



PrimeGlobal

*An Association of
Independent Accounting Firms*

DOING BUSINESS IN TURKEY





COMPANY FORMATION IN TURKEY

MAIN FORMS OF COMPANY/BUSINESS IN TURKEY

A foreign company may perform its business in Turkey by establishing a subsidiary, branch or liaison office.

- Joint Stock Company (JSC)
- Limited Liability Company (LLC)
- Corporations
- Branch Office
- Liaison Office
- Technology Development Zones
- Free Trade Zones
- Individual Company (Self-employees)

SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

Taxes that investors should be aware of:

Income Taxes

- Corporate Income Tax
- Individual Income Tax

Taxes

- Value Added Tax (VAT)
- Special Consumption Tax
- Banking and Insurance Transaction Tax
- Stamp Tax

Taxes on Wealth

- Property taxes
- Motor vehicle tax
- Inheritance and gift tax

Withholding Tax

Under the Turkish tax system, certain taxes are collected through withholding by the payers in order to secure the collection of taxes. These include income tax on salaries of employees, lease payments to individual landlords, independent professional service fee payments to resident individuals, and royalty, license and service fee payments to nonresidents. Companies in Turkey are responsible to withhold such taxes on their payments and declare them through their withholding tax returns.

Stoppage (Withholding Tax) that is filed monthly or quarterly. When any company (including Liaison offices) gets accounting, lawyer services and similar professional independent services, the company shall pay stoppage tax to government. In accounting and lawyer services stoppage rate is 25% based on net amount



LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

An LLC requires minimum one partner and it can be a legal entity or a real person. The partner/partners can be Turkish or foreign as well. Foreigners can own 100% of a company and transfer their profit out of Turkey without any problems. Minimum required capital for a Limited Liability Company is 10,000.-TL (Turkish lira). 25% of the capital amount must be paid in advance for the establishment process. The rest of the capital of the company shall be paid in two years and in four installments.

A Joint Stock Company requires minimum one partner and it can be a legal entity or a real person. The partner/partners can be Turkish or foreign as well. Foreigners can own 100% of a company and transfer their profit out of Turkey without any problems. Minimum required capital for a Joint Stock Company is 50,000.-TL (Turkish lira).

A Branch Office is a legal entity registered with the Trade Registry and represented by a representative/ branch manager. Even though a branch has separate capital, which is allocated by the head office, it may not have a separate articles of association and consequently must act within the same field of activity as that of its head office. Even though the branch is dependent on its head office in internal relations, it may act independently and trade in its own account in external relations. It is considered to have a separate tax personality than that of its head office.

A Liaison Office is not a legal entity, therefore they cannot engage in any trade activities. They cannot issue invoices. It cannot be a party to any commercial agreement.

CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

Turkey is situated at the meeting point of Southeastern Europe and South Western Asia.

Turkey is in the Eastern European Time Zone and adheres to EET (UTC +2) during the winter and EEST (UTC +3) during the months of March to October.

The climatic conditions in Turkey vary. In the coastal regions, the summers are hot and dry with mild and wet winters. The central areas have a prairie-like climate with hot, dry summers and cold winters with very little rainfall.

OTHER COUNTRY-SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

A local bank account is required for company establishments.

Turkish potential tax number is an ID number that is issued for foreigners to be recognized in Turkey in order to complete official processes. It is required by the bank for allowing banking transactional authorities.



PERMANENT ESTABLISHMENT IN TURKEY: BRANCH OR SUBSIDIARY?

DEFINITION OF A PERMANENT ESTABLISHMENT

Please find below the definition of permanent establishment according to OECD:

PERMANENT ESTABLISHMENT (PE) – Term used in double taxation agreement (although it may also be used in national tax legislation) to refer to a situation where a non-resident entrepreneur is taxable in a country; that is, an enterprise in one country will not be liable to the income tax of another country unless it has a “permanent establishment” through which it conducts business in that other country. Even if it has a PE, the income to be taxed will only be to the extent that it is ‘attributable’ to the PE.”

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

There are important differences between the two types of companies and the most important one is that the branch depends on the parent-company and the subsidiary is a total different company that could be formed as a limited liability company or a joint stock company.

TAX AND ACCOUNTING OBLIGATIONS

- Companies are obliged to maintain statutory books
- Companies are obliged to have an accountant
- Annual audited financial statements must be submitted to the Turkish Trade Registry

REGISTRATION FORMALITIES

Establishing a company generally requires 7 to 10 days preparation after we get all the documents. If the partners don't have a Turkish Tax ID, we need to obtain Tax ID's for each partner.

Partners can apply for a work permit as the shareholder of the company, however if a partner likes to apply for a work permit then the capital is minimum 100,000.-TL and must be paid in full.

STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

A branch office may be incorporated only for the same purposes as those of the parent company. Repatriation of branch profit is allowed. The branch profit transferred to the headquarters is subject to dividend withholding tax at a rate of 15 percent, which may be reduced by Double Taxation Prevention Treaties.



HOW TO HIRE MY FIRST EMPLOYEE IN TURKEY

MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

- Before hiring employees, the entrepreneur should know the main rules related to employment in Turkey. The employer must decide what types of contracts are suitable for his business.
- There are various types of employment contracts and employer needs to choose one of them.
- After the contracts, employee has to be signed to Social Security.

DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

Pursuant to the Labor Law, there are various types of employment contracts:

1. Employment contracts for "temporary" and "permanent" work
2. Employment contracts for a "definite period" or an "indefinite period"
3. Employment contracts for "part-time" and "full-time" work
4. Employment contracts for "work-upon-call"
5. Employment contracts with a trial period
6. Employment contracts constituted with a team contract

Employment contracts has to include Working Hours and Overtime and Annual Paid Vacation.

CAN SOMEBODY DO BUSINESS FOR ME AND NOT BE AN EMPLOYEE?

Yes, there is a system named "Taşeron" (Subcontractor). Subcontractors can work on behalf of the first employer. They would be classified for projects or some specified areas.



HOW TO READ FINANCIAL STATEMENTS IN TURKEY



DETAILED INCOME STATEMENT		CURRENT PERIOD	
TL		31.12.2015	
A - GROSS SALES			0.00
600 1- Domestic Sales		0.00	
601 2- Export Sales		0.00	
602 3- Other Sales		0.00	
B - SALES DISCOUNTS (-)			0.00
610 1- Sales Returns (-)		0.00	
611 2- Sales Discounts (-)		0.00	
612 3- Other Discounts (-)		0.00	
C - NET SALES			0.00
D - COST OF SALES(-)			0.00
620 1- Cost of Goods Sold(Product) (-)		0.00	
621 2- Cost of Commercial Goods Sold (-)		0.00	
622 3- Cost of Services Sold (-)		0.00	
623 4- Cost of Other Sales (-)		0.00	
GROSS PROFIT/LOSS			0.00
E - OPERATING EXPENSES (-)			0.00
630 1- Research and Development Expenses (-)		0.00	
631 2- Marketing, Selling and Distribution Expenses (-)		0.00	
632 3- General Administrative Expenses (-)		0.00	
OPERATING PROFIT/LOSS			0.00
F - INCOME AND PROFIT FROM OTHER OPERATIONS			0.00
640 1- Dividend Income from Participations		0.00	
641 2- Dividend Income from Subsidiaries		0.00	
642 3- Interest Income		0.00	
643 4- Commission Income		0.00	
644 5- Provisions No Longer Required		0.00	
645 6- Gains on Marketable Securities' Sales		0.00	
646 7- Foreign Exchange Gain		0.00	
647 8- Discount on Interest Gain		0.00	
648 9- Gains from Inflation Adjustment		0.00	
649 10- Other Income and Profit from Operations		0.00	
G - EXPENSES AND LOSS FROM OTHER OPERATIONS			0.00
653 1- Commision Expenses (-)		0.00	
654 2- Provision Expenses (-)		0.00	
655 3- Losses on Marketable Securities' Sales(-)		0.00	
656 4- Foreign Exchange Losses (-)		0.00	
657 5- Interest Expenses on Discounted Notes (-)		0.00	
658 6- Loss from Inflation Adjustment (-)		0.00	
659 7- Other Expenses and Losses (-)		0.00	
H - FINANCIAL EXPENSES (-)			0.00
660 1- Short-Term Borrowing Expenses (-)		0.00	
661 2- Long-Term Borrowing Expenses (-)		0.00	
OPERATIONAL PROFIT/(LOSS)			0.00
I - EXTRAORDINARY INCOME AND PROFIT			0.00
671 1- Income and Profit Relating to Previous Years		0.00	
679 2- Other Extraordinary Expenses and Loss (-)		0.00	
J - EXTRAORDINARY EXPENSE AND LOSS			0.00
680 1- Idle Capacity Expenses and Losses (-)		0.00	
681 2- Previous Period Expenses and Losses (-)		0.00	
689 3- Other Extraordinary Expense and Loss (-)		0.00	
PROFIT/(LOSS) FOR THE PERIOD			0.00
K - PROVISIONS FOR TAXATION AND OTHER LEGAL LIABILITIES(-)			0.00
NET PROFIT/(LOSS) FOR THE PERIOD			0.00



*****		TL	
Detailed Balance Sheet			
ASSETS		31.12.2015	
I. CURRENT ASSETS			0.00
A. Liquid Assets		0.00	
1. Cash	0.00		
2. Cheques Received	0.00		
3. Banks	0.00		
4. Cheques Given and Payment Orders(-)	0.00		
5. Other Liquid Assets	0.00		
B. Marketable Securities		0.00	
1. Common Stocks	0.00		
2. Private Sector Bonds, Notes and Shares	0.00		
3. Public Sector Bonds, Notes And Shares	0.00		
4. Other Marketable Securities	0.00		
5. Provision for Decrease in Value of Marketable Sec.(-)	0.00		
C. Trade Receivables		0.00	
1. Customers	0.00		
2. Notes Receivable	0.00		
3. Rediscount on Notes Receivables (-)	0.00		
4. Unearned Lease Interest Income (-)	0.00		
5. Deposits and Guarantees Given	0.00		
6. Other Trade Receivables	0.00		
7. Doubtful Trade Receivables	0.00		
8. Provisions for Doubtful Trade Receivables (-)	0.00		
D. Other Receivables		0.00	
1. Due from Shareholders	0.00		
2. Due from Participations	0.00		
3. Due from Subsidiaries	0.00		
4. Due from Personnel	0.00		
5. Other Receivables	0.00		
6. Discounts on Notes Receivables(-)	0.00		
7. Other Doubtful Receivables	0.00		
8. Provision for Other Doubtful Receivables(-)	0.00		
E. Inventories		0.00	
1. Raw Materials and Supplies	0.00		
2. Semi-finished Goods in Production	0.00		
3. Finished Goods	0.00		
4. Trade Goods	0.00		
5. Other Inventories	0.00		
6. Provision for Inventories (-)	0.00		
7. Advances Given to Suppliers	0.00		
F. Contract Progress Cost		0.00	
1. Contract Progress Costs	0.00		
2. Contract Progress Inflation	0.00		
3. Advances Given to Sub-Contractors	0.00		
G. Prepaid Expenses and Income Accruals for the Following Months		0.00	
1. Prepaid Expense for The Following Months	0.00		
2. Income Accruals	0.00		
H. Other Current Assets		0.00	
1. Deferred VAT	0.00		
2. Deductible VAT	0.00		
3. Other VAT	0.00		
4. Prepaid Tax and Funds	0.00		
5. Work Advance	0.00		
6. Advance Given To Personnel	0.00		
7. Stock Count and Delivery Shortages	0.00		
8. Other Current Assets	0.00		
9. Provision for Other Current Assets (-)	0.00		
II. LONG TERM ASSETS			0.00
A. Trade Receivables		0.00	
1. Customers	0.00		
2. Notes Receivable	0.00		



3. Rediscount on Notes Receivables (-)	0.00		
4. Unearned Lease Interest Income (-)	0.00		
5. Deposits and Guarantees Given	0.00		
6. Provison for Doubtful Receivables	0.00		
B. Other Receivables		0.00	
1. Due from Shareholders	0.00		
2. Due from Affiliates	0.00		
3. Due from Subsidiaries	0.00		
4. Receivables From Personnel	0.00		
5. Other Receivables	0.00		
6. Rediscount on Other Notes Receivable (-)	0.00		
7. Provision for Other Doubtful Receivables(-)	0.00		
C. Financial Non-Current Assets		0.00	
1. Long Term Securities	0.00		
2. Decrease in Value of Long Term Marketable Securities (-)	0.00		
3. Participations	0.00		
4. Capital Commitments for Participations (-)	0.00		
5. Decrease in Value of Participations' Shares (-)	0.00		
6. Subsidiaries	0.00		
7. Capital Commitments for Subsidiaries (-)	0.00		
8. Decrease in Value of Subsidiaries Shares (-)	0.00		
9. Other Financial Assets	0.00		
10. Decrease in Value of Other Financial Assets (-)	0.00		
D. Tangible Fix Assets		0.00	
1. Land	0.00		
2. Land Improvements	0.00		
3. Buildings	0.00		
4. Machinery,Equipment and Installations	0.00		
5. Motor Vehicles	0.00		
6. Furniture and Fixtures	0.00		
7. Other Tangible Fix Assets	0.00		
8. Accumulated Depreciation(-)	0.00		
9. Construction in Progress	0.00		
10. Fix Assets Advances Given	0.00		
E. Intangible Assets		0.00	
1. Rights	0.00		
2. Goodwill	0.00		
3. Pre-operating Expenses	0.00		
4. Research and Development Expenses	0.00		
5. Special Cost	0.00		
6. Other Intangible Fixed Assets	0.00		
7. Accumulated Amortization(-)	0.00		
8. Advances Given to Suppliers	0.00		
F. Assets Subject to Depletion		0.00	
1. Research Expenses	0.00		
2. Preperation and Development Expenses	0.00		
3. Other Depletable Assets	0.00		
4. Accumulated Depletion (-)	0.00		
5. Advances Given	0.00		
G. Prepaid Expenses and Income Accruals for the Following Years		0.00	
1. Prepaid Expenses for the Following Years	0.00		
2. Income Accruals	0.00		
H. Other Non-Current Assets		0.00	
1. VAT Deductible for the Following Years	0.00		
2. Other VAT	0.00		
3. Long Term Stocks	0.00		
4. Inventories and Tangible Fixed Assets to be Sold	0.00		
5. Prepaid Expenses and Funds	0.00		
6. Other Fixed Assets	0.00		
7. Decrease in Value of Stocks (-)	0.00		
8. Accumulated Depreciation (-)	0.00		
TOTAL ASSETS			0.00



*****		TL
Detailed Balance Sheet		
LIABILITIES		31.12.2015
I. SHORT-TERM LIABILITIES		0.00
A. Financial Liabilities		0.00
1. Bank Loans	0.00	
2. Leasing Payables	0.00	
3. Interest Payables of Deferred Lease Costs (-)	0.00	
4. Current Maturities of Long Term Credits and Accrued Interest	0.00	
5. Current Maturities of Bonds and Accrued Interest	0.00	
6. Bonds and Notes Issued	0.00	
7. Other Securities Issued	0.00	
8. Value Difference of Securities Issued (-)	0.00	
9. Other Financial Liabilities	0.00	
B. Trade Payables		0.00
1. Suppliers	0.00	
2. Notes Payable	0.00	
3. Rediscount on Notes Payables (-)	0.00	
4. Deposits and Guarantees Received	0.00	
5. Other Trade Payables	0.00	
C. Other Liabilities		0.00
1. Due to Shareholders	0.00	
2. Due to Affiliates	0.00	
3. Due to Subsidiaries	0.00	
4. Due to Personnel	0.00	
5. Other Liabilities	0.00	
6. Rediscount on Other Notes Payable (-)	0.00	
D. Advances Received		0.00
1. Advances Received	0.00	
2. Other Advances Received	0.00	
E. Contract Progress Income		0.00
1. Contract Progress Income	0.00	
2. Inflation Adjustments on Contract Progress Income	0.00	
F. Taxes Payable and Other Liabilities		0.00
1. Taxes And Funds Payables	0.00	
2. Social Security Premiums Payable	0.00	
3. Overdue,Deferred or Restructed Taxes and Other Liabilities	0.00	
4. Other Liabilities Payable	0.00	
G. Provisions for Liabilities and Expenses		0.00
1. Prov. for Income Taxes and Oth.Legal Liabilities	0.00	
2. Prepaid Taxes and Funds on Profit for the Period	0.00	
3. Provision for Employee Termination Benefits	0.00	
4. Provision for Other Liabilities and Expenses	0.00	
H. Short Term Deferred Income and Expense Accruals		0.00
1. Short Term Deferred Income	0.00	
2. Expense Accruals	0.00	
I. Other Short Term Liabilities		0.00
1. Other VAT	0.00	
2. Head Office and Branch Current Accounts	0.00	
3. Stock Count Delivery Surpluses	0.00	
4. Other Short Term Liabilities	0.00	
II. LONG-TERM LIABILITIES		0.00
A. Financial Liabilities		0.00
1. Bank Loans	0.00	
2. Leasing Payables	0.00	
3. Deferred Lease Interest Payables (-)	0.00	
4. Bonds Issued	0.00	
5. Other Marketable Securities Issued	0.00	
6. Value Differences of Securities Issued (-)	0.00	
7. Other Financial Liabilities	0.00	



B. Trade Payables		0.00	
1. Suppliers	0.00		
2. Notes Payable	0.00		
3. Rediscount on Notes Payable(-)	0.00		
4. Deposits and Guarentees Taken	0.00		
5. Other Trade Payables	0.00		
C. Other Long-Term Liabilities		0.00	
1. Due to Shareholders	0.00		
2. Due to Participations	0.00		
3. Due to Subsidiaries	0.00		
4. Other Payables	0.00		
5. Rediscount on Notes Payable (-)	0.00		
6. Deferred or Restructured Debts of Public Sector	0.00		
D. Advance Received		0.00	
1. Advances Received	0.00		
2. Other Advances Received	0.00		
E. Provisions for Liabilities and Expenses		0.00	
1. Provisions for Employee Termination Benefits	0.00		
2. Provisions for Other Liabilities and Expenses	0.00		
F. Long Term Deferred Income and Expense Accruals		0.00	
1. Long Term Deferred Income	0.00		
2. Expense Accruals	0.00		
G. Other Long-Term Liabilities		0.00	
1. Long Term Deferred or Postponed VAT	0.00		
2. Installation Participation	0.00		
3. Other Long Term Liabilities	0.00		
III. SHARE HOLDERS' EQUITY			0.00
A. Paid-in Capital		0.00	
1. Capital	0.00		
2. Unpaid Capital(-)	0.00		
3. Pozitive Distinction from Capital Adjustment	0.00		
4. Negative Distinction from Capital Adjustment (-)	0.00		
B. Capital Reserves		0.00	
1. Share Premium	0.00		
2. Share Premium of Cancelled Shares	0.00		
3. Revaluation Fund of Tangible Fixed Assets	0.00		
4. Revaluation Fund of Investments	0.00		
5. Other Capital Reserves	0.00		
C. Profit Reserves		0.00	
1. Legal Reserves	0.00		
2. Special Reserves	0.00		
3. Extraordinary Reserves	0.00		
4. Other Profit Reserves	0.00		
5. Special Funds	0.00		
D. Retained Earnings	0.00	0.00	
E. Accumulated Deficit(-)	0.00	0.00	
F. Net Profit(Loss) for The Period	0.00	0.00	
TOTAL LIABILITIES			0.00