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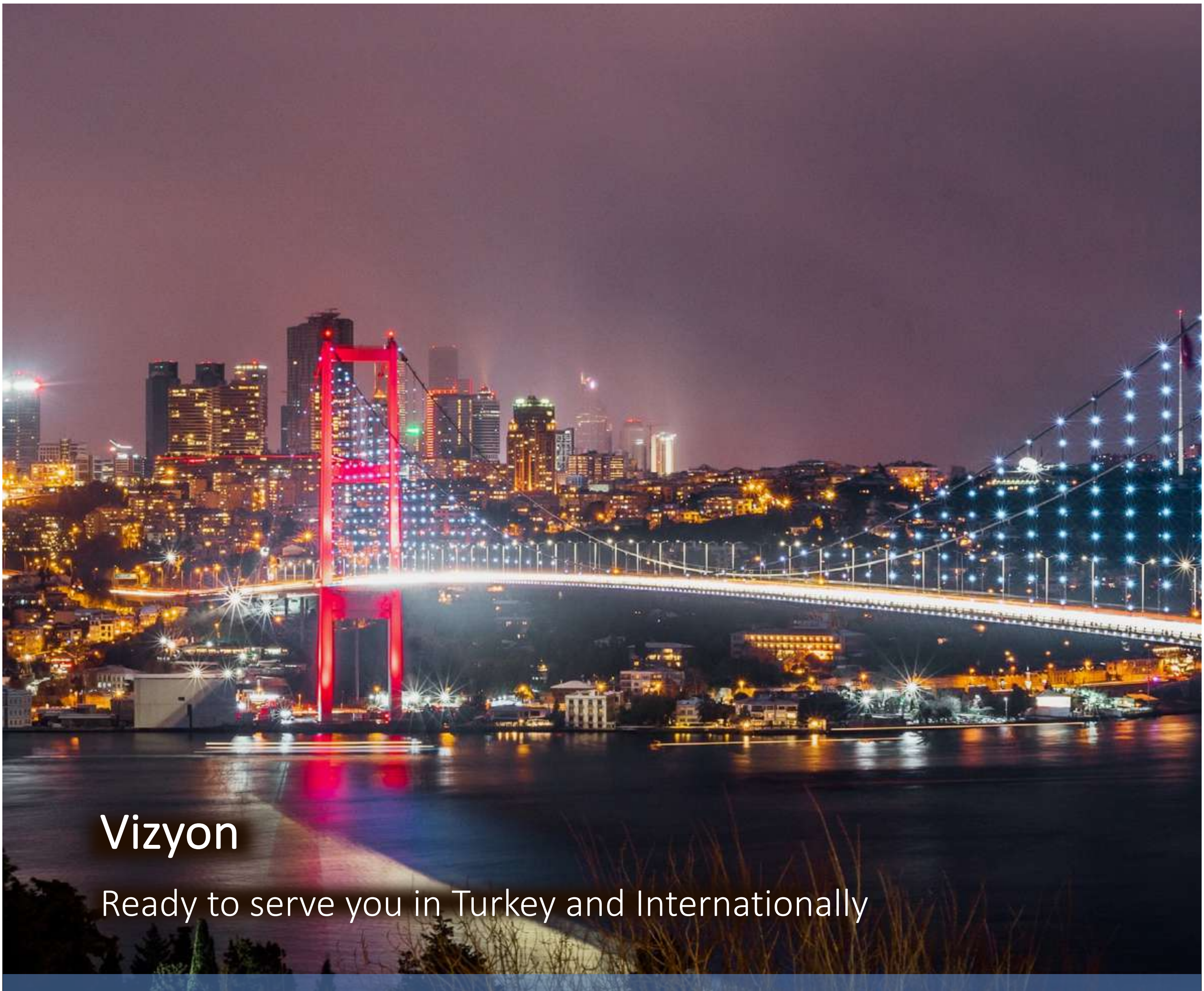


Vizyon

Ready to serve you in Turkey and Internationally

A Guide to Doing Business in Turkey

A member of mgiworldwide

2023

Contents

10 Reasons to do Business in Turkey

Turkey has become the focus of attention of international circles, especially after the 2000s, with its many features in terms of carrying out commercial/economic activities within its borders.

As of this period, foreign direct investments and capital flows to Turkey have accelerated and the increasing interest from outside has enabled the market-friendly policies implemented by Turkey to become more and more effective day by day.

Turkey differs positively from many countries, especially in its region, as it has many positive parameters in the world in terms of doing business.

Therefore, in this study, firstly, after giving 10 basic answers to the question of "Why do business in Turkey?", the issues that should be known in the relevant subject headings will be mentioned.

1. Robust Economy

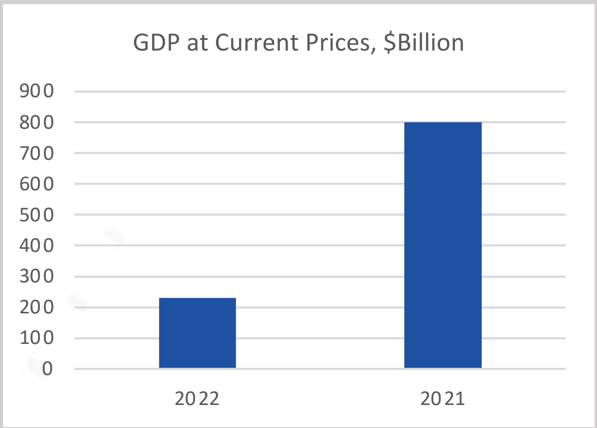
According to the Purchasing Power Parity, Turkey has become the 11th largest country in the world. Especially as of 2003, with the effect of economic policies, Turkey has been able to strengthen its position every year. In the near future, it is expected that Turkey will take its place among the top 10 economies of the world according to the aforementioned parameter.

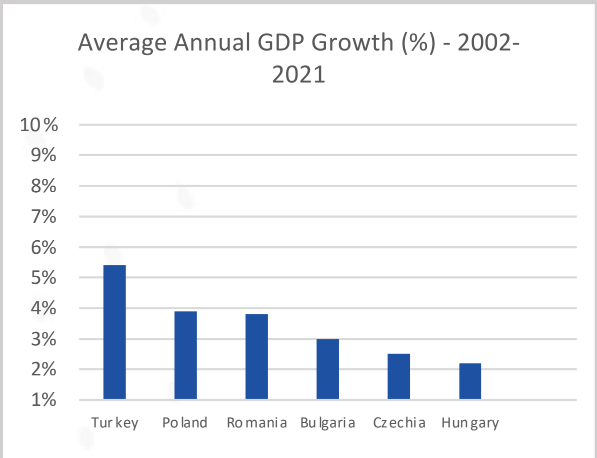
With the change of government in annual average growth rate of 5.4% between 2002-2021 2002, the adoption of the IMF program and strong economic policies, Turkey managed to increase its GDP from 236 billion Dollars in 2002 to 803 billion Dollars in 2021.

In Turkey, which managed to grow its economy more than three times during this time, the 'robust domestic market and the 'entrepreneurial private sector' provided the biggest contributions to the economy. Despite the stagnation With an, Turkey left behind emerging economies such as Poland and Romania. in the global economy during the pandemic process, the Turkish economy is one of the countries that got rid of the negative effects of the pandemic with its strong monetary and fiscal policies. Turkey, which was able to recover its economic indicators very quickly, was able to reach higher growth figures in 2020 and 2021 compared to other countries.

Rankings of Economies by GDP at PPP

	2003	2019	2021
1	USA	China	China
2	China	USA	USA
3	Japan	India	India
4	Germany	Japan	Japan
5	India	Germany	Germany
6	Russia	Russia	Russia
7	France	Indonesia	Indonesia
8	UK	Brazil	Brazil
9	Brazil	UK	UK
10	Italy	France	France
11	Mexico	Mexico	**Turkey**
12	Indonesia	Italy	Italy
13	Spain	**Turkey**	Mexico
14	Canada	S. Korea	S. Korea
15	S. Korea	Spain	Canada
16	S. Arabia	Canada	Spain
17	Iran	S. Arabia	S. Arabia
18	**Turkey**	Iran	Taiwan





2. Domestic & Accessible markets

Turkey, with a population of approximately 84.7 million according to 2021 data, has a serious consumption and investment potential. Between 2002-2021, despite its large population, it managed to increase its per capita income from $10,997 to $34,755 according to purchasing power parity.

Turkey has expanded its sphere of influence over the years with international agreements as well as local markets. In this context, Turkey has signed Free Trade Agreements with 28 countries and included 463 million people living in these regions within its potential area of influence.

However, with the Customs Union Agreement signed with the European Union, Turkey has the potential to sell products and services to approximately 448 million people living in Europe. Considering the local and global markets together, Turkey has free access to approximately 996 million people.

3. Strategic Location

Turkey is among the leading countries of the world with its strategic location. It has an important share in world trade with its location very close to the world's most important markets. In this context:

- There is an opportunity to reach 1.3 billion people and an economic size of 26 trillion dollars in total within a 4-hour flight distance from Turkey.
- Working hours in Turkey coincide with 16 different time zones in the world, and this strengthens Turkey's integration into global markets.
- As one of the world's largest airline companies, Turkish Airlines provides access to 323 destinations in 127 countries, contributing to Turkey's expansion of its global sphere of influence.
- Turkey has an important place as the production, export and management center of many international companies. Companies such as Microsoft, Ford, Hugo Boss, Nestle, Cargill can be given as examples.

Based on the aforementioned issues, Turkey's total exports rose from 36 billion Dollars to 225 billion Dollars in the 2002-2021 period, breaking the record of all times. Turkey is increasing its export record in every current data. Turkey's share in world exports, which differs positively in terms of export performance compared to many other countries, has doubled in this period, reaching slightly above the 1% level.

4. Favorable Demographics

• The demographic structure of Turkey, which has a population of 84.7 million, is one of the most important reasons that make it stand out. While it is observed that the average age of half of the population in Turkey is lower than 32.7, it is known that the average age of half of the population in Europe is higher than 50 levels.

• As of 2014, it has been observed that the working age population is the same in Turkey and Europe, but over time, Europe has been negatively differentiated and Turkey has been positively differentiated.

• Again, to make a comparison with Europe, while the "total dependency ratio" follows a constant trend over the years in Turkey, there is a linear increase in Europe.

When we evaluate the aforementioned issues as a whole, Turkey comes to the fore with its very close location to Europe and its strong demographic structure that Europe may need.

5. Skilled and Competitive Labor Force

Especially in recent years, with the large investments made in education and the development of education awareness in Turkey, an upward momentum is observed in the number of undergraduate, graduate and doctorate employees. In terms of qualified manpower, Turkey stands out as one of the rising values in its region.

• While there were 287,000 university graduates in 2002, the number in question was 1,113,000 in 2021.

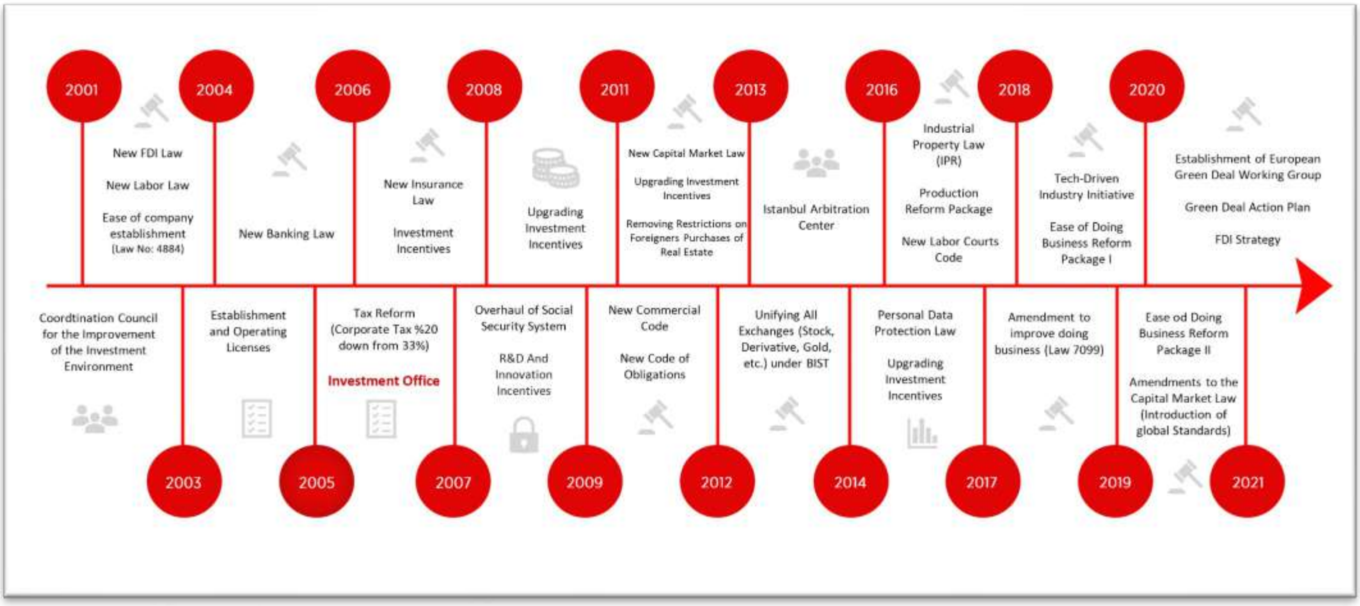
• The rate of university graduates in the labor force increased from 10% in 2002 to 27.9% in 2021.

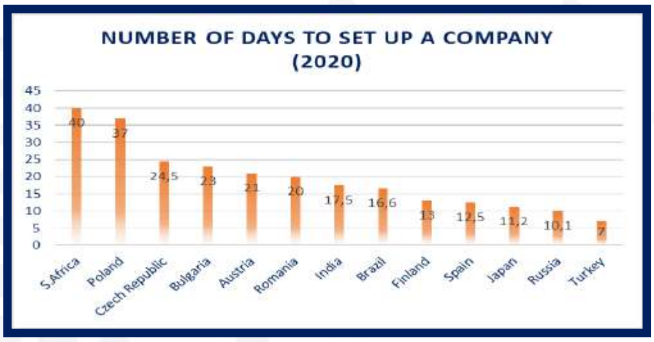
• The ratio of qualified engineers and employees in managerial positions is above countries such as Czechia and Poland.

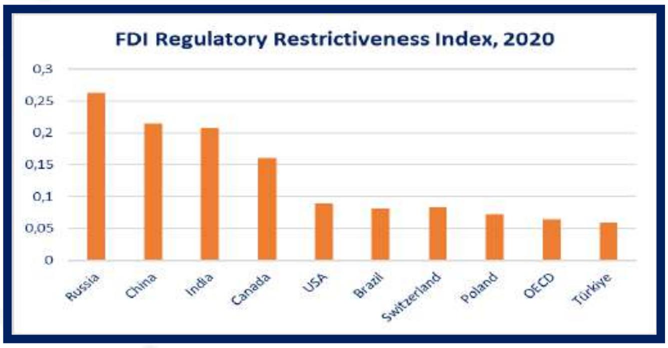
• On the other hand, cost of living and manager/engineer salaries are more competitive in Turkey than in many other countries.

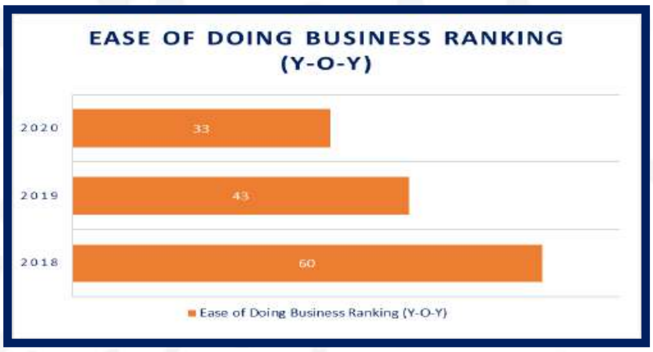
6. Continuous Reform Process

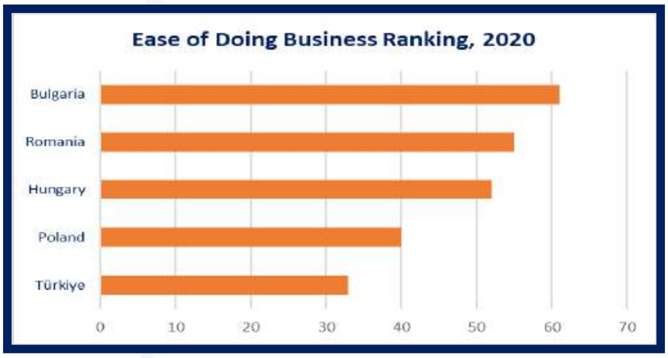
In order to organize economic and commercial life more effectively and pro-market, Turkey constantly uses new reform tools in parallel with emerging needs and at the same time proactively. At this point, it has tried to increase market operability with very radical reforms in many fields, especially after 2001. In order to accelerate the processes and facilitate the solution of the problems, especially the reforms carried out in the field of law come to the fore.











The **Ease of Doing Business Index**, which has been prepared annually by the World Bank since 2004, analyzes the business regulations affecting the investment climate in member countries.

Within the scope of the analysis, Labor market regulation under the main topics of "starting a business",

- Recruitment of workers,
- Securing a place,
- Access to finance,
- Payments for daily activities,
- Operating in a safe business environment,
- Obtaining construction permits,
- Supply of electricity,
- Deed registration,
- Provision of credit,
- Protection of small investors,
- Payment of taxes,
- Foreign trade,
- Execution of contracts,
- Company liquidation indicators are examined.

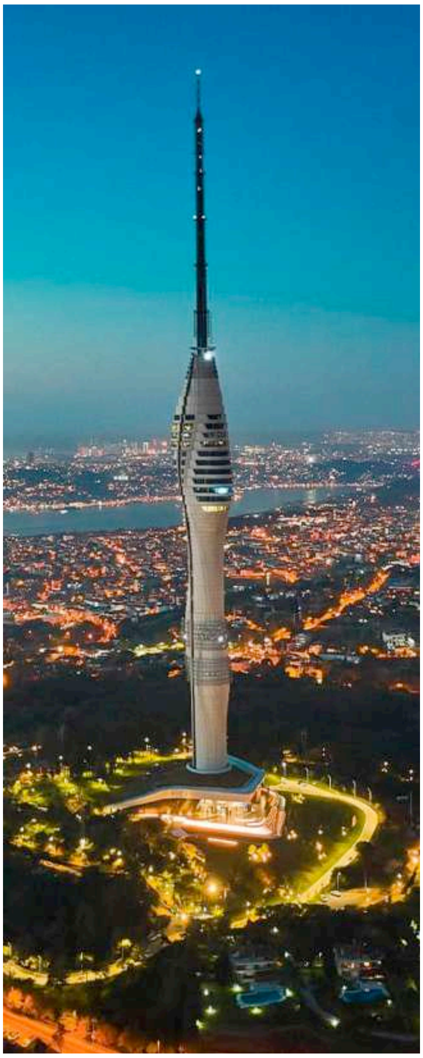
The Ease of Doing Business Index is calculated using a simple method, giving equal weight to each topic and each of the sub-topics. As a result of these processes, a score from zero to 100 is determined for each country. Zero indicates worst performance and 100 indicates best performance.

Turkey, which was ranked 93rd in the Ease of Doing Business Index in 2006, rose to the 57th place in 2008 with an increase of 36 steps.

In the following years, ups and downs took place in the index ranking. Especially in the last 4 years, the legal arrangements made by the government and the economy management and the efforts to improve the business environment have enabled Turkey to rise to the top of the index again.

Implementation, includes the single window application in company establishments, the transfer of title deed processes to the electronic environment has been done. While Turkey ranked 69th in the World Bank's 2017 Ease of Doing Business Index, it rose to 60th in the 2018 index and 43rd in this year's index. In the bank's 2020 report, the country moved up 10 places to 33rd place with a score of 76.8.

Thus, Turkey has risen 60 places in the Ease of Doing Business Index in the last 15 years and has become a country that offers significant advantages for both domestic and foreign investors.



7. Lucrative Incentives

The Republic of Turkey offers a comprehensive investment incentive program that supports minimizing start-up costs and accelerating investment returns for both greenfield and expansion investment projects.

These incentives can also be adapted for projects in priority sectors classified as important areas for technology transfer and economic development. Republic of Turkey to investors; In addition to the support programs, it offers for R&D and innovation projects and additional employment, it also supports exporters through various grants, incentives and loans.

General Investment Incentives
- Customs Duty Exemption
- VAT Exemption

Regional Investment Incentives
- Customs Duty Exemption
- VAT Exemption
- Corporate Tax Deduction
- Social Security Premium Support
- Land Allocation
- Interest Rate Supports
- Income Tax Stoppage Support

Strategic Investment Incentives
- Customs Duty Exemption
- VAT Exemption
- Corporate Tax Deduction
- Social Security Premium Support
- Land Allocation
- Interest Rate Supports
- VAT Refund

Project-Based Investment Incentives
- Customs Duty Exemption
- VAT Exemption
- Corporate Tax Deduction
- Social Security Premium Support
- Land Allocation
- Interest Rate Supports
- Income Tax Stoppage Support
- Energy Support
- Grant Support
- Qualified Labor Force Support

8. Benign R&D Ecosystem

- More than 500 international companies operate in technology parks and R&D centers in Turkey.
- Turkey has been positively differentiated from the rest of the world in terms of the number of researchers, especially in many European countries after 2006.
- Turkey, which started more investments in the field of R&D as of 2001, has positively differentiated in the world, including many European countries.
- Very large international companies such as Ford, Fiat, Mercedes-Benz, Siemens, Toyota, DHL and more have R&D departments in Turkey.

9. Resilient Healthcare System

Merging State hospitals, social security hospitals and institutional hospitals for the service to all citizens.

State-of-the art technology ambulance fleets with **5,946 fully-equipped vehicles and 21 aircrafts.**

1,534 hospitals, some 4,000 medical treatment facilities and over 15,000 primary healthcare centers

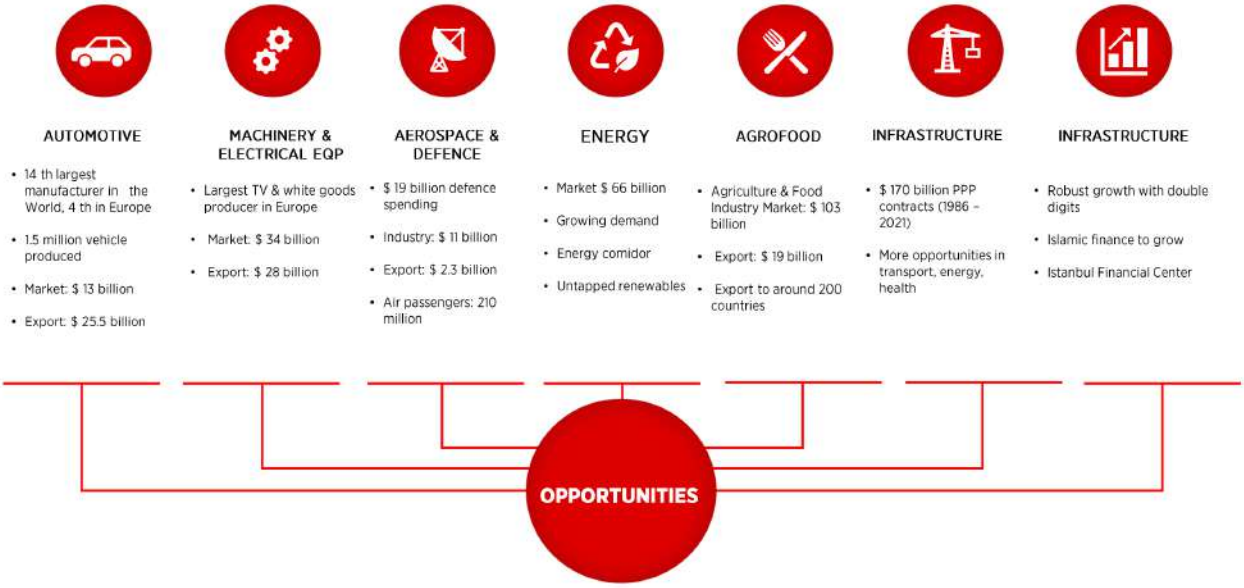
An army of medical professionals with **1.1 million people.**

The budget for healthcare services was increased **from 19 billion TRY to 117 billion TRY over the past 18 years.**

13 city hospitals' entered into service in **12** provinces. **14** more city hospitals are under construction.

Türkiye is leading the list of **intensive care beds** per 100K among the European countries.

10. Sectoral Opportunities



Establishment of Companies

In Turkey, the company establishment procedures, if necessary, documents submitted the related trade registry offices, can be completed within one hour. In Turkey, establishment of companies is exempt from duties. Establishing a company in Turkey by foreign real and legal entities is subject to the same rules as domestic investors.

The trade registry is recorded by 238 trade registry directorates operating within the chambers of commerce under the supervision and audit of the Ministry of Trade.

Steps of Establishing a Business

Users can start the company establishment process by creating a free membership via MERSİS internet address mersis.gtb.gov.tr. In the preparation of the company contract on MERSİS, Turkish citizens can be added with their ID numbers and foreigners with their passport numbers as partner or authorized. However, for this process, foreigners must first obtain a tax number from the tax office and register it to MERSIS by applying to the trade registry office. After that, MERSIS directs the user to fill in the legally required elements of the contract and the company contract is prepared by entering the necessary information.

The contract is prepared in Turkish. The company's potential tax number is also automatically assigned by MERSIS.

The signatures of the persons authorized to represent the company under the title of the company shall be approved by the competent authority and signature declarations shall be prepared. This process is carried out in any trade registry offices in Turkey. In the final stage, upon the application of the founders together with the relevant documents to the registry directorate, the trade registry directorate completes the registration process.

Branches of Foreign Companies

Foreign companies may also open branches in Turkey. This structure is not a legal entity, and it depends mostly on the parent company that is liable for all the obligations of the branch.
The branch must be registered with the Trade Register, like an ordinary company in 2021, and then the activity can start.

Only after you obtain this permit, you can go to the Trade Register in order to incorporate the branch. Compared to the subsidiary, a Turkish branch office will have the following characteristics:

You will need a special permit from the Turkish Ministry of Industry and Trade, and you can obtain this document after you fill in an application.

1. it is fully dependent of the parent company, which means the foreign entity will have full decision rights over the activities and management of the branch

2. the branch office is restricted to complete the same activities of the parent company

3. the branch office is subject to specific licensing regulations, according to the Turkish law

4. from a taxation point of view, the branch will be taxed on the incomes generated in Turkey alone

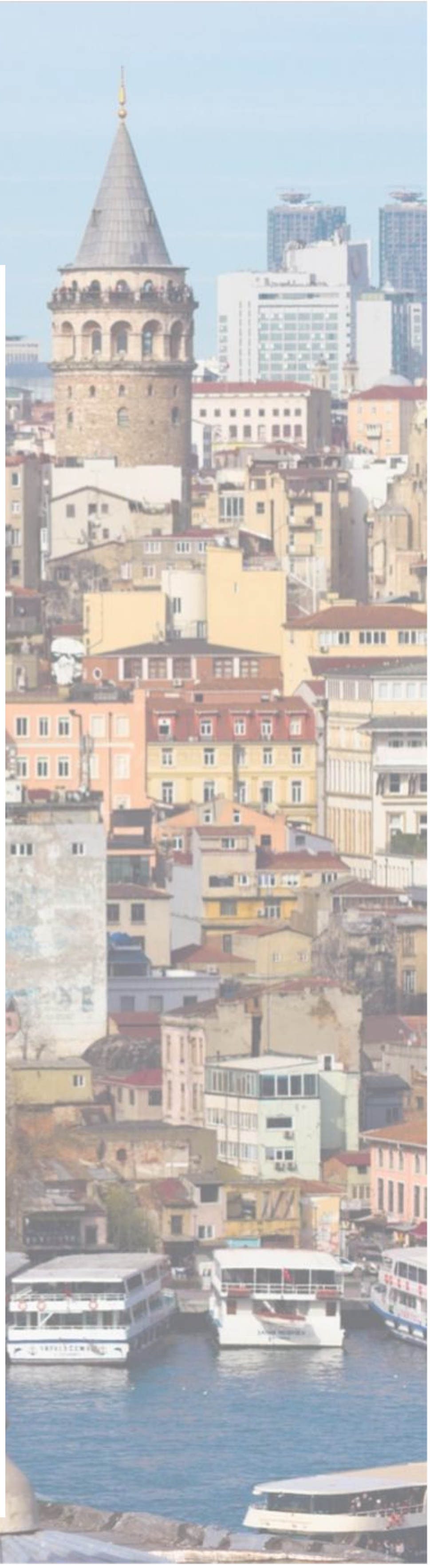
5. branch offices can be deemed as permanent establishments under Turkey's double taxation conventions.

Transfer of Shares & Dividends

The Turkish taxation system is made of direct and indirect taxes which apply on the global income of Turkish residents and on the income sourced in this country in the case of foreign citizens and companies with activities here.

One of the most important taxes imposed in Turkey is the withholding tax, which is levied on several types of income, among which dividend payments. The foreign companies are allowed to repatriate their profits and some limitations exist only for the companies monitored by entities such as Capital Market Board or the Banking Regulatory and Supervisory Board that approved the transfer of the dividends. The dividends can be transferred from Turkey to other countries according to the Foreign Direct Investment Law and the new Turkish Commercial Code.

Foreign companies pay a dividend tax lower than 15% if there are double taxation treaties already signed between their country of residence and Turkey. Until now, Turkey has signed over 70 double tax treaties. The dividend tax must be paid before the profits are repatriated.



Foreign Direct Investments

The FDI Law which entered into force on 17 July 2003 has brought extensive changes in favor of foreign investors and liberated the foreign investment climate by in particular, abolishing the approval system and introducing a more liberal system based on the principles of equal treatment. Prior to the FDI Law, investors were required to obtain prior written consent of the Under Secretariat of Treasury to establish a company, acquire shares in an existing company and/or open a branch or liaison office. Previously, capital increase and changes in the field of activity or partnership structure were also subject to the written approval of the Undersecretariat of Treasury.

Under the FDI Law, investors are only required to notify the Ministry of Treasury and Finance of their investment (Green field investment, share transfer or otherwise etc.) and the amount of foreign capital brought to Turkey, except for opening a liaison office. On June 1, 2018, new requirements have been introduced regarding the notification to the Ministry. Accordingly, companies with foreign shareholders are now required to register certain information (such as shareholding structure, share transfers and/or increase or decrease of the share capital) on an online platform, namely the Electronic Incentive Application and Foreign Investment Information System (E-TUYS).

The FDI Law also introduced some other principles which are vital for fostering a successful foreign investment environment such as the freedom to invest, valuation of non-cash capital and the employment of foreign personnel. Foreign investors can freely establish an entity, open a branch and/or acquire shares of an existing company and conclude know-how/technical assistance agreements with domestic companies. Except for regulated sectors where share transfers exceeding certain thresholds are subject to the prior written consent of the relevant regulatory authority.

According to the FDI Law, companies with foreign capital established under the Turkish Commercial Code are treated equally with companies with domestic capital. In line with this principle, foreign investors can establish a 100% company, make a foreign shareholding, or buy all the shares of an existing Turkish company.

However, exceptions to this principle of equal treatment exist, including acquisitions by companies with foreign shares in Turkey. In addition, restrictions were imposed on foreign-owned companies' investments in certain strategic sectors such as TV broadcasting, maritime and civil aviation.

Currency and Foreign Exchange

Currency: Turkish Lira (TRY), fully convertible. Upon enactment of the Foreign Direct Investment (FDI) Law No. 4875 in Turkey, international investors have gained the same rights and obligations with the local investors. According to this law, international investors are entitled to engage in the importation and exportation in foreign currencies in Turkey. Loans to be borrowed in foreign currency and indexed to foreign currency from Turkish or foreign banks are regulated under the Decree No. 32 and its secondary legislation. Pursuant to such decree, persons residing in Turkey cannot borrow foreign currency loans in Turkey or from foreign countries. Additionally, there are certain restrictions for Turkish legal entities borrowing loans (a) in foreign currency and (b) indexed to foreign currency from local or foreign banks. Accordingly, no foreign currency loans can be extended to a Turkish legal entity unless such entity has foreign currency income or meet the below exceptions:

a. The borrower is public authority and institution, bank and financial leasing company, factoring company, or financing company; whether utilized from abroad or in Turkey, is USD 15 million or more at the time of the utilization.
b. The cumulative loan balance of the borrowing legal entity denominated in foreign currency.
c. Foreign currency loans for financing a domestic tender or public-private partnership project announced internationally, undertaking a defense industry project approved by the Undersecretariat of Defense Industry, purchasing certain machinery and devices (details are included in the decree), or for a transaction within the scope of an investment incentive certificate.
d. Where the foreign currency loan does not exceed the expected foreign currency income of the entity, as certified by such entity.
e. Places where foreign currency loans are made available to finance investments in renewable energy resources in accordance with the Law No. 5346 on the Use of Renewable Energy Resources in Electricity Generation. The amount of such foreign currency loans cannot exceed 80% of the total amount calculated by way of multiplying the annual generation amount with the subject price (local content rate included) for the remaining period with State guarantee.
f. Where foreign currency loans to be borrowed by Turkish legal entities who won the tenders announced in the scope of Privatization Implementations Law No. 40463 regardless of their currency, and for other public tenders in which the price is determined in a foreign currency. The amount of such loans cannot exceed the tender.
g. Where foreign currency loans to be borrowed by special purpose companies who are established for acquiring a new company share. The amount of such loans cannot exceed the total amount regarding the company shares that are projected to be acquired.
h. Where the foreign currency loan will be used to acquire certain machines and devices through a foreign currency denominated financial leasing transaction undertaken by a Turkish financial institution.
i. Where the amount of the foreign currency loan to be extended by a Turkish bank or financial institution does not exceed the foreign currency deposits and/or the value of government or central bank securities issued by or under the surety of the members of the Organization for Economic Cooperation and Development (OECD), held as collateral by the branches of a Turkish bank.

Finally, new restrictions on foreign currency denominated or indexed payments was introduced last year by the Executive Order of the President amending the Decree No. 32, as a result of which, denomination in foreign currency had become prohibited for many agreements. Nevertheless, this blanket prohibition was later softened up to an extent through certain exemptions under the Communiques issued by the Ministry of Treasury and Finance. Exemptions include agreements, including agreement for sale/lease of movable property, employment contracts, service contracts, works contracts, technology contracts, and public contracts. However, in order to fall under the exemptions, there are conditions regarding the parties and the scope of such agreements.

Banking system

The establishment of banks and the commencement and undertaking of banking activities in Turkey are regulated by the Banking Law which entered into force on 1 November 2005, and the secondary legislation which entered into force thereunder. The Banking Law is (among others) applicable to banks established in Turkey, branches of foreign banks in Turkey, representative offices of foreign banks in Turkey, and financial holding companies. The regulating authority for the banking sector in Turkey is the Banking Regulation and Supervision Agency (BRSA), a public legal entity with administrative and financial autonomy which was established in June 1999 and started its operations in 2000. In accordance with the Banking Law, only certain types of banks can be established in Turkey. These are deposit banks, participation banks, and development and investment banks. Both the establishment and the commencement of operations of a bank require permits from the BRSA. In order to establish a bank, firstly an opening permit approving the establishment needs to be obtained from the BRSA. The Banking Law and its secondary legislation provide the terms and conditions for the establishment of a bank. For instance, a bank can only be established as a joint stock company, must meet capital adequacy requirements, and must satisfy specific eligibility criteria in relation to its shareholders and board members. Once the opening permit is issued by the BRSA, a second application needs to be submitted to the BRSA within 9 months for obtaining an operation permit in order to commence operations in Turkey.

Foreign banks may open a branch in Türkiye. The establishment of a branch by a foreign bank is very similar to the establishment of a bank in Türkiye. A branch of a foreign bank is entitled to conduct all banking activities stated under the Banking Law and it is treated as if it is a Turkish bank licensed by the BRSA. A foreign bank can also open a representative office in Türkiye instead of a branch; however, this requires a specific license from the BRSA. A representative office is not allowed to enter into commercial transactions or engage in revenue generating activities in the Turkish market. Currently, there are fifty-one banks in Türkiye.”

Insurance

The establishment of insurance and reinsurance companies and their activities in Turkey are regulated by the Insurance Law, the Turkish Commercial Code, and the Code of Obligations, as well as certain other laws and the secondary legislation entered into force there under An insurance company can only be established as a joint stock company or a cooperative. There is no license requirement for establishment. However, an insurance company, once established must obtain a license from the Ministry of Treasury and finance start its operations. Each license is specific to a certain branch of insurance (life, non-life, life-pension or re-insurance) and each insurance company must hold relevant license to operate in the corresponding market. The legislation provides for certain requirements in relation to the shareholders, the board members and the capital adequacy and reserve requirements of an insurance company (such as minimum share capital, educational background of the board members etc.) The Insurance Association of Turkey is a professional organization and as per the Insurance Law, all insurance and reinsurance companies must be a member of the Insurance Association of Turkey.

According to the data provided by the Insurance Association of Turkey, it has a total of sixty-five members and currently, thirty-nine non-life insurance companies, twenty-three life and pension companies, and three reinsurance company are actively operating. According to the Insurance Law, insurable interests of the residents of Turkey have to be insured in Turkey by the insurance companies operating in Turkey; however certain insurance policies can be purchased abroad, such as transportation insurance for goods subject to export and import, liability insurances arising from the operation of ships, life insurances. According to the Turkish Commercial Code, there are two types of insurance: the loss insurance (property insurance and liability insurance) and personal insurance (life insurance, accident insurance and health insurance).

A wide range of different insurances are offered by the insurance companies, such as ire insurance, earthquake insurance, food insurance, construction insurance (construction all-risk insurance), loss of profit insurance, credit insurance (for trade receivables), third party liability insurance, professional liability insurance, employers liability insurance, product liability insurance, machinery breakdown insurance, electronic equipment insurance, glass insurance, land vehicles insurance (voluntary), insurance on risk arising out of transportation of goods, health insurance. Insurance, as a principle, is procured on a voluntary basis, however there are certain mandatory insurances that must be procured pursuant various laws and regulations (such as traffic insurance, mandatory earthquake insurance, transportation insurances for passenger transportation through land route and sea transportation, dangerous waste liability insurance).

Director and officer liability insurance is available at a number of insurance companies in Turkey covering losses arising out of or caused while performing their duties during their term of office.

Also, general terms and conditions of the indemnity insurance have recently been introduced by the Undersecretariat of Treasury. While the range of products is limited and the market for this insurance is still developing, according to the general terms and conditions of the indemnity insurance, insurance companies in Turkey can offer to their customers indemnity insurance providing coverages such as advance payment coverage (against losses arising of non-repayment of the advance), after the delivery of the work), fidelity guarantee manufacturing / maintenance / repair coverage (against losses arising out of workmanship deficiencies found insurance (against the losses of the employer arising out of fraud or embezzling of an employee), agreement coverage (against losses arising from the nonperformance of the obligations under an agreement). Turkish Eximbank has special export credit insurance programs that have secured Turkish exporters against commercial and political risks since 1989.

Turkish Eximbank's insurance programs consist of two plans: short-term export credit insurance and medium and long-term export credit insurance.

Legal system

The Turkish legal system is based on a codified civil law system. Under Turkish law, courts are either categorized as judicial courts or administrative courts. Within these two categories, sub-categories exist. For example, the judicial courts, which constitute the broadest part of the Turkish judicial system, are divided into 2 branches consisting of the civil courts and the criminal courts, whereas the administrative courts are divided into administrative courts and tax courts.

The Turkish judicial system has a very fragmented structure. As a result, different levels exist in each of the subsections described above. Turkey has recently abandoned its two-tier system by introducing a three-tier-system. As a result, all courts consist of 3 levels as follows:
First instance courts, district courts and supreme courts. The supreme courts of Turkey consist of the Constitutional Court, the Court of Appeals the Council of State and the Court of Jurisdictional Disputes. Since Turkey is a civil law country, legislation is the primary source of law.

There is a certain order of priority for the implementation of the applicable legislation in which the Constitution prevails over international treaties followed by the codes and regulations, statutory decrees, and by-laws. As a candidate country for accession to the European Union, Turkey is harmonizing its legislation with the European Union legislation under the supervision of the Ministry of Foreign Affairs.

For this purpose, Turkey has among others, introduced the Competition Law and the Consumer Protection Law and repealed its civil code of Invest in Turkey obligations and commercial code and replaced them with the new Turkish Civil Code, the new Code of Obligations and the new Turkish Commercial Code. These laws are based on the Swiss Civil Code and Swiss Code of Obligations and follow the principles of European Union laws and regulations and the principles set out in Turkish and Swiss courts' decisions.

The Repealed Turkish Civil Code was introduced in 1926 right after the proclamation of the Republic and remained in force until its replacement by the Turkish Civil Code in 2002. As in other civil law countries the Turkish Civil Code governs the law of persons (birth, capacity and similar matters e.g.), family law, property law and the law of inheritance. The law of contracts and torts are the subject of the Code of Obligations.

Finally, the Turkish Commercial Code regulates matters relating to merchants, trade, business entities (especially companies), commercial contracts and other matters such as negotiable instruments and insurance. In addition, customary law is also considered as a complementary source of law and guidance, especially if written sources are silent on a particular matter.

The Turkish administrative system and law is highly influenced by the French administrative system and law. Public administration in Turkey consists of the central administration and local administrations.

Governance system

Turkey adopted a Republican system and has chosen the "Constitutional Democracy" as political system since 1923. Turkey's constitution governs the legal framework of the country. It sets out the main principles of government and establishes Turkey as a unitary centralized state. Under the Constitution, every Turkish national has equal rights.

Discrimination among citizens, based on language, religion, belief, race, color, sex, political opinion, and similar reasons, is strictly prohibited.

No privilege could be granted to any individual, family, group, or class. The citizens exercise their sovereignty directly through elections, and indirectly through the authorized organs incompliance with the principles stated in the constitution. Between 1923 and 2018, Turkey was a parliamentary representative democracy. A presidential system was adopted by referendum in 2017. Recep Tayyip Erdogan is the first president elected by direct voting.

Taxation System

International Dispute Resolution

Foreign investors may benefit from domestic arbitration or international arbitration to the extent there is an arbitration clause in their investment agreement. Domestic arbitration is governed by the Code of Civil Procedure, whereas for international arbitration, the parties may freely choose any institutional rules of arbitration, including without limitation the rules under the Turkish International Arbitration Law or the rules of the Istanbul Arbitration Centre. If arbitration is in Turkey but the parties have not agreed on the applicability of any institutional rules of arbitration, the rules and principles set out in the Turkish International Arbitration Law shall apply, to the extent that there is a foreign element involved in the dispute. In addition, Turkey continues to integrate mediation as an alternative dispute resolution method. With the law published on the Official Gazette dated 19 December 2018, a compulsory mediation process has been introduced for commercial cases to be heard as from 1 January 2019. Therefore, parties to a commercial dispute for monetary claims are now obliged to apply to a mediator before applying to the commercial courts.

The taxation system in Turkey is regulated by the Tax Procedure Law (TP). It regulates the performance of rights, obligations, and duties together with the accrual principles. This Law consists of procedural and official provisions of all tax laws. TP has five main divisions:
taxation, valuation, penalty provisions, taxpayer taxes, tax litigation.

The Turkish tax year is the calendar year. The normal fiscal year is the period of January 1-December 31. The official currency of Turkey is the Turkish Lira (TRY).

Companies that have legal or business centers (JSC, LLC and Brunch) in Turkey are considered residents and are subject to Corporate Tax on their income in Turkey. Corporate tax returns are made annually with the corporate tax return. This declaration can be submitted until April 30, following the closing of the financial year. Companies must file a provisional tax return for their quarterly profits. The total corporate taxes declared through the provisional tax return are deducted from the final corporate tax payable. Provisional tax returns can be filed and paid until the Those who reside in Turkey for more than six months in a calendar year are considered to be resident in Turkey. However, foreigners who stay in Turkey for six months or more due to a specific job or job or certain purposes specified in the PIT Law are not considered resident. Therefore, unlimited tax liability does not apply to them.

Income tax brackets and rates are as follows:

Taxable Income Bracket		Tax Rate on Income in Bracket
From TRY	To TRY	PERCENT (%)
1	24,000	15
24,001	53,000	20
53,001	190,000	27
190,001	650,000	35
650,001	Over	40

Corporate Tax

Companies whose legal or business centres are located in Turkey are considered resident and are taxed on their income in Turkey and other countries. If both legal and business centres are not located in Turkey, these entities qualify as resident and are subject to taxation only on the income they generate in Turkey. The legal centre is defined as the place stipulated in the articles of association or incorporation laws of taxable companies, while the business centre is defined as the place where commercial activities are concentrated and managed.

Corporations with legal or business centres located in Turkey are qualified as residents and are subjected to Corporate Income Tax on their income derived in Turkey. The corporate tax rate levied on business profits is 22%. The normal fiscal year-end is the period of January 1-December 31.

Companies in Turkey submit a provisional tax return quarterly, to be offset against the corporate tax which is calculated based on the corporate tax return to be submitted at the end of the year. The rate of the provisional tax is the same as that of the corporate tax.

Thin Capitalization

Turkey's Corporate Tax Law has a thin capitalization regime that restricts the deductibility of financing expenses arising from borrowings from shareholders/related parties in excess of three times equity. No such restriction has been applied for the financing expenses of the loans obtained from external sources.

Now, under the new Law, a certain percentage of financing expenses on external debt that exceeds the shareholders' equity in the companies can be also rejected as non-deductible expense, which is intended to discourage use of excessive debt by companies that do not have a strong equity. In view of these developments, investors who are interested in Turkey should consider the tax effects of financing in more detail while determining their investment models. The deductibility of interest may be restricted by capitalization or transfer pricing rules.

In the event that the amount of debt provided to a Turkish entity by its shareholders (or related parties) exceeds three times its equity (measured at any time during the year), that is, its equity (measured according to the statutory account opening balance sheet) of the relevant period, excess debt covered equity above 3:1 re-characterized. one period does not help to overcome the weak capitalization situation for the current period because equity is measured on the opening balance sheet but can be helpful for subsequent periods.

As a result of this subtle capitalisation:
• Financing expenses incurred on disguised equity (exceeding three times the equity of the related debts) cannot be deducted for corporate tax purposes.
• Interest actually paid on disguised equity is re-characterized as disguised dividends and is subject to a 15 percent dividend WHT (unless reduced by agreement).
Injecting equity or reserves into the company during Thin capitalization rules still apply when borrowing from an external bank in exchange for cash.

Value Added Tax (VAT)

The Turkish tax system charges Value Added Tax (VAT) on the supply and import of goods and services. VAT liability arises:

a. When a person or organization engaged in commercial, industrial, agricultural, or independent professional activities in Turkey.

b. When importing goods or services into Turkey, VAT is collected at every stage of the production and distribution process. However, while the tax liability is on the person supplying or importing the goods or services, the real VAT burden lies with the final consumer. This result is achieved by a tax credit method where the calculation of the VAT liability is based on the difference between a person's VAT liability on their sales (output VAT) and the amount of VAT they previously paid. (Input VAT).

In the Turkish VAT system, more than one rate consisting of different fields is applied, and the President is authorized to change the VAT rates within certain limits.

All merchants are obliged to submit monthly VAT returns to tax authorities. The declaration must be filed by the 24th of the following month and the tax must be paid by the 26th of the same month for the previous taxation period. This requirement must be met even if the company has not supplied any taxable goods or services. Domestic companies can recover the VAT they paid in Turkey, but this mechanism does not apply to foreign companies doing business here.

Foreign companies can take back the VAT they paid in Turkey only if the resident country has signed an agreement with Turkey for this purpose. Currently, few countries in the EU have signed such agreements. At the beginning of 2018, Turkey also required a new rule for foreign e-service providers to register for VAT here.

VAT shown on invoices and similar documents regarding tax-exempt transactions (input VAT):

• Contract manufacturing for customers operating in free zones
• Oil exploration activities
• Services provided to ships and planes at ports and airports
• Supply of machinery and equipment within the scope of investment certificate
• Public transport activities
• Deliveries and services to diplomatic missions and consulates on condition of reciprocity and to international organizations with tax exempt status and their employees
• Banking and insurance transactions subject to Banking and Insurance Transactions Tax

These exemptions are deducted from the VAT (output VAT), which will be calculated on the taxpayer's transactions subject to vat. In the absence of transactions subject to vat or if the output vat is less than the input vat, the non-deductible input VAT is returned to those who make such transactions on the basis of the principles to be determined by the Ministry of Treasury and Finance.

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