Doing business in Turkey 2019

Helping you set up and grow your business

2019

Content

Foreword

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Turkey is the seventh largest economy in Europe and and seventeenth largest economy in the world.

This guide has been prepared by Grand Thornton for the assistance of those interested in doing business in Turkey. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Turkey and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of 01.01.2019.

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Country profile

Geography

Turkey is positioned at the joint of Europe and Asia. The European side of the country is called Thrace (Trakya) and the Asian side is called Anatolia (Anadolu). The location on two continents has been a central feature of the Turkish history, culture and politics.

Turkey is at the northeast end of the Mediterranean Sea in southeast Europe and southwest Asia. To the north is the Black Sea and to the west is the Aegean Sea. Its neighbours are Greece and Bulgaria to the west, Russia, Ukraine, and Romania to the north and northwest (through the Black Sea), Georgia, Armenia, Azerbaijan, and Iran to the east, and Syria and Iraq to the south. The Sea of Marmara and the Bosporus separate into two region to the country. Istanbul is the biggest city in Turkey and part of it is in Europe Although Istanbul doesn't cover a big area in Europe, its strategic position improve its importance from the point of Europe. Since it connects Europe and Asia continents, the country act as an energy corridor.

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 shows more snowy features and colder than the coastal region in winters. The coldest months of the year are January and February, while the hottest are July and August.

Political Background

As with the proclamation of The Turkish Republic in 1923, the new Republic looked to the West for industrialization and the establishment of a secular political system under the guidance of the Republic's first President Mustafa Kemal Atatürk, whose reforms constituted the framework for the development of the modern Turkish Republic. Ankara is the capital city of Turkey. The territory of Turkey is subdivided into 81 provinces for administrative purposes.

Turkey has been a parliamentary democracy since 1923 and its a secular republican parliamentary democracy based on division of power between various ruling bodies. The Grand National Assembly has 550 members who represent the 81 Turkish provinces is the legislative body of Turkey. They are elected for four years term, by secret ballot. The President is elected by citizens for a four year term and s/he cannot be elected consecutively more than twice. The Prime Minister, who is appointed by the President, nominates the other members of the cabinet, which is approved by the President, and is subject to a parliamentary vote of confidence.

Turkey has enjoyed multi-party politics since 1946. The Republic of Turkey has a tripartite legal system. Civilian and military jurisdiction is separated. The main executive body is the Council of Ministers, consisting of a Prime Minister and twenty six ministers. Independent Courts have the judicial power. Turkey is a secular state. The freedom of worship for all religions is protected under the Constitution.

However with the constitutional referendum in 2017 Turkey is approved to transition to presidential system which will be effect in 2019. The new system abolishes the prime minister and strengthens the powers of Presidency. The new reform would enable the president to issue decrees, declare emergency rule, appoint ministers and top state officials and dissolve parliament. Parliament would be elected every five years, instead of every four, in general elections held in tandem with presidential elections.

The proposal comes six months after a violent coup attempt on 15 July 2016 which was failed. The government reacted by declaring a state of emergency and sweeping purges that left no government institution untouched.

Turkish legal system is largely based on continental European models. The legal framework of the Republic is based on the 1981 Constitution. A Constitutional Court is also entitled to cancel the legislations which are passed by the Parliament. The Constitutional Court can cancel those laws, or parts of them, which it decides to be incompatible with the Constitution.

Turkey is among the founding members 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.

Turkey entered the European custom union in 1996 and was in accession negotiations with the European Union since 2006. The negotiations have been launched with the adoption of the Negotiation Framework by the Council of the European Union. Turkey 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. These relations has stopped in 2017 due to the conflicts has been risen between Turkey and European Union.

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

Economic Environment

Turkey's largely free-market economy is increasingly driven by its industry and service sectors, although its traditional agriculture sector still accounts for about 25% of employment. The share of the agricultural sector in the GNP was almost 50% in 1950, 25% in 1980, 11% in 2005, 7.4% in 2014. Turkish economy has experienced a significant growth after 1980's. This growth can be explained by three factors. First economy's shift from agriculture to industry and service activities, second the modernization of the existing industry and technology, and finally the effect of international trade and competition.

An aggressive privatization program has reduced state involvement in basic industry, banking, transport and communication and an emerging cadre of middle-class entrepreneurs is adding dynamism to the economy and expanding production beyond the traditional textiles and clothing sectors. The automotive, construction, and electronics industries are rising in importance and have surpassed textiles within Turkey's export mix.

A number of government reforms also aim to provide an opportunity to transition with an R&D incentive programmes offering generous tax breaks, loans, and grants to support firms competing higher up the value chain. The privatisation of energy, utility, and infrastructure sectors would encourage efficiency and increase productivity.

Significant improvements in such a short period of time have registered Turkey on the world economic scale as an exceptional emerging economy, being the 18th largest economy in the world and the 6th largest economy when compared with the EU countries, according to GDP figures (at PPP) in 2016 .

Population

The current population of Turkey is estimated at 82.96 million, and increase from 2013's estimate of 75.5 million, of which the male population is approximately 49.1% of the total population and the female population is 50.9% of the population. The population continues to increase at a steady rate with almost 3600 births every day, while the death rate compared to this is significantly low at 1224 deaths per day. This implies a net steady increase in Turkey's population – and it has increased by more than 150 percent over the years. The growth rate remains around 1.29% per year.

The most populated cities in Turkey include Istanbul, Ankara, and Izmir. Each city holds a respective population of 14,808,116; 3,517,182 and 2,500,603. Istanbul is the world's 8th largest city proper, and has been inhabited since around 3000 BCE. Ankara is the capital of Turkey.

The literacy rate of the population is fairly high - about 95.6% overall as of 2018. The male literacy rate is almost 98%, while the female literacy rate is almost 92%. Almost 70% of the total population live in urban areas. The rate of urbanization is 1.7% per year. The total fertility rate is around 2.13 children born/woman.

The population is fairly young with almost 27% ranging from 0 to 14 years of age, while %67 are 15 to 64 years old. Only around 6% are above 64 years of age. The median age of the population is at 30.9 years of age, with a total life expectancy of 75 years of age in 2018.

Currency

The domestic currency is the Turkish Lira (TRY).
In recent years Turkish Lira has been depreciating against Euro and Dollar due to stagnation of the economy, political factors etc. Decrease in the value of the currency make Turkey cheap on labor wage, exports etc.

Reference rates - Turkish lira (TRY) (EURO vs. TRY)

Dec - 2018						
Mon	Tue	Web	Thu	Fri	Sat	Sun
					1	2
3	4	5	6	7	8	9
5.8784	5.9056	6.0176	6.1039	6.0869		
10	11	12	13	14	15	16
6.0681	6.0397	6.0990	6.0873	6.1107		
17	18	19	20	21	22	23
6.0865	6.1020	6.0949	6.0874	6.0314		
24	25	26	27	28	29	30
6.0451			6.0294	6.0354		
31						
6.0388						

Jan - 2019						
Mon	Tue	Web	Thu	Fri	Sat	Sun
	1	2	3	4	5	6
		6.0530	6.1171	6.2169		
7	8	9	10	11	12	13
6.1798	6.1395	6.2246	6.3112	6.3121		
14	15	16	17	18	19	20
6.2638	6.3324	6.2404	6.1716	6.1140		
21	22	23	24	25	26	27
6.1018	6.0823	6.0826	6.0495	6.0013		
28	29	30	31			
5.9761	6.0299	6.1120	6.0447			

Credit Ratings

Ratings of Turkey has been downgrading.

Agency	Rating	Outlook	Date
Moody's	Ba3	Negative	Aug 17 2018
S&P	B+	Stable	Aug 17 2018
Fitch	BB	Negative	Jul 13 2018
Moody's	Ba2	Under Review	Jun 01 2018
S&P	BB	Stable	Nov 04 2016
Moody's	Ba1	Stable	Sep 23 2016
Fitch	BBB-	Negative	Aug 19 2016
DBRS	BB (high)	Negative	Jul 21 2016
S&P	BB	Negative	Jul 20 2016
Moody's	Baa3	Negative Watch	Jul 18 2016
S&P	BB+	Stable	May06 2016
TE	44	Negative	Apr 16 2016
Moody's	Baa3	Negative	Apr 11 2014
S&P	BB+	Negative	Feb 07 2014

Balance of payments

Turkey has been experiencing current account budget deficit which is mainly caused because of the rapid rise in private consumption and declining savings. In order to prevent this, Turkish authorities implemented measures such as incentives for savings and consumption curving measures to reduce external vulnerabilities. These latest policy measures are intended to increase the savings rate and are expected to have a positive effect on the current account.

Foreign Direct Investments

In the last three years, Energy, Manufacturing and Finance sectors have attracted the highest amount of FDI.

USD million	2015	2016	2017
FDI Inward Flow (million USD)	17,717	12,942	10,864
FDI Stock (million USD)	158,108	143,199	180,697
FDI Inwards (in % of GFCF****)	4.7	n/a	n/a
Number of Greenfield Investments	161	154	223
FDI Stock (in % of GDP)	17.4	15.5	n/a

Economic Growth

The Gross Domestic Product (GDP) in Turkey contracted 1.10 percent in the third quarter of 2018 over the previous quarter. GDP Growth Rate in Turkey averaged 1.13 percent from 1998 until 2018, reaching an all-time high of 5.60 percent in the first quarter of 2002 and a record low of 5.20- percent in the second quarter of 2001.

Inflation

The Turkish consumer price inflation increased slightly to 20.35 percent year-on-year in January 2019 from 20.30 percent in the prior month, and slightly above market expectations of 20.29 percent. Food prices went up faster while both housing and transport inflation eased. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, declined to 19.02 percent in January from 19.53 percent in the previous month.

Key Industries in Turkey

No	Industry
1	Turkey has lots of dynamic industries. One of them is tourism. Antalya and İstanbul is in the top 10 most visited city in the world with 11,27 and 12,8 million international visitors in 2018. In recent years Turkish tourism sector has been attractive for tourists even more due to the decrease in the value of Turkish Lira.
2	Textiles and clothing is also one of the most important industries of the Turkish economy and the country's volume of foreign trade. There are more than 37,000 textile and clothing companies in Turkey and the country has a significant position in the world clothing industry and it is the second-largest supplier to the EU.
3	Another progressive sector is Automotive. According to the worlwide manufacturer organization, Turkey is the 16th automotive manufacturer in the world and 6th in Europe. Also Turkey is Europe's largest light commercial vehicle and 3rd bus manufacturer. The Turkish automotive sector generally produces trucks, buses, trailers, midi and mini buses and passenger cars with a capacity of 1.5 million vehicles . Turkey is the 28th largest world exporter with exports worth 153.6$ billion. The top exports include cars, vehicle parts, raw iron bars, and delivery trucks.
4	Financial sector is small and has low degree of deepening but Turkish banking sector has very important position in Turkish financial system. Banking dominates the Turkish financial sector, accounting for more than 70 percent of overall financial services, while insurance services and other financial activities also show significant growth potential. There are 51 banks in Turkey, out of these 51 banks, 21 hold significant foreign capital.
5	Turkey has significant potential in the point of consumer market with 75 million population and a vivid export sector. Textile and clothing, agriculture, white goods, furniture, cosmetics are the important sectors in consumer products.
6	Construction is an important sector in Turkey and one of the strongest engines of the country's economy. The construction sector is growing up consistently for many years. Turkish construction firms are not only active in the country, but also very active in Middle East, Africa and Balkans engaged in different projects. One of the most important projects for Turkey is the construction of the high speed railway line which will connect the capital city with the largest population center of Istanbul and serve for more than 15 million people.
7	Telecommunication and Turk Telekom owns the national infrastructure and was the government monopoly on fixed line services before 2005. Turk Telekom was privatized in 2005. Oger Group bought its 55% and being largest shareholder and obtain company's management. However telecommunication sector are critical for a country so that more than 49% of the monopoly cannot be offered to the foreign buyers. IT spending on hardware, software, IT services, and telecommunication services in Turkey is expected to increase to USD 35 billion by 2018.

Regulatory environment

A-Turkish Taxation System

A.1. Turkish Direct Taxation System

Turkish direct taxation system consists of two main taxes; income tax and corporate tax. An individual is subject to the income tax on his income and earnings, in contrast to a company which is subject to corporate tax on its income and earnings. The rules of taxation for individual income and earnings are provided in the Income Tax Law 1960 (ITL). Likewise, the rules concerning the taxation of corporations are contained in the Corporation Tax Law 2006 (CTL). Despite the fact that each is governed by a different legislation, many rules and provisions of the Income Tax Law also apply to corporations, especially, in terms of income elements and determination of net income.

A.1.1 Income Tax

• Taxable Income:

The income tax is levied on the income of individuals. The term individuals mean natural persons. In the application of income tax, partnerships are not deemed to be separate entities and each partner is taxed individually on their share of profit. An individual's income may consist of one or more income elements listed below:

- Business profits
- Agricultural profits
- Salaries and wages
- Income from independent personal services
- Income from immovable property and rights (rental income)
- Income from movable property (income from capital investment)
- Other income and earnings without considering the source of income. (capital gains and occasional income)

Several types of minor exemptions are granted to low-income individuals (article 9 of ITL)

• Tax Liability:

In general residency criterion is employed in determining tax liability for individuals. This criterion requires that an individual who has his place of residence in Turkey is liable to pay tax for his worldwide income (unlimited liability). Any person who remains in Turkey more than six months in a calendar year is assumed as a resident of Turkey. However, foreigners who stay in Turkey for six months or more for a specific job or business or particular purposes which are specified in the ITL are not treated as resident and therefore, unlimited tax liability does not apply to them.

In addition to residency criterion, within a limited scope, nationality criterion also applies regardless of their residency status, Turkish citizens who live abroad and work for government or a governmental institution or a company whose headquarter is in Turkey, are considered as unlimited liable taxpayers. Accordingly, they are subject to the income tax on their worldwide income.

Non-residents are only liable to pay tax on their income derived from the sources in Turkey (limited liability). For tax purposes, it is especially important to determine in what circumstances income is deemed to be derived in Turkey.

The provisions of Article 7 of the Income Tax Law deal with this issue. In the following circumstances, the income is assumed to be derived in Turkey.

Business profit: A person must have a permanent establishment or permanent representative in Turkey and income must result from business carried out in this permanent establishment or through such representatives.

Agricultural income: Agricultural activities generating income must take place in Turkey.

Wages and Salaries:

- Services must be rendered or accounted for in Turkey.
- Fees, allocations, dividends and the like paid to the chairmen, directors, auditors and liquidators of the establishment situated in Turkey must be accounted for in Turkey.

Income from Independent Personal Services: Independent personal services must be performed or accounted for in Turkey.

Income from Immovable Property:

- Immovable must be in Turkey;
- Rights considered as immovable must be used or accounted for in Turkey.

Income from Movable Capital investment: Investment of the capital must be in Turkey.

Other Income and Earnings: The activities or transactions generating for other income, specified in the Income Tax Act, must be performed or accounted for in Turkey.

The term accounted for used above to clarify tax liability of the non-residents means that a payment is to be made in Turkey, or if the payment is made abroad, it is to be recorded in the books in Turkey.

• Determination of Net Income:

Business Profit:

Business profit is defined as profit arising from any commercial or industrial activities. So, it can be said that rents, dividends and capital gains are also business income if this items can attributable to a business. Although this definition is very comprehensive and includes all types of commercial and industrial activities, the ITL excludes some activities from the contents of business profits. Generally, activities performed by tradesmen and artisans who do not have permanent establishments are not assumed as commercial and industrial activities and are exempt from income tax.

Furthermore, in order to tax income resulting from commercial and industrial activities there has to be continuity in performing these activities. In other words, incidental activities in that nature are not treated as commercial or industrial activities and therefore, the Income Tax Law deals with these activities as the other income and earnings. The ITL does not list each commercial and industrial activity and only refers to the Turkish Commercial Law for the scope of these terms. Yet several activities are listed namely for clarification in Article 37. These are as follows:

- The operation of mines, stone and time quarries, extraction of sand and pebbles operations of brick and tile kilns;
- Stock brokerage;
- Operating of private schools, hospitals and similar places;
- Regular operations of sale, purchase and construction of real estate;

- Purchase and sale of securities on someone's behalf and on a continued basis;
- Fully or partly sale of land which has been obtained by purchase or barter and subdivided within five years of its date of purchase and sold during this period or in subsequent years;
- Earnings from dental prosthesis.

Basically, the taxable income of a business enterprise is the difference between its net assets at the beginning and at the end of a calendar year.

Two method are used to compute business profits: Lump-sum basis and actual basis. In the former method, the Income Tax Law specifies estimated business profits for taxpayers who are qualified for such treatment according to the relevant provisions of the Law. The main assumption is that those taxpayers specified by the Law have difficulty to keep accounting books and to determine the income on the actual basis. Therefore, their income taxes are assessed on their estimated profits determined by the Law.

Business income is subject to the progressive income tax rates. However, the Council of Ministers is authorized to reduce the rates by up to %90 regarding business income of individuals arising from qualifying investments (certified by an investment document).

With effect from 10 January 2016, a start-up business income exemption is applied to the income of young entrepreneurs. According to section 20 of the GVK, the first TRY 75,000 of income derived from commercial, agricultural and professional activities is exempt from individual income tax for a period of 3 years. To be eligible for the exemption, the following cumulative conditions have to be met:

– the taxpayer must not have reached the age of 29 as at the date of commencement of the commercial, agricultural and professional activities; and

– the taxpayer must be a first-time taxpayer carrying out commercial, agricultural and professional activities.

Partners in general partnerships and general partners in limited partnerships are regarded as owners of the enterprise. Therefore the partners, not the entity, are liable for income tax on partnership profits.

In the latter method business profits is determined on the actual basis: Taxpayers are required to keep accounting books to record their actual revenues and expenses which occur within the calendar year. In general, business related expenses paid or accrued related to business are deducted from revenues:

Expenses

Expenses to be deducted	Payments, which are not accepted as expenses
General expenses made for earning and maintaining business profit;	Funds withdrawn from the enterprise by the owner or by his spouse or children, or other assets in kind taken by them;
Food and boarding expenses provided for employees at the place of business or in its annexes	Monthly salaries, wages, bonuses, commissions and compensation paid to the owner of the enterprise, to his spouse, or his minor children;
Medical treatment and medicine expenses;	Interest on the capital invested by the owner of the enterprise;
Insurance and pension premiums	Interest based on the current account of the owner of the enterprise, his spouse, his minor children including interests on all form of receivables;
Clothing expenses paid for employees	All fines and tax penalties as well as indemnities arising from unlawful actions.Indemnities incurred as penalty clauses of contracts shall not be considered indemnities of a punitive nature
Losses, damages, and indemnities paid based upon written agreements, juridical decrees, or by order of law;	% 50 percent of the advertising expenses for all kind of alcohol and alcoholic beverages, tobacco and tobacco products.
Expenses for travel and lodging relevant to the business	Expenditures related to indemnities paid against material and moral damages arising from acts through press or radio and television broadcasts.
Expenses for vehicles which are part of the enterprise and used in the business;	Depreciation and expenses of motor-driven sea crafts acquired by renting or registered in the establishment not related to the main field of operations of the enterprise
Depreciations set aside according to the provisions of the Tax Procedure Law;	
Payments to the unions	
Taxes like building, and consumption, stamp and municipal taxes and fees and charges, related to the business	
The contribution payments paid by the employers to the retirement system on behalf of the wage earners	
The production cost of foodstuff, cleaning, clothing and heating supplies donated to the charity and foundations	

Agricultural Income:
Income derived from agricultural activities is also subject to the income tax. The term agricultural activity means any activity performed in land, sea, lakes and rivers in forms of cultivating, planting, breeding, fishing, hunting and etc. For tax purposes, persons who engaged in such activities are referred to farmers.

Small farmers are exempt from tax if a farmer's gross revenue or operational size of his farming enterprise is less than the amount specified by the Income Tax Law, then he is accepted as a small farmer for the application of income tax and exempt from the income tax.

The farmers who are not exempt from the tax fall into two categories in determining their agricultural income. The income of farmers, whose annual proceeds or yields are less than the amount specified by the Council of Ministers for each year, is determined on a lump-sum basis. In this method, only the gross revenues of farmers are calculated on the actual basis. While expenses are determined simply by applying an estimated expense rate to the gross revenues. On the actual basis, both revenues and expenses are computed in their real amounts. Therefore, farmers need to keep accounting books to record their revenues and expenses accrued in the relevant year.

Gross revenue arising from agricultural activities consists of the following elements:

- Sales revenues earned from selling every kinds of agricultural products produced, purchased or obtained in other ways including the products remained from the previous years,
- Proceeds received in return of using agricultural machinery and equipment in the agricultural works of other farmers,
- Sales revenues derived from the selling of items expensed previously,
- Insurance compensations received for the products damaged before or after they were produced,
- Revenue arising from the selling of the fixed assets (except immovable used in agricultural activities).

On the actual basis, the following expenses are deducted from the gross revenue to reach taxable income for the year:

- Expenditure incurred for supplying fertilizers, plants fodder, chemical products and like for farming,
- The price of livestock, agricultural products and other items purchased for resale,
- Payments made to persons employed on the farm for services, under the name of remunerations, premium and other,
- Expenses incurred for food, medical treatment and medicines for the workers, their insurance premiums,
- Expenses incurred for the operation and maintenance of farming installations, machinery, equipment and vehicles (fuel, lubricating oil, electricity, spare parts etc.) and their repair,
- The depreciation set aside according to the Tax Procedure Law,
- Payments made for means of production obtained on hire or paying its price,
- General expenses for the realization and maintenance of the agricultural earnings;

1)Interest on money borrowed for and spent on the farm,

2)Taxes, charges and levies paid, provided they are concerned with the farm,

3)Travelling and residential expenses concerning the farm in proportion with the importance and volume of business (provided they are limited to the duration and necessity of the voyage,

4)Rent paid for the farm,

5)Other expenditures in general.

-Damages and compensation paid on the ground of an agreement or verdict or ordered by the law, provided they are concerned with the farm,
- In case of sale of economic assets subject to depreciation (excepting immovable used for agricultural production) the loses calculated according to Article 328 of the Tax Procedure Law,
- Total amount of depreciation and fifty percent of the expenses on the vehicles included in the business enterprise and used for also personal and family requirements,
- The products of the farmers carried forward from the past years and which are subject to taxation on the basis of actual assessment procedure shall be valued and shown as expenditures at the average cost of production stated in Article 45 of the Tax Procedure Law.

The Tax Procedure Law specifies the rates that will be applied to gross revenue in determining the amount of the estimated expenses on the lump-sum basis. Thus, 80 percent of gross revenue is accepted as the amount of expenses in determining net income resulted from the sales of animals, animals' products and fishing and hunting products. This rate has been laid down as 70 percent for other agricultural products.

Salaries and Wages:

Income derived from dependent personal services is subject to the income tax. This income comprises such income from all kinds of employment in both public and private sector as salaries and wages, as well as associated supplementary income such as allowances, bonuses, anniversary gifts, gratuities, commissions, premiums, compensations and other wage and salary related remunerations including benefits in kind at market value. In determining taxable amount of salaries and wages the following expenditures are allowed to be deducted from gross amount:

- Legal deduction made according to various laws or regulations,
- Payments made for pensions,
- Payments made for various insurances,
- Payments made for labor union membership,

• Personal Income Tax Rates

Rates to be applied to only salaries for year 2018;

Taxable Income (TRY)	Tax Rate on Excess (%)
0 - 18,000	15 %
18,000 - 40,000 (the tax is 2.700 TRY in excess)	20%
40,000 - 148,000 (the tax is 7.100 TRY in excess)	27%
148,000 - Above (the tax is 36.260 TRY in excess)	35%

Rates to be applied to all incomes beside salaries for year 2018;

Taxable Income (TRY)	Tax Rate on Excess (%)
0 - 18,000	15 %
18,000 - 34,000 (the tax is 2,700 TRY in excess)	20%
40,000 - 98,000 (the tax is 7,100 TRY in excess)	27%
98,000 - Above (the tax is 22,760 TRY in excess)	35%

Apart from remuneration for actual work performed by employees, this category also includes pensions paid in respect of prior employment and any advance payments for future work.

There is variety of tax-exempt wages for low-income individuals such as;

A minimum living allowance is available as a credit against the income tax due on employment income. The allowance is calculated as a percentage of the minimum wage officially applied throughout Turkey. The basic amount of the allowance is 50% of the annual gross minimum wage for the employee. The allowance is increased by 10% of the annual gross minimum wage for the spouse who is unemployed and has no income, and by 7.5% for the first two children and by 5% for each additional child. Fifteen percent of the total minimum living allowance so calculated is creditable against the income tax due from the employee. Any excess allowance is not refundable.

The costs of public transportation reimbursed by the employer are not subject to income tax.

• Benefits in kind

Most employee benefits are subject to income tax (article 63 of the ITL). The value of benefits in kind granted to the employee is determined according to their market value at the time when, and in the place where, they were granted. Meals and health care provided by the employer on the business premises are exempt. A fixed daily allowance for meals is also exempt.

Free accommodation provided to employees, including utilities, is not subject to tax if the property is wned by the employer and the accommodation does not exceed 100 m2 . The benefit corresponding to any excess area is subject to tax. If the employer pays the rent of the employee, it is added to the employment income. The benefit of a company car made available to an employee for business purposes is not subject to tax. In the case of private use of a company car, however, the total amount of costs for fuel and maintenance is treated as a benefit in kind and taxed accordingly.

• Pension income

Pensions paid by government social security institutions are exempt from income tax to the extent of the amount paid by the government to its highest level civil servants. Any excess payments are subject to tax (article 23 of the ITL).

• Directors' remuneration

Remuneration paid to directors who are not board members is treated as regular salary (article 61 of the ITL).

Fixed fees for the members of a board of directors are treated as regular salary. On the other hand, profit shares paid to them are considered dividends and taxed accordingly.

• Income from Independent Professional Services :

The term independent professional services means any activity performed by a person who is self-employed, and based on professional and scientific expertise rather than capital, income from such activities is subject to the income tax.

The term includes services given by such independent professionals as lawyers, accountants, doctors, consultants and engineers.

Revenues received from independent professional services within a year as well as expenses paid are recorded on a simple accounting book. In general, all expenses related to independent professional services are deductible from revenues. However, the scope of these expenses are narrower than those specified for the commercial and business and business activities.

The following expenses are allowed to be deducted from the gross revenue in reaching the profit from independent professional services:

-General expenses made to gain professional earning and survival of business,

-Alimentation and accommodation expenses of the servants and workers at the workplace or its premises, their medical treatment and drugs expenses, insurance premiums and retirement allowances

-Travel and accommodation expenses related to business trips (provided that it is limited to the period required by the object of the trip),

-Amortisation amount reserved according to the Tax Procedural Law for installations, fixed assets and the vehicles included in inventories, used in business activities,

-Expenses related to vehicles rented or included in the inventory,

-Amounts paid for business press,

-Cost of goods and services procured for performance of business activities,

-Registration and retirement allowances paid to the retirement funds for self-employment activities and other subscription fees paid to the professional organizations,

- Proficiency, announcement and advertisement taxes paid for conducting business and obtaining earning as well as the charges and levies in kind related to workplaces,

-Compensations paid according to the laws, verdict and contracts related to business activities.

• Income from Immovable Property

Immovable property means real property that includes land buildings, and permanent leasehold rights. Ships, boats, aircraft and other types of transportation vehicles are also regarded as immovable property in the application of the PIT Law. Income from immovable property comprises:

-Land, buildings, mineral water, mines, quarries, sand and pebble pits, brick and tile kilns,
salinas, together with their integral parts and accessories,

-Large fishing nets and traps,

-Integral parts and accessories of buildings, all their installations, inventory and furniture, leased independently from the building,

-Rights registered as real estate,

-Exploration, exploitation and concession and license, patent rights (The incomes earned by leasing the patents by the inventors or their legal heirs shall be the earnings of self-employment), the right of utilization or rights such as usage privileges on all kinds of trade mark, brand, trade name, all technical drawings, design, model, plan, cinema and television films, sound and video tapes; information acquired in the fields of industry, commerce and science, secret formula or production method (Also the costs of the material and equipment necessary for the utilization of such rights shall be considered as revenue from immovable),

-Copyrights (Earnings derived from the letting of such rights by the author or his legal heirs shall be considered as professional earnings),

-Ships and shares in ships (Without any consideration for their tonnage and whether they have an engine or not) and all motor vehicles of loading and unloading,

-Motorized transport and towing vehicles, all motor vehicles, machinery, installations and their attachments.

In computing net income from immovable property, costs related to maintenance, management, renovation and running, and depreciation may be deducted from the gross income on the actual basis; it is also allowed to make a lump-sum deduction instead of actual costs, except for the income from the lease of the rights mentioned above. In such cases, lump-sum deduction is %25 of the rental income.

Income from Capital Investment (Interest, Dividends, etc.)

Income from capital investment means any income such as interest, dividend, rent and as such derived from capital in cash or capital in kind. (Income from business activities, agricultural activities and independent personal services is not considered as income from capital investment.)

However, such capital income is not considered as income from capital investment, should they are earned (gained) through business, agricultural or independent professional activities. Regardless of their sources, the following earnings are deemed to be income from capital investment:

-Dividends from stocks of every kind including jouissance share, founder's shares and interests and other remunerations paid to the stockholders in the preparatory stage of the corporation and earning from the securities issued by investment funds and investment trusts,

-Earnings from participation shares including the shares of limited companies, cooperatives and joint ventures,

-Dividends paid to the chairmen and the members of the board of directors,

-For institutions with limited tax liability and that submit annual or special tax return according to the Corporate Income Tax Law, the portion that remains after deduction of the corporation tax from the corporation earnings calculated before the deduction of the reductions and exemptions,

-Interests of every kind from bonds, treasury bonds, and earning from the securities issued by the Housing Development Administration and the Public Participation Administration,

-Interest from debt-claims of every kind particularly interest from banks and other financial institutions,

-Deposit rates,

-Profits from selling coupons of stocks and bonds before their maturity,

-Income from selling of dividends not accrued yet to the owners of the shares,

-Amount of discount received in return for all bills discounted,

-Dividends paid to those who lend money without interest and dividends paid in return of profit-loss participation notes and profit-loss participation accounts,

-Income from repurchasing agreement on bonds and securities,

-The income payments made by the retirement funds in the nature of legal entity aid funds, retirement and insurance companies,

-Income from Individual Pension System,

-All types of earnings derived from capital market instruments issued due to Capital Market Law.

In determining net income from capital investment, costs related to and allowed to be deducted from gross income include insurance costs, collection costs, and taxes and other levies, excluding income tax, paid for securities. The mentioned elements are included in business profit when they are connected to the business activity of the recipient.
In such case, this income is treated as business profit and become subject to the rules described earlier.

Other Income and Earnings

Other income and earnings consist of capital gains and non-recurring income which are regulated by the PIT law under the topic of other income and earnings.

Capital gains

Capital gains that are came from the disposal of immovable property are taxable at the general rates through the annual tax return (repeated article no. 80 of the ITL) Also no withholding tax applies. If the annual total of all such gains does not exceed TRY 14.800,00 (for 2019), no income tax is due; any excess is subject to income tax at the general rates.

Capital gains that are come from the disposal of intangible rights are taxable in the same manner as gains on immovable property. Gains on immovable property that held for more than 5 years, are exempt. For the application of this exemption, the term "immovable property" covers only land, buildings, property rights and ships.
Capital gains on shares and other capital market instruments acquired before 1 January 2006, and on bonds issued before 1 January 2006 are taxable at the general rates through the annual tax return (i.e. no withholding tax applies).
Gains of the following assets are exempt, however (article 81 of the GVK):

–Securities inherited or received as a gift;

–Shares of resident companies quoted on the Istanbul Stock Exchange if held for more than 3 months;

–Shares of other resident companies if held for more than 1 year; and

–Participation certificates in investment funds and participation shares in investment partnerships.

Such gains are subject to inflation adjustment.If the annual total of all such gains does not exceed TRY 33,000 (for 2019), no income tax is due; any excess is subject to income tax at the general rates.

Other Deductions Allowed on the Tax Return

In the determination of the income tax base, taxpayers shall be entitled to make the following deductions from the income they will declare in their annual declarations:

-Insurance premiums such as life (50% of the premiums paid for life insurance shall be deducted), death, accident, illness, disability, maternity, birth and education, belonging to the taxpayer himself/herself and his/her spouse and children under age, provided that it does not exceed 15% of the declared income and total amount of the minimum wage,

-Education and health expenditures made related to the taxpayer himself/herself, his/her spouse and children under age, provided that they do not exceed 10% of the declared income and that they are made in Turkey and confirmed with documents to be received from real or legal persons subject to corporate income tax,

-Annual deduction calculated for the declared income of the disabled who are engaged in self-employment or who are taxed according to the simple procedure, according to the principles stated in article 31 (Self-employed persons and employees who are liable to look after a disabled person shall be entitled to benefit from this deduction (including the deduction base),

-Of the total donations and help made against a receipt, and to the public administrations under government budget or with special budget, to special provincial administrative bodies, to the municipalities and villages, to the foundations that are granted tax exemption by the Cabinet of Ministers, to the associations that work for public interest and to the institutions and establishments that are engaged in scientific research and development activities, up to %5 of the declared income,

-All kinds of expenses made for the construction of schools, medical facilities, student hostels and child care centres with a capacity of at least 100 beds, orphanages, retirement homes, care and rehabilitation centres, or all kinds of donations and help that are given to these institutions for the construction of such facilities, as well as all cash and real donations and help rendered for the continuation of their activities,

-The production cost of foodstuff, cleaning, clothing and heating supplies donated to the charity and foundations operating to help the poor, within the procedures and principles set out by the Ministry of Finance,

-100% of the expenses, donations and help made and given against receipt, in respect of activities which are realized by the above mentioned institutions or supported by the Ministry of Culture and Tourism for the promotion, development and preservation of cultural, artistic and historical values,

-For the amateur sport branches, the whole amount, and for professional sport branches 50% of the sponsorship expenses,

-A "R&D deduction" as much as 100% of the expenses that the taxpayers shall make for the research and development work within their enterprises, in search for new technologies and knowledge,

-All cash and real donations that are made against receipt, upon natural disasters for taken a decision to launch an aid campaign,

-Except for their economic enterprises, of all cash donations and help that are made against a receipt to the Turkish Red Crescent and the Turkish Green Crescent,

-The portion not exceeding 10% of the tax revenue that is declared of the amount set aside as venture capital investment funds.

Annual Income Tax Return and Payment

If the law requires a tax return to be filed, the responsibility for its filing and the payment of taxes rest with the individual. The income tax return should be declared between the dates of 1-25 March in the following year, and taxes are payable in two equal instalment in March and July. If the individual is leaving Turkey, the tax return should be filed and the tax payment made within 15 days prior to the date of departure.

Provisional Income Tax Return and Payment

The taxpayer also has to pay a provisional tax throughout the accounting period which is credited against the tax liability of the same period to be calculated in the return for that tax year. Taxpayers (except income from commercial activities and agriculture in limited tax liability) pay provisional tax at the rate of corporate tax, these payments are deducted from corporate tax of current period.

	Declaration Period	Payment Period
Provisional Income Tax	Income declarations will be made for each quarter at 17th day of following second month until by the end of the day.	Advance Income tax payments will be made for each quarter at 17th day of following second month until by the end of the day.

A.1.2 Corporate Tax

Turkish Corporate Tax System Type

The Turkish corporate tax system consist two-tiers. First of all, corporate profits are subject to corporate income tax. Second, if a company distributes its profits to any individual shareholder or to a non-resident corporate shareholder, the dividends are subject to a withholding tax payable by the distributor of dividends. The calculation of the taxable base for the withholding tax is different from the calculation corporate income tax. So, income is not subject to corporate income tax but it is may be subject to withholding tax. Dividends that is received by corporate shareholders are exempt from corporate income tax. With a provisional article in the Corporate Tax Law, the corporate tax rate is %22 for a limited period, for the years 2019 ,2018 and 2020.

Alleviation of economic double taxation is provided for dividends received by resident individuals in the form of a full withholding tax credit. In addition, %50 of the gross dividends is exempt from income tax; the remaining %50 is taxed at the normal income tax rates, with a tax credit equal to the full withholding tax.

Taxable Income:

The corporate tax is levied on the income and earning derived by corporations and corporate bodies. The income elements by Corporate Tax Law are the same as those covered in the Income Tax Law. In other words, the Corporate Tax Law sets provisions and rules applicable to the income resulted from the activities of corporations and corporate bodies, whereas the income Tax Law deals with the income derived by individuals. Corporations and corporate bodies specified by the Law as taxpayers in respect to the corporate tax are as follows:

- Capital companies and similar foreign companies;

- Cooperatives;

- Public enterprises;

- Enterprises owned by foundations societies and associations;

- Joint ventures.

Joint ventures, whose partners consist at least one corporate taxpayer listed in the list above have the right to choose whether being subject to corporate tax or being treated as transparent entities for tax purposes. General partnerships and limited partnerships are treated as transparent for tax purposes (articles 1 and 37 of the ITL).

Tax Liabilities:

According to the Corporate Tax Law, those legal entities covered by the law, which their legal head office situated in Turkey, or the place of effective management in Turkey are taxed on their world-wide income (unlimited liability). By specifying two criteria the law intends to prevent any problem, which may arises in determining tax liability. The term legal head office, as used in the context of the Corporate Tax Law, means the office specified in the written agreements of the mentioned entities.

Therefore, it is not difficult to be certain where the legal head office of a company is located. However, the place of effective management, which is defined as the place in which the business activities are concentrated and supervised, is not easy to determine in some cases.

As may be expected, the Law defines the term limited tax liability quite parallel to term unlimited tax liability, as the liability requiring to tax only the income derived in Turkey, provided that both legal head office and the place of effective management are abroad.

Determination of Net Taxable Income:

In essence, the provisions of the Income Tax Law concerning the determination of business profit also applies to the procedure required in determining corporate income. Basically, net corporate income is defined as the difference between the net worth of assets owned at the beginning and at the end of the fiscal year.

Expenses incurred in acquiring and maintaining business income are generally deductible (article 40 of the ITL);

-Start-up costs can be deducted in the year they are incurred or they can be depreciated over 5 years.

-Interest and royalties paid at arm's length are also can be deducted. (Articles 11 and 13 of the CIT Law). But, interest and foreign exchange costs paid for a loan that is used to finance an investment project must be capitalized and depreciated over the duration of the investment. Interest incurred after the investment period may be capitalized or deducted directly. With effect from 1 January 2013, where if a company's debt exceeds its equity there is a limitation for the deductibility of financing expenses. (Article 11 of the CIT Law) In these situations, 10% of the financing expenses which are related to the difference between the debt and the equity are not deductible. Some specific entities, like credit institutions, financial institutions, financial leasing, factoring and finance companies are not subject this limitation.

Royalties which are paid to use for copyrights, patents, trademarks and know-how are not directly deductible but might be depreciated.

-Deductions for doubtful debts are only allowed in the year in which the lawsuit is opened against the debtor.

-Discounts on receivables are deductible at the discount rates announced by the central bank. Also, discounts on notes receivable can be deducted only if the notes payable are also revalued at the same discount rate (resulting in a gain).

-Donations are deductible up to 5% of the gross profits of the year if made to (article 10 of the CIT Law):
(1) Public bodies
(2) Associations recognized by the Council of Ministers as serving a public benefit;
(3) Tax-exempt trusts established under the Civil Code; and
(4) Scientific research and development institutions.

In addition to the expenses mentioned in article 40 of Income Tax Code allowed to be deducted from revenues, the followings may also be deducted regarding to the determination of business profit, by corporations:

-Expenses related to the issuance of stocks and shares;
-Initial organization and establishment expenses;
-Expenses incurred for general board meeting as well as expenses made for mergers dissolutions, and liquidations;
-In case of insurance companies, technical reserves required for the insurance contracts are still valid at date of inventory;
-Profits shares accrued to active partners of partnerships in commendams limited by shares;
-Profit shares accrued to partners by participation banks for participation accounts;

The following losses can be deducted when determining the corporation tax base, by indicating each year's sum separately in the corporation tax return:

-The losses as indicated in the past years' tax returns–not exceeding five years,
-The losses from the activities at abroad transferred for not more than five years, and excluding those related to the earnings that are exempted from corporation tax in Turkey, can be deducted only if and when;

1) The tax base –including the loss– declared under the tax laws of the country in which the activities took place, has been reported by a duly authorized audit firm of such country, and
2) The original and a translated copy of that report have been submitted to the pertinent tax office in Turkey.

In determining the corporation tax basis, the following deductions can be made from corporation's earnings, provided that they are also indicated on the tax return:

- A "R&D deduction" as much as 100% of the expenses that the taxpayers shall make for the research and development work within their enterprises, to search for new technologies and knowledge,

- For the amateur sport branches, the whole amount, and for professional sport branches 50% of the sponsorship expenses,

- Of the total donations and help that are made against a receipt, and to the public administrations under government budget or with special budget, to special provincial administrative bodies, to the municipalities and villages, to the foundations that are granted tax exemption by the Council of Ministers, to the associations that work for public interest and to the institutions and establishments that are engaged in scientific research and development activities, up to 5% of the corporations earnings for that year, - All kinds of expenses made for the construction of schools, medical facilities, student hostels and child care centres that has a capacity of at least 100 beds, orphanages, retirement homes and care and rehabilitation centres, or all kinds of donations and help that are given to these institutions for the construction of such facilities, as well as all cash and real donations and help rendered for the continuation of their activities,

- 100% of the expenses, donations and help made and given against receipt, in respect of activities which are realized by the institutions mentioned before or supported by the Ministry of Culture and Tourism for the promotion, development and protection of cultural, artistic and historical values,
- All cash and real donations that are made against receipt, upon natural disasters for taken a decision to launch an aid campaign,

- Except for their economic enterprises, of all cash donations and help that are made against a receipt to The Turkish Red Crescent and The Turkish Green Crescent,

- The portion that exceed 10% of the tax revenue that is declared of the amount set aside as venture capital investment funds,

- 50% of the profits derived from services provided in Turkey, and exclusively utilised abroad, by service businesses engaged in architecture, engineering, design, software, medical reporting, record keeping, call center, data storage for non-residents in Turkey and for those whose registered and business head offices are abroad, also the profits of corporates providing services to non-residents in Turkey and whose operating areas are education and health subject to the permission and supervision of the relevant ministry (In order to benefit from this deduction, invoice or other documents shall be drawn up in the name of customer abroad),

- "Protected workplace discount" which is 100% of annual gross amount of wage payment made to mentally or psychologically disabled employees who are employed in the protected workplaces (discount applies to a maximum of 5 years for each disabled employees and an annual amount to be deducted shall not exceed 150% of annual gross minimum wage for each disabled employee),

- Within the accounting periods of capital stock companies, with the exception of entities engaged in banking, finance and insurance activities and state owned enterprises, over the monetary increases in paid-in or issued capitals which are registered with the trade registry or disbursed part of paid-in capital in the capital stock companies recently established, by taking into consideration "the weighted annual average interest rate which is applied to commercial credits accredited by the banks" which is announced by the Central Bank of the Republic of Turkey for the period in which deduction obtained, 50% of amount calculated up to the end of relevant account period

– 10% of the taxable income for investment in Turkish venture capital funds,

– 50% of the business profits for resident companies supplying educational and medical services under the supervision and control of the relevant ministry to non-resident people.

In determining net corporate income, the following deductions are not allowed:

-Interests paid or accrued on the basis of equity;

-Interest, exchange difference and other costs paid or accrued on the basis of disguised capital;

-Disguised earning distributed by transfer pricing;

-Any kind of reserves;

-The corporate tax, fines, tax penalties and late payment penalties and interest;

-Leased or registered motor vehicles' depreciation and other expenses not related with business activities;

-The losses that are occurred because issuing securities at prices below their nominal value as well as the commissions paid and all similar expenses with respect to such securities;

-The expenses and the depreciation costs of the sea vessels like yachts, cutters, boats, speed boats, and the air vessels like airplanes and helicopters that are rented by or registered to the enterprise's name, and which are not associated with the main field of activities of such enterprise;

-Except for the penalties stipulated in the contracts, material damages and compensations for pain and suffering incurred as the result of offences of the corporation itself, its shareholders, directors and employees;

-50% of the advertisement costs for all kinds of alcohol and alcoholic beverages as well as tobacco and tobacco products;

-Material damages and compensations for pain and sufferings paid upon offences committed by use of press or upon radio and television programs.

Exemptions and Exceptions

Exceptions on corporate income are regulated in Article 5 of the CIT Law, such as:

-The CIT Law provides a participation exception for dividends derived by companies from Turkish (resident) participations (Art. -1/5a) and from foreign participations (Art. -1/5b). Dividends qualifying for the participation exception are fully exempt from corporate income tax,

-75% of capital gains derived by corporate taxpayers from the disposal of shares owned for at least tw o years qualify for tax exception (Art. -1/5e).

Exemptions on certain entities are regulated in Article 4 of the CIT Law, such as:

-Domestic, national and international exhibitions and fairs that are opened by the public administrations and establishments, with the permission of local authorities,

-Retirement and aid funds and social security institutions that are established under law.

Depreciation

Depreciation is allowed on both tangible and intangible fixed assets but undeveloped land cannot be depreciated. Companies is able to adjust the book value of their depreciable fixed assets, buildings and land for inflation and calculate the depreciation on the basis of these new values.

The accepted depreciation methods by law are the straight-line method and the declining-balance method (articles 315 and repeated 315 of the Tax Procedural Law). But there are also some special rules in respect of depreciation of mines and extraordinary depreciation. Assets of minor value can be expensed directly. For the straight-line depreciation, the rate that is determined by the Ministry of Finance (article 315 of Tax Procedural Law), for plants, buildings, agricultural land varying between 2% and 10%; and for machinery and equipment between 6.66% and 50 % (Communiqué 333 of Tax Procedural Law). Taxpayers may not choose the depreciation period.

A taxpayer who has chosen the declining-balance method in the beginning may later switch to the straight-line method. In this case, the written-down value may be spread over the remaining years and be equally depreciated in these years

Intangible property, like copyrights, patents and trademarks, are also depreciated according to the general rules. The straight-line depreciation rate for such intangibles is 6.66%. Goodwill is depreciated in 5 years in equal amounts.

Capital gains

Capital gains are generally considered as ordinary income for corporate income tax purposes (article 6 of CIT Law and article 37 of ITL). But if a resident company realizes capital gain on the sale of participation shares, founders' shares, preferred shares and priority rights in another company or of immovable property, 75% of that gain is exempt from corporate income tax if (article 1/5c of CIT Law);

– Such participation shares or immovable property has been held for at least 2 years;

– The consideration for the sale is received within 2 years from the sale; and

– The total amount of the gain should be kept in a special reserve account at least 5 years. If such reserves are transferred to other accounts or withdrawn in cash or if the company is liquidated within those 5 years, or the consideration for the sale is not collected within 2 years, the capital gain becomes taxable in that year and a tax loss penalty is applied.

Companies engaged in trading in, or leasing of immovable property or participation shares are not qualified for this exemption.

Capital gains derived by companies from sale-lease-buy-back transactions (both financial and asset leases) are exempt from corporate income tax.

Capital gains derived by leasing companies from the resale of such property to the lessee at the end of the leasing period are also exempt.

The total amount of those gains is kept in a special reserve account by the lessee and credited against the depreciation amounts of that property (article 1/5j of CIT Law). Capital gains derived by resident companies from the disposal of shares of resident corporations quoted on the Istanbul Stock Exchange are subject to a zero-rate withholding tax if such shares are acquired on or after 1 January 2006 and held for 1 year or less (temporary article 67 of ITL).

Gains from transactions that is effected on the forwards and options exchange are subject to a zero-rate withholding tax. Gains that are derived from the disposal of government and private bonds are subject to a %10 withholding tax (temporary article 67 of the ITL). This tax is applied by banks, stockbrokers and other intermediaries in respect of sales for which they have acted as an intermediary.

Gains on the following securities are not subject to withholding tax but they are included in the taxable income and they are subject to corporate income tax at the general tax rate (temporary article 67 of the ITL):

–Shares and other capital market instruments, such as profit/loss certificates that acquired before 1 January 2006;

–Bonds and debentures issued before 1 January 2006;

–Certificates of investment funds (at least 51% of the portfolio must be made of shares quoted on the Istanbul Stock Exchange) if held for more than 1 year;

–Securities issued by the Turkish Treasury abroad;

–Shares of resident companies quoted on the Istanbul Stock Exchange if held for more than 1 year; and

–Non-quoted shares.

Losses

As it mentioned before the taxable income of a corporate taxpayer is defined as the increase of net assets between the closing balance sheet and the opening balance sheet in the taxable period. In this regard any negative balance will be considered as loss. Losses, whether domestic or foreign, are deductible while determining taxable income. However the losses caused from exempt activities are not deductible from other (non-exempt) income. Net operating losses may be carried forward for 5 years (article 9 of the CIT Law). The loss must be covered by the first available year's income. There is no indexation of losses that are carried forward. Losses may only be carried back in the case of liquidation. Capital losses are also considered as ordinary loss.

Corporate Tax Return:

Like income tax, the corporate tax is also assessed on the base declared through tax returns filled annually by taxpayers. Tax returns contain the results of related taxation period. In principle, every taxpayer is required to file only one single tax return, even if s/he has derived the income through different business places or branches and those places and branches have their own accounting and allocated capital. The corporate tax return is filled until the 25th day evening of the fourth month of the year following the month in which the fiscal year ends and the assessed taxes are paid until the end of that month. However, if a limited liable taxpayer leaves the country for sure the corporate tax return has to be submitted to the authorized tax office in the 15 days preceding.

In such case, taxes are paid in the same period of time as forth for the declaration.

If the income earned by the foreign companies which are subject to the limited liability in respect to the corporate tax, consists of capital gains and non-recurring income discussed in the preceding sections (except for income earned from sale and transfer of intangible rights like license, know-how, and royalty), then the income is declared to the authorized tax offices those taxpayers (or the persons acting on behalf of them) in the fifteen days after the income has been earned. This procedure is called "special declaration".

If there is no presence in Turkey, withholding tax will generally be charged on income earned; for example income earned from sale and transfer of intangible rights like license, know-how, and royalty, income from movable and immovable property and income from independent professional services provided in Turkey.

Provisional Corporate Tax Return

Provisional tax payments will be made over income declarations of each quarter. The provisional tax return should be submitted at the latest by the 17th of the second month following the quarter period.

	Declaration Period	Payment Period
Provisional Income Tax	After quarterly period, 17th day of following second month until by the end of the day.	After quarterly period, 17th day of following second month until by the end of the day.

• Tax Rates

Corporate income tax is applied at 22 % rate on the corporate earnings. Taxpayers (only for income from commercial activities and agriculture in limited tax liability cases) pay provisional tax at the rate of corporate tax, these payments are deducted from corporate tax of current period.

• Investment incentives

A wide range of incentives, like, corporate income rate reductions, VAT exemptions for machinery and equipment are available. Non-resident investors can also take advantage of these benefits like resident investors. Normally investors must obtain an investment document from the Ministry of Economy in order to take advantage of these incentives.

• Allowance

A research and development allowance, granted for new technology and information activities, is a deductible item for corporate income tax purposes. It is calculated as 100% of research and development expenses realized in a year. Where the corporate profits are inadequate for this allowance, the exceeding amounts can be carried forward and deducted from the taxable base in the subsequent years. Research and development expenses are also subject to depreciation if a fixed asset is created. Software and research and development activities of companies established in technological development zones founded by the Council of Ministers are exempt from corporate income tax until 31 December 2023

• Exempt salaries

Under research and development (R&D) and designing incentives applicable from 1 April 2008 to 31 December 2023, a part of the salary of an R&D and designing centre's personnel is exempt from individual income tax if (article 3 of Law 5746):

– %95 of the salary of R&D personnel have a PhD (or master's degree in science);
– %90 of the salary of R&D personnel have a (non-science) master's degree or an undergraduate degree from a science college; and
– %80 of the salary of other R&D personnel is exempted from individual income tax. The R&D centres established as separate units of resident companies and permanent establishments of non-resident companies may qualify for the incentives. But they must proceed their R&D activities especially in Turkey and to have at least 15 employees (or 30 for certain sectors like manufacturing of motor vehicles etc.)

• Free-trade zones

Free-trade zones are areas established within Turkey but are deemed to be outside of Turkey. All types of commercial, industrial, banking and certain service activities are allowed in the free-trade zones. Companies that operate in the free-trade zones are generally exempt from all taxation and are not subject to other obligations like levies, customs and foreign exchange obligations. The corporate and income tax exemptions applied to companies established in free-trade zones were cancelled as of 6 February 2004; however, they continue to apply for companies and branches with a valid operating licence acquired before 6 February 2004 until the date indicated in that licence. Profits comes from the sale of goods produced in the free-trade zones are exempt from taxation until Turkey's membership to the European Union. Also with effect from 1 January 2009, salaries paid by companies operating in free-trade zones are exempt from wage withholding tax until Turkey's membership to the European Union, provided that the company exports at least 85% of its goods produced in the free-trade zone (temporary article 3 of Law 3218)

A.2. Turkish Indirect Taxation System

In Turkey, there are several indirect taxes but the most important indirect tax is V.A.T.
The beginning of the studies on Value Added Tax (VAT) in Turkey goes back to 1970. In 1974, a draft VAT law, which was the result of studies of a technical group, was prepared. The subject (VAT) was discussed by different levels of public opinion and some project games were organized to test the drafts with the volunteer enterprises. After the appreciation of the results of these discussion and games, seven law drafts were prepared between 1974-1984. The 8th draft was enacted on November 2nd , 1984 and entered into force on January 1st , 1985. By the VAT Law, eight indirect taxes on consumption were abolished.

The Turkish Tax System levies value added tax on the supply and the importation of goods and services. The Turkish name for Value Added Tax is Katma Değer Vergisi, abbreviated to KDV.

VAT liability arises;

(a)when a person or entity performs commercial, industrial, agricultural or independent professional activities within Turkey,
(b)when goods or services are imported into Turkey.
VAT is levied at each stage of the production and the distribution process. Although liability for the tax falls on the person who supplies or imports goods or services, the real burden of VAT is borne by the final consumer. This result is achieved by a tax-credit method where the computation of the VAT liability is based on the difference between the VAT liability of a person on his sales (output VAT) and the amount of VAT he has already paid on his purchases (input VAT).

The Turkish VAT system employs multiple rates and the Council of Ministers is authorized to change the VAT rates within certain limits.

• VAT taxpayers

General

VAT taxpayers are defined in the VAT Law as those engaged in taxable transactions, irrespective of their legal status or nature and their position with regard to other taxes.

Taxpayers

The following people or entities are liable to VAT:

-Those supplying goods and services, Those importing goods or services, Those required to complete customs formalities in case of transit of goods through Turkey,

- General Directorates of the Authorized Public Lotteries, including Spor-Toto and National Lottery,

- Organizers of any kind of chance and gambling,

- General Directorates of Postal Services (PT and Telecom) and radio and television corporations,

- Organizers of shows, concerts and sporting events with the participation of professional artists and professional sportsmen,

- Lessors of goods and rights stated in Article 70 of the Income Tax Law.

- Applicants for optional tax liability.

• Tax Rates

Types of Supply Rate (%)	Rate(%
Most supplies (including services)	18
Basic foodstuffs, Education(Private schools), Books,Tourustic services	8
Agricultural products sold as raw materials,used cars,houses with a net area of up to 150m2	1
Delivery of the textile and leather products	8
Luxury goods and entertainment services rendered by discos, bars etc.	18
Medical products and devices	8
Automobiles with cylinder capacity of more than 2000 cc	18

Standard rate:
The standard rate of VAT on taxable transactions is set at 10% in the VAT Law, but this rate was increased to 18% as of 15 May 2001.

VAT is collected at every stage of the production and distribution process from the initial sale by the producer to the final sale to the consumer. At each of these stages, the amount of tax payable is the difference between the total amount of tax charged on the invoices issued by the taxpayer and the total amount of tax charged on invoices issued to the taxpayer during the same period. Thus the VAT is initially computed by applying the appropriate rate of taxation to the taxable base for goods and services supplied by the taxpayer during a taxable period. This amount is then reduced by a credit for VAT previously paid on importation and on goods and services supplied to the taxpayer.

Goods and rights set out in Article 70 of the PIT Law including immovable property such as land, buildings, mines and rights which are in the nature of immovable property and other goods and rights such as all kinds of motor vehicles, machines and equipment, ships, literary, artistic and commercial copyrights, commercial or industrial know-how, patents, trademarks, licenses and similar intangible properties and rights.

• VAT Responsibility and Reverse Charge VAT

In the situation that the taxpayer is not resident or does not have a legal head office or place of management in Turkey, or in other cases deemed necessary, the Ministry of Finance is authorized to hold anyone involved in a taxable transaction responsible for the payment of tax.

According to the VAT Law, there is a so-called reverse charge VAT mechanism, which requires the calculation of VAT by resident companies over payments to abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company or customers on behalf of the non-resident company (foreign company). On the other hand, the local company treats this VAT as input VAT and offsets it in the same month.

Toll-manufacturing and ready-made materials (textiles) are subject to partial withholding: Only 50% of the calculated VAT is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 50% of calculated VAT to the tax office directly. Junk metal, waste paper, junk plastic material deliveries are exempt from VAT.

VAT: In the case of the renouncement of the above mentioned exemption, the purchaser pays 50% of the calculated VAT to the seller. Therefore, the purchaser will be responsible for paying 50% of the calculated VAT to the tax office directly.

• Taxable Base

The taxable base of a transaction is generally the total value of the consideration received, but 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 Procedure Law.

• Exclusions from the Taxable Base

The following elements are not included in the taxable base:

a) Discounts, in amounts in compliance with customary commercial practices, in transactions of delivery and service shown on invoices and similar documents,
b) The VAT calculated.

• The Credit Mechanism

VAT is collected at every stage of the production and distribution process from the initial sale by the producer to the final sale to the consumer. At each of these stages, the amount of tax payable is the difference between the total amount of tax charged on the invoices issued by the taxpayer and the total amount of tax charged on invoices issued to the taxpayer during the same period. Thus, the VAT is initially computed by applying the appropriate rate of taxation to the taxable base for goods and services supplied by the taxpayer during a taxable period. This amount is then reduced by a credit for VAT previously paid on importation and on goods and services supplied to the taxpayer.

• Non-deductible VAT (Cost or non-deductible item or capitalized)

In the following cases, VAT may not be credited from the VAT computed on taxable transactions.

(a) VAT on purchases of cars (which should be recorded as an expense or cost) (except for businesses related with lease or operation of cars)
(b) Missing and stolen stocks,

(c) VAT on expenses accepted as non-deductible in determining income according to Income Tax Law and Corporate Tax Law,
(d) Input VAT on exempt deliveries listed in Article 17 of the VAT Law.

• VAT Refund

VAT (input VAT) shown on invoices and similar documents related to the transactions which are exempt from the tax, such as:

- Exportation of goods and services,
- Exemption in vehicles, precious metals and oil prospecting activities and national security expenditure and investments made under an investment incentive certificate (IIC),
- Transit transportation,
- Diplomatic exemption are deducted from the VAT (output VAT) to be calculated on the transactions of the taxpayer which are subject to VAT.

In the absence of transactions subject to VAT, or if the output VAT is less than the input VAT, then the input VAT which cannot be deducted is refunded to those who perform such transactions, on the basis of principles to be determined by the Ministry of Finance.

• Exemptions

Exemptions without the right to deduct input VAT include (article 17 of the VAT Law):
- The transfer of businesses and companies (like takeovers and company form changings);
- pipeline transportation of crude oil, petroleum, gasoline and other similar products;
- the supply of unprocessed gold, foreign currency, debentures, bonds, stamps and capital market instruments traded on the Turkish stock exchange; transactions that are subject to the banking and insurance transactions tax;
- leasing of immovable property other than property which is a part of a business;
- the sale by resident companies of their immovable property if the resulting gains are used for a capital increase;
- the supply of goods and services treated under the special regimes on transit transportation and bonded warehouses, as well as those on free zones, temporary storage, and customs areas;
- the supply of software by companies established in technological development zones(Until 31 December 2023);
- the supply of tools, equipment and special computer programs that will be used in the education, professions and daily life of the disabled; and
- the supply of transportation services to and from free zones for exportation purposes. The following transactions are exempt with the right to deduct input VAT
- the exportation of goods;
- the supply of services abroad;
- the process of goods for exporters;
- the supply of ships, aircraft and rail transportation vehicles, and the supply of services related to the manufacture of such vehicles;
- the supply of goods and services for the construction of sea transport vessels made to taxable persons who construct those vessels;
- the supply of services to ships and aircraft at harbours or airports; – the supply of international transport services;
- the supply of goods and services to person who engaged in the exploration for or exploitation of hydrocarbon sources;
- the supply of machinery and equipment to taxable persons who have an investment document provided that the machinery and equipment forms part of the investment;
- the supply of goods and construction services for

the construction, renovation and maintenance of harbors or airports; and

- the supply of fuel to trucks transporting goods under an export regime, provided that the fuel is supplied at the borders designated by the Council of Ministers and the trucks leave the country.

• **Non-residents**

In general, a VAT refund is only available for the VAT related to agricultural products at the reduced rate of %1 and the VAT related to goods and services exempt with credit. A permanent establishment of a non-resident in Turkey is entitled to claim a credit or refund in the same way as are residents. Non-residents engaged in transportation activities are granted, on a reciprocal basis, a refund for VAT on the goods and services purchased relating to such activities and commercial activities at exhibitions and fairs.

In addition, VAT incurred on goods or services purchased by foreign producers for the purposes of cinematographic works approved by the Ministry of Culture and Tourism is refunded to the foreign producers.

• **Tax Declaration and Payment**

VAT declaration has to be submitted as a monthly period.

Declaration Period	Payment Period
26th day of the following month until by the end of the day.	If there is payable VAT Calculated, declaration has to be paid until by the end of the 26th day of the month.

Special Consumption Tax

Goods in the Lists attached to the Special Consumption Tax Law are the subject of the tax. For goods in the Lists, 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

-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.

The Taxpayers of the Special Consumption Tax

Taxpayers are different according to the lists. They are;

For List I; manufacturers and importers of the petroleum products,
For List II; merchants of motor vehicles, exporters for using or sellers through auction
For List III; manufacturers, exporters or sellers through auction of tobacco, alcoholic beverages and cola.
For List IV; manufacturers, exporters or sellers through auction of luxury products.

Withholding Tax:

Dividends- paid to a non-resident company are subject to a %15 withholding tax, unless the rate is reduced under an applicable tax treaty.
Interest – Interest on loans payable to foreign states, international institutions, or foreign banks and foreign corporations that qualify as "financial entities" are exempt from withholding tax. A %10 rate applies to interest paid on loans from non-resident entities that do not qualify as "financial entities".

Royalties – Income derived from the sale or transfer of intangible assets such as copyrights, patents and

trademarks, royalty payments, and payments for professional services such as consulting, supervision, technical assistance and design fees, are subject to a %20 withholding tax. The withholding rate may be reduced under an applicable tax treaty.
Branch remittance tax – After-tax branch profits remitted to the headquarters are subject to a %15 withholding tax.

Other:

-Fees for professional services are subject to a final withholding tax with the rate of %20 (If the service is related to petroleum then the rate is %5) (Article 30 of CIT Law).

-Payments for the rental of immovable and movable property are subject to withholding tax at the rate of %1) %20 for financial leasing) (Council of Ministers' decision 14593/09).

-For non-residents without a permanent establishment in Turkey, income from commercial activities at exhibitions and fairs is subject to withholding tax but the rate is currently fixed at %0.

Wages: Resident employers are required to calculate and withhold income tax at the general rates upon the payment of wages (article 94 of the GVK). This withholding tax is final and no tax return need be filed for such income.

Interest: The following description applies to interest payments to resident individuals:
-Interest payments of Turkish government bonds and debentures issued before 1 January 2006 is exempt from withholding tax (subject to a zero rate withholding tax).
-Interest payments of bonds and debentures issued by companies before 1 January 2006 is subject to a %10 advance withholding tax (temporary article 67 of the ITL). In both cases, %60.39) %38.19 before 1 January 2016) of the interest income is exempt from income tax for 2016 (i.e. the interest does not have to be declared in the annual tax return).
A %10 final withholding tax applies to (Council of Ministers' decision 14592/2009):
–Interest from Turkish government bonds and debentures issued on or after 1 January 2006; and
–Interest from bonds and debentures issued by companies on or after 1 January 2006.

With effect from 2 January 2013, interest income from deposit accounts, profit shares received from interest-free loans, and profit shares received from profit/loss partnership certificates is subject to different income withholding tax rates depending on the maturity date of such accounts (Council of Ministers' decision 4116/2012). Previously, such interest income was subject to a single %15 withholding tax rate.

Withholding tax rates applied to interest payments to non-resident companies are as follows: (article 1/30 of CIT Law and Council of Ministers' decision 14593/09):

- A rate of %0 applies to (Council of Ministers' decision 14593/09):

(1) Interest on Turkish government bonds and debentures (including those issued abroad);
(2) Interest on bonds and debentures issued by companies (if received through banks or intermediary institutions);
(3) Loan interest paid to foreign banks or states, or to international institutions; and
(4) Loan interest paid to other companies that are authorized to habitually provide loans in the country in which they are established and provide loans not only to related companies but also to all individuals and legal entities.

A rate of %1 (previously %10) applies to (Council of Ministers' decision 14593/09):

(1) Interest paid by banks on subordinated loans similar to equity; and
(2) Interest paid by banks and other companies on loans taken by way of securitization abroad.

A rate of %5 applies to interest in relation to the sale of goods on credit (which was %10 previously) (Council of Ministers' decision 14593/09).

Withholding taxes on domestic payments

Dividends: Dividends distributed by resident companies to other resident companies are not subject to withholding tax. Note that such dividends are also exempt from corporate income tax (participation exemption) in the hands of the receiving company.

• Stamp Tax:
Stamp tax applies to a wide range of documents, including but not limited to agreements, financial statements, and payrolls. Stamp tax is levied as a percentage of the value stated on the agreements at rates varying between 0.189% and 0.948%.

• Branch Income:
Branches are taxed solely on the income derived from activities in Turkey since they are regarded as non-resident entities for Turkish purposes. Branch profits are subject to Turkish CIT at the rate of 22%.

The branch profit transferred to headquarters is subject to dividend WHT at a rate of 15%, which might be reduced if there is a bilateral tax treaty between Turkey and the country of which the principal is a resident for income tax purposes.

Transfers of Foreign Currency

Foreign currency that gained by individual in Turkey, are not subject to any quota or deduction when individuals transferring their gains to foreign countries banks. On the other hand corporation's acquisitions of foreign currency are subject to tax. After taxation of income, corporation can freely transfer their money to foreign or domestic banks. Cash inflow to Turkey from any countries is not dutiable. Turkey's laws do not impose any restriction on money that is coming from foreign countries.

Employment Regulation and Social Security

Residence and Work Permits

If foreign individuals want to enter Turkey, they should get a visa which can be obtained at the border of entry, allowing them to stay in the country through three months. Foreign workers, who are going to work in Turkey need to get work permit from Ministry of Labour, also they need to get working visa from Turkish Consulate. Non-Turkish people who are going to stay in Turkey, need to apply Internal Affairs for residence work permit. When foreign individuals get necessary permission, the individual and the company should collectively apply for a work permit from the Ministry of Labour.

Foreign nationals who are in residence outside of Turkey may do with their work permit applications through representatives of the Turkish Republic in their respective countries. As long as foreign nationals get a residence work permit may file their applications jointly with their employer directly with the Ministry of Labour.

Work permits are approved by the Ministry of Labour after examination with the relevant bodies, if finding it necessary. The work permit does not give the right of employment to spouses foreigners who are insured in their own company may opt out of the Turkish social security scheme upon filling a written request with the social security authorities.

Social Security System

The social security system in Turkey went through a major transformation in 2007, resulting in a more efficient and fast functioning system, based on centralizing the control of different social security funds into a single institution.

The three insurance funds, namely SSK, Emekli Sandigi and Bağ-Kur, were merged under a sole body called the Social Security Institution (SSI) in 2007. The three insurance funds together cover around 81% of the population as of 2008. The system started to be fully operational at the beginning of 2008.

Foreigners making social security contributions in their home countries do not have to pay the Turkish social security premiums if there is a reciprocal agreement between the home country and Turkey.

The major features of the social security system are the provision of healthcare and a small pension. There is also unemployment insurance.

All employees with the exception of certain agricultural workers, of Turkish businesses are subject to the social security scheme. Contributions are paid monthly by the employer and are partially recovered from the employees by salary deductions.

Employees' social security premium obligations amount to 14% of gross monthly benefits and employers' premium obligations vary between 19.5% and 25%, depending on the sector of employment.

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