10 insights to grow your business in Türkiye

The Turkish Tax System

PRESIDENCY OF THE REPUBLIC OF TÜRKİYE
INVESTMENT OFFICE

Dear Valued Readers,

A resilient, fast-growing economy, Türkiye offers business-friendly policies, a deep talent pool and global market access at the nexus of Europe, Asia and Africa to attract sustainable foreign direct investments (FDI). Türkiye is the world's 11th largest economy in terms of purchasing power parity as of 2020. Turkish economy reached an average growth of 5.4 percent between 2003-2021, thanks to the successful macro policies implemented, reforms carried out uninterruptedly and political stability achieved under the leadership of President Recep Tayyip Erdoğan. In the same period, Türkiye emerged as an R&D, design, production, logistics and management hub in its region, attracting nearly USD 240 billion of FDI.

Türkiye has proven itself a resilient player in global value chains with multinational companies shoring up their presence in the country in line with their strategies of nearshoring, regionalization and diversification. In a similar vein, Türkiye's share in global FDI has risen to 1% after 2003, up from 0.2% in the 1990-2002 period. With the "FDI Strategy (2021-2023)" published in the Official Gazette on June 22, 2021, we put forth our objective to expand our share in global FDI to 1.5%.

As is known, an investment-friendly legal infrastructure is a key element to reach this target. I would like to remind that the legal environment in Türkiye has progressed in an investor-friendly fashion in recent years, thanks to the reforms implemented, particularly in the tax system and judiciary.

I believe that this study titled "10 Insights to Grow Your Business in Türkiye: The Turkish Tax System", authored in collaboration with PwC, provides a clear outlook of the Turkish tax system for international investors, as well as corporations, individuals, and business executives who are interested in investing, working, or doing business in Türkiye. I would like to express my gratitude to the PwC team for sharing their expertise with us.

A. Burak Dağlıoğlu
President
Presidency of the Republic of Türkiye Investment Office

Drawing on conversations with hundreds of foreign business leaders looking to set up in Türkiye and their combined experience, the **Investment Office** and **PwC** have identified 10 key questions to which this guide seeks to provide some initial answers.

However, by their very nature, the various schemes discussed here may be subject to potential regulatory changes. Should you wish to obtain the very latest information, and for any further enquiries, we recommend that you contact PwC and Investment Office experts, whose details can be found at the end of this guide.

This guide is up to date as of January 2022.

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What taxes will I pay if I invest in Türkiye?

It all depends on what you intend to do in Türkiye...

You just want to test the Turkish market

- Before **making the decision** to invest and establish business operations in Türkiye, it is important to gather a certain amount of information, contact various parties (potential customers, suppliers etc.), and quickly organize your communication and advertising strategy.
- **A liaison office**, which allows you to be represented in Türkiye without engaging in commercial transactions, is easy to set up and will not be subject to tax.
- However, the activities performed by the liaison office should remain within the scope of permissible activities (i.e. market research, promotion of the goods and services of the parent company)

You have decided to invest in Türkiye

- Türkiye applies the principle of territoriality to taxation.
- Turkish and foreign companies are only taxed on earnings generated by the companies they operate in Türkiye. The profits of companies operated abroad are not taxable in Türkiye.
- This rule applies regardless of whether the company is run as a subsidiary, a branch office or a permanent establishment.

Commercial transactions performed by a liaison office in Türkiye, or by any employees sent out to work for the entity, may be subject to tax in Türkiye.

Three types of legal structure

Subsidiary

- A subsidiary is an entirely separate legal entity.
- Even if it is wholly owned by a shareholder, a subsidiary remains a separate entity from its owner. It has its own asset base that is independent of that of its associate(s).
- Tax obligations: by definition, subsidiaries are obliged to pay taxes in Türkiye.

Branch office

- A branch office is a permanent establishment set up by a company.
- It is not a separate legal entity, but for tax purposes it is considered to be an independent taxpayer in Türkiye.
- Tax obligations: like subsidiaries, branch offices are obliged to pay taxes in Türkiye.

Liaison office

- A liaison office simply serves to represent a company in Türkiye without engaging in commercial transactions.
- Establishment of a liaison office is subject to permission from the Ministry of Industry and Technology. A liaison office is liable for reporting permissible activities.
- Tax obligations: a liaison office is not obliged to pay taxes in Türkiye.

Two types of capital companies are typically used in Türkiye: joint stock companies (Anonim Şirket A.Ş.) and limited liability companies (Limited Şirket Ltd). The table below summarizes the general legal features related to each.

Types of Entities		Joint - Stock Company	Limited Liability Company	Branch
Legal Status and Responsibilities	Minimum number of shareholders	1	1	N/A
	Maximum number of shareholders	No limitations	50	N/A
	Scope of activity	Any activity not prohibited by law.	Any activity except banking, factoring, financial leasing etc. and activities prohibited by law.	Only for the same purposes as the parent company.
	Term	May be indefinite period.	May be indefinite period.	Limited to the term of the parent company.
	Shares, Share Certificates and Debentures	• Par value of the shares is minimum TRY 0.01. • Share certificates may be issued either in registered form or bearer form. • May issue debentures.	• Par value of the shares is minimum TRY 25 or multiples of this amount. • Share certificates may be issued as proof of shares or may be issued in registered form. • Not authorized to issue debentures.	No shares or share certificates.
Capitalization & Asset Imbalance Rule	Minimum Amount of Share Capital	• TRY 50,000 and TRY 100,000 if registered capital system is adopted • May be paid either in kind or in cash. • At least ¼ of the nominal share value must be paid before registration and the remaining portion must be paid within 24 months after registration.	• TRY 10,000. • May be paid either in kind or in cash. • It is not obligatory to pay any amount before registration. However the total capital must be paid within 24 months after the registration.	• No capital requirement; • We generally advise allocating a budget equivalent to TRY 5,000 (approximately EUR 1,000).
Organization and Running	Administrative and Representation	• General assembly of shareholders (GAS): the ultimate decision-making organ. • Board of directors: the management and representation organ.	• GAS: the ultimate decision-making organ. The same principles that apply to JSCs are applicable to LLCs. • The board of managers is responsible for managing and representing the company.	• Branches do not have statutory organs. Branches are managed by the parent company and represented before third parties by the branch manager appointed by the parent company.

#2

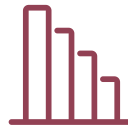
How are my investments in Türkiye taxed?

1. You are only acquiring a stake in a Turkish company

Option 1:

You are acquiring a cash stake in a Turkish company, increasing its share capital

- An investor's cash contribution and stake in a company's share capital are not subject to tax.
- Companies increasing their share capital must pay a fee of 0.04% of the amount of increase.



Option 2:

You are acquiring shares in a Turkish company

- The acquisition of shares by a foreign investor has no immediate Turkish income tax consequences.
- A change in shareholders does not affect the tax attributes of a Turkish company.

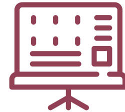
So are the dividends I receive taxable?

In principle, the dividends paid by Turkish companies (that are subject to corporate tax) are taxed in the beneficiary's country of residence. In Türkiye, such income is taxed at a low rate with numerous tax treaties having been signed to offset Turkish withholding tax.

2. You intend to do business in Türkiye

You are setting up a company in Türkiye

- Companies established in Türkiye are subject to all the main business taxes, as presented in insight#6.
- Only profits generated in Türkiye are subject to corporate tax (territorial principle).
- The aforementioned network of tax treaties limits "tax friction" when earnings generated by Turkish companies are repatriated – see insight#4.



You are not creating a business structure in Türkiye

- Branch offices (permanent establishments of foreign companies) are subject to all the main business taxes in Türkiye.
- Only profits generated in Türkiye are subject to corporate income tax (territorial principle).
- Because a branch office is not a separate legal entity, the foreign company bears unlimited liability for the tax obligations of its establishment in Türkiye.
- The earnings generated by the branch office are considered to be paid out to the foreign parent company and are subject to withholding tax in Türkiye. The rate of withholding tax is 10%, unless the rate is reduced by a tax treaty.

Venture capital investment companies (VCICs), venture capital investment funds (VCIFs) and real estate investment companies/funds are all bespoke schemes for certain types of investments, particularly financial and real estate investments.

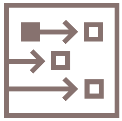
#3

What about corporate income tax?

Scope

- The Turkish corporate income tax (CIT) is, as a matter of principle, payable by any company operating within Türkiye.

- Resident companies are subject to tax on worldwide income, non-resident companies are subject to tax only on Turkish-source income. A company is resident in Türkiye if its legal seat or place of management is in Türkiye.



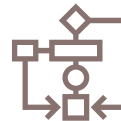
CIT Rate

- The standard corporate income tax rate is 20%. It has been temporarily increased to 25% for 2021 and to 23% for 2022.

- **A reduced rate** applies to earnings derived from investments in specified sectors/regions - see insight #9 incentives.

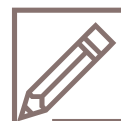
- Companies (other than banks, financial institutions, insurance companies and pension funds) offering at least 20% of their shares via their initial public offering on the Istanbul stock exchange are subject to a corporate income tax rate reduced by two percentage points, so 21% instead of 23% for 2022, for five years starting from the year of the IPO.

- Starting from 2022, a corporate tax rate reduction of 1% is available on income generated from manufacturing and exportation. So, while the tax rate for other companies will be 23% in 2022, for qualifying manufacturers and exporters, it will be 22% for the portion of their income resulting from exporting and manufacturing activities.



CIT Basis

- The taxable result is based on the accounting profit result. Therefore, taxable income of a company is computed based on its accounting result and adjusted by taking into account additional income not taken into account in the computation of the accounting result, non-taxable income and non-deductible expenses.



Deductions

- Deductible expenses are those incurred in the course of and for the purpose of the company's business, e.g., depreciation and amortization of production equipment, rent for buildings and equipment, royalties for licensing of patents, salaries, social security contributions, etc.

- Conversely, expenses not incurred in the taxpayer's interest cannot be deducted. So, a company might not be entitled to deduct a subsidy paid to a related company if it does not have any commercial/financial interest in doing so.

- While there is no general prohibition regarding the deduction of fees paid to related parties (abroad or not) it is nevertheless required that fees paid to related parties be determined under arm's length conditions.

Depreciation and amortization

- Fixed assets are subject to depreciation at rates based on their useful life and determined by the Turkish Ministry of Finance.

- Intangible assets (i.e. licenses, franchises, copyrights etc.) and goodwill are depreciated over 15 years and 5 years, respectively. Additionally, leasehold improvement is depreciated based on lease period.

- Depreciation can be calculated by applying either the straight-line or declining balance method at the taxpayer's discretion. The taxpayer may also change the option from declining-balance to straight-line (but not vice versa) at any time during the life of the asset. The applicable rate for the declining-balance method is twice the rate of the straight-line method, subject to certain limitations.

- Intangible assets are amortized using the straight-line method over their estimated useful lives, if those lives can be determined objectively.

Bad debt

- Bad and doubtful accounts receivable are deductible under certain conditions. The receivables collected after deduction are added to the profits of the year in which they are collected.

Charitable contributions

- Donations to listed charities and for construction of schools, hospitals, and scientific research organizations are deductible up to 5% of the company's gross profit.

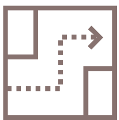
Fines and penalties

- In principle, fines and penalties incurred due to the wrong doings of the taxpayer or its employees are not tax deductible.

Tax losses

- Tax losses may be carried forward for five years.

- A change of company ownership does not itself jeopardize the carrying forward of tax losses.



Exclusion of foreign exchange gains/ losses

- Companies established after 27 March 2018 may exclude foreign exchange gains/losses realized on cash capital contributions from abroad in foreign currency until the end of the year following the establishment year.

Notional interest deduction

- A notional interest deduction is available. Corporations, except for those that operate in the finance, banking and insurance sectors and public economic enterprises, may claim deemed interest deductions equal to 50% of the interest calculated on cash increases in registered capital (for existing corporations) and equal to cash capital contributions (for newly incorporated corporations), based on the average interest rate announced by the Central Bank for TRY denominated loans - see insight#7

Participation exemption

- The dividend income received by a Turkish company from a Turkish resident company is fully exempt from corporate income tax.

- Dividends received from a non-resident company are exempt from corporate income tax where

  - the non-resident payer is a corporation or limited liability company,
  - the Turkish recipient owns at least 10% of the paid-in capital of the payer for at least one year,
  - the profits out of which the dividends are paid are subject to foreign income tax of at least 15% (20% where the main activity of the payer is the provision of financing, including finance leasing, insurance services, or investments in securities) and
  - the dividends are remitted to Türkiye by the date the corporate income tax return is due.

Capital gains taxation

- Capital gains derived by a company generally are taxable as ordinary income. However, 75% of capital gains derived from the **sale of domestic participations** is exempt from corporate income tax provided that:

    - participation has lasted for at least two years,
    - the gains are kept in a special fund account under shareholders' equity for five years following the year of sale,
    - the exempt profits are not transferred within the specified period to another account (except for transfers to the capital account by way of capital injection),
    - the consideration for the sale is collected by the end of the second calendar year following the year of sale and
    - the company does not participate for the purpose of ordinary business involving the trading of participation.

- A 50% exemption applies to capital gains derived from the **sale of immovable property** that has been held for at least two years.

- Capital gains derived from the **sale of foreign participations** that have been held for at least two years by an international holding company resident in Türkiye are exempt from corporate income taxes. See "holding company regime".

Holding company regime

- To qualify as an international holding company, a Turkish company must meet the following requirements:

    - it must be a corporation,
    - at least 75% of its total assets (excluding cash items) must be comprised of foreign participations that have been held for a continuous period of at least one year,
    - it must hold at least 10% of the capital of each foreign participation and
    - the foreign participation must be in the form of a corporation or limited liability company.

- Capital gains derived by a Turkish international holding company are exempt from income tax, provided the foreign participation has been held for at least two years by an international holding company resident in Türkiye, and they are exempt from corporate income tax.

Controlled foreign company (CFC) rules

- CFC rules are triggered where a Turkish resident company controls, directly or indirectly, at least 50% of the share capital, dividends or voting power of a foreign entity, and:

  - 25% or more of the gross income of the CFC is made up of passive income such as dividends, interest, rent, license fees, or gains from the sale of securities that are outside the scope of commercial, agricultural or professional income,
  - the CFC is subject to an effective tax rate lower than 10% in its country of residence and
  - the annual total gross revenue of the CFC exceeds the foreign currency equivalent of TRY 100,000.

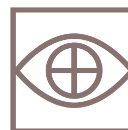
- Where these requirements are met, the CFC's prorated profits are included in the corporate income tax base of the Turkish company at a percentage equal to the percentage of shares controlled, irrespective of whether such profits are distributed, and they are taxed at the relevant corporate income tax rate (25% for 2021 and 23% for 2022).

- CFC profit that has already been taxed in Türkiye as per this article will not be subject to additional tax in Türkiye in the event of dividend distribution, whereas the portion of the profit distributed that was not previously taxed in Türkiye is subject to taxation.

Taxes paid in foreign countries

- A tax credit is granted for foreign tax paid, up to the amount of Turkish corporate income tax attributable to the foreign income. Any unused credit may be carried forward to the following three years, but the foreign tax credit is limited to the Turkish corporate income tax attributable to the foreign income.

- The tax paid in the foreign country must be documented through foreign tax office receipts approved by the Turkish consulate in the respective foreign country. Specific conditions apply to foreign credits related to dividends received by Turkish resident companies from their foreign participations.



Inflation accounting

- Repeated article 298 of the Tax Procedural Law prescribes when an inflation adjustment for tax purposes must be applied.

- According to this article, as amended in 2004, financial statements must be restated for inflation if the following two conditions exist:

- the increase of domestic PPI in the last three years (including the current year) is more than 100% and
- the increase in domestic PPI in the current year is more than 10%.

- Restatements are made by applying a general price index. Monetary items on the balance sheet (such as cash, bank accounts, receivables, payables) that are already stated in the measuring unit on the balance sheet date are not restated. All other items on the balance sheet are restated based on the change in the general price index between the date those items were acquired and the balance sheet date.

- Net gain or loss from the restatement is included in taxable income and disclosed separately on the income statement. No adjustment is made to the income statement other than incorporating this restatement difference.

- The conditions for inflation accounting existed in 2021, making inflation adjustment for tax purposes obligatory in 2021. However, Law number 7352, published in the Official Gazette on 29 January 2022, postpones the implementation of inflation accounting until the end of 2023. The gains and losses arising from inflation accounting in 2023 will not be taxable or tax-deductible.

- Where inflation accounting is not applied, other mechanisms (i.e. revaluation opportunity for depreciable assets under Temporary Article 32 and Repeated Article 298/ç) are available for taxpayers to increase tax-deductible depreciation expense and to reduce the taxable gains from the sale of concerned assets.

Filing and payment

- The corporate income tax return must be filed between the first and 30th day of the fourth month after the end of the company's accounting period. Corporate income tax is payable by the end of the month in which the tax return is due (i.e. by the end of April for companies using the calendar year).

- Corporations are required to pay advance corporate income tax (23% in 2022) based on their quarterly profits. Advance payments made during the year are offset against the ultimate corporate income tax liability, which is determined in the annual corporate income tax return.

#4

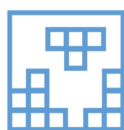
Will I be taxed both in Türkiye and in my home country?

Protection against double taxation

- To ensure that the same income is not taxed both in Türkiye and in the beneficiary's home country, Türkiye has signed tax treaties with more than 85 countries.
- Double taxation can be avoided either by granting exclusive taxing rights or double taxation relief (offsetting)

Exclusive taxing rights

- Tax treaties can grant a country the exclusive right to tax a company's income.
- In this case, the country of residence does not tax the income and the income is only taxable in the country in which it was generated.
- Thus, the income is only taxable in the source country and is exempt from tax in the country of residence.



Offsetting

- Offsetting is applied when the country of residence and the country in which the income was generated are both able to tax these earnings.
- To compensate for this double taxation, the tax paid in the source country is offset against the tax paid in the country of residence.
- In the source country, income is often subject to withholding tax.
- In many cases, a tax treaty caps the withholding tax rate to between 0% and 15%, depending on the treaty and the category of income.

Multilateral Instrument (MLI)

Türkiye is a signatory to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI). Türkiye signed the MLI in 2017, however it has not been approved and incorporated into national law. A legislative proposal in this regard is currently pending before the Turkish parliament. If passed it will replace exemption with an offsetting mechanism in the avoidance of double taxation under Türkiye's double tax treaties.

For the MLI to enter into force, all legislative and executive processes in Türkiye would need to be completed. After Türkiye notifies the OECD of the completion of such processes, the MLI would enter into force as of the first day of the month following the end of the three-month period after this notification.

Has my country signed a tax treaty with Türkiye?

Türkiye has an excellent network of treaties

- Countries that have signed tax treaties with Türkiye

Albania	Gambia	Macedonia	Singapore
Algeria	Georgia	Malaysia	Slovakia
Australia	Germany	Malta	South Africa
Austria	Greece	Mexico	Spain
Azerbaijan	Hungary	Moldova	Sudan
Bahrain	India	Mongolia	Sweden
Bangladesh	Indonesia	Morocco	Switzerland
Belarus	Iran	Netherlands	Syria
Belgium	Ireland	New Zealand	Tajikistan
Bosnia and Herzegovina	Israel	Northern Cyprus	Thailand
Brazil	Italy	Norway	Tunisia
Bulgaria	Japan	Oman	Turkmenistan
Canada	Jordan	Pakistan	Ukraine
China	Kazakhstan	Philippines	UAE
Croatia	Korea	Poland	United Kingdom
Czech Republic	Kosovo	Portugal	USA
Denmark	Kuwait	Qatar	Uzbekistan
Egypt	Kyrgyzstan	Romania	Vietnam
Estonia	Latvia	Russia	Yemen
Ethiopia	Lebanon	Rwanda	
Finland	Lithuania	Saudi Arabia	
France	Luxembourg	Serbia Montenegro	

#5

How can I repatriate my earnings?

Attractive terms for repatriating profits

Subsidiary

- **Dividends paid to a company that is not based in Türkiye**

    - Local legislation provides for **10% withholding tax** on dividends effective from 22 December 2021.

    - Some of the double tax treaties signed by Türkiye already limit the withholding tax rate on dividends to 10% under certain conditions. Now, with the change on 22 December 2021, the local withholding tax rate of 10% will apply to dividends to be distributed to any non Turkish residents, regardless of the presence of tax a treaty (and regardless of eligibility for tax treaty conditions, if there is a tax treaty).

    - Türkiye has also signed double tax treaties, for example those double tax treaties with Switzerland, Germany, Austria, which provide withholding tax rates below 10% on dividends under certain conditions. Treaty benefits will continue to be applicable subject to fulfillment of the treaty eligibility conditions and tests.

- **Dividends paid to a company in Türkiye**

    - In principle, **no withholding tax is applied** when the beneficiary company is based in Türkiye.

- **Dividends paid to an individual (resident or non-resident)**

    - Under local legislation, withholding tax of 10% applies to dividends to individuals. For non-Turkish individuals, tax treaty provisions apply.

Royalties

- As a general rule, tax treaties limit the rate of withholding tax applicable to royalties originating in Türkiye and paid to foreign companies.

- The vast majority of tax treaties Türkiye has signed provide for **limiting withholding tax on royalties to 10%.**

- In the absence of a tax treaty, the withholding tax rate is 20% under local legislation.

Service fees

- No withholding tax is applied when a foreign company invoices a Turkish company for services provided outside Türkiye.

- Withholding tax of 20% may apply if the services are provided in Türkiye and the length of stay in Türkiye exceeds 183 days.

Interest

- Interest paid to foreign companies is subject to 10% withholding tax under local legislation.

Transfer pricing

- Türkiye adheres to the OECD's guidelines on transfer pricing.
- Consequently, any amounts invoiced by the foreign company to the Turkish company must be justified and comply with the prices applied in to arm's length transactions between independent companies.
- Three-tier transfer pricing documentation that includes a master file, local file and country-by-country reporting was adopted on 25 February 2020.
- It is possible to enter into advance pricing agreements with the tax authorities.

Tax havens

- All sorts of payments to entities (including branches of resident corporations) established or operational in countries regarded by the Council of Ministers to undermine fair tax competition due to tax and other practices are subject to withholding tax of 30% whether or not:
  - the payment in question is subject to tax or
  - the entity receiving the payment is a tax payer.
- Since the Council of Ministers did not announce a "black list" of countries regarded as tax havens, there is no application of the 30% withholding tax.

Turkish WHT on dividends

Recipient	Shareholding interest	WHT rate (%)
Non-treaty		15
Treaty		
Albania	If greater than or equal to 25%	5
	In all other cases	15
Algeria		12
Austria	If greater than or equal to 25%	5 (2)
	In all other cases	15 (2)
Azerbaijan		12
Bahrain	If greater than or equal to 25%	10
	In all other cases	15
Bangladesh		10
Belarus	If greater than or equal to 25%	10
	In all other cases	15
Belgium	If greater than or equal to 10%	15 (2)
	In all other cases	20 (1, 2)
Bosnia Herzegovina	If greater than or equal to 25%	5
	In all other cases	15
Brazil	If greater than or equal to 25%	10
	In all other cases	15
Bulgaria	If greater than or equal to 25%	10
	In all other cases	15
Canada	If greater than or equal to 10%	15
	In all other cases	20 (1)
China (People's Republic of)		10
Croatia		10
Czech Republic		10
Denmark	If greater than or equal to 25%	15
	In all other cases	20 (1)
Egypt	If greater than or equal to 25%	5
	In all other cases	15
Estonia		10
Ethiopia		10

Recipient	Shareholding interest	WHT rate (%)
Finland	If greater than or equal to 25%	5
	In all other cases	15 (1)
France	If greater than or equal to 10%	15
	In all other cases	20 (1)
Gambia	If greater than or equal to 10%	5
	In all other cases	15
Georgia		10
Germany	If greater than or equal to 25%	5
	In all other cases	15
Greece		15
Hungary	If greater than or equal to 25%	10
	In all other cases	15
India		15
Indonesia	If greater than or equal to 25%	10
	In all other cases	15
Iran	If greater than or equal to 25%	15
	In all other cases	20 (1)
Ireland	If greater than or equal to 25%	5/10 (2, 7)
	In all other cases	15 (2)
Israel		10
Italy		15
Japan	If greater than or equal to 25%	10 (4)
	In all other cases	15
Jordan	If greater than or equal to 25%	10
	In all other cases	15
Kazakhstan		10
Korea, Republic of	If greater than or equal to 25%	15
	In all other cases	20 (1)
Kosovo	If greater than or equal to 25%	5
	In all other cases	15
Kuwait		10

Recipient	Shareholding interest	WHT rate (%)
Kyrgyzstan		10
Latvia		10
Lebanon	If greater than or equal to 15%	10
	In all other cases	15
Lithuania		10
Luxembourg	If greater than or equal to 25%	10
	In all other cases	20 (1)
Macedonia	If greater than or equal to 25%	5
	In all other cases	10
Malaysia	If greater than or equal to 25%	10
	In all other cases	15
Malta	If greater than or equal to 25%	10
	In all other cases	15
Mexico	If greater than or equal to 25%	5
	In all other cases	15
Moldova	If greater than or equal to 25%	10
	In all other cases	15
Mongolia		10
Morocco	If greater than or equal to 25%	7
	In all other cases	10
Netherlands	If greater than or equal to 25%	15 (2)
	In all other cases	20 (1, 2)
New Zealand	If greater than or equal to 25%	5 (9)
	In all other cases	15
Northern Cyprus, Turkish Republic of	If greater than or equal to 25%	15
	In all other cases	20 (1)
Norway	If greater than or equal to 20%	5
	In all other cases	15 (8)
Oman	If greater than or equal to 15%	10
	In all other cases	15

Recipient	Shareholding interest	WHT rate (%)
Pakistan	If greater than or equal to 25%	10
	In all other cases	15
Philippines	If greater than or equal to 25%	10
	In all other cases	15
Poland	If greater than or equal to 25%	10
	In all other cases	15
Portugal	If greater than or equal to 25%	5
	In all other cases	15
Qatar	If greater than or equal to 25%	10
	In all other cases	15
Romania		15
Russia		10
Saudi Arabia	If greater than or equal to 25%	5 (6)
	In all other cases	10
Serbia-Montenegro	If greater than or equal to 25%	5
	In all other cases	15
Singapore	If greater than or equal to 25%	10
	In all other cases	15
Slovakia	If greater than or equal to 25%	5
	In all other cases	15
Slovenia		10
South Africa	If greater than or equal to 25%	10
	In all other cases	15
Spain	If greater than or equal to 25%	5 (5)
	In all other cases	15
Sudan		10
Sweden	If greater than or equal to 25%	15
	In all other cases	20 (1)
Switzerland	If greater than or equal to 20%	5
	In all other cases	15 (11)
Syria		10

Recipient	Shareholding interest	WHT rate (%)
Tajikistan		10
Thailand	If greater than or equal to 25%	10
	In all other cases	15
Tunisia	If greater than or equal to 25%	12
	In all other cases	15
Turkmenistan		10
Ukraine	If greater than or equal to 25%	10
	In all other cases	15
United Arab Emirates	If greater than or equal to 25%	10 (3)
	In all other cases	12
United Kingdom	If greater than or equal to 25%	15
	In all other cases	20 (1)
United States	If greater than or equal to 10%	15
	In all other cases	20 (1)
Uzbekistan		10
Vietnam	If greater than or equal to 50%(12)	5
	If between 25% and 50%	10
	In all other cases	15
Yemen		10

Notes

1. The local rate is 10% for dividends. Unless a lower rate is stated in the agreement, the local rate is applied.
2. As per the provisions of the protocol amending the agreement, the rate may be (partially or wholly) reduced.
   For the Netherlands: to 10%, as long as, under the provisions of the Netherlands Company Tax Act and the future amendments thereto, a company that is a resident of the Netherlands is not charged tax with respect to dividends the company receives from a company that is a resident of Türkiye.
   For Belgium: to 10% as long as, under the provisions of Belgian laws and future amendments thereto, a company that is a resident of Belgium is not charged tax with respect to dividends the company receives from a company that is a resident of Türkiye.
   For Austria: to 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends, provided that such dividends are exempt from tax in Austria.
   For Ireland: to 5% where the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the voting power of the company paying the dividends. 15% in all other cases.
3. Subject to 5% of the gross amount of the dividends if the recipient is the government or a public institution that is wholly owned by the government or its political subdivisions or local authorities of the United Arab Emirates.
4. The tax rate shall be 15% where the amount of the Turkish tax imposed on the income of the company paying dividends is less than 40% of such income derived in the accounting period ending immediately before the date when such dividends become payable.
5. The income is subject to full corporate taxation in the hands of the Turkish tax-resident subsidiary.
6. If the beneficial owner of the dividends is a resident of Saudi Arabia the tax so charged shall not exceed 5% of the gross amount of the dividends provided: (i) the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the capital of the Turkish company paying the dividends or (ii) the beneficial owner is a central bank or an entity that is wholly owned by the government.
7. In Türkiye, the tax rate shall not exceed 5% to the extent they are paid out of profits subject to the full CIT rate in Türkiye (i.e. without benefiting from tax exemption).
8. The rate of the income tax shall not exceed 5% if it is derived by the Government Pension Fund (Statens Pensjonsfond) or by the Government Social Security Fund (Sosyal Guvenlik Fonu), provided that such dividends are exempt from tax in the contracting state where the beneficial owner is a resident.
9. The treaty-reduced rate of 5% shall apply if such dividends are exempt from tax in the contracting state of which the beneficial owner is a resident.
10. As per the provisions of the agreement, the rate may be reduced to 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the capital of the company paying the dividends, provided that relief from Swiss tax is granted for such dividends by way of an abatement of the profit tax in a proportion corresponding to the ratio between the earnings from participations and the total profits, or by way of equivalent relief.
11. As per the provisions of the agreement, 5% of the gross amount of dividends subject to Turkish CIT at the full rate if an Australian company (other than a partnership) holds at least 25% of the capital of the Turkish company. Regardless, if the dividends are taxed in Australia, Türkiye could tax the dividends at a rate not exceeding 15%.
12. The WHT shall be lowered to 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 50% of the capital of the company paying the dividends or has invested more than USD 10 million or the equivalent in Turkish or Vietnamese currency in the capital of the company paying the dividends.

Turkish WHT on interest and royalties

Recipient	WHT rate (%)	
	Interest	Royalties
Non-treaty	10 to 18	20
Treaty:		
Albania	10	10
Algeria	10	10
Austria	5/10/15 (1, 14)	10
Australia	10	10
Azerbaijan	10	10
Bahrain	10	10
Bangladesh	10	10
Belarus	10	10
Belgium	15 (1)	10
Bosnia Herzegovina	10	10
Brazil	15 (1)	10/15 (22)
Bulgaria	10	10
Canada	15 (1, 18)	10
China (People's Republic of)	10	10
Croatia	10	10
Czech Republic	10	10
Denmark	15 (1)	10
Egypt	10	10
Estonia	10	5/10 (12)
Ethiopia	10	10
Finland	5/10/15 (23)	10
France	15 (1)	10
Gambia	10 (27)	10
Georgia	10	10
Germany	10 (1)	10
Greece	12 (1)	10
Hungary	10	10
India	10/15 (1, 6)	15

Recipient	WHT rate (%)	
	Interest	Royalties
Indonesia	10	10
Iran	10	10
Ireland	10/15 (1, 16)	10
Israel	10	10
Italy	15 (1)	10
Japan	10/15 (1, 5)	10
Jordan	10	12
Kazakhstan	10	10
Korea, Republic of	10/15 (1, 3)	10
Kosovo	10 (25)	10
Kuwait	10	10
Kyrgyzstan	10	10
Latvia	10	5/10 (12)
Lebanon	10	10
Lithuania	10	5/10 (12)
Luxembourg	10/15 (1, 4)	10
Macedonia	10	10
Malaysia	15 (1)	10
Malta	10	10
Mexico	15 (24)	10
Moldova	10	10
Mongolia	10	10
Morocco	10	10
Netherlands, The	10/15 (1, 4)	10
New Zealand	10/15 (1, 20)	10
Northern Cyprus, Turkish Republic of	10/15 (1, 20)	10
Norway	5/10/15 (1, 19)	10
Oman	10 (17)	10
Pakistan	10	10

Recipient	WHT rate (%)	
	Interest	Royalties
Philippines	10	10/15 (26)
Poland	10	10
Portugal	10/15 (1, 4)	10
Qatar	10	10
Romania	10	10
Russia	10	10
Saudi Arabia	10 (15)	10
Serbia-Montenegro	10	10
Singapore	7.5/10 (8)	10
Slovakia	10	10
Slovenia	10	10
South Africa	10	10
Spain	10/15 (1, 9)	10
Sudan	10	10
Sweden	15 (1)	10
Switzerland	5/10 (21)	10
Syria	5/10 (21)	10/15 (13)
Tajikistan	10	10
Thailand	10/15 (1, 10)	15
Tunisia	10	10
Turkmenistan	10	10
Ukraine	10	10
United Arab Emirates	10	10
United Kingdom	15 (1)	10
United States	10/15 (1, 7)	5/10 (11)
Uzbekistan	10	10
Vietnam	10 (2)	10
Yemen	10 (17)	10

Notes

1. The local rate of 10% will be applied in the event a higher rate is stipulated in the agreement.
2. For the interest income derived by the government of Türkiye or to the Central Bank of Türkiye, no WHT will be applied.
3. A rate of 10% if the loan or other debt claim is for a period exceeding two years; 15% in all other cases.
4. A rate of 10% if the loan is taken for a period exceeding two years; 15% in all other cases.
5. A rate of 10% if the loan/credit is taken from a financial institution; 15% in all other cases.
6. A rate of 10% if the loan is taken from a bank or a financial institution; 15% in all other cases.
7. A rate of 10% if the credit/loan is taken from a bank, financial or savings institution, insurance company; 15% in all other cases.
8. A rate of 7.5% if the loan is taken from a financial institution; 10% in all other cases.
9. A rate of 10% if the interest is the result of a loan provided/given by a bank or if the interest is paid in return for an article of merchandise, or equipment given to the contracting state on credit; 15% in all other cases.
10. A rate of 10% if the loan is taken from a financial institution, including insurance companies; 15% in all other cases.
11. A rate of 10% for the use of, the right to use, or the sale (contingent on the productivity, use, or disposition) of any copyright of literary, artistic, or scientific work, including royalties in respect of motion pictures and works on film, tape, or other means of reproduction for use in connection with radio or television broadcasting, any patent, trademark, design or model, plan, secret formula, or process, or for information concerning, industrial, commercial, or scientific experience; 5% for the use of or the right to use industrial, commercial, or scientific equipment.
12. A rate of 5% for the use of industrial, commercial, or scientific equipment; 10% in all other cases.
13. A rate of 15% for patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience; 10% for the use of or the right to use any copyright of literary, artistic, or scientific work including cinematographic films and recordings for radio and television.
14. A rate of 5% in respect of a loan or credit made, guaranteed, or insured for the purposes of promoting export by the Oesterreichische Kontrollbank AG or a similar Turkish public entity the objective of which is to promote the export; 10% if the interest is derived by a bank; 15% in all other cases.
15. If the beneficial owner of the ‘income from debt claims’ is a resident of Saudi Arabia, the tax so charged shall not exceed 10% of the gross amount of income.
16. A rate of 10% in respect of a loan or other debt claim for a period exceeding two years or if the interest is received by a financial institution; 15% in all other cases.
17. Interest arising in one of the contracting states and paid to the government of Türkiye or the Central Bank of Türkiye shall be exempt from income taxes in the contracting state. Similarly, interest arising in the Republic of Türkiye and paid to the government or the Central Bank of the other contracting state shall be exempt from income taxes in Türkiye.
18. Interest arising in Türkiye and paid to the government of Canada or to the Bank of Canada shall be exempt from Turkish tax. Similarly, interest arising in Canada and paid to the government of Türkiye or to the Central Bank of Türkiye (Türkiye Cumhuriyet Merkez Bankasi) shall be exempt from Canadian Tax.
19. The rate of the income tax shall not exceed (i) 10% if the interest is paid to a bank (also note that in the case of Türkiye, a lower rate of 0% may apply for eligible financial institutions’ and banks’ loans under the domestic regulation) or (ii) 5% if the interest is paid to the Norwegian Government Pension Fund (Statens Pensjonsfond), the Norwegian Guarantee Institute for Export Credits (Garantiinstituttet for Eksportkreditt), the Turkish Social Security Fund (Sosyal Guvenlik Fonu) and the Eximbank of Türkiye (Turkiye Ihracat Kredi Bankasi); 15% in all other cases.
20. The rate of the income tax shall not exceed 10% if the interest is paid to a bank (also note that in the case of Türkiye, under the domestic regulation, a lower rate of 0% may apply for the loans provided by eligible financial institutions and banks); 15% in all other cases. The interest shall be exempt from income taxes in the contracting state where it arises, if the payment is made to the government of Türkiye, to the Central Bank of Türkiye (Türkiye Cumhuriyet Merkez Bankası), to the government of New Zealand, or to the Reserve Bank of New Zealand.
21. A rate of 5% of the gross amount of the interest paid in respect of a loan or credit made, guaranteed, or insured for the purposes of promoting export by an Eximbank or similar institution, the objective of which is to promote the export; 10% if the interest is derived by a bank; 10% in all other cases.
22. A rate of 15% from the use of, or the right to use, trademarks; 10% in all other cases.
23. A rate of 5% in respect of loans or credits that are guaranteed, insured, and provided for the purposes of promoting export by the Finnish Export Credit or FINNVERA and the Turkish public institutions the objective of which is to promote exports; 10% if the interest is derived by a bank; 15% in all other cases.
24. A rate of 10% if the payment is made to a bank; no taxation arises if the payment is made to the Central Bank of Mexico; no taxation arises if the payment is made to Banco Nacional de Comercio Exterior, S.N.C., Nacional Financiera, S.N.C., or Banco Nacional de Obras y Servicios Publicos S.N.C where the maturity of loan is more than three years; 15% in all other cases.
25. For the interest income derived by governments or central banks of the contracting states, no WHT applies.
26. The 15% rate applies to royalties paid for the use of, or the right to use, cinematographic films and films or tapes for radio or television broadcasting.
27. For the interest income derived by the government of Gambia or Central Bank of Gambia, no WHT will be applied. For the interest income derived by the government of Türkiye, Central Bank of Türkiye, or Türk Eximbank, no WHT will be applied.

#6

Apart from corporate tax, what other taxes do companies pay?

Value Added Tax (VAT)

- VAT is a tax applicable to the consumption of goods and services. This tax is borne by the final consumer of goods and services. This tax is only collected by entities which conduct taxable activities.

- This tax is in principle, **neutral** for the companies subject to it as they can deduct from the amount of VAT collected on their sales (output VAT), the amount of VAT they paid on their purchases (input VAT).

- The difference between output VAT and input VAT is either paid to the tax office or, if negative entitles the taxpayer to a **tax credit** that could be used to offset VAT payable. There is no time limitation for such VAT credit. With the exception of a few situations such as exportation and sales to an investment incentive holder, there is no cash refund to recover the excess input VAT.

- Türkiye's **standard VAT rate** on sales of goods and services is 18%. Reduced rates of 8% and 1% apply on certain deliveries. (e.g. textiles, books, food products, agricultural products such as raw cotton, dried hazelnuts, leasing of goods within the scope of Finance Leasing Law)

Foreign trade: imports and exports

- Importation of goods or services is a taxable transaction, whether or not the importation is made for business purposes.

- To equalise the tax burden on importation and domestic supply of goods and services, VAT is levied only on the importation of goods and services that are liable to tax within Türkiye. Accordingly, any transaction exempt in Türkiye may also be exempt on import. The VAT on importation is imposed at the same rates applicable to the domestic supply of goods and services.

- In the case of importation, the taxable event occurs at the time of actual importation. The base for VAT is the value of the goods for customs tax purposes plus any kind of tax payable at the point of import and all the expenses incurred until the single administrative document is registered.

- Export transactions are exempt from VAT, and credit and refund is available for input VAT incurred for exports.

A reverse charge mechanism

- Turkish VAT principles contain a “reverse charge VAT mechanism” which requires the calculation of VAT by resident entities on payments to persons in foreign countries.

- Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company. The resident entity treats this VAT as input VAT and offsets it in the same month. This VAT does not create a tax burden for the resident or non-resident entity, except for its cash flow effect on the former if there is insufficient output VAT to offset the input VAT.

Customs Duty

- There is **no customs tax on trade between the EU and Türkiye** except for certain products (e.g. agricultural and steel products). However, it is crucial that the imported goods are imported together with an A.TR Movement Certificate proving that the goods are in free circulation.

- In order to harmonise its foreign trade, Türkiye has also signed several Free Trade Agreements (FTAs) with the trade partners in the European Union. In the case of FTAs, the goods must be imported with a EUR.1 certificate, giving proof of their country of origin in order to benefit from the FTA.

- Türkiye applies the Common Customs Tariff of the EU to third countries, except for agricultural and steel products.

- In addition, if the import transaction is not concluded in cash, there is a special **Resource Utilisation Support Fund (RUSF),** which should also be paid during importation. RUSF is a special kind of fund applied to importations on a credit basis. According to the RUSF legislation, any importation conducted on credit (if the payment related to the importation is not paid before the actual importation) is subject to a special payment of 6% of the value of the goods to be imported. The important criteria are payment term and whether it is a cash payment or payment on credit.

Capital Duty

- In general, there is no capital duty or similar duty on the formation and expansion of capital of companies. Only, a registration fee of 0.04% is due when the capital is contributed.

Stamp Duty

- Stamp duty is a tax charged on documents rather than on transactions. The term ‘document’ refers to papers which are legally valid and exercisable, bearing a signature (or a sign replacing a signature, or electronic signature) and prepared for the purpose of proving any legal subject. To this end, stamp duty applies to a wide range of documents including contracts, letters of credit, letters of guarantee and payrolls.

- Letters and annotations that amend, renew, extend, modify, transfer, breach or replace the documents that are subject to Stamp Duty also give rise to Stamp Duty.

- Stamp duty is levied as a percentage rate over the quantifiable tax base on the document. The standard rate on taxable agreements is 0.948%, with an exception that the lease agreements are taxed at 0.189%. The ceiling for stamp tax per document is 4.814.235 TRY in the year 2022. (The amount is revised annually.)

- The triggering event for stamp duty on documents executed in Türkiye is the signing of the document. For documents executed outside of Türkiye, stamp duty arises when;

    - the document is submitted to Turkish official authorities (i.e. governmental institutions, provincial administrations, municipalities or courts), or
    - it is transferred or endorsed in Türkiye, or
    - its provisions are benefited from in any way whatsoever in Türkiye.

- The signatories of the document that is subject to stamp tax are jointly and severally liable for payment. However, in the agreement it is possible to add a clause specifying who is responsible for the stamp duty (or in what proportions). In that situation, all of the parties are still jointly responsible in front of the tax office, however the parties may later on reimburse each other depending on the provisions of the concerned clause.

Special Consumption Tax

- There are four main product groups that are subject to special consumption tax at different rates, depending on the GTIP numbers (tariff numbers)

    - 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 some non-alcoholic beverages
    - List IV is related to luxury products (cellular phones, diamonds, durable white goods)

Payroll Taxes

- In accordance with the Turkish tax regulations all employees working under a resident employer are included into the local payroll. The employer withholds taxes and other duties on income at source, and the employees receive the net amount after the deductions. The income tax and the stamp tax should be declared by the employers filing the withholding tax return.

- The social security premiums and the unemployment premiums should be declared by the employers filing the social security Premium declaration on a monthly basis.

Banking and Insurance transactions tax (BITT)

- The transactions being performed by licensed banks and insurance companies are generally exempt from VAT but are subject to BITT at a rate of 5% in general (although some transactions are subject to 1% or 0% BITT), which is due on the gains of such corporations from their transactions.

- The purchase of goods and services by banks and insurance companies are subject to VAT, but this is considered an expense or cost item. Therefore, it is not recoverable (i.e. for VAT purposes by offsetting against the output VAT) in the hands of these corporations.

Property Taxes

- In principle, all property owners are subject to property tax at a rate of 0.2% for buildings, 0.1% for dwellings, 0.1% for land, and 0.3% for building sites. The rates are increased by 100% for buildings and land located within larger cities. The square meter rates for valuing buildings depend on the location of the property.

- Property tax can be deducted from corporate tax base.

Real Estate Transfer Tax

- Real estate acquisitions in Türkiye are subject to real estate transfer tax. A charge of 4% (2% for the buyer, 2% for the seller) is applied either on the sales price of the real estate or on the official value of the real estate for property tax purposes whichever is higher in the determination of the tax base.

Net Wealth Tax

- There is no net wealth tax in Türkiye. However, highly valuable residential housing tax applies as from 1 January 2021 to residential housing with a value exceeding 5.227.000 TL (This limit is subject to annual increases based on the revaluation rate of the previous year).

- The tax rates vary between 0.3% and 1% depending on the real estate tax value of residence.

- The tax must be reported annually and paid in two installments, by the end of February and August in the relevant year.

- If the taxpayer has single residence, no liability arises. If a taxpayer has more than one residence within the scope of the tax, the residence with the lowest value is exempt from the tax.

Inheritance Tax

- Items acquired as gifts or by inheritance are subject to gift tax at rates between 10% and 30%, and inheritance tax between 1% and 10% of the value of the item.

Digital Services Tax (DST)

- A 7.5% DST applies as from 1 March 2020 to revenue derived from digital services. (i.e. advertising services, the sale, access and download of digital content such as software, applications, music, video and games; or the provision or operation of a digital platform enabling the interaction of users, including intermediary services for the sale and purchase of goods between users) performed by digital service providers in Türkiye.

- The tax liability does not depend on whether digital service providers are individual or corporate income taxpayers, or whether they have a place of business or a permanent representative in Türkiye. Service providers whose revenue derived from digital services during 2019 did not exceed TRY 20 million in Türkiye, or EUR 750 million worldwide, were exempt from DST when introduced. Such exempt companies should monitor their revenues on a quarterly and cumulative basis, since where the relevant thresholds are exceeded, a DST liability is triggered as from the fourth month following the taxation period in which the thresholds were exceeded.

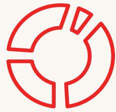
#7

How can I finance my investment? Equity or debt financing?

An investor making an investment in Türkiye needs to consider whether to fund the Turkish company with debt or equity. Hybrid financing instruments are not recognized for tax purposes in Türkiye, so it is usually necessary to follow the legal definition when classifying a financing structure as debt or equity and assessing the tax implications. The principles underlying these approaches are discussed below.

Equity Financing

- No material tax is due on capital increase: only a fee of 0.04 applies to the increased amount.
- In general terms, a company can be equity financed either through new capital injections or through conversion of existing equity reserves, including those composed of retained earnings. Capital can be increased also by means of contribution of in kind assets.
- For cash contributions a tax incentive of **notional interest deduction** is available, allowing the companies to deduct from their taxable income a notional interest calculated based on their capital amounts contributed after 1 July 2015.
- The deduction is equal to the 50% of the notional interest which is calculated on the qualifying capital increase (net of qualifying decrease). The deduction rate is 75% for capital sourced from abroad. The notional interest rate is determined based on the interest rates Turkish Central Bank announces annually in relation to commercial bank credits.
- The amount of notional interest exceeding the net taxable income of the relevant fiscal year may be carried forward and used to offset the taxable income in the following years.
- Payments out of equity: The dividend distribution is subject to a withholding tax at a rate of 10 percent. The dividend distributed between Turkish resident entities is exempt from withholding tax, where the profit repatriated to a Turkish individual or non-resident entity is subject to a 10 percent withholding tax. Tax treaty provisions should be checked for availability for a lower rate.
- Reduction of capital: In principle a capital repayment made to the shareholders from the paid-in capital of the company is not taxable in Türkiye, as long as the components of the capital have been paid in cash.
- On the other hand, if there is some portion of the capital arising from previous conversions of internal reserves into the capital (i.e. retained earnings, inflation adjustment, other funds and reserves), the reduced capital would be deemed as a dividend distribution being subject to withholding taxation at 10 percent (to be reduced further down to 5 percent depending on double tax treaty, for Turkish receivers the rate is 0%) as described above.
- In case of having non-cash items within share capital, repayment may, in addition, be subject to corporate tax as well as the dividend taxation.



Debt Financing

- Debt financing is possible in Türkiye without a specific format. Loans to be granted from abroad must be arranged through banks according to the foreign exchange rules in Türkiye.

- There is no limit on the amount of debt that can be put into a Turkish company. The key consideration for debt financing is deductibility of financing expenses (i.e. interest, foreign exchange losses) from taxable income.

- In Türkiye, interest is generally treated as ordinary business expense and is consequently tax deductible. The deductibility of interest may be restricted by thin capitalisation, arm's length principle or the 10% limitation on financing expense deduction (discussed later in this chapter). Interest expense incurred for business purposes are deductible on an accrual basis.

- **Arm's length principle:** Interest expenses incurred by Turkish companies on loans borrowed from related parties must be set at arm's length. The arm's length interest rate is determined on the basis of that which would be agreed upon for a comparable loan entered into between unrelated parties.

- If loans do not carry interest rates that are in compliance with the arm's length principle, the interest payment corresponding to the portion exceeding the arm's length interest is deemed to have been a disguised dividend distribution which will be subject to a withholding tax at 10 percent considering that the lender is a non-resident (lower withholding tax might apply depending on tax treaty rates subject to conditions).

- **Thin capitalisation rules** apply when loans from shareholders or related parties exceed a 3:1 debt-to-equity ratio at any time in an accounting year (6:1 for loans from related party banks or financial institutions). The equity capital is the equity of the corporation at the beginning of the accounting year, hence capital increases within the year are not taken into account for that year but for the following years.

- If the debt-to equity ratio is exceeded, interest payments corresponding to the exceeding debt amount are considered as deemed distributions at year end, hence subject to a dividend withholding tax at 10 percent. (lower withholding tax might apply depending on tax treaty rates subject to conditions). All related expenses, foreign exchange losses and interest payments are nondeductible.

- In the specific case where the repayment of a loan granted by a third party (including banks) is guaranteed by a related party, then the proportion of interest that is payable on that part of the loan that is secured in this way is potentially subject to thin capitalisation rules

- **10% limitation on financing expense deduction:** Starting from 1 January 2021 a new limitation is in place for the deductibility of borrowing costs. According to the concerned rule, 10% of the financial expenses become nondeductible if the amount of financing (from related party or third party) exceeds the equity of the company. Credit institutions, financial institutions, financial leasing companies, factoring companies and financing companies are excluded from the application of this restriction.

Additional considerations for debt financing - tax related aspects:

- There is no requirement for registering a loan agreement with the tax authorities. However, the intermediary bank facilitating the cash transfer requests the loan agreement from the local entity.

- Loan agreements signed in Türkiye or abroad are subject to **stamp tax** of 0.948% on the monetary value stated (or calculable) on the contract once the clauses are benefitted from in Türkiye. There is a ceiling on the maximum amount of stamp tax payable per document. In 2022, the ceiling is set at TRY 4,814,234 (the ceiling is revised annually). The signing parties are jointly and severally responsible for payment of stamp tax in the eyes of the tax authority. Loan agreements signed by banks (resident and non-resident) are exempt from stamp tax.

- **Value added tax (VAT):** Interest payments on loans are subject to VAT of 18% if the lender is a non-financial institution. VAT has to be calculated and paid by a Turkish company under the reverse charge mechanism. This VAT is recoverable from the future sales (subject to VAT) of a Turkish company.

- **Withholding tax:** There is no withholding tax on interest payments made to a Turkish resident entity. On the other hand, interest payments to non-resident entities are subject to withholding tax of 10%. There is no reduced withholding tax rate on interest payments in double tax treaties concluded by Türkiye. The withholding tax rate is nil on payments to non-resident banks and financial institutions.

- **Resource utilization support fund (RUSF):** Foreign sourced loans obtained by Turkish residents (except for banks or financial institutions) are subject to RUSF of:

    - 3% on the principal if the average maturity period of the foreign currency denominated loan does not exceed 1 year,

    - 1% on the principal if the average maturity period of the foreign currency denominated loan is between 1 and 2 years (including 1 year),

    - 0.5% on the principal if the average maturity period of the foreign currency denominated loan is between 2 and 3 years (including 2 years),

    - 0% on the principal if the average maturity period of the foreign currency denominated loan is longer than 3 years (including 3 years).

  - Foreign sourced TRY denominated loans attract RUSF of 1% on interest payments if the average maturity period is less than one year. For TRY denominated loans with an average maturity of 1 year or more, the RUSF is 0%.

#8

Am I free to (re)structure my investments in Türkiye?

Tax consolidation in Türkiye

- Consolidation of the accounts of group companies for tax purposes is not allowed in Türkiye. Each entity is subject to tax on a stand alone basis.
- Absence of tax grouping means that losses incurred by an entity cannot be used to reduce the taxable profits of another entity in the group, resulting in loss carryforward for one entity and full taxation for the other entity.
- Likewise, if one entity is in a VAT receivable position and the other group entity has VAT payables, it is not possible to offset the receivable balance from the payable. Integrating the businesses under a single legal entity enables use of losses (and other tax attributes such as VAT receivables) that may otherwise be trapped when operating under separate legal entities.

Low taxes on restructuring operations

The preferential system for mergers and equivalent transactions

How much does a merger cost?

General tax system applicable to mergers

- In principle, a merger is a taxable transaction. That is, a merger takes place at market prices and corporate tax is payable on the amount over the book value.
- Under the general tax regime, a merger would have the same consequences for the business being taken over as the sale of a company:
    - taxation of operating profits that are yet to be taxed,
    - taxation of capital gains from fixed assets,
    - payment of transaction taxes, stamp tax, title deeds charge, etc.,
    - payment of registration fees.

Preferential system for mergers

- It is possible to merge two (or more) companies in a tax free way, if the merger is carried out in the form of a "take-over" pursuant to article 19 of the Corporate Tax Law. A take-over refers to the transfer to another company of the assets and liabilities the first company at their book values as of the date of the take-over.
- As the assets are transferred at book value no step-up in tax values arises and hence there are no capital gains on which to levy income tax.
- In the event of a tax-free merger, only the taxable profit derived by the dissolved company up to the merger date will be subject to corporate tax, and no taxation arises due to the merger transaction itself. Tax-free merger transactions are also exempt from VAT, stamp tax and any other transactions taxes that may otherwise apply.

Tax losses: Tax losses of legal entities can be carried forward to be used against profits in the future for five years. In a case of a tax free merger, the tax losses of the dissolving entity can be transferred to the surviving (absorbing) company provided that :

- the absorbing company continues the business activities of the absorbed entity for a minimum of five years following the date of the merger and
- the corporate tax returns of the last five years have been submitted within the deadlines.

- Losses available to the absorbing company are limited to the shareholders equity of the absorbed company at the merger date.

Carried forward deductible VAT: If the absorbed (dissolved) company has VAT receivables, these are automatically transferred to the absorbing company. That is, the absorbing company can benefit from the carried-forward input VAT of the dissolving company.

Existing contracts of the company: The contracts of the absorbed company with third parties automatically transfer to the absorbing company. These remain in force after the merger and thus assignment and renegotiation are not needed.

Legal types of entities: Under the old rules a merger could be carried out only between companies of the same type. If one company is a limited liability company and the other is a joint stock company, for example, one of the two had to change its legal type before the merger could be realized. This rule was abolished. Under the current rule it is possible to merge a limited liability company with a joint stock company.

Which other types of transactions can benefit from this system?

- The preferential system for mergers also applies to spin-offs and partial transfer of assets.
- The preferential system applies systematically.
- If the various eligibility criteria for this system are not met, it is not possible to benefit from the advantageous terms.

#9

What incentives are available for my investments?

Innovators, **welcome!**

Türkiye’s tax regime for R&D and design

- Double deduction: Companies that carry out qualifying research and development (R&D) and design activities are entitled to an allowance which is equal to 100% of their R&D and design expenditures. This allowance is in addition to the deduction for such expenditures in the statutory accounts.
- In addition, in the event of an increase of at least 20% in any of the following indicators in R&D or design activities compared to the previous year, 50% of the increase in the amount of R&D, innovation, or design expenses compared to the previous year will also be considered as an extra deduction in the calculation of the corporate income tax base:
    - R&D or design expenditures share of total turnover,
    - the registered number of national or international patents,
    - the number of internationally funded projects,
    - The percentage of total R&D personnel that are researchers holding graduate degrees,
    - The percentage of total R&D personnel that are researchers,
    - The percentage of total turn over t is new products (output of successful R&D projects) turnover.
- Further, 80% (95% for employees with a PhD or master’s degree in fundamental sciences, and 90% for employees with a master’s degree in any field or an undergraduate degree in fundamental sciences) of the income tax computed on the wages of R&D and design personnel is exempt from income withholding tax.
- In addition, 50% of the social security premium contributions paid for each R&D and design employee (up to 10% of the total number of full-time R&D and design employees) will be reimbursed by the Ministry of Treasury and Finance.
- The import of machinery and equipment for use in research as part of a qualifying R&D and design project is exempt from customs duty and mandatory contributions to importation funds. No VAT is applicable on their purchase (local or imported). Documents issued and procedures performed with respect to the imported goods are exempt from stamp duty and fees. Documents prepared with respect to R&D, and innovation and design activities also are exempt from stamp tax.
- To qualify for the benefits, the R&D and design center must be set up outside the designated technology development zones (TDZs) and must have at least 15 full-time R&D and 10 full-time design center employees.
- Profits derived from software, design, and R&D activities that are exclusively carried out in TDZs are exempt from income tax and corporate income tax through 31 December 2028. The wages of R&D, design, and support staff (up to a maximum of 10% of the number of R&D and design employees) who work in these zones are exempt from tax until 31 December 2028. In addition, 50% of the social security premium contributions paid for these employees will be reimbursed by the Ministry of Treasury and Finance.
- Deliveries of software applications developed in the TDZs are exempt from VAT. The import of goods to be used for research as part of an R&D, software or design project is exempt from customs duty and mandatory contributions to importation funds. Documents issued and procedures performed with respect to the imported goods are exempt from stamp duty and fees.

Manufacturers, **welcome!**

Türkiye's investment incentive legislation

- Investment incentives are available to investors through an Investment Incentive Certificate (IIC), which is obtained from the General Directorate of Incentive Practices and Foreign Capital under the Ministry of Industry and Technology.
- In order for an investment to be granted to an IIC, the minimum investment expenditures should be at least TRY 3 million for the first two regions and TRY 1.5 million for other regions. To be granted incentives, investment projects are subject to evaluation by the Ministry of Industry and Technology.
- The incentives under IIC can be summarized as follows:
    - VAT exemption on machinery and equipment,
    - customs duty exemption on machinery and equipment,
    - reduction in corporate tax,
    - social security premium support (employer's share),
    - income tax exemption (for wages and salaries),
    - social security premium support (employee's share),
    - interest rate or dividend support,
    - land allocation,
    - VAT refund.
- In general, the investment incentive legislation is comprised of general, regional and strategic investment incentive schemes.
- General investment scheme: Investments that are not qualified as special types of investments are subject to general incentives. The incentives available to general investments are customs duty and VAT exemption on the purchase of investment goods (i.e. machinery and equipment). For investments in the 6th region, the general incentives are expanded to include exemption from income withholding tax. Social security employer premium relief is also provided in the case of ship construction investments in shipyards.
    - VAT exemption
    - Customs duty exemption
    - Income tax incentive (only for the 6th region)
    - Social Security employer premium exemption (only for ship investments of shipyards)
- Regional and sector-based investments scheme: Türkiye is separated into six regions based on the development level of district/cities in these regions. The first three zones represent more developed regions, whereas the last three are relatively less developed zones. The sectors to be supported in each region are determined in accordance with regional potential and the scale of the local economy, while the intensity of support (incentive) varies depending on the level of development in the region.

1st Region	2nd Region	3rd Region	4th Region	5th Region	6th Region
• Ankara • Antalya • Bursa • Eskişehir • İstanbul • İzmir • Kocaeli • Muğla • Tekirdağ	• Aydın • Balıkesir • Bilecik • Bolu • Çanakkale • Denizli • Edirne • Isparta • Karabük • Kayseri • Kırklareli • Konya • Manisa • Sakarya • Yalova	• Adana • Burdur • Düzce • Gaziantep • Karaman • Kırıkkale • Kütahya • Mersin • Samsun • Trabzon • Rize • Uşak • Zonguldak	• Afyonkarahisar • Aksaray • Amasya • Artvin • Bartın • Çorum • Elazığ • Erzincan • Hatay • Kastamonu • Kırşehir • Malatya • Nevşehir • Sivas	• Bayburt • Çankırı • Erzurum • Giresun • Gümüşhane • Kahramanmaraş • Kilis • Niğde • Ordu • Osmaniye • Sinop • Tokat • Tunceli • Yozgat	• Adıyaman • Ağrı • Ardahan • Batman • Bingöl • Bitlis • Diyarbakır • Hakkari • Iğdır • Kars • Mardin • Muş • Siirt • Şanlıurfa • Şırnak • Van • Bozcaada and Gökçeada

The terms and rates of support provided within the regional investment incentives scheme are shown in the following table.

- **Strategic investments scheme:** To qualify as a strategic investment, all the following conditions should be met:
  - the minimum fixed amount of the investment should be TRY 50 million,
  - total imports related to the investment good should exceed USD 50 million in the latest year,
  - expected added value to be provided by the potential investment should be at least 40%,
  - total domestic production capacity of the final good to be produced should be less than imports,
  - prioritized investments with over TRY 3 billion of minimum fixed investments will be qualified as strategic investments.

The terms and rates of support provided within the regional investment incentives scheme are shown in the following table.

General Investment Incentives	Regional Investment Incentives	Strategic Investment Incentives	Project-Based Investment Incentives
• Customs Duty Exemption • VAT Exemption	• Customs Duty Exemption • VAT Exemption • Corporate Tax Reduction • Social Security Premium Support (Employer's Share) • Land Allocation • Interest Rate Support	• Customs Duty Exemption • VAT Exemption • Corporate Tax Reduction • Social Security Premium Support (Employer's Share) • Land Allocation • Interest Rate Support • VAT Refund	• Cash Support • VAT Exemption • Customs Duty Exemption • Corporate Tax Reduction • Social Security Premium Support (Employer's Share) • Income Tax Withholding Support • Qualified Personnel Support • Energy Support • Interest Rate Support • Capital Contribution Support • Land Allocation • Infrastructure Support • Purchasing Guarantee • Facilitation of Authorization/ Permit/License Procedures • VAT Refund

Medium-High Tech Incentives

Priority Incentives

Region 6 Incentives
+

- Social Security Premium Support (Employee's Share)
- Income Tax Withholding Support

- In addition to the investment incentive legislation, **a project-based investment incentive package** (also known as a super incentives package) is available. It aims to provide financial support for innovative, technology-oriented, R&D focused, high value-added projects that also contribute to reducing foreign dependency.

- Projects seeking support under the incentive must conform with the Turkish government's targets as set out in national development plans and annual programs, and with those promoted by the Ministry of Industry and Technology. The incentives granted to investors under this investment program are summarized in the following table.

- A new **Technology Focused Industrial Movement Program** has been introduced, with the aim to incentivize investments related to products listed on a priority products list to be published by the Ministry of Industry and Technology. The list will include products in the medium-high and high-technology sectors and products that are critical for the development of these sectors. The priority products list is so far published for only the machinery sector. The product lists for other specified industries (chemistry; the manufacture of pharmaceuticals, medical and dental tools; computers; electronics and optics; electrical equipment; transport vehicles) have not been published yet and will be announced later.

- **The Center of Attraction Program** covers industrial, call center, and data storage center investments to be made in any of the 24 provinces in the eastern and southeastern regions of Türkiye. The program has been included in the scope of the investment incentive legislation. As a result, qualified investments will benefit from incentives provided to investments realized in Region 6 (covering eastern and southeastern Türkiye) even if they are located in other regions. Energy support may also be provided under certain conditions.

A host of additional incentives

Free Trade Zones (FTZs)

- FTZs are special sites that lie within a country geographically but are deemed to be outside the customs territory.

- In general, activities such as manufacturing, storage, packing, general trading, banking, insurance and trade may be performed in FTZs. Goods moving between Türkiye and the zones are treated, for all purposes, as exports and imports. However, operations within the zones are subject to the supervision of zone management (and customs authorities), to whom regular activity reports must be submitted. Consequently, it is required that zone users maintain full accounting records (in Turkish) with respect to their activities. These accounting requirements extend to inventory records.

- Investors should obtain a special license to operate in an FTZ. These licenses are provided for a period from 15 years to 45 years based on the type of operator (e.g. lessee, manufacturer, investor). The following incentives are granted to investors investing in the FTZs. These incentives are applicable until the end of the fiscal year in which Türkiye is fully accepted into the EU.

- The income derived from the sale of goods manufactured by license holders in an FTZ is exempt from income and corporate income

tax. (Income derived by license holders having a valid license obtained before 6 February 2004 can also benefit from corporate tax exemption until the expiration date of the licenses).

- The salary payments made by taxpayers operating in an FTZ to their employees are exempt from income tax, provided that the taxpayers export at least 85% of their annual production.
- The documents and transactions regarding operations in FTZs are exempt from stamp tax and charges.
- The delivery of goods and services in FTZs are excluded from VAT.

Organized Industrial Zones

Organized Industrial Zones (OIZ) are designed to allow companies to operate within an investor-friendly environment with ready-to-use infrastructure and social facilities. The existing infrastructure provided in OIZs includes roads, water, natural gas, electricity, communications, waste treatment and other services.

In addition to the investment incentives scheme in Türkiye (general investment incentives, regional investment incentives, large-scale investment incentives, strategic investment incentives, employment incentives, R&D support, etc.), investors operating in the OIZs may benefit from the following advantages:

- no VAT for land acquisitions,
- exemption from real estate duty for five years starting from the date of completion of plant construction,
- low water, natural gas, and telecommunication costs,
- no tax is payable when merging and/or separating plots,
- exemption from municipality tax for the construction and usage of plants,
- exemption from the municipality tax on solid waste if the OIZ does not avail itself of the municipality service.

#10

Audit and accountancy

Independent audit requirement

- Audits are performed in accordance with Turkish Auditing Standards which are in full compliance with International Standards on Auditing issued by IAASB. Also, auditors must comply with the Code of Ethics published in Türkiye in full compliance with the Code of Ethics issued by the IESBA.
- Public interest entities (PIEs) are subject to mandatory independent audit. PIEs are defined as publicly held companies, banks, insurance, reassurance and pension companies, factoring companies, financing companies, financial lease companies, asset management companies, pension funds, issuers and other capital market institutions.

  In addition to PIEs, companies that exceed at least two of the below thresholds for two consecutive years are subject to mandatory statutory independent audit starting from the following financial year:

  - total assets: TRY 35 million
  - turnover: TRY 70 million
  - employee headcount: 175.

Who are the auditors?

- Audits can be carried out only by auditors or audit firms that are authorized by the Public Oversight, Accounting and Auditing Standards Authority. Auditors and audit firms are authorized in two categories:
  - those that have the authority to carry out audits of non-PIEs,
  - those that have the authority to carrying out audits of PIEs and non-PIEs.
- An independent auditor audits a company's financial statements and examines the accuracy and consistency of these financial statements and the financial information contained in board of directors' annual activity reports. In addition, a company's independent auditor attends general assembly meetings.

Auditor selection and approval of management financial statements and annual reports

- For those entities subject to a mandatory statutory audit requirement, auditors must be selected by the annual general assembly of the companies (mandatory for both limited stock companies and limited liability companies).
- The selected independent auditor must be recorded in the trade registry and announced in the Trade Registry Gazette by the company.
- The independent auditor must be present at all general assembly meetings of the companies.
- Audited financial statements and annual reports of management must be approved by the general assemblies of the companies.

Accounting principles/financial statements

- In principle, all taxpayers are subject to the valuation rules in the Tax Procedural Code. A Uniform Chart of Accounts (UCA) governed by the Procedural Code, prescribes the basis on which statutory books are kept. The Banking Regulation and Supervision Agency and the Insurance and Private Retirement Authority issue a specific uniform chart of accounts that applies to banks, insurance companies and other financial entities.
- PIEs must prepare their financial statements in accordance with TFRSs, which are in full compliance with IFRSs published by the International Accounting Standards Board-IASB.
- Other entities subject to statutory audit must prepare their financial statements in accordance with Financial Reporting Standards For Large And Medium Size Enterprises (BOBI FRS) unless those entities prepare their financial statements in accordance with TFRSs voluntarily.

Bookkeeping

- **Companies must maintain the following legal books:**
  - Journal ledger
  - General ledger
  - Inventory register
  - Stamp duty (joint stock companies)
  - Resolution book (joint stock companies)
  - Management resolution book (limited liability companies)
  - share ledger,
  - general assembly meeting minutes and discussion book.

E-transformation

In Türkiye, e-transformation applications have been on the agenda since 2010 with the introduction of the e-invoice application, followed by the e-bookkeeping application in 2011. Both of these applications were made obligatory for certain taxpayers in 2012. Afterwards, the scopes of e-invoice and e-bookkeeping were expanded and they continue to expand to include more Turkish taxpayers. Almost every year new applications are introduced to taxpayers.

With Tax Procedural Law General Communiqué No. 535 amending communiqué No. 509, the thresholds of these applications have been changed and the following groups shall register for the e-invoice and e-archive Invoice applications:

- taxpayers with gross sales revenues of TRY 5 million in 2018, 2019 and 2020; those with TRY 4 million in 2021, and those with TRY 3 million in 2022 and the following years;
- intermediary service providers, those publishing advertisements online and internet advertisement service providers;
- taxpayers who sell goods or services on their own or intermediary service providers websites and had gross sales revenue of TRY 1 million in 2020 and 2021, and those with TRY 500 thousand in 2022 and following years;

- taxpayers engaged in real estate and/or motor vehicle construction, manufacturing, purchasing, sale or rental transactions and who act as intermediaries in these transactions and had gross sales revenue of TRY 1 million in 2020 and 2021, and those with TRY 500 thousand in 2022 and following years;
- hotel businesses that provide accommodation services by obtaining investment and/or operation certificates from the Ministry of Culture and Tourism and Municipalities;
- taxpayers with EPDK licenses under SCT List I; taxpayers engaged in the vegetable and fruit trade as brokers, traders etc.

For taxpayers who are not registered on the e-invoice/e-archive invoice application, when the invoice amount (including VAT) exceeds TRY 5.000 (exceeds invoice issuance limit (TRY 2.000 for 2022) for the invoices issued to other taxpayers), the invoice shall be issued as an e-archive invoice from the administration portal.

Taxpayers are obliged to register on the e-invoice application and those subject to independent audit under Turkish Commercial Law are obliged to register on the e-ledger application.

In addition, the e-delivery note application was introduced in 2020. Currently, it is obligatory for e-invoice registered users with TRY 25 million gross sales revenues in 2018, 2019 and 2020, and with TRY 10 million gross sales revenues in 2021 and following years. Also, taxpayers with EPDK licenses under SCT List I and those producing sugar under the Sugar Law etc. are obliged to use the application as well.

In accordance with the Tax Procedural Law, legal documents, records and ledgers shall be stored for 5 years (note that the storage period is 10 years according to the Turkish Commercial Code). For electronic documents such as e-Invoices and e-Ledgers, the primary storage shall be done in Türkiye. Documents that are issued electronically shall be kept in the electronic environment, while those issued on paper shall be kept on paper.

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