



## EYE ON TURKEY

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### Editor's Window: **TURKEY: The Gateway to EU, Central Asia and the Middle East**

Turkey is the 15<sup>th</sup> largest economy of the world and the 6<sup>th</sup>

largest economy compared to the 27 EU Countries in 2007 (IMF – WEO).

Because of the;

◆ Highly competitive investment conditions

◆ National treatment to all global investors

◆ Equal access to government incentives for all global investors

◆ With an average of 6 days to start a business Turkey ranks

well ahead of other competitors and the OECD countries.

Business-friendly



environment, new and highly developed technological infrastructure in transportation,

telecommunication and energy, proximity to the markets in Europe, Asia, Middle East and Africa makes Turkey one of the fastest growing emerging markets.

Turkey is one of the least affected countries in the latest financial turmoil, because of the legal and strong financial architecture in place. **And that is why all the global investors have a base in Turkey.**

**Guler Manisali-Darman  
Principal,  
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### **Some Effects of the Draft Turkish Commercial Code (TCC) on Financial Reporting and the “Statutory Audit” Profession**

A very short time ago two further new chapters were opened advancing the negotiating process between Turkey and the EU. One of them is company law. Since, as a result of five years commissions' work, Turkey prepared the draft TCC, not only to align Turkish company and commercial law with the EU *acquis communautaire* but also to enable Turkey to function as a member of the international community. The draft TCC is now on the agenda of the Turkish Grand National Assembly and, hopefully,

would enter into force after the opening of the new legislation period.

Some legislative problems that would possibly postpone enactment of the new TCC could be awaited. If everything goes properly Turkey would eventually have reinforced its capacity to appropriately implement and enforce the EU *acquis* under company and also commercial law. The new statutory audit regulation of the draft TCC would have a significant effect on financial reporting.

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## An Eye on Free Trade Zone: Exemptions for Free Trade Zones will soon be over

Turkey strongly encourages investments from foreign investors with many exemption options and incentives .

As an example Exemptions for Free Trade zones were gripping as the areas within the free-zone boundaries are treated as extraterritorial for customs duty purposes. The advantages of Free Trade Zones used to be summarized as: Free Trade Zones are located inside Turkey but are exempt from the usual regulations that apply to customs duties, the Free Trade Zone Law was enacted in Turkey in 1985, and 21 free trade zones have been set up in Turkey from then, a range of operations may be carried out in a free trade zone: manufacturing, storage, general trade as well as financial services, insurance and banking. In the free trade zones there are no custom duties on goods imported from abroad to the zone and no VAT. Companies are exempt from

### Update on the Activities of Foreign Investors in Istanbul Stock Exchange Puren Crawford, Financial Analyst

As new products are introduced and the legal framework is strengthened, Turkish capital markets are expanding along with the increase in foreign interest. Since 1989 foreign institutions and individuals have been able to invest freely in the Turkish stock and bond markets and repatriate capital and profits without any restrictions.

Foreign investors also have a tax advantage, as the current tax law introduced in 2006 has reduced the withholding rate on the portfolio income derived by non-resident taxpayers from 15% to zero.

Foreign investors currently hold around 72% of the free-float at the Istanbul Stock Exchange (ISE) and generate around 25% of the equity trading volume.

corporate tax for production income and employees' salaries for their services carried out in Free Zones until 31.12.2008, as for license obtained before 6.2.2004 is tax exempt (till 31.12.2008).

Though the income tax exemption, duty and fees in Free Trade Zone will soon be over, various credits are still available for the financing of import and export oriented operations. Free Trade Zone may still be considered as an alluring area as it's especially designed for the manufacturing operations which may only be executed by high voltage power sources.

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**MERSIN FREE TRADE ZONE**

*“...Though the income tax exemption, duty and fees in Free Trade Zone will soon be over, various credits are still available for the financing of import and export oriented operations ....”*

Figures would indicate foreign investors prefer equities in their portfolio allocation (two-thirds), followed by government bonds. In the futures market, foreign investors generated 21% of last year's futures trading volume

Last year the ISE became the second best performing bourse after Brazil, among emerging-market countries, in terms of broad index returns. The number of foreign investors increased by 12% and their overall stock holding has more than doubled in the last two years.

This year, despite the recent turmoil and negative outlook on the world financial markets,

foreign investors are regaining their appetite in the ISE,

July 2008 figures reveal that the monthly trade volume created by the foreign investors reached US\$16.2 billion, with a net purchase of US\$628.3 million. The number of foreign investors has so far reached 25,752 with a total investment value of US\$67 billion.



# TAXES

“.....deliveries of goods and services to diplomatic missions and their members in Turkey are exempt from this tax (VAT).....”

## Main Taxes in Turkey

### Income Tax

Incomes of persons are subject to income tax. Foreigners whose residence is in Turkey or who live in Turkey for more than six consecutive months of the calendar year are also subject to income tax. However, businessmen, scholars, scientists, experts, officials, journalists, and other such persons who come to Turkey for a specific and temporary job are not considered to have settled in Turkey even if they stay longer than six months. Incomes which are subject to income tax are as follows; commercial incomes, agricultural incomes, incomes earned from self-employment, wages, incomes earned from real estate, and incomes derived from bank interest or bonds. Income earned from interest on bank deposits by persons who are not regarded as having settled in Turkey, however, is not subject to tax.

### Income tax rates

Up to 7.800 YTL	% 15
19.800 YTL; for the part of 7.800 YTL is 1.170 YTL, for the rest	% 20
44.700 YTL; for the part of 19.800 YTL is 3.570 YTL, for the rest	% 27
More than 44.700 YTL; for the part of 44.700 YTL 10.293 YTL, for the rest	% 35

### Corporations Tax

Financial activities of capital corporations, associations and charitable foundations are subject to Corporation Tax Law No. 5422 of 3 June 1949. Fiscal activities of foreign states and foreign public agencies or cooperation's connected them are also subject to Corporation Tax. From the legal standpoint, whether these organizations are non-profit or not are irrelevant. Furthermore, if the central office of a foreign commercial enterprise is not located in Turkey, then only that income which the enterprise earns in Turkey is subject to the tax.

The standard rate of Turkey corporate tax is 20%. Capital gains tax in a corporation is usually added to the regular income of the corporation. When calculating capital gains, the purchase price of the asset sold is adjusted in line with

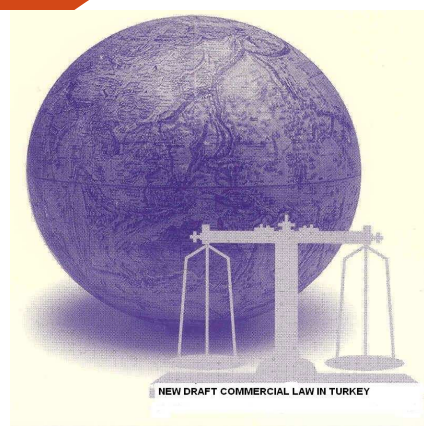
the rise in the index from the date of purchase to the date of sale. Capital gains tax is calculated only on the real profit. On the sale of a depreciable asset, if the assets are held for more than 2 years the capital gain is exempt from tax.



### VAT

All deliveries of goods and services carried out within the framework of commercial industrial and agricultural activities or self-employment in Turkey are subject to value added tax that varies from %1 to %18 referred to the group of the product. Under article 15 of Law no. 3065 of 25 October 1984, deliveries of goods and services to diplomatic missions and their members in Turkey are exempt from this tax according to the principles of reciprocity.

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**New Commercial Code**

Undoubtedly, a new era is comming for Turkey's corporate governance culture with the enactment of the draft TCC.

Truly, one of the most remarkable changes of the draft TCC is about the statutory audit system of the joint stock companies. Related articles of the draft TCC that are in harmony with the provisions of the new EU Eighth Company Law Directive (2006/43/EC, OJ L 157/87-107, 9/6/2006) would replace entirely the old statutory audit system of the current TCC, which calls for no qualification, licencing, education requirements or specialist knowledge.

Present situation of the Turkey's statutory audit system shows a fragmented structure. Out of the current TCC and the Tax Procedures Code there are various laws and regulations giving power to some regulatory authorities such as the Capital Market Board, the Banking Regulation and Supervision Agency, the General Directorate of Insurance and the Energy Market Regulatory Authority.

These authorities have power to set and enforce auditing (and also accounting) requirements for various entities that fall under their jurisdictions.

The draft TCC requires all business enterprises (except small and medium-sized enterprises) to prepare financial statements in accordance with the Turkish Financial Reporting Standards, which are correspond to the International Financial Reporting Standards, adopted by the Turkish Accounting Standards Board (TASB).

Current fragmented approach would be changed with the implementation of the draft TCC, because, according to the article 88 of the draft TCC TASB would become the recognized single authority for the setting of financial reporting standards in Turkey.

The draft TCC also requires all joint stock companies (and also limited liability companies) to have an independent audit conducted according to the Turkish Standards of Auditing, based on International Standards of Auditing, by auditors or audit firms authorized according to the article 400 of the draft TCC. Large-sized joint stock companies would be required to use an independent audit firm whereas small and medium-sized joint stock companies may appoint at least one certified public accountant (or sworn-in certified public accountant as an independent auditor.

The draft TCC sets detailed audit requirements, but an authoritative auditing standart setting authority and an oversight board are temporarily established in its provisional articles 2 and 3.

According to its provisional article 2 the Union of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey (TURMOB) would set the auditing standards until a new Turkish Auditing Standard Board, having public legal entity, would be founded. In the next provisional article the draft TCC gives the authority of oversighting auditors and audit firms to the Ministry of Industry and Commerce temporarily until a new public oversight board would be set up.

Especially the second interim regulation of the draft TCC seems not to be sufficient to keep pace with the demands of the complex public oversighting.

Turkey needs to establish a sole



supreme authority working together with the auditors' professional body, TURMOB, in determining auditing standards and ethics, authorising independent auditors and audit firms under a public oversight system and monitoring their activities within the frame of quality assurance.

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### EYE ON TURKEY

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**CGSCENTER**

**Corporate Governance and Sustainability Center** is composed of eligible partners, in the field of corporate governance, and related services ranging from assessment to research and from raising awareness to compliance.

Associates of CGSCenter assists Turkish companies active in various fields such as finance, IT, insurance, energy, tourism, real estate development, and construction, that seek finance (equity or debt), open for partnership opportunities, interested in sell-outs, or buy-outs, or mergers and acquisitions.

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### **New Commercial Code**

*(Continued from page1)*

Despite the draft TCC's solution the Ministry of Finance prepared urgently a new draft Law concerning the establishment of a unified Turkish Auditing Standards and Public Oversight Authority. In the same period of time the Ministry of Finance also prepared a new draft Law for TASB which is currently supported by only one supplementary article in the Capital Market Law. Both draft Laws were sent to the Turkish Grand National Assembly by the Prime Ministry. In the first instance the last efforts of the Ministry of Finance could be seen positive. But from a clearer point of view, the Ministry of Finance seems not to lose its authority over the "statutory audit" profession in spite of finding a better

solution. When going into detail it appears that there are some more matters to be solved. Still, in order to come face-to-face with these matters the new TCC has to be enacted as soon as possible before its own consistency to be damaged.

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