition, on 7 June 2017, Türkiye (together with 67 other jurisdictions) signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS ("MLI") during a signing ceremony hosted by the OECD in Paris.

At the time of signature, Türkiye submitted a list of 90 tax treaties entered into by Türkiye and other jurisdictions that Türkiye would like to designate as Covered Tax Agreements (CTAs), i.e., tax treaties to be amended through the MLI. Together with the list of CTAs, Türkiye also submitted a provisional list of reservations and notifications (MLI positions) in respect of the various provisions of the MLI. The formal procedures (ratification and Parliament and President approval) for MLI to be effective have not been fulfilled yet.

12. Tax Settlement and Litigation

Legal remedies, which taxpayers may resort concerning the taxes and penalties assessed against them, are regulated under the Tax Procedures Code No. 213.

Remedies that may be restored by the taxpayers against the tax/penalty assessments are as follows;

- Settlement
- Direct legal action (Tax Case)
- Legal action in case no settlement is reached.

12.1 Settlement

Tax payers may apply to settlement against the tax/penalty notifications within 30 days following the notification of the tax/penalty assessment. Based on a recent change in legislation, settlement on tax principal is not possible, whereas taxpayers and tax authorities can settle on tax-loss penalties. For special irregularity penalties and irregularity penalties to be subject to settlement, the penalty amount should exceed TRY 23.000.

Settlement applications should be addressed to authorized settlement committee which would be determined in accordance with the tax amount assessed by the tax office.

Settlement application would be evaluated by the authorized commission and the settlement meeting date would be notified to the taxpayer 15 days before the settlement meeting date.

In the settlement meeting, the authorized signatory of taxpayer, its attorney and its Sworn Fiscal Advisor may attend the meeting

with a proxy grating that they have right to attend to the settlement meeting, accept/reject the proposed amounts in the meeting and sign the settlement minute.

When the settlement is reached in the meeting, the amounts proposed by the commission will be recorded into the minute and be signed by both the commission members and the taxpayer or authorized person.

If the taxpayer would not accept the amounts proposed by the commission, the commission records the last proposed amounts into a minute (minute showing that the settlement is not reached) which will be signed by both parties. The taxpayer would still have right to accept the proposal of the commission within 15 days as of the meeting date.

12.2 Litigation

Taxpayers may directly apply to the tax court against the tax/penalty assessments. In this case, litigation should be initiated before the Tax Court within thirty (30) days as of the notification of tax/ penalty notice to the taxpayer and/or addressee of the penalty unless otherwise is provided under the legislation.

Besides, in case no settlement is achieved at the end of the settlement meeting and relevant minutes are prepared concerning the result, litigation should be initiated before the Tax Court against the tax/penalty notifications within 15 days as of the notification date of the settlement minutes to the taxpayer.

Initiation of a tax case will suspend the collection procedures of tax/ penalty assessments until the end of the first instance tax court process (notification of the first instance tax court decision). And the payment should be made within 30 days following the notification of 2nd tax/penalty notification to be issued upon the unfavorable decision of the first instance tax court.

For controversial tax issues, it is also possible for taxpayers to declare and pay related taxes with reservation clause and file lawsuits within 30 days for cancellation of related tax accruals. In such situations, the initiation of a tax case does not suspend the collection of taxes. The taxpayers get can the taxes refunded in case of favorable court decisions.

First instance tax court decisions will be final decisions for the tax cases, full remedy actions and litigations initiated against administrative acts of which litigated amount is less than TRY 31.000 (for 2024). It is not possible to appeal these decisions. Accordingly, the decisions held by first instance tax courts will be final decisions.

Even otherwise is provided under other laws, the decisions of first instance tax court for the tax cases, full remedy actions and litigations initiated against administrative acts of which litigated amount is higher than TRY 31.000 (for 2024) can be appealed before the Regional Administrative Court.

Regional Administrative Court decisions will be final for the litigations of which the litigated amount is in between TRY 31.000 and TRY 920.000 (for 2024.

For the litigations of which litigated amount is higher than TRY 920.000, taxpayers have right to appeal the decisions of Regional Administrative Court before the Council of State. Depending on the decision of the Council of State, this decision would be final.

12.3. Correction

A tax error is defined as the act of claiming or collecting excessive or deficient due to errors in the calculation or the assessment of tax. Errors can be revealed by the relevant tax officer, during tax inspections or upon the application of the taxpayer.

Taxpayers may request in writing to the related tax authorities for correction of errors. Such correction request can be made for transactions performed within last 5 years, which is the statute of limitation. The taxpayers whose application for correction is rejected may apply to the Ministry of Treasury and Finance by way of complaint. Taxpayers have the right to file lawsuit within 30 days upon rejection of the request by the Ministry.

13. Appendices

13.1 Appendix I: Chart of Principal Turkish Taxes

Corporate income tax Advance corporate income tax Individual income tax	Increase in net worth Net taxable income	25% 15 - 40% (all source of income including salary income)
Value Added Tax – VAT • General • Certain products and services • Certain products and services	Sales value	 20% 10% 1%
Banking & Insurance Transaction Tax • General • Interbank deposit transactions • Repos • Money market transactions between banks and brokers • Sale of Government bonds and T-bills • Sale of foreign currency • Derivative transactions		 5% 1% 1% 1% 0% 0.2% 0%
Stamp Duty (Where the stamp duties are payable, the amount of the stamp duty payable on each document is limited to TRY 17.006.516,30 for the year 2024.)	Value specified in the documents	generally at 0,948 % (0,189% for rental contracts, 0,759% for salaries
Gift and Inheritance Tax	Value	1 – 30%
Customs Duties	Value	Various
Transfer of real estate	Sales Value	2%, each buyer and seller
Special Consumption Tax • Petroleum products • Vehicles • Alcoholic beverages & tobacco products • Certain luxury goods	Per liter, kg, etc. Value and engine size Value, retail sale price for tobacco products Value	 Specific 0 to 220 % 45-65% (*) and specific 3%-6,7%-20%-25%
Special Communication Tax Mobile telecommunication services Radio & Television broadcasting services through satellite or cable Wired, non-wired and mobile internet service providing facility Other telecommunication services	Service fee	 10% 10% 10% 10%
Lottery taxes (National Lottery, horse racing, Toto, lotto, etc.)	Various	Specific and ad valorem at 5%-7%-10%
Motor Vehicle Tax	Model, engine, weight	Certain amounts revised each year
Major Municipal & Local Taxes: Real Estate Taxes * Buildings * Lands Entertainment Tax Communication Tax Electricity & Gas Consumption Tax Sanitation Tax	 Tax Value Per tariff, gross profit Fee Sales Value Per flat and business premises	 0,1 - 0,4% 0,1 - 0,6% Specific (TRY 20 - 100) and ad valorem at 2 - 5-10% 10% 1 - 5% Certain amounts revised each year

(**) Only the percentage tax rate is applied provided that not being less than the tax calculated by using the minimum lump-sum tax amounts.

DESCRIPTION	TAX BASE	NON RESIDENT COMPANY (*) (%)	NON RESIDENT INDIVIDUAL (***) (%)	RESIDENT COMPANY (**) (%)	RESIDENT INDIVIDUAL (***) (%)
Technical / Professional Services - General	Gross billings	20	20	n a	20
Construction projects lasting more than a calendar year	Progress billings	5	5	5	5
Salaries -Turkish payroll	Gross less social security	-	15-40	n a	15-40
Rentals/Royalties	Gross	20	20	n a	20
Financials/Leases	Gross	10	n a	n a	n a
Dividends	Gross	10 (****)	10	n a	10
Branch profits	Net profits less corporate taxes	10	n a	n a	15-30
Interest on loans	Gross	0 (*****) - 10	-	-	-
Sales proceeds: -of copyrights and patents -of other intangible rights	Gross Billing	 20 20	 20 -	 n a n a	 17 -
Online Advertisement Services	Gross	15	15	0	15

* In the Article 30 of Corporate Tax Law, withholding tax rate applied to certain payments to non-resident companies is set as 15%. On the other hand, the Council of Ministers is authorized to reduce withholding tax rate to zero or to increase it to 30%.

** In the Article 15 of Corporate Tax Law, withholding tax rate applied to certain payments to resident companies is set as 15%. On the other hand, the Council of Ministers is authorized to reduce withholding tax rate to zero or to increase it to 20%.

*** Withholding tax rates applicable to resident and non-resident individuals are based on the Council of Ministers Decrees numbered 2013/4962,2013/4552, 2012/3141, 2011/1854, 2009/14593-4, 2006/11449, 2006/10731 and 2003/6577.

**** Except those who are receiving dividends via a fixed business place or a permanent representative.

***** Zero rate withholding tax is available depending on status of the foreign lender (i.e. banks and financial institutions). 1% interest on subordinated loan facilities to the Turkish banks being subject to the provisions of the supplementary capital in compliant to the Turkish Banking Law and interest on loans received by banks and other corporations by way of securitization based on a cash flow or an asset portfolio from abroad. 5% withholding tax is applied for interest on installments or credit for the purchase of imported goods. 10% withholding tax is available on other loans and transactions that are not within the above mentioned loans.

13.3 Appendix III: Computation of Taxes on the Year-end Profits

Explanation	Calculations
Book profits adjusted for tax purposes	100
Corporation tax at 25 %	25
Available for distribution	75

The following tax computation may be more applicable in most of the cases.

Operating profits	500
Dividends from a resident company	250
Total book profits	750
Disallowable expenses	100

"No dividend policy" is assumed.

Computation of corporation tax would be as follows:

Book profits	750
Disallowable expenses	100
Tax adjusted profits	850
Exempt income	250
• *Dividends*	250
Taxable profits	600
Corporate tax base	600
Corporate tax at 25 %	150
Total taxes	150
Available for distribution	450

Dividend distribution and legal reserve requirements

Dividend distribution paid from a Turkish company to another Turkish company is exempted from withholding tax (without any further condition). Dividends received by a holding company in Türkiye from another Turkish subsidiary are exempt from corporate income tax (without any further conditions). Dividend distribution from a Turkish company to a Turkish individual or a non-resident shareholder (whether individual or corporate) is subject to withholding tax 10%. The rate of dividend withholding tax applied for a non-resident shareholder may be reduced if the shareholder is located in a jurisdiction having a favorable double tax treaty with Türkiye. Profits retained in the company are not subject to withholding tax unless declared as dividend to shareholders.

Consider the following example, with assumption that the paid in capital of the company is TRY100.000 and a full dividend policy is adopted.

Explanation	Calculations
Book profit	100,00
Corporate income tax at 25 %	25,00
Available for distribution	75,00
First legal reserves (5 % of net profits, capped at 20 % of paid in capital)	3,75
1st level gross dividends (5 % of paid in capital)	5,00
Available for secondary dividends	66,25
Secondary legal reserves (1/11 of available for secondary dividends)	6,02
2nd level gross dividend	60,23
Gross dividends (first and secondary dividends)	65,23
Withholding taxes on dividends at 10%	6,52
Net dividends	58,71

13.4. Appendix IV: Turkish Withholding Taxes by Treaty Countries

	Country	Dividend (%)	Branch Profit (%)	Interest (%)	Royalty (%)
1	Austria	5/15	5	5/10/15	10
2	Ireland	5/10/15	5	10/15	10
3	South Korea	15/20	-	10/15	10
4	Jordan	10/15	-	10	12
5	Tunisia	12/15	-	10	10
6	Romania	15	15	10	10
7	Netherlands	15/20	7.5	10/15	10
8	Pakistan	10/15	10/15	10	10
9	United Kingdom	15/20	15	15	10
10	Finland	5/15	5/15	5/10/15	10
11	T.R.N.Cyprus	15/20	15	15	10
12	France	15/20	7.5	15	10
13	Sweden	15/20	15	15	10
14	Belgium	15/20	15	15	10
15	Denmark	15/20	7.5	15	10
16	Italy	15	15	15	10
17	Japan	10/15	10/15	10/15	10
18	U. Arab Emirates	10/12	5/10/12	10	10
19	Hungary	10/15	10	10	10
20	Kazakhstan	10	10	10	10
21	Macedonia	5/10	5	10	10
22	Albania	5/15	5	10	10
23	Algeria	12	12	10	10
24	Mongolia	10	10	10	10
25	China	10	10	10	10
26	India	15	15	10/15	15
27	Malaysia	10/15	10	15	10
28	Egypt	5/15	5	10	10
29	Poland	10/15	15	10	10

	Country	Dividend (%)	Branch Profit (%)	Interest (%)	Royalty (%)
30	Turkmenistan	10	10	10	10
31	Azerbaijan	12	12	10	10
32	Bulgaria	10/15	10	10	10
33	Uzbekistan	10	10	10	10
34	United States	15/20	15	15/10	10/5
35	Ukraine	10/15	10	10	10
36	Israel	10	10	10	10
37	Belarus	10/15	15	10	10
38	Russia	10	10	10	10
39	Kuwait	10	10	10	10
40	Slovakia	5/10	10	10	10
41	Indonesia	10/15	10/15	10	10
42	Lithuania	10	10	10	10/5
43	Croatia	10	10	10	10
44	Moldova	10/15	10/15	10	10
45	Singapore	10/15	10	7.5/10	10
46	Kyrgyzstan	10	10	10	10
47	Tajikistan	10	10	10	10
48	Sudan	10	10	10	10
49	Czech Republic	10	10	10	10
50	Bangladesh	10	10	10	10
51	Latvia	10	10	10	5/10
52	Spain	5/15	5/15	10/15	10
53	Slovenia	10	10	10	10
54	Greece	15	15	12	10
55	Syria	10	10	10	15/10
56	Estonia	10	10	10	10/5
57	Thailand	10/15	10/15	10/15	15
58	Luxembourg	5/10/20	10	10/15	10
59	Iran	15/20	15	10	10
60	Saudi Arabia	5/10	5/10	10	10
61	Lebanon	10/5	10	10	10

	Country	Dividend (%)	Branch Profit (%)	Interest (%)	Royalty (%)
62	Morocco	7/10	7	10	10
63	Rep. of South Africa	10/15	10	10	10
64	Portugal	5/15	5	10/15	10
65	Serbia Montenegro	5/15	5	10	10
66	Ethiopia	10	10	10	10
67	Bahrain	10/15	15	10	10
68	Qatar	5/10	5	10	10
69	Bosnia Herzegovina	5/15	5/15	10	10
70	Canada	15/20	15/20	15	10
71	New Zealand	5/15	5/15	10/15	10
72	Norway	5/15	5	5/10/15	10
73	Oman	10/15	10	10	10
74	Georgia	10	10	10	10
75	Yemen	10	10	10	10
76	Germany	5/15	-	10	10
77	Switzerland	5/15	5/15	5/10	10
78	Brazil	10/15	10	15	10/15
79	Australia	5/15	5/15	10	10
80	Malta	10/15	10	10	10
81	Mexico	5/15	5	10/15	10
82	Kosovo	5/15	5	10	10
83	Philippines	10/15	10/15	10	10/15
84	Gambia	5/15	5	10	10
85	Vietnam	5/10/15	5	10	10
86	Venezuela	5/10	5/10	0/10	10
87	Rwanda	10	10	10	10
88	Chad	10/15	10	10	10
89	Iraq	10	-	10	5
90	Sri Lanka	7,5/10	-	10	10
91	Cambodia	10	-	10	10

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