Chandrawat & Partners

DOING BUSINESS IN TURKEY

A comprehensive guide on Turkey

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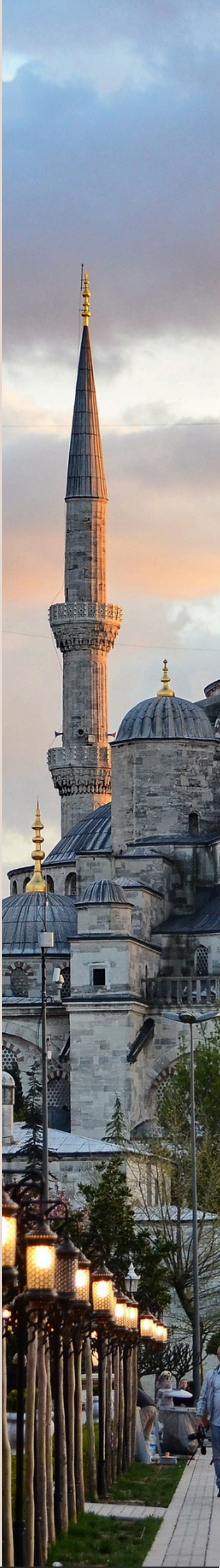

INTRODUCTION

Strategically located at the crossroads of Europe, Asia and the Middle East, Turkey is well placed to do business. The country has a diverse economy, a large local economy and young and skilled workers.

Turkey has a mixed economy. It is one of the world's largest economies and a member of the G20. Major industries include manufacturing, services, agriculture, construction and trade. The government has implemented various economic reforms to encourage investment, trade and entrepreneurship.

ECONOMIC OVERVIEW

Turkey has a diverse and strong emerging market.

Gross Domestic Production ("GDP") and Growth: Turkey is one of the largest countries in the world with a "GDP" of approximately 750 billion dollars. The economy experienced a period of strong growth, averaging 5% per year.

Major industries include manufacturing, services, agriculture, construction, and trade. Manufacturing plays an important role in the economy with the expansion of textiles, cars, machinery, electronics, and chemicals.

• **Employment**: Turkey has a large workforce with its young and growing workforce. The service sector is the largest employer, followed by manufacturing and agriculture. However, the informal sector also contributes significantly to employment, especially for small businesses and the self-employed.

• **Business and investment**: Turkey is a trading place that acts as a bridge between Europe, Asia, and the Middle East. It has a long tradition of trade with well-developed transportation and access to international markets. Major trading partners include the European Union, Middle Eastern countries, and the United States. Turkey actively seeks foreign direct investment ("FDI") and provides investment incentives to attract investment.

• **Fiscal Policy**: Turkey has implemented a fiscal policy to control the financial system and public finances. The government introduced reforms to improve tax compliance, reduce fiscal deficits, and support economic growth.

• **Infrastructure Development**: Turkey has invested heavily in infrastructure, including transport, electricity, and communications. The country has an excellent network of roads, railways, airports, and ports. Priority is also given to energy-generating infrastructure investments such as renewable energy and pipelines.

FOREIGN DIRECT INVESTMENT POLICY

Turkey has implemented policies and incentives to attract foreign direct investment ("FDI") and promote economic growth. Here are key aspects of Turkey's FDI policy:

• **Liberalized FDI Regime**: Turkey has a relatively liberalized FDI regime, allowing foreign investors to participate in various sectors of the economy. Most sectors are open to FDI, with a few exceptions such as defence, national security, and broadcasting, which may have additional restrictions.

• **Investment Incentives**: The Turkish government offers investment incentives to attract FDI. These incentives aim to encourage investment in specific regions, industries, and strategic sectors. They may include tax exemptions, reduced interest rates on loans, customs duty exemptions, land allocation, and grants.

• **Investment Support and Promotion Agencies**: Turkey has established investment support and promotion agencies to facilitate and promote "FDI". The primary agency responsible for attracting and assisting foreign investors is the Investment Office of the Presidency of the Republic of Turkey ("ISPAT"). These agencies provide information, assistance, and guidance to foreign investors throughout the investment process.

• **Bilateral and Multilateral Investment Treaties**: Turkey has signed bilateral investment treaties ("BITs") with numerous countries to protect and promote foreign investments. These treaties provide legal protection, including guarantees of fair and equitable treatment, protection against expropriation, and mechanisms for dispute resolution.

Turkey is also a member of international organizations promoting investment, such as the World Trade Organization ("WTO") and the Organization for Economic Cooperation and Development ("OECD").

• **Special Economic Zones ("SEZs")**: Turkey has established Special Economic Zones to attract foreign investment and promote export-oriented industries. "SEZs" offer various incentives, including tax breaks, simplified customs procedures, and streamlined administrative processes.

• **Technology Development Zones ("TDZs")**: Turkey has established Technology Development Zones to encourage technology-intensive industries and research and development ("R&D") activities. "TDZs" offer incentives such as tax reductions, social security premium support, and access to university-industry collaboration.

• **Sector-Specific Incentives**: In addition to general investment incentives, Turkey provides sector-specific incentives to attract "FDI" in strategic industries. These sectors may include manufacturing, technology, energy, tourism, agriculture, healthcare, and transportation. Incentives may include tax advantages, grants, and support for "R&D" and innovation.

• **Streamlined Administrative Procedures**: The Turkish government has taken steps to simplify administrative procedures and reduce bureaucratic hurdles for foreign investors. Efforts have been made to streamline business registration, licensing, and permit processes, improving the ease of doing business in Turkey.

KEY SECTORS

Turkey has a diverse economy with many key areas that contribute significantly to its “GDP” and employment. Below are some important sectors in Turkey:

• **Manufacturing**: Manufacturing is an important part of the Turkish economy. The country, which has a strong industrial base, is known for its production capacity in the automotive industry, textile and clothing, machinery, pharmaceuticals, electronics, and food sectors. Turkey is a major exporter of manufactured goods, and the manufacturing sector has opportunities for domestic and foreign markets.

• **Service**: The service sector is the sector that makes the biggest contribution to the Turkish economy and includes many sub-sectors.

• **Construction**: The construction industry in Turkey has experienced a surge in recent years with the impact of infrastructure projects, urbanization, and mass housing development. Major projects such as transportation, energy, housing and trade, urban development have contributed to the growth of the construction sector.

• **Energy**: Turkey's energy sector is strategically important due to its increasing energy demand and its location as a transportation hub. The country has invested in many energy sources such as natural gas, coal, renewable (solar, wind, hydro) and nuclear. Opportunities exist for power generation, distribution, and infrastructure.

• **Tourism**: Turkey is known for its rich history, cultural heritage, natural landscapes, and seaside resorts. Tourism makes a significant contribution to the economy by attracting domestic and foreign tourists. Opportunities are available in hotels, travel agents, travel agents, accommodation, and related services.

• **Automotive**: Turkey has a strong automotive industry, with many global automakers having production facilities in the country. It is a major supplier of automobiles and auto parts, benefiting from its skilled employees and quality products and accessories..

ADVANTAGES

Geographical Location: Turkey serves as a bridge between Europe and Asia, making it a natural crossroads for trade and commerce. Its location provides access to markets in both continents and facilitates trade with neighboring countries.

Large and Growing Market: Turkey has a population of over 80 million people, offering a significant consumer base for various products and services. The country's growing middle class contributes to increased consumption and demand.

Customs Union with the EU: Turkey has a customs union with the European Union (EU), allowing goods to move relatively freely between Turkey and the EU member states. This can simplify trade procedures for companies engaged in international trade.

Skilled Workforce: Turkey has a well-educated and diverse workforce, providing access to a range of skilled professionals across different industries.

Infrastructure Development: Turkey has invested heavily in infrastructure development, including transportation networks, energy projects, and telecommunications. This can facilitate business operations and connectivity.

Investment Incentives: The Turkish government offers various incentives to attract foreign direct investment ("FDI"). These incentives may include tax benefits, grants, and other support mechanisms to encourage investment in specific sectors and regions

TYPES OF BUSNESSES

Joint Stock Company:

Joint Stock companies are established for economic purposes, and subject that is non-prohibited under the law. The capital for this kind of company is definite and is divided into shares, which are liable for debts only with their property holdings.

Shareholders are only liable to the company for the capital shares they have committed. A joint-stock company can be established with a single share, having natural and legal people as shareholders.

The company has articles of association written and registered to the trade registry, at the place of headquarters. As a rule, the approval of the general assembly is not needed for the transfer of shares and the shareholders can freely transfer their shares to others.

Limited Company:

A limited company is one whose capital is definite and is divided into shares, being liable for debts only with its property holdings. A limited company can be established with a single shareholder, whereas the number of shareholders should not exceed fifty. Partners of these companies must be legal or real people.

A limited company must have a written contract registered to the trade registry at the place of headquarters. The shareholders of a limited company are not liable for the debts but are required to pay only the capital shares they have committed. They are liable for capital debts because of uncollectable public debt at the rate of their capital shares.

Limited Partnership Company:

A limited partnership company has two types; ordinary limited partnership (private company) and limited partnership divided into shares (capital company). It can be established by at least two people, one being the active partner (unlimited liable) and the other being the static partner (limited liable). The active partners must be real persons whereas the dormant partners can be both real or legal persons. The liability of a dormant partner is restricted to the capital they invest and they can not manage the company. The responsibility of an active partner is like a collective company partner and they can manage the company.

Cooperatives:

A cooperative company is not a private or capital company, but a commerce company that can be established by at least seven partners. Each partner takes at least one and at most five thousand shares. The amount of partnership share is 100 TL. All partners except those who were not partners, three months before the general assembly, may participate in the cooperative general assembly. This process is not required in building cooperatives. The board of directors for this company must comprise four Turkish citizens who fulfill other requirements defined by the law.

Collective Company:

Collective companies are the ones that can be established by two partners who must be real persons. Both the partners have the right and responsibility to manage the company separately and the management business can be assigned to one or several other partners, by the company agreement or by the majority of the partners. These partners are second-degree unlimited liable to the creditors of the company. Also, there is no requirement of capital for a collective company.

MINIMUM ELIGIBILITY CRITERIA

The minimum qualifications for company registration in Turkey depend on the type of business. The general requirements for the most common business models are:

Limited Liability Company ("LLC"):

• At least One Member: A member can be a natural or legal person.
• At least one manager: The manager can be the owner or a third party.
• Minimum investment: The minimum investment amount should be 10.000 TL. At least 25% of the investment must be paid at registration and the remaining amount within two years.
• Local Address: The company must have an address in Turkey.
• Legal Representative: In case the owner or manager of the business is not a citizen or resident of the Republic of Turkey, it is obligatory to appoint a legal representative who is a Turkish citizen or resident.

Joint Stock Company (AS):

• At least one Shareholder: Shareholders can be natural or legal persons.
• Board of Directors: An organization needs at least three directors. At least half of the executives must be Turkish citizens.
• Minimum Investment Capital: The minimum investment required varies by business and industry. Usually higher than LLC, from £50,000 to £100,000.
• Local Address: The company must have an address in Turkey.
• Parent Company: The foreign parent company must be legally registered and legally residing in the country.
• Power of Attorney: For the representative to act on his behalf in Turkey, a power of attorney must be given by the parent company.
• Local Address: The branch must have an address in Turkey.

HOW TO SET UP BUSINESSE?

Deciding on a business model: Decide on the legal model that fits business needs. Options include a limited liability company ("LLC"), a joint stock company ("JSC"), a branch office, or a joint office. Consider factors such as accountability, resources, and management.

Choose a Business Name: Choose a unique and distinctive name for business. Make sure the chosen name complies with Turkish legislation and does not infringe any trademark or intellectual property rights.

Capital Requirements: Determine the minimum capital required for chosen business model. While the capital should be 10.000 TL in limited companies, more is needed in joint stock companies according to the nature of the business.

Get a tax identification number ("TIN"): Apply for a tax identification number for business and its partners or members. This number is required for tax purposes and other financial transactions.

Reserved Business Name: Make a reservation for the business name want through the Central Registration System ("MERSİS") and make it available. This step is required before going through the company registration process.

Preparation of company documents: Preparation of required documents according to Turkish law, including products, company statements and shareholders' agreement.

Notarization of documents: Notarization of company documents by a notary public in Turkey. This step confirms the accuracy of the information and requires all participants or their representatives.

Establishment Documents: Submit the incorporation and other necessary documents to the relevant trade registry. The entity is responsible for registering companies and issuing incorporation documents.

Receive an advertisement in the Trade Registry: After the company is registered, publish an advertisement regarding the company's subsidiary in the Turkish Trade Registry Gazette. This announcement is a legal action to inform the public about newly joined companies.

Tax registration: Register the company with the local tax authority to obtain a business tax number. This registration complies with tax laws and obligations.

Open Bank: Open bank accounts with a Turkish bank.
Provide necessary information, including company certificate of incorporation, tax identification number, and personal information.

TAXATION

Taxation in Turkey is governed by the Turkish Tax System, which consists of various taxes imposed at the national, regional, and local levels.

• **Corporate Income Tax ("CIT")**: Corporate entities are subject to "CIT" on their worldwide income. The standard CIT rate is 20%. However, certain industries may have different rates, such as banking and financial institutions, which are subject to a higher rate of 22%. There are also reduced rates for specific regions or industries as part of investment incentives.

• **Value Added Tax ("VAT")**: "VAT" is a consumption tax imposed on the supply of goods and services. The standard "VAT" rate is 18%, with reduced rates of 8% and 1% for certain goods and services. VAT is generally collected by businesses and remitted to the tax authorities.

• **Personal Income Tax ("PIT")**: Individuals residing in Turkey are subject to "PIT" on their worldwide income. The tax rates for PIT range from 15% to 40%, with progressive tax brackets based on income levels.

• **Withholding Taxes**: Certain payments made to non-residents are subject to withholding taxes. This includes dividends, interest, royalties, and other types of income. The withholding tax rates vary depending on the nature of the payment and whether there is a tax treaty in place with the recipient's country of residence.

• **Social Security Contributions**: Both employers and employees must contribute to the Social Security Institution ("SSI") for social security benefits. The contribution rates depend on the type of employment and are calculated based on the employee's salary.

ACCOUNTING STANDARDS

Accounting standards and principles in Turkey are determined and regulated by various institutions such as the Turkish Commercial Code, the Capital Markets Board ("CMB") and the Public Oversight, Accounting and Auditing Standards Authority ("KGK"). The main accounting standards in Turkey are:

Turkish Financial Reporting Standards ("TFRS"): "TFRS" is the basic accounting standard used by companies in Turkey to prepare their financial statements. They follow International Financial Reporting Standards ("IFRS") with some changes and additional requirements specific to Turkey.

Independent Auditing Standards: Independent auditing of financial statements in Turkey is based on International Auditing Standards ("ISAs") prepared by the International Auditing and Assurance Standards Board ("IAASB").

Tax Accounting: Tax accounting in Turkey is subject to the Tax Procedure Law and Tax Regulations issued by the Ministry of Finance.

Taxpayers must comply with certain tax reporting and reporting requirements when calculating and reporting their income and liabilities.

Capital Markets Board ("CMB") Regulations: Public companies in Turkey are subject to additional regulations and rules issued by the "CMB". These regulations are designed to ensure transparency and protect the interests of investors in the capital market.

LABOUR AND EMPLOYMENT LAWS

Labor and employment laws in Turkey are designed to safeguard employee rights and promote fair working conditions. Here are some key aspects of these laws:

Employment Contracts: Contracts can be written or oral, but it's advisable to have clear terms, including job description, working hours, wages, benefits, and outcomes.

Minimum Wage: Determined by the Minimum Wage Commission, the minimum wage is revised annually, varying by region, industry, and population per support worker.

Working Hours: Typically, it's 45 hours per week, with a maximum of 5 hours of overtime, although collective agreements may alter this.

Overtime: Overtime payments are higher than regular rates, usually 1.5 to 3 times the hourly rate, based on the days and hours worked.

Annual Leave: Entitlement to annual leave increases with years of service, with a minimum of 14 working days for those with up to 5 years of service.

Termination of Employment: Termination follows specific procedures and notice periods, depending on working hours.

Workplace Health and Safety: Employers must ensure a safe and healthy workplace.

Employment Policies:

Equality and Non-Discrimination: Equal opportunities are guaranteed regardless of gender, religion, race, ethnicity, disability, or political opinion.

Occupational Health and Safety: Employers must assess and mitigate workplace hazards, provide safety training, and prevent accidents and illnesses.

Employment Contract: Written contracts detailing terms and conditions of employment are mandatory.

Health Insurance and Benefits: Employees and employers contribute to health insurance, providing benefits like pensions, unemployment benefits, and parental leave.

Foreign Employment Laws: Special regulations govern the employment of foreigners, including work permits, visa requirements, and rights and responsibilities.

These laws reflect Turkey's commitment to fair, safe, and inclusive working environments while balancing the interests of both employers and employees.

HOW WE CAN HELP?

Our team of professionals can conduct comprehensive market research to help businesses understand their target audience, industry trends, and potential competitors.

Our experts can help set clear objectives, outline actionable steps, and identify opportunities for growth and expansion.

Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.

Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC"), or sole proprietorship. Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.

Our team can Investigate and identify any licenses, permissions, or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.

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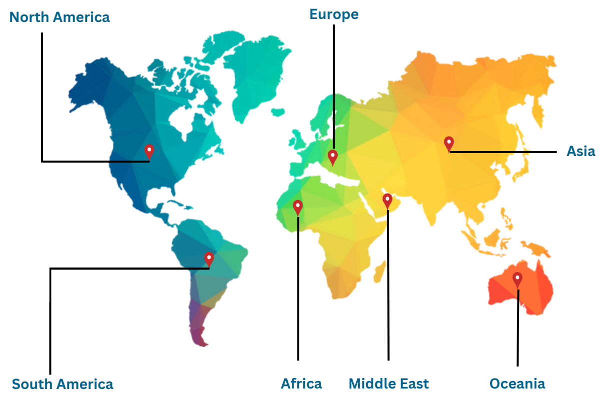

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