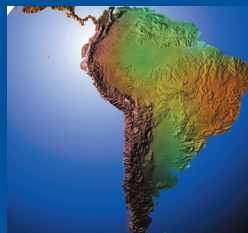
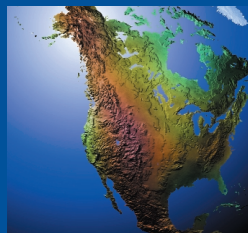
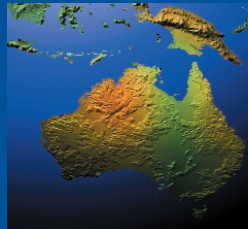




Doing Business In Turkey



*A worldwide association of independent
auditing, accounting and consulting firms*

Doing Business in Turkey

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Preface

This publication covers the necessary information for foreign companies and executives to provide a quick overview of the business environment, forms of business entities, taxation, and audit and accounting practices in Turkey.

The full text of the publication sets a broad summary of the prominent features of the topics discussed. It is not intended to provide comprehensive background on the Turkish business environment and, as rules and regulations may be changed quite frequently, companies planning to do business in Turkey are advised to obtain current and detailed information from experienced professionals before taking any decision.

This publication reflects rules current as of the 1st of September 2006.

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1. General Information

Geography

Turkey is located where the two continents, Europe and Asia, meet. The majority of the lands of the country are in Asia. The lands of Turkey, including all lakes and rivers, cover an area of some 814,578 square kilometers, out of which 24,378 square kilometers are located in Europe and 790,200 square kilometers are in Asia. Further, the country is surrounded by the Black Sea on the north, Aegean Sea on the west and the Mediterranean Sea along the south coasts. Turkey has quite remarkable rectangular shape; its land borders are 2573 kilometers and coastlines are 8,333 kilometers long. Turkey has borders at the east with Georgia, Armenia and Iran, at the south with Iraq and Syria, and at the west with Greece and Bulgaria. Turkey shares Black Sea, with Georgia, Russia, Ukraine, Moldavia, Romania and Bulgaria. İstanbul as a metropolitan and historical city is the only gateway for vessels to Russia and other countries whose shores to Black Sea.

Turkey's geographical location situated at a point where climatic conditions are quite favorable which vary widely from east to west and from north to south. The northeastern and north regions have very cold and foggy winters and; mild summers, very rainy springs and autumns. The southeastern, the Mediterranean and the Aegean regions (south) have mild winters and hot, dry and boring summers. The regions located at the inland Anatolian plateau experience extreme hot summers and cold winters with limited raining.

History

The lands of Turkey, historically is known as "ANATOLIA" where the eastern and western civilizations meet, has been base for the most ancient civilizations of the world, the Hatties were the oldest known people of Anatolia; they attained a high level of civilization in 2500 BC. The Hittites, who entered Anatolia via the Caucasus Mountain, integrated with the Hatties and established the first social and political organization in Anatolia. The Hurrites, Luwians, Urartians, Phrygians, Lydians, Carriens, Lucians, Ionians, and Byzantines all established their great civilizations in Anatolia. Later on, the Turks, Anatolia's final owners, created three states in the area so far the Seljuks(990-1243), the Ottomans(1299-1922) and Republic of Turkey (1923- ...).

Population

Turkey has a population of around 72 million inhabitants. The population is remarkably younger than other European countries. Approximately 60 % of the population is below the age of 35. GNP of Turkey is about 360,5 Billion USD. The average GNP per capital is \$ 5.000. Almost half of the population lives in the rural areas. Turkey's largest city is İstanbul with approximately 12 million inhabitants. The capital, Ankara, has about 5 million inhabitants. The other major cities are Izmir, Konya, Adana, Bursa, Gaziantep, Diyarbakır and Antalya.

Language

The official language of Turkey is Turkish, which is widely spoken throughout the country. The Turkish spoken in Turkey represents the language group coming from the southwest branch of the Uralic-Altai language family.

In Turkey, English is quite preferred to be spoken as foreign language. Other commonly spoken foreign languages are German, French and Italian. There are many high schools and universities within the major cities conducting the education in a foreign language.

Political System

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Turkey adopted a Republican system and has chosen the "Constitutional Democracy" as political system since 1923. Under the Constitution, every Turkish national has equal rights. Discrimination among citizens, based on language, religion, belief, race, color, sex, political opinion and similar reasons, is strictly prohibited. No privilege could be granted to any individual, family, group or class. The citizens exercise their sovereignty directly through elections, and indirectly through the authorized organs in compliance with the principles stated in the Constitution. The power of domination is divided into three main organs: The legislative, executive and judicial organs.

Legislative Power

The legislative power is vested to the Turkish Grand National Assembly (TGNA) that performs this function on behalf of the Turkish nation. TGNA is comprised of 550 members who are elected for a five years term of service. The legislative power of TGNA members cannot be delegated as the Constitution prohibits.

Executive Power

Executive power and functions are vested to and exercised by the President, the Council of Ministers and the Administration. The President represents the Republic of Turkey and the unity of the Turkish Nation. The President has the chief executive power and is elected by TGNA only once in life time for a seven years term either among the members of TGNA or among those who are Turkish citizens over 25 years of age eligible to be elected to TGNA and who have completed standard education. The President must appoint Prime Minister among the members of TGNA (general intention is to appoint the leader of the party, who won the majority of TGNA seats in the general elections, as Prime Minister). The Prime Minister selects the ministers and forms the Council of Ministers who remains in power to serve as long as the support of the majority votes of TGNA exists. The Administration is the third executive power stipulated by the Constitution after the President and the Council of Ministers. The establishment and the duties of the Administrations are regulated by law and are based upon a centralized as well as local government concept.

Municipalities

All municipalities are constitutionally public entities. Municipalities are set up in all provincial and district centers. Municipalities are required to meet the common needs of the regional inhabitants. Municipal Administration comprises an Assembly, a Council, and a Mayor. The Municipal Assembly, elected by popular vote and size varies considering the population. Municipal elections are held every five years. Municipal Assembly members are elected by the proportional representation system. However, candidates from political parties are only elected if the party receives at least 10 percent of the total number of votes. Municipalities are required to hold at least three regular meetings each year. The Municipal Assembly approves the annual budget of the municipality, projects related to public works, city planning and determines taxes, rates, duties, fees and tariffs. The Municipal Council consists of the mayor, the directors of the municipal departments and the members elected by the Municipal Assembly among its own members. The Mayor is the chief executive and representative of the municipality. The Mayor is elected for five years term with simple majority vote.

Judicial Power

Judicial power is vested to independent courts functioning on behalf of the Turkish Nation, which are formally independent from the legislative and executive powers. The legislative and executive powers are limited and balanced with the judicial power as a result of supremacy of law principle. The legislative procedures and activities, and the procedures of execution are dependent on judicial control. Judges are independent in discharging their duties and rule on the basis of the provisions of the Constitution, the laws, jurisprudence and their personal convictions. No organ, office,

authority or individual may attempt to intimidate, instruct or order, make suggestions or recommendations or send notices to any judge concerning how they should exercise their powers in the courts. The legislative and executive organs and the administration must comply with the rulings of the courts, and they may not change or delay the application of these rulings. The Constitution also stipulates that as general rule court hearings are open to the public and a statement of justification for the verdict should be attached to the courts resolution. The trials of minors should be in accordance with the special clauses. Criminal, Military and Administrative Courts exercise the Judicial Power. These Courts render their verdicts in the first instance, and the superior courts examine the verdict for the last and final ruling. The superior courts are: the Constitutional Court(Supreme Court), The Court of Appeals, the Council of State, the Military Tribunal of Appeals, the Supreme Military Administrative Court, the Court of Jurisdictional Dispute, the Court of Accounts and the Supreme Council of Judges and Public Prosecutors.

2. Business Environment

Economy

Prior to 1980, Turkish economy was partially closed economy. Economic policy was to substitute import goods with locally produced goods to meet the domestic demand. The general approach was to manufacture goods locally instead of importing. The local industries were protected effectively by custom duties and other taxes.

In 1980, Turkey ceased this policy and started to follow a liberalized and export-oriented economic policy. There were rapid changes in the economic structure of the country. Deregulation of interest rates, foreign exchange, stocks and securities, and the establishment of organized money markets, the liberalization of capital movements, and the reforms in the banking sector, were some of the main changes. Following these measures, protectionist economic policies were abandoned and a comprehensive economic stabilization and liberalization program was implemented. The adopted industrialization model concentrated on exports, global competition and market mechanisms. The aim behind the restructuring was to foster higher degree of integration with the world, improve growth rate, reduce inflation and improve balance of payments.

Turkish Capital Market played very important role in the development of the economy. The Capital Market Law became effective in 1981. The objective of the law was to encourage widespread participation of people in the economic development by investing their savings in securities. The Capital Market Board was established within the following year to regulate and supervise the Turkish Capital Markets. Istanbul Stock Exchange (ISE) commenced activities in 1986. Due to foreign investment tax concessions and liberalization, foreign funds inflow to the capital markets affecting rapid expansion of the Turkish Economy. The volume of transactions at Istanbul Stock Exchange as of the end of 2005 is 200 billion US Dollars and first seven months of 2006 was 152 billion US Dollars. The foreign exchange and the foreign trade policies were reorganized aiming to open the economy to the foreign markets and to sustain industrialization based on exports. Equity portfolios held by foreign investors are 65 percent of the total publicly held portion of the market capitalization. Policies were developed to follow a realistic exchange rate policy for the Turkish Lira. The foreign exchange regulations were liberalized to a great extent and the privatization implementations were started in 1984. Privatization Law (No. 4046) enacted in 1994 to overcome the problems experienced since 1984. The Law formed extensive legal framework for the privatization. Between the years 1986 and as of 31 July 2006, the total privatization implementations reached to 25,9 billion US dollars.

In 2005, GNP of Turkey is about 360,5 Billion USD and the average GNP per capital is 5.000 USD. Turkish economy, after the break of the Soviet Union, benefited from its economic and geographic location that links developed west economies with the developing economies of Middle East and the Central Asia.

Inflation has been Turkey's important economic problem for a long time. With the committed measures taken by the Government, inflation has moved to a decreasing trend. The Government determined the inflation target as % 8,8 by the end of 2006. The inflation rates for years 2000-2006 have been presented below:

Year	Wholesale Price Increase	Retail Price Increase
2000	32,7	39,0
2001	88,6	68,5
2002	30,8	18,4
2003	13,9	18,4
2004	13,8	9,3
2005	4,5	10,5
2006 ¹	11,8	5,3

One of the other major problems of the Turkish economy is a huge amount of debt stock of government, totalling USD 247 billion that proportioned as USD 64,5 billion to foreign markets, USD 182,5 billion to domestic markets at the end of December 2005.

Foreign Investment

The encouragement of the foreign investments have been one of the main economic policies of the Turkish Governments during last fifty years. Radical economic reforms achieved in 1980 and the encouragement of the foreign investments policy aimed to integrate Turkish economy into the foreign markets. The Foreign Investment Law guarantees the transfer of, dividends, capital gains, fees and royalties. The Law also permits the transfer of paid up capital freely in case of liquidation. The bilateral and multilateral investment protection agreements signed provide additional security to the foreign investors. Further, qualified labor force with high productivity, great infrastructure facilities, huge domestic market and the advantage of being geographically close to World's most rapidly expanding markets made Turkey attractive and beneficial for foreign investors. Foreign investors have already made sizeable investments in various sectors such as agribusiness, food, textiles, machinery, automotives, chemicals, electronics, cement, tourism, finance and banking.

In Turkey, foreign investment may be either as indirect portfolio investment or direct investment. Portfolio investment is not subject to formal permission. Using banks or brokerages foreign investors may purchase or dispose the corporate securities. All types of portfolio income such as dividends, interest, sale proceeds may be transferred out to any country through banks freely. Direct foreign investment should be either a joint-stock company, a limited liability company or branch office and it is permitted in almost all sectors of the economy with a few exceptions e.g. education. The various incentives and grants to the investors for the purpose of facilitating larger investments and capital contributions by the local and foreign investors and eliminating the regional imbalances. The current incentive applications are parallel with the Turkey's commitments under WTO and customs union, hence, it does not breach the international liabilities and commitments of Turkey. Both foreign investors and local investors are subject to same

¹ 2006/8 months

incentive applications without any discrimination. The incentives granted to the investors under current regime can be classified as follows;

- Investment incentives
- Export Incentives
- Free Trade Zones
- Technology Parks
- Research and Development Incentives

In order to qualify for the above incentives, except for investment allowance, the investor should obtain Investment License from the General Directorate of Foreign Investment before commencing the investment. Obtaining investment incentive certificate is an easy procedure. An investment must meet a minimum equity ratio of 20% and minimum value of YTL 400.000 (260.000 USD) for the developed and normal regions and YTL 200.000 (USD 130.000) for priority developed regions. Investment may be realized either by establishing a new company or by purchasing shares of existing company.

There is no limitation for the foreign ownership, 100% ownership is permitted. The cash funds brought as share capital may be kept in foreign exchange deposit accounts in banks. Foreign investment in the form of Capital-in-kind and intangibles are also permitted.

Investment Incentives

Annually the Council of Ministers determines the investment benefits and issues a list of investment incentives and subsidies. In order to benefit from such incentives measures and Government subsidies, investments should be approved and an "Investment Incentive Certificate" be obtained from the Undersecretariat of the Treasury. Companies with foreign shareholdings should apply and obtain the "Investment Incentive Certificate" from the General Directorate of Foreign Investments. While obtaining the Investment Incentive Certificate, the investment amount must be at least minimum amount determined by law and which is changed each year. The investment incentives vary depending on regions. Some of these regions are as follows:

Developed Regions

The provinces of Istanbul and Kocaeli, and the regions within the metropolitan municipality of Ankara, İzmir, Bursa and Adana are accepted as developed regions and are not entitled to benefit from Investment Incentives.

Developing Priority Regions

Investments in these regions are particularly encouraged. These regions are divided into two categories as first and second priority regions, which are determined by considering the developing level of the region. These are as following:

Adıyaman, Ağrı, Aksaray, Amasya, Ardahan, Artvin, Bartın, Batman, Bayburt, Bingöl, Bitlis, Çanakkale (Including Gökçeada and Bozcaada), Çankırı, Çorum, Diyarbakır, Elazığ, Erzincan, Erzurum, Giresun, Gümüşhane, Hakkari, Iğdır, Kahramanmaraş, Karabük, Karaman, Kars, Katamonu, Kırıkkale, Kırşehir, Kilis, Malatya, Mardin, Muş, Nevşehir, Niğde, Ordu, Osmaniye, Rize, Samsun, Siirt, Sinop, Sivas, Şanlıurfa, Şırnak, Tokat, Trabzon, Tunceli, Van, Yozgat, and Zonguldak.

Normal Regions

Apart from developed and developing priority regions are normal regions. The locations that have established and operating organized industrial zones are

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considered as normal regions. Normal regions include the cities which are other than above listed in Developing Priority Regions.

Available Major Investment Incentives

Available major investment incentives are as follows:

- Custom duties and excise exemption
- Financing Fund
- Exemptions from certain duty taxes, duties and charges
- VAT exemption on machinery and equipment purchases
- Procurement of Land

Custom Duties and Excise Exemption

The investment incentive certificate covers that the capital goods, raw materials, intermediary goods, and operating materials imported to the country are exempted from custom duties. However, during the importation an additional fund should be paid, in relation with CIF value. It varies from 5% to 20 % of CIF value depending on the type and the useful life of the machinery. The investment goods, machinery and equipment which are imported by benefiting from the Customs exemption may not be transferred, sold or assigned to third parties for a period of 5 years without obtaining the approval of the Undersecretariat. In the case of local investment goods, this period is 2 years.

Since most machinery and equipment imported from EU has been exempt from customs duties due to the customs union, this exemption applies to imports from outside the EU.

Truck trailers, passenger cars, buses, truck tractors, trailers, furniture, yachts, transmixers, concrete plants, forklift, construction materials, and ceramic or porcelain kitchen apparel, as well as raw materials are not eligible for customs exemption.

Financing Fund

Loans may be obtained from the financing fund up to 50% of the procurement expenses of tools, equipment and software relating to research and development projects. Further, for current investments in developed regions and in other regions including prospective investments, within the limits of the portion stated in the "Environmental Impact Evaluation Report" are allowed to use loans equivalent to 50% of the fixed investment capital. The loans relating to research, development and environmental protection are granted for a period of 4 years with considerably low interest rates.

The investments which shall benefit from the allocation of credits from the Fund as following;

- Research and development (R&D) investments
- Technology parks and investments to be realized in technology parks
- Investments related to environmental protection
- Priority technological investments which are determined by the High Commission of Science and Technology(TUBITAK),
- Investments aiming to improve regional imbalances,
- Investments to be relocated to Organized Industrial Zones
- Investments which will be made production industry, agricultural industry and mining investments in regions having priority in development,

The eligible investment should meet the criteria and specifications determined in the law in order to utilize the loans. Loans are allocated for the new machinery and equipment. In addition to the machinery and equipment to be used to fulfill the purpose of the investment the following costs may also be covered by loans:

- a. For research and development investments:
machinery and equipment which are used in research and development activity; 50% of software expenditure.
- b. Investments aimed at environmental protection:
50% of expenditure of building-construction; machinery and equipment for environment investments.
- c. For priority technology investments:
50% of machinery and equipment; software expenditure.
- d. Investments which will be made in regions designated for technological development:
50% of machinery and equipment and software expenditure.
- e. For investments that relocated to regional development cities and priority developed regions and specially designated regions:
50% of the disassembly; shipping and assembly costs.
- f. For investments aimed at regional development:
30% of the interest-free fixed invested amount.

The assigned loans should not exceed YTL 400.000 for research and development projects, investments related to environmental protection, priority technological investments, investments in technology developing regions, investments aimed at improving the scope of regional development cities and investments to be relocated in special regions.

Furthermore, investment credit should not exceed YTL 500.000 for manufacturing, agricultural and mining industries in priority development regions. In addition to these, business loans determined by intermediary banks should not exceed YTL 200.000. If investment credit and business loans are used together, the total amount of credit should not exceed YTL 700.000.

The amount of investment loan which will be assigned for individual developing investments should not exceed YTL 4.500.000.

Exemptions from Taxes, Duties and Charges

The exporters and foreign currency earning organizations those who have obtained loans for financing exports and for generating foreign currency earnings are exempt from taxes, duties and charges which are normally paid on the loans used and the relating bank and insurance transactions. The exemptions also cover the export related letter of guarantees, which should be presented to customs and tax authorities.

Stamp Taxes and Fee Exemption

According to the new application which came into force on 01.01.2004,

- a. It is determined that the operations related to the merger, acquisition and split-off of corporations, limited partnership and limited liability companies and guarantees which

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are issued for cash investment credits with a period greater than 1 year are not subject to a fee.

- b. Investment credits that are taken from associations with a period greater than 1 year are exempted from stamp tax. However, if the investor chooses to be subject to the old legislation, the related principles are stated below.

Where the investor gives an export undertaking of US \$ 1,000 within 2 years following the completion of the investment, the operations stated below shall be exempt from Stamp Duty and fees:

- Investment loans obtained locally or from abroad, provided that the equity to debt ratio set in the investment certificate is preserved
- Registration procedures with the Land Registry Office on behalf of the company where immovable or their related rights are contributed as capital in kind and all documents related to the registration of the same in the Land Registry department pursuant to the Investment Incentive Certificates.

VAT Exemption on Machinery and Equipment Purchases

Machinery and Equipment purchases are exempted from Value Added Tax (VAT), even these are imported or purchased from inside the country.

Raw materials, spare parts and vehicles (except trucks heavier than 45 tons and certain other trucks used in specified activities) may not benefit from this exemption.

Energy Support

Completely new investments undertaken in the developing priority regions those covered by Investment Incentive Certificate for up to 40 % of the electric energy costs may obtain loans from the financing fund.

Procurement of Land

If covered by Investment Incentive Certificate for the investments undertaken in developing priority regions the Ministry of Finance would grant free land, provided that the investment creates employment opportunity for at least 10 employees for uninterrupted period 5 years, depending on the availability of land.

Investment Incentive Certificates are Not Transferable

Investment Incentive Certificates cannot be sold and transferred to other parties. If sold or transferred all provided incentives are taken back with penalties.

Investments Not Realized

If Investment is not realized or completed within the period stated in the Investment Incentive Certificate, benefits might be cancelled and if the investment is partly realized Under Secretariat of Treasury might revise Investment Incentive Certificate.

Provinces with GNP Less Than 1.500 USD

In order to encourage investments and employment in the provinces with less than 1500 USD GNP a new incentive is put in place in 2004 starting from 1st October 2003. The purpose is to carry the full or partial burden of the withholding income taxes, social security premium of the additional employees and energy consumption by the government.

The following provinces are under 1500 USD GNP: Kırşehir, Sinop, Giresun, Amasya, Uşak, Malatya, Sivas, Tokat, Diyarbakır, Afyon, Batman, Erzincan, Osmaniye, Düzce, Çankırı, Siirt, Gümüşhane, Ordu, Erzurum, Bartın, Bayburt, Şanlıurfa, Mardin, Aksaray,

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Adıyaman, Kars, Van, Iğdır, Yozgat, Ardahan, Hakkari, Bingöl, Bitlis, Şırnak, Muş, Ağrı, Kilis, Tunceli, Kastamonu, Niğde, Kahraman Maraş, Çorum, Artvin, Kütahya, Trabzon, Rize, Elazığ, Karaman, Nevşehir.

Withholding Income Tax Incentive

The implementation would be by netting the part of the withholding income tax which will be carried by the government. Full or limited liability tax payers should either create additional jobs by completely new investments or by expanding the existing investments from 1st October 2003 on.

The new investments mean to become a new taxpayer or to establish a new entity in the provinces below GNP of 1500 USD.

Creating additional jobs within the existing entities means to increase the number of employees according to the number of employees declared in last four months before 1st October 2003.

Employments in all kinds of public works. (Bridges, dams, schools ect.) are exempted from this incentive.

The following procedures are not accepted as creating additional jobs:

- Merging or acquiring an existing entity or changing the trade name of a company,
- Closing the existing entity and open a new one under a different name or sector,
- Shifting employment between group companies.

Social Security Premium Incentive

For the investments creating additional jobs in the provinces with GNP less than 1.500 USD, Treasury pays social security premium for the employers for the additional and existing employees. If the investment is in an industrial zone, the Treasury pays whole of the employer's share of the premium. If the investment is out of an industrial zone, 80 % of the employer's share of the premium is paid by the Treasury.

Energy Support

The investments such as production industries, mining, meat and poultry, tourism, education and medicine in the provinces with GNP less than 1.500 USD; The Treasury pays 20 % of the energy consumption. For every additional one employee this ratio increases 0.5 point. This ratio can not exceed 50 % for the investments in the industrial zones and 40 % in the investments in other places.

Procurement of Land

The Treasury, municipalities and provincial government can grant land to the investors with GNP of less than 1.500 USD.

Free Trade Zones

Until 06.02.2004 the companies operating in Free Trade Zones were exempt from income and corporate tax with an amendment made to these laws most of the exemption were levied.

Technology Park Exemption

TECHNOPARKS are generally being established at university campuses or organized industrial areas. Tax incentives are as following:

- Income and Corporate Tax Incentive
- Exemption for the Salary of the Researchers, Software Developers and Research and Development Staff who has been recruited at Techno Park
- Vat Exemption

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Research and Development Incentive

The expenditure, related with the research and development in order to develop new technology and information within the company, is 40% deductible from the income tax or corporation tax base.

In order to be taking advantage of the Research and Development incentive, expenditure must be made for the purpose of Research and Development activity. Following activities are regarded under Research and Development.

- Having latest technical information or data which will help the development science and technology.
- Research and development for the new production techniques and process.
- Development of new process or production of new techniques to make innovation on products, materials, means of production, applications, and systems.
- Searching for new technologies/techniques in order to decrease the cost, increase the quality, the standard and the performance of a product.
- Software developments which are innovative and creative.

The activities, in order to make some changes on an appearance of a product by using the recent technology, are not being taken in to consideration under Research and Development activities. Secondly, market research, quality control, research for the social sciences, research for the mine reserves and drill appearance changes, foundation and establishment expenses are not covered under this incentive as well.

Expenses under Research and Development

Basically, Research and Development expenses are made of the following group of expenses. However, the expenses must be related with the above mentioned activities.

- Expenses for Raw Materials
- Personnel Expenses
- General Expenses
- Expenses for Outsource Services
- Tax and funds
- Amortization and Depreciation
- Financial Expenses

The Distribution of Profit Due to Research and Development Activities

In the case of distribution of profits which have not been included in corporation tax base due to the Research and Development incentive, %15 withholding tax will be calculated for the both real persons and the limited tax payers.

Protection of Industrial Property Rights

Turkey fully harmonized its legislation on industrial property rights, prior to its customs union with EU countries. Turkey has enacted important laws on protection of trademarks, industrial designs, patents/utility models and geographic indications. The Turkish Patent Institute has been established for the purpose of registration and protection of such industrial property rights. The main system concerning the protection of industrial rights is based on the registration, which is similar to that of the European Union and the other countries that are party to Paris Convention.

Foreign Trade

Following the Second World War, the world economy and the international trade continuously developed as a result of liberalization and privatization policies adopted by countries. Since then world's production increased about 2 % each year and the world

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trade experienced growth rate of 6.2 % between 1990 and 1995. Under these developments, the industrialized countries regressed the import taxes to 3%, 4% today that were about 40% in 1950's. Liberalization, privatization and globalization policies gained importance in other regions of the world also. Turkey reduced import taxes to the levels applied by the European Union (EU) Member Countries and signed the "Customs Union Agreement" with EU in 1996. Accordingly, all protections in the trade of manufacturing goods with EU countries were abolished and the EU Mutual Customs Tariff started to be applied in trade with other countries. In 2005 exports reached an amount of 73,5 billion US dollars and imports reached the amount of 116,5 Billion US dollars and the foreign trade deficit decreased to 43 billion US dollars.

Year of 2003 was the first year of implementation of new economic program. Total volume of foreign trade increased to 190 billion US dollars with a deficit of 43 billion U.S dollars in 2005.

Exports are encouraged in various ways in Turkey. In recent years, monetary incentives have been replaced by incentives at the production and investment phases. Within this framework, exporters are provided with credit, guarantees and insurance support through the Turkish Eximbank. Bureaucratic formalities in exports have been reduced and simplified. The ratio of exports to imports was about 50% in 1990s, and increased to 77,8% during 1994. The ratio was 63% in 2005. Traditionally Turkey enjoys more trade with the OECD countries. In 2005, the OECD countries shared 55% and 57% of the total Turkey's exports and imports. In 2000 the European Union (EU) countries shared Turkey's export around 52%, worth 38,3 billion US dollars. The total volume of export was US Dollars 73,5 billion and the import volume was US Dollars 116,5 billion in 2005. The target for the 2006 is around US Dollars 85 billion.

Export Regulation

There are no restrictions over the exports of goods, except for the ones that arise mainly from the quota restrictions applied against Turkey by the country for which the goods are intended for shipment.

Exports are exempt from the VAT, duties and transaction taxes. The exception to this general rule is the payment of Support and Price-Stabilization Fund mainly over same agricultural goods.

Goods manufactured in Turkey have a duty free Access to the EU.

Import Regulation

There are no import restrictions over goods imported to Turkey, with the exception of some restrictions of very minor character. That are certain goods for which permission from relevant ministries shall be required, such as films, videos. Similarly, Undersecretariat of Foreign Trade lists goods that require exclusive permission.

For goods that are imported to Turkey from countries other than European Union, customs duties and charges are applicable in conformity with the provisions of customs union. Regardless of origin of goods, whether from EU or non-EU country, VAT at a rate % 18 (% 1 or % 8 for certain basic goods) over CIF value, including other duties and funds, is collected. Investments goods- only the machinery and equipment- are exempt from VAT and custom duties, provided that an investment certificate is obtained from the Undersecretariat of Treasury.

Customs Union

The customs union between Turkey and European Union has been in effect since the beginning of 1996. Customs union is of great importance to Turkey, since EU is the most important trading partner of Turkey.

In accordance with the framework of the customs union, Turkey has determined import and export custom duties and charges on EU goods. Today, with the exception of agriculture, customs and duties charges along with any sort of quantitative restrictions over EU goods does not prevail. Agriculture, being treated under a different category for current circumstances, is of much difference in terms of pricing and subsidy structure as practised in Turkey and EU today.

Turkey has harmonized its trade policies and legislation and adopted the EU's Common External Tariff and accessory regulations in its foreign trade.

Turkey's Integration With EU and Customs Union with EU Countries

Turkey is an official candidate for accession to EU. Turkey is committed to implementation of the program and to fully comply with the criteria. The negotiations started officially in October 2005 and the first chapter out of 35 on culture and sciences has been closed in 2006.

The Customs Union Agreement of Turkey with the EU represents a huge opportunity for foreign investors looking for a relatively low cost export base European market. It is possible for companies located in Turkey to make duty free trade with EU countries, due to the Customs Union. Trade policies, legislation, customs tariffs have been harmonized with EU regulations.

3. Labor Relations and Conditions

The new Labor Law took effect in June 2003 which governs relationships between employers and employees.

The provisions of this law shall not apply for the business types and business relations given below:

- a. Sea and air transport business,
- b. Workplaces or enterprises carrying out agricultural and forestry works and employing 50 or less employees,
- c. Building works related with agriculture within the limits of family economy,
- d. Houses and businesses where handicrafts are produced by members of the family and 3rd degree relatives without participation of external persons,
- e. Household work,
- f. Apprentices (the provisions of occupational health and safety regulations are reserved),
- g. Sportsmen,
- h. Rehabilitated persons,
- i. Working places employing three employees and conforming to the description in Section 2 of Law No. 507 on Craftsmen and Tradesmen.

Employment depends on contracts. There are mainly three types of work contracts, Temporary / Permanent Work contracts, refers to work, which, owing to its nature, lasts not longer than thirty working days, and "permanent work" to employment of longer duration. Temporary work is evaluated mainly under the Code of Obligations rather than the Labour Act. Definite / Indefinite Period The term of employment contracts can either be definite or indefinite. On expiry, employment contracts for a definite period may not

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be renewed more than once unless there is a fundamental reason. Otherwise, the contract for a definite period will be accepted as a contract for an indefinite period from the beginning. Part-time / Work upon Call Part-time contracts, and work upon call contracts; which is a specific type of part-time contracts; can be signed between the employers and employees, within the scope the Turkish Individual Labour Act. Discrimination among employees on grounds of race, nationality, religion, and sex is forbidden.

The legal working hours in a week are 45 hours. Overtime should not exceed 3 hours a day or 270 hours in a year. Overtime is not allowed in underground works. Overtime pay for normal days is based on hourly wages rate plus 50 % premium and for Sundays and public holidays the premium is 100 %.

Employees Termination Indemnity

Those employees who have completed one year of service are entitled to have "Employees Termination Indemnity", which is equal to one-month salary or thirty days wages for each year of service starting from the date of employment. However, the government fixes a ceiling for each year of service. If the salary exceed the ceiling, the ceiling amount is taken as the basis for indemnity calculation.

As a rule, employee is not entitled to receive indemnity if the employment contract is terminated by the employee, except for the reason of military service or unethical behavior of the employer. Women who resing within one year following her marriage are also entitled to their service award.

Annual Vacation

Those employees who have completed one year of service are entitled to have paid annual leave (vacation) with in the minimum period limits determined by law considering length of employment years.

Length of services Holiday Period (days)	Length of Employment Paid Annual Vacation (Working Days)
1 to 5 years (incl.)	14
5 to 15 years	20
15 years (incl.) and over	26

For the employees under the age of 18 and above the age of 50, annual vacation days not be less than 20 days, irrespective of the lenght of employment. If an employment contract is terminated , the employee is paid for unused vacation days.

Notification indemnity if employer terminates the employment contract prior to contract period and without giving notice within notice period limits employer must pay to employee an amount, which is equal to the salary/wages that would be received in the notice period.

Maternity Leave

Female employees may, upon their request, be granted unpaid leave for a period of up to 6 months following the 16-week maternity leave period. This period shall not be taken into account in the calculation of paid annual vacation.

In addition, until the child reaches the age of one, the female employee is entitled to one and a half hours a day for feeding.

Length of Employment Notice Period

Notice period	Length of service
2 weeks	Less than 6 months
4 weeks	6 – 18 months
6 weeks	18 – 36 months
8 weeks	More than 3 years

Social Security System

Turkish social security system is based upon three institutions each regulated by its own law. These are the Social Security Institution, the Pension Fund and the Bag-Kur. Private sector employees are covered within the Social Security Law. The employers and the employees pay social security premiums. The premiums, calculated as a percentage of gross salary, are paid within an upper and lower limit. Upper and lower limits are updated periodically for inflation.

- Social Security premium payments covering sickness, disability and retirement schemes.

Insurance premium ratios are as following

	%		
	Employer's share	Employee's share	Total
Normal employees	19,5	14	33,5
Veterans	18	6	24
Expatriates	8,5	5	13,5

In addition to above given rates, in total % 3 unemployment insurance is paid, % 2 of is paid by the employer and the rest % 1 is paid by the employee.

The distribution of the premium rates to the risks covered is as follows:

	Employer's share	Employee's share
Occupational accidents and vocational diseases insurance	1, 5 - 7	-
Illness insurance	6	5
Maternity insurance	1	-
Disability, old age and death insurance	11	9
Depending to the employment contracts bonus, premiums on sales or profit may be possible.		

Obligation to employ disabled persons, ex-offenders and aggrieved parties (victims of terrorism)

In companies where more than 50 workers are employed, employers are required to employ disabled persons, ex-offenders and terror sufferers in their workplaces whose terms of employment are determined by their professional capacity, physical and psychological condition. The quota of such employees is fixed as 6%, no less than one half of which should be disabled person. The distribution of such employees is determined by the Council of Ministers each year in January. Employees employed under

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contracts for an indefinite or definite period are taken as a base for the determination of the number of employees to be employed in this context.

Employment of Foreigners

Foreigners who intent to stay in Turkey more than three months are required to apply for a residence permit from security authorities within fifteen days following their arrival. The principles relating to the employment of expatriates in Turkey have been regulated through the law concerning the Work Permit issued to Expatriates, which was put into effect in September 2003. The new law has eliminated the scattered and the multi faceted structure through unifying the provisions relating to the employment of foreigners under a single law. The most important facilitation introduced by the new law is the issuance of all work permits from a single authority.

A foreign person needs a work permit in order to work in Turkey. Applications for a work permits may be submitted to the representatives of the Turkish Republic abroad, or directly to the Ministry of Labor in Turkey.

The new Law envisages the issuance of work permits to 'key personnel' to be employed in 'direct foreign investments with special priority' by the Ministry of Labor immediately (within 15 days as of the date of application) without evaluating the competencies of the employee for the specific position.

The key personnel refers to shareholders, chairman of the board, board members, general manager(s), and assistant general managers and other at similar positions in the companies classified as 'foreign direct investments with special priority'

Foreigners that are resident and working in Turkey are considered as limited liability taxpayers. Foreigners are taxed only on the income they earn in Turkey; their total earnings are not subject to taxation. Taxation of foreigner's salaries/wages is similar to the full liability taxpayers.

4. Business Entities

The following are the principal forms of business entities through which businesses are undertaken in Turkey:

- Individuals
- Partnerships
- Limited Liability Companies
- Joint Stock Corporations
- Other Forms of Business Organizations
 - Joint Venture
 - Business Association
 - Consortium

Individuals

Individuals are the sole traders who may form their businesses freely. They are liable for their debts and obligations without any limitation.

The Turkish Commercial Law recognizes two main types of business entities "Partnerships" and "Corporations".

Partnerships

Partnerships are the businesses formed by two or more individuals. All partners have unlimited liability for the debts and obligations of the business. There is no minimum capital requirement for partnerships.

Corporations

Corporations established by foreign joint venture partners with or without a Turkish partner are treated as Turkish corporations and are entitled to all rights available to Turkish companies under the Turkish Commercial Code.

Foreign investors can establish a corporation in either of these two forms:

Limited Liability Company (Limited Şirket - Ltd. Şti)

Joint Stock Company (Anonim Şirket - A.Ş)

Limited Liability Company

Limited Liability Company is a separate legal entity and shareholders have limited liability. Limited Liability Company can be formed by two or more individuals, but partners should not be more than 50 individuals. Although Limited Liability Company's enjoys some benefits there are some disadvantages such as:

- a. Minimum limit of share capital has to be 5.000 YTL.
- b. Shares are not freely transferable need approval from the other partners at least 75 % of majority votes.
- c. Limited Liability Companies are also prohibited from engaging in banking, insurance businesses, private financial institutions, leasing, factoring, holding companies and operating foreign currency Exchange offices.

Joint Stock Company

Joint Stock Company is also a legal entity by law. Joint Stock Company has its own trade name and predetermined amount of capital divided into shares. Shareholders have limited liability to their capital. Joint Stock Companies can be formed by minimum five Shareholders who might be real persons or legal entities. The Joint Stock Companies have shares of equal value, which are transferable freely subject to the approval of the Board of Directors and if it is not restricted by the Articles of the Association. The shares may be issued in either as registered shares or bearer shares.

The Differences between Limited Company and Joint Stock Company

For Joint Stock Companies, minimum 5 shareholders are required. The percentage of shares of the shareholders makes no sense. Only, the members of Board of Directors must have at least 5 shares. Shareholders may be Turkish or foreign nationality.

If shares of Joint Stock Companies are sold in two years after the date which they are purchased, income from the sale of shares is not subject to tax. However, in Limited Companies, even if the shares are sold after two years the income is subject to tax.

Joint Stock Companies' shares can be purchased and sold independently whereas Limited Company's shares can only be sold through notary approval. Also, the transaction must be registered to the Trade Registry. There are no physical shares in Limited Companies.

In Joint Stock Companies, General Assembly must have a meeting with a representative from the Ministry of Trade, once a year. In Limited Companies, it is not an obligatory rule.

Both Joint Stock Companies and Limited Companies, if the shareholders don't want to sell their shares, no one can force them to do so. On the other hand, if a shareholder wants to sell his share, other shareholders have priority for purchasing of shares. In Article of Association of Joint Stock Companies, all kinds of limits can be placed.

In the Article of Association of Joint Stock Companies, protective terms for the rights of minority shares could be set up.

In a Joint Stock Company, Board of Directors represents the company. However, a Circular of Signature is issued, which determines the authorized people for signing on behalf of the company. Any limitations could be placed on Circular of Signature in terms of authorization of the people. Aforementioned people, to be authorized and the limitations decided by the Board of Directors.

Other Forms of Business Organizations

Liaison Offices and Branches

Foreign companies may also operate through liaison offices or branches in Turkey provided that they are established in accordance with the relevant legislation. The income generated in Turkey is subject to taxation in the same manner as of a resident company.

Establishment of a Company

It is now possible to establish a company just in one day when applied to the related Trade Registry Office with the required documents. The company gets its ` legal entity ` upon establishment. The pre establishment permits to be taken from The Undersecretariat of Treasury and Ministry of Industry and Trade, required by the previous legislation has been abolished. However, banks, private finance institutions, insurance companies, leasing companies, factoring companies, communication companies, holding companies, companies operating foreign currency Exchange offices are subject to the regulations of the related authorities. Companies dealing with public warehousing, publicly held companies subject to the capital market law, companies that are founders and operators of free zones are still subject to permit the Ministry of Industry and Trade.

5. Finance

Currency and Foreign Exchange

Protection of the value of Turkish Currency Law 1567 provides general framework for Turkish Currency. The detailed exchange control regulations are set out by the Council of Ministers resolutions. Most recent resolution that became effective in 1989 has removed several exchange restrictions. Current provisions are as follows:

Currency

The unit of currency is New Turkish Lira (YTL). Turkish Central Bank determines official exchange rates and gold prices. Free market prices are also available. Residents in Turkey and non-residents are free to transfer New Turkish Lira abroad through banks or authorised private financial institutions. Travellers are free to take out of the country New Turkish Lira amounts not exceeding equivalent of 5,000 US \$ with them. Import documents may be settled with New Turkish Lira payments without any restriction. Exports subject to few limitations may also be made against New Turkish Lira. Non-residents may carry out payment, collection and deposit activities with New Turkish Lira.

Foreign Exchange

Importation of foreign currency into Turkey is free. Residents and non-residents are free to hold, purchase, and open bank deposit accounts in foreign currencies. Travellers are free to take out of the country maximum 5,000 US \$ or equivalent foreign currency with them. The amounts exceeding 5,000 US \$ should be declared at the customs. Except those related to imports, exports and invisible transactions any transfers exceeding 50,000 US \$ or equivalent foreign currency must be notified to Turkish Central Bank by the Banks and/or the authorised private financial institutions who have carried out such transaction within 30 days. Collections relating to exports must be brought to the country by exporters of goods within 180 days.

Banking

After 1990, Turkish banks have invested heavily in on line electronic banking systems this caused rapid development of banking services. Majority of Turkish Banks have countrywide electronic networks and numbers of them offer direct access terminals to their major clients. The rapid growth of consumer banking has drawn Turkish Banks emphasis on the service quality because individual and retail banking became the most rapidly developing sectors. Regulations relating to establishment and administration of State- owned Banks and Private Banks differs from each other. Some State-owned Banks are established by issuing special laws and some are formed following the Council of Ministers resolution. The Private banks established in compliance with the provisions stated in the Banks Law and the Turkish Commercial Code. During 2005 the new Bank Law became effective, which aims at achieving a legal framework conducive to international standards, so that depositor rights are protected and enables banking system to have contestable structure with international money markets. Many rules relating to the establishment and supervision of banks, the requirements relating to qualifications of bank owners and directors which have been changed by considering international applications.

Recently shares of some of the major Banks in Turkey have acquired by foreign Banks from Belgium, Greece and Italy. The interest of foreign investment to the banking system continues.

Financial System

Turkish finance system is principally build up on universal banking system. Besides banks other areas of the Turkish financial system are Insurance, Leasing, Factoring and Stock Exchange. Private Financial Institutions (Islamic Banks) commenced activities in Turkey during 1984. The Private Financial Institutions, other than their own equity capital, collect domestic and foreign funds by means of private accounts, profit/loss sharing accounts, and channel these into the economy. The share of such institutions in total financial sector is around 2%.

New Turkish Lira

Effective from 01.01.2005 the New Turkish Lira has been started to be used as new currency of Turkish Republic. Six digits of the current Turkish Lira have been removed in new system, and the sign has changed from TL to YTL. The name of the New Turkish Lira (YTL) will be changed to Turkish Lira again in next few years.

6. Accounting and Auditing Requirements

Accounting Principles and Requirements

The Law enacted in 1989 governs the accounting regulations. However the Central Bank and Capital Markets Board (CMB) also play important role in fixing the standards on

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auditing, accounting and financial reporting for banks and public companies, which have more than 250 shareholders or whose shares or bonds are quoted on the stock exchange.

The Law divides accounting professionals into three categories:

- Independent Accountant SM
- Independent Accountant and Financial Consultant (SMMM)
- Certified Public Accountant (YMM)

Individual persons or certain staff entities in an auditing business must have license as an Independent Accountants or Financial Consultants and . Certified Financial Consultants are mainly tax related professionals who may carry out audits for taxation purposes.

Legal books such as Journal Ledger, Inventory Ledger, Production Ledger, Stamp Tax Book and Journal for Bills of Exchange Book must be retained for five years following the related accounting period as required by the Turkish Tax Legislation and for the period of ten years in order to comply with Turkish Commercial Code. The financial records must be kept in Turkish language and in Turkish Lira and be authenticated by a public notary. In addition, the government requires that all corporations must produce annual financial statements such as Balance Sheet, Income Statement, Statement of Shareholders Equity and Cash Flow in compliance with the Uniform Chart of Accounts. The companies who are subject to Capital Markets Board legislation are required to use specific formats in preparing their financial statements and should produce more relevant information.

Audit Requirements

Although the Turkish Commercial Code requires all companies to appoint an auditor in practice this requirement is not strictly followed. The companies, which are under the Capital Market Board regulations must present audited financial statements each year. The Capital Market Board lists Independent Auditing Firms who are entitled to carry out such independent audits. All financial statements presented to Capital Market Board, required to-be prepared in form of Capital Market Board standards. However, regardless of some of alterations which are run by Ministry of Finance. Capital Market Board is monitoring the activities of the aforementioned companies and determines activity principles, notifications, record system, shares and bonds standards.

Capital Market Board requires the audit of these companies in respect to International Financial Reporting Standards (IFRS). The companies whose shares are trading at Capital Market are required to be audited twice in a financial year and present an Independent Audit Report. During the year a limited audit report is presented at the end of June and the second report at the end of December.

Capital Market Board determines the authorized audit companies for Independent Audit. Those companies are obliged to be Turkish companies. Non-Turkish International Independent Audit companies are not allowed to carry out any Independent Audit works. Turkish audit companies are not allowed to be the member of International Audit companies in order to carry on an audit. On the other hand, Board of Banking Regulation and Supervision determines the authorized audit companies for the audit of banks and The Undersecretariat of Treasury determines the authorized audit companies for Insurance companies. Generally, the companies who are qualified and authorized for Capital Market Board audits, are also authorized for bank audits.

International Financial Reporting Standards (IFRS)

IAS or the newly named IFRS, has been applied for the companies subject to Capital Market Board and quoted to Stock Exchange Market, since 01.01.2005. Through the

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application of the IFRS, related companies' statements and reporting standards will be parallel to international standards.

7. Taxation

The Ministry of Finance holds the authority for an implication of tax laws, control and collecting of taxes. The Ministry of Finance publishes communications to clarify some of the issues regularly. On the other hand, companies and associations still have the right to request further clarifications about specific situations.

The tax law comprises from the following:

- Income Tax
- Corporate Tax
- Value Added Tax (VAT)
- Private Consumption Tax
- Tax Procedures Code
- Private Communication Tax
- Real Estate Tax
- Inheritance Tax
- Motor Vehicle Tax
- Expenditures Tax
- Stamp Tax
- Municipality Income Law

Tax Procedures Code

Tax Procedures Code contains and regulates all the procedures concerning tax liabilities, various forms of taxation, prescription period and bookkeeping, and methods that apply during the valuation of assets, liabilities, and payables. Some of the issues included within the Tax Procedures Code are as follows:

Legal Books and Documents

Under the Tax Procedures Code all the legal entities such as traders and artists, trading companies, public institutions, associations and foundations, merchants and farmers are required to maintain the following books:

- Journal
- General Ledger
- Inventory Register
- Stamp Tax Register

In addition to aforementioned regulatory books, due to the nature of their business some businesses are required to maintain additional books, such as banking records, insurance tax register.

Under Tax Procedures Code, financial books must be maintained in the Turkish language and must be certified by the Turkish notary. The Journal entries must be completed within 10 days following the date of transaction (in some cases 45 days). Records should be maintained on computer or manually on fiscal year basis. Fiscal year of businesses in Turkey commences on 1st January and ends on 31st December. Financial records must be maintained in such a way that each transaction can be traced. All expenditures, recorded must be supported by required documents such as invoices, expense vouchers, independent professional service receipts, etc. Financial books and supporting documents must be retained (for a possible tax inspection purposes) for a period of five years from the date of their most recent entry.

For the purpose of tax base calculation at the end of each fiscal year, all economical assets of the business are evaluated. Evaluations are based on the nature of the economical assets and accordingly are stated with cost (book

value), market value, purchasing value, current value, opportunity value or tax value.

Generally, fixed assets, inventories and agricultural goods are stated with cost, goods having decrease in cost value may be stated with market value; marketable securities are stated with purchase value, foreign currencies are valued with exchange rates determined by the state authorities; receivables and payables are stated with book values, establishment and formation expenditures are stated with book value. In specific situations, some other evaluation methods may be applied. At year-end evaluations economical assets should be physically measured, weighted or counted.

Depreciation

The Tax Procedures Code rather liberal provisions with respect to depreciation. According to the definition, all fixed assets are subject to depreciation, which are in use by the company for more than one year to give true and fair view of the financial statements.(empty land is not subject to depreciation.)

The depreciation rate on fixed assets is usually determined by Ministry of Finance base on useful life of fixed assets on a straight line method. For cars, partially depreciation is calculated by taking the month in which the purchase was made a complete month. Partially depreciation is provided on a full year basis irrespective of which month of the asset was actually acquired. Taxpayers are required to calculate depreciation for cars in the year of acquisition on a partial basis, unless they are engaged in the business of leasing such vehicles or the vehicles are otherwise related to their commercial operation.

Effective from 01.01.2004, the inflation accounting and reporting system has been applied in terms of tax purpose. The non-monetary items of the financial statements as of 31.12.2003, has been restated in respect of inflation accounting (IAS 29). Under the light of this, both tangible and intangible assets have been depreciated over their restated amounts. The application of inflation accounting has been cancelled after 1.1.2005 due to the changing hyperinflationary conditions.

On the other hand, declining method is also available. According to this method, the depreciation rate is higher in the start and decrease as the value of the asset decreases due to useful life of the asset.

The depreciation rate and depreciation period are fixed and are not subject to change.

Redecoration and Renovation of rented property are depreciate according to period of rent. If the period of rent is unknown, the expenses should be depreciate for a life of five year.

Valuation of Assets and Liabilities

The Tax Procedures Code defines the general methods (cost of acquisition, carrying value, etc.) by that a firm's assets and liabilities are to be valued. Accordingly, inventory and fixed assets are valued at cost while payables and receivables denominated in Turkish lira should be valued at their carrying value. Assets and liabilities denominated in foreign currency should be translated using the exchange rate announced by the Ministry of Finance and cash should be appraised at nominal value. For the valuation of the Turkish or foreign securities, purchase value is used.

The Saving Period For the Legal Books and Documents of the Company

The Tax Procedure Code requires a period of 5 years; starting from the beginning of following year, to save the legal books and the documents of the company. During this period the tax authority might conduct a legal inspection on books and documents of the company. In the case of finding a tax base difference as a result of the inspection, additional tax and one time penalty are calculated, as much as the interest is calculated for the every month.

On the other hand, Turkish Trade Law requires keeping the legal books and documents for a period of 10 years.

Income Tax

Subject

Income Tax is a tax paid by taxpayers upon the domestic and foreign earnings, commercial and agricultural incomes, wages and salaries income, independent professional services income, real estate properties income, dividend and interest income and all other incomes after deducting tax exemption allowances. Residents and foreigners who stayed in Turkey more than 6 months are subject to income tax with full liability. However, people who have low income within announced exemption limits are not liable for income tax and they do not have to file tax declaration.

The taxpayers are legally obliged to submit 'Income Tax Declaration' on all of their income. Wages and salaries are covered by withholding tax and accordingly are not required to be declared.

Declaration and Payment

Taxpayers should file the 'Income Tax Declarations' at the end of March following the fiscal year end. Accrued taxes are paid in three equal installments. Tax rate varies between 15%-35% depending on the income. In every 3 months, 15% of the estimated profit is paid as Provisional Tax. This amount will be deducted from total taxation of the year.

Corporation Tax

For tax purposes companies can be divided into two categories:

- a. Limited Companies (Joint stock companies and limited liability Companies)
- b. Personal Companies (Sole trader and Ordinary Partnership)

Subject

Incomes of following corporations are subject to Corporation Tax.

- Co-operations
- Co-operatives
- Commercial Companies
- Commercial establishments of associations and foundations
- Partnerships

A company is subject to limited tax liability or full tax liability depending to its residence. A company whose statutory domicile or place of management is established in Turkey will have full tax liability upon their domestic and foreign incomes. If non-resident company conducts business in Turkey through a branch or a joint venture, in this case company is liable for only the income derived in Turkey. However, double taxation treaty reduces the rates of tax liability for non-residence companies.

The basic corporate tax is 20%. If the profit is distributed to individual persons or limited taxpayer, additional to corporate tax, 15 % withholding tax will be paid and effective tax rate will be around 32 %. If the profit is distributed to companies, there is not 15 % withholding tax payment until distributed individual persons or limited tax payer.

In every 3 months, 20 % of the estimated profit is paid as Provisional Corporate Tax. This amount of tax will be deducted from the total taxation of the year.

The companies that have statutory domicile and place of management outside, but established in Turkey as branch are subject to tax on their income derived in Turkey. In addition non-resident companies are liable for withholding tax on the payments abroad such as professional services, technical assistance, royalties and rentals. Turkish resident companies with statutory domicile and place of management in Turkey, tax is payable on worldwide income.

New Corporate Tax Law

Corporate Income Tax Law numbered 5520 has been approved by the Turkish General Assembly on 13 June 2006 and published in the official gazette dated 21 June 2006.

Issues and amendments that may be of interest to corporate income taxpayers are summarised below. The communiques relating to the new law have not yet been issued, which needs attention.

AMENDMENTS MADE TO THE CODIFICATION OF THE LAW

With the law numbered 5520, the introduction of a new law is intended instead of making amendments to the present law. According to the new law, taxation of limited taxpayers will be regulated in a separate section. The new law reduces the references to Income Tax Law. The withholding tax applicable on corporate revenues is regulated in Corporate Income Tax Law. Expenses that are not tax deductible are regulated under the Corporate Income Tax Law. A new codification has been adopted in the writing of the law. The number of articles, paragraphs and subparagraphs are coded in a comprehensive way. During the listing of the subparagraphs, related issues have been designed to follow each other. The language of the law will be as plain and simple as possible and contemporary Turkish words will be used. Since taxes can only be regulated by law, the Ministry of Finance is not to be given the authorisation to regulate the essence of the issues in the new law.

AMENDED PROVISIONS

The corporate income tax and advance corporate income tax rate is decreased to 20%. In addition, important changes are made to the following provisions in the relevant new law:

- Transfer pricing
- Thin capitalisation
- Participation exemption for investments in foreign subsidiaries
- Capital gains exemption for sales of participation shares and real estates
- Other exemptions
- Liquidation
- Spin-off
- Share swap
- Capital gains exemption for pre-emptive rights

- Foreign tax credit
- The deduction of taxes paid on earnings constituting the source of dividends
- Carrying forward for 3 years of amounts that cannot be deducted
- Availability of deductions in advance corporate income tax period

NEW PROVISIONS

- Controlled foreign corporations
- Anti- tax haven provisions
- Cost allocation

CHANGES MADE TO THE EXISTING PROVISIONS

The Corporate Income Tax Rate (Article 32)

The corporate income tax rate is decreased to 20% at once. The applicable advance corporate income tax rate will be the same as the rate of the corporate income tax of the current year. The Council of Ministers has been given the authority to decrease the advance corporate income tax rate by 5% or to re-increase it to the rate defined by the law. The corporate income tax rate is decreased to 20% effective from 01.01.2006. In addition, it has been explained in the new law approved by the Parliament that the companies possessing special accounting period will apply a pro-ration of old (30%) and new (20%) tax rates depending on the months corresponding to calendar year 2005 and 2006. An arithmetic average of old and new rates will be calculated where 30% will be considered for the months in year 2005 and 20% will be considered for the months in year 2006.

Upon enactment of the new law, the companies will calculate the excess advance tax calculated and paid to tax office and offset this excess amount against the following advance taxes to be calculated.

Apart from this in article 30/3 of new law, the withholding tax rate to be applied during the profit distribution to non-resident corporations is increased from 10% to 15%.

Thin Capitalisation (Article 12)

The thin capitalisation issue is re-arranged in the new law article numbered 12. It is understood that international practices have been taken into consideration as much as possible for the purpose of the amendments. According to the article, if the ratio of the borrowings from shareholders or from persons related to the shareholders exceeds three times of the shareholders' equity of the borrower company at any time within the relevant year, the exceeding portion of the borrowing will be considered as thin capital.

Accordingly, under the new thin capitalisation regulation, the ratio of the loans received from related parties to shareholders' equity will be considered as three to one. Except for the loans received from credit institutions that provide loans only to related companies, half of the loans received from related banks and similar institutions is to be taken into account during thin capitalisation calculations. In other words, the loans received just from these institutions will not be considered as thin capital until the amount of the borrowing exceeds six times the shareholders' equity.

The thin capital portion is the portion exceeding the three times of the shareholders' equity whereby only half of the loans received from these institutions will be considered for the calculation of thin capital portion. The scope of the term "related parties" consists of shareholders and the persons who are related with the shareholders that own 10% or more of the

shares, voting rights or right to receive dividends of the company.
The term 'the persons related with the Shareholders' is defined as:

- A corporation whose shares or voting rights or right to receive dividends are owned directly or indirectly at the rate of 10% by the Shareholder.
- A corporation or an individual that directly or indirectly owns at least 10% of the capital, voting rights or right to receive dividends of the Shareholder or a corporation in relation to the Shareholder.

However, in the case of the acquisition of shares listed in the Istanbul Stock Exchange, it is stated that at least 10% shareholding will be required for the borrowings from the shareholders or related persons, who become related parties due to acquired listed shares.

The equity capital is the equity of the corporation at the beginning of the fiscal year. The equity capital represents the total amount of the shareholder's equity.

In determination of the rates related to thin capitalisation lending shareholders and the persons related to the shareholders will be jointly taken into account. In addition to the interest paid or accrued, foreign exchange losses and other similar expenses calculated over the loans that are considered as thin capital are treated as non-deductible for corporate income tax purposes.

In the said article, borrowings which will not be considered within the scope of thin capitalisation are also cited as follows:

- Loans received from third parties based on non-cash guarantees provided by the shareholders or persons related with the shareholders.
- Loans that are obtained by related parties from banks and other finance institutions or from capital markets and that are wholly or partially on-lent by the same with the same conditions.
- The borrowings of the banks operating in the scope of Banking Law numbered 5411.
- Financial leasing companies operating within the scope of Financial Leasing Law numbered 3226, the financing and factoring companies operating within the scope of Decree Having Force of Law numbered 90 regarding lending operations, and the borrowings of the mortgage financial institutions from the shareholder or the banks that may be related to the shareholders regarding these activities.

In the scope of new Corporate Income Tax Law, the interest paid or accrued and similar payments on thin capital are re-classified at the end of the relevant fiscal year as distributed dividend from the perspective of the borrower and as dividend received from the perspective of the lender, and as repatriated profit for non-resident taxpayers. In order to prevent double taxation, previously applied taxation in the hands of the lender that received interest or derived exchange gains will be amended.

For company that uses thin capital, there will be an additional tax assessment with penalty for the interest and similar payments for withholding tax over dividend distribution. In order to make adjustments in the lender company, the assessed taxes at the borrower company are required to be finalised and paid.

Other remarks related to the amendments in the new law regarding thin capitalisation are as follows:

- The requirement of continuous use of loan is abolished.

- Only the portion of the related party loan exceeding three times the shareholders' equity will be considered as thin capital.
- The expressions used in the article are defined in an objective manner in order to eliminate any ambiguity.

Transfer Pricing (Article 13)

Considerable amendments are made to transfer pricing regulations by taking OECD transfer pricing guideline as a basis.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

The expression 'purchase or sale of goods or services' is used in a broad sense and includes all economic, commercial or financial transactions and employment relations between related parties.

In the text of the new law, related parties are defined as:

- Companies' own shareholders and corporations and individuals that are related with those shareholders;
- Corporations and individuals who are directly or indirectly controls or controlled by the company via management, supervision or capital. Additionally, spouses of the shareholders, siblings and ancestors of the shareholders and up to third degree (inclusive) natural and in-law relatives of the shareholders are considered as related parties in the new law. Transactions with parties resident in the countries or regions which are deemed to cause harmful tax competition by the Council of Ministers are considered as if they have been carried out with related parties. The arm's length principle is defined as applying the same prices for the purchase or sale of goods or services between related parties as the prices that would be determined had the same transactions were carried out between unrelated enterprises. Corporations are free to determine their transfer prices by applying one of the methods stated in the law, which is most suitable for their transactions. Prescribed methods in the law are the traditional transactions methods described in the OECD transfer pricing guideline. These are:
 - **Comparable Uncontrolled Price Method:**
Arm's length price should be determined by comparing the price charged for goods or services transferred among related parties to the price charged for comparable goods or services transferred in a comparable transaction among unrelated parties.
 - **Cost-Plus Method:**
Arm's length price shall be calculated by increasing the relevant costs of goods and services with a reasonable rate of gross margin.
 - **Resale Price Method:**
Arm's length price shall be calculated by deducting an appropriate rate of gross margin from the price that is to be applied in the event of resale of the goods or services in the market to third parties. Companies can also use methods to be determined by themselves, other than those cited in the new law, if it is not possible to apply the methods stated therein.
There is no priority among the methods, thus whichever method that is best suitable to any given transaction should be used.

With the introduction of the new regulation, the importance of documentation of transfer pricing policies increases.

It is possible to have an advance pricing agreement with the Ministry of Finance regarding transfer pricing policies of a corporation, at the discretion of the taxpayer. If the relevant conditions do not change, then the agreement will be in effect for a maximum period of three years. The agreement will be binding for both the tax administration and the taxpayer and thereby will provide certainty for both parties.

The profit distributed in a disguised manner through transfer pricing will be reclassified as dividends distributed and necessary adjustments on taxes will be made at the hands of the party receiving the deemed dividends. In order to make adjustments in this respect, the taxes assessed in the name of the company distributing dividends in a disguised manner must be finalised and paid.

It is stated that the procedures regarding transfer pricing will be set out by the Council of Ministers.

Foreign Participation Exemption (Article 5/1/b)

Participation exemption is amended to a great extent with article 5/1/b of the new law.

In order to benefit from the exemption, the condition of participating to the capital of the foreign subsidiary at the minimum rate of 25% is lowered to 10%. Additionally, with the new article:

- The minimum holding period for the shares of the subsidiary is lowered from two years to one year.
- The minimum tax rate, which the foreign subsidiary is required to be subject to in its home country, is lowered from 25% to 15%.
- The condition of 75% of the subsidiary's profits being composed of commercial, agricultural or independent professional services income is abolished.
- In the event of the core business of the foreign subsidiary being insurance services, supplying of funds including financial leasing or investment in marketable securities, in order to benefit from the foreign participation exemption, the foreign subsidiaries must be subject to an income tax in the country of residence at a rate that is not less than the prevailing corporate income tax rate in Turkey.
- The condition of the profit being transferred to Turkey until the date of the filing of the corporate income tax return of the fiscal year, in which the income is generated, is preserved with the new new law.
- The condition of the foreign subsidiary being a joint stock company or a limited liability company is also maintained with new new law.

If the above stated conditions are fulfilled, dividends received from foreign subsidiaries will be exempt from corporate income tax in Turkey.

According to new article 5/1/c, capital gains generated from the sale of shares of a foreign subsidiary, whose legal and business centre is situated outside Turkey, by a resident joint stock company (JSC) are also exempt from corporate income tax in cases where the below conditions are fulfilled. In order to benefit from this exemption:

- A minimum of 75% of total assets, excluding cash and cash equivalent assets, must be composed of the shares of the foreign subsidiary for at least one continuous year,
- The foreign subsidiary must have the status of a limited liability company or a joint stock company
- The company in Turkey must hold at least 10% of the shares of the foreign subsidiary
- These shares must be held by the resident JSC for at least two continuous years.

If the above conditions stipulated under the article 5/1/c are fulfilled, the applicable withholding tax rate will be no more than half of the withholding tax rate to be applied in normal dividend distributions to foreign corporate shareholders of the tax exempt participation income including both the dividends received from such subsidiaries and the capital gains generated on the sale of such participation shares.

If the establishment of a foreign company is required due to the related legislation of a country in which foreign construction, repair, assembly works and technical services are carried out by the Turkish corporations, the participation exemption will apply regardless of the fulfilment of the above conditions.

Capital Gains Exemption for Sale of Participation Shares and Real Estates (Article 5/1/e)

In order to benefit from this capital gains exemption, the condition of capitalising the sales profit is abolished; instead it is required that the sales profit is booked in a special reserve account for at least five years. 75% of the profit will be subject to tax exemption. The exemption will be applied in the period that the sale takes place.

If the sales revenue is not collected within two years, or the related profit is withdrawn from the special reserve account, or transferred to any account apart from the paid-up capital, the taxes not accrued on time will be claimed back with penalty. With the new article, the founder's shares are also included under the scope of the exemption.

In calculating the two year's holding period of the immovable assets and participation shares taken over by means of merger and spin-off, the holding period in which these immovable assets and shares were held by the transferring or spun-off company will also be taken into consideration.

Amendments made with respect to other exemptions (Articles 4 and 5)

The following points in the new law with respect to exemptions are significant:

- Exemptions granted to consumption and transport cooperatives are abolished.
- The exemption regarding the canteens of government establishments is narrowed. Canteens located in mass houses and guesthouses are taken out of the scope of the exemption.

The exemption for profit generated from the sale of pre-emptive rights is abolished. The exemption will be applied to 75% of the profit generated from

the sale of the pre-emptive rights held for at least two years, provided that the conditions set out for capital gains exemption for the sale of shares and real estates are fulfilled.

Liquidation (Article 17)

In the new bill, provisions that will apply in the event of abandonment of liquidation are regulated. The timeline for submission of a liquidation declaration has been extended from 15 days to 30 days and the provisions with regards to liquidation are gathered to be regulated under the same section.

Spin-off (Article 19)

With regards to partial spin-off transactions, the transfer of passive accounts in relation to the transferred assets is made obligatory and the business integrity concept is emphasised.

Apart from this, the application of partial spin-off of participation shares is possible if the shares are held at least for 2 years. In addition, the transferee company's shares acquired in return for spun-off assets and participation shares may be kept in the de-merged company or they may be given directly to latter's shareholders. In the case of the transfer of immovable assets and participation shares, if the shares of the receiving company are acquired by the shareholders of the de-merged company, it is envisaged that the liabilities with respect to the immovable assets and participation shares must also be transferred as together with the assets and shares.

In partial spin-off, the liability of the company receiving the assets of the de-merged company for the debts of the latter company is limited to the fair market value of the assets transferred.

The filing period for the tax return in cases of mergers and spin-offs has been extended from 15 days to 30 days. The beginning of the filing period has been determined to be the date of the publishing of the merger or spin-off in the Trade Registry Gazette; thus the ambiguity in this situation has been eliminated.

One of the planned amendments is the transfer of the carried forward losses in cases of merger and spin-off transactions (article 9). Accordingly, the amount of carried forward losses of the dissolving company to be offset in the merged company is limited to the equity of the former as of the date of the merger. In addition, the amount of carried forward losses to be offset in spin-off transactions cannot exceed the part of the equity of the de-merged company that is transferred and it must be in proportionate to the transferred assets.

The following conditions will also be required to be fulfilled for the transfer of carried forward losses in merger and spin-off transactions:

- Corporate income tax returns of the last 5 fiscal periods must be submitted within the legal periods.
- The activities of the company that is taken over or demerged must continue for at least 5 years beginning from the date of take-over or demerger.

Share Swap (Article 19/3/c)

In share swap transactions, hesitations with regards to the swap of shares of limited liability companies have been resolved and the swap of shares of this type of companies has been made possible.

Period of Filing and Payment of Corporate Income Tax Returns (Article 14/3)

The annual corporate income tax return is required to be filed in the period between the 1st and 25th days of the fourth month following the close of the related fiscal year. Payment can be made up until the end of the month in which the tax return is to be filed.

New Provisions

Controlled Foreign Corporation (Article 7)

Corporations that are established abroad and are controlled directly or indirectly by tax resident companies and real persons by means of separate or joint participation in the capital or dividends or voting rights by at the rate of minimum 50% are considered as Controlled Foreign Corporations (CFC) provided that the below conditions are fulfilled:

- 25% or more of the gross revenue of the foreign subsidiary must be composed of passive income;
- The CFC must be subject to an effective income tax rate lower than 10% for its commercial profit in its home country;
- Gross revenue of the CFC must exceed the equivalent of YTL100,000 in a foreign currency in the related period.

CFC's profit would be included in the corporate income tax base of the controlling resident corporation, irrespective of whether it is distributed or not, at the rate of the shares controlled, in the fiscal period covering the month of closing of the accounting of CFC.

Control rate is considered as the highest rate owned in the related fiscal period.

The CFC's profit that has already been taxed in Turkey as per this article will not be subject to additional tax in Turkey in the event of dividend distribution; whereas the portion of the profit distributed that has not been previously taxed in Turkey will be subject to taxation.

Taxes that the CFC pays over its profit in the related foreign country will be offset from the tax calculated for the same revenue in Turkey.

Anti- Tax Haven Provisions (Article 30/6)

All sorts of payments made to corporations (including branches of resident corporations) that are established or operational in countries which are regarded by the Council of Ministers to undermine fair tax competition due to tax and other practices, will be subject to taxation in Turkey irrespective of the fact that:

- The payments in question are subject to tax or not; or
 - The corporation receiving the payment is a taxpayer or not.
- In this case, withholding tax at the rate of 30% is envisaged to be levied over these payments. However, under the following circumstances the withholding tax will not be applied:
- Principal, interest and dividend payments over the loans obtained from foreign financial institutions
 - Insurance and reinsurance payments

In addition the Council of Ministers is authorized to determine the withholding tax rate for payments of goods and participation stock that are

purchased on fair market value, for the leasing payments of the sea and air transportation vehicles and the payments that are mandatory to complete the work

In cases of the taxation of the profit under the scope of CFC article in Turkey, taxes paid via withholding in line with this article are allowed to be offset from corporate income tax to be paid in Turkey.

Cost Allocation (Article 22/3/b)

With the new law, while determining the taxable income of non- resident corporations generated from their branches established in Turkey, the cost allocation of general administration expenses from the headquarters or from other foreign group companies or branches are allowed, subject to below conditions:

- The expenses concerned must be related to the generation and maintenance of income in Turkey;
- The portion of the costs to be allocated the Turkish branch must be calculated in line with the cost allocation keys determined in compliance with the arm's length principle.

It is expected that with this provision the discussions and ambiguities regarding cost allocation application will be eliminated.

Foreign Tax Credit (Article 33)

Income taxes or corporate income taxes paid by the subsidiaries whose at least 25% of shares are owned by resident companies abroad over their profit out of which dividend is distributed can be offset against the taxes payable in Turkey. The tax amount that may not be offset in the relevant year can be carried forward for three years, and the deduction can also be made in the advance corporate income tax periods.

We believe that the new law is in general quite constructive, taking the contemporary international tax practices into consideration. However, it may not be very useful for the multinational companies intending to choose Turkey as a holding centre for their regional investments due to the conditions for foreign participation exemption -especially due to the two years holding period- requirement.

In addition, the major drawbacks of the new law may be stated to be not enabling group companies to file consolidated tax returns and to carry losses backwards even for a limited period of time.

ABOLISHED PROVISIONS

With the new law, the provisions of salary payments to non-resident corporations and the withholding tax thereon are abolished in line with the international practices, where these payments are considered as service payments.

The unconditional exemption with respect to pre-emptive rights is abolished. Instead another exemption is introduced with the conditions of holding the rights for at least two years and the profit is held in a reserve account for five years. The exemption is only applicable to 75% of the sales profit.

Value Added Tax (VAT)

VAT was introduced in Turkey with Law no. 3065 and similar to practices in the other European Community Countries.

Subject

Following transactions are the subject of VAT.

- Commercial, industrial, agricultural and independent professional goods and services.
- Goods and services imported into the country
- Deliveries of goods and services caused by other activities

Exceptions

Because of economical, social, military and cultural reasons some transactions have exemption from VAT.

Exception for Exportation

- The goods and services delivered to a customer outside the country. VAT paid, at the time of the sale to non-resident and is recovered as soon as goods are cleared from the Turkish Customs.
- Other situations, such as if manufacturer delivers goods to exporter VAT is refunded provide that the goods are exported within 3 months of the sale.

Diplomatic Exemption

Good and Services taken by the employees of the foreign embassies are exempted from the VAT on the condition of reciprocity. Goods and services that have covered under these tax exemptions are dependent on the international agreements.

Exemption of Import

Following deliveries and services have exemption from VAT.

- Import of goods and services exempted from VAT.
- Transit goods, free zone, Bonded warehouse, temporarily depots, Customs zone services.
- Some goods, imported are exempted from VAT.

VAT Rate

Goods and Services are subject to VAT at rates varying from 1% to 18 %. The common rate is 18%. The VAT rate on leasing assets is 1%. VAT is charged on imports at normal rates.

VAT Deduction

VAT on the supply of the goods and services can be written off against the VAT on the purchase of goods and services if the course of the activity is the same. Any VAT left behind due to the write off can be taken forward to the next financial period but will not be refunded.

Passenger vehicles (except car-rental activities), damaged, lost goods, disallowable expenses, goods are not subject to tax or exempted from tax deduction is not applicable.

VAT Declaration and Payment

VAT is calculated and controlled on monthly basis. VAT on transactions is declared until 20th and paid until 26th of the following month. VAT on import goods is paid to customs at the time of import.

Other Taxes

Property Taxes

Property taxes are paid each year on the tax values of land and building at rates varying from 0.1% to 0.3%. In the case of the sale of property, 1,5 % property tax is accrued and paid on the sales value separately by both the buyer and the seller. The rate is 3,6% if the property is contributed as capital-in-kind.

Inheritance Tax

Items acquired as gifts are subject taxes between 10% and 30%, through inheritance are subject to taxes between 1% and 10% of the items face value. Tax paid in a foreign country on inherited property is deducted from the taxable value of the asset. Inheritance tax is payable over the period of three years and in two instalments each year payable in May and November.

Motor Vehicle Tax

Owners of vehicles pay vehicle tax in two equal instalments every year. Companies are exempted from the vehicle taxes under the clauses regulating disallowable expenses.

Bank and Insurance Transactions Tax

All transactions of banks and insurance companies are subject to bank and insurance transactions tax. Banks and insurance companies pay this tax. Ratio is 5% and should be paid by 15th day of the following month from the transaction date.

Stamp Tax

Stamp tax is charged on wide range of official documents such as balance sheet, all kind of agreements, financial statements etc. Stamp tax can be paid in different instalments or in lump sum amounts.

Private Consumption Tax

Law number 4760 redesigns indirect taxes imposed on consumption. This law simplifies taxes on consumption. Second hand sales are not subjected to this tax. General rule is to collect a sales tax on the first purchase of a good. Diplomatic exemption is valid for this tax. Exemption and tax deduction will be applied for exports of the goods which are subject to PCT. Vehicles imported or purchased for defence purposes, vehicles sold for disabled persons, goods delivered for oil extraction and production are also exempted from PCT. This Law is on effect from August 2002.

Private Communication Tax

All kinds of the communication services, such as set up, transfer, communications, connections and etc., of mobile telephone and other telecom operators and internet providers etc., are subject to the Private Communication Tax at 25%. The tax payers are the consumers but the telecom companies declare and pay these taxes. The tax base is the same with the VAT tax base and is declared 15th day of each month and paid.

Double Taxation Treaties

Turkey has signed tax treaties with the following countries to prevent double-taxation on income, which has already been taxed.

LIST OF COUNTRIES WITH WHICH TURKEY HAS SIGNED AVOIDANCE OF DOUBLE TAXATION					
	Country	Date of Signature	Data Official Gazette	Date of Entry into Force	Date of Implementation
1.	Austria	03.11.1970	01.08.1973 - 14612	24.09.1973	01.01.1974
2.	Norway	16.12.1971	21.12.1975 - 15445	30.01.1976	01.01.1977
3.	South Korea	24.12.1983	02.10.1985 - 18886	25.03.1986	01.01.1987
4.	Jordan	06.06.1985	15.07.1986 - 19165	03.12.1986	01.01.1987
5.	Saudi Arabia ¹ (*)	11.01.1989	02.07.1990 - 20566	09.08.1990	01.01.1987
6.	Tunusia	02.10.1986	30.09.1987 - 19590	28.12.1987	01.01.1988
7.	Romania	01.07.1986	21.08.1988 - 19906	15.09.1988	01.01.1989
8.	Holland	27.03.1986	22.08.1988 - 19907	30.09.1988	01.01.1989
9.	Pakistan	14.11.1985	26.08.1988 - 19911	08.08.1988	01.01.1989
10.	Great Britain	19.02.1986	19.10.1988 - 19964	25.10.1988	01.01.1989
11.	Finland	09.05.1986	30.11.1988 - 20005	30.12.1988	01.01.1989
12.	Turk. Rep. N. Cyprus	22.12.1987	26.12.1988 - 20031	30.12.1988	01.01.1989
13.	France	18.02.1987	10.04.1989 - 20135	01.07.1989	01.01.1990
14.	Germany	16.04.1985	09.07.1986 - 19159	31.12.1989	01.01.1990
15.	Sweden	21.01.1988	30.09.1990 - 20651	18.11.1990	01.01.1991
16.	Belgium	02.06.1987	15.09.1991 - 20992	08.10.1991	01.01.1992
17.	Denmark	30.05.1991	23.05.1993 - 21589	20.06.1993	01.01.1991
18.	Italy	27.07.1990	09.09.1993 - 21693	01.12.1993	01.01.1994
19.	Japan	08.03.1993	13.11.1994 - 22110	28.12.1994	01.01.1995
20.	U.A.E.	29.01.1993	27.12.1994 - 22154	26.12.1994	01.01.1995
21.	Hungary	10.03.1993	25.12.1994 - 22152	09.11.1995	01.01.1993
22.	Kazakistan	15.08.1995	08.11.1996 - 22811	18.11.1996	01.01.1997
23.	Macedonia	16.06.1995	07.10.1996 - 22780	28.11.1996	01.01.1997
24.	Albania	04.04.1994	05.10.1996 - 22778	26.12.1996	01.01.1997

¹ This agreement covers exclusively the activities of air transport enterprises

LIST OF COUNTRIES WITH WHICH TURKEY HAS SIGNED AVOIDANCE OF DOUBLE TAXATION					
	Country	Date of Signature	Data Official Gazette	Date of Entry into Force	Date of Implementation
25.	Algeria	02.08.1994	30.12.1996 - 22863	30.12.1996	01.01.1997
26.	Mongolia	12.09.1995	30.12.1996 - 22863	30.12.1996	01.01.1997
27.	China	23.05.1995	30.12.1996 - 22863	30.12.1996	01.01.1997
28.	India	31.01.1995	30.12.1996 - 22863	30.12.1996	01.01.1994
29.	Malaysia	27.09.1994	30.12.1996 - 22863	31.12.1996	01.01.1997
30.	Egypt	25.12.1993	30.12.1996 - 22863	31.12.1996	01.01.1997
31.	Poland	03.11.1993	30.12.1996 - 22863	01.04.1997	01.01.1998
32.	Turkmenistan	17.08.1995	13.06.1997 - 23018	24.06.1997	01.01.1998
33.	Azerbaijan	09.02.1994	27.06.1997 - 23032	01.09.1997	01.01.1998
34.	Bulgaria	07.07.1994	15.09.1997 - 23111	17.09.1997	01.01.1998
35.	Uzbekistan	08.05.1996	07.09.1997 - 23103	30.09.1997	01.01.1997
36.	USA	26.03.1996	31.12.1997 - 23217	19.12.1997	01.01.1998
37.	Belarus	24.07.1996	22.04.1998 - 23321	29.04.1998	01.01.1999
38.	Ukraine	27.11.1996	22.04.1998 - 23321	29.04.1998	01.01.1999
39.	Israel	14.03.1996	24.05.1998 - 23351	27.05.1998	01.01.1999
40.	Kuwait	06.10.1997	28.11.1999 - 23890	13.12.1999	01.01.1997
41.	Russia	15.12.1997	17.12.1999 - 23909	31.12.1999	01.01.2000
42.	Slovakia	02.04.1997	03.10.1999 - 23835	02.12.1999	01.01.2000
43.	Indonesia	25.02.2000	15.02.2000-24045	18.05.2000	01.01.2001
44.	Lithuania	24.11.1998	10.05.2000-24045	17.05.2000	01.01.2001
45.	Croatia	22.09.1997	10.05.2000-24045	18.05.2000	01.01.2001
46.	Moldovia	25.06.1998	25.07.200-24120	28.07.2000	01.01.2001
47.	Singapore	09.07.1999	18.07.2001-24466	27.08.2001	01.01.2002
48.	Kyrgyzstan	01.07.1999	12.12.2001-24611	20.12.2001	01.01.2002
49.	Tajikistan	06.05.1996	24.12.2001-24620	26.12.2001	01.01.2002
50.	Sudan	26.08.2001	17.09.2003-25232	14.10.2003	01.01.2004
51.	Czech Rep.	12.11.1999	15.12.2003-25317	16.10.2003	01.01.2004
52.	Bangladesh	31.10.1999	15.12.2003-25317	23.12.2003	01.01.2004

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LIST OF COUNTRIES WITH WHICH TURKEY HAS SIGNED AVOIDANCE OF DOUBLE TAXATION					
	Country	Date of Signature	Data Official Gazette	Date of Entry into Force	Date of Implementation
53.	Latvia	09.01.1998	22.12.2003-25324	23.12.2003	01.01.2004
54.	Spain	05.07.2002	18.12.2003-25320	18.12.2003	01.01.2004
55.	Slovenia	19.04.2001	23.12.2003-25325	23.12.2003	01.01.2004
56.	Syria	06.01.2004	28.06.2004-25506	21.08.2004	01.01.2005
57.	Greece	02.12.2003	02.03.2004-25390	05.03.2004	01.01.2005
58.	Thailand	11.04.2002	08.01.2005-25694	13.01.2005	01.01.2006
59.	Luxemburg	09.06.2003	08.01.2005-25695	18.01.2005	01.01.2006
60.	Estonia	25.08.2003	04.07.2004-25512	21.02.2005	01.01.2006
61.	Iran	17.06.2002	09.10.2003-25254	27.02.2005	01.01.2006

Valuable Mines, Stones, Diamonds and Belongings:

There is no tax liability in import and export, and selling and buying of valuable mines, stones, diamonds and belongings.

Banking, Insurance, Transportation:

For international transportation, banking, insurance, services invest to abroad and other invisible transactions, money transfers, foreign currency allocations and transfers is done by bank and private finance institutions in respect to codes of Central Banks.

Real Estate Properties:

Incomes of purchased or owned real estate properties of non-residents are freely transferred by banks and private finance corporations.

8. Foreign Investment Regulation

Foreign Direct Investment Law

ACT Law No. 4875	Date of Endorsement : 5.6.2003
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Purpose and Scope

Article 1

The objective of this Act is to encourage foreign direct investments; to protect the rights of foreign investors; to define investment and investor in line with international standards; to transform the current screening and approval system into a notification based system for foreign direct investments; and thus regulate the principles to increase foreign direct investments through established policies. This Act comprises the treatments to be applied to foreign direct investments.

Definitions

Article 2

- a The terms used in this act shall have the following meanings:
Foreign Investor:

MGI is a worldwide association of independent auditing, accounting and consulting firms. Each member firm undertakes no responsibility for the activities, work, opinions or service of the other member firms.

- 1 Real persons residing abroad possessing foreign nationality and Turkish citizens residing abroad
 - 2 Foreign legal entities established under the laws of foreign countries and international institutions, that effect foreign direct investments in Turkey
- b Foreign Direct Investment:
- Capital in cash in the form of convertible currency purchased and sold by the Central Bank of Turkey
 - Stocks and bonds (other than Treasury bonds) and other forms of capital in kind participation in the companies,
 - Machinery and equipment
 - Industrial and intellectual properties, that are acquired from abroad
- i Establishment of a new company or a branch office
 - ii Participation in an already existing company either by acquisition of shares except through stock exchanges or by acquisitions of minimum 10% of shares or an equal proportion of voting rights through stock exchanges, by means of;
 - Reinvested earnings, financial claims, or any other investment related rights of financial value; and
 - Commercial rights for to the exploration and extraction of natural resources, that are acquired in Turkey, by foreign investors.
- c Undersecretariat: The Undersecretariat of Treasury.

Principles of Foreign Direct Investments

Article 3

- a Freedom to invest and national treatment:
Unless there are no international agreements or special legal provisions to the contrary;
- 1 International investors are free to make direct investments in Turkey,
 - 2 International and Turkish investors are subject to equal treatment.
- b Expropriation and Nationalization;
Foreign direct investments, in accordance with current legislation, may not be expropriated or nationalized except for a public propose upon prompt, adequate as well as effective compensation.
- c Transfers;
Foreign investors may freely transfer profits, dividends, proceeds from the sale or liquidation of all or any part of an investment, proceeds derives from their commercial activities as well as payments under licence, management agreement, technical assistance agreements and repayments of foreign credit principal and interest through banks and private finance institutions.
- d Acquisition of an immovable;
Foreign investors may freely acquire of an immovable or have limited rights in rem through a legal entity incorporated under Turkish Law, that foreign investors may only acquire of an immovable where Turkish citizens have right to acquire of an immovable.
- e Settlement of disputes;
For settlement of disputes arising from investment agreements subject to private law and disputes arising from exclusive public service provisions and concession agreements made between foreign investors and the Turkish State, in addition to authorized local courts, the parties are entitled to apply to national or international arbitration or other means of dispute settlement channels, provided that the conditions in the related regulations are fulfilled and the parties agree thereon.
- f Assessment of the value of capital in kind;
The capital in kind is valued within the regulations of Turkish Commercial Law. However, the shares of companies residing abroad will be accepted as foreign capital share of foreign legal entities and the values determined by the courts of the home country, or other relevant authorities in the home country, or any other

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- international credit rating agency's valuations will be accepted while adding to Turkish company as capital in kind.
- g Employment of foreign personnel;
Working permits for foreign personnel to be employed in companies, branch offices and organizations to be established within the scope of this Law will be granted by the Ministry of Labour and Social Security.

Other principles and procedures of particular feature that will specify which foreign investor companies and organizations are deemed to be within the scope of this application and the definitions of key foreign personnel to be employed and their working permits will be regularized by a directive to be jointly prepared by Undersecretariat of the Treasury and the Ministry of Labour and Social Security in accordance with the provisions of Article 23 of Law 4817 dated 27 February 2003 on Working Permits for Foreign Personnel.

Provisions stipulated in Article 14, paragraph 1, sub-paragraph (b) of Law 4817 will not be applicable to foreign personnel to be employed within this framework. The conditions under which the provisions stipulated in paragraph 1 of Article 13 of Law 4817 will be applied to key foreign personnel employed, will be specified in the directive to be prepared.

h Liaison offices;

The Undersecretariat may grant permission to foreign legal entities in order to open a liaison office in Turkey provided that they shall not engage in any other commercial activities.

Determination of policies and information requests

Article 4

Taking into account the development plans, annual programs, general economic status of the country, trends in international investments and the opinions of related public institutions and private sector professional organizations; the Undersecretariat is authorized to establish the general framework of policies relating to foreign direct investment, by taking into account general economic conditions, annual welfare programs, and its aims as well as tendencies occurring globally in international foreign direct investment. The consent of the Undersecretariat is necessary for any amendments to be made in the laws and regulations in force concerning foreign direct investments and for any legislative drafts thereto.

The Undersecretariat, aiming at establishing and developing an information system on foreign direct investments, is authorized to request statistical data related to investments from all public establishments and authorities and professional organizations of the private sector.

Foreign investors will submit the statistical data concerning their investments to the Undersecretariat, in accordance with the procedures and principles stipulated in the Directive to be prepared by the Undersecretariat. The subject data, except for statistical purposes cannot be used as any means of proof.

Miscellaneous Provisions

Article 5

- a. Existing with foreign investor companies;
All companies established pursuant to the Law No: 6224 dated 18 Jan. 1954 shall be subject to this Law, reserving their granted rights.
- b. Directive;

The application procedures of this Law will be regulated by a Directive to be prepared by the Undersecretariat within one month following the publication of this Law.

- c. Repealed Provisions; Law for the Encouragement of Foreign Capital with No: 6224 dated 18 Jan. 1954 is repealed. Any references made to Law No: 6224 in the laws and regulations are considered as made to this Law.
- d. 'Amendments on the provisions of this Law are to be regularized only by adding provisions to this Law or by affecting revisions thereto'.

Provisional Article 1

The provisions of the decrees, communiqués and circulars, in effect, which are in conformity with this Law, shall remain to be in force until new regulations to regularize the implementation of this Law take effect.

Effectivity

Article 6

This Law shall come into force on the date of its publication.

Enforcement

Article 7

The provisions of this Law will be enforced by the Council of Ministers.

Directive for Implementation of Foreign Direct Investment Law

From the Ministry of State:

Objective and Scope

Article 1

The objective of this Directive is to designate the procedures and principles of the issues that lay within Foreign Direct Investment (FDI) Law no. 4875 dated 5 June 2003.

Basis

Article 2

This Directive is prepared as based upon Article 5, Paragraph (b) of FDI Law no. 4875.

Definitions

Article 3

With regard to the implementation of this Directive;
Undersecretariat means, the Undersecretariat of Treasury,
General Directorate means, the General Directorate of Foreign Investment,
Law means, Foreign Direct Investment (FDI) Law no. 4875, dated 5 June 2003.

Statistical Data to be Provided from Authorities and Institutions

Article 4

The Undersecretariat provides FDI data through Data Sharing Protocols it will set up primarily with Central Bank of Turkey, Capital Market Board, Ministry of Industry and Commerce, Ministry of Finance, TOBB, Trade Registry Offices and other related public authorities and institutions and occupational organizations and NGOs deemed as public institutions, or through other procedures.

Within this framework, the related Trade Registry Offices will send to the Undersecretariat;

- a. One copy of the 'Company or Branch Office Establishment Declaration and Petition Form' to be filled by related persons,

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- b. One copy of the amendment in articles of association of these companies, subject to registry and announcement,
- c. One copy of the "Register of Shareholders" or "Register of Attendants" of these companies submitted to the Trade Registry Offices.

Data to be Requested from Companies and or Branch Offices

Article 5

- a. Companies and branch offices subject to the provisions of the Law will submit to the General Directorate;
 - 1 Information on their capitals and operations by means of the "FDI Form for Operations" given as Annex I of the Directive, on annual basis every year until end of May,
 - 2 Information on the payments made to their share accounts by means of the "FDI Capital Data Form" given as Annex II of the Directive, within 1 month following each payment
 - 3 Information on share transfers made by domestic or foreign shareholders among each other or made to any domestic or foreign investor outside the company, by means of the "FDI Share Transfer Data Form" given as Annex III of the Directive, within 1 month following the share transfer,
- b. Local invested companies, which are not subject to the provisions of the Law submit the "FDI Share Transfer Data Form" given as Annex III of the Directive, to the General Directorate within 1 month following the share transfer;
 - 1 In case a foreign investor participates in the company, or
 - 2 In case the company becomes subject to the provisions of the Law due to the participation of a foreign investor from outside the company during the capital increase accomplished by the company.

Establishment of Liaison Offices

Article 6

The Undersecretariat is authorized to grant permits and extend such permits to companies established in accordance with laws of foreign countries to open liaison offices in Turkey, provided that they do not carry out commercial activities in Turkey.

Applications for establishment and extension will be finalized within 5 days following the application, provided that the necessary information / documents are complete and proper.

Applications of foreign companies to open liaison offices so as to operate in sectors subject to special legislation, such as money and capital markets, insurance, etc., will be assessed by authorities and institutions authorized by the related special legislation.

Application Documents

Article 7

The following documents have to be submitted to the Undersecretariat for establishing a liaison office in Turkey:

- a. The original copy of "Certificate of Business Activity" approved by the related Turkish Consulate or as per the Den Haag International Law Conference Treaty on Abolishment of the Requirement for Endorsement of Official Documents,
- b. Operational report or balance sheet and income statement of the main company,
- c. Original power of attorney issued to the name of the person who will carry out the operation of the liaison office,
- d. Original power of attorney in case another attorney will carry out the establishment transactions of the liaison office.

Provisions Regarding Liaison Office Operations

Article 8

The following provisions govern to the operations of liaison office:

- a. Liaison offices, after receiving their opening permit, send a copy of the tax office registration record to the General Directorate within 1 month latest. Liaison offices have to notify the General Directorate of any change of address within 1 month latest.
- b. Liaison offices send the "Data Form for Liaison Office Activities" given as Annex IV of the Directive to the Undersecretariat, every year until end of May, so as to cover the activities of previous years. Documents certifying that the previous years' expenses of the office have been covered by foreign currency transferred from abroad have to be enclosed as well.
- c. Liaison offices are granted operation permits of 3 years at most. For extensions, successive extensions of maximum 3 years may be granted each time by taking into consideration the activities of previous years and plans and objectives for the future.
- d. In the event a liaison office terminates its activities, the "termination of business examination note" to be received from the related tax office has to be submitted to the General Directorate. Liaison offices cannot claim any money transfer except the residue arising due to termination or liquidation.
- e. The Undersecretariat will cancel the opening permits of liaison offices ascertained to have violated the legislation and will notify related authorities thereof.

Company Types

Article 9

The companies, which can be established by or participated in foreign investors are 'companies' defined in the Turkish Commercial Code and 'unincorporated partnerships' defined in Turkish Code of Obligations.

Partnerships established through agreements under names such as ordinary partnerships, consortiums, business partnerships, joint ventures that do not conform to the explicit features of the company types defined in the Turkish Commercial Code are deemed unincorporated partnerships for the purposes of this Law.

Turkish Citizens Residing Abroad

Article 10

Turkish Citizens certifying that they are residing abroad by means of work and residence permits are regarded foreign investors with regard to the implementation of this Law.

Changes in Data Forms

Article 11

The General Directorate is authorized to make any changes in the data forms annexed to this Directive.

Provisional Article 1

The General Directorate is authorized to deal with the Investment Permits issued in accordance with Foreign Investment Encouragement Law No: 6224 and Foreign Investment Framework Resolution that was put into effect by Council of Ministers' Decree No: 95/6990 on 7 June 1995 and the Directive concerning this Decree, until the investments involved are finalized and provided that the acquired rights are upheld.

Effectiveness

Article 12

This Directive will become effective on the date of its publication

Enforcement

Article 13

The provisions of this Directive will be enforced by the Ministry of State to which the Undersecretariat of Treasury is associated.

9. Key Questions Regarding Turkey's New Foreign Direct Investment Law

1. Why has Turkey introduced a new Foreign Direct Investment Law now?

The new Law is an integral part of a broader national reform program that is laying the foundation for sustainable growth and development, driven by private investments in a transparent marketplace fully open to the world and supported by a smaller but more effective State. To ensure that Turkey's bold fiscal adjustment and ambitious structural reforms translate into substantial investments, the Government of Turkey is focusing on improving the investment climate as one of the main pillars of its economic program. In addition to the introduction of a more investor-friendly new Law, the Government of Turkey has established by decree an inter-governmental Coordination Committee for the Improvement of the Investment Climate (YOIKK), composed of high-level representatives of relevant ministries, the private sector and NGOs to help remove remaining bureaucratic obstacles to investment. The Government of Turkey also intends to set up a well-funded new Investment Promotion Agency simultaneously able to work inside government and draw on private sector knowledge and market skills, to carry out a multi-year strategy to promote investment in Turkey.

2. What is 'new' about the Foreign Direct Investment Law?

- Key features of the new Foreign Direct Investment Law include:
- Freedom to invest by dropping all former FDI-related screening, approval, share transfer and minimum capital requirements;
 - Reassurance of existing guarantees to foreign investors of their rights in one transparent and stable document;
 - Upgrading to accepted international standards for definitions of 'foreign investor' (broadened to include Turkish national residents abroad and international organisations) and 'foreign direct investment' (broadened to include all possible types of assets); and
 - A policy shift from ex-ante control to a promotion and facilitation approach with minimal ex-post monitoring to continuously improve an investor-friendly climate for growth and development.

3. What rights do foreign investors have under the new Law?

The new Law guarantees national treatment and comprehensive investor rights.

All companies established with a foreign capital contribution and under the rules of the Turkish Commercial Code (existing and newly established foreign companies) are regarded as a Turkish company. Therefore equal treatment both in rights and responsibilities as stated in the Constitution and other laws is applicable to all such companies (including national treatment, a guarantee against expropriation without compensation, transfer of proceeds, access to real estate and to expatriate personnel, and international arbitration or any other means of dispute settlement).

4. **Will investors be exempted from permits formerly granted by GDFI?**
Yes, previous pre-permits issued by the Undersecretariat of Treasury's General Directorate of Foreign Investment (GDFI) are abolished. However, all foreign companies established or to be established in Turkey are still responsible for obtaining those local licences required for a comparable Turkish company.
5. **Which permits formerly granted by GDFI will not be issued from now on?**
- Company and Branch establishment Pre-Permits
 - Foreign partner participation Pre-Permits
 - Investment Permits
 - Permits regarding changes in field of activity of foreign companies
 - Permits regarding capital increase or sale of shares of foreign companies
 - Indirect participation Permits
 - Registrations of license, know-how, technical assistance and similar agreements
6. **What is new for establishing a company in Turkey for foreign investors?**
Entry conditions are the same as for comparable local Turkish companies.
- There is no minimum amount of capital required. It is no longer obligatory to bring a minimum of \$50,000 in share capital.
 - Any form of company included in the Turkish Commercial Code is acceptable. It is no longer obligatory to establish either a limited liability company or joint stock company
7. **Do foreign investors have access to real estate in Turkey ?**
Companies having a legal entity with foreign capital in Turkey have the same rights to own or use land as domestic investors. The new Law reassures these rights. However, the principle of reciprocity is still valid for foreign real persons.
8. **Is there a new regulation for liaison offices?**
No, there are no additional requirements.
The establishment procedure of liaison offices has not changed.
9. **Is there a new regulation for establishment of branches of foreign companies?**
Yes, pre-permits issued by General Directorate of Foreign Investment are abolished.
These branches can be established under rules of Turkish Commercial Code with the permit of Ministry of Industry and Trade.
10. **What will happen to foreign companies established in Turkey under the provisions of the previous Law No. 6224?**
All companies with foreign capital established under Law No. 6224 (dated 18 January 1954) are subject to the new Law, with their previously-granted rights grandfathered. Therefore they will no longer require any approvals from GDFI, though they will now have to send yearly information forms (just like newly-established foreign companies) based on procedures to be determined by new regulations

Documents Required for the Establishment Procedures of Joint Stock and Limited Liability Companies

- A.** Petition and form for company establishment notification, the exemplar of which is given in Annex 4 of this Communiqué, duly filled in and signed by persons authorized to represent the company

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- B. Notarized articles of association; one original and 2 copies
- C. Notarized signatures of persons authorized to represent the company together with the company trade name
- D. Letter of Commitment in accordance with Article 29 of the Trade Registry Regulation
- E. Bank receipt of the deposit paid to the Consumers' Fund account, amounting to one thousandth of the company capital
- F. For joint stock companies specified in Article 5 of this Communiqué, the original letter of permit of the Ministry
- G. Certified copies of the ID certificates of the real person founders, and their residence certificates.

In addition to the ones listed above, the following documents has to be attached to the petition where necessary:

- For joint stock companies that are obligated to be established with paid-up capital owing to the relevant special legislation and for companies that are obligated by their articles of association for payment of capital at the establishment stage; receipt from the bank or the private finance institution certifying the capital payment.
- In case the company being established is to operate in fair and exposition business; documents certifying that the shareholders and officials who are authorized to represent the company although not being shareholders, have not gone bankrupt, have not applied for insolvency agreement or been convicted of infamous crimes such as embezzlement, speculation, extortion, bribery, theft, swindling, forgery, abuse of confidence, fraudulent bankruptcy, with the exception of negligent offenses.
- In case the company is being established by way of a change in kind; expert report of the assesment made to ascertain the equity capital of the company and the related court decision for expert assignment.
- In case the company that changes kind is a collective or a commandite partnership; letter from the tax office that the shareholders of the company are free from any tax debts.
- In case there are any rights and movable and immovable assets to be put in as capital for a company to be established; expert report of the assesment made to ascertain the value of these and the related court decision for expert assignment.
- In case there are any securities put in as capital for a company to be established; expert report of the assesment made to ascertain these and the related court decision for expert assignment or Sworn Financial Auditor (YMM) report.
- In case stocks of companies established overseas are being put in as capital by foreign shareholders; the original copy of the document issued by the institutions authorized for value assessment in accordance with the laws of the country of origin or experts assigned by the courts of the country of origin or by international rating companies, approved by the related Turkish Consulate or approved in accordance with the provisions of the Convention on the Abolishing the Requirement of Legalization for Foreign Official Documents Approval Obligation, prepared on the basis of the Hague Conference on International Private Law and its Turkish translation.
- In case there are any real persons of foreign citizenship among the founders of the company, the xerox copy of his/her passport to be presented together with the passport itself or its notarized copy. In case the foreign shareholder(s) is a legal entity; the original copy of Certificate of Business Activity issued by the chamber of

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industry and/or commerce the company is registered at or by the authorized courts, approved by the related Turkish Consulate or approved in accordance with the provisions of the Convention on the Abolishing the Requirement of Legalization for Foreign Official Documents Approval Obligation, prepared on the basis of the Hague Conference on International Private Law and its notarized translation.

- In case the capital in kind is an immovable asset; letter from the land registry office that there is no restriction on the subject immovable; as for vehicles, letter from the related traffic office that there is no limitation for property transfer.
- In case there are any municipalities or such other local administrations or unions established by such among the founders of the company to be established, a copy of the related Council of Ministers' decree permitting their participation.
- Since Turkish citizens residing abroad are deemed as foreign investors in accordance with the Foreign Direct Investment Law No: 4875, in case these persons apply at the Trade Registry Offices for investing within the framework of the law, work and residence permits of these citizens.

Registry outline from the related chamber to accompany the reports prepared by occupational members licensed in accordance with Law No: 3568.

11. Useful Web Site Links

www.treasury.gov.tr

www.foreigntrade.gov.tr

www.foreigntrade.gov.tr

www.tcmb.gov.tr

www.spk.gov.tr

www.imkb.gov.tr

www.die.gov.tr

www.rekabet.gov.tr

www.tse.gov.tr

www.kosgeb.gov.tr

www.igeme.gov.tr

www.dpt.gov.tr

www.oib.gov.tr

www.abgs.gov.tr