

Doing Business in Turkey

2009



Contents

| | |
|--------------------------------|----|
| 1. Introduction..... | 2 |
| 2. Business environment..... | 4 |
| 3. Foreign investment..... | 6 |
| 4. Setting up a Business..... | 12 |
| 5. Labour | 15 |
| 6. Taxation..... | 17 |
| 7. Accounting & reporting..... | 21 |
| 8. UHY firms in Turkey..... | 24 |
| 9. UHY offices worldwide | 24 |

1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Turkey has been provided by the office of UHY representatives:

UHY Uzman YMM ve Denetim AS

Büyükdere Cad. Kervangeçmez
Sok. Osman Keçeli I° Merkezi No:3
3 K:4 Mecdiyeköy
İstanbul
Turkey

Tel: +90 212 272 56 00
Web: www.uhy-uzman.com.tr
Email: uzman@uhy-uzman.com.tr

You are welcome to contact Şenol ÇUDİN for any inquiries you may have.

Uzman Yeminli Mali Müşavirlik ve Bağımsız Denetim A.Ş. was established in 1978 and specialises in auditing, tax consultancy and VAT refund. Clients include automotive, food, construction, furniture, human resource, insurance, energy, textile, retail stores, marketing, education, tourism.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at August 2009.

We look forward to helping you do business in Turkey.



Uzman Yeminli Mali M¼şavirlik ve Bađımsız Denetim A.Ş is a member of UHY, an international association of independent accounting and consultancy firms, whose organising body is Urbach Hacker Young International Limited, a UK company. Each member of UHY is a separate and independent firm. Services described herein are provided by Uzman Yeminli Mali M¼şavirlik ve Bađımsız Denetim A.Ş and not by Urbach Hacker Young International Limited or any other member of UHY. Neither Urbach Hacker Young International Limited nor any member of UHY has any liability for services provided by other members.

2. Business environment

Turkey is a large domestic market of 73 million people, with high quality products, a qualified manual and technical labour force, a relatively low labour cost, high productivity, developed infrastructure and transformation facilities. These factors, along with the country's excellent geographic and economic location close to major world markets, make Turkey a viable opportunity for future investors.

Bridging Europe and Asia Minor, Turkey is a land of geographic, economic and social contrasts. The landscape spans bustling cosmopolitan centres, pastoral farming villages, barren wastelands, peaceful Aegean coastlines, and steep mountain regions. More than half of the population live in urban areas that juxtapose Western lifestyles with traditional-style mosques and markets. Turkey is slightly larger than Texas in the USA and has borders with the countries of Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Iran, Iraq and Syria.

The Republic of Turkey

Form of State: Republican Parliamentary Democracy

Capital City: Ankara

Time Zone: GMT +2 hours; GMT +3 hours (in summer)

Area: 814,578 km²

Population: 73 million

Currency: Turkish Lira (TL)

USD/TL: 1.30 (2008 average)

EURO/TL: 1.80 (2008 average)

| GDP | | |
|------|------------------|----------------|
| Year | GDP (Billion \$) | GDP Growth (%) |
| 2004 | 300.6 | 8.9 |
| 2005 | 361.5 | 7.4 |
| 2006 | 400.0 | 6.1 |
| 2007 | 648.8 | 4.7 |
| 2008 | 741.8 | 1.1 |

Per Capita GDP

| Year | Value (\$) |
|------|------------|
| 2004 | 5,779 |
| 2005 | 7,027 |
| 2006 | 7,609 |
| 2007 | 9,191 |
| 2008 | 10,436 |

Foreign Trade

| Turkey's Exports by Years (Billion \$) | | Turkey's Imports by Years (Billion \$) |
|---|-------|---|
| 2004 | 63.2 | 97.5 |
| 2005 | 73.5 | 116.8 |
| 2006 | 85.5 | 139.6 |
| 2007 | 107.3 | 170.1 |
| 2008 | 132.0 | 202.0 |

Inflation

| Inflation Rate (%) | | |
|--------------------|-------|-------|
| Year | CPI | PPI |
| 2004 | 9.35 | 15.35 |
| 2005 | 7.72 | 2.66 |
| 2006 | 9.65 | 11.58 |
| 2007 | 8.39 | 5.94 |
| 2008 | 10.06 | 8.11 |

3. Foreign investment

Turkey, situated at the crossroads where two continents meet, is an ideal centre for investors looking for a location at the heart of Europe and Asia. With its dynamic and growing economy, huge market, competitive and skilled labour force, Turkey offers numerous opportunities to international investors. The liberal foreign investment legislation and the experience of more than 5,500 foreign capital firms ensures a stable and reliable investment environment.

Turkey has a very liberal exchange control regime. The protection of the value of the Turkish currency legislation guarantees the free transfer of profits, fees and royalties.

The transfer of profits, dividends, proceeds of sale and liquidation, license, know-how, technical assistance fees, repayment of loans and interests is unrestricted.

Turkish Lira is fully convertible. The supply of foreign exchange is not limited and banks may open foreign exchange deposit accounts for both the residents and the non-residents. Principal and interests of non-residents can be transferred through the investor's bank. Non-residents may sell and buy securities at the Istanbul Stock Exchange, without being subject to any limitation and/or approval.

Turkey is a country offering significant opportunities for foreign investors with its geographically perfect position to function as a gateway between Europe, Middle East and Central Asia. The opportunities exist not only in the dynamic domestic market, but also throughout the region.

Hospitality and tolerance being the traditional cornerstones of the Turkish way of life, the country is open to foreign investors with many attractions to offer:

- Large and growing domestic market
- Mature and dynamic private sector
- Leading role in the region
- Liberal and secure investment environment
- Supply of high quality and cost-effective labour force
- Customs union with EU countries
- Developed infrastructure
- Institutionalized economy

- Competitive tax system.

With no limitations on foreign ownership percentage or control, the main issue facing foreign investors is usually the choice of entity. A corporation or a limited liability company is the usual answer. Turkey operates a liberal foreign investment regime. Companies established by foreign investors in Turkey, whether on their own or in partnership with Turkish nationals, are regarded as Turkish companies and are entitled to all the same rights as those granted to Turkish owned companies. For business partnerships, the flexible, creative and entrepreneurial spirit of the Turkish people makes an ideal 'blend' with the systematic, efficiency-oriented and strategic traits of the Western business world.

Through joint-ventures and other forms of partnerships, international companies should make use of the local contingencies to gain quick entry into this promising and friendly market. Companies can combine their know-how and development capacities with the comparative advantages that Turkey offers, such as lower costs and high productivity ratios. As a result, foreign companies operating in Turkey enjoy high profitability. However, those who plan to invest should come to Turkey with a long-term commitment rather than for 'quick bucks'.

The involvement of foreign capital is highly encouraged in Turkey's privatisation programme, Southeast Anatolian Project (GAP) and major infrastructure projects. Petroleum and natural gas pipelines from the Russian Federation and Commonwealth of Independent States (CIS countries) place Turkey at the crossroads of the world's future energy resources. Power generation is another important and attractive area for foreign investment. Once almost exclusively under state control, private companies are now entering this profitable market parallel to the transformation which occurred in the legislative environment. With a highly developed and modern telecommunications infrastructure and fast-growing service industries, such as a sophisticated banking sector, Turkey offers an advantageous business environment for those who intend to invest in future.

Regulations regarding the incentives in investment and employment

As of 31st July, 2004, research and development expenditures realized in the structure of enterprise and those which are oriented to new technology and searching of knowledge can be deducted from the income declared by annual tax return.

Gains derived from operating private schools which began to function from 1st January, 2004 are excluded from income tax for the five taxation period. The exclusion shall be applied to the gains derived from pre-school

education, primary education, private education and secondary education private schools operated by the business income taxpayers within the scope of Law No. 625.

- Delivery of sea, air and railway vehicles
- Delivery of floating system and vehicles
- Delivery and services done concerning the manufacture and construction of these vehicles
- Modification, maintenance and repair services of these vehicles done to the taxpayers whose businesses are leasing or operating sea, air and railway vehicles, floating system and vehicles in various forms are excluded from value added tax.

Exploration, operating, enrichment and refining activities concerning gold, silver and platinum and within scope of Oil Exploration Law provisions services and delivery of goods done to those who are busy with oil exploration activities are excluded from value added tax.

Delivery of goods and rendering of services concerning businesses mentioned hereafter to the taxpayers who deal with construction, restoration and widening businesses of ports and airports by themselves or make others deal with these businesses are excluded from value added tax.

Incentives oriented to income and corporate taxpayers doing business in industrial zones take place in Incentive of Investments and Employment.

To those who function in these regions should be supported in income tax withholding, support in employer shares of insurance premium, free investment space and energy support.

Gains derived from software and research and development activities in technology developing zones by the taxpayers who do business in mentioned zones are excluded from income and corporate tax until 31st December, 2013.

Wages of researcher, software programmer and research & development personnel related to these jobs in these zones are excluded from income tax until 31st December, 2013.

Gains acquired within the scope of application of Technology Developing Zones Law No. 4691 by executive companies of technology developing zone are also excluded from income or corporate tax until 31st December, 2013.

These exclusions shall be also applied to the executive company of Scientific and Technological Research Council of Turkey (TÜBİTAK)-Technology Free Zone of Marmara Research Centre, to the income and corporate taxpayers doing business in this zone and to the wages of researcher, software programmer and research & development personnel working in this zone.

Within the period in which the gains of entrepreneurs doing business in technology developing zones are excluded from income or corporate tax, delivery and services which are manufactured only in these zones and in the form of system management, data management, business applications, sectoral, internet, mobile and military command control application software are also excluded from value added tax.

Incentives directed to the income and corporation taxpayers located in organized industrial zones are in Incentive of Investment and Employment Law No. 5084. Taxpayers functioning in these regions covering the provinces in scope of the law No. 5084 were given income tax withholding incentive, employer contribution incentive, free investment land allocation and energy support.

The separate body of organized industrial zones is exempt from all types of tax and fees about the operation of Organized Industrial Zones Law.

Wastewater fee is not taken from the zones operating a water treatment plant.

Land and work-place deliveries of economic entities formed for the foundation of organized industrial zones are exempt from Value Added Tax.

Economic entities founded by public body or professional institution with real and legal entities, using all of its income to meet the requirements of these places, to prepare the infrastructure of organized industrial zones with small industrial sites and to ensure the common requirements such as: land, electricity, gas, steam and water are exempt from corporation tax.

Buildings in organized Industrial regions benefit from real estate tax exclusion following the five years of their completion.

Papers constructed for acquiring or payback of credits, which will be used by the hand of Banks, credit enterprises abroad and international associations, and the signs over these papers (Except usage of credits) are exempt from stamp duty.

Transactions caused by establishment, merging, assignation, capital raise, splitting off and type alteration of joint stock, shared commandite and

limited companies and transactions related to providing, re-payment and bonds of credits which are given by banks, overseas credit organizations and international institutions shall not be subjected to charges.

In law No. 5084 which directed to rise of investment and employment, Income tax withholding incentive will be applied following the completion of the investment in provinces until 31st December 2007 for beginner investors or creating employment opportunities.

- No income tax withholding from the wages of new personnel
- Payment of employer contribution by the treasury
- Energy support
- Investment place free of charge.

When the law was put into force there was 36 provinces enclosed but as a result of the changes made in the law; tax, insurance premium incentives and energy support subjects were taken in scope of law and 13 more provinces added whose social – economical development value determined negative by State Planning Organization so the number of provinces benefiting from the incentives risen to 49.

The purpose of the law No. 5225 is to provide a meeting of individual and society requirements, preserving of cultural assets and abstract cultural heritage and becoming it an item of sustainable culture, activating the environment of cultural communication and interaction, producing of cultural and artistic values, creating and developing the possibility of society's attention to these values; keeping our country's cultural assets alive and utilize and use it as a contribute element to the country's economy, promoting cultural investment and enterprises to be built and the running of cultural centres.

Incentives that will be applied for cultural investments and enterprises in the scope of this law are as follows:

1. Income Tax Withholding Deduction:

A Corporation Tax Payer Investor or entrepreneur who has a license in scope of this law can deduct 50% of the income tax in the phase of investment for not longer than 3 years and 25% of the income tax in the enterprise phase not longer than seven years from the tax accrued in their withholding tax return based on their monthly insurance payroll given to the administration only for the worker wages that will be worked in the licensed investment or enterprise.

2. Allocation of Immovable Property:

The Ministry of Culture and Tourism has the authority of making an immovable property assignment for the cultural investment and entrepreneurs in scope of this law.

3. Abatement in Employer Contributions:

A Corporation Tax Payer Investor or entrepreneur who has license in scope of this law can deduct 50% of the employer contribution in the phase of investment not longer than 3 years and 25% of the employer contribution in the enterprise phase not longer than seven years will be paid by treasury based on their monthly insurance payroll given to the administration only for the worker wages that will be worked in the licensed investment or enterprise in accordance with article 72 and 73 of Social Insurance Law.

4. Water Cost Discount and Energy Support:

Cultural investment and enterprises pay the water prices at the lowest tariff of the region. 20% of the electricity and natural gas costs of this investment or enterprise are paid by the treasury for 5 years.

5. Ability to Employ Foreign Personnel or Artists:

Foreign specialist personnel or artists can be employed in licensed investment or enterprises not more than 10% of the personnel by the view of the Ministry of Culture and Tourism and permission of the Ministry of Labour and Social Security.

6. Ability to Function in Weekends or Official Holidays:

Licensed enterprises and other units in scope of a license can carry on their functions in weekends or official holidays in work hours identified as in license.

Assignees of a licensed investment or enterprise by the permission of the ministry are also benefit from the incentive and deduction provisions of this law.

4. Setting up a Business

The Turkish Commercial Code recognises two distinct types of business enterprise – partnerships and corporations. The legal differences between these two entities concern the allocation of liability and the legal identity of the entity. Corporations established by foreign joint venture partners, with or without a Turkish partner, are treated as Turkish corporations and are entitled to all rights available to Turkish companies under the Turkish commercial code. Foreign investors may establish a corporation in either of these two forms: limited liability company (Limited Sirket - Ltd. Sti.) and joint stock company (Anonim Sirket - A.S.)

These business types exist as separate legal entities and offer their shareholders limited liability. The most common type of business entity in Turkey is the joint stock company, and generally foreign investors establish such corporations for doing business in Turkey.

Joint stock company

A joint stock company is defined as a corporation having its own trade name and a predetermined amount of capital divided by shares. The liability of the shareholder is limited to their capital. The structure and organisation of joint stock companies is subject to regulation by the Turkish Commercial Code. However, the founders of joint stock companies are afforded significant flexibility in drafting the Articles of Association, thereby serving the needs of the specific venture. Capital Market Board regulations also apply to joint stock companies whose shareholders number at least 250, or who have issued bonds or whose shares are quoted on the Istanbul Stock Exchange.

A minimum of five shareholders, who may be either real persons or legal entities, are required for the formation of a joint stock company. The overall share capital must be a minimum of TRY 50,000 YTL.

The capital of a joint stock company is divided into shares of equal value which are treated as negotiable commercial paper. The shares may be issued in either registered or bearer form. Registered shares are freely transferable subject to approval by the board of the company, unless prohibited by the company's Articles of Association. Bearer shares are freely transferable under the Code of Obligations, unless otherwise agreed by the parties.

Decision-making in a joint stock company is by majority vote, but the Turkish Commercial Code includes certain provisions to protect minority interests. Minority shareholders may also request the appointment of a special auditor on their behalf.

Limited liability Company

Limited liability companies may be composed of real persons or legal entities and must consist of at least two and no more than 50 partners. The overall share capital must be a minimum of TRL 5,000 YTL. All partners are personally liable for the debts of the company up to the maximum of their contribution, however, partners are not held liable for the unpaid portions of others' contributions. They are also more directly exposed to the tax liabilities of the company, limited, however, to their own shares.

Shares held in a limited liability company are non-negotiable and may be transferred only with the approval of the other partners. Transfers must be approved by at least a 75% majority vote, with at least 75% of the total capital represented. Limited liability companies are also prohibited from engaging in banking or insurance business. A limited liability company differs from the joint stock company in that its capital is not divided into shares of stock nor represented by share certificates. There is no board of directors for a limited company. Instead, the appointed manager has the authority to run the company.

Branches and liaison offices

Foreign companies may also operate through liaison offices or branches providing they are established in accordance with the relevant legislation. The income of a branch derived in Turkey is taxed in the same way as resident corporations. Liaison offices may be used to establish a presence in Turkey, but may not carry on any commercial activity and must be funded by the parent company outside Turkey.

Employing foreign personnel

Foreign personnel can be employed in Turkey with the permission of the General Directorate of Foreign Investments.

Organisations to help investors find local partners

If you are planning to invest in Turkey and looking for a Turkish partner for co-operation, there are several organisations to help you find a suitable local partner.

TOBB

The Union of Chambers of Commerce, Industry, Maritime Trade, and Commodity Exchanges of Turkey (TOBB) is a semi-public organisation formed by the unification of all the business-related chambers to take all precautions necessary for the advancement of chambers and commodity exchanges. Meanwhile, TOBB also provides help to its members in finding international partners through its 'business opportunities' service.

KOSGEB

The Small and Medium Industry Development Organisation (KOSGEB) is a public agency established to help small and medium enterprises in adapting scientific and technological innovations to enhance their competitiveness. In this context, KOSGEB serves as a national centre of the Euro Info Centre, the EU's small and medium enterprises Information Program, and BCNET and BRE, business co-operation programmes.

5. Labour

The legal working week is 45 hours in Turkey. Overtime may not exceed three hours a day or 90 days a year and is not allowed in underground work. Usual overtime rates involve a 50% daytime premium on weekdays and Saturdays and 100% on Sundays and public holidays.

A minimum wage is set by the government but actual wages are higher than the minimum wage rate. Salaries are normally reviewed on a half-yearly or quarterly basis. The review of wages depends on whether there is a collective bargaining agreement with a union and the length of its validity. Fringe benefits cost employers about 30-40% of a blue collar worker's gross wages and 25-30% of white collar salaries. The most common fringe benefits are meals, transportation and yearly bonuses of two or four months' salaries. In addition, cash benefits payable in the event of births, marriages, etc, and heating and clothing allowances are provided through union agreements.

Under existing labour law a company is required to make lump sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Severance pay is calculated at one month's salary up to a maximum amount per year of service. This limit is adjusted four times a year. The employer has no obligation to provide severance pay if the employee resigns.

Legislation also requires that all employees should be covered by the social security system and pay social security contributions. The system includes benefits for industrial accidents and sickness, health insurance, maternity, disability, old age and death. It also covers almost all costs of a modest level of medical care.

Contributions, as a percentage of gross salary, are payable by individual employees and employers. The contribution rate for the employer and employee is around 19.5-22.5% and 15% of the gross salary, respectively. For citizens of countries with which Turkey has bilateral social security agreements it is possible to stay within their own national social security schemes. Employment law currently allows males to retire after 25 years of work and females after 20 years. Moves to increase the retirement age from the current level to ages around 58 and 60 are the subject of current discussions. The employment of foreign personnel is also possible in Turkey. In order to be able to work and reside in Turkey, all non-residents must first obtain a work permit from the General Directorate of Foreign Investments and parallel with this permit, a residence permit from the Ministry of Internal Affairs.

Companies can apply to employ foreign personnel, but a real person cannot make an application by himself. The applications are made directly to the General Directorate of Foreign Investments, where they are evaluated according to specific criteria where the qualifications of the personnel and the performance of the company are taken into account.

6. Taxation

The Turkish tax regime can be divided into the following classifications: income taxes, corporate income taxes, taxes on expenditures, value added tax, banking and insurance transaction taxes, stamp duty, taxes on wealth, inheritance and gift taxes, property tax.

Income taxes

Income taxes in Turkey are levied upon the income, both domestic and foreign, of individuals and corporations resident in Turkey. Non-residents earning income in Turkey through employment, ownership of property, carrying on a business or from other activities giving rise to income are also subject to tax, but only on their Turkish derived income.

Corporate income tax

For tax purposes, companies are grouped as limited liability companies (corporations and limited companies) and personal companies (limited and ordinary partnerships). Corporate tax applies to limited liability companies. State economic enterprises and business entities owned by societies, foundations and local authorities are also subject to corporation tax.

Whether a company is subject to full or limited tax liability depends on its status of residence. A company whose statutory domicile or place of management is established in Turkey will have full tax liability; in this case, worldwide income is taxable. If a non-resident company conducts business through a branch or a joint venture it will have limited tax liability, i.e. fully subject to corporate tax on profits earned in Turkey on an annual basis. If there is no presence in Turkey, withholding tax will generally be charged on income earned, for example, for services provided in Turkey. However, if there is a double taxation treaty, reduced rates of withholding may apply. The corporate tax rate is 20%.

For resident corporations, whose statutory domicile or place of management is established in Turkey, tax is levied on worldwide income, but credit is given for foreign tax payable in respect of income from foreign sources (up to the amount of Turkish corporate income tax, i.e. 20%).

Corporate entities having their statutory domicile and place of management outside Turkey, but established in Turkey in the form of a branch, are subject to tax on an annual return based on income received from the permanent establishment in Turkey. The tax-loss carry forward period is five years. There are no loss carry-backs.

Withholding taxes apply on a wide range of income types received by Turkish resident individuals and corporations, including for individuals; rent receipts from businesses; for both individuals and corporations; interest on government bonds, bank interest, etc.

From the non-resident's point of view, many payments abroad including those for professional services and technical assistance, royalties and rentals are subject to withholding tax at rates varying between 10% and 15%. In this regard, countries having avoidance of double taxation treaties with Turkey have considerable advantages. These countries can, in general, benefit from a reduction of withholding taxes in certain circumstances. Royalty agreements including those for know-how and patent licences must be registered by the General Directorate of Foreign Investments.

The corporate tax return is filled until the 25th day evening of the fourth month of the year following the month in which the fiscal year ends and the assessed taxes are paid until the end of that month. However, if a limited liable taxpayer leaves the country for sure the corporate tax return has to be submitted to the authorized tax office in the 15 days preceding. In such case, taxes are paid in the same period of time as forth for the declaration.

If the income earned by the foreign companies which are subject to the limited liability in respect to the corporate tax, consists of capital gains and non-recurring income discussed in the preceding sections (except for income earned from sale and transfer of intangible rights like license, know-how, and royalty), then the income is declared to the authorized tax offices those taxpayers (or the persons acting on behalf of them) in the fifteen days after the income has been earned. This procedure is called "special declaration".

If there is no presence in Turkey, withholding tax will generally be charged on income earned; for example income earned from sale and transfer of intangible rights like license, know-how, and royalty, income from movable and immovable property and income from independent professional services provided in Turkey. However, if there is an avoidance of double taxation treaty, reduced rates of withholding tax may apply.

Tax Rates

Corporate income tax is applied at 20 % rate on the corporate earnings. Taxpayers (only for income from commercial activities and agriculture in limited tax liability cases) pay provisional tax at the rate of corporate tax, these payments are deducted from corporate tax of current period.

Individual income tax

The limited tax liability covers trade or business income from a permanent establishment, salaries for work done in Turkey (regardless of where they were paid or whether or not they were remitted to Turkey), rental income from real property in Turkey, Turkish-derived interest, and income from the sale of patents, copyrights and similar intangible assets.

Turkish residents are taxed on worldwide income, but they can receive a tax credit for taxes paid abroad. Personal taxes on income from foreign countries may be deducted from taxes due in Turkey on the same income, but only up to the amount of the Turkish taxes assessed.

The income of non-residents is taxed at the same rate as residents, but non-residents are not entitled to deduct the general allowance and receive no credit for foreign taxes. The range of tax rate for individual taxes is 15-35%.

Taxes on expenditures

Value added tax (VAT)

Deliveries of goods and services are subject to VAT at rates varying from 1% to 18%. The general rate applied is 18%. Inter-company interest charges are subject to VAT at 18%. The VAT rate on most leased assets is 1%. Lease contracts are exempt from all types of taxes, duties and stamp taxes. VAT is charged on imports at normal rates.

Banking and insurance transaction tax

Banking and insurance company transactions remain exempt from VAT, but are subject to a banking and insurance transaction tax. This tax applies to income earned by the banks, for example on loan interest.

Stamp duty

Stamp duty applies to a wide range of documents, including contracts, agreements, notes payable, capital contributions, letters of credit, letters of guarantee, financial statements and payrolls. Stamp duty is levied as a percentage of the value of the document.

Taxes on wealth

Inheritance and gift taxes

Items acquired as gifts or through inheritance are subject to taxes between 4% and 30% of the item's appraised value. Tax paid in a foreign country on inherited property is deducted from the taxable value of the asset.

Inheritance tax is payable over the period of five years and in two instalments per year.

Property taxes

Property taxes are paid each year on the tax values of land and buildings at rates varying from 0.3% to 0.6%. In the case of the sale of property, a 1.5% levy is paid on the sales value by both the buyer and the seller.

7. Accounting & reporting

The accounting profession is currently governed by a law enacted in 1989. However, related regulations issued by the Central Bank and the Capital Markets Board (CMB) are also particularly important because they stipulate the standards on auditing, accounting and financial reporting for banks and public companies which have more than 250 shareholders or whose shares or bonds are quoted on the stock exchange. The law has divided accounting professionals into three categories – independent accountants (SM), independent accounting and financial consultants (SMMM) and sworn-in certified public accountant (YMM).

Individual persons or entities acting as auditors for corporations and regulatory agencies must be licensed as SMMM or YMM. The Ministry of Finance requires (Tax Audit) certifications, being mainly tax-related, to be carried out only by YMM. Generally, companies which have obtained the tax certification service (Tax Audit) from YMM should be safer than those without.

Legal books must be kept for five years after the end of the related accounting period according to tax legislation and for 10 years according to the Turkish Commercial Code. The accounting records that must be kept are as follows: journal ledger, inventory ledger, production ledger, stamp tax book and journal for bills of exchange.

These records should be kept in Turkish and in Turkish Lira and be authenticated by a public notary. Although these are the basic legal books required, others may be needed depending on the type of business. Companies may keep computerised records provided that they comply with these basic requirements.

The government requires that all corporations produce an annual report setting out the balance sheet and profit and loss statement of the company in accordance with a standard chart of accounts, to be filed with the Trade Registry, and due 30 days after the annual general meeting which should be held within four months of the company's financial year-end.

Companies subject to CMB regulations are required to use specific formats for financial statements and comply with more detailed CMB requirements. The quoted companies should publish quarterly financial statements. Companies subject to particular regulation, specifically banks and insurance companies are required to produce quarterly and annual reports for various government agencies as well as publish their reports in newspapers.

Accounting Principles

In March 2006, the Turkish Accounting Standards (TAS) has been published by Turkish Accounting Standards Board which was declared to be effective as of January 1, 2006. The legal requirements to apply TAS has been referred to in the draft revised Turkish Commercial Code; however, such draft has not yet been approved by the Grand National Assembly of Turkey. Accordingly, companies follow the existing Turkish Commercial Code, Turkish Procedural Tax Law and the communiqué issued by Ministry of Finance in 1992 applicable to all Turkish entities (excluding financial institutions) in preparing the statutory financial statements. Starting in 1994, the communiqué requires such entities to prepare their financial statements in a prescribed format using a uniform chart of accounts and certain fundamental accounting and reporting concepts specified in the communiqué.

Under Capital Markets Board (CMB) regulations, all listed companies, financial intermediaries, mutual funds, investment partnerships, and companies not listed but considered as publicly traded due to high number of shareholders (more than 250) are subject to CMB regulations. With minor exceptions, these CMB standards generally conform to International Financial Reporting Standards (IFRS) prevailing as of December 31, 2004. However, since updates in IFRS thereon could not be implemented in CMB standards, CMB announced that financial statements prepared in accordance with IFRS are also acceptable.

Starting from December 31, 2006, financial institutions other than insurance companies, prepare their financial statements in accordance with the Turkish Accounting Standards which are in line with IFRS. However, there are certain departures from IFRS as explained in communiqués of Banking Regulations and Supervision Agency (BRSA) like non-consolidation of non-financial institutions.

A separate set of accounting principles together with uniform chart of accounts applicable to insurance companies are issued by the Undersecretariat of Treasury.

Statutory Financial Statements

The statutory financial statements should include at least the following:

- Balance sheet
- Profit and Loss Statement
- Notes to the Financial Statements.

Supplementary financial statements, which are not mandatory for all companies are:

- Statement of Changes in Shareholders' Equity
- Statement of Cash Flows
- Statement of Cost of Sales
- Statement of Profit Distribution.

Audit requirements

There is no legal requirement in Turkey for the independent audit of statutory financial statements (except Tax Audit), although the Turkish Commercial Code requires all companies to have a 'statutory auditor'. However, banks, brokerage firms, public companies (defined as either companies whose stocks or bonds are quoted on the Istanbul Stock Exchange or where the total number of shareholders exceeds 250) and those companies which issue bonds or other financial papers are subject to CMB requirements. CMB requires the financial statements of these companies to be audited by those independent firms listed by the CMB. The accounting policies and the auditing principles required under CMB regulations are close to international standards. An auditor reporting under CMB standards is required to give his opinion on whether the financial statements provide a 'true and fair' view.

Audits for entities receiving government or investment funding including state or privately owned investment development banks are usually performed in accordance with Generally Accepted Auditing Standards (GAAS). Generally, companies operating internationally also request their financial statements to be audited in accordance with GAAS.

8. UHY firms in Turkey

UHY Uzman YMM ve Denetim AS

Büyükdere Cad. Kervangeçmez
Sok. Osman Keçeli I^o Merkezi No:3
3 K:4 Mecdiyeköy
İstanbul
Turkey

Tel: +90 212 272 56 00
Web: www.uhy-uzman.com.tr
Email: uzman@uhy-uzman.com.tr

9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com