POPULATION/PEOPLE

Population (millions): 75.5

Population growth (annual %) 1

ECONOMICAL OVERVIEW

GDP (current USD) (billions) 795 (17th in the world)

GDP growth (annual %) 2.2

Inflation, consumer prices (annual%) 7.29

CPI 10,4 %

In November 2012 Fitch revised Turkey's investment grade. The agency lifted Turkey's long-term foreign currency issuer default rating (IDR) to BBB- from BB+, and its long-term local currency IDR to BBB from BB+, while setting the outlooks on both ratings as stable.

GDP per capita in Turkey has increased steadily over the past five decades, rising from USD 2,414 in 1950, to USD 5,983 in 1980 and finally to USD 13,380 in 2012

Over the past five years, the Turkish economy has created 4.1 million jobs, bringing total employment from 20.7 million to 24.8 million. This in turn lowered the average unemployment rate from 10.3% in 2007 to 9.2% in 2012.

INVESTING

Turkey's regulatory environment is extremely business-friendly. You can establish a business in Turkey irrespective of nationality or place of residence. The registration and establishment of a company in Turkey can be completed in one day.
The process is handled by one ministry which acts as the coordinator between all authorities.
The first step in establishing a business in Turkey is to fill out the business registration form at the local trade registry office located at the local chamber of commerce.

The process is as follows:

Submit the notarized articles of association. Deposit 0.04% of the capital into either a state bank or the Central Bank of the Republic of Turkey. Complete the company establishment form and register with the trade registry office.
International companies may start their activities in Turkey in various forms depending on the investors' development strategies.

The most common types of legal entities in Turkey are:
Limited liability company (Ltd. Sti.) Joint-stock company (A.S.) Branch office Liaison office

TAXATION

Tax Incentives

A- Exclusion of Investment Deduction
B- Deduction of Research & Development
C- Gain Exclusion on Education and Instruction Businesses
D- Incentive of Value Added Tax in Vehicles, Oil Searching and Incentive Certificated Investments
E- Tax Incentives in Industrial Zones
F- Tax Incentives in Technology Developing Zones
G- Tax Incentive Applied in Free Zones
H- Tax Incentive Applied in Emergency Zone And Priority Development Areas
I- Tax Incentive Applied in Organized Industrial Zones
J- Tax and Fees Exclusion in Providing Credits
K- Tax Incentives for Rising of Investment and Employment
L- Tax Incentives for Cultural Investments and Enterprises

TURKISH TAXATION SYSTEM

TURKISH DIRECT TAXATION SYSTEM

Turkish direct taxation system consists of two main taxes; income tax and corporate tax. An individual is subject to the income tax on his income and earnings, in contrast to a company which is subject to corporate tax on its income and earnings. The rules of taxation for individual income and earnings are provided in the Income Tax Law 1960 (ITL). Likewise, the rules concerning the taxation of corporations are contained in the Corporation Tax Law 1949 (CTL). Despite the fact that each is governed by a different legislation, many rules and provisions of the Income Tax Law also apply to corporations, especially, in terms of income elements and determination of net income.

INCOME TAX

Taxable Income:

The income tax is levied on the income of individuals. The term individuals mean natural persons. In the application of income tax, partnerships are not deemed to be separate entities and each partner is taxed individually on their share of profit. An individual's income may consist of one or more income elements listed below:

- Business profits,
- Agricultural profits,
- Salaries and wages,
- Income from independent personal services
- Income from immovable property and rights (rental income)
- Income from movable property (income from capital investment)
- Other income and earnings without considering the source of income

Tax Liability:

In general residency criterion is employed in determining tax liability for individuals. This criterion requires that an individual who has his place of residence in Turkey is liable to pay tax for his worldwide income (unlimited liability). Any person who remains in Turkey more than six months in a calendar year is assumed as a resident of Turkey. However, foreigners who stay in Turkey for six months or more for a specific job or business or particular purposes which are specified in the ITL are not treated as resident and therefore, unlimited tax liability does not apply to them.

In addition to residency criterion, within a limited scope, nationality criterion also applies regardless of their residency status, Turkish citizens who live abroad and work for government or a governmental institution or a company whose headquarter is in Turkey, are considered as unlimited liable taxpayers. Accordingly, they are subject to the income tax on their worldwide income.

Non-residents are only liable to pay tax on their income derived from the sources in Turkey (limited liability). For tax purposes, it is especially important to determine in what circumstances income is deemed to be derived in Turkey. The provisions of Article 7 of the Income Tax Law deal with this issue. In the following circumstances, the income is assumed to be derived in Turkey.

Business profit: A person must have a permanent establishment or permanent representative in Turkey and income must result from business carried out in this permanent establishment or through such representatives.

Agricultural income: Agricultural activities generating income must take place in Turkey.

Wages and Salaries:

- Services must be rendered or accounted for in Turkey.
- Fees, allocations, dividends and the like paid to the chairmen, directors, auditors and liquidators of the establishment situated in Turkey must be accounted for in Turkey.

Income from Independent Personal Services: Independent personal services must be performed or accounted for in Turkey.

Income from Immovable Property:

- Immovable must be in Turkey;
- Rights considered as immovable must be used or accounted for in Turkey.

Income from Movable Capital investment: Investment of the capital must be in Turkey.

Other Income and Earnings: The activities or transactions generating for other income, specified in the Income Tax Act, must be performed or accounted for in Turkey.

The term accounted for used above to clarify tax liability of the non-residents means that a payment is to be made in Turkey, or if the payment is made abroad, it is to be recorded in the books in Turkey.

CORPORATE TAX:

Taxable Income:

The corporate tax is levied on the income and earning derived by corporations and corporate bodies. The income elements by Corporate Tax Law are the same as those covered in the Income Tax Law. In other words, the Corporate Tax Law sets provisions and rules applicable to the income resulted from the activities of corporations and corporate bodies, whereas the income Tax Law deals with the income derived by individuals. Corporations and corporate bodies specified by the Law as taxpayers in respect to the corporate tax are as follows:

- Capital companies and similar foreign companies;
- Cooperatives;
- Public enterprises;
- Enterprises owned by foundations societies and associations;
- Joint ventures.

Tax Liabilities

According to the Corporate Tax Law, those legal entities covered by the law, which their legal head office situated in Turkey, or the place of effective management in Turkey are taxed on their world-wide income (unlimited liability). By specifying two criteria the law intends to prevent any problem, which may arises in determining tax liability. The term legal head office, as used in the context of the Corporate Tax Law, means the office specified in the written agreements of the mentioned entities. Therefore, it is not difficult to as certain where the legal head office of a company is located. However, the place of effective management, which is defined as the place in which the business activities are concentrated and supervised, is not easy to determine in some cases.

As may be expected, the Law defines the term limited tax liability quite parallel to term unlimited tax liability, as the liability requiring to tax only the income derived in Turkey, provided that both legal head office and the place of effective management are abroad.

Determination of Net Income:

In essence, the provisions of the income Tax Law concerning the determination of business profit also applies to the procedure required in determining corporate income. Basically, net corporate income is defined as the difference between the net worth of assets owned at the beginning and at the end of the fiscal year. In addition to the expenses mentioned in article 40 of Income Tax Code allowed to be deducted from revenues, the followings may also be deducted regarding to the determination of business profit, by corporations:

- expenses related to the issuance of stocks and shares;
- initial organization and establishment expenses;
- expenses incurred for general board meeting as well as expenses made for mergers dissolutions, and liquidations;
- in case of insurance companies, technical reserves required for the insurance contracts still valid at date of inventory;
- profits shares accrued to active partners of partnerships in commendams limited by shares;
- profit shares accrued to partners by participation banks for participation accounts;
- research and development deductions calculated as %40 of new technology and know-how research expenses realized within business.

In determining net corporate income, the following deductions are not allowed:

- interests paid or accrued on the basis of equity;
- interest, exchange difference and other costs paid or accrued on the basis of disguised capital;
- disguised earning distributed by transfer pricing;
- any kind of reserves;
- the corporate tax, fines, tax penalties and late payment penalties and interest.;
- leased or registered motor vehicles' depreciation and other expenses not related with business activities;

Corporate Tax Return:

Like income tax, the corporate tax is also assessed on the base declared through tax returns filled annually by taxpayers. Tax returns contain the results of related taxation period. In principle, every taxpayer is required to file only one single tax return, even if he has derived the income through different business places or branches and

those places and branches have their own accounting and allocated capital.
The corporate tax return is filled until the 25th day evening of the fourth month of the year following the month in which the fiscal year ends and the assessed taxes are paid until the end of that month. However, if a limited liable taxpayer leaves the country for sure the corporate tax return has to be submitted to the authorized tax office in the 15 days preceding. In such case, taxes are paid in the same period of time as forth for the declaration.
If the income earned by the foreign companies which are subject to the limited liability in respect to the corporate tax, consists of capital gains and non-recurring income discussed in the preceding sections (except for income earned from sale and transfer of intangible rights like license, know-how, and royalty), then the income is declared to the authorized tax offices those taxpayers (or the persons acting on behalf of them) in the fifteen days after the income has been earned. This procedure is called "special declaration".
If there is no presence in Turkey, withholding tax will generally be charged on income earned; for example income earned from sale and transfer of intangible rights like license, know-how, and royalty, income from movable and immovable property and income from independent professional services provided in Turkey. However, if there is an avoidance of double taxation treaty, reduced rates of withholding tax may apply.

Tax Rates

Corporate income tax is applied at 20 % rate on the corporate earnings.

Taxpayers (only for income from commercial activities and agriculture in limited tax liability cases) pay provisional tax at the rate of corporate tax, these payments are deducted from corporate tax of current period.

TURKISH INDIRECT TAXATION SYSTEM

In Turkey, there are several indirect taxes but most important indirect tax is V.A.T.
The beginning of the studies on Value Added Tax (VAT) in Turkey goes back to 1970. In 1974, a draft VAT law, which was the result of studies of a technical group, was prepared. The subject (VAT)was discussed by different levels of public opinion and some project games were organized to test the drafts with the volunteer enterprises. After the appreciation of the results of these discussion and games, seven law drafts were prepared between 1974-1984. The 8th draft was enacted on November 2nd , 1984 and entered into force on January 1st , 1985. By the VAT Law, eight indirect taxes on consumption were abolished.
The Turkish Tax System levies value added tax on the supply and the importation of goods and services. The Turkish name for Value Added Tax is Katma Deger Vergisi, abbreviated to KDV.

Liability for VAT arises;

(a)when a person or entity performs commercial, industrial, agricultural or independent professional activities within Turkey,
(b)when goods or services are imported into Turkey.

VAT is levied at each stage of the production and the distribution process. Although liability for the tax falls on the person who supplies or imports goods or services, the real burden of VAT is borne by the final consumer. This result is achieved by a tax-credit method where the computation of the VAT liability is based on the difference between the VAT liability of a person on his sales (output VAT) and the amount of VAT he has already paid on his purchases (input VAT).

The Turkish VAT system employs multiple rates and the Council of Ministers is authorized to change the VAT rates within certain limits.

VAT TAXPAYERS

General
VAT taxpayers are defined in the VAT Law as those engaged in taxable transactions, irrespective of their legal status or nature and their position with regard to other taxes.
Taxpayers
The following people or entities are liable to VAT:
Those supplying goods and services,
Those importing goods or services,
Those required to complete customs formalities in case of transit of goods through Turkey,
General Directorates of the Authorized Public Lotteries, including Spor-Toto and National Lottery,
General Directorates of Postal Services (PT and Telecom) and radio and television corporations,
Organizers of horse races and other betting activities,

Organizers of shows, concerts and sporting events with the participation of professional artists and professional sportsmen,
Lessors of goods and rights stated in Article 70 of the Income Tax Law.
Goods and rights set out in Article 70 of the Income Tax Law including immovable property such as land, buildings, mines and rights which are in the nature of immovable property; and. other goods and rights.. such as all kinds of motor vehicles, machines and equipment, ships, literary, artistic and commercial copyrights, commercial or industrial know-how, patents, trademarks, licenses and similar intangible properties and rights.

VAT Responsibility and Reverse Charge VAT

In the event that the taxpayer is not resident or does not have a place of business in Turkey, a legal head office or place of management in Turkey, or in other cases deemed necessary, the Ministry of Finance is authorized to hold any one of the people involved in a taxable transaction responsible for the payment of tax.
According to the Turkish VAT law, there is a so-called reverse charge VAT mechanism, which requires the calculation of VAT by resident companies over payments to abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company or customers on behalf of the non-resident company (foreign company). On the other hand, the local company treats this VAT as input VAT and offsets it in the same month.
Toll-manufacturing and ready-made materials (textiles) are subject to partial withholding: Only 1/3 of the calculated VAT is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 2/3 of calculated VAT to the tax office directly.
Junk metal, waste paper, junk plastic material deliveries are exempted from VAT: In the case of the renouncement of the above mentioned exemption, the purchaser pays 10% of the calculated VAT to the seller. Therefore, the purchaser will be responsible for paying 90% of the calculated VAT to the tax office directly.
In the case of the deliveries of the petroleum products by the sellers, excluding importers, refineries, fuel oil distribution companies and fuel oil agents, only 1/10 (10%) of the Value Added Tax is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 9/10 (90%) of the VAT to the tax office directly.

Taxable Base

The taxable base of a transaction is generally the total value of the consideration received, not including the VAT itself. The VAT Law deals with the taxable base under four headings, namely the taxable base on deliveries and services, on importation, on international transportation, and special types of taxable base.
In case a consideration does not exist, is unknown or is in a form other than money, the taxable base is the market value. Market value is the average price payable in the market for similar goods and services and is determined with reference to the Tax Procedural Law.

Exclusions From the Taxable Base
The taxable base for goods delivered and services rendered does not include the VAT itself or any discounts, provided that they are at a reasonable rate with regard to commercial practice and are explicitly listed in all invoices or similar documents.

Tax Rates

Standard rate:
The standard rate of VAT on taxable transactions is set at 10% in the VAT Law, but this rate was increased to 18% as of 15 May 2001.
Special rates:
For the deliveries and services mentioned in List No. I ......1% (e.g. agricultural products such as raw cotton, dried hazelnuts, supply and leasing of goods within the scope of the Finance Leasing Law)
For the deliveries and services mentioned in List No. II...........8% (e.g. basic food stuffs, books and similar publications)

The Credit Mechanism

VAT is collected at every stage of the production and distribution process from the initial sale by the producer to the final sale to the consumer. At each of these stages, the amount of tax payable is the difference between the total amount of tax charged on the invoices issued by the taxpayer and the total amount of tax charged on invoices issued to the taxpayer during the same period. Thus the VAT is initially computed by applying the appropriate rate of taxation to the taxable base for goods and services supplied by the taxpayer during a taxable period. This amount is then reduced by a credit for VAT previously paid on importation and on goods and services supplied to the taxpayer.
Non-deductible VAT (Cost or non-deductible item or capitalized)

In the following cases, VAT may not be credited from the VAT computed on taxable transactions.

(a) VAT on purchases of cars (which should be recorded as an expense or cost) (except for businesses related with lease or operation of cars)
(b) Missing and stolen stocks,
(c)VAT on expenses accepted as non-deductible in determining income according to Income Tax Law and Corporate Tax Law,
(d)Input VAT on exempt deliveries listed in Article 17 of the VAT Law.

VAT Refund

Value Added Tax (input VAT) shown on invoices and similar documents related to the transactions which are exempt from the tax, such as:
Exportation of goods and services,

Exemption for vehicles, petroleum exploration and investments made under an investment incentive certificate (IIC),

Transit transportation,

Diplomatic exemption , are deducted from the Value Added Tax (output VAT) to be calculated on the transactions of the taxpayer which are subject to VAT. In the absence of transactions subject to VAT, or if the output VAT is less than the input VAT, then the input VAT which cannot be deducted is refunded to those who perform such transactions, on the basis of principles to be determined by the Ministry of Finance.

OTHER INDIRECT TAXES

- Stamp tax

- Gambling Tax

- Inheritance and Gift Tax

- Property Taxes

- Communication Tax

- Customs Duty