



Independent legal & accounting firms

Doing Business in Turkey

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MSI's guide on Doing Business in Turkey provides current information about the financial, regulatory and legal considerations that could affect business dealings within Turkey. For further assistance please contact one of our MSI member firms in Turkey.

Country overview

Population

Turkey has a total population of 80.8 million inhabitants (December 2017).

Government

The Government system has recently changed from parliamentary republic to presidential republic.

The civil law system is based on various European legal systems, notably the Swiss civil code.

Languages

The national language is Turkish. The number of people who can speak English is increasing.

Currency

The national currency is the Turkish Lira.

Economic summary

GDP: US\$ 863 billion

Income per capita: US\$ 10,883

Inflation: 11.9%

Turkey's economy has performed well with its steady growth over the past 15 years. A sound macroeconomic strategy, prudent fiscal policies, and major structural reforms have contributed to the integration of Turkey's economy into the globalized world.

GDP has reached USD 863 billion in 2017, up from USD 236 billion in 2002. Economic growth is stable with an average annual real GDP growth rate of 5.6% between 2002 and 2017.

Turkey is 13th largest economy in the world.

Main sectors of the economy

Main sectors can be classified as, agriculture and food, automotive, tourism, real estate, healthcare, mining, transportation and logistics.

Turkey has a robust agriculture and food industry that employs almost 20% of the country's working population and accounts for 6% percent of the country's GDP. Turkey is the world's 7th largest agricultural producer overall, and is the world leader in the production of dried figs, hazelnuts, sultanas/raisins, and dried apricots.

The vehicle production of 13 global OEMs in Turkey increased from 374,000 in 2002 to over 1.5 million units in 2016. Growth of the sector represents a compound annual growth rate of around 10% during that period.

Turkey is currently the 6th most popular tourist destination in the world, attracting more than 30 million tourists annually and continuing to show positive growth year-on-year.

Turkey, one of the most vibrant economies among emerging countries, placed at the heart of a major crossroads in global trade, bridging East and West, Europe and Asia.

Foreign investment

Turkey is not a member state of the European Union. Membership negotiations are still in process.

The majority of foreign direct investment inflows to Turkey come from Europe, North America, and the Gulf countries.

Setting up a business

Turkey's Foreign Direct Investment Law is based on the principle of equal treatment, allowing international investors to have the same rights and liabilities as local investors.

International investors may establish any form of company set out in the Turkish Commercial Code (TCC), which offers a corporate governance approach that meets international standards, fosters private equity and public offering activities, creates transparency in managing operations, and aligns the Turkish business environment with EU legislation as well as with the EU accession process.

Equity participation by Turkish nationals is not required, majority or 100% foreign-owned principles are possible.

It takes an average of 6,5 days to start a business, while it is 8,3 days for OECD high income countries.

Legal types of business entities

1. Joint Stock Company (JSC)
2. Limited Liability Company (LLC)
3. Cooperative Company
4. Collective Company
5. Commandite Company
6. Joint ventures
7. Branch office
8. Liaison office

In practice, JSC and LLC are usually preferred. Foreign companies or individuals can be shareholders.

Process of how to set up a business

When establishing a company in Turkey, one needs to adhere to the following rules and regulations;

1. Submit the memorandum and articles of association
2. Execute and notarize company documents
3. Obtain potential tax identity number
4. Deposit at least 25% of the start-up capital in a bank and obtain proof thereof
5. Apply for registration at the Trade Registry Office
6. Follow up with the tax office on the Trade Registry Office's company establishment notification

Financial year of taxes and financial accounts

The financial year is equal to the calendar year. However, legal entities are able to choose for a different financial year if they wish.

Accounting and auditing

Companies, that meet the conditions (revised every year) and that are announced especially (such as banks, insurance companies) are subject to independent audit. Companies which are subject to independent audit are obliged to prepare financial statements in line with Turkish Financial Reporting Standards (adopted from IFRS) announced by Public Oversight Accounting and Auditing Standards Authority.

A statutory audit is required when 2 out of the following 3 criteria are met:

1. Annual turnover > TL 80 million;
2. Total assets > TL 40 million;
3. Number of employees > 200

Tax audits are generally performed by Ministry of Finance in randomly basis, however, companies can work with independent sworn accountants authorized by state.

Economic and fiscal incentives

The new investment incentives scheme is specifically designed to encourage investments with the potential to reduce dependency on the importation of

intermediate goods vital to the country's strategic sectors.

Effective as of January 1, 2012, the new investment incentives system has been comprised of four different schemes. Local and foreign investors have equal access to:

1. General Investment Incentives Scheme
2. Regional Investment Incentives Scheme
3. Large-Scale Investment Incentives Scheme
4. Strategic Investment Incentives Scheme

There are several incentives depending on the region, volume or type of the investment;

1. VAT exemption,
2. Customs duty exemption,
3. Tax reduction,
4. Social security premium support,
5. Income tax withholding allowance,
6. Interest rate support,
7. Land allocation,
8. VAT refund

Companies which are conducting R&D activities may benefit from several incentives.

Incentives foreign investors/local investors

Turkey's investment legislation is simple and complies with international standards, while it offers equal treatment for all investors.

A Customs Union Agreement between Turkey and the European Union has been in effect since 1996. The agreement allows trade between Turkey and the EU countries without any customs restrictions.

New Turkish Commercial Code

New TCC brings new regulations on important and popular issues such as principles of corporate governance, preventing of unfair competition, customer rights, electronic transactions etc.

New code is introducing two important requirements for joint stock

corporations and limited liability companies; independent audit and preparing financial statements according to Turkish Financial Reporting Standards (TFRS) which is in line with IFRS.

Taxation

Turkey has one of the most competitive corporate tax rates in the OECD region. The Turkish corporate tax legislation has noticeably clear, objective and harmonized provisions which are in line with international standard.

The Turkish tax system can be divided into three a) taxes based on income, b) taxes on expenditures and c) taxes on wealth.

VAT

The generally applied VAT rate is set at 1%, 8%, and 18%.

Income tax

The tax base for income tax purposes is divided into the following:

1. Business profits
2. Agricultural profits
3. Salaries and wages
4. Income from independent personal services
5. Income from immovable property and rights (rental income)
6. Income from movable property (income from capital investment)
7. Other income and earnings

Individual income tax rate varies from 15% to 35%.

Corporate income tax

Corporations with legal or business centres located in Turkey are qualified as residents and are subject to tax on their income derived in Turkey and other countries.

The corporate income tax rate levied on business profits is 22% (after 2020: 20%).

Registration procedures

Companies are registered with the tax authorities and are given a fiscal registration numbers. Communication with the tax authorities by way of tax

returns and tax assessments is largely done in an electronic way.

Wage tax

The base tax rate on wages is 15%, increasing progressively to a top rate of 35%.

Withholding taxes

The most common withholding tax is dividend tax with a rate of 15%. However, the withholding tax rate on dividend may change according to countries, depending on the tax-treaty.

Other main taxes

Other main taxes are as follows;

1. Bank and insurance transaction tax
2. Stamp tax
3. Special consumption tax

HR/ Labour Law

Employment law

An employment agreement may be agreed for an indefinite or fixed period of time.

An employee who quits satisfying the conditions indicated in the Labour Law or whose employment contract is terminated by the employer must be compensated with a severance pay to be calculated based on the employees' seniority at the work place.

Employers and employees are required to give specified notification periods prior to the termination of an employment contract.

Official working time is 45 hours per week. Working time can be allocated in different combinations to the working days.

Foreign individuals can be employed in Turkey. However, there are some limitations on several job categories. To be employed, foreign individuals are required to obtain a work and residence permits along with a work visa.

Social security

All employees are covered by a national health and social security system.

Coverage of this system is illness, maternity, disability, old age, workplace death and accidents, and diseases. All individuals working in Turkey are obliged to register with the system. However, under some conditions, foreign workers who are citizens of a country which has signed a social security agreement with Turkey, are not obliged to register with the system.

Social security premiums are calculated over gross salary. Social security premiums (as a percentage of employee's gross earnings) are payable by both employers and employees. Employer's share is about 22.5% and employee's share is about 15%. Employer's share is subject to several incentives. Base for premium can't be lower than the minimum wage (TRY 2.030, app € 450) and can't exceed the ceiling of TRY 15.221 (app € 3.200) for 2018. Even actual gross salary exceeds the ceiling, premiums are calculated based on the ceiling.

Pension

There is an obligatory state based pension system. Additionally, a new system called as Individual Pension Savings and Investment System has been established. The new system is complementary to the state social security system on the basis of voluntary participation and the defined contribution principle, with a view to direct individual pension savings to investment to improve the welfare level by providing a supplementary income during retirement to contribute to economic development by creating long term resources for the economy and thereby increase employment, came into force.

The age the pension starts varies depending several parameters, but it is generally between 60-65.

Payroll

When starting a business and employing staff, the company must register with the Social Security Institution. Wage tax and social security is paid by the employer and generally in monthly basis.

Visa and work permits

One can file an application to obtain a work permit in Turkey either while located in Turkey or abroad.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Turkey should seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Turkey to discuss your requirements:

Accounting member: Istanbul

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