



Bafa Law
Hukuk

TAX GUIDE TO DOING BUSINESS IN **TURKEY**

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All information in this guide is up to date as of 15.08.2019.

PREFACE

This “Tax Guide to Doing Business in Turkey”, written in collaboration with Bafa Law Firm, aims to assist individuals and organizations wishing to invest in Turkey by providing information on the tax environment in the country, which has progressed in an investor-friendly fashion in recent years thanks to the reforms implemented. The guide consists of information on a variety of taxation topics that investors take into consideration during the investment process.

Turkey is a dynamic and growing G20 economy that links the east and the west in a unique way. In addition to being one of the world’s fastest growing economies, Turkey also supports international investors’ growth via a business-friendly agenda and through access to a large domestic market and neighboring international markets.

Strong market fundamentals, such as a young and dynamic population with an average age of 32, a well-educated work force, increasing rates of employment over the years, a growing middle-class, and a unique geographical location, have all helped transform Turkey into one of the fastest growing OECD member countries. As of end-2018, Turkey is the 13th largest economy in the world (GDP at PPP), with an average annual growth rate of 5.5 percent in the 2003-2018 period.

Turkey’s location, at the crossroads of Europe, Central Asia, and the Middle East, provides easy access to the European, Middle Eastern, North African, Central Asian, and Gulf markets. These markets comprise more than 1.6 billion people and account for a total GDP of USD 28 trillion. More than half of the world’s trade takes place within a four-hour flight radius of Turkey – a key reason why multinational companies have chosen Turkey as a strategic regional hub for their operations.

I would also like to take this opportunity to remind you that Presidency of the Republic of Turkey Investment Office is not only the official organization for promoting Turkey's investment opportunities to the global business community, but also a top-notch resource center featuring the most in-depth and up-to-date information on every issue related to Turkey. It goes without saying that our dedicated teams are more than willing to do the utmost to provide you customized guidance on a fully confidential basis.

Finally, I would like to extend a special thanks to the team from Bafa Law Firm for sharing their expertise and market insight with us in contributing to this guide.

We hope this guide will benefit all those corporations, individuals, and business executives who are interested in investing, working, or doing business in Turkey. Please feel free to get in touch with us about any of your business-related queries.

Arda ERMUT
Investment Office President

ABOUT

Bafa Law Firm, with its expert team, is one of the leading law firms in Turkey that provides professional legal services to local and international institutions.

Bafa Law Firm is in cooperation with the regulation of international quality commercial relations and especially the establishment of the legal infrastructure of large-scale foreign investment projects and specialized in execution.

For more information, please visit
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1

INVESTMENT BASICS

1.1 CURRENCY AND FOREIGN EXCHANGE CONTROL

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. Pursuant to this law, international investors are entitled to:

- Engage in the importation and exportation in foreign currencies in Turkey.
- Buy and sell foreign currencies through banks, other authorized institutions, and institutions authorized to sell foreign currency abroad.
- Open foreign currency accounts at banks and use such accounts effectively.
- Make deposits in and out of the country through banks (with savings accounts).
- Transfer foreign currency to foreign countries through banks.
- Transfer abroad effective foreign currency in excess of TRY 25,000 or EUR 10,000 in line with the principles set forth by the Ministry of Treasury and Finance. However, a notification must be served to the Ministry of Treasury and Finance within 30 days for that purpose.
- Bring into the country through the banks those transfers to be made from abroad by real persons in connection with their personal capital movements and those loans obtained abroad by such real persons residing in Turkey or abroad.
- Bring into the country through customs gates the cash procured as import cost of goods and services, earnings arising from transit trade, amount of foreign capital, and cash earned from other resources. It is not obligatory to declare this cash.

Exchange Rates

- Turkey adopted the floating exchange rate regime under which exchange rates are determined by supply and demand conditions in the market. Hence, value of foreign currencies vis-à-vis Turkish

currency shall be determined by market itself. Official exchange rates are declared by the Central Bank of Republic of Turkey on a daily basis.

- Purchases and sales of foreign currency shall be valued according to the exchange rates applicable on the date of the relevant transaction.
- The exchange rates applicable on the date of the relevant transaction shall be applied for issue of foreign currency purchase and sale documents in connection with setoff transactions.

Foreign Capital Movements

Following the enactment of the FDI Law, foreign-capitalized companies could be established subject to the capital limits stipulated under the Turkish Commercial Code (TCC) as it is the case for the local-capitalized companies.

- International investors are entitled to contribute as capital any cash, securities, machines and equipment, or industrial and intellectual property rights from abroad.
- Foreigners are not obliged to obtain prior consent of the Ministry of Treasury and Finance for the purpose of incorporating a company, participating in a partnership, or opening a branch or a liaison office in Turkey.
- In the event of a share transfer as a result of participation of the international investor in a local-capitalized company or participation of the international investor in a capital increase made by the local-capitalized company, details of the share transfer shall be notified to the Ministry of Treasury and Finance within one month following completion of the share transfer.
- International investors are entitled to incorporate all kinds of companies in Turkey, including limited liability companies and joint stock companies. They may also incorporate ordinary partnerships or sole proprietorships in Turkey.
- International investors are allowed to transfer abroad through the banks net profit, dividends, sales amounts, amounts arising from liquidation, and compensation arising in connection with their

operations and transactions in Turkey, including amounts payable under license, management agreements or similar agreements.

- International investors are also entitled to make money transfers abroad in any currency.
- It is not obligatory to obtain prior consent of the Ministry of Treasury and Finance in case of liquidation of the company through sales of capital stock owned by foreigners to persons and entities in the country.
- No nationalization or expropriation may be imposed on the commercial activities carried through foreign capital unless there is a public interest.
- Legal entities incorporated by international investors or legal entities whose capital is subscribed by international investors in Turkey shall be free to acquire ownership of any real estate property or limited property rights.
- Companies incorporated in accordance with the laws of foreign countries may open liaison offices in Turkey provided that they do not carry out any commercial activities.
- International investors may employ foreign staff for companies to be incorporated or for any branch or liaison office to be opened in Turkey.
- Both foreign and local investors intending to invest in Turkey will be given the chance to benefit from the same investment incentives including tax discounts, allocation of investment lands, insurance premiums, and employer's share support.
- Turkey aims to prevent double taxation of the investors through tax conventions it has concluded with other countries.

Real Estate Properties

- Persons residing abroad are free to transfer through the banks any revenues earned from sale amounts collected from the sales of real properties or property rights pertaining to the real properties that they acquired in Turkey.

1.2 ACCOUNTING SYSTEMS

The Uniform Accounting System is applied in Turkey under the Tax Procedure Law No. 213. Such a system is compulsory for real persons and legal entities keeping books on the basis of balance. These enterprises and corporations must comply with the methods and principles set forth under these communiqués.

Companies subject to the Uniform Accounting System are obliged to prepare financial statements such as balance sheet, income statement, costs of sales statement, fund flows statement, cash flow statement, statement of profit distribution table, and statement of change in shareholder's equity.

However, different accounting techniques are applied by banks and insurance companies, private financial institutions, financial leasing companies (including those operating in the field of factoring), securities investment funds, intermediary firms, and investment partnerships depending on the differences in their field of activity although they keep their books on the basis of balance.

The companies with such special status will keep their books in accordance with the Uniform Account Plan, the provisions of the Turkish Tax Law, and Turkish Commercial Code pursuant to the Turkish Accounting Standards/Turkish Financial Reporting Standards (TMS/IFRS). However, the ones subject to audit and those mentioned-above must prepare their individual and consolidated financial statements in accordance with TMS/IFRS.

1.3 BOOKKEEPING IN TURKEY

Commercial enterprises are obliged to keep books complying with their operational structure in order to follow-up their economic and financial positions and relations of debt/receivable and to document the results of each activity period.

According to the Tax Procedure Law and Turkish Commercial Code, the legal books that should be maintained by companies that keep their records according to the balancesheet method are as follows:

- Journal ledger
- General ledger
- Inventory register
- Stamp duty (Joint Stock Companies)
- Resolution book (Joint Stock Companies)
- Management resolution book (Limited Liability Companies)
- Share ledger
- General assembly meeting minutes and discussion book

Below are certain critical issues for legal books mentioned in the tax laws:

- The above legal books must be certified by the authorized personnel of the Trade Registry Office during the incorporation process.
- Legal books should be printed as hardcopies if the company is not registered with the e-invoice/e-ledger systems.
- It is mandatory that the legal books be kept in the local language, in Turkish Liras, and in compliance with the Turkish Uniform Chart of Accounts; however, records in dual language are also allowed provided that they are in compliance with the Uniform Chart of Accounts.
- Real persons and legal entities in the status of a trader according to TTC must obtain both opening and closing approval for the books kept on the basis of balance or operation account method. The general ledger for the previous year must be completed by the end of January each year, and the inventory register must be completed by the end of March and closing approval must be obtained from a notary public.
- Account period: Books are kept as of the account period under the tax law. In general, the account period corresponds to a calendar year, which commences on 1st of January and ends on 31st of

December. However, special account periods may be adopted with the permission of the Ministry of Treasury and Finance.

- Special account period: The Ministry of Treasury and Finance will determine special account periods of 12 months each upon an application to be filed by those entities whose activities and nature of transaction do not correspond to an account period determined on a calendar year basis. A special account period is mostly allowed for taxpayers whose partners are foreign persons or entities that operate on a different fiscal year.

1.4 TRANSITION TO E-INVOICE AND E-ARCHIVE

The Turkish Revenue Administration has recently introduced the e-invoice, e-ledger, and e-archive systems for the purpose of transition to a more electronic-based tax environment. Introduction of these systems allow the companies to create, store, and submit their invoices, journals, and ledgers electronically.

Taxpayers obliged to issue e-invoices and keep e-ledgers under the General Communiqué on Tax Procedure Law are listed below:

- Taxpayers whose gross sales revenues exceed TRY 10,000,000 as of 2017 and 2018
- Taxpayers licensed by the Energy Market Regulatory Authority (EMRA) for engagement in activities of manufacturing, importation, delivery, etc. of those goods listed under list I attached to the Special Consumption Tax Law No. 4760
- Taxpayers manufacturing, constructing, and importing those goods listed under list III attached to the Special Consumption Tax Law.
- Taxpayers subjected to a special account period.

E-archive application with online sales:

- Taxpayers who sell goods and services via the Internet and who have minimum gross sales revenue of TRY5,000,000 must complete their applications and preparations and adopt the e-archive system by the beginning of the account period following the date on

which the income or corporation tax statement will be submitted for the relevant account period even they may have earned only TRY 1 of the total gross sale revenues from the Internet sales. One of the conditions to be met to adopt the e-archive system is the requirement to participate in the e-invoice system, but these e-archive companies are not obliged to participate in the e-ledger system. If gross sales revenues of these taxpayers exceed TRY 10,000,000, they will be obliged to adopt the e-ledger system. For those issuing documents other than tickets, insurance policies, invoices, etc. exclusively for the sales made via the Internet, there is no obligation to adopt the e-archive system.

1.5 FILING TAXES FOR CORPORATIONS

In Turkey, Corporate Income Tax, Provisional Corporate Income Tax, VAT, Withholding Tax, and BA-BS form filings are required for Corporations (for Ltds, JSCs, and branches). BA-BS forms shows the monthly purchases and sales of Companies. Through this forms purchase and sale amounts of taxpayers are cross checked

The Reverse Charge on VAT and Stamp Tax returns are filed for the months when the company receives related invoices or agreements.

1.6 TAX YEAR-END / TAX RETURNS AND COMPLIANCE

The tax year may either be a calendar year or a fiscal year. It is possible to obtain permission from the Ministry of Treasury and Finance to use a special accounting period.

TAX RETURN AND PAYMENT DEADLINES

Filings Required		Name of Filing Required	Official Tax Return-Payment Deadlines
A.	Annually	* Corporate Income Tax Return (Final)	Return: April 30 of the next year Payment: April 30 of the next year
B.	Quarterly	* Withholding Tax Return (If there are fewer than 10 employees)	Quarter 1: Return: April 26 Payment: April 26
			Quarter 2: Return: July 26 Payment: July 26
			Quarter 3: Return: October 26 Payment: October 26
			Quarter 4: Return: January 26 of the next year Payment: January 26 of the next year
		* Provisional Corporate Income Tax Return (always year-to-date)	Quarter 1: Return: May 17 Payment: May 17
			Quarter 2: Return: August 17 Payment: August 17
			Quarter 3: Return: November 17 Payment: November 17
			Quarter 4: Return: February 17 of the next year Payment: February 17 of the next year

C.	Monthly	* VAT Return	Return: 26 of next month Payment: 26 of next month
		* Reverse Charge on VAT (If any relevant invoice is available)	
		* SSI (Social Security Institution) Return	Return: 23 of next month Payment: At the end of the next month
		* Withholding Tax Return (If there are 10 or more than 10 employees)	Return: 26 of next month Payment: 26 of the next month
		*Stamp Tax Return (If any related agreement is available)	
		* BA & BS Returns	Filing: At the end of the next month No payment is required.

1.7 IFRS ADOPTION

Turkey has adopted IFRS Standards for the financial statements of all public interest entities (PIEs). Listed companies, intermediary institutions, and portfolio management companies were permitted to use IFRSs as of 2003 (voluntary), and have been required to use IFRSs since 2005 (mandatory). All banks and financial institutions have been required to use IFRSs since 2006. IFRSs are incorporated into laws and regulations as Turkish Accounting Standards (TASs) and Turkish Financial Reporting Standards (TFRSs).

TASs and TFRSs are fully compliant with the IFRSs issued by the International Accounting Standards Board (IASB), and they are published in the Official Gazette as communiqués. The definition of public interest entities has been given in Statutory Decree No. 660 in line with EU's Audit Directive: "Public interest entities are publicly-held companies, banks, insurance, reinsurance and pension companies, factoring companies, financing companies, financial lease companies, asset management companies, pension funds, issuers, and other capital market institutions."

The revised accounting framework and standards represent significant progress for Turkey's economy, bringing it in line with its European peers in terms of requiring general purpose financial reporting and corporate transparency for non-PIEs. The Public Oversight, Accounting and Auditing Standards Authority (POA) develops local Turkish GAAP on the basis of the recently revised EU Accounting Directive and takes into account IFRS for SMEs and the UK's local GAAP, largely contained in FRS 102.

The entities to be subject to audit are specified by the Cabinet Decree published in the Official Gazette dated January 23, 2013. According to this decree, entities who meet at least two of the following criteria in two consecutive accounting periods are subject to audit:

- Balance sheet total: TRY 35 million
- Annual net turnover: TRY 70 million
- Employee headcount: 175

1.8 MOST PREVALENT COMPANY TYPES UNDER THE TURKISH COMMERCIAL CODE

Regulations offer various legal forms for conducting business activities in Turkey. International investors and entrepreneurs may choose one from several types of Turkish companies to serve their business needs. The limited liability company (LLC) and the Joint Stock Company (JSC) are the most prevalent types of legal entities. Alternatively, a foreign individual or company may operate in Turkey through a branch or liaison office.

The Turkish Commercial Code provides a flexible and liberal framework for organization of companies or branches. There are no special restrictions for international investors performing business in Turkey.

Turkey has introduced reforms with a view to making it easier to perform business to enhance the investment environment,

eliminating the red tape for incorporating a business, and minimizing costs and procedures. To this end, the process of incorporation of a company is now only carried out at Trade Registry Offices located in Chambers of Commerce and designed to be a 'one-stop shop'. The process is completed within one day.

1.8.1 Branches

Typically, a branch is a permanent establishment of a company from which business operations are carried out. Further, a branch has no legal personality. Under the Turkish Commercial Code, there are no special conditions imposed on the branches.

Branches may be incorporated only for the same purposes as the parent company and will act within the fields of activity of the parent company. Even though there is no minimum capital requirement for branches, separate capital may be allocated to the branch by the parent company.

Branches are represented by the branch manager(s) who are appointed by the parent company. Furthermore, Turkish citizens and foreigners may be appointed as branch managers; however, it is required that they reside in Turkey.

1.8.2 Corporations

The Turkish Commercial Code distinguishes among several types of corporations, all of which possess legal personality. Hence, a typical characteristic of a corporation is that the owner of the corporation is not personally liable for the corporation's debts. Rather, the liability of a corporation is restricted to its share capital. The most prevalent forms of corporations in Turkey are the joint stock company (JSC) and the limited liability company (LLC).

The JSC may be an alternative for the investors who want to start large businesses. At least one shareholder is needed to incorporate this type of a company and the required minimum share capital is

TRY 50,000. The management of the company is also overseen by a board of directors, together with a supervisory board.

The limited liability company (LLC) is more convenient for small and medium-sized companies. At least one shareholder is required for this business, and there is a minimum share capital requirement of TRY 10,000. The company is managed by a board of directors.

Main differences between a JSC and LLC may briefly be summarized as follows:

A JSC is allowed to issue debentures and offer its shares to the public, whereas an LLC is prohibited from issuing debentures and cannot offer its shares to the public.

Another main distinction between a JSC and an LLC is related to the liabilities of the shareholders of the aforementioned companies. The shareholders of a JSC are not personally liable for the debts of the company. However, shareholders of an LLC are liable for the public debts of their company in case such public debts are not covered by the company itself.

The management and representation of the two companies are different. Within this framework, while a JSC is managed and represented by a board of directors, which must be composed of at least one member, an LLC is managed and represented by a manager or board of directors.

Another main difference between a JSC and an LLC is related to the field of activity. In this respect, only JSCs are allowed to operate in banking, insurance, and other specific sectors.

1.8.3 Liaison Offices

As foreign investors may not be familiar with the Turkish market, they may prefer not to enter in the market by immediately establishing a JSC or an LLC. Another option is the establishment of

a liaison office, which enables the company to be acclimated to the market and acquire a range of customers. The liaison office structure is not considered to be a capital company or a branch.

According to the Foreign Direct Investment Law, establishment of a liaison office is subjected to the permission of the Ministry of Industry and Technology. Furthermore, liaison offices are prohibited from engaging in commercial activities and conducting any income-generating activity in Turkey. All payments that result from the daily activities of liaison offices need to be covered by their parent companies. There is no foreign capital requirement for establishing a liaison office. One very important point is that a liaison office is a business type that is not allowed to conduct commercial activities but is allowed to carry out activities such as:

- Market research
- Promotion of the goods and services of the parent company
- Representation and hosting
- Control of the suppliers in Turkey in terms of quality and standard, their supervision, and supplier procurement
- Technical support
- Communication and information transfer
- Regional management center

Liaison offices in Turkey are represented by a liaison office representative who will be empowered by the parent company through a power of attorney. The representative may either be a Turkish citizen or a foreigner. The establishment license may be granted by the Ministry of Industry and Technology for a period of two to three years and may be extended after expiration. However, the activity period of the liaison offices established to engage in activities on market research and promotion of parent company products or services cannot be extended and the Ministry of Industry and Technology has the right to terminate the establishment license of a liaison office whenever any kind of breach of legislation is ascertained. Liaison offices are required to submit an annual report

to the Ministry of Industry and Technology regarding their previous years' activities by the end of May, each relevant year.

International investors are also authorized to establish a regional management center in the form of a liaison office. These types of regional management centers may be formed for the purpose of organizing management and coordination on forming investment and management strategies, planning, promotion, sales and post-sales services, brand management, technical support, R&D, external supply, testing newly-developed products, laboratory services, research analysis, and training and education of employees of the parent company's various units.

Tax Exemption

- As liaison offices are not in the commercial enterprise status and do not gain any revenue or profit they are not subject to VAT (Value added Tax) and corporate tax.
- Personnel of liaison offices that paid by foreign based company with foreign currency brought from abroad are exempt from income tax.
- And also no stamp tax deduction shall be made.

1.9 PERMANENT ESTABLISHMENT AND RESIDENCY

If both the legal and the business headquarters of a company are located outside of Turkey, the company is regarded as a non-resident entity for Turkish tax purposes. If one of these headquarters is located within Turkey, the company is regarded as a resident entity for Turkish tax purposes. There is no minimum period of presence in Turkey before a presence is regarded as a permanent establishment (PE) under the Turkish legislation.

Corporations or PEs including branches are liable for all taxes such as CIT, VAT, withholding tax, and stamp duty once they are registered for tax purposes in Turkey. There is no distinction between CIT and VAT registration in Turkey. All corporations and PEs

registered for CIT are automatically registered for VAT as well. When PE evaluation is made, it is also very important to take bilateral treaties into consideration (if applicable).

An individual's liability to pay income tax in Turkey is determined by the taking the following into consideration:

- residency status for taxation purposes
- source of income
- type of income derived by the individual

The most important one of the above is the determination of the residency status. Normally, if the duration of stay is less than six months in a calendar year, this is likely to be considered as short-term stay and the individual is considered as a limited taxpayer.

The second important point in order to determine the residency status is domiciliation. The term "domiciled" here refers to one registered at an address within the boundaries of Turkey and holding a work or residence permit. The Avoidance of Double Taxation Treaties should also be checked for determining the residency status of the individual.

Expatriates who have limited liability for income tax purposes:

Resident taxpayers are liable to pay taxes on their worldwide income, whereas non-resident taxpayers are only subjected to taxation on their income acquired from a Turkish source.

Income acquired from a Turkish source refers to fulfilment of any of the following:

- Remuneration received for services rendered in Turkey by an entity operating in Turkey
- Remuneration received for services rendered by an entity operating in Turkey
- Remuneration received for services rendered to a Turkish entity

- Earnings generated from movable and immovable properties within the boundaries of Turkey

Technically, there is no minimum number of days that exempts the employee from the requirements to report and pay income taxes in Turkey. If the employer is in Turkey, then the employee will be subjected to withholding taxes at progressive rates regardless of his/her residency status.

If the individual is resident in Turkey, then depending on the type of the income, taxation will be required to be fulfilled through annual income tax return.

2

CORPORATE TAX

2.1 GENERAL INFORMATION ON CORPORATE TAX

2.1.1 Incomes that are Subject to Corporate Tax

In the case that the income elements specified in the Income Tax Law are derived by corporations, taxation is applicable on the legal entities of these corporations.

2.1.2 Corporate Taxpayers

Corporate taxpayers as per Article 1 of the Law on Corporate Tax No. 5520 are as follows:



2.1.3 Territoriality

Corporations with legal or business centers located in Turkey are qualified as residents and are subjected to taxation on their income derived in Turkey and other countries. If both the legal and business centers are not located in Turkey, then these corporations are qualified as non-residents and subjected to taxation only on their income derived in Turkey.

The legal center is the place stipulated in the Articles of Association or the incorporation law of corporations that are subjected to taxation, while the business center is defined as the place where business activities are concentrated and managed.

2.1.4 Corporate Tax Rate

In Turkey, the corporate tax rate levied on business profits is 20%. (The rate for corporate tax has been increased to 22% for the tax periods 2018, 2019, and 2020. However, the President is authorized to reduce the 22% rate down to 20%).

2.1.5 Period of Submission of Corporate Tax Return

A Corporate Tax Return is submitted from the first day of the 4th month following the month when the accounting period was closed to the evening of the 30th day (end) of the same month, and is to be paid by the end of the month when the return is submitted.

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.

2.2 EXPENDITURES NOT REGARDED AS AN EXPENSE IN THE CALCULATION OF THE CORPORATE TAX

Expenditures not regarded as an expense in calculation of the corporate tax are as follows:

- Interests paid or calculated over the shareholders' equity.
- Interests, exchange differences, and similar expenses paid or calculated over the concealed capital.
- Incomes distributed in a concealed manner through transfer pricing.
- Reserves set aside by any means and under any name whatsoever (including all the reserves that the corporations set aside from their net profit in accordance with TCC, laws on incorporation, regulations and their main statutes or articles of association, and the general provisions that the banks fulfill in accordance with the Banking Law).
- Corporate tax calculated in accordance with the Corporate Tax Law and any fines, tax penalties, penalties paid in accordance with the provisions of the Law on Procedures for the Collection of Public Receivables No. 6183 and dated 21.07.1953, late fees and delay interests, and the delay interests paid in accordance with the provisions of the Tax Procedure Law.
- Provided that the limits determined by laws or based upon the authority given by laws are reserved, damages arising from issuance of securities at a value under their nominal value and commissions and any similar expenses paid in relation to these securities.
- Expenses and amortizations of motor vessels such as yachts, cruisers, boats, and speed boats and air vehicles such as airplanes and helicopters acquired through leasing/chartering or registered in the name of the business but not related to the main area of activity of the business.
- Expenses for indemnification of pecuniary and non-pecuniary damages arising from the fault of the corporation itself, its shareholders, directors or employees, except for the damages imposed by contracts as a penalty clause.

- Expenses of indemnification paid due to pecuniary and non-pecuniary damages arising from acts committed through media or radio and television broadcasts.
- 50% of the announcement and advertisement expenses for any alcohol and alcoholic drinks and tobacco and tobacco products. The President is authorized to increase this rate by up to 100% or to decrease it down to zero.
- Damages arising from theft, loss or robbery.

2.3 INCOME EXEMPTED FROM CORPORATE TAX

Incomes exempted from corporate tax are as follows:

- a. Exemption of profits from sales of participation stocks or a real estate

75% of the profits arising from the sales of the participation stocks included in the assets of the corporations for at least two full years, and their founders' share certificates, dividend certificates, and pre-emption rights that they hold for the same period, and 50% of the profits arising from the sales of the immovables held in their assets for the same period, are exempted from Corporate Tax.

This exemption applies during the period when the sale is made and the portion of the sales proceeds acquired from the exemption is kept under liabilities in a special fund account until the end of the fifth year following the year when the sale is made. However, the sales price must be collected by the end of the second calendar year following the year when the sale is made. Taxes not accrued in due time due to the exemption applicable to the sales price and not collected within this period are considered as a loss.

Taxes not accrued in due time due to the exception applied to the portion of the exempted earnings, which are, within five years and in any way other than by way of addition to the capital, transferred to another account or withdrawn from the company, or transferred

to the headquarters by the limited taxpayer corporations are considered as a loss. This provision shall also apply in the case of liquidation of the company (excluding transfers and divestments made pursuant to this law) within the same period.

b. Exemption of participation profits

Profits produced by corporations from their participation in the capital of another corporation that is a fully accountable taxpayer; the dividends that they obtain from founders' share certificates which allow participation in the profits of another corporation that is a fully accountable taxpayer and other dividend certificates, and the dividends they obtain from participation stocks of venture capital investment funds that are fully accountable taxpayers and from share certificates of venture capital investment partnerships are exempted from Corporate Tax.

Dividends obtained from participation stocks and share certificates of other funds and investment partnerships cannot benefit from this exemption.

c. Exemption for premiums on issued shares

In the case that shares issued by JSCs at the time of their incorporation or when they increase their capital are sold at a value which is above their nominal value, the portion sold above the nominal value is exempted from Corporate Tax. This circumstance is called exemption for premiums on issued shares.

d. Exemption for profits of foreign affiliates

Participation profits that meet the following requirements and are obtained by corporations from JSCs and limited-liability companies the capital of which they participate in and whose legal and registered offices are not in Turkey are exempted from Corporate Tax.

- The company holding the participation stock owns at least 10% of the paid-up capital of the foreign affiliate.
- As of the date when the profit is made, the participation stock has been held for at least one year uninterruptedly (for the participation stocks acquired by exercising a pre-emptive right or due to capital increases made from internal resources of the foreign affiliate, the date of acquisition of the formerly-owned participation stocks is taken as basis).
- Profit of the foreign affiliate bears a total tax burden of at least 15% consisting of taxes such as income and corporate tax pursuant to the tax laws of the country where the company participated in carries on business, including the taxes paid over the profits that are a source for the dividend distribution; in the case that the main field of activity of the company participated in is provision of financing including financial leasing, or provision of insurance services or investment on securities, bears a total tax burden consisting of taxes such as income and corporate tax that is at least equal to the corporate tax rate applied in Turkey pursuant to the tax laws of the country where the company participated in carries on business.
- The participation profit is transferred to Turkey by the date on which the corporate tax return in respect of the accounting period when such participation profit was acquired is required to be submitted.
- In the cases that it is obligatory to establish a separate company in accordance with the legislation of the relevant country for performance of construction, repair, and installation works and technical services abroad, provided that their articles of association specify that they are established for a special purpose and that they have no actual activity other than this purpose, profits obtained from participation in the aforementioned companies in this paragraph are exempted.

Pursuant to this sub-paragraph, the tax burden is determined by proportioning the total tax amount, consisting of taxes similar to income and corporate tax, including the taxes accrued in the relevant period in the country where the legal or registered office is located and paid over the profits that are a source to for dividend

distribution, to the total of the corporation's distributable profit made in this period and the accrued income and corporate taxes.

- e. Exemption for profits of institutions that are education and rehabilitation centers

A portion of profits made at the end of five accounting periods from the operation of pre-school education, primary education, private education and secondary education private schools, private nurseries and daycare centers, and rehabilitation centers affiliated to public benefit associations, or foundations that are granted a tax exemption by the President. How much profit is exempted from Corporate Income Tax will be determined by obtaining the opinion of the relevant ministry and within the framework of the procedures to be determined by the Ministry of Treasury and Finance.

- f. Exemption for profits made from construction, repair and installation works and technical services performed abroad

Profits made from construction, repair, and installation works and technical services performed abroad, and transferred into the general operating accounts in Turkey are exempted from corporate tax.

- g. Exemption for Profits from Sales of Foreign Participation Stocks

75% or more of the total assets that, as of the date when the profit was acquired, have been held for at least one year uninterruptedly, other than cash assets, and the corporate profits consisting of at least 10% participation in each of the JSCs or limited-liability companies whose legal or registered office is not in Turkey and that arise from disposal of foreign participation stocks included in the assets of JSCs that are fully accountable taxpayers, for at least two full years, are exempted from Corporate Tax.

- h. Exemption for profits of investment funds and investment partnerships

Profits of the following funds and partnerships that are established in Turkey are exempted from Corporate Tax:

- Profits from portfolio management of securities investment funds or partnerships
- Profits from portfolio management of the investment funds or partnerships based on gold and precious metals and which are portfolio traded on the stock exchanges established in Turkey
- Profits of venture capital investment funds or partnerships
- Profits of real estate investment funds or partnerships
- Profits of pension investment funds
- Profits of housing financing and asset financing funds

i. Exemption for profits obtained through the workplaces and permanent representative offices abroad

Profits of the corporations that they make through their workplaces and permanent representative offices abroad and that meet the following conditions are exempted from corporate tax:

- These profits bear a total tax burden of at least 15%, consisting of taxes similar to income and corporate tax, pursuant to the tax laws of the country where they operate.
- The profits are transferred to Turkey by the date when the annual corporate tax return in respect of the accounting period when they were acquired is required to be submitted.
- For the corporations, the main field of activity of which is provision of financing including financial leasing or provision of insurance services or investment on securities, those profits that bear a total income and corporate tax and similar tax burden at least equal to the corporate tax imposed in Turkey pursuant to the tax laws of the country where they arise.

2.4 CORPORATE TAX EXEMPTIONS AND DEDUCTIONS SET FORTH BY OTHER LAWS

Since the following exemptions are explained in detail in the subsequent sections, they are explained herein only in the form of main headings.

- Corporate Tax Exemption for Profits from Free Zone Activities (Free Zones Law No. 3218):
- Corporate Tax Exemption for Profit Made in Technology Development Zones (Technology Development Zones Law No. 4691)
- Corporate Tax R&D deduction for the expenses within the scope of R&D projects, R&D centers, and design centers (R&D Law No. 5746)
- Corporate Tax Advantage by Interest Deduction Calculated over Cash-Capital Increase

2.5 CORPORATE TAX ADVANTAGE REGARDING PROFITS MADE THROUGH SERVICES PROVIDED TO COMPANIES ABROAD

50% of the profits obtained by the following entities and produced exclusively from their following services may be deducted from the corporate tax base: those providing services in the fields of architecture, engineering, design, software, medical reporting, accounting report keeping, call center, product testing, certification, data storage, data processing, and data analysis services that are provided in Turkey to the persons not resident in Turkey and those whose workplaces, legal and registered offices are abroad and that exclusively benefit from being abroad, as well as service enterprises operating in vocational training areas determined by the Ministry of Treasury and Finance by obtaining the opinion of the relevant ministries, and finally businesses that provide services to the persons not resident in Turkey who operate in the areas of education and health, subjected to permit and supervision of the relevant ministry.

In order to benefit from this deduction, it is obligatory that invoices or similar documents are issued in the name of the customer abroad.

2.6 SETTING OFF THE LOSSES

Provided that the amounts in relation to each year are shown separately on the corporate tax return, the following losses may be subject to deduction in determination of the corporate tax base:

a. Setting off the Losses from the Activities in Turkey:

Provided that they are not carried over for more than five years, the losses shown in the returns for the previous years may be set off against the profit.

Under Article 20, paragraph one of the Law, the following conditions shall additionally be sought for deduction of the losses of the corporations taken over which do not exceed their shareholders' equity as of the date of the transfer, and of the losses proportional to the securities taken over which do not exceed the portion taken over from the shareholders' equity of a corporation that has undergone a full de-merger under Article 20, paragraph two:

- Corporate tax returns for the last five years are submitted in their legal period.
- Activity of the corporation taken over continues for a period of at least five years from the accounting period when the transfer or de-merger has occurred.

b. Setting off the Losses from the Activities Abroad

Except for those in relation with the profits exempted from Corporate Tax in Turkey; provided that they are not carried over for more than five years, losses from activities abroad may be subject to deduction in the following cases:

- 1) The tax bases declared in accordance with the tax laws of the country where activities are carried out, including the losses, are reported every year by the bodies authorized to perform the audit in accordance with the legislation of the relevant country.

2) The original copy of a such report and translated copy thereof are submitted to the relevant tax office in Turkey.

The tax returns, balance sheet and income statement attached to the report to be prepared by the audit institutions must be approved by the authorized financial authorities in that country. In the case that there is no audit institution in the country where the activities are carried out, it is sufficient that a copy of the tax return for each year obtained from the authorized bodies in that country is approved by the Turkish embassies and consulates in the locality, and if there is no Turkish embassy or consulate, by the representatives of that country in the same capacity protecting Turkish interests, and the original copy and translated copy thereof is submitted to the relevant tax office.

2.7 SETTING OFF TAXES PAID ABROAD

Corporate tax and similar taxes paid on-site over the profits made in foreign countries and transferred into the general operating accounts in Turkey may be deducted from the Corporate Tax imposed on these profits in Turkey.

In cases where Article 7 of the Law is applied, income and corporate tax and similar taxes paid by the affiliate abroad may be set off against the corporate tax calculated over the profit of the controlled foreign company to be taxed in Turkey.

Against the Corporate Tax to be paid in Turkey by corporations which are fully accountable taxpayers, over their dividends that they have made from their foreign affiliates, 25% of the capital or voting rights of which are owned directly or indirectly by those corporations, the portion, corresponding to the dividend, of the income and corporate tax and similar taxes paid over the incomes that constitute a source to the dividend distribution in the countries where the affiliates are located, is set off. The dividend added to

the profit is taken into consideration by including the income and corporate tax and similar taxes paid over these profits abroad.

The amount that may be set off against the taxes to be imposed in Turkey over the profits abroad may in no way exceed the amount to be found by application of the corporate tax rate specified in Article 32 of the Law, to the profits produced abroad. Within this limit, the taxes that cannot be deducted in full or in part in the accounting period when the relevant profit is transferred into the general operating accounts in Turkey may be subjected to deduction until the end of the third accounting period following this period.

In the case that there is any income produced abroad in the provisional taxation period, taxes paid over these incomes in the countries where they are produced through deduction or other means, may also be set off against the amount of the provisional tax calculated for that period. The amount to be deducted may not exceed the amount to be found by application of the provisional tax rate specified in Article 32 of the Law to the profits produced abroad.

Unless payment of taxes in foreign countries is authenticated by the documents obtained from authorized bodies and approved by the Turkish embassies or consulates in the locality, and if there is no Turkish embassy or consulate, by the representatives of that country in the same capacity protecting Turkish interests, taxes paid in foreign countries may not be deducted from the taxes imposed in Turkey.

2.8 5% DEDUCTION IN CALCULATED CORPORATE TAX

The taxpayers who satisfy the following conditions may benefit from a tax deduction by deducting 5% of the tax calculated over their annual income or corporate tax returns, from the income and corporate tax to be paid.

In order the income and corporate taxpayers to benefit from tax deduction:

- a) They must have submitted in due legal time their tax returns for the year when the deduction will be calculated and the last two years preceding that year, and paid in due legal time the taxes accrued on these returns.
- b) There must be no tax assessment made additionally, ex officio or by the administration against them as of the tax types subjected to tax return, in the year when the deduction will be calculated and the last two years preceding that year
- c) As of the date when the tax return for which the deduction will be calculated is submitted, they must have no overdue tax liabilities, principal amount of which is above TRY 1,000 (including tax penalties).

Those carrying on business in finance and banking sectors, insurance and reinsurance companies, pension companies and pension investment funds may not benefit from this deduction.

2.9 TRANSFER PRICING

2.9.1 Definitions

In cases where entities engage in goods or service procurements or sales from or to related persons at such costs and prices set contrary to the arm's length principle*, earnings shall be considered to have been partially or totally distributed in a concealed manner via the transfer pricing method. Purchase and sales, production and construction, renting and leasing, lending and borrowing money, transactions that require bonus, salary, and similar payments will, in all cases, be considered as purchase or sale of products and services.

Related person refers to the corporations' own shareholders, any real persons related having relations with such corporations or their shareholders as well as any real persons or legal entities directly or indirectly affiliated to or controlled by a corporation in terms of management, supervision, or capital.

*The arm's length principle means that the price or amount applied in the purchase or sale of goods or services made with the related persons must be consistent with the price or amount to be applied in the absence of such a relation between them. It is obligatory to keep as evidencing instruments any records, charts, and documents related to the price or amounts determined in line with the arm's length principle.

2.9.2 Transfer Pricing Methods

The corporations determine the prices or amounts to be applied in their transactions with the related persons by selecting a method which is the most appropriate one for the nature of the relevant transaction, out of the following methods:

- a. **Comparable price method:** It refers to the determination of the sales price that conforms with the arm's length values to be applied by a taxpayer, through comparison with the market values applied by real persons or legal entities which are not in the position of related parties and which are involved in transactions concerning purchase and sales of goods and services comparable in nature.
- b. **Cost plus method:** It refers to calculation of the arm's length price through increase of the cost of the concerned goods and services by a reasonable gross profit margin.
- c. **Resale price method:** It refers to calculation of the arm's length price by deducting a reasonable gross sale profit from the price to be applied in the case that the products or services which are the subject matter of the transaction are resold to any unrelated persons or legal entities.

- d. **Transactional profit methods:** It refers to the methods based on the profit arising from the transaction between related persons in determination of the arm's length price or value. These methods are transaction-based net profit margin method and profit-sharing method. Transaction based net profit margin method is based on review of the net profit margin determined by the taxpayer by relying on a relevant and suitable basis such as costs, sales, or assets on the basis of a controlled transaction. Profit sharing method takes the allocation of total operating profit or losses as basis for one or several controlled transactions of related persons among related persons in proportion to functions and risks that they undertake.
- e. **Advance Pricing Agreement:** Upon the request of the taxpayer, methods regarding determination of the price or cost to be applied in the purchases or sales of goods or services carried out with related persons could be selected by agreement with the Ministry of Treasury and Finance. The method determined in this manner shall become conclusive in the period and under the conditions determined in the agreement, provided that such period does not exceed three years (clauses added by Article 59 of the Law on the Amendment of Certain Laws for the Improvement of the Investment Environment No. 6728, date of enforcement: August 9, 2016). The taxpayer and the Ministry of Treasury and Finance may ensure that the method determined is also applied to the previous taxation periods that have not been time-barred, if it is possible to apply the remorse and correction provisions of the Tax Procedure Law and the terms and conditions of agreement are also valid in such periods, by including such periods into the scope of the agreement. In this case, the agreement signed shall replace the notification petition mentioned in the aforementioned provisions, and the declaration and payment transactions are consummated accordingly. Taxes paid previously may not be rejected and refunded due to application of the agreement to the previous taxation periods.

If none of the abovementioned methods allows determination of an arm's length price or value, any method to be determined by the taxpayer that they deem most compatible with the nature of the work may be applied.

In the application of the Laws on Corporate Tax and Income Tax, the profit distributed in a concealed manner in whole or in part through transfer pricing shall be deemed a distributed profit share, or for limited taxpayers, the amount transferred to the principal office, as of the last day of the accounting period when the conditions in this article have been realized. Any previous taxation transactions are adjusted accordingly for the concerned taxpayers. However, in order to realize this adjustment, the taxes imposed in the name of the corporation distributing the concealed profit must be conclusive and must have been paid.

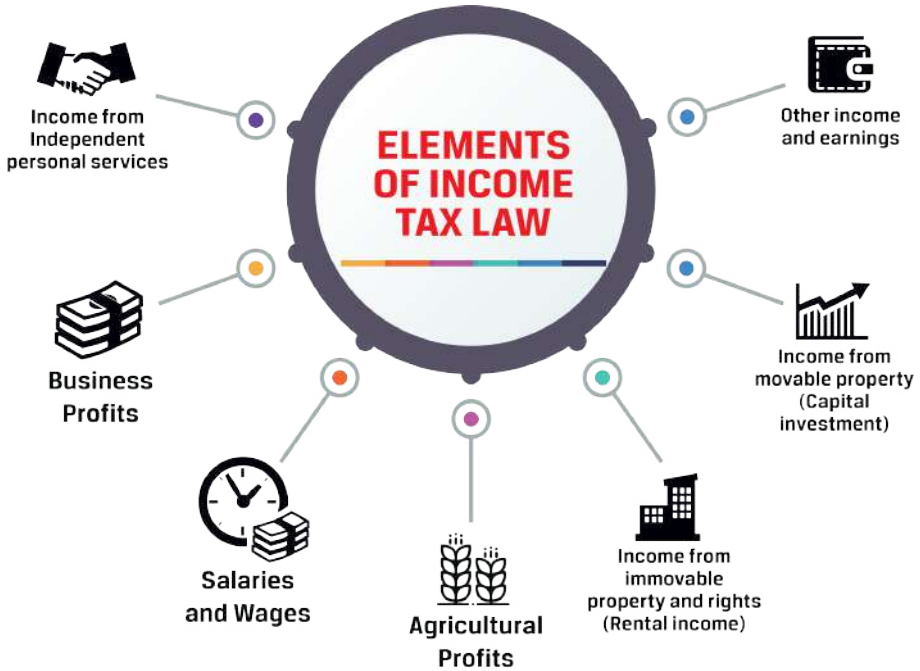
Admission of the fact that there has been a concealed distribution of profit made due to transactions realized domestically by and between fully accountable taxpayers and foreign corporations' workplaces or permanent representatives in Turkey within the scope of related persons, is a precondition for emergence of Treasury damages. Treasury damages refer to the deficient or late accrual of any tax amount necessary to be accrued on behalf of the corporation and the concerned persons due to the prices and values determined in breach of the arm's length principle.

3

INCOME TAX

3.1 TAXABLE INCOME

Personal income tax (PIT) is levied on the income of individuals. The term “individuals” refers to the real persons. In the application of income tax, partnerships are not deemed to be separate entities and each partner is taxed individually on his/her share of profit. An individual’s income may consist of one or more income elements listed as follows:



3.2 TAX LIABILITY

In general, residency criterion is applicable for determining tax liability for individuals. This criterion requires that an individual whose domicile is in Turkey is liable to pay tax for his worldwide income (unlimited liability). Any person who resides in Turkey for more than six months in a single calendar year is assumed to be a resident of Turkey. However; foreigners who stay in Turkey for six months or more by the reason of a specific job or business or particular purposes specified in the PIT Law are not treated as residents. Therefore, unlimited tax liability is not applicable for them.

In addition to the residency criterion, within a limited scope, nationality criterion also applies regardless of their residency status, Turkish citizens who live abroad and work for the government or a governmental institution or a company whose headquarter is in Turkey, are considered as unlimited liable taxpayers. Accordingly, they are subjected to PIT over their worldwide income. Non-residents are only liable to pay tax over their income derived from the incomes 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 PIT Law regulate this issue.

The income is assumed to be derived in Turkey in the following circumstances.

Business Income

A person must have a permanent establishment or permanent representation office in Turkey and income must result from business carried out in this permanent establishment or through such representation offices.

Agricultural Income

Agricultural activities yielding income must take place in Turkey.

Wages and Salaries

Income derived from dependent personal services is subjected to income tax. This income comprises such income from all kinds of employment in both public and private sector as salaries and wages, as well as associated supplementary income such as allowances, bonuses, anniversary gifts, gratuities, commissions, premiums, compensations, and other wage and salary related remunerations including benefits in kind at market value.

The following expenditures are allowed to be deducted from gross amount while determining taxable amount of salaries and wages:

- Legal deduction made according to various laws or regulations
- Payments made for pensions
- Payments made for various insurances
- Payments made for labor union membership.

Income from Independent Professional Services

The term “independent professional services” means any activity performed by any self-employed person, and based on professional and scientific expertise rather than capital, income from such activities is subjected to the income tax.

The term includes services offered by such independent professionals as lawyers, accountants, doctors, consultants, and engineers.

Revenues received from independent professional services within a year as well as expenses paid are recorded in a simple accounting book. In general, all expenses related to independent professional services may be deducted from revenues. But, the scopes of those expenses are narrower than those specified for the commercial and business activities.

The following expenses are allowed to be deducted from the gross revenue while calculating the profit from independent professional services:

- General expenses made to gain professional earning and survival of business
- Alimentation and accommodation expenses of the servants and workers at the workplace or its premises, their medical treatment and drugs expenses, insurance premiums and retirement allowances
- Travel and accommodation expenses related to business trips (provided that it is limited to the period required by the objective of the trip)
- Amortization amount reserved according to the Tax Procedural Law for installations, fixed assets, and the vehicles included in inventories and used in business activities
- Expenses related to vehicles rented or included in the inventory
- Amounts paid for business press
- Cost of goods and services procured for performance of business activities
- Registration and retirement allowances paid to the retirement funds for self-employment activities and other subscription fees paid to the professional organizations
- Proficiency, announcement, and advertisement taxes paid for conducting business and obtaining earnings as well as the charges and levies in kind related to workplaces
- Compensations paid according to the laws, verdict, and contracts related to business activities.

Independent professional services defined according to Double Taxation Treaties

Apart from the legal regulations mentioned in the corporate tax law and its communiqués aimed at the taxation regime of the limited taxpayer corporations, there are also certain regulatory articles in the agreements on prevention of double taxation signed by Turkey. In taxation of the profit produced by limited taxpayers, first of all it is significant to determine the type of the profit. After the type of the

profit is determined, provisions of the agreement on prevention of double taxation signed with the country where the limited taxpayer resides must be taken into consideration.

An income or corporate tax withholding must be imposed over the payments made for the purchases regarded as self-employment income. For this purpose, it is necessary to refer to the arrangements set forth in the Agreements for Avoidance of Double Taxation signed with the relevant country. In order to benefit from the provisions of the agreement on prevention of double taxation for the services procured from abroad, a duly issued residency certificate must be obtained. In the case that the residency certificate is not duly obtained and submitted to the authorized bodies, in spite of the provisions of the relevant agreement, the provisions of the domestic legislation shall apply.

Under the agreements on prevention of double taxation, the element of workplace or fixed place, of residence time, and of making the payment from Turkey have been separately defined as the elements determining the taxation authority of Turkey, the element of where the activity is carried out,.

Thus, in taxation of the profits from self-employment activities or other activities with similar nature, it is necessary to refer to the relevant provisions of the agreement on prevention of double taxation and to determine which country has the taxation authority.

In calculation of time with respect to legal persons and enterprises, the number of days spent in Turkey for the activity performed shall be taken into consideration, regardless of the number of the personnel. In Turkey, as it is the case in other OECD countries, period of the service carried out in that country with respect to corporations shall be taken into consideration, and the number of persons who have actually been in that country for that service shall not be taken into consideration for taxation in the country of origin of the self-employment profits.

The right for taxation of the profits to be produced by a person resident in other countries (real or legal entity) from their self-employment activities that they will perform without coming to Turkey and provide to Turkey, belongs only to the country where they reside pursuant to the agreement on prevention of double taxation. Since no taxation may be made in Turkey over the profits made in return for these activities, imposition of any tax withholding on the payments in this scope will no longer be in question.

Income from Capital Investment (interest, dividends, etc.)

Income from capital investment means any income such as interest, dividend, rent and such income derived from capital in cash or capital in kind. Income from business activities, agricultural activities and independent personal services is not considered as income from capital investment.

However, such capital income is not considered to be income from capital investment, should they be earned through business, agricultural, or independent professional activities.

Regardless of their sources, the following earnings are deemed to be income from capital investment:

- Dividends from stocks of every kind including jouissance shares, founder's shares and interests and other remunerations paid to the stockholders in the preparatory stage of the corporation, and earnings from the securities issued by investment funds and investment trusts
- Earnings from participation shares including the shares of limited companies, cooperatives, and joint ventures
- Dividends paid to the chairmen and the members of the board of directors
- For institutions with limited tax liability which submit annual or special tax returns according to the Corporate Income Tax Law, the portion that remains after deduction of the corporation tax from

the corporation earnings calculated before the deduction of the reductions and exemptions

- Interest of every kind from bonds, treasury bonds, and earnings from the securities issued by the Housing Development Administration (TOKI)
- Interest from debt-claims of every kind, particularly interest from banks and other financial institutions
- Deposit rates
- Profits from selling coupons of stocks and bonds before their maturity
- Income from selling of dividends not accrued yet to the owners of the shares
- Amount of discount received in return for all bills discounted
- Dividends paid to those who lend money without interest and dividends paid in return of profit-loss participation notes and profit-loss participation accounts
- Income from repurchasing agreement on bonds and securities
- The income payments made by the retirement funds in the nature of legal entity aid funds, retirement, and insurance companies
- Income from the Individual Pension System
- All types of earnings derived from capital market instruments issued due to Capital Market Law.

Costs related to and allowed to be deducted from gross income include insurance costs, collection costs, and taxes and other levies in determining net income from capital investment, excluding income tax, paid for securities.

The mentioned elements are included in business profit when they are connected to the business activity of the recipient. In such a case, this income is treated as business profit and becomes subjected to the rules described earlier.

Other Income and Earnings

Capital gains and non-recurring income are regulated by the PIT Law under the heading of “Other Income and Earnings”.

Capital Gains

Capital gains specified in the PIT Law are as follows:

- Earnings obtained from disposition of securities and other capital market instruments, except for the shares acquired without consideration which belong to fully taxable corporations, and which have been kept for more than two years
- Earnings arising from disposal of the rights enumerated in paragraph 5 of the first subsection of Article 70 of the PIT Law (excluding patent rights)
- Income exceeding certain amount of Turkish Liras from the sales of intellectual property rights, which are treated as immovable property for tax purposes
- Income from the sales of participation rights and shares
- Profits from the whole or partial alienation of an enterprise that has ceased its operations
- Profits derived from the alienation of land, buildings, the rights to operate mineral deposits, sources, and other natural sources, fish farming facilities, the rights registered as immovable property, and ships, boats, aircraft, and other transportation vehicles, within five years following their acquisition.

Net amount of capital gains is determined by deducting acquisition costs and the costs incurred to the alienation of the capital assets from the proceeds received in return for alienation.

Non-recurring Income

Non-recurring income comprises the following:

- Income derived from execution of commercial transactions or from acting as intermediary for such transactions on occasion
- Proceeds received not to start or to stop a business activity, agricultural activity, or independent professional service, or in return for not bidding for contracts
- Proceeds received to transfer leasehold rights or to evacuate leased immovable property
- Proceeds received due to independent professional services performed on occasion
- Income derived by the taxpayers from their previous operations
- Income derived by the limited liable taxpayers from transportation activities performed on occasion.

3.3 INCOME TAX RATES

Individual income tax rates applicable for 2019 are as follows:

Income Scales (TRY) (Employment Income)	Rate (%)	Income Scales (TRY) (Non-Employment Income)	Rate (%)
Up to 18,000	15	Up to 18,000	15
18,001-40,000	20	18,001-40,000	20
40,001-148,000	27	40,001-98,000	27
148,001 and over	35	98,001 and over	35

3.4 BUSINESS PROFIT

Business profit is defined as the profit arising from commercial or industrial activities. Although this definition is very comprehensive and includes all types of commercial and industrial activities, the PIT (Personal Income Tax) Law excludes some activities from the contents of business profits. Generally, activities performed by tradesmen and artisans who do not have permanent establishments

are not assumed to be commercial and industrial activities, and so they are exempted from income tax.

Furthermore, in order to tax the income resulting from commercial and industrial activities there has to be continuity in performing these activities. In other words, incidental activities in that nature are not treated as commercial or industrial activities and therefore, the PIT Law regulates these activities as other income and earnings. The PIT Law does not list each commercial and industrial activity and only refers to the Turkish Commercial Code for the scope of these terms. However, several activities are listed for clarification in Article 37.

These are as follows:

- Operating mines, stone and lime quarries, extraction of sand and pebbles, operations of brick and tile kilns
- Stock brokerage
- Operating private schools, hospitals, and similar places
- Regular operations of sales, purchase, and construction of real estate properties
- Purchase and sales of securities on a continued basis on behalf of someone
- Full or partial sales of land obtained by purchase or barter and subdivided within 5 years of its date of purchase and sold during this period or in subsequent years
- Earnings from dental prosthesis.

Basically, the taxable income of a business enterprise is the difference between its net assets at the beginning and at the end of a calendar year.

Two methods are used to compute business profits: Lump-sum basis and actual basis.

In the former method, the PIT Law specifies the estimated business profits for taxpayers qualified for such treatment according to the

relevant provisions of the Law. The main assumption is that those taxpayers specified by the Law have difficulty to keep accounting books and to determine the income on the actual basis. Therefore, their income taxes are assessed on the basis of their estimated profits determined by the Law.

In the latter method, business profits are determined on actual basis: Taxpayers are required to keep accounting books to record their actual revenues and expenses that occur within the calendar year. In general, business related expenses paid or accrued in relation with the business are deducted from revenues.

3.5 EXPENSES TO BE DEDUCTED FROM REVENUE

In order to determine the net amount of business profits on the actual basis, the following expenses may be deducted from revenues:

- General expenses made for earning and maintaining business profit
- Food and boarding expenses provided for employees in business places or relevant supplementary buildings
- Expenses for medical treatment and medicine
- Insurance and pension premiums
- Clothing expenses paid for employees
- Losses, damages, and indemnities paid under written agreements, juridical decrees, or by the order of law
- Expenses for travel and lodging relevant to the business
- Expenses for vehicles which are part of the enterprise and used in the business
- Taxes in kind, such as building, consumption, stamp, and municipal taxes, and fees and charges related to the business
- Depreciations set aside according to the provisions of the Tax Procedure Law
- Payments to unions
- The contribution payments paid by the employers to the retirement system on behalf of the wage earners. (Total contribution payments

paid to the individual retirement system by the employers and the wage earners and taken into consideration in determination of tax base, shall not exceed the rate and limits indicated in paragraph 3 of first subsection of Article 63 of the PIT Law)

- The production cost of foodstuff, cleaning, clothing, and heating supplies donated to the charity and foundations operating to help the poor, within the procedures and principles set out by the Ministry of Treasury and Finance.

3.6 PAYMENTS NOT ACCEPTED AS EXPENSES

The payments listed below are not considered as deductible expenses:

- Funds withdrawn from the enterprise by the owner or by his/her spouse or children, or other assets in kind acquired by them
- Monthly salaries, wages, bonuses, commissions and compensation paid to the owner of the enterprise, to his/her spouse, or his/her minor children
- Interest on the capital invested by the owner of the enterprise
- Interest based on the current account of the owner of the enterprise, his/her spouse, his/her minor children including interests on all form of receivables
- Excluding the transactions mentioned in paragraphs 1 and 4, in the case that the entrepreneur purchases or sells commodities or services based on the charges or prices he/she may determine with the associated bodies contrary to the principle of conformity with the market rates, the differences between the charges or prices in conformity with the market rates which are applied by the entrepreneur and which materialize to the disadvantage of the enterprise are considered to have been withdrawn from the enterprise
- All fines and tax penalties as well as indemnities arising from unlawful actions

- Indemnities incurred as penalty clauses of contracts shall not be considered indemnities of a punitive nature
- 50% of the advertising expenses for all kind of alcohol and alcoholic beverages, tobacco and tobacco products (Current rate has been reduced to 0%. The President shall be authorized to raise this rate up to 100% and reduce it to 0%)
- Depreciation and expenses of motor sea vehicles such as yachts, cutters, boats, and speed boats and aircrafts such as airplanes and helicopters acquired through renting or registered in the establishment but not related to the main field of operations of the enterprise
- Expenditures related to indemnities paid against material and moral damages arising from acts through press or radio and television broadcasts.

3.7 OTHER DEDUCTIONS ALLOWED ON TAX RETURN

Taxpayers shall be entitled to make the following deductions from the income in their annual declarations for determining the income tax base:

- Insurance premiums such as life (%50 of the premiums paid for life insurance shall be deducted), death, accident, illness, disability, maternity, birth and education insurances, belonging to the taxpayer himself/herself or his/her spouse or dependent children, provided that it does not exceed 15% of the declared income and total amount of the minimum wage
- Education and health expenditures made related to the taxpayer himself/herself, his/her spouse or dependent children, provided that they do not exceed 10% of the declared income and that they are made in Turkey and confirmed with documents to be received from real or legal persons subjected to corporate income tax
- Annual deduction calculated for the declared income of the disabled engaged in self-employment or taxed according to the simple procedure, according to the principles stated in Article 31 (self-employed persons and employees who are liable to look after

a disabled person shall be entitled to benefit from this deduction, including the deduction base)

- Of the total donations and assistance given against a receipt, and to the public administrations under government budget or with special budget, to special provincial administrative bodies, to the municipalities and villages, to the foundations granted tax exemption by the President, to the associations that work for public interest and to the institutions and establishments engaged in scientific research and development activities, up to 5% of the declared income
- All kinds of expenses made for the construction of schools, medical facilities, student hostels, and day-care centers with a capacity of at least 100 beds, orphanages, retirement homes, care and rehabilitation centers, or all kinds of donations and assistance given to these institutions for construction of such facilities, as well as all cash donations, donations in kind and assistance rendered for the continuation of their activities
- The production cost of foodstuff, cleaning, clothing, and heating supplies donated to the charity and foundations operating to help the poor, within the procedures and principles set forth by the Ministry of Treasury and Finance
- 100% of the expenses, donations, and assistance given against receipt, in respect of activities realized by the abovementioned institutions or supported by the Ministry of Culture and Tourism for the promotion, development, and preservation of cultural, artistic and historical values
- For the amateur sport branches, the whole amount, and for professional sport branches 50% of the sponsorship expenses
- An R&D deduction as much as 100% of the expenses that the taxpayers shall be made for research and development work within their enterprises, in search for new technologies and knowledge
- All cash donations and donations in kind made against receipt for aid campaigns related to natural disasters
- Except for their economic enterprises, all cash donations and assistance made/given against a receipt to the Turkish Red Crescent and the Turkish Green Crescent

- The portion not exceeding 10% of the tax revenue declared as the amount set aside as venture capital investment funds.

3.8 TAX RETURN

The income tax is assessed on the base declared through tax returns filled annually by taxpayers as well. Tax returns contain the results of the relevant taxation period.

In principle, every taxpayer is required to file a single tax return, even if the income has been derived through different business places or branches, and those places and branches have their own accounting and allocated capital.

Annual tax return is used for consolidation of earnings derived from various sources in the calendar year and the declaration time for the annual tax return covers the period between March 1-31. Half of income tax must be paid in March, and the remaining amount of income tax must be paid in July.

4

VALUE-ADDED TAX

The Turkish taxation system levies value-added tax (VAT) on the supply and the importation of goods and services.

Liability for VAT arises when:

- a. A person or entity performs commercial, industrial, agricultural, or independent professional activities within Turkey
- b. Goods or services are imported to Turkey

VAT is levied at each stage of the production and distribution process. However, while liability for the tax is levied on the person who supplies or imports goods or services, the real VAT burden is on 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/her sales (output VAT) and the amount of VAT that he/she has already paid on his/her purchases (input VAT).

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

4.1 VAT TAXPAYERS

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.

The following people or entities are liable for 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
- Corporations supplying postal services and radio/television services
- Organizers of any kind of chance and gambling

- Organizers of shows, concerts, and sporting events with the participation of professional artists or professional sportsmen
- Lessors of goods and rights stated in Article 70 of the PIT Law
- Applicants for optional tax liability

Goods and rights set out in Article 70 of the PIT Law include immovable property such as land, buildings, mines and rights that 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.

4.2 VAT RESPONSIBILITY AND REVERSE CHARGE VAT

In the event that the taxpayer is not resident or does not have a place of business, a legal head office, or place of management in Turkey, or in other cases deemed necessary, the Ministry of Treasury and Finance is authorized to hold anyone involved in a taxable transaction responsible for the payment of tax.

According to the VAT Law, there is a so-called reverse charge VAT mechanism, which requires the calculation of VAT by resident companies over payments made 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 subjected to partial withholding: Only 50% of the calculated VAT is paid to the seller by the purchaser. Therefore, the purchaser will be responsible for paying 50% of calculated VAT to the tax office directly.
- Junk metal, waste paper, junk plastic material deliveries are exempted from VAT. As it is the case with the abovementioned exemption, the purchaser pays 50% of the calculated VAT to the

seller. Therefore, the purchaser will be responsible for paying 50% of the calculated VAT to the tax office directly.

4.3 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 the case that a consideration does not exist, is unknown, or is in a form other than money, the taxable base is the market value. The market value is the average price payable in the market for similar goods and services and is determined with reference to the Tax Procedure Law.

4.4 EXCLUSIONS FROM THE TAXABLE BASE

The following elements are not included in the taxable base:

- a.** Discounts, in amounts in compliance with customary commercial practices, in transactions of delivery and service shown on invoices and similar documents
- b.** The VAT calculated.

4.5 TAX RATES

4.5.1 Standard Rate

The standard rate of VAT on taxable transactions is set at 18% in the VAT Law.

4.5.2 Special Rates

Lower VAT rates are as follows:

For the deliveries and services specified in List No. I**1%**:

For agricultural products sold as raw materials, financial leasing transactions (except for automobiles and planes), newspapers/ periodicals, delivery of used (second-hand) vehicles (including cars, land vehicles, racing cars, golf cars, jeeps, motorized caravans, vehicles with electrical or gas motors), deliveries of houses with an area up to 150 square-meters, construction work performed for housing cooperatives, housing construction work (only for houses with an area up to 150 square-meters) performed for Social Security Institutions and municipalities, fees for Transfer of Operation Rights (TOR) determined according to the TOR Agreement concluded within the scope of Law No. 3096 (usually for transfer of operation rights of power plants), funeral services, deliveries of blood used for human health, deliveries of penetration asphalt (except for cut-back asphalt), frozen animal sperm for artificial insemination, certified fruit saplings.

For the deliveries and services specified in List No. II**8%**:

For deliveries of basic foodstuff, tickets for movies, theatre, opera and ballet, education services provided by private universities, schools and day-care centers for children licensed by the relevant ministry, deliveries of books, deliveries of infant foods and vaccines, human medical products licensed for selling with a prescription or permitted to be imported by the Ministry of Health, plant protection products licensed for agricultural distress by the Ministry of Agriculture, veterinary products (except veterinary cosmetics) licensed by the Ministry of Agriculture and Forestry, textile products and raw materials of textile products including leather products such as bag, belt, shoes, and etc.

4.6 CREDIT MECHANISM

VAT is collected at every stage of the production and distribution process from the initial sales by the producer to the final sales 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 the 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.

4.7 NON-DEDUCTIBLE VAT (COST OR NON-DEDUCTIBLE OR CAPITALIZED ITEM)

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

- a. VAT on purchases of automobiles (which should be recorded as an expense or cost) except for businesses related to renting or operation of automobiles
- b. Missing or stolen inventory
- c. VAT on expenses accepted as non-deductible in determining income according to the PIT and the CIT Laws
- d. Input VAT on exempt deliveries listed in Article 17 of the VAT Law [excluding Article (17/4-s)]

4.8 VAT REFUND

VAT (input VAT) shown on the invoices and similar documents related to the transactions exempted from tax, such as:

- Exportation of goods and services
- Roaming services rendered in Turkey for customers outside Turkey (i.e. non-resident customers) in line with international roaming agreements, where a reciprocity condition sought for
- Contract manufacturing for clients operating in free zones
- Petroleum exploration activities
- Services rendered at harbors and airports for vessels and aircrafts
- Supply of machinery and equipment within the scope of an investment certificate
- Transit transportation
- Deliveries and services made/offered to diplomatic representatives and consulates on condition of reciprocity and to international organizations with tax exemption status and to their employees
- Banking and insurance transactions subjected to Banking and Insurance Transactions Tax

Those exemptions are deducted from the VAT (output VAT) to be calculated over the transactions of the taxpayer subjected to VAT.

In the absence of transactions subjected to VAT, or if the output VAT is less than the input VAT, then the input VAT that cannot be deducted is refunded to those who perform such transactions, on the basis of principles to be determined by the Ministry of Treasury and Finance.

5

OTHER TAXES

5.1 SPECIAL CONSUMPTION TAX

5.1.1 General Explanations

The special consumption tax (SCT) is levied only once at one stage of the consumption process of goods within the scope of four lists annexed to the SCT Law No. 4760.

The goods subjected to tax are indicated as tariff codes generated from Turkish Customs Tariff Nomenclature (TCTN). TCTN is in compliance with the Combined Nomenclature, which is the international classification system for goods.

There are four main product groups subjected to SCT at different tax amounts or rates.

- List (I) is related to petroleum products, natural gas, lubricating oil, solvents, and derivatives of solvents
- List (II) is related to land, air, and sea vehicles (cars and other vehicles, motorcycles, planes, helicopters, yachts, and etc.)
- List (III) is related to alcoholic beverages, soft-drinks such as cola, and cigarettes and other tobacco products
- List (IV) is related to other consumption goods (caviar, furs, mobile phones, white goods, and other electrical household appliances, and etc.)

5.1.2 Taxpayers of SCT

Taxpayers vary by list and transaction as follows:

- For List (I), manufacturers including refineries or importers of the petroleum products
- For List (II), traders of motor vehicles, importers for their use (not for selling) or sellers of untaxed vehicles through auction
- For List III, manufacturers and importers of the goods or sellers of untaxed goods through auction
- For List IV, manufacturers and importers of the goods or sellers of untaxed goods through auction

- Unlike VAT, which is applied on each delivery, SCT is charged only once.

5.2 SPECIAL COMMUNICATION TAX

Telecommunication services are subjected to a special communication tax. This tax is not included in the VAT base. Special communication tax rates are as follows:

- On mobile electronic communication services (including sales for pre-paid lines): 25%
- The services regarding the transmission of radio and television broadcasts on satellite platforms and cable medium: 15%
- The wired, wireless, and mobile provision of internet services : 5%
- Electronic communication services not listed above: 15%

Taxpayers are the operators who provide electronic communication services.

The tax base for special communication tax is the same as the VAT base. Taxpayers will declare the communication tax on the VAT returns and pay the accrued tax by the 15th day of the following month. Special communication tax is not deductible for income and corporate tax purposes.

5.3 BANKING AND INSURANCE TRANSACTIONS TAX

The subject of the tax is transactions and services performed by banks, bankers, and insurance companies. Taxpayers are banks, bankers, and insurance companies.

All transactions and services performed by banks and insurance companies are subjected to banking and insurance transactions tax (BITT) regardless of the nature of the transaction. There will be the tax upon the money collected under the name of interest,

commission, and expenditure because of the services performed on behalf of them. Bankers' certain transactions and services performed and stated in the Law No. 6802 are the subject matter of the tax. Other transactions of bankers are subjected to VAT.

The transactions of banks and insurance companies are exempted from VAT, but are subjected to BITT, which is due on the gains of such companies from their transactions. The purchase of goods and services by banks and insurance companies is subjected to VAT but is considered as an expense or cost for recovery purposes.

The general BITT rate is 5%, and some specific transactions are taxed at 1%. In addition, since 2008, foreign exchange transactions have been subjected to 0 (zero) BITT according to a cabinet decree.

Taxation period in BITT is each month of the calendar year. Taxpayers declare their taxable transactions and pay their taxes by the evening of the 15th day of the following month.

5.4 STAMP DUTY

Stamp duty applies to a wide range of documents including but not limited to contracts, agreements, notes payable, letters of credit and letters of guarantee, financial statements and payrolls. Stamp duty is levied according to the type of documents at different tax rates (between 0.189%- 0.948%) or lump-sum amount listed in Annex I of the Stamp Duty Law.

Documents exempted from stamp duty are listed in Annex II of the same law. The law provides that each relevant party shall be responsible for payment of the total amount of stamp duty levied on the agreements. Each original document is separately subjected to stamp duty; however, stamp duty applies to only one copy of the paper subjected to proportional stamp duty.

The stamp duty declaration is filed and paid on a monthly basis.

5.5 CUSTOMS DUTY

Goods imported from abroad are subjected to customs duty. Taxable events are free circulation of goods, registration of customs declaration, and temporary importation in case of partial exemption.

The taxpayer is principally the person who declares to the customs office. Customs duties are assessed on a written declaration given by the taxpayer and paid within 10 days from the date of notification.

5.6 RESOURCE UTILIZATION SUPPORT FUND (RUSF / ALSO KNOWN AS KKDF)

Loans obtained by Turkish residents from foreign creditors may be subjected to an additional tax burden known as the RUSF. The RUSF applies irrespective of whether the creditor is a bank/financial institution or a company within the borrower's group. The rate varies between 0% and 3% depending on the currency denomination, the business of the creditor and the maturity of the loan concerned. For instance, foreign currency loans obtained abroad by Turkish banks and financial institutions would in any case benefit from a reduced 0% RUSF tax rate.

However, for other taxpayers, the applicable RUSF rate, the basis of which is the principal of the loan, is determined on a declining scale depending on the maturity of the loan (see the chart below).

Maturity of the Foreign Currency Loan (Fiduciary transactions are excluded) Applicable RUSF Rate:

- Average maturity up to 1 year: 3%
- Average maturity between 1 year (inclusive) and 2 years: 1%
- Average maturity between 2 years (inclusive) and 3 years: 0.5%
- Average maturity of 3 years (inclusive) or more: 0%

According to the RUSF legislation, any import which is made on credit (unless the price for the import is paid before the actual importation) is subject to a special charge amounting to 6% of the value of the goods to be imported.

The important criteria in this regard are the payment term and whether it is a cash payment or payment on credit. The following imports are accepted as import with credit according to the RUSF legislation:

- Import with cash on delivery,
- import with acceptance credit,
- import with the deferred payment letter of credit.

6

WITHHOLDING

6.1 INFORMATION ON WITHHOLDING

Turkish tax laws do not only adopt the declaration method, but also the method of deduction at the origin. The laws charge those who are obliged to make a tax withholding, with the duty to collect in advance and to pay the tax before making to the beneficiaries the payments that are clearly specified by laws, to the tax office. The tax deduction made during the payment is called the Withholding Tax or Stoppage Tax.

All the transactions under this practice are performed between the withholder and the beneficiary. During withholding, the real and legal entities who make payment to the beneficiary pay the net amount remaining after having made the tax withholding to the beneficiary and they inform the relevant tax office with a withholding tax return within the time periods specified in the law of the incomes subjected to withholding and the amount of withholding they have made on such incomes.

In the case that these incomes are subjected to tax return, the taxes withheld by those who made the payment on behalf of those who made these incomes, may be set off against the tax calculated on the annual return. In cases where the income on which a withholding is levied is not declared, the tax paid by withholding becomes the final tax.

6.2 WITHHOLDING RATES

On the withholding tax return, the withholding tax is withheld from the payments made to the self-employed, most frequently in wage and salary payments, rent payments, and interest and dividend payments.

According to the main headings, the withholding rates are as follows:

- 15% in dividend payments

- 20% of the gross rent price in the rent payments made to real persons
- 20% in the payments made to the self-employed (CPA, Attorney, MDs, and etc.)
- Wage Income Tax Withholding Rates for the year 2019 are as follows:

Income Scales (TRY) (Employment Income)	Rate (%)
Up to 18,000	15
18,001-40,000	20
40,001-148,000	27
148,001 and over	35

- Tax Over Internet Advertisement Service: By virtue of the Presidential Decision no. 476 as published in the Official Gazette (issued on 19 December 2018 under no. 30630), from 1/1/2019, in connection with Internet (online) advertisement services, advertisement service providers or those who act as intermediaries in Internet advertisement services shall be subject to withholding taxes at the following rates:

Payments to natural persons without regard to whether they are taxpayers or not	%15
Payments to be made to limited taxpayers	%15
Payments to be made to corporate taxpayers based in Turkey	%0

7

DIVIDEND DISTRIBUTION

7.1 INFORMATION ON DIVIDEND DISTRIBUTION

Profit distribution policies of the companies are carried out in accordance with the provisions of Turkish Commercial Code, tax laws, articles of association, and the Capital Markets Law and the resolutions taken at general assembly meetings. In accordance with Article 507 of the Turkish Commercial Code, every shareholder has the right to participate in proportion to his/her shares into the distribution of the net profit for the period which is agreed to be distributed to the shareholders in accordance with the articles of association.

Pursuant to this provision, the franchises and special interests specified in the articles of association and the relevant legislative provisions of the Capital Markets Board are reserved. Article 509 of the Turkish Commercial Code stipulates that dividend may be distributed only from the net profit for the period and free reserves. In accordance with this statement, the net period profit is based on the profit distributable to the shareholders. In accordance with Turkish Accounting Standards, the net period profit is shown on the financial statements issued after the provision for taxes is set aside. It is stated in Article 508 of the Turkish Commercial Code that the annual profit is determined according to the balance sheet. With this regulation, when considered together with the net period profit stated in Article 507, the profit distributable to the shareholders is the net profit for the period.

There are certain legal obligations in relation to profit distribution. Accordingly, shareholders do not have unlimited disposition right in respect of the company's profit, and the company is to set aside a portion of the profit as reserve. Reserves may be subjected to a triple classification according to the resources necessitating them to be set aside.

7.2 SAMPLE DIVIDEND DISTRIBUTION TABLE

Assuming that a company's paid-in capital is TRY 500,000 and its net profit for the period is TRY 860,000, a sample profit distribution is summarized on the below table:

0	PAID-IN CAPITAL	500.000
1	PROFIT FOR THE PERIOD	1.100.000
2	NON-DEDUCTIBLE EXPENSES	100.000
3	REDUCTIONS AND EXCEPTIONS	0.00
4	CORPORATE TAX BASE (1+2-3)	1.200.000
5	CORPORATE TAX CALCULATED (Corporate Tax Base x 20%) (For 2018,2019 and 2020 x 22%)	240.000
6	NET PROFIT OR LOSS FOR THE PERIOD (1-5)	860.000
7	PRIMARY LEGAL RESERVES (5% of the net profit for the period until it reaches up to 20% of the paid-in capital)	43.000
8	1 ST DIVIDEND TO BE PAID (paid-in capital x 5%)	25.000
9	AMOUNT TO BE DISTRIBUTED	792.000
10	SECONDARY LEGAL RESERVES (profit to be distributed x 10%)	79.200
11	2 ND DIVIDEND TO BE PAID	712.800
12	TOTAL DIVIDEND TO BE DISTRIBUTED (1 st dividend + 2 nd dividend)	737.800
13	INCOME TAX ON DIVIDENDS (income tax on dividends x 15%)	110.670
14	NET DIVIDEND TO BE DISTRIBUTED TO SHAREHOLDERS	627.130

The profit distribution made by fully accountable taxpayers to their shareholders is generally subjected to withholding at a rate of 15%; however, no withholding is made on the dividends distributed from fully accountable taxpayers to fully accountable taxpayers. Addition of profits to the capital is not subjected to withholding tax as it is not considered as distribution of profits. Similarly, 15% tax deduction is made on amounts transferred by limited taxpayers to headquarters after deduction of the corporate tax. Withholding tax is imposed

on the amount that remains after deducting corporate tax from the profit of branches subjected to taxation.

If the profit distribution will be made to a company whose registered office is abroad, the withholding rate in profit distribution is the rate determined by the agreement for prevention of double taxation. Taking into consideration the countries having an agreement for avoidance of double taxation with Turkey, the withholding rate in profit distribution ranges from 5% to 15%.

Resident corporations are subjected to 15% withholding tax when dividends are paid out to shareholders. However, dividends paid by resident corporations to resident corporations are not subjected to withholding tax. As a share capital increase by the corporation using the retained earnings is not considered to be a dividend distribution, no withholding tax applies to dividends. Similarly, non-resident corporations are subjected to a 15% withholding tax during remittance of such profits to the headquarters. Withholding tax is applied on the amount after the deduction of corporate income tax from taxable branch profits.

8

DEPRECIATION

8.1 INFORMATION ON DEPRECIATION

The term “depreciation” refers to the wear and tear or aging of assets. Conditions for setting aside depreciation include:

- A fixed asset is usable in the business for more than one year
- It is subjected to wear and tear or depreciation
- On the valuation date, it is included in the inventory and is ready for use
- VAT excluded from the value of the economic asset exceeds TRY 1,200 (for the year 2019)

The period of depreciation starts from the year when the securities are included in assets.

Depreciation of each year may be made subjected to deduction being taken into account only for that year, the amount of depreciation which has not been made subjected to deduction is not possible to be written as deductible expenses in the subsequent years. The periods of depreciation may not be extended due to the fact that depreciation has not been set aside in any year or it is set aside with the rates lower than the depreciation rates specified in the Tax Procedure General Communiqués.

In case of renewal of the economic assets sold is deemed mandatory due to the nature of the works or those who administer the business take a decision or make an attempt in this respect, the profit produced from sales may be held in a provisional liability account for a period of a maximum three years in order to cover the renewal expenses. Profits not used in this period for any reason whatsoever are included into the tax base of the third year. In the case that the work is abandoned or transferred, or the business is liquidated, these profits are included into the tax base for that year.

8.2 DEPRECIATION RATES

In accordance with Article 315 of the Tax Procedure Law, taxpayers calculate depreciation at the rates determined for the economic assets subjected to depreciation, and announced by the Ministry of Treasury and Finance taking into consideration the useful lives of the economic assets.

8.3 METHODS FOR SETTING ASIDE DEPRECIATION

The methods the most frequently used for setting aside depreciation are the usual depreciation method, the reducing balance method, and the pro rata depreciation method.

8.3.1 Usual Depreciation Method

In this method, the amount of depreciation to be set aside is found by dividing the cost of the fixed asset by the estimated economic life of the fixed asset in question. In usual depreciation method, the amount of depreciation to be set aside is equal every year.

For example, for a fixture with a value of TRY 10,000.00 acquired in 2019 with an economic life of five years, the calculation of the amount of depreciation necessary to be set aside on annual basis is shown on the following table:

Depreciation rate: $1 / \text{Economic Life } 1 / 5 = 0.20$ i.e. 20%.

$10,000 \times 20\% = \text{TRY } 2,000$ the annual depreciation amount

8.3.2 Reducing Balance Method

In the reducing balance method, the value on which the depreciation will be calculated every year is determined by reducing from the total the depreciations which have previously been set aside. The rate to be applied is taken to be two times that of usual depreciation,

but this rate may not exceed 50%. In the last year, the whole amount is written as depreciation.

In the case that the aforementioned fixture is amortized through the reducing balance method, the amounts necessary to be set aside on annual basis will be as follows:

Depreciation rate: $1 / \text{Economic Life } 1 / 5 = 0.20$ i.e. 20%.

Since it is the reducing balance method, two times the rate of usual depreciation shall be taken into consideration.

$0.20 \times 2 = 0.40$ i.e. 40%.

Every year, 40% of the difference between the cost price and accumulated depreciation amount shall be amortized.

The amount of depreciation to be set aside for the upcoming years is as follows:

2019	$10,000 \times 0.40$	4,000
2020	$(10,000 - 4,000) \times 0.40$	2,400
2021	$(10,000 - 6,400) \times 0.40$	1,440
2022	$(10,000 - 7,840) \times 0.40$	864
2023	$(10,000 - 8,704)$	1,296

Depreciation Table

Years	Amount	Annual Depreciation Amount	Accumulated Depreciation
2019	10,000	4,000	4,000
2020	6,000	2,400	6,400
2021	3,600	1,440	7,840
2022	2,160	864	8,704
2023	1,296	1,296	10,000

8.3.3 Pro Rata Depreciation Method

In the first accounting period when passenger cars are acquired, calculation of depreciation for the number of months remaining until the end of the period by taking as denominator the full number of months for the accounting period, is the pro rata depreciation method. For example, the rate of depreciation to be set aside by a company whose main field of activity is an activity other than selling or renting passenger cars, for a car it has acquired in the 7th month of 2019, is not for one year, but it is for 5 months, which is the period elapsed from the month when the car was acquired until the end of year. In this case, the amount corresponding to the lacking months is included in the amount to be set aside in the last year.

9

**TAX ADVANTAGES FOR
INVESTMENTS MADE UNDER
AN INVESTMENT INCENTIVES
CERTIFICATE**

The investment incentives scheme is specifically designed to encourage investments with the potential to reduce dependency on the importation of intermediate goods vital to the country's strategic sectors.

The primary objectives of the investment incentives scheme include: reduce the current account deficit; boost investment support for underdeveloped regions; increase the level of support instruments; promote clustering activities; and support investments that will create the transfer of technology.

Effective as of January 1, 2012, the investment incentives system is composed of three different schemes. Local and foreign investors have equal access to:

- I. General Investment Incentives Scheme
- II. Regional Investment Incentives Scheme (Including Priority Investment Incentives)
- III. Strategic Investment Incentives Scheme

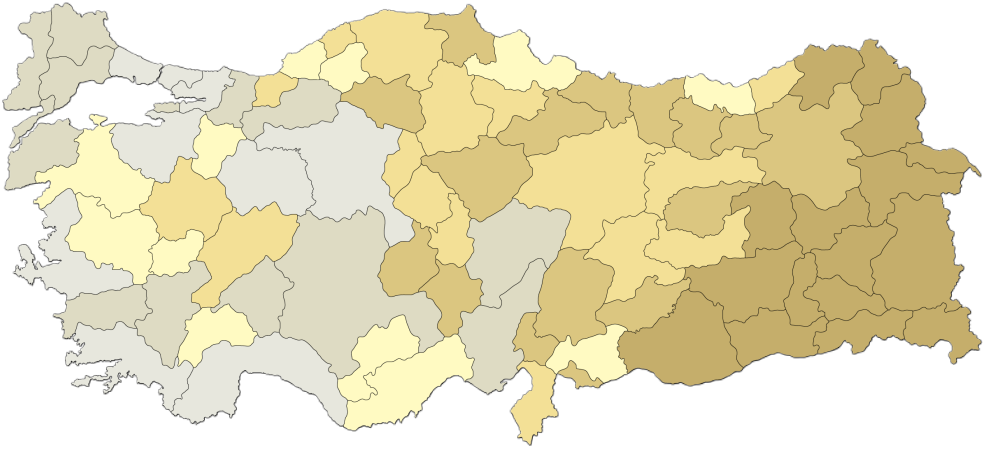
The support instruments to be provided within the framework of the various investment incentives schemes are shown in the following table:

Support Instruments	General Investment Incentives Scheme	Regional Investment Incentives Scheme	Strategic Investment Incentives Scheme
VAT Exemption	+	+	+
Customs Duty Exemption	+	+	+
Tax Reduction		+	+
Social Security Premium Support (Employer's Share)		+	+
Income Tax Withholding Allowance ¹	+	+	+
Social Security Premium Support (Employee's Share) ¹		+	+
Interest Rate or Dividend Support ²		+	+
Land Allocation		+	+
VAT Refund ³			+

1 Provided that the investment is made in Region 6.

2 Provided that the investment is made in Regions 3, 4, 5, or 6 within the framework of the Regional Investment Incentives Scheme.

3 For construction expenditures of strategic investments with a minimum fixed investment amount of TRY 500 million.



Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
Ankara	Adana	Balıkesir	Afyonkarahisar	Adıyaman	Ağrı
Antalya	Aydın	Bilecik	Amasya	Aksaray	Ardahan
Bursa	Bolu	Burdur	Artvin	Bayburt	Batman
Eskişehir	Çanakkale (Bozcaada & Gökçeada excluded)	Gaziantep	Bartın	Çankırı	Bingöl
Istanbul	Denizli	Karabük	Çorum	Erzurum	Bitlis
Izmir	Edirne	Karaman	Düzce	Giresun	Diyarbakır
Kocaeli	Isparta	Manisa	Elazığ	Gümüşhane	Hakkari
Muğla	Kayseri	Mersin	Erzincan	Kahramanmaraş	Iğdır
	Kırklareli	Samsun	Hatay	Kilis	Kars
	Konya	Trabzon	Kastamonu	Niğde	Mardin
	Sakarya	Uşak	Kırıkkale	Ordu	Muş
	Tekirdağ	Zonguldak	Kırşehir	Osmaniye	Siirt
	Yalova		Kütahya	Sinop	Şanlıurfa
			Malatya	Tokat	Şırnak
			Nevşehir	Tunceli	Van
			Rize	Yozgat	Bozcaada & Gökçeada
			Sivas		

9.1 GENERAL INVESTMENT INCENTIVES SCHEME

Regardless of the region where investment takes place, all projects meeting both the specific capacity conditions and the minimum fixed investment amount are supported within the framework of the General Investment Incentives Scheme. Some types of investments are excluded from the investment incentives system and would not benefit from this scheme.

The minimum fixed investment amount is TRY 1 million in Region 1 and 2, and TRY 500,000 in Region 3, 4, 5, and 6.

Major investment incentive instruments are:

1. Exemption from customs duties: Customs tax exemption for imported machinery and equipment for projects with an investment incentive certificate.
2. VAT exemption: VAT exemption for imported or domestically purchased machinery and equipment for projects with an investment incentive certificate.

9.2 REGIONAL INVESTMENT INCENTIVES SCHEME

The sectors to be supported in each region are determined in accordance with the regional potential and the scale of the local economy, while the intensity of support varies depending on the level of development in the region.

The minimum fixed investment amount is defined separately for each sector and region with the lowest amount being TRY 1 million for Region 1 and 2, and TRY 500,000 for the remaining regions.

The terms and rates of support provided within the Regional Investment Incentives Scheme are shown in the following table.

REGIONAL INVESTMENT INCENTIVES SCHEME INSTRUMENTS

Incentive Instruments		Region						
		I	II	III	IV	V	VI	
VAT Exemption		YES						
Customs Duty Exemption		YES						
Tax Reduction	Tax Reduction Rate (%)	50	55	60	70	80	90	
Rate of Contribution to Investment (%)	Out of OIZ*	15	20	25	30	40	50	
	Within OIZ*	20	25	30	40	50	55	
Social Security Premium Support (Employer's Share)	Support Period	Out of OIZ*	2 yr.	3 yr.	5 yr.	6 yr.	7 yr.	10 yr.
		Within OIZ*	3 yr.	5 yr.	6 yr.	7 yr.	10 yr.	12 yr.
	Upper Limit for Support (%)	Out of OIZ*	10	15	20	25	35	No limit
		Within OIZ*	15	20	25	35	No limit	No limit
Land Allocation		YES						
Interest Rate or Dividend Support	TRY Denominated Loans (points)	N/A	N/A	3 pts	4 pts	5 pts	7 pts	
	FX Loans (points)			1 pt	1 pt	2 pts	2 pts	
Social Security Premium Support (Employee's Share)		N/A	N/A	N/A	N/A	N/A	10 yr.	
Income Tax Withholding Allowance		N/A	N/A	N/A	N/A	N/A	10 yr.	

*OIZ: Organized Industrial Zones

Contribution Rate to Investment Applicable During Investment / Operating Periods

Under Regional Investment Incentives Scheme

Regions	Investment Period	Operating Period
I, II, III, IV, V, VI	80 %	20 %

The new investment incentives system defines certain investment fields as “priority” and offers them regional support extended to Region 5 by the Regional Investment Incentives Scheme, regardless of the region of the investment. If priority investments are made in

Region 6, the regional incentives available for this particular region shall apply.

Priority Investment Incentives: Fields of investment with specific priorities to be supported with Region 5 instruments regardless of the investment's region are;

- Tourism accommodation investments in Cultural and Tourism Preservation and Development Regions and investments that could benefit from regional incentives with regard to thermal tourism
- Mine extraction and/or processing investments
- Mining exploration investments to be made in the licensed areas by investors with a valid Exploration License or Certificate issued pursuant to the Mining Law
- Railroad and maritime freight or passenger transportation investments
- Investments in the defense industry to be made with respect to the project approval received from the Undersecretariat for Defense Industries
- Test centers, wind tunnels, and similar investments made for the automotive, aerospace, or defense industries
- Investments made by the private sector for kindergartens and day-care centers, pre-schools, primary, elementary, and high schools. Also covered are investments of TRY 20 million or more in training centers for aircraft maintenance and repair and pilot training
- International trade fair investments with a minimum indoor area of 50,000 square meters (excluding accommodation and shopping center units)
- Investments for the manufacturing of products or parts developed by an R&D project supported by the Ministry of Industry and Technology, TUBITAK or KOSGEB
- Investments in the motor vehicles main industry worth a minimum amount of TRY 300 million, engine investments worth a minimum amount of TRY 75 million, and investments for motor engine parts, transmission components/parts, and automotive electronics worth a minimum amount of TRY 20 million

- Investments for power generation where metals stated in the 4-b group of Article 2 of the current Mining Law No. 3213 within the scope of a valid mining license and permit issued by the Ministry of Energy and Natural Resources are used as inputs
- Investments for energy efficiency projects that are to be carried out at the existing manufacturing industry facilities with minimum 500 TEP (ton equivalent petroleum) annual energy consumption, which would provide minimum 20% energy savings compared to the current situation, and with 5-year or less return on investment as a result of energy savings
- Investments for electricity generation through waste heat recovery in a facility (excluding natural gas-fired electricity generation plants)
- Liquefied natural gas (LNG) investments and underground gas storage investments with a minimum amount of TRY 50 million
- Investments for production of carbon fiber or composite materials made from carbon fiber provided that it takes place along with carbon fiber production
- Investments for the production of items in the high-tech industry segment stipulated in the Organization for Economic Cooperation and Development's (OECD) definition for technology intensity
- Investments for the production of turbines and generators used in renewable energy generation, as well as investments for production of blades used in wind energy generation
- Integrated investments for production of aluminum flat products through hot rolling and direct chill slab casting methods
- Licensed warehousing
- Nuclear power plant investments
- Investments for research and reference laboratories, consumer safety and infectious diseases reference laboratories, pharmaceutical and medical device analysis and control laboratories, as well as laboratory complexes for in vivo testing and research centers
- Automated greenhouse investments that include greenhouse technologies developed in Turkey. (excluding Istanbul, and requiring a TRY 5 million minimum investment amount anda minimum of 25 decare (25,000 square meters of investment land)

- Integrated husbandry investments for milk (minimum 5,000 heads of cattle) and integrated husbandry investments for meat (minimum 10,000 heads of cattle)
- Waste recycling and/or disposal investments with a minimum investment amount of TRY 5 million
- Elderly care centers and/or disabled care centers and wellness investments within the scope of health tourism
- Medium high-tech investments (Appendix-6 of Incentives Legislation) with a minimum investment amount of TRY 500 million

Furthermore, together with the amendment to the incentives legislation on October 5, 2016, investments for the production of items in the medium high-tech industry segment stipulated in the Organization for Economic Cooperation and Development's (OECD) definition for technology intensity will be able to benefit from the instruments of Region 4 regardless of the location of the investment (except İstanbul). The investment subjects in question are as follows:

- Manufacture of chemicals and chemical products (excluding the manufacture of herbal or chemical products used in the pharmaceutical industry and medicine)
- Manufacture of machinery and equipment
- Manufacture of electrical motors, generators, and transformers
- Manufacture of power distribution and control devices
- Lead-acid batteries for starter-piston engines
- Nickel-cadmium, nickel-iron, and other electrical batteries
- Manufacture of electrical equipment not classified elsewhere (NCE)
- Manufacture of motor land vehicles
- Manufacture of railroad and trolley engines and cars
- Manufacture of motorcycles
- Manufacture of vehicles for the disabled

9.3 STRATEGIC INVESTMENT INCENTIVES SCHEME

Investments meeting the criteria below are supported within the framework of the Strategic Investment Incentives Scheme:

- The domestic production capacity for the product to be manufactured with the investment shall be less than the import of the product
- The investment shall have a minimum investment amount of TRY 50 million
- The investment shall create a minimum added-value of 40% (this condition is not applicable to refinery and petrochemicals investments)
- The total import value of the product to be manufactured with the investment shall be a minimum of USD 50 million as of the previous year (excluding products not locally produced)

The terms and rates of support provided within the Strategic Investment Incentives Scheme are shown in the following table.

STRATEGIC INVESTMENT INCENTIVES SCHEME INSTRUMENTS

Incentive Instruments		All Regions
VAT Exemption		YES
Customs Duty Exemption		YES
Tax Reduction	Tax Reduction Rate (%)	90
Rate of Contribution to Investment (%)		50
Social Security Premium Support (Employer's Share)	Support Period	7 years (10 years for Region 6)
	Upper Limit for Support (%)	15 (No limit for Region 6)
Land Allocation		YES
Interest Rate or Dividend Support	TRY Denominated Loans (points)	5
	FX Loans (points)	2
	Maximum Support Amount (*)	TRY 50 million
Social Security Premium Support (Employee's Share)		10 years (for investments in Region 6)
Income Tax Withholding Allowance		10 years (for investments in Region 6)
VAT Refund		YES (for construction expenditures of the strategic investments over TRY 500 million)

**Provided that it will not exceed 5% of the investment amount*

Rate of Contribution to Investment Applicable
During Investment / Operating Periods
Under Strategic Investment Incentives Scheme

Regions	Investment Period	Operating Period
I, II, III, IV, V, VI	80 %	20 %

9.4 SUPPORT INSTRUMENTS

1. VAT Exemption

VAT is exempted for imported and/or domestically delivered machinery and equipment within the scope of the investment incentive certificate.

2. Customs Duty Exemption

Customs duty is exempted for imported machinery and equipment within the scope of the investment incentive certificate.

3. Tax Reduction

The income or corporate tax is calculated on the basis of reduced rates until the total amount of reduced tax reaches up to the amount of contribution to the investment. The rate of contribution to investment refers to the rate of the total fixed investment amount subjected to tax reduction.

A Sample Calculation Showing How to Compute Tax Reduction

Where the total investment amount of a company under the top priority investment is TRY 10,000,000 (expenditure for buildings, machinery, and equipment):

Tax reduction rates applicable to top priority investments are as follows:

Normal CIT Tax Rate	20%
CIT Tax Reduction Rate (%)	80%
Advantage Rate of CIT	16%
Reduced Tax Rate (%)	4%
Rate of Contribution to Investment (%)	Within OIZ* %50 (Out of OIZ* %40)

Total corporate income tax advantage for this investment amount:

$$\text{TRY } 10,000,000 \times 0.40 = \text{TRY } 4,000,000$$

The state grants a corporate income tax advantage for a total sum of TRY 4,000,000 (The remaining part of the CIT incentive amount will be increased based on reevaluation every year. This extra benefit will be excluded in the calculations presented below)

Year	Profit	Regular Corporate Income Tax Rate	Reduced CIT rate	Incentive Rate for CIT	Post-reduction CIT rate	CIT payable	Incentive amount of CIT	Paid CIT
2018	1,500,000	20%	80%	16%	4%	300,000	240,000	60,000
2019	1,800,000	20%	80%	16%	4%	360,000	288,000	72,000
2020	2,000,000	20%	80%	16%	4%	400,000	320,000	80,000
2021	2,200,000	20%	80%	16%	4%	440,000	352,000	88,000
2022	2,800,000	20%	80%	16%	4%	560,000	448,000	112,000
2023	3,200,000	20%	80%	16%	4%	640,000	512,000	128,000
2024	3,600,000	20%	80%	16%	4%	720,000	576,000	144,000
2025	3,900,000	20%	80%	16%	4%	780,000	624,000	156,000
2026	4,000,000	20%	80%	16%	4%	800,000	640,000	160,000
Total						5,000,000	4,000,000	1,000,000

If we summarize the example above as follows:

- Corporate income tax amount that the company is required to pay under normal circumstances is TRY 5,000,000.
- As corporate income tax rate is calculated as 4% rather than 20% on account of the incentive under the investment incentives certificate, the company is eligible for a TRY 4,000,000 tax advantage.

4. Social Security Premium Support (Employee's Share)

For additional employment created by the investment, the employee's share of the social security premium calculated on the basis of the legal minimum wage will be covered by the government. The instrument is applicable only to investments made in Region 6 within the scope of the investment incentives certificate. There is no upper limit for the Social Security Premium Support and it is applicable for 10 years.

5. Social Security Premium Support (Employer's Share)

For additional employment created by the investment, the employer's share of the social security premium calculated on the basis of the legal minimum wage will be covered by the government.

6. Income Tax Withholding Allowance

The income tax regarding additional employment created by the investment within the scope of the investment incentives certificate will not be subjected to withholding taxes. The instrument is applicable only to investments made in Region 6 within the scope of the investment incentives certificate. There is no upper limit for income tax withholding allowance and it is applicable for 10 years.

7. Interest Rate or Dividend Support

Interest rate support is a financial support instrument provided for investment loans with a term of at least one year obtained within the scope of an investment incentives certificate. A portion of the interest/profit share regarding the loan equivalent, at most 70% of the fixed investment amount registered in the investment incentives certificate, will be covered by the government for the first five years as a maximum.

8. Land Allocation

Land may be allocated for investments, with an investment incentives certificate, in accordance with the rules and principles set forth by the Ministry of Treasury and Finance, depending on the availability of such land.

9. VAT Refund

VAT collected on construction expenses, incurred within the scope of strategic investments with a minimum fixed investment amount of TRY 500 million, will be rebated.

10

FREE ZONES

10.1 GENERAL INFORMATION ON FREE ZONES

Free zones (FZ) are special sites deemed to be outside the customs area, although they are physically located within the political boundaries of the country. FZs are designed to increase the export-focused investments. Legal and administrative regulations in the commercial, financial, and economic domains applicable within the customs area are either not implemented or partially implemented in FZs.

There are a total of 21 FZs in Turkey located close to the EU and Middle Eastern markets. FZs are strategically located at points that grant easy access to international trade routes via the ports of the Mediterranean, Aegean, and Black Seas.

- Mediterranean Region: Mersin, Antalya, and Adana-Yumurtalık Free Zones
- Aegean Region: Aegean (Izmir), Denizli, and Izmir Free Zones
- Marmara Region: Istanbul Atatürk Airport, Istanbul Industry and Trade, Istanbul Thracian, Europe, Kocaeli, Tübitak-Mam Technology, Bursa, and Sakarya İpekyolu Free Zones
- Black Sea Region: Trabzon, Rize, Samsun, and Filyos Free Zones
- Southeast Anatolian Region: Gaziantep, and Mardin Free Zones
- Central Anatolian Region: Kayseri Free Zone

10.2 TAX SUPPORT AND INCENTIVES FOR FREE ZONES

- 100% exemption from customs duties and other assorted duties
- 100% exemption from corporate income tax for manufacturing companies
- 100% exemption from value-added tax (VAT) and special consumption tax
- 100% exemption from stamp duty for applicable documents
- 100% exemption from the real estate tax

- 100% income and corporate tax exemption for certain logistic services to be offered in the FZs, provided that they are export-oriented
- 100% exemption from income tax on employees' wages (for companies that export at least 85% of the FOB value of the goods they produce in the FZs)
- Goods may remain in FZs for an unlimited period
- Companies are free to transfer profits from FZs to abroad as well as to Turkey, without restrictions
- Exemption from title deed fees when acquiring and selling a property
- VAT exemption during construction, design, settlement, and approval processes
- Ready-to-use infrastructure exempted from VAT and other taxes
- Import permit for second-hand, used machinery

11

**TECHNOLOGY
DEVELOPMENT ZONES**

11.1 GENERAL INFORMATION ON TECHNOLOGY DEVELOPMENT ZONES

Technology Development Zones (TDZ) are areas designed to support R&D activities and attract investments in high-technology fields.

There are 83 TDZs, 63 of which are operational and 20 have been approved and are currently under construction.

11.2 TAX SUPPORT AND INCENTIVES FOR TECHNOLOGY DEVELOPMENT ZONES

- Profits derived from software development, R&D, and design activities are exempted from income and corporate taxes until December 31, 2023.
- Sales of application software produced exclusively in TDZs are exempted from VAT until December 31, 2023. Examples include software for system management, data management, business applications, different business domains, the internet, mobile phones, and military command and control systems.
- Remuneration for R&D, design, and support personnel employed in the zone is exempted from all taxes until December 31, 2023. Nevertheless, the number of support personnel covered by the exemption may not exceed 10% of the total number of those involved in R&D.
- Investments for the production of technological products developed on the basis of the outcome of R&D projects conducted in the TDZ may be made in the TDZ if deemed fit by the operator company and if allowed by the Ministry of Industry, and Technology.
- 50% of the employer's share of the social security premium will be paid by the government until December 31, 2023.
- Customs duty exemption for imported products and stamp duty exemption for applicable documents within the scope of R&D, design, and software development projects.

12

ORGANIZED INDUSTRIAL ZONES

12.1 GENERAL INFORMATION ON ORGANIZED INDUSTRIAL ZONES

Organized Industrial Zones (OIZ) are designed to allow companies to operate within an investor-friendly environment with ready-to-use infrastructure and social facilities. The existing infrastructure provided in OIZs includes roads, water, natural gas, electricity, communications, waste treatment, and other services.

There are 322 OIZs in 80 provinces, 255 of which are currently operational, while the remaining 67 OIZs are constructed throughout Turkey.

12.2 TAX SUPPORT AND INCENTIVES FOR ORGANIZED INDUSTRIAL ZONES

In addition to the investment incentives scheme in Turkey (general investment incentives, regional investment incentives, large-scale investment incentives, strategic investment incentives, employment incentives, R&D support, etc.), investors operating in the OIZs may benefit from the following advantages:

- No VAT for land acquisitions
- Exemption from real estate duty for five years starting from the date of completion of the plant construction
- Low water, natural gas, and telecommunication costs
- No tax is payable in cases of merging and/or separation of plots
- Exemption from municipality tax for the construction and usage of the plant
- Exemption from the municipality tax on solid waste if the OIZ does not avail itself of the municipality service.

13

ADVANTAGES OF R&D CENTERS

13.1 GENERAL INFORMATION ON R&D CENTERS

R&D centers are established and operated under the Law on Supporting Research and Development Activities No. 5746, which was prepared with the understanding that the investments made in R&D, technology, and human resources produce returns such as technologic development, higher competition power, and higher welfare level.

The number of R&D centers operating in Turkey is 1,156, with 164 of these R&D centers having foreign partners. The total number of persons employed in these R&D centers is 57,920, while the number of projects that have been completed is 34,113.

13.1.1 Specifications of R&D Centers

- Having a minimum of 15 Full-time Equivalent (FTE) R&D personnel who shall be employed as researchers and technicians in the R&D centers
- Having R&D projects in the R&D centers
- Having mechanisms that will conduct physical inspections for determining whether the R&D and support personnel work in the R&D centers
- Performance of R&D or design activities domestically
- R&D centers being organized as separate units and located inside a single complex or physical area

13.1.2 Qualifications of Personnel in the R&D Centers

Researcher working in an R&D center: A personnel with a bachelor's degree at the least, appointed in the processes of management of the projects in relation to R&D activities

Technician working in an R&D center: A personnel graduated from design, technical, science, or health programs of Vocational High Schools and Vocational Schools of Higher Education

Support Personnel working in an R&D center: Managers, technical staff, laboratory assistants, secretaries, workers, and similar personnel participating in R&D or design activities (provided not to exceed 10% of the number of FTE of R&D or design personnel)

13.2 TAX SUPPORT AND INCENTIVES FOR R&D CENTERS

13.2.1 Corporate Tax Advantage

In R&D centers, 100% of the following expenditures incurred for the project activities are deducted from the net profit for the period on the corporate tax return:

- Raw material and material expenses
- Depreciations
- Staff expenses
- General expenses
- Outsourced benefits and services
- Taxes, duties, and charges

If any tangible or intangible asset emerges as a consequence of the abovementioned expenditures incurred in the R&D centers, it is capitalized and registered as expense by way of depreciation. In addition to this, all of the abovementioned expenditures are once again deducted from the profit in the corporate tax return.

If no tangible or intangible asset emerges as a consequence of the abovementioned expenditures incurred in the R&D centers, it is directly registered as expense. In addition to this, all of the abovementioned expenditures are once again deducted from the profit in the corporate tax return.

13.2.2 Wage Income Tax Advantage for R&D Projects

Income tax withholding incentive rates for R&D and support personnel are as follows:

- 95% for those who have a PhD
- 90% for those who have a master's degree
- 95% for those who have a master's degree in basic sciences
- 95% for those who have a bachelor's degree in basic sciences
- 80% for others

The income tax calculated over the R&D personnel employed in companies carrying on business in an R&D center is granted an incentive on the basis of the above rates, and it is paid with deficit by the company.

13.2.3 Advantage of Social Security Withholding over Wage for R&D Projects

Half of the employer's portion of the insurance premium calculated over the wages of R&D and support personnel that they obtain in return for their activities under the Law No. 5746 are paid by the Ministry of Treasury and Finance.

13.2.4 Stamp Duty and Customs Tax Advantage for R&D Projects

No stamp duty is levied on papers made out in relation to any R&D and innovation activities and design activities for R&D centers under the Law.

Goods imported for use in research concerning R&D and innovation projects carried out pursuant to the Law are exempted from customs duty and any funds, and documents issued, and transactions performed in this regard are exempted from stamp duty and other fees.

14

ADVANTAGES OF DESIGN CENTERS

14.1 GENERAL INFORMATION ON DESIGN CENTERS

Design centers are established and operated under the Law on Supporting Research and Development Activities No. 5746, which was prepared with the understanding that the investments made in R&D, technology and human resources produce returns such as technologic development, higher competition power, and higher welfare level.

With design centers, the increase of innovative activities aimed at increasing, developing, improving, and differentiating the products and functionality of products, and the increase of design personnel and qualified labor employment are supported and promoted.

The number of design centers operating in Turkey is 341, while 24 of these have foreign partners. The total number of persons employed in design centers is 6,883.

14.1.1 Specifications of Design Centers

- Having a minimum of 10 Full-time Equivalent (FTE) design personnel who shall be employed as designers and technicians in the design center
- Having design projects in the design center
- Having mechanisms that will conduct physical inspections on whether the design and support personnel work in the design center
- Performance of design activities domestically
- Design centers organized as separate units and located inside a single complex or physical area

14.1.2 Qualifications of Personnel in the Design Centers

Designer working in a design center: A personnel with a bachelor's degree or master's degree from engineering, architecture or design departments

Technician working in a design center: A personnel graduated from design, technical, science or health programs of Vocational High Schools or Vocational Schools of Higher Education

Support Personnel working in a design center: Managers, technical staff, laboratory assistants, secretaries, workers, and similar personnel participating in design activities (provided not to exceed 10% of the number of FTE of R&D or design personnel)

14.2 TAX SUPPORT AND INCENTIVES FOR DESIGN CENTERS:

14.2.1 Corporate Tax Advantage

In design centers, 100% of the following expenditures incurred for the project activities are deducted from the net profit for the period on the corporate tax return.

- Raw material and material expenses
- Depreciations
- Staff expenses
- General expenses
- Outsourced benefits and services
- Taxes, duties, and charges

If any tangible or intangible asset emerges as a consequence of the abovementioned expenditures incurred in design centers, it is capitalized and registered as expense by way of depreciation. In addition to this, all of the abovementioned expenditures are once again deducted from the profit in the corporate tax return.

If no tangible or intangible asset emerges as a consequence of the abovementioned expenditures incurred in design centers, it is directly registered as expense. In addition to this, all of the abovementioned expenditures are once again deducted from the profit in the corporate tax return.

14.2.2 Wage Income Tax Advantage for Design Centers

Income tax withholding incentive rates for design and support personnel are as follows:

- 95% for those who have a PhD
- 90% for those who have a master's degree
- 95% for those who have a master's degree in basic sciences
- 95% for those who have a bachelor's degree in basic sciences
- 80% for others

The income tax calculated with respect to the design personnel employed in the companies carrying on business in a design center is granted an incentive on the basis of the above rates and it is paid in deficit by the company.

14.2.3 Advantage of Social Security Withholding on Wage for Design Projects

Half of the employer's portion of the insurance premium calculated over the wages of design and support personnel that they obtain in return for their activities under the law is paid by the Ministry of Treasury and Finance.

14.2.4 Stamp Duty and Customs Duty Advantage for Design Projects

No stamp duty is levied on papers made out in relation to any design and innovation activities in the design centers under the law.

Goods imported for use in research concerning design and innovation projects carried out pursuant to the law are exempted from customs duty and any funds, and documents issued and transactions performed in this regard are exempted from stamp duty and other fees.

15

**COMPARISON OF EQUITY INJECTION
(CAPITAL INCREASE)
VS. LOAN INJECTION**

15.1 SHAREHOLDER EQUITY INJECTION

Company shareholders may inject cash capital to the company. They are obliged to pay 25% of the capital that they subscribe in cash. They may pay the balance within two years. There is no tax payable on the cash capital injections or subscriptions to the company.

15.2 CIT ADVANTAGES OF EQUITY INJECTION (CAPITAL INCREASE)

A new co or a company that makes cash capital increase may deduct the interest amount to be calculated over the amount of cash capital injection from the profit for the period that appears on the Corporate Income Tax Return.(CBRT make an announcement about interest rate for every year)

The following criteria should be taken into account for interest calculation:

Term: Interest is to be calculated for the period from the capital payment to the end of that year. If the capital is registered with the Trade Registry Office following the payment date, this registration date shall serve as the beginning of the interest calculation period. Time period to be taken into account for interest calculation for years subsequent to capital payment shall be one year (365 days).

Capital amount: The amount of the capital paid to the company.

Interest rate: Half of interest rate applicable by the Central Bank of the Republic of Turkey (CBRT) to commercial loans. If the injected capital is applied for investments covered by the investment incentives certificate, the interest rate shall be applied as 75% of the interest rate applicable by CBRT to the commercial loans.

Deductible Interest Calculation: Paid-in capital *Term*Interest Rate.

Interest amount to be calculated by following the above formula shall be deducted from the profit for the period that appears on the year-end CIT return to be issued by the company. This capital deductible is not time-bound. It will be re-calculated every year.

If the company makes a loss in a given year, its deductible right remains applicable and is carried over to future years as it is not time-bound.

Let's clarify this with an illustrative case:

Capital of TRY 5,000,000 was paid to a company on June 3, 2017 and this capital amount was registered with the Trade Registry Office on August 12, 2017. Let's assume that the interest rate applicable by CBRT by the end of the year is 12%. Capital payment: TRY 5,000,000

Interest Rate: $12\% * 75\% = 8\%$ (if the capital is applied for investments covered by incentives certificate, 75% shall be applied; otherwise 50% is applied).

Term: 5 months (months following the registration shall be taken into account; if the registration is completed before the payment, then months preceding the payment month shall be taken into account. August, September, October, November, and December)

Deductible Interest Amount: $5,000,000 * 8\% * 5/12 = \text{TRY } 166,666$

The deductible interest amount that will be deducted from the Corporate Income Tax Return to be filed at the end of 2017 is TRY 166,666. If the company does not produce any profit during that period, the deductible interest amount for a sum of TRY 166,666 calculated in 2017 is carried over to the subsequent years.

The company may calculate the deductible interest for 2018 and subsequent years over the amount of capital increase in 2017 and may deduct the calculated sum from its profit over its CIT return. This is not a time-bound practice. The deductible interest amount to

be calculated for subsequent years will be calculated over a 12-month period at such interest rates applicable in the relevant year.

This deductible interest will be calculated over the cash capital subscribed during the incorporation as well as cash capital injections in subsequent years. This may not be calculated for sums lent by the shareholders to the company only to be added to the capital subsequently.

It is required that the capital is registered with the Trade Registry Office. The calculated deductible interest amount is deducted from the profit that appears on the Annual CIT return, meaning that it is not paid to the shareholders.

15.3 (SHAREHOLDERS/CONCERNED PARTY) DEBT INJECTION

A shareholder or related company abroad which is not a financial institution may lend sums to the company to be incorporated in Turkey. The borrower and the lender should sign an agreement for the amount of debt to be borrowed.

The taxes that will have to be paid over this agreement are as follows:

- Stamp duty at the rate of 0.0948% over the principle amount stated in the agreement
- VAT2 at the rate of 18% over the interest payable amount
- WHT (withholding tax) at the rate of 10% over the payable interest amount
- RUSF will be paid over the principle amount depending upon the maturity date of the loan

The rates of RUSF are as follows:

- a. If the maturity date of the loan is between 0-1 years, the rate is 3%
- b. If the maturity date of the loan is between 1-2 years, the rate is 1%
- c. If the maturity date of the loan is between 2-3 years, the rate is 0.5%

- d. If the maturity date of the loan is more than 3 years, the rate is 0%

15.4 THIN CAPITALIZATION

According to Article 12 of the Corporate Income Tax Law No. 5520; if the loan amount made by the concerned party (related company ratio minimum 10%) available exceeds three times the equity amount in the beginning of the fiscal year; then interest expenses, foreign exchange profit and losses, VAT², WHT, RUSF, and stamp duty corresponding to the excess portion will be considered and registered as non-deductible expenses.

An illustrative calculation would be as follows:

Company's equity as of January 1, 2017: TRY 1,000,000

Amount of sums due to shareholders/related companies: TRY 5,000,000

Interest amount payable on the debt in 2017: TRY 100,000

Thin capitalization limit: $1,000,000 * 3 = \text{TRY } 3,000,000$

Amount of debt exceeding thin capitalization limit: 2,000,000
(5,000,000-3,000,000)

Thin capitalization ratio: $40\% (2,000,000/5,000,000)$

Amounts to be taken into account as non-deductible expenses.

- Total interest amount is TRY 100,000 but TRY 40,000 ($100,000 * 40\%$) of interest will be considered and registered as non-deductible expenses.
- Total VAT amount is TRY 18,000 ($100,000 * 18\%$) but TRY 7,200 ($18,000 * 40\%$) of VAT will be considered and registered as non-deductible expenses.

- Total Withholding Tax amount is TRY 11,111 $((100,000/0.90)*10\%)$ but TRY 4,444 $(11,111*40\%)$ of Withholding Tax will be considered and registered as non-deductible expenses.

15.5 PROCEDURES OF ADDING DEBT TO CAPITAL

A parent company which is a shareholder is able to add the loan amount to the share capital of a Turkish company.

The transactions that need to be followed for this capital increase are as follows:

- The report that shows the former capital was paid
- Identification report of Due to Shareholders
- Capital increase decision needs to be taken by shareholders
- Registering the capital increase in Trade Registry Office

Interest deductible advantage that was explained in previous paragraphs shall not be applicable in this kind of capital increase.

15.6 BANK LOAN INJECTION

With reference to applicable tax laws, there is no difference for the company between borrowing from a Turkish bank and borrowing from a foreign bank.

Tax Advantages of Bank Loan Injection:

Neither tax paid for debts borrowed from the shareholders (as explained above) is payable for loans borrowed from banks.

There is no limit if the company wishes to recognize the interest paid to banks as expense. All interests paid to banks may be expensed. Neither part of interest costs may be treated as non-deductible expenses, unlike the debts borrowed from the

shareholders, which may partly be treated as non-deductible due to thin capitalization.

_____ ANNEX-I _____
TAX RATES TO BE RECEIVED IN THE
STATE OF SOURCE ON INTERESTS
AND ROYALTIES

TAX RATES TO BE RECEIVED IN THE STATE OF SOURCE ON INTERESTS AND ROYALTIES

STATE PARTY	INTEREST (%)	ROYALTY (%)
1. AUSTRIA	15	10
AUSTRIA (REVISED)	5 (In case granted, guaranteed or insured for the purpose of promoting export by Oesterreichische Kontrollbank AG or by a similar Turkish public institution, purpose of which is to promote export)	10
	10 (If the interest is gained by a bank)	
	15 (In all other cases)	
2. NORWAY	15	10
NORWAY (REVISED)	"5 (With respect to Norway, in case paid to the State Pension Fund, to Norway Export Credits Guarantee Authority, and to Eksportfinans ASA on condition that the whole or a large part of the interest is transferred to the Government of Norway; With respect to Turkey, in case paid to Social Security Fund and to the Export Credit Bank of Turkey)"	10
	10 (in case the interest is paid to a bank)	
	15 (in all other cases)	
3. SOUTH KOREA	10 (in the debts and claims of receivables exceeding two years)	10
	15 (in others)	
4. JORDAN	10	12
5. TUNISIA	10	10
6. ROMANIA	10	10
7. THE NETHERLAND	10 (in the credits exceeding two years)	10
	15 (in others)	
8. PAKISTAN	10	10

9. ENGLAND	15	10
10. FINLAND	15	10
FINLAND (REVISED)	5 (With regard to the loans or credits granted, guaranteed or insured for the purpose of promoting export by Finnish Export Credit or FINNVERA and by a similar Turkish public institution, purpose of which is to promote export)	10
	10 (In case the interest is gained by a bank)	
	15 (in all other cases)	
11. TURKISH REPUBLIC OF NORTHERN CYPRUS	10	10
12. FRANCE	15	10
13. GERMANY (TERMINATED)	15	10
GERMANY (NEW)	10	10
14. SWEDEN	15	10
15. BELGIUM	15	10
16. DENMARK	15	10
17. ITALY	15	10
18. JAPAN	10 (if the credit is received from financial institutions)	10
	15 (in other cases)	
19. UAE	10	10
20. HUNGARY	10	10
21. KAZAKHSTAN	10	10
22. MACEDONIA	10	10
23. ALBANIA	10	10
24. ALGERIA	10	10
25. MONGOLIA	10	10
26. INDIA	10 (if paid against any loan granted by a financial institution or bank)	15
	15 (in other cases)	
27. MALAYSIA	15	10
28. EGYPT	10	10
29. PRC	10	10

30. POLAND	10	10
31. TURKMENISTAN	10	10
32. AZERBAIJAN	10	10
33. BULGARIA	10	10
34. UZBEKISTAN	10	10
35. USA	10 (if the interest arises from credits granted banks, financial or savings institutions and insurance companies)	5-10
	15 (in other cases)	
36. BELARUS	10	10
37. UKRAINE	10	10
38. ISRAEL	10	10
39. KUWAIT	10	10
40. RUSSIA	10	10
41. SLOVAKIA	10	10
42. INDONESIA	10	10
43. LITHUAINA	10	5 (of the gross amount of the royalties paid for the right of use of industrial, commercial and scientific equipment)
		10 (in other cases)
44. CROATIA	10	10
45. MOLDOVIA	10	10
46. SINGAPORE	7.5 (for the interests received by any financial institution)	10
	10 (in other cases)	
47. KIRGIZSTAN	10	10
48. TAJIKISTAN	10	10
49. CZECH REPUBLIC	10	10
50. BANGLADESH	10	10
51. LATVIA	10	5 (of the gross amount of the royalties paid for the right of use of industrial, commercial and scientific equipment)
		10 (in all other cases)

52. SPAIN	10 (if the interest arises from any loan granted by a bank or if the aforementioned interest is paid for grant by credit to a Contracting State enterprise of the commercial property or equipment)	10
	15 (in all other cases)	
53. SUDAN	10	10
54. SLOVENIA	10	10
55. SYRIA	10	15 (for patent, trademark, pattern or model, plan, confidential formula or production method or accumulation of knowledge based on industrial, commercial or scientific experience)
		10 (for use or right of use of any type of literary, artistic or scientific copyrights, including the motion pictures and radio and television records)
56. GREECE	12	10
57. THAILAND	10 (if received by any financial institution including insurance companies)	15
	15 (in other cases)	
58. LUXEMBOURG	10 (in the borrowings exceeding two years)	10
	15 (in other cases)	
59. ESTONIA	10	5 (of the gross amount of the royalties paid for the right of use of industrial, commercial and scientific equipment)
		10 (in all other cases)
60. IRAN	10	10
61. MOROCCO	10	10
62. LEBANON	10	10
63. REPUBLIC OF SOUTH AFRICA	10	10

64) PORTUGAL	10 (in the borrowings exceeding two years)	10
	15 (in other cases)	
65. SERBIA AND MONTENEGRO	10	10
66. ETHIOPIA	10	10
67. BAHRAIN	10	10
68. QATAR	10	10
QATAR (REVISED)	10	10
69. BOSNIA HERZEGOVINA	10	10
70. SAUDI ARABIA	10 *	10
71. GEORGIA	10	10
72. OMAN	10	10
73. YEMEN	10	10
74. IRELAND	10 (in the interests paid due to a loan or other receivable exceeding two years or gained by a financial institution)	10
	15 (in other cases)	
75. NEW ZEALAND	10 (if paid to a bank)	10
	15 (in all other cases)	
76. CANADA	15	10
77. SWITZERLAND	5 (with regard to a loan or credit granted, guaranteed or insured for the purpose of promoting export by Eximbank or by a similar institution, purpose of which is to promote export)	10
	10 (if the interest is gained by a bank)	
	10 (in all other cases) **	
78. BRAZIL	15	15 (royalties arising from use or right of use of trademarks)
		10 (in all other cases)
79. AUSTRALIA	10	10
80. MALTA	10	10

81. MEXICO ***	10 (in case the interest is paid to a bank)	10
	15 (in all other cases)	
82. KOSOVO	10	10
83. PHILIPPINES	10	15 (For use or right of use of the tapes used in radio and television broadcasts, cinema films and films)
		10 (For use or right of use of any copyright belonging to a literary, artistic or scientific work, any patent, trademark, pattern or model, plan, confidential formula or production method or industrial, commercial or scientific equipment or for accumulation of knowledge based on industrial, commercial or scientific experience)
84. VIETNAM	10	10
85. GAMBIA	10	10

* It is stipulated as “Revenues arising from receivable” instead of interest in the treaty.

** Also, the right to collect taxes of up to 15% pursuant to the national legislation of the Contracting States is reserved by virtue of Article 3 of the Protocol.

***In the event that the beneficial owner is a Contracting State itself, or a political subdivision or local administration thereof or the Mexico Central Bank (Banco de México) or Turkish Central Bank (TCMB), the interest is paid by these stated institutions, interest is an interest paid for loans extended by Banco Nacional de Comercio Exterior, S.N.C., Nacional Financiera, S.N.C. or Banco Nacional de Obras y Servicios Publicos, S.N.C. for a term of not less than three (3) years and originating in Turkey, or an interest paid for loans extended by Turkish Eximbank (Türkiye İhracat Kredi Bankası A.Ş.) for a term of not less than three (3) years and originating in Mexico, the interest referred to in the first paragraph shall be taxed only in the Contracting State where the beneficiary owner resides.

ANNEX-II

TAX RATES TO BE RECEIVED IN THE
STATE OF SOURCE ON DIVIDENDS

TAX RATES TO BE RECEIVED IN THE STATE OF SOURCE ON DIVIDENDS

STATE PARTY	SHARE IN CAPITAL (%)	TAX RATE (%)
1. AUSTRIA	If minimum 25	25
	In all other cases	35
AUSTRIA (REVISED)	For Turkey;	
	a) If minimum 25 (on condition that it is exempted from tax in Austria)	5
	b) In all other cases	15
	For Austria;	
	a) If minimum 25	5
	b) In all other cases	15
2. NORWAY	If minimum 25;	
	a) in Turkey	25
	b) in Norway	20
	In all other cases;	
	a) in Turkey	30
	b) in Norway	25
NORWAY (REVISED)	If minimum 20	5
	In case gained by the State Pension Fund with respect to Norway, and by Social Security Fund with respect to Turkey	5
	In all other cases	15
3. SOUTH KOREA	If minimum 25	15
	In all other cases	20
4. JORDAN	If minimum 25	10
	In all other cases	15
5. TUNISIA	If minimum 25	12
	In all other cases	15
6. ROMANIA	In all cases	15
7. HOLLAND (I)	If minimum 25	15
	In all other cases	20
8. PAKISTAN	If minimum 25	10
	In all other cases	15
9. ENGLAND	If minimum 25 (of the voting right)	15
	In all other cases	20

10. FINLAND	If minimum 25	15
	In all other cases	20
FINLAND (REVISED)	If minimum 25	5
	In all other cases	15
11. TURKISH REPUBLIC OF NORTHERN CYPRUS	If minimum 25	15
	In all other cases	20
12. FRANCE	If minimum 10	15
	In all other cases	20
13. GERMANY (TERMINATED)	If minimum 10	15
	In all other cases	20
GERMANY (NEW)	If minimum 25	5
	In all other cases	15
14. SWEDEN	If minimum 25	15
	In all other cases	20
15. BELGIUM (II)	If minimum 10	15
	In all other cases	20
16. DENMARK	If minimum 25	15
	In all other cases	20
17. ITALY	In all cases	15
18. JAPAN (III)	If minimum 25	10
	In all other cases	15
19. UAE (IV)	If minimum 25	10
	In all other cases	12
20. HUNGARY	If minimum 25	10
	In all other cases	15
21. KAZAKHSTAN	In all cases	10
22. MACEDONIA	If minimum 25	5
	In all other cases	10
23. ALBANIA	If minimum 25	5
	In all other cases	15
24. ALGERIA	In all cases	12
25. MONGOLIA	In all cases	10
26. INDIA	In all cases	15
27. MALAYSIA	If minimum 25	10
	In all other cases	15
28. EGYPT	If minimum 25	5
	In all other cases	15

29. PEOPLE'S REPUBLIC OF CHINA	In all cases	10
30. POLAND	If minimum 25	10
	In all other cases	15
31. TURKMENISTAN	In all cases	10
32. AZERBAIJAN	In all cases	12
33. BULGARIA	If minimum 25	10
	In all other cases	15
34. UZBEKISTAN	In all cases	10
35. USA	If minimum 10 (of the voting right)	15
	In all other cases	20
36. BELARUS	If minimum 25	10
	In all other cases	15
37. UKRAINE	If minimum 25	10
	In all other cases	15
38. ISRAEL	In all cases	10
39. SLOVAKIA	If minimum 25	5
	In all other cases	10
40. KUWAIT	In all cases	10
41. RUSSIA	In all cases	10
42. INDONESIA	If minimum 25	10
	In all other cases	15
43. LITHUAINA	In all cases	10
44. CROATIA	In all cases	10
45. MOLDOVIA	If minimum 25	10
	In all other cases	15
46. SINGAPORE (V)	If minimum 25	10
	In all other cases	15
47. KIRGIZSTAN	In all cases	10
48. TAJIKISTAN	In all cases	10
49. CZECH REPUBLIC	In all cases	10

50. SPAIN	For Turkey;	
	a) If minimum 25 (from the dividends paid from the earnings subject to tax as specified in paragraph 5)	5
	b) In all other cases	15
	For Spain;	
	a) If minimum 25	5
	b) In all other cases	15
51. BANGLADESH	In all cases	10
52. LATVIA	In all cases	10
53. SLOVENIA	In all cases	10
54. GREECE	In all cases	15
55. SYRIA	In all cases	10
56. THAILAND	If minimum 25	10
	In all other cases	15
57. LUXEMBOURG	For Turkey;	
	a) If minimum 25	10
	b) In all other cases	20
	For Luxembourg;	
	a) If minimum 25	5
	b) In all other cases	20
58. SUDAN	In all cases	10
59. ESTONIA	In all cases	10
60. IRAN	If minimum 25	15
	In all other cases	20
61. MOROCCO	If minimum 25	7
	In all other cases	10
62. LEBANON	If minimum 15	10
	In all other cases	15
63. REPUBLIC OF SOUTH AFRICA	If minimum 25	10
	In all other cases	15
64. PORTUGAL	If minimum 25	5
	In all other cases	15
65. SERBIA AND MONTENEGRO	If minimum 25	5
	In all other cases	15
66. ETHIOPIA	In all cases	10

67. BAHRAIN	If minimum 25	10
	In all other cases	15
68. QATAR	If minimum 25	10
	In all other cases	15
QATAR (REVISED)	If minimum 20	5
	If Government of Another Contracting State or a public institution wholly-owned by the Government or sub-departments or local administrations of the Government	
	In all other cases	10
69. BOSNIA HERZEGOVINA	If minimum 25	5
	In all other cases	15
70. SAUDI ARABIA (VI)	If minimum 20	5
	In all other cases	10
71. GEORGIA	In all cases	10
72. OMAN	If minimum 15	10
	In all other cases	15
73. YEMEN	In all cases	10
74. IRELAND	For Turkey;	5
	a) If minimum 25 (of the voting right) (from the dividends paid from the earnings subject to tax as specified in paragraph 5)	
	b) If minimum 25	
	c) In all other cases	15
	For Ireland;	5
	a) If minimum 25 (of the voting right)	
75. NEW ZEALAND	If minimum 25	5
	In all other cases	15
76. CANADA	If minimum 10 (of the voting right)	15
	In all other cases	20
77. SWITZERLAND	If minimum 20	5
	In all other cases	15

78. BRAZIL	If minimum 25	10
	In all other cases	15
79. AUSTRALIA (VII)	For Turkey; If minimum 25 (Dividends paid on the earnings subject to full rate Corporate Tax in Turkey)	5
	For Australia; If minimum 10 (of the voting right)	5
	In all other cases (for both countries)	15
80. MALTA (VIII)	For Turkey;	
	If minimum 25	10
	In all other cases	15
	For Malta;	Exemption 15 in some cases
81. MEXICO	If minimum 25	5
82. KOSOVO (IX)	If minimum 25	5
83. PHILIPPINES	If minimum 25	10
	In all other cases	15
84. VIETNAM	If minimum 50 or if the company which gained dividend has invested in the capital of the company which paid dividend more than 10 Million US Dollars or the equivalent thereof in Turkish or Vietnamese currency	5
	If minimum 25 directly and indirectly, being less than 50	10
	In all other cases	15
85. GAMBIA	If minimum 10	5
	In all other cases	15

(I) According to the protocol provisions, in deviation from subparagraph a), paragraph 2), Article 10, tax rate shall be 5% in Netherlands and 10% in Turkey in maximum, as long as earnings from affiliates are applicable in Netherlands.

(II) According to the protocol provisions, it shall be charged as 5% in Belgium and 10% in Turkey in maximum.

(III) Tax rates shall be charged as 15% and 20% in Turkey respectively, according to the terms agreed in the protocol.

(IV) Where the dividend payee is another Contracting State's government or a public entity wholly owned by another Contracting State or any of its political subdivisions or local administrations, it shall be applied as 5%.

(V) Dividends paid by a company based in Singapore to a Turkish resident shall not be subject to taxation according to the Singapore laws in force.

(VI) If the beneficial owner of the dividend is Central Bank or a legal person wholly owned by the state, it shall be applied as 5%.

(VII) According to the Protocol provisions, notwithstanding the rate limits set out in subparagraph (a)(ii) of the second paragraph of Article 10, in case dividends are taxed in Australia, Turkey may charge tax on these dividends at a rate not exceeding 15%. Notwithstanding the rate limits set out in subparagraph (a) of paragraph 4 of Article 10, if earnings attributable to a workplace based in Turkey are taxed in Australia, Turkey may charge tax on such amounts at a rate not exceeding 15%.

(VIII) According to sub-paragraph 2 (b) of Article 10, if distributed earnings consist of revenues or earnings generated in a year in which the company has collected an incentive pursuant to those provisions governing industrial aids and incentives in Malta, Maltese tax to be charged on distributed earnings shall not exceed 15% of the gross amount of such earnings, on the condition that the incentive recipient company submits its tax return and accounting records to Maltese tax authorities in connection with its revenues taxable in Malta for the relevant tax assessment year.

(IX) According to the provisions of the protocol, in case of Kosovo, it is understood that dividends paid by a company based in Kosovo to a resident in Turkey shall be taxed at a rate of 0%.

_____ ANNEX-III _____
CHART OF PRINCIPAL TURKISH
TAXES

CHART OF PRINCIPAL TURKISH TAXES

Taxes	Details	Percentage
Corporate income tax	Increase in net worth	22%
Advance corporate income tax	Net taxable income	22%
Individual income tax		15-35% (all sources of income including salary income)
Value Added Tax - VAT	Sales value	
• General		18%
• Certain products and services		8%
• Certain products		1%
Banking & Insurance Transaction Tax		
• General		5%
• Interbank deposit transactions		1%
• Repossessions		1%
• Money market transactions between banks and brokers		1%
• Sale of government bonds and t-bills		1%
• Sale of foreign currency		0.1%
Stamp Duty (Where stamp duties are payable, the amount of stamp duty payable on each document is limited to TRY 2.642.810,00 for 2019)	Value specified in the documents	Generally at 0.948% (0.189% for rental contracts, 0.759% for salaries)
Gift and Inheritance Tax	Value	1-30%
Customs Duties	Value	Various

Transfer of real estate	Sales value	1,5%, each buyer and seller
Special Consumption Tax		
• Petroleum products	Per liter, kilogram, etc.	Specific
• Vehicles	Value and engine size	1 to 160%
• Alcoholic beverages & tobacco products	Value, retail sale price for tobacco products	(*) 25%-65.25% and specific
• Certain luxury goods	Value	3%-25%
Special Communication Tax	Service fee	
• Mobile telecommunication services		7,5%
• Radio & television broadcasting services through satellite or cable		7,5%
• Wired, non-wired and mobile internet service providing facility		5%
• Other telecommunication services		25%
Lottery taxes (horse racing, toto, lotto, etc.)	Value	20%
Motor Vehicle Tax	Model, engine, weight	Certain amounts revised each year
Major municipal & local taxes		
Real estate taxes	Tax value	
- Buildings		0.1-0.4%
- Land”		0.1-0.6%
• Land		0.1-0.6%
Entertainment tax	Per tariff, gross profit	Specific (TRY 5-50) and ad valorem at 10%
Communication tax	Fee	1%

Electricity and gas consumption tax	Sales value	1-5%
Sanitation tax	Per flat and business premises	Certain amounts revised each year

* Only the percentage tax rate is applied provided that it is not less than the tax calculated by using the minimum lump-sum tax amounts.

Source: Bafa Law Firm and national sources

ABBREVIATIONS

BITT : Banking and Insurance Transaction Tax

CIT : Corporate Income Tax

FDI : Foreign Direct Investment

IFRS : International Financial Reporting Standards

OIZ : Organized Industrial Zone

PE : Permenant Establishment

PIT : Personal Income Tax

POA : The Public Oversight Accounting and Auditing Standards Authority

R&D : Research and Development

RUSF / KKDF : Resource Utilization Support Fund

SCT : Special Consumption Tax

TCC : Turkish Commercial Code

TCTN : Turkish Customs Tariff Nomenclature

TDZ : Technology Development Zone

TFRS / TMS : Turkish Financial Reporting Standards

TOKI : Housing Development Administration

VAT : Value Added Tax



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