



cutting through complexity™

Conference in THESSALONIKI

26 June 2014



1. General Political / Economical Climate in Turkey

- Turkey is a founding member of the United Nations (UN), the Organization of Islamic Cooperation (OIC), the Organization for Economic Co-operation and Development (OECD) and the Organization for Security and Co-operation in Europe (OSCE), a member state of the Council of Europe and NATO. Turkey is also a member of the G20 industrial nations which brings together the 20 largest economies of the world.
- Since 2005, Turkey is in accession negotiations with the European Union.
- Turkey is an emerging economy, being the 16th largest economy in the world and the 6th largest economy when compared with the EU countries, according to GDP figures (at PPP) in 2012 with growth rate 9.1%.
- There has been significant improvement in reducing the inflation rates under the stabilization program run since 2001. The yearly inflation rate for 2013 was 7.8%.
- The Turkish currency is called Turkish Lira (TL/TRY). 1€=2.9TL and 1\$=2.14TL

2. General Investment Climate in Turkey

- The liberalization of capital movements and the willingness of foreign creditors to lend to Turkish investors contributed to the high growth rate of private investment.
- In the shadow of socio-political tension and hesitant foreign investors, the Turkish M&A market managed to demonstrate a sustained level of activity in 2013 with a deal volume of US\$17.5 billion attained through 217 deals
- Privatizations made a major contribution to the annual volume and generated 38% of the deal volume.
- Turkey attaches a high priority to the encouragement of foreign investment and provides a variety of incentives.

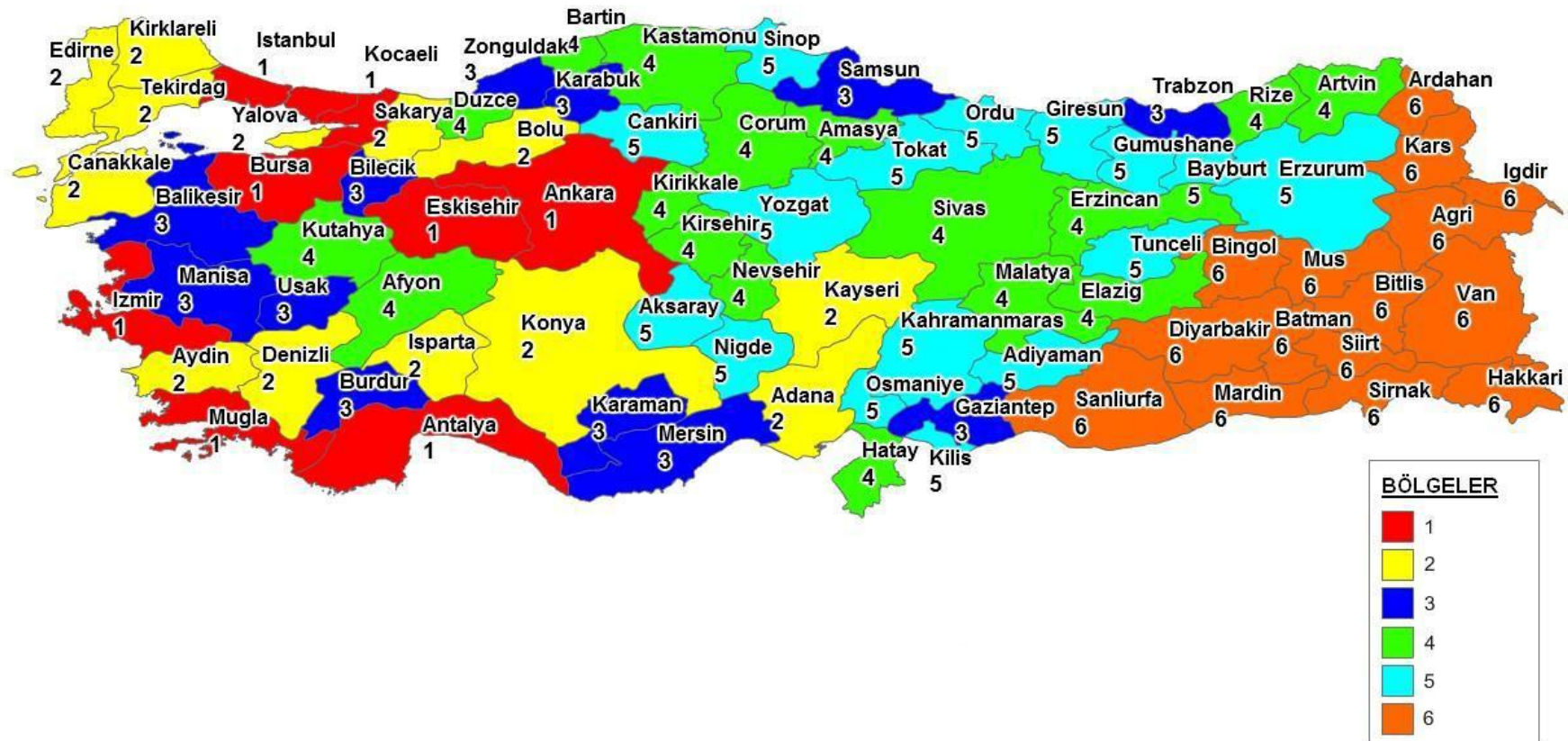
3. Investment Incentives Applicable to Foreign Investors

Special Region	Tax Incentives
Free Trade Zones (FTZ)	● FTZs are regarded as investment regions out of Turkish customs territory but still in the scope of Turkish tax legislation. The main tax advantages are as follows: – income from manufacturing activities in the FTZ are exempted from corporate tax, potentially until the date of Turkey joining the EU – Turkish VAT does not apply to transactions within FTZ and between FTZ and the foreign countries – Wage payments to employees may be qualified for exemption if the FTZ entity is engaged in export of manufactured products
Technology Development Zones (TDZ)	● TDZ are located in the universities for development of new technologies. Companies in the TDZ have the following tax advantages: – gains derived from software and research & development activities in the TDZ exempted from corporate tax until 31.12.2023 – wages of R&D personnel employed in the TDZ exempted from income tax until 31.12.2023 – delivery of software produced in the TDZ exempted from VAT until 31.12.2023

3. Investment Incentives Applicable to Foreign Investors

Special Region	Tax Incentives
Investment in Underdeveloped Regions	<u>General Incentives</u> • VAT exemption on purchase of eligible investment equipment (either domestic or import) • Customs Duty exemption on import of eligible investment equipment • RUSF exemption on import of eligible investment equipment <u>Specific Incentives</u> (based on Large Scale Investments, Region or Strategic Investment) • Reduced corporate tax rate • Provision of free land • Social Security Premium support • Interest subsidy on project financing credits In order to benefit from those Specific Incentives, the Investment should be also in the list of “Encouraged Sectors” announced by the Council of Ministers Decree It is required to obtain an Investment Incentive Certificate (IIC) from the Turkish Treasury before the commencement of investment

3. Investment Incentives Applicable to Foreign Investors



Investment Incentives are determined based on the improvement index of the city where the investment will be located

3. Investment Incentives Applicable to Foreign Investors

REGIONAL INCENTIVES

Regions	REDUCED CORPORATE TAX RATES UNDER REGIONAL INVESTMENTS				
	Contribution to investments (%)	Corporate tax reduction (%)	Corporate tax rate (%)	Allocation of Contribution to Investment (through tax rate reduction)	
				Investment Period (%)	Operations Period (%)
I	15	50	10	0	100
II	20	55	9	10	90
III	25	60	8	20	80
IV	30	70	6	30	70
V	40	80	4	50	50
VI	50	90	2	80	20

- The reduced corporate tax rates are applied to the profits up to a ceiling (i.e. contribution rate) where the reduced corporate tax amount (i.e. tax saving) reaches to the determined contribution rate of the total investments expenditures

3. Investment Incentives Applicable to Foreign Investors

LARGE SCALE INVESTMENTS

Regions	REDUCED CORPORATE TAX RATES UNDER REGIONAL INVESTMENTS				
	Contribution to investments (%)	Corporate tax reduction (%)	Corporate tax rate (%)	Allocation of Contribution to Investment (through tax rate reduction)	
				Investment Period (%)	Operations Period (%)
I	25	50	10	0	100
II	30	55	9	10	90
III	35	60	8	20	80
IV	40	70	6	30	70
V	50	80	4	50	50
VI	60	90	2	80	20

- There are certain thresholds (i.e. investment amounts) defined per each sector to be able to qualify as Large Scale Investments

4. Issues for Greek SMEs Selling into Turkish Markets

Customs Union

- Turkey signed a Customs Union agreement with the EU in 1995 which seeks to promote trade and economic relations.
- The customs union is based on free circulation of goods and preferential treatment is applicable for industrial goods and processed agricultural goods

Customs Taxes

- Customs duty: The customs duty will be applied as the determined percentage of customs value of the goods. Goods that are within the scope of Customs Union between the EU and Turkey will not be subject to customs duty if relevant proof document is submitted.
- Resource Utilization Support Fund (“RUSF”): If the payment for the imported good is done after the goods are delivered (i.e. the payment term is cash against good), the government assumes that there is an actual credit or financial tool and 6% RUSF is applied.
- VAT: Import VAT will be applied to customs value, customs duties and all other expenses incurred until the importation (such as domestic transportation, storage etc.). General rate for VAT is 18%

5. Forms of Doing Business in Turkey

Major forms of doing business in Turkey are as follows:

Capital Company

- Joint Stock Corporation (A.Ş.)
- Limited Liability Company (Ltd. Şti.)

Branch

Permanent Establishment (Tax registration only)

Representative/Liaison Office

Partnership Structures

- Joint Venture
- Consortium

Indirect Business Structures

- Agency
- Distributor

6. Business Acquisitions in Turkish Market and Typical Issues

- Over expectations of Turkish sellers
- Out of book economy

7. Turkish Corporate Taxation Regime

- Corporate tax rate is 20%; computed on annual fiscal profits
- Book profits are adjusted according to tax regulations (i.e. certain additions and deductions)
- Reduced corporate tax rates may be applicable under Investment Incentive Regime
- Other than the annual corporate tax declarations, companies are required to file advance corporate tax declarations on quarterly basis and pay advance corporate taxes accordingly
- Non-resident entities (e.g. branch or permanent establishment of foreign entities) are taxed similar to resident companies
- Tax losses can be carried forward for 5 years (without any indexation).
- Loss carry back is not possible
- Tax losses are not affected due to change of ownership
- Tax consolidation/grouping is not available in Turkey

8. Impacts of Turkish/Greek DTT on Flows from Turkey to Greece

Type of Income	Local Tax Rate	DTT Tax Rate	Condition in DTT
Dividends	15%	15%	N/A
Interest	10%*	12%	N/A
Royalty	20%	10%	N/A
Sale of goods	N/A	N/A	N/A
Capital Gains (disposal of share)	20%	0%	Min. holding period of shares is 1 year

* For interest paid to Greek banks 0%

Withholding tax represents final taxation for a Greek company unless a permanent establishment is registered in Turkey

9. Holding Considerations for Investing into Turkey

An overview of the provisions of DTTs of Turkey with respect to dividend payments from a Turkish company to a foreign shareholder is summarized below for the countries who are mostly used as holding locations for Turkish investments

Country	Taxation of dividends (from a Turkish company to a foreign shareholder)
Netherlands, Luxemburg, Singapore	• 10% if the recipient is a company holding at least 25% of the company paying dividends; otherwise 15%
Spain, Portugal, Austria, Germany, Switzerland	• 5% if the recipient is a company holding at least 25% of the company paying dividends; otherwise 15%
United Arab Emirates	• 5% if the recipient is Government or an entity wholly owned by the State; 10% if the recipient is a company holding at least 25% of the company paying dividends; otherwise 15%
USA, UK	• Local rate of 15% (not reduced further by the DTT)

10. Exiting from Turkish Investments

	Advantages	Disadvantages
Asset Deal	For the seller: • 75% of capital gains can be exempted (as long as these exempt gains are kept in seller company without being distributed for 5 years time) • Possible to sell part of the business For the buyer • Step-up in tax basis (through transfer at fair value) is obtained • Previous tax liabilities of the seller are not inherited by the buyer • Absorbing a profitable business into a loss-making company is possible • Purchase price can be depreciated for tax purposes by the buyer	For the seller: • Not favourable for the seller in terms of cash flow (cash remains in the company) • More transaction costs (such as stamp taxes and title deed registration fees) • Exemptions on sale of shares are not applicable For the buyer • Tax losses remain with the seller • Potential need to renegotiate existing agreements and renew licenses • More transaction costs

10. Exiting from Turkish Investments

	Advantages	Disadvantages
Share Deal	For the seller: • No capital gain taxation in Turkey if the sale is made to a non-resident (1 year holding) • The transfer is not subject to VAT For the buyer: • Purchase on net-asset basis, so lower capital outlay • Acquire the tax attributes of the target (tax losses, incentives etc) • Continue to enjoy existing contracts and licenses	For the seller: • If the sale is made to a Turkish resident capital gains are taxed at 20% For the buyer: • Acquisition of potential tax liability (difference between market value and tax basis of assets which would be crystallized on disposal of such assets) • Inability to recognize goodwill available for tax depreciation • Acquisition of contingent (unknown) tax liabilities of the target

10. Exiting from Turkish Investments)

	Tax Implications
Liquidation	• The liquidation period starts with the registration of the liquidation decision of Board of Directors and ends with the registration and announcement with the Turkish Trade Registry • A Company under liquidation is still required to continue maintaining official books and records as well as filing of tax returns until the closing of the liquidation of the Company. • The net amounts (if any) remaining after payment of taxes can be repatriated to shareholders. • The repayment of capital is not subject to any taxation. However distribution of any excess amounts such as dividends, reserves etc to the shareholders should be subject to dividend withholding tax.



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