This report provides helpful information on the current business environment in Turkey. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on the Republic of Turkey

Contents

RBC Royal Bank®

Important to Know

Official language

- Turkish

Currency

- Turkish lira (TRY)

Bank holidays

2011	
January	1
April	23
May	1, 19
August	30, 31*
September	1*
October	29
November	6–9*
2012	
January	1
April	23
May	1, 19
August	19–21*, 30
September	1*
October	25–28*, 29

*Dates, which may vary by plus or minus one day, are derived by converting from a non-Gregorian calendar to the Gregorian calendar and cannot be determined in advance with absolute accuracy. Also, some feast days are determined by the actual sighting of a new or full moon. As a result, exact dates may vary from those listed above.

Source: www.goodbusinessday.com.

Types of Business Structure

Under Turkish law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Joint-stock company

AŞ (*Anonim Şirket*). This is a company with its own trade name and with a predetermined amount of capital divided into shares of equal value. Shares may be registered or bearer shares. A shareholder's liability is limited to their capital. This requires a minimum paid up share capital of TRY 50,000. An AŞ must have a least five shareholders.

Limited liability company

Ltd Şti (*Limitet Şirket*). A partner's liability is limited to their financial contribution. These companies are not permitted to engage in banking or insurance business activities. There is no board of directors; the appointed manager is authorized to run the company. These companies require a minimum paid up share capital of TRY 5,000 and can have two to 50 partners.

Cooperatives

A cooperative is a registered legal entity which is owned and controlled by its members, who have equal voting rights. A cooperative in Turkey can have no less than seven members.

Branches and liaison offices

Non-Turkish companies are entitled to establish a branch (Şb/*Şube*) or a liaison office (*irtibat bürosu*) in Turkey. A branch's activities are subject to Turkish company law, although it is considered part of the company's head office and therefore not a separate legal entity. While branches are permitted to make sales, liaison offices may not sell directly in Turkey.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must have its legal seat or its place of effective management in Turkey.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (TRY) accounts outside Turkey and foreign currency accounts both within and outside Turkey.

Non-residents are permitted to hold local currency and foreign currency accounts.

Resident local currency accounts are fully convertible into foreign currency; non-resident local currency accounts are not convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of customers establishing a permanent business relationship.
- Customers making a single or series of linked transactions exceeding TRY 20,000 must be identified. For wire transfers the threshold is TRY 2,000.
- Tax identity information must be recorded for all customers opening new accounts, applying for chequebooks or cashing cheques. Tax identity information must also be recorded for cash transfers exceeding USD 4,000 for all exchange transactions over USD 3,000 and before any securities are cashed.
- Customers must be identified before the business relationship is established or the transaction conducted. The address and other contact information must be verified.
- Customers are required to provide a written statement to a financial institution stating whether they are acting in their own name or on behalf of a beneficial owner. If they are acting for a beneficial owner the statement must include the beneficial owner's details.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at August 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

The standard rate of VAT is 18%. Banks, insurance companies and brokerage houses are exempt from VAT, but banking and insurance transactions are taxed on the individual.

A banking and insurance transaction tax (BIT) is levied on all transactions carried out by banks and insurance companies. The general rate is 5% on transactions subject to BIT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in Turkey. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are most commonly used for consumer transactions, with credit cards more popular than debit cards. Direct debits are not commonly used, although a new direct debit clearing facility has been developed. Cheque usage is low and in decline, although cheques are still used for some large-value corporate transactions.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (TRY billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	27.1	25.6	– 5.4	243.7	265.3	8.9
Credit transfers	106.1	119.3	12.5	18,041.1	21,918.6	21.5
Debit cards	626.4	695.4	11.0	131.2	155.6	18.6
Credit cards	1,441.0	1,691.9	17.4	142.8	186.6	30.6
Total	**2,200.6**	**2,532.2**	**15.1**	**18,558.7**	**22,526.0**	**21.4**

Sources: Central Bank of the Republic of Turkey (CBRT), Interbank Card Centre (BKM) and Interbank Clearing Houses.

International Payments

International payments are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (TRY-denominated)	Value dating rules	Cut-off time(s) in local Turkish Standard Time (TST)
High-value and urgent domestic and transfers	Real-time settlement, immediate finality	17:30 TST
Non-urgent, low-value domestic consumer payments	Payments are settled in batches throughout the day	17:30 TST
Domestic cheques	Settlement either same-day or next-day	06:00 TST for same-day settlement

Central Bank Reporting

The Central Bank of the Republic of Turkey (CBRT) requires that all transactions with a value equal to or above USD 50,000 between resident and non-resident bank accounts be reported individually every month. Transactions between resident and non-resident bank accounts below that threshold must be reported in aggregated form. Direct investments and loans must be reported individually.

Exchange Arrangements and Controls

Turkey still applies some currency exchange controls, although many previous restrictions have been relaxed.

Cash and Liquidity Management

The continued existence of exchange controls makes integrating Turkish-based bank accounts into cross-border cash and liquidity management structures difficult to achieve. Few international companies choose to locate cross-border liquidity management structures in Turkey.

Physical Cash Concentration

Physical cash concentration is available from all leading Turkish and international cash management banks. Resident and non-resident companies can participate in the same cash concentration structure. Only single-currency cash concentration is permitted.

Notional Cash Pooling

Notional cash pooling is not available in Turkey.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for maturities of one, three, six and 12 months. Banks also issue certificates of deposit (CDs) for terms ranging up to one year.

Non-bank instruments

Turkish companies do not issue commercial paper (CP). Local investment banks and development banks issue bank bills which have similar qualities to CP.

The Turkish government (the Undersecretariat of the Treasury) issues Treasury bills periodically for maturities of three, six, nine and 12 months.

Turkish companies have access to two types of domestic mutual funds: A-type funds must hold a minimum of 25% of their portfolios in Turkish equities; B-type funds invest in fixed-income securities.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Turkey to both resident and non-resident companies. Banks will often charge a margin over TRLIBOR (the Turkish Lira Interbank Offered Rate) for TRY-denominated facilities and over the currency centre's interbank market rates for foreign currency facilities.

Other commitment and arrangement fees will also be charged and taxes are applied.

Participation banks offer Islamic funding techniques.

Non-bank

Turkish companies do not use CP to meet short-term borrowing requirements.

Export trade bills can be discounted, although the proceeds cannot be used to fund domestic working capital. Factoring (usually with recourse and undisclosed) is available.

Taxation

Corporate Taxation

- The standard corporate tax rate is 20% for the 2009–10 fiscal year.
- The corporate tax liability must be paid in a single instalment once the return has been submitted.
- Companies are required to make quarterly prepayments of corporate income tax at a rate of 20%. Advance (temporary) corporate tax returns must be filed by the 14th day of the second month of the following quarter. The payment date is the 17th day of the second month of the following quarter. Any overpayments can be reclaimed from the tax authorities following submission of the corporate tax returns.
- If the final corporation tax liability exceeds the amount paid already, then a balancing payment must be made.
- Residents are subject to taxation on their worldwide income. Non-resident companies are subject to taxation on income derived from sources in Turkey.

Financial instruments

- There are no specific taxes relating to financial instruments.

Interest and financing costs

- There are no specific taxes relating to interest and financing costs. Debt push-down tax structuring is not acceptable.

Foreign exchange

- The rate announced by the CBRT is used for foreign exchange conversions. Accounting books must be kept in TRY. However, companies may be entitled to keep their books in foreign currency through a government decree, provided that their paid-in capital is at least USD 100 million or the equivalent in foreign currency and at least 40% of the capital belongs to a non-resident person.

Advance Tax Ruling Availability

- Advance tax rulings are available in Turkey in order to establish the tax authority's approach to undefined tax practices. In order to obtain an advance ruling, taxpayers must apply to the tax authorities. If the tax authority provides an advance ruling, the taxpayer has to obey the ruling. Advance tax rulings provide immunity against tax penalties, but do not provide protection against delay interest if challenged by an independent body.

Withholding Tax (subject to tax treaties and other exemptions)

Payments to	Interest	Dividends	Royalties	Capital gains from marketable securities*
Resident companies	10% –15%	N/A	N/A	10%
Non-resident companies*	0%–15%	15%	20%	0%

* Capital gains from marketable securities if earned through banks and brokerage firms.

- Interest income arising from deposit accounts is subject to a 15% withholding tax rate. The provider is liable to deduct the tax before payment.
- Withholding tax of 15% is levied on all dividends (except for dividends distributed by a resident company to another resident company and branches of non-resident companies). The rate levied on dividends paid to non-residents may be reduced through tax treaties, provided that the shares in the distributing company are registered in the names of shareholders, rather than issued as bearer shares.
- Withholding tax of 19.8% is applied to investment incentive allowances (IIA) applied under the investment incentive certificates obtained before April 24, 2003. No withholding tax is applied to IIAs between April 24, 2003 and December 31, 2005. IIAs were eliminated as of December 31, 2005. However, carried forward IIAs can be utilized, subject to the same withholding tax rules.
- Withholding tax of 20% is levied on royalties paid to non-resident companies.
- There are also a variety of sources of income that are subject to withholding tax at specific rates established by the Council of Ministers.

Capital Gains Tax

- Capital gains derived by a resident corporation are taxed at the standard corporation tax rate of 20%. The sale by a non-resident of shares or stock in a Turkish incorporated company to another non-resident will not normally be subject to Turkish capital gains tax. Where the sale is made by a non-resident corporation to a Turkish resident, the gain is subject to corporate tax at 20%, plus a further income withholding tax of 15% on after-tax profits if they are repatriated. (For profits in the

2009 fiscal year the overall tax burden is 32%.) The dividend withholding tax rate levied on income may be reduced if a tax treaty applies.

- Capital gains from government bonds and treasury bills (i.e. issued after January 1, 2006, including private sector bonds) are subject to 10% withholding tax for residents and 0% for non-residents.
- Capital gains from quoted shares acquired since January 1, 2006 are subject to 0% withholding tax.
- Capital gains from derivate instruments through the Turkish Derivatives Exchange are subject to 10% withholding tax (0% for derivate instruments if the underlying assets are quoted shares or a share index).
- The withholding tax rates may be subject to change in cases where double tax treaties exist.

Stamp Duty

- Stamp taxes are levied on a wide range of transaction documents. Company establishments and capital increases are no longer subject to stamp duty.
- All documents prepared in relation to the obtaining and repayment of a loan to be granted by banks, foreign financial institutions granting loans and international corporations are exempt from stamp tax (without any limitation as to the period and type of loan).
- Brief summaries of stamp and registration taxes relating to major business transactions are given in the following table.

Taxable item	Amount payable
Contracts with a monetary amount	0.825% of the amount concerned*
Payroll	0.66% of wages paid
Rent	0.165% of the amount concerned

*Effective from January 1, 2010, the stamp tax amount per document may not exceed TRY 1,161,915.90 (approximately EUR 581,000).

Thin Capitalization

- Borrowings from related parties that exceed a debt-to-equity ratio of 3:1 are considered to be disguised capital. For borrowings from related-party banks and financial institutions, the debt-to-equity ratio is 6:1. Total borrowings from all related parties are looked at collectively. (For the purposes of this provision, a “related party” is defined as a person that holds, directly or indirectly, at least 10% of the shares or voting rights of the other party.)
- The opening equity at the beginning of the taxpayer’s accounting period is used for thin capitalization purposes. Interest paid or accounted for, and foreign exchange differences in respect of loans in excess of the debt-to-equity ratio, are non-deductible (except for exchange rate differences realized). Those amounts are

treated as dividends and are subject to a current 15% dividend withholding tax (this could be revised to a rate between 0% and the corporate income tax rate in the future through a government decree).

- Interest amounts that are deemed to have been paid on amounts in excess of the allowed debt-to-equity ratio for thin capitalization purposes are subject to the associated corrective treatment between the relevant parties. In this respect, any disguised interest amount that has been included within the corporate tax base of one party would be deducted from the corporate tax base of the counter-party, and the relevant tax paid by each of the respective parties. In the case of a non-resident recipient of interest, the tax authority has yet to determine how this correction would be made.
- The debt-to-equity ratio applies to Turkish permanent establishments (PEs) of foreign parents, as well as their Turkish subsidiaries.
- The following are not considered to be within the scope of the thin capitalization rules:
  - borrowings that are provided in return for non-cash guarantees of shareholders or related parties to shareholders; and
  - borrowings that are extended from banks and similar finance institutions to subsidiaries, shareholders or parties related to the shareholders, and that are partially or wholly transferred by them at the same costs to related companies.

Transfer Pricing

- The Organisation for Economic Co-Operation and Development's (OECD) model transfer pricing guidelines are used for commercial transactions conducted between related parties, both domestic and foreign, and became effective on January 1, 2007. The rules for related-party transactions also apply to commercial transactions conducted by persons resident in offshore jurisdictions.
- Taxpayers generally choose between the comparable uncontrolled price (CUP), cost-plus and resale price methods to conclude their commercial transactions with related parties at arm's length. However, they have the right to use other transfer pricing methods if they can show that the traditional methods are not suitable for their transactions. On deciding which method to use, taxpayers are responsible for maintaining and providing sufficient documentation.
- Transactions between related parties that are not executed in compliance with the approved transfer pricing methods are considered as disguised profit distributions and are subject to dividend withholding tax.
- The amounts that are deemed not to be at arm's length are subject to the associated corrective treatment between the relevant parties. In this respect, any disguised profit distribution amount that has been included within the corporate tax base of one party is deducted from the corporate tax base of the counter-party. However, this is subject to payment of the relevant taxes to the tax office. In the case of non-resident recipients, how this correction is made has yet to be determined by the tax authority.
- The new rules have also introduced, for the first time, the concept of advance pricing agreements between taxpayers and the Ministry of Finance. The transfer pricing method approved by the Ministry of Finance would be applicable for three years, assuming that the conditions in place when the transfer pricing method was determined remain unchanged.
- Transactions between local related parties are not subject to transfer pricing adjustments so long as they do not create a tax loss on a consolidated basis.

Sales Taxes / VAT

- VAT is levied on the supply of all goods and services upon delivery and on all goods imported into Turkey. The standard rate of VAT is 18%. Banks, insurance companies and brokerage houses are exempt from VAT, but banking and insurance transactions are taxed on the individual.
- A reduced rate of 8% is levied on basic food products, land vehicles (other than passenger vehicles), health services, veterinary products, printed materials, medicines, infant food, serum, vaccines, entertainment, certain educational services, education transportation services and blood products.
- A reduced rate of 1% applies to newspapers and magazines, second-hand cars, the processing and delivery of agricultural commodities and funeral services.
- Investment allowance certificates, which can be obtained in certain circumstances from the Undersecretariat of the Treasury, provide VAT and customs duty exemption.

Special Consumption Tax (Excise Tax)

- Special consumption tax was introduced on August 1, 2002 and has merged 16 different taxes, levies and duties under a single tax. The rates are as follows:
  - motor vehicles, ships and planes – between 0.5% and 84%, depending on the customs tariff position number of the item;
  - petroleum products – fixed amounts that vary, depending on the customs tariff position number of the item;
  - alcoholic drinks and tobacco products – between 25% and 63%, depending on the customs tariff position number of the item; and
  - luxury goods (cosmetics, refrigerators, electrical home appliances, cellular phones, etc.) – between 6.7% and 20%.
- Besides the percentage tax on alcoholic drinks and tobacco products, there is also a minimum lump sum tax varying between TRY 0.0342 and TRY 66.

Banking and Insurance Transaction Tax (BIT)

- BIT is levied on all transactions carried out by banks and insurance companies. The general rate is 5% on transactions subject to BIT. The BIT rate is applied at 1% on the following:
  - deposit transactions between banks;
  - money market transactions among brokerage companies operating according to the Capital Market Law;
  - favourable amounts received as a result of repurchase (repo) transactions of revenue indexed notes;
  - favourable amounts received as a result of sale of revenue indexed notes prior to maturity;
  - favourable amounts received as a result of repo transactions of CBRT liquidity notes;
  - favourable amounts received as a result of sale of CBRT liquidity notes prior to maturity;
  - favourable amounts received as a result of repo transactions of government securities; and
  - favourable amounts received as a result of sale of government securities prior to maturity.
- The BIT rates are applied at 0% on foreign exchange sales transactions.

Financial Transactions / Banking Services Tax

- There are no other specific financial transactions/banking services taxes.

Payroll and Social Security Taxes

- Employers are required to make social security and unemployment insurance contributions for resident and non-resident employees at a basic rate of 21.5% (composed of a 19.5% social security premium and 2% unemployment insurance premium).

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 6, 2010.

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