

Rödl & Partner

INVESTMENT GUIDE
TURKEY

Law, Tax and General Conditions

2021

Seizing opportunities



Seizing opportunities

„With its strategic location and rich history, Turkey is continuing to attract the investors all around the world. Its administrative structure accompany investors through their investment journey, so that Turkey becomes more and more the point of attraction for investments.

Thanks to its rich geographical diversity, many investors from various sectors benefit from tax and other investment incentives alongside; the young and educated population makes it possible that it overtakes many countries in the matter of employment opportunities.

In accordance with its liberal politics and economic reforms, Turkey is still engaging to create economic value for both its own region and the world in order to continue its historical task to be a window of opportunities for investors.”

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Introduction

Thanks to its growing economy, Turkey is a strong economic actor regionally and globally and it offers profitable investment opportunities for investors from all sectors today, as it did in the past, with its unique geographical location.

This guide was prepared in order to provide holistic and explanatory information to foreign investors who want to invest in Turkey on main issues that play an important part in investment decisions. Firstly, brief information is given on Turkey's geographical location, political and legal structure. Then, in the following sections, basic information that should be in any investor's handbook is presented for foreign investors who want to build a business within a corporate framework. This information includes work force opportunities and incentives, from company establishment to relevant commercial and tax regulations.

TURKEY'S GEOGRAPHICAL LOCATION AND CLIMATE

Turkey is a peninsula with Black Sea in north, Mediterranean Sea in south and Aegean Sea in west. Shore regions have a mild climate due to seas and inner regions have a continental climate.

Majority of Turkey's territory is in Asia, where its neighboring countries are Georgia, Armenia, Iran, Azerbaijan, Nakhchivan, Iraq and Syria. Its western neighboring countries are Greece and Bulgaria.

A part of Istanbul and Thrace region is in Europe, which makes Turkey a bridge that connects Europe and Asia over Marmara Sea.

TURKEY'S POLITICAL SYSTEM

Republic of Turkey implements separation of powers principle and autonomy of legislative, executive and judicial powers is protected by the Constitution. A referendum was held on 16 April 2017 regarding the Constitution, which resulted in changing the parliamentary system into a sui generis presidential system. With this change, prime ministry position was eliminated and executive rights and authorizations were given to the President.

Moreover, decision-making processes within executive mechanisms were simplified, many bureaucratic obstacles were removed and executive body was empowered with the aim of implementing the government programs faster.

In the current system, the legislative body consists of parliamentary members elected by the public once every 5 years. Head of executive body, the President, is selected by the public in the same election as well. Judicial body is formed by independent courts and administrative boards supervising only administrative operations.

TURKEY'S DEMOGRAPHIC AND SPOKEN LANGUAGES

Turkey's population is 83.614.362. 23.4% of the population is of 0-14 years of age, 67.8% is of 15-64 years of age and 8.8% is of 65 years of age and older.

Compared to other EU member states, Turkey has the highest number of young population. Thus, it offers significant employment possibilities to investors in terms of young and educated population.

Most widely spoken languages are Turkish (88.54%), Kurdish (8.97%) and Arabic (2.38%).

In addition, English skills of the young population of 15-24 years of age (which constitutes 15.4% of total population) are increasing day by day.

Turkish Legal System

Turkish legal system is fundamentally a part of Continental Europe Legal System and has an integrated structure under norms hierarchy with legal rules as written texts.

Primary and secondary legal sources are laws and judicial decisions respectively. Legal rules are based on secularity, democracy and equality and are subject to supervision of constitutional and other related high judiciary authorities.



Protection of Investment

Encouragement of foreign investment and protection of rights of foreign investors gained legal basis with Direct Foreign Investments Law no. 4875 that entered into effect upon being issued in the Official Gazette dated 17 June 2003.

This law provides a general framework for opportunities and rights offered to foreign investors. According to this law, foreign investors are free to make direct foreign investments in Turkey and they should be treated as equals to domestic investors.

Moreover, the law clearly regulates net profit, dividend, sales, liquidation and compensation fees resulting from activities and transactions of foreign investors in Turkey, amounts to be paid in exchange for license, management and similar agreements and free transfer of external loan principal amount and interest payments to abroad via banks and private financial institutions.

It also enables resolution of conflicts resulting from foreign investors' investment contracts subject to special law or signed with administration via arbitration under certain conditions. This aims to resolve such conflicts in a faster manner.

As per the law, companies established based on foreign country laws are permitted to open liaison offices on condition that they do not perform any commercial activities in Turkey. This means that investors have the opportunity to get familiar with and investigate the Turkish market before establishing a company.

Turkey encourages foreign investment with international agreements as well and it signed the first international agreement on this issue with Germany in 1962. As of 2016, Turkey has signed 98 international agreements within this scope.

Investment Environment

OVERVIEW OF TURKISH ECONOMY

According to 2020 data, Turkey is the 11th largest economy in the world and it had an economic growth rate of 5.1% between 2002 and 2020. During these last 18 years, gross national product per middle class household and number of private cars have both almost tripled.

This increase in gross national product affected the growth rate of aviation sector positively as well and number of airway passengers reached 208.4 million according to 2019 data.

TURKEY-EU CUSTOMS UNION

Despite not being an EU member state, Turkey joined the Customs Union from 1 January 1996 onwards thanks to its vital strategic and economic status in accordance with Turkey-EU Partnership Council's Decision no.1/95 accepted in the meeting dated 6 March 1995.

Turkey-EU Customs Union only covers industrial and processed agricultural products. When calculating customs tax in processed agricultural products, agricultural and industrial shares are separated and only industrial share is subject to tax exemption.

Turkey removed all customs tax and charges with equivalent effect for industrial products coming from EU, just like EU had been doing unilaterally since 1971. Amount restrictions were terminated as well. Average protection rate for third world countries, which was 16% before Customs Union, decreased to 4.2% for industrial products within the scope of 2011 Import Regime.

In addition, compliance with EU's optional and autonomous regimes is continued within the scope of Customs Union.

As a result, investors in Turkey can directly access EU market, are able to reach 995 million consumers in total and solidify their competitive edge in the market thanks to customs advantages.

Starting a Business in Turkey

This section provides brief information on types of companies that can be established in Turkey as per Turkish Law and especially Turkish Trade Law and also lists important factors to be considered by investors when selecting business models, partnership structures, operating sector and corporate structure most appropriate for future economic targets.

COMPANY TYPES ACCORDING TO TURKISH TRADE LAW

Equity companies

In equity companies, partners are held as responsible as the equity amounts they undertake to invest for the partnership towards the company and the company is held as responsible as the equity amount towards its creditors.

Joint Stock Company

Joint Stock Company is the main company type regulated by the Turkish Trade Law which entered into force on 1 July 2012. These companies are frequently preferred since their shares can be put up for public offering and be transferred easily by both domestic and foreign investors.

Operational rules of such companies are ruled by Turkish Trade Law and laid out in Articles of Association, which includes information on the company (title, registered address, principal capital value, etc.) and its operational rules (number of BoD members, representation type and other regulations, if any.).

Establishment of a joint stock company is not subject to permit or approval of any official authority except for certain exceptions such as banking, energy activities, holding companies, etc.

According to Turkish Trade Law, a joint stock company can have a single partner or an unlimited number of partners. Although there is no maximum number of partners, a partnership is considered as a publicly-held joint stock company as per Capital Markets Law in case number of partners exceed 500.

Turkish Trade Law also has no restriction when it comes to partners being real or legal entities. Similarly, one or all of the partners can be a foreign real or legal entity.

Principal Capital

- Besides certain exceptions (banks, financial institutions, etc.), a joint stock company is established with a principal capital of minimum 50,000 TL (5,0750 EUR).
- Minimum capital amount is 100,000 TL (10,1500 EUR) if registered capital system is preferred. Cash or in kind values (for ex: intellectual property rights) can be put up as capital.
- In case of cash capital, at least 25% of the capital amount should be deposited into a Turkish bank before registry and remaining amount should be paid within 24 months following the company's trade registry date.

Share and Share Certificates

- Company capital is divided into shares so that each share's nominal value is at least 0.01 TL. Company shares may be as registered or bearer share. It is mandatory to issue the bearer share and to inform Central Securities Depository for registration.
- The fact that company shares are issued does not affect partnership rights in any manner but it requires a different method when it comes to transfer.
- Joint stock company shares that are not issued are transferred via transfer protocol. In case of bearer share certificates, transfer of certificate possession is enough.
- In case of registered share certificates, transfer of related receivables and certificates possession is required. Such transfers are recorded in company share ledger.
- Unless stated otherwise in Articles of Association, the company's approval for share transfer is not a criterion for the validity of such share transfer. However, there are some legal exceptions regarding some share transfers as per Competition Law legislation.

Dividend

- As the most important partnership right, dividends are distributed upon general assembly decision in proportion to shares of partners, unless stated otherwise in Articles of Association.
- Reserves should be set aside for dividends to be distributed as deemed mandatory legally or according to Articles of Association.
- In line with the law, 5% of net profit of the company is allocated as reserve at each financial year end until this amount reaches 20% of the company's paid capital. Until it reaches 50%, such reserves are used for compensating the losses, maintaining the business in difficult times, taking measures to prevent unemployment and minimize its consequences. When reserves exceed 50%, the exceeding amount can be distributed as dividend.
- Moreover, "advance dividend" may be distributed during the year upon general assembly decision if the company makes profit. Paid advance dividend must be offset from net period profit of relevant year.

Minority Rights

- Turkish Trade Law grants certain special rights to partners who own at least 10% and 5% of company shares in non-public joint stock companies and public joint stock companies respectively.
- Among these rights are; to request the BoD to call a general assembly meeting, to add an item to general assembly agenda, to request issuing of stock certificates, to prevent discharging of company founders, BoD members or auditors, to postpone review of financial statements in the general assembly, to request changing of company auditors or to request dissolution of company from the court based on valid justification.

BoD (Board of Directors)

- Joint stock companies are managed and represented by BoD members assigned by the general assembly for at most 3 years. A previously elected BoD member can be re-elected as a board member after expiry of their duty term.
- BoD consists of at least one member, who can either be a real or legal entity. If the BoD member is a legal entity, a real person must be assigned as legal entity representative.
- BoD member can be a foreign person or a non-company partner. If the BoD member is a foreign person, a potential tax ID number that is valid in Turkey must be obtained.
- BoD may transfer its management and representation authorization to third persons via an internal directive, reserving the authority of company's senior level management.
- As a rule, BoD meets with absolute majority and makes decisions with majority of participants.
- Relevant law states that such meetings can be held in the electronic environment to facilitate both BoD and general assembly meetings.

General Assembly

- General assembly consists of company partners and it supervises the company's commercial and executive activities.
- It has certain non-transferable rights and authorizations, some of which are; to change Articles of Association, to assign BoD members, to decide upon dividend distribution and to sell a significant amount of company assets.
- General assembly must gather within 3 months following the end of each financial year and hold a regular general assembly meeting.

Liability

- According to Turkish Trade Law, main liabilities of company BoD members are diligence and commitment.
- BoD members also have penal liabilities in terms of crimes defined in Turkish Trade Law, Capital Markets Law and other related legislation.
- BoD members authorized to represent the company are held personally responsible for public debts not paid by and not collected from the company (tax, social insurance premium debts, etc.) since fulfilling these liabilities is a duty of the company's legal representative.
- Unless they are a BoD member, company partners are not responsible for public debts.

INDEPENDENT AUDIT

As per Turkish Trade Law, companies which satisfy at least 2 out of 3 threshold value criteria listed below (determined by Ministry of Finance) in two consequent accounting periods are subject to financial independent audit to be performed in line with Turkish Auditing Standards:

- Assets total is 35 million TL,
- Yearly net sales revenue is 70 million TL,
- Number of employees is 175.

There are different threshold values for some companies which are considered as public although their shares are not publicly traded and some companies with a high level of public service qualifications.

In addition, companies under regulation and supervision of Capital Markets Board or Banking Regulatory and Supervisory Agency are subject to independent audit regardless of any criterion.

LIMITED COMPANY

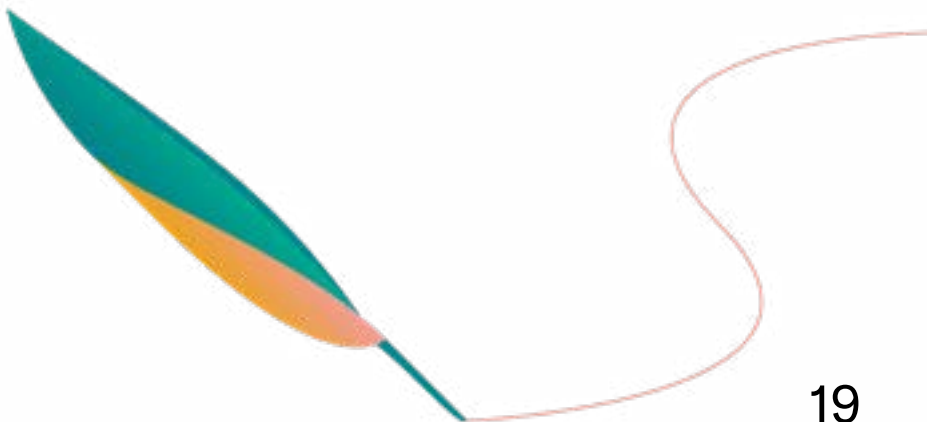
Limited companies are similar to joint stock companies detailed above in terms of company structure but are different when it comes to such as share transfer and representation. Regardless of similarities and differences, it is mandatory to establish joint stock companies in certain sectors, as per the law. Also, participants may be required to be joint stock companies in important tenders. This section lays out the differences between limited and joint stock companies and refers to the section on joint stock companies for similar points.

Principal Capital

- A limited company must be established with a capital of at least 10.000 TL.
- Unlike joint stock companies, it is not possible for limited companies to select registered capital system.
- Again, differently from joint stock companies, there is no criterion that at least 25% of establishment capital should be paid before company registry for limited companies. It can be paid within 24 months upon establishment registry.
- Other than these, conditions regarding principal capital for joint stock companies are valid for limited companies.

Share and Share Certificates

- Nominal value of each share that constitutes the company capital should be at least 25 TL.



- Limited companies are subject to more formalities in share transfer compared to joint stock companies. In limited companies, it is mandatory to sign a written share transfer agreement in the presence of a notary. Afterwards, general assembly should decide to approve the share transfer and share transfer should be recorded into the share ledger.
- Share transfer is considered as approved by general assembly unless it rejects the transfer within 3 months upon signing the share transfer agreement. Share transfers should be recoded into trade registry as well.
- Articles of Association may include provisions that prohibit or restrict share transfer.

Dividend

Same as joint stock companies.

Minority Rights

Same as joint stock companies.

Manager / Managers Board

- Limited companies are managed and represented by single or multiple managers assigned by the general assembly.
- Unlike joint stock companies, it is mandatory that at least one manager is a company partner with unlimited representation authorization. Company managers can be foreign but they must obtain a potential tax ID number that is valid in Turkey.
- In case the manager is a legal entity, it must be represented by a real person.
- Representation authorization of managers is not restricted during establishment. However, upon establishment, authorizations of



signature authorities with limited representation authorization may be regulated via an internal directive prepared by the managers board. Signature authorities may be assigned based on a decision taken by the managers board by referring to stated internal directive as well. Articles of Association must have a basis for such authorization under the representation clause.

- In case of multiple managers, it is mandatory to form a managers board and to select a chairman. Meeting and decision-making processes of the managers board are the same as in joint stock companies.
- Managers board chairman in limited companies has the casting vote if the decision-making process comes to a halt (golden vote of the board chairman).

General Assembly

- Certain decisions are taken only by the general assembly. Number of decisions that can be taken only by the general assembly is higher than that of joint stock companies. Among these are; approving transfer shares or removing a shareholder from partnership upon court decision.
- General assembly must gather within 3 months following the end of each financial year and hold a regular general assembly meeting.
- It may hold an extraordinary meeting if required as well.

Liability

- Liabilities of limited company managers are similar to those of joint stock company BoD members.
- However, liability of company partners is different. Limited company partners are held personally responsible for public debts not paid by and not collected from the company (tax, social insurance premium debts, etc.). So, company managers are personally responsible as legal representatives for public debts that could not be collected from the company.
- Partners are also responsible in proportion to the amount of unpaid capital debt that they undertook to deposit to the company.

PRIVATE COMPANY

In private companies, company partners have unlimited liabilities. Personal relationships among partners are at the forefront, there often is a few number of partners and transfer of partnership share is difficult. Such companies are not preferred for business models where corporate governance principles and limited liability of partners are embraced.

COLLECTIVE COMPANY

Collective companies are founded by real persons and liabilities of none of the partners are not limited against company creditors.

COMMANDITE COMPANY

In commandite companies, liabilities of one or more partners are not limited against company creditors and liabilities of other partner/s are limited to a certain amount of capital. The partner whose liability is not limited is the active partner and this partner must be a real person. Sileni partners may be legal entities. Similar to private companies, commandite companies are not usually preferred by investors since the liabilities of some partners are not limited.

Rödl & Partner prepares all necessary documentation for establishment of the corporation in any kind and finalize the establishment process by proxy.

COOPERATIVE

Cooperatives aim to satisfy and protect certain economic interests and professional or livelihood needs of their partners through mutual help and solidarity with workforce and financial contributions after at least 7 partners sign an Articles of Association. Relevant law states that BoD members of cooperatives must be Turkish citizens. This company type is not usually preferred by investors as it mostly targets fulfilling regional and local needs.

BRANCH

A branch is a unit of the main company and is not a legal entity. Establishing a branch is not subject to state permit except for specific sectors under regulation. The decision of the company's executive body is sufficient to open a branch (BoD decision for joint-stock companies and managers board decision for limited companies). After this decision, the branch is recorded into the trade registry of location. Generally, at least one branch manager is assigned to each branch to represent the main company. The branch manager may be a non-Turkish citizen. However, in such a case, he or she must obtain a potential tax ID number that is valid in Turkey.

Rödl & Partner prepares all necessary documentation for branch opening and manages branch establishment processes by proxy.

LIAISON OFFICE

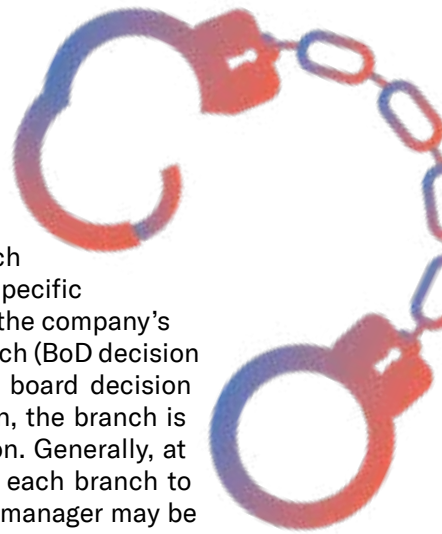
As explained above, companies established according to foreign country laws may open liaison offices on the condition that they obtain a permit from the Ministry of Industry and Technology and do not carry out commercial activities in Turkey.

Liaison office permits are given for at most 3 years and other time period stated in relative regulation explained in below table as of the establishment within the scope of declared activities.

Although the extension of this periods is possible, Ministry has a discretion power on the extension request.

Expectation of the Ministry from foreign investors is to establish a cooperation in Turkey after the operation of the liaison office within these periods.

Such offices are financed via foreign currency by the foreign company located abroad and their employment costs are exempt from income tax.



Activity	Time/Yearly
<u>Market research</u>	Non-extendable
<u>Promotional activities in regard to products and services of the mother company</u>	Non-extendable
<u>Representation and reception</u> Representation of the foreign company before sectoral and related organizations, coordination and organization of business contacts of foreign company officials in Turkey, meeting the office usage needs of those people	5
<u>Supervision and procurement of the supplier in Turkey and control regarding quality and standards</u> Inspection of the companies doing production on behalf of the foreign company within the framework of the quality standards of the relevant foreign company, supplying the product and manufacturer demands of the foreign company	5
<u>Technical support</u> Providing training or technical support to distributors, providing support to supplier manufacturers to increase their quality standards	5


<u>Communication and information transfer</u> Gathering and transferring information on topics such as market developments, consumer trends, sales status of competitor companies and distributors, performance of the distributor company, etc.	5
<u>Regional Management Center</u> Providing coordination and management services for the units of the foreign company in other countries; related to activities such as creation of investment and management strategies, planning, promotion, sales, after-sales services, brand management, financial management, technical support, R&D, outsourcing, testing of newly developed products, laboratory services, research and analysis, training of employees	10
<u>Other</u>	Varied

Rödl & Partner prepares all necessary document for liaison office opening and makes an application to the Ministry by proxy.

COMPANY ESTABLISHMENT

Establishment procedures in Trade Registry are carried out once the company's business model and company type considering future plans are determined.


Rödl & Partner prepares all document required for company establishment, including Articles of Association, and conveys them to the foreign investor along with detailed information. Some of these documents should be submitted to a notary abroad and get apostilled. Once necessary documents are fully prepared, Rödl & Partner establishes the company on behalf of the foreign investor by proxy so that the foreign investor does not have to come to Turkey.




The company turns into a legal entity upon being recorded in Trade Registry. Rödl & Partner, which also provides BPO service, prepares post-establishment company books and performs tax office and social security opening transactions before related institutions. Then, the company becomes operational and begins commercial activities.

Keeping in mind that each project has its own dynamism and characteristics, Rödl & Partner aims to optimize foreign investor projects in terms of legislative compliance, finance and tax thanks to its exclusive legal, BPO and audit services.

COMPETITION LAW



Law on Protection of Competition constitutes the main source of Turkish company law along with Turkish Trade Law. Competition Law defines the anti-competition behavior in the market and regulates the sanctions to be imposed on companies involved in such behavior. Therefore, it is beneficial to examine Competition Law in terms of each transaction during company establishments, mergers or acquisitions.



LABOR LAW

According to Business Law no. 4857, termination of employment contract is subject to certain criteria and, in case of a legal action, tight judicial controls.

Basic requests that employees may put forward in relation to termination of employment contract are labor compensation, receivables and return to work. In case of a conflict, courts investigate whether the demands are legitimate or not.

Thus, in addition to minimize employer-employee conflicts and shorten litigation periods, it became mandatory for employees to apply for arbitration before opening a lawsuit against employers in 2017. Accordingly, many conflicts can be resolved without litigation within the scope of a written agreement prepared during arbitration.

Work Permit

The law which entered into force in 2016 regarding foreign work force determines the conditions that allow foreign citizens (“foreigners”) to work in Turkey.

With this law, the legislative body particularly aims to encourage foreign investments and attract qualified foreign workers and in case, the foreign investor is considered a qualified investor, the law exempts the foreign investor of below detailed evaluation criteria, which facilitates the application process. Rödl & Partner manages the application procedures on behalf of foreign investors and foreign employees in foreign country representatives and in Ministry of Labor and Social Security in Turkey.

Ministry of Labor and Social Security has great discretion in deciding to grant a work permit.

It evaluates the applications based on following criteria as a rule:

- Employment of at least 5 Turkish employees by Turkish employer:
- 5 Turkish employees should be recruited for each foreign employee (1:5 criterion).

In case a foreigner is a shareholder, 1:5 criterion is not deemed valid for the first 6 months of the work permit which is limited to a year in initial application as a principle. If the foreigner is a key employee and there is direct foreign investment, 1:5 criterion is not deemed valid for this person.

- Paid principal capital should be at least 100.000,00 TL or gross sales income should be at least 800.000,00 TL or export amount of previous year should be at least 250.000,00 USD.

Foreign employee’s salary should be in line with relevant duties and skills:

- Minimum salary decided upon for executives and managers should be at least 6,5 times the legal salary amount.*
- Minimum salary decided upon for branch managers and engineers should be at least 4 times the legal salary amount.

*Minimum legal salary for 2021 is 2.825,90 TL.

Rödl & Partner registers the employee to the social security authority if it is assigned for BPO services. A separate social security liability may not be implemented if bilateral social security agreements are in place.

Once Ministry of Labor and Social Security accepts the work permit application, it assigns a foreign ID number and gives a work permit card to the foreigner. Work permit card is sent to the registered office of Turkish employer.

Work permit has expiry and at most a year is given for the initial application.

It is considered as a residence permit as well. Rödl & Partner provides support and initiates relevant application procedures in case residence permits are required for family members of foreigners.

Assembly Visa: Differently from work permit, assembly visa grants the right to enter the country and finalize relevant work within at most 90 days per year to foreign employees to carry out an assembly or maintenance work. Rödl & Partner prepares all necessary document for assembly visa application specifically for each foreign investor project.

Immovable Property Acquisition and Citizenship

IMMOVABLE PROPERTY ACQUISITION

Before examining the criteria for foreigners to acquire property in Turkey, the definition of foreigner should be explained under 3 categories. When speaking of foreigners;

- Foreign real persons; refer to foreign real persons without Turkish citizenship.
- Foreign legal entities; refer to legal entities established according to foreign country laws abroad.
- Turkish companies with foreign capital; refer to companies where a foreign investor owns 50% or more of the shares or has the right to assign or remove the majority of BoD of such a company established in Turkey.

RESTRICTIONS IN IMMOVABLE PROPERTY ACQUISITION OF FOREIGN REAL PERSONS

Immovable property acquisition of foreign real persons is subject to below restrictions and conditions:

- If permitted, foreign real persons are able to purchase any kind of property available for private ownership. (Housing, commercial, land, agricultural field, etc.)
- If no building has been constructed on purchased property, its foreign owner should apply to the relevant public authority within 2 years to develop a project.
- A foreign real person may purchase property and get limited real rights up to 10% of surface area of related city for private property anywhere in Turkey and up to 30 hectares per person throughout the country. Larger areas may be available if deemed appropriate by Council of Ministers.
- Foreign real persons cannot purchase or rent any property in forbidden military zones or military security zones. They may purchase or rent property in special security zones via a governor's permit.

- Their total property acquisition cannot exceed 10% of surface area of the city on which private property is allowed. Property acquisition requests of foreigners are rejected if 10% limit is exceeded.

IMMOVABLE PROPERTY AND LIMITED REAL RIGHTS ACQUISITION OF FOREIGN LEGAL ENTITIES

- Commercial companies which were founded in Turkey according to the laws of their origin country and have a legal entity may acquire property in an exceptional circumstances, and real rights as foreign legal entities. Other legal entities such as charities, associations, etc. cannot acquire property and real rights.
- Property acquisition of commercial companies which were founded abroad according to the laws of their origin country and have a legal entity is allowed under exceptional circumstances*. Such a situation is only possible in cases permitted by international agreements and special law provisions. Special laws that include relevant provisions are; Turkish Petroleum Law no. 6491, Law on Encouragement of Tourism no. 2634 and Industrial Zones Law no. 4737.



*It is still beneficial to examine relevant law provisions which lay out the exceptions for immovable property acquisition in detail for each case and to request information from land registry office and related ministry about whether such acquisition is possible.

- Regarding mortgage (hypothec), there is no restriction regarding the mortgages to be placed on immovable property in favor of foreign real persons and legal entities.

IMMOVABLE PROPERTY AND LIMITED REAL RIGHTS ACQUISITION OF TURKISH COMPANIES WITH FOREIGN CAPITAL

These companies may only acquire immovable property and limited real rights in order to carry out the activities stated in their Articles of Association.

- They must apply to the governor's office of the city in which immovable property is located.
- On the other hand, General Staff permit will be required if the property to be acquired is located within a forbidden military zone or military security zone. Also, relevant city governor's permit will be required if the property is located within a special security zone.
- If property acquisition application is approved, the governor's office will inform the company/business and land registry office in writing for title deed registration.

Following procedures can be carried out without getting an application approval from land registry office as they do not require a governor's permit.

- Establishing a mortgage
- Purchasing a property for collection of a mortgage by the beneficiary of that mortgage
- Transfer of property ownership and limited real rights due to company mergers or spin-off
- Property acquisition in organized industrial zones, industrial zones, technology development zones and free zones
- Property acquisition that results from transactions considered as loan or that accrues for receivables collection within the scope of banking legislation

RIGHT OF SUCCESSION

Succession rights of inheritors are protected in Turkey. In case of a foreigner's death, property under his or her ownership is inherited by successors. The person in question has to immediately transfer the property if he or she is not deemed appropriate in terms of nationality or if total limitation conditions set for property acquisition personally or within the country do not allow such property inheritance. Otherwise, Ministry of Treasury and Finance has the right to sell the property and pay the corresponding value to successor.

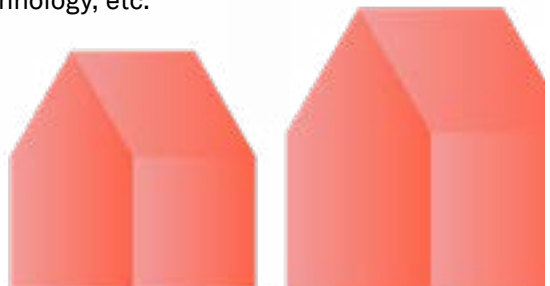
Getting turkish citizenship via immovable property acquisition

The fundamental rules applied to Turkish citizenship are regulated in Turkish Citizenship Law. Yet, under this section a brief explanation of the criteria for getting Turkish citizenship via immovable property acquisition is provided.

Foreign real persons may request residence rights or citizenship by purchasing a property with a value of at least 250.000 USD with the aim of becoming a Turkish citizen and undertaking that he or she will not sell this property for 3 years and then applying to the related administration office.

Getting turkish citizenship via exceptional methods

In accordance with the addition made in Law no. 5901 on 28 July 2016, foreigners who obtained residence permit as per Law no. 6458 by making an investment as determined by the Presidency in terms of scope and amount and Turquoise Card owners can become Turkish citizens upon Presidency decision. Turquoise Card is a card that is given to a foreign person by considering his or her education level, professional experience and knowledge, contributions to science and technology, etc.



Investment Regions

TECHNOLOGY DEVELOPMENT ZONES (TDZ)

These zones are designed to support R&D works and attract investments in high technology. There are 84 TDZs and 63 are currently active. Constructions of remaining 21 are approved and ongoing.

Advantages offered to TDZ investors are as follows:

- Revenues gained via R&D, design and software development activities are exempt from income and corporate tax until 31 December 2023.
- The sale of application software manufactured within TDZ is exempt from VAT until 31 December 2023 as well. These include software used in system management, data management, business applications, various business sections, Internet, mobile phones and military command control systems.
- Salaries of R&D, design and support personnel working in these zones are exempt from all taxation until 31 December 2023. Number of support personnel within exemption scope cannot exceed 10% of total number of R&D personnel.
- The investment required for manufacturing the technological product generated as a result of R&D projects initiated and finalized within TDZ can be made within the zone on condition that operating company approves and Ministry of Industry and Technology allows.
- 50% of Social Security Institution premium employer's share will be covered by the state until 31 December 2023.
- Products to be imported within the scope of R&D, design and software development projects will be exempt from customs tax and related documents are exempt from stamp tax.

ORGANIZED INDUSTRIAL ZONE (OIZ)

These zones are designed in a way that enables the companies to carry out their activities by using ready infrastructure and social facilities. Infrastructure in such zones contains roads, water, natural gas, electricity, communication, waste treatment and other services.

There are 331 OIZs in total in 80 cities and 234 are currently active. Constructions of remaining 97 are ongoing in different regions of Turkey.

Advantages offered to OIZ investors are as follows:

- VAT exemption in land purchases.
- Property tax exemption for 5 years starting on the completion date of company site construction.
- Lower water, natural gas and communication costs.
- Tax exemption in land parcel division/merger transactions.
- Local administrations tax exemption in company site construction and operation.
- Solid waste tax exemption in case OIZ does not benefit from municipality services.

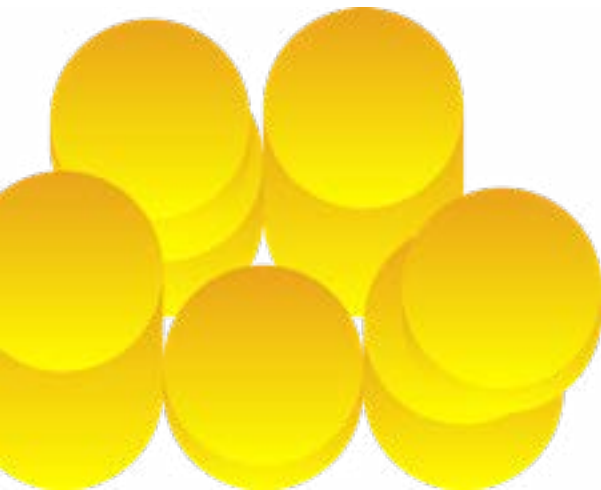
FREE ZONES

These zones are designed to increase the number of export-oriented investments. Legal and administrative regulations implemented in commercial, financial and economic areas of customs zones are not implemented or partially implemented in free zones.

Turkey has 19 free zones close to EU and Middle East markets and 18 are currently active. Construction of the other one is ongoing. Free zones are placed in locations where there is easy access to international trade routes via the ports in Mediterranean Sea, Aegean Sea and Black Sea.

- 100% exemption from customs tax and other taxes of similar kind.
- 100% exemption from corporate tax for manufacturing companies.
- 100% exemption from VAT and special consumption tax.
- 100% exemption from stamp tax for relevant documents.
- 100% exemption from property tax.

- 100% exemption from income tax and corporate tax for certain logistic services on condition that all of them are to be provided by Free Zones to abroad.
- 100% exemption from income tax collected over employee salary (for companies which export at least 85% of FOB price of the products manufactured within free zones).
- Goods can be kept in free zones without time restriction.
- Companies are able to freely transfer the revenues they gained within free zones to Turkey or abroad without any destruction.
- Exemption from title deed fees in property trade.
- VAT exemption in construction, project, settlement, permit and approval processes.
- Ready infrastructure exempt from VAT and other taxes.
- Permission to bring second hand/used machinery.

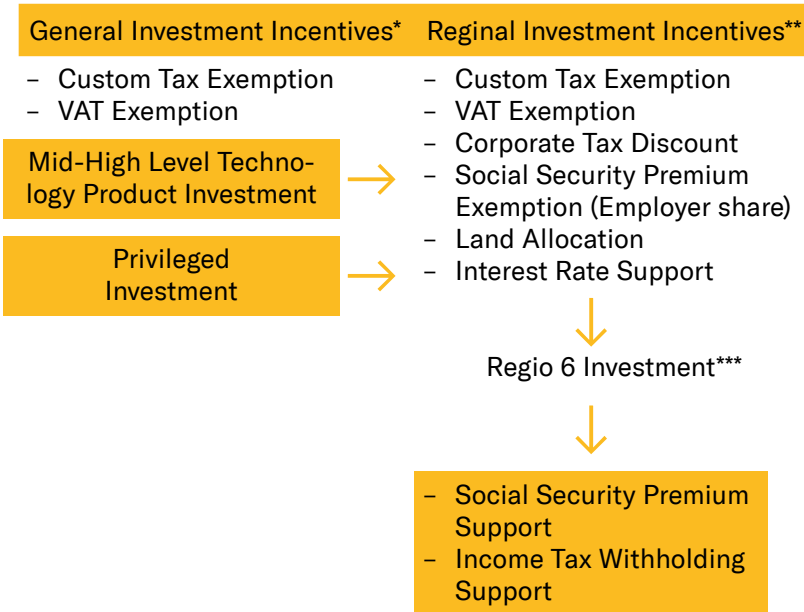


Incentives

GENERAL INFORMATION

Investment incentives applied in Turkey vary by amount, sector, type, and location of the investment. In this sense, there are many types of investment and for each investment type, the incentives may change. For this reason, under this section, a brief explanation of the incentives is given. It is also advised to get a consultancy service before initiating investment operation.

INVESTMENT INCENTIVES



* Regardless investment location, tax exemptions for machinery and equipment are provided.

** For investments in less-developed regions wider incentives are provided. (Including the Privileged Investment for regardless the investment region middle-high technology products.)

*** Turkey has been divided into six different regions. Region 6 refers to the eastern part of Turkey.



Strategic Investment Incentives****

- Custom Tax Exemption
- VAT Exemption
- Corporate Tax Support
- Social Security Premium Support (Employer Share)
- Land Allocation
- Interest Rate Support
- VAT Refund

Project based Investment Incentives*****

- Grant Support
- VAT Exemption
- Custom Tax Exemption
- Corporate Tax Discount
- Social Security Premium Support (Employer Share)
- Income Tax Withholding Discount
- Qualified Personnel Support
- Energy Support
- Interest Rate Support
- Capital Support
- Land Allocation
- Infrastructure Support
- Guarantee of Purchase
- Simplicity for Permit and Licenses
- VAT Refund

**** For the area with high level import rate, wider incentives are provided.

***** For the areas which have critical importance for Turkey, special incentives are provided.

OTHER INCENTIVES

Other than the investment incentives, below incentives are also provided.

- Employment Incentives
For employment and training of the personnel, Social Security exemptions and cash supports are provided.
- R&D and Design Incentives
Grant opportunities for technology development and innovation activities; tax advantages for R&D and design center.
- Regional Management Center Incentives
The Companies and liaison offices which move their regional management center to Turkey can benefit from some tax advantages.
- Export Incentives
Tax exemptions and cash supports are provided to increase export rate of Turkey. Also, Free Zones provide tax advantages for the investment regarding export investment. Besides, Eximbank provides loan opportunity for this kind of investment.





Tax Legislation

In Turkey, tax is divided into three groups as Income, Expenditure and Wealth.

INCOME TAXES

As per Turkish tax legislation, taxes collected based on income are income tax and corporate tax.

The income of real persons is subject to income tax. Income refers to the net amount of earnings and revenues obtained by a real person within a calendar year. Income of a person may include one or more of the following income items:

- Commercial earnings
- Agriculture earnings
- Salaries
- Self-employment earnings
- Immovable property income
- Securities income
- Other earnings and revenues

2021 income tax rates are:

Income Tax Rates related to non-salary income – Year 2021	
Income Brackets	Tax Rate
Up to 24.000 TL	15%
3.600 TL for 24.000 TL of 53.000 TL, more	20%
9.400 TL for 53.000 TL of 130.000 TL, more	27%
30.190 TL for 130.000 TL of 650.000 TL, more	35%
212.190 TL for 650.000 TL of over 650.000 TL, more	40%

Income Tax Rates related to salary income – Year 2021	
Income Brackets	Tax Rate
Up to 24.000 TL	15%
3.600 TL for 24.000 TL of 53.000 TL, more	20%
9.400 TL for 53.000 TL of 190.000 TL, more	27%
46.390 TL for 190.000 TL of 650.000 TL, more	35%
207.390 TL for 650.000 TL of over 650.000 TL, more	40%

CORPORATE TAX

Corporate tax is collected based on corporate earnings and legal entities are taxpayers of this tax.

Corporate tax rates are:

Corporate Tax Rates	
Year	Rate
2021	25%
2020	22%
2019	22%
2018	22%
2017	20%

EXPENDITURE TAXES

VAT (Value Added Tax)

Frequently applied VAT rates are 1%, 8% and 18%. Commercial, industrial, agricultural and independent professional goods and services, goods imported and services obtained from foreign countries are subject to VAT.

SCT (Special Consumption Tax)

Products subject to SCT with varying rates fall into 4 groups:

- Oil products, natural gas, machine oils, solvents and solvent derivatives
- Automobiles and other vehicles, motorcycles, airplanes, helicopters, yachts
- Tobacco and tobacco products, alcohol beverages
- Luxury consumption items

SCT is collected once.

BSMV (Banking and Insurance Transaction Tax)

Although transactions performed by banking and insurance companies continue to be exempt from VAT, they are subject to BSMV. This tax is collected for income of banks, such as loan interest income. While the tax rate is usually 5%, it can be applied as 1% on interest rates in certain transactions, such as deposit transactions among banks. It is applied as 2 per thousand on FX transactions as of 30 September 2020.

Stamp Tax

Stamp tax is applied on various documents such as contracts, promissory notes, capital participants, loan letters, letter of guarantee, financial notifications, payrolls, etc. Stamp tax rate ranges from 0,189% and 0,948% of the document fee. It may also be collected at a fixed rate (pre-determined) for certain documents.

Special Communication Tax

Telecommunication services of businesses which establish and operate telecommunication infrastructures or which provide telecommunication services are subject to this tax.

WEALTH TAXES

Property Tax

Simply put, property tax is the type of tax that owners of immovable property (such as house, land, workplace, plot, etc.) have to pay annually. Payments are made twice a year with equal installments in May and November every year.

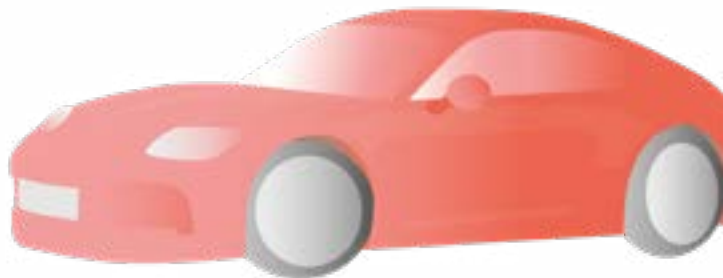
Property tax rates are calculated based on many variables. A tax of 1 - 3 per thousand is collected for immovable located outside big cities (houses, other buildings, lands and plots). In case such immovable are located within big cities, tax rate is between 2 - 6 per thousand. Calculation rates will vary according to property type and qualifications. Property type, location and current worth are considered when calculating this tax.

Motor Vehicles Tax

Vehicle owners are obliged to pay this tax with equal installments in January and July every year. It is collected by the tax office of the owner's residential city or contracted banks. All vehicle owners are liable to pay motor vehicles tax. In 2021, motor vehicles tax was determined as 109 TL at minimum and 50 thousand 107 TL at maximum.

Inheritance and Succession Tax

It is a type of wealth tax collected for wealth items obtained free of charge or cost, which means it is based on wealth. Inheritance and succession tax should be paid when a person obtains wealth via legacy, inheritance, etc. Succession tax should be paid when a person obtains wealth via donations or other means.



About us

As attorneys, tax advisers, management and IT consultants and auditors, we are present with 106 own offices in 48 countries. Worldwide, our clients trust our 5,130 colleagues.

The history of Rödl & Partner goes back to its foundation as a solo practice in 1977 in Nuremberg. Our aspiration to be on hand wherever our internationally-active clients are led to the establishment of our first, own offices, commencing with Central and Eastern Europe in 1991. Alongside market entry in Asia in 1994, the opening of offices in further strategic locations followed, in Western and Northern Europe in 1998, USA in 2000, South America in 2005 and Africa in 2008.

Our success has always been based on the success of our German clients: Rödl & Partner is always there where its clients see the potential for their business engagement. Rather than create an artificial network of franchises or affiliates, we have chosen to set up our own offices and rely on close, multidisciplinary and cross-border collaboration among our colleagues. As a result, Rödl & Partner stands for international expertise from a single source.

Our conviction is driven by our entrepreneurial spirit that we share with many, but especially German family-owned companies. They appreciate personal service and value an advisor they see eye to eye with.

Our 'one face to the client' approach sets us apart from the rest. Our clients have a designated contact person who ensures that the complete range of Rödl & Partner services is optimally employed to the client's benefit. The 'caring partner' is always close at hand; they identify the client's needs and points to be resolved. The 'caring partner' is naturally also the main contact person in critical situations.

We also stand out through our corporate philosophy and client care, which is based on mutual trust and long-term orientation. We rely on renowned specialists who think in an interdisciplinary manner, since the needs and projects of our clients cannot be confined to individual professional disciplines. Our one-stop-shop concept is based on a balance of expertise across the individual service lines, combining them seamlessly in multidisciplinary teams.

WHAT SETS US APART

Rödl & Partner is not a collection of accountants, auditors, attorneys, management and tax consultants working in parallel. We work together, closely interlinked across all service lines. We think from a market perspective, from a client's perspective, where a project team possesses all the capabilities to be successful and realise our client's goals.

Our interdisciplinary approach is not unique, nor is our global reach or our particularly strong presence among family businesses. It is the combination that cannot be found anywhere else – a firm that is devoted to comprehensively supporting German businesses, wherever in the world they might be.

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