LUPICINIO
INTERNATIONAL LAW FIRM

JANUARY 2021

INVESTMENT SYSTEMS IN THE WORLD

Turkey

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Intial Data

Size	783,562 km2
Population	83,154,997
Density	106,000 hab/km2
Capital	Ankara
Main Cities	Istanbul, Ankara, Izmir
GDP	813,811 million $
GDP per Capita	9,683 $
Active Population	52.8%
Unemployment Rate	12.9%
Currency	Turkish Lira (1 EUR = 7.21 TRY)
State debt as percentage of GDP	33% (2019)
Yearly Inflation	6.4% (2020)
Exchange rate (USD/TRY)	7.45

Tax System

The policies pursued by Turkey have been marked by the process of rapprochement with the European Union and successive agreements with the IMF. These agreements for Turkey have led to greater fiscal discipline and greater transparency with regard to public expenditure. Turkey also committed itself to reforms that would lead to lower public spending (social security and greater efficiency in the public health system) and increased tax collection by broadening the tax base and prosecuting fraud.

Included in the Indirect taxes are the equivalent of Value Added Tax (KVD in Turkish), special taxes on consumption of certain products, Tax on Banking and Insurance Operations and Tax on Documented Legal Acts (Stamp Duty).

The Turkish tax system includes in the Tax Procedure Law (TP) the rights, charges, modes of execution of mandates and the performance of obligations, together with the guidelines for accrual.

Taxes, duties and charges, and those belonging to provincial and municipal administrations are within the scope of the law. However, the taxes, duties and charges applied to the customs administration are not subject to the TP Law.

Corporation Tax

The corporate tax in Turkey is 22%, and the Council of Ministers is authorised to reduce it to 20% when it considers it appropriate.

Resident companies (including those with foreign capital established in accordance with the Turkish Commercial Code) pay tax on their income worldwide. Non-resident companies are partial taxpayers and are only taxed on their income in Turkey (only for operations carried out on Turkish territory). The profits of subsidiaries transferred to the parent company are subject to a dividend withholding tax at a rate of 15%.

A company's long-term capital gains are taxed in Turkey as ordinary income, with an exemption of 75% of the capital gains realised from the sale of local holdings. Exempt from corporate tax are capital gains generated by the sale of foreign holdings which have been held for at least two years by an international holding company resident in Turkey.

Start-up costs are considered to be deductible cases. In addition, the taxpayer has the option to capitalise these expenses and to decrease them over five years by equal amounts.

" Strategic " investments (production of goods that are heavily dependent on imports) give access to a deduction of up to 100% of corporate tax, along with numerous customs tax advantages.

Losses can be deferred for tax purposes for up to five years. It is prohibited to carry forward losses to previous periods. Royalty and interest payments to foreign subsidiaries are deductible for corporate income tax purposes.

Buildings and land held in Turkey are subject to an annual property tax at different rates: 0.2% for buildings, 0.1% for housing, 0.1% for land and 0.3% for building sites (rates which may increase by 100% in the case of buildings and land located within large cities).

Transfers of real estate are subject to a tax of 4% of the value of the acquisition or transfer.

Digital Service Tax of 7.5% on service providers whose income from digital services during the previous fiscal year exceeded 20 million TRY in Turkey or 750 million EUR globally.

The banking and insurance transaction tax is levied at a general rate of 5% on banking and insurance charges.

Personal Income Tax

Every person who resides in Turkey for more than six months in a calendar year is considered to be a resident of Turkey. Foreigners who are on a short or long-term trade mission are not considered to be tax residents, even if they stay more than six months in Turkey. As such they are only taxed on their income originating in Turkey.

The personal income tax rate varies from 15% to 40%.

Income brackets on working income	Rate (%)	Income brackets on non-working income	Rate (%)
Up to 13,000	15	Up to 13.000	15
13,001 to 30,000	20	13,001 to 30,000	20
30,001 to 110,000	27	30,001 to 70,000	27
110,001 to 500,000	35	70,001 to 500,000	35
50,001 …	40	500,001…	40

There is a Convention between Spain and Turkey to avoid double taxation and the prevention of tax evasion on income, signed in Madrid in 2002

Bilateral Relations with Spain

- Double Taxation Avoidance Convention (2003).
- Agreement on the Promotion and Reciprocal Protection of Interests (APPRI) (1998).
- Agreement on Road Transport (1998).
- MOU on Defence Industries Cooperation (1999).
- MOU on Tourism Cooperation of 2004.
- MOU on Fisheries and Agriculture Cooperation renewed in 2012.
- Collaboration Agreement between the Turkish Investment Promotion Agency (ISPAT), ICEX, the UOC and La Caixa.
- MOU between SEOPAN and the Turkish Contractors Association (2009).
- MOU on Agricultural Cooperation and Food.

Banking and Finance System

Turkish banks in the Brand Finance category

- Ziraat Bank
- Garanti Bank
- Iç Bank
- Akbank
- Yapi Kredi
- Halkbank
- Vakifbank
- Denizbank
- TEB

Turkey has a developed banking system that is comparable in terms of organisation and products to any European country. Furthermore, it is strongly digitised and in the process of being transformed to include new technologies in the business.

The Turkish regulation is comparable to Basel III.

Regulations limit the capacity of banks to offer financing in foreign currencies.

There are three types of banks in Turkey: deposit banks, development and investment banks, and participation banks, which operate with interest-free banking products in accordance with internationally accepted Islamic financial principles.

Banks may issue cash loans, non-cash loans and interest-free loans (equity) in local and foreign currencies to legal entities and natural persons; however, they are not allowed to issue foreign currency loans to natural persons for non-commercial purposes. In addition, residents in Turkey are obliged to use banks established in Turkey as intermediary institutions for receiving loans from abroad.

Exchange control

Turkey has liberal exchange legislation that allows the opening of foreign currency accounts without the need to declare the origin of the funds, the free transfer of foreign currency both abroad and within Turkey, and the opening of exchange offices. Banks are allowed to give credit to Turkish citizens in foreign currency, and may also grant and request loans from foreign entities.

Both residents and non-residents of Turkey may transfer Turkish currency as well as foreign currency abroad through banks. Both Turkish lira and foreign currency can be physically imported or exported up to an amount of USD 5000.

Capital Repatriation

International investors are free to repatriate net profits; dividends; investment earnings; reimbursements and interest payments derived from foreign currency loans, through a bank or financial institution, provided that the relevant taxes are paid according to the method used for repatriation.

If both the company and the commercial centres are not located in Turkey, they are considered as non-residents and are subject to tax on income generated in Turkey.

The remittance of profits from a branch to the parent company is subject to a 15% withholding tax, which is applied to the branch after corporation tax.

Establishment of Trading Companies

In Turkey, the procedures for setting up companies can be completed within an hour if the necessary documentation is submitted to the trade registration offices. The establishment of the company is exempt from fees.

Foreign natural and legal persons wishing to establish a company in Turkey are subject to the same rules as the domestic investor.

Company establishment procedures are carried out electronically in the Central Registration System (MERSIS).

Stages of establishment:

1. **Preparation of company contract and verification of founders' signatures:**
   Creation of a MERSIS account. Foreigners must first obtain a tax number from the tax office and apply to the commercial registration office to join MERSIS.
   The company contract is prepared in Turkish.
   Signature of the contract by the founders.
   In limited and corporate companies this process is carried out at the trade register office of the company's headquarters. For other companies, it is possible to file an application at the commercial register office or any notary public where the company's head office is located.
2. **Preparation of statements of signatures of officials of the Society.** At any commercial registration office in Turkey.
3. **Cash Capital Payments by the Competition Authority.** 0.04% of the company's capital must be deposited as a "Competition Authority Action". In addition, at least 25% of the committed shares in cash in public limited companies must be deposited in a bank account opened in the name of the company before registration.
4. **Application for registration with the Commercial Registry Office.**

Types of Companies

Public Limited Companies /Anonim Sirketi (AS):

Minimum of 5 shareholders, without limit and of any nationality. Minimum capital of 5,000 Turkish Liras. For non-public companies that accept the registered capital system, the minimum initial capital can be 100,000 Turkish Liras.

Public Limited Companies can be established with one share. Real and legal persons can be shareholders.

The establishment and modification of this type of company is subject to authorisation by the Ministry of Trade.

Shares owned by foreigners must be registered with the GDFI.

Limited Company/Limited Sirketi SRL:

The share capital of a limited company is 10,000 Turkish liras. It is possible to pay the full capital in cash within 24 months after the registration of the company.

Only participatory action is allowed.

The payment schedule can be arranged in the company contract or by the administrators.

The manager of the limited company does not have to be a Turkish citizen or resident in Turkey.

General Partnership:

Minimum 1 member and maximum 50, without distinction of nationality. Each shareholder of the company has the right and duty to manage the company separately.

The partners of the company have unlimited second liability to the creditors of the company. No minimum share capital is required.

Cooperative:

The cooperative shall be established with at least seven members, without prejudice to special species.

Each member commits himself to at least one, at most five thousand shares. The value of a partnership share is 100 Turkish Liras.

Macroeconomics - Main Sectors of the Economy

The primary sector has traditionally been the most important sector, although it has been losing prominence in the GDP due to the recent development of Turkish industry. Agriculture, forestry and fisheries account for 6.1% and occupy 19.4% of the labour force; since it is mainly based on small farms, the sector represents low productivity.

The Turkish agricultural sector is faced with the need for technological upgrading and restructuring. The production and export of agricultural products from the Aegean and Mediterranean areas have enabled Turkey to maintain a positive trade balance with the EU in agricultural products, even though the Customs Union does not extend to these products.

The total agricultural area is over 40 million hectares, with cereal cultivation being the predominant crop, accounting for 51% of the total.

The importance of the GAL Project (http://www.gap.gov.tr), which aims to increase the irrigated area in the south-east of the country and is financed by the European Union and the United Nations Development Programme, should be emphasised. This project aims to improve the levels of competitiveness that will enable southeast Anatolia to become an agricultural export centre.

The livestock sector focuses on sheep, goats and cattle. The size of the Turkish livestock population contrasts with its low productivity, which makes it necessary to import livestock products.

The Ministry of Agriculture provides all types of subsidies for domestic cattle production.

A 0% customs duty is applied on the import of breeding and feeding cattle.

The supply of meat remains a major problem in Turkey, especially as per capita meat consumption is around 14 kg of meat per year and 90% of this is red meat.

The secondary sector. Turkey's industrial base is considerable, with great potential for attracting foreign investment. Turkish industry accounts for 29.2% of GDP and employs over 26.5% of the workforce, with 7.4 million workers.

The manufacturing industry, the main branch of the country's industrial sector, with a share of 28.5% of the country's GDP, is focused on the automotive industry, household appliances, TV, machinery and metals. On the other hand, the supply of gas and water, and waste management account for 2.15 % of GDP.

The mining industry has recorded a growth of 22% over the last 10 years.

In the field of mining we can mention the considerable reserves of bauxite, chrome, copper, iron, magnesium, sulphur, marble and zinc, which are not sufficiently exploited. The most important exports are magnesium and marble (35% of the world's marble reserves).

The private sector is led by large holding companies, with a family structure that is very diversified in terms of sectors: KOÇ, DOGU, SABANCI, ENKA, YASAR, AKKOK, PROFILO, ECZACIBASI, RUMELI, OYAK.

Industrial production focuses on consumer goods and intermediate goods. The production of capital goods has been gaining importance in recent years. The automotive, textile and steel sectors are particularly important.

The tertiary sector or service sector is the most important; it is in full development and contributes 53.3% of the GDP and employs 54.1% of the working population.

This sector ranges from small private businesses to large transport, telecommunications and finance companies belonging to private holdings. Tourism is the key sub-sector, which has seen considerable investment. The number of tourists visiting Turkey in 2019 exceeded 35 million.

The financial system is sound and is being restructured and strengthened. The banking sector generates large profits.

The five largest banks in the country account for 57 per cent of local assets in the sector. According to official sources, 34% of banking assets are owned by public banks, 37% by private banks and 29% by foreign banks.

Many Turkish banks are owned by foreign banks such as Garanti Bank (majority owned by BBVA), followed by Denizbank (owned by the Russian Sberbank) and Finans Banks (bought by the National Bank of Qatar in 2015).

Likewise, 60-70% of the shares that were traded on the Istanbul Stock Exchange are in the hands of foreign investors.

Inversión en Turquía

Advantages of investing in Turkey

- Strategic geographical location, bridge between Europe and Asia and the MENA economic zone.
- Market of 70 million consumers.
- Estimate that the middle class will increase to 50 million people by 2025.
- Public debt of 27% and foreign debt of 47%, making it an economically attractive country.
- Its GDP has increased by 6.7 per cent.
- Young and developing middle class, with growing purchasing power and oriented towards consumption.

Weak points

- Slow and difficult to navigate bureaucracy.
- Frequent changes in the legal and regulatory environment
- Heavy dependence on hydrocarbon exports and imports.
- Uncertainty in its exchange rate.
- Proximity to the conflict areas of Syria and Iraq.
- Increasing political unrest and conflict.
- Falling currency and high inflation.

Investment Incentives

- Elimination of tariffs on machinery and equipment necessary for investment, but excluding intermediate goods and raw materials.
- Exemption or deferral of VAT for machinery or equipment imported or purchased locally.
- Investment companies benefit from a 40% tax reduction on all capital invested.
- Interest subsidy for certain environmental projects, or R&D projects located in certain areas defined as priority by the government. Expenses related to research for development and capital loans for this type of project are reimbursed equally.
- 100% income tax exemption for workers if invested in Organised Industrial Zones in the so-called 54 Priority Development Regions.

Main Investing Countries	% 2019
Azerbaijan	30.3
United Kingdom	26.9
Germany	10.8
United States	7.0
Spain	4.0
Belgium	2.7

Main Sectors of Investment	% 2019
Wholesale and retail trade	26.7
Energy	24.2
Finance and Insurance	14.1
Transport and Storage	8.3
Chemicals Industry	3.7

Business Balance					
Number in millions of €	2017	2018	Var %	2019	Var %
Spanish Exports	5,705	4,828	-15	4,466	-7
Spanish Imports	6,127	7,117	16	7,591	7
Balance	422	2,289	443	3,125	37
Coverage Rate	93%	68%	-27	59	-13

Spanish Exports to Turkey by Sector						
Numbers in millions of €	2017	2018	2019	Var %	2020 (Jan-Sep)	Var %
Total Products	5,705	4,828	4,466	-7.5	2,876	-35.6
Food and Agriculture	130.7	152.6	148.2	-2.9	82.5	-44.3
Drinks	6.8	6.4	8.0	25.6	6.6	-18.2
Consumer Goods	674.1	591.1	595.8	0.8	324.7	-45.5
Raw Materials, Industrial Products, Capital Goods	4,893	4,077.2	3,713.4	-8.9	2,462	-33.7

Spanish Imports to Turkey by Sector						
Numbers in millions of €	2017	2018	2019	Var %	2020 (Jan-Sep)	Var %
Total Producs	6,127	7,117	7,591	6.7	4,560	-39.9
Food and Agriculture	153.5	192.8	173.7	-9.9	128.4	-26.1
Drinks	9.7	15.6	16.6	6.2	13.9	-16.0
Consumer Goods	2,774.9	3,100.2	3,241.8	4.6	1969.2	-39.3
Raw Materials, Industrial Products, Capital Goods	3,188.7	3,808.5	4,158.5	9.2	2,448.3	-41.1

Main Exports from Spain to Turkey by Taric						
Numbers in millions of €	2017	2018	Var %	2019	Var %	% of 2019 total
Vehicles, cars, tractors	1,466	1,044.2	-28.8	686.1	-34.3	14.4
Plastic materials, their manufactures	388.6	369.9	-4.8	420.3	13.6	9.4
Machines and mechanical devices	372.9	291.5	-21.8	378.3	29.8	8.5
Organic chemical products	273.5	224.1	-18.1	335.9	49.9	7.5
Electrical appliances and equipment	338.1	404.6	19.7	372.1	-8.0	8.3
Cast iron, iron and steel	397.5	323.7	-18.6	341.9	5.6	7.7
Aircraft and spacecraft	253.2	352.6	39.3	313.6	-11.1	7.0
Pharmaceutical products	135.3	109.9	-18.8	128.0	16.5	2.9
Copper and its manufactures	116.5	93.8	-19.5	50.5	-46.1	1.1
Clothing, not knitwear	205.3	194.5	-5.2	242.5	24.7	5.4
Fuels, mineral oils	232.1	137.3	-40.8	210.2	53.1	4.7

Main Imports from Spain to Turkey by Taric

Numbers in millions of €	2017	2018	Var %	2019	Var %	% of 2019 total
Clothing, not knitwear	1,253.2	1,385.7	10.6	1,589.9	14.7	20.9
Vehicles, cars, tractors	1,339.0	1,442.5	8.5	1,559.2	8.1	20.5
Knitwear clothing	849.1	960.5	13.2	1,148.9	19.6	15.1
Machines and mechanical devices	481.1	525.1	9.1	735.0	40.0	9.7
Electrical appliances and equipment	221.8	262.2	18.7	330.4	26.0	4.4
Fuels and mineral oil	50.7	124.6	145.7	299.2	140.1	3.9
Plastics and their manufactures	151.3	185.3	22.5	235.6	27.1	3.1
Salt, plaster and stones	109.2	126.2	15.7	170.9	35.5	2.3
Castings, iron and steel	81.3	97.2	19.9	136.7	40.6	1.8
Aluminium and its manufactures	84.1	89.3	6.1	121.7	36.3	1.6

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