



Entering to Turkish Market



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From **Crowe Troy**

SET-UP Process

Important Points During the Company Set-ups

**CHOOSING THE
ENTITY TYPE**

TAX REGISTRY



TRADE REGISTRY

Important Points During the Company Set-ups

After it is decided to set up an entity in Turkey, the first thing is to determine what type of entity should be established in Turkey.

Most Common Company Types under Turkish Commercial Code are as follows:

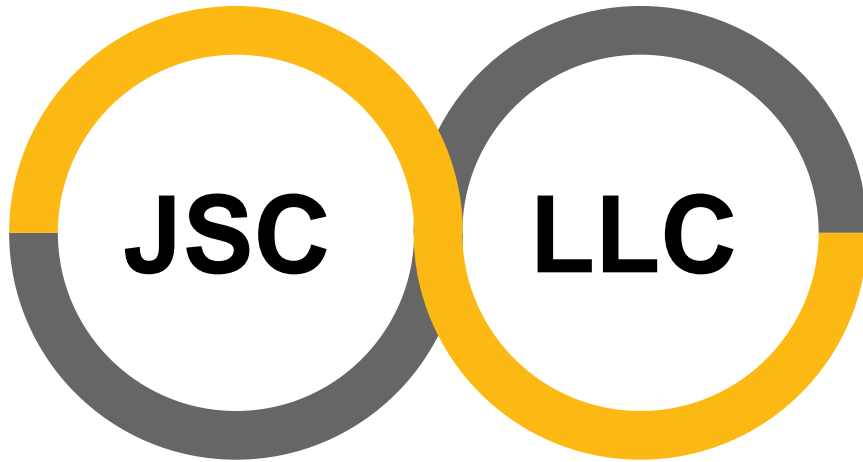
A. CORPORATIONS (Limited Liabile Co. / Joint Stock Co.)

B. BRANCHES

C. LIASION OFFICES (Representative Offices)

A. Corporations

Forms of Corporations



The **joint stock company (JSC)**; is considered for the investors who want to start **large businesses.** At least one shareholder is needed to incorporate this company type and the requirement for the minimum share capital is **50,000 TRY**. The management of the company is also managed by a **Board of Directors**, which may be composed of at least one **Board Member**.

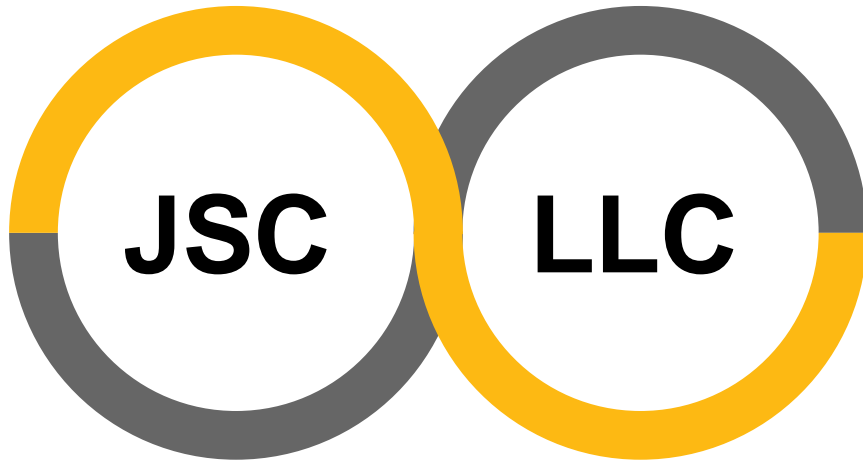
During the establishment stage, $\frac{1}{4}$ of the capital should be deposited to Turkish banks.

The **limited liability company (LLC)**; is more suited for **small and medium sized companies**. The incorporation procedure is **straightforward**, and its characteristics make it a favorite among foreign investors. At least one shareholder is required for this business form and a minimum share capital of **10,000 TRY**. The company is managed by a **Board of Managers**.

No need to deposit any capital during the establishment process. The committed capital amount can be deposited in 24 months after the company is established.

A. Corporations

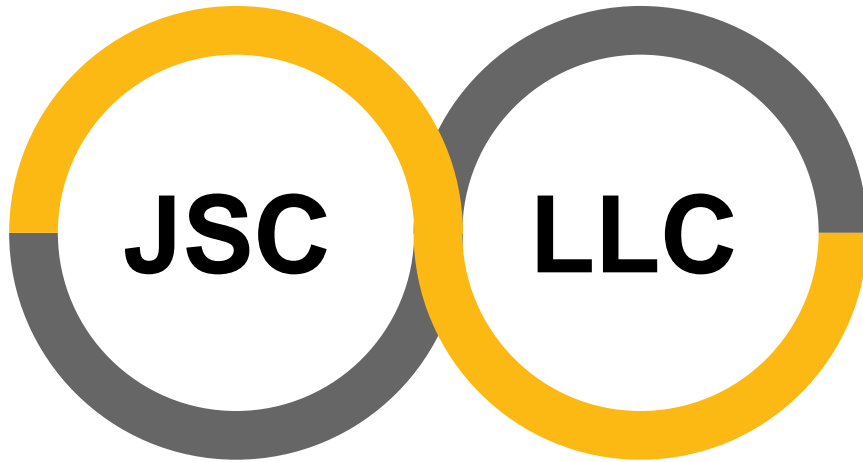
What is the difference?



- 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 may be composed of at least one member, a LLC is managed and represented by a **Manager or Board of Managers**.
- Another main difference between a JSC and a LLC is related to the **field of activity**. In this respect, only JSC are allowed to operate in **banking, insurance, and other specific sectors**.

A. Corporations

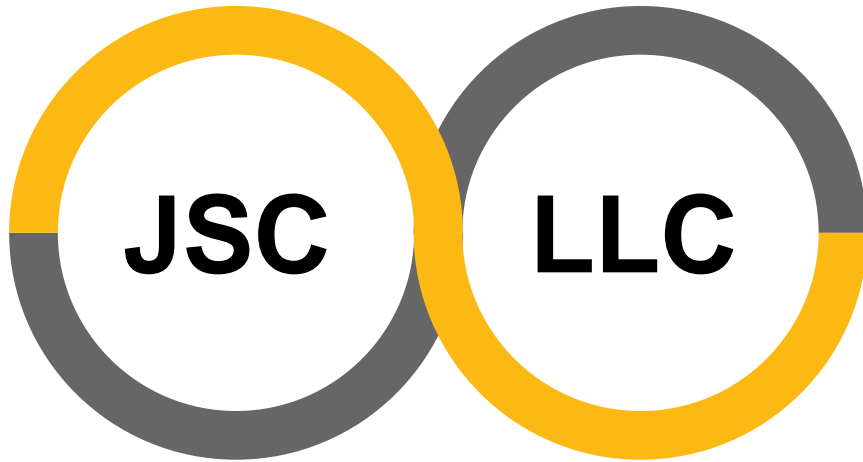
What is the difference?



- Under the Turkish Commercial Code numbered 6102 there are no statutory restrictions on the transfer of shares in joint stock companies. However, the articles of association can impose such restrictions, for example limiting the transferability of the company's registered shares and requiring shareholder and/or board approval for the transfer.
- Joint stock companies can issue registered or bearer shares, and bearer shares are freely transferred by transferring possession of them.
- Share transfers in limited liability companies are only valid if the transfer is approved by the shareholders.
- **The advantages of joint stock companies over limited liability companies pursuant to TCC may be listed as;** less responsibilities to shareholders, not collecting income tax from the sale of shares, less share transfer requirements, ability to go public, ability to issue shares to bearers, returnability of loans lent to shareholders and being able to amend the articles of association easily; all of which would be explained briefly below.

A. Corporations

What is the difference?



Responsibilities of Shareholders:

The shareholders of joint stock companies which are not members of the board of directors cannot be held responsible of the companies' tax and/or SSI premium debts which could not be collected from the company itself. However, shareholders of limited liability companies are liable (*with their personal assets*) of them.

The Income Tax of Share Sales:

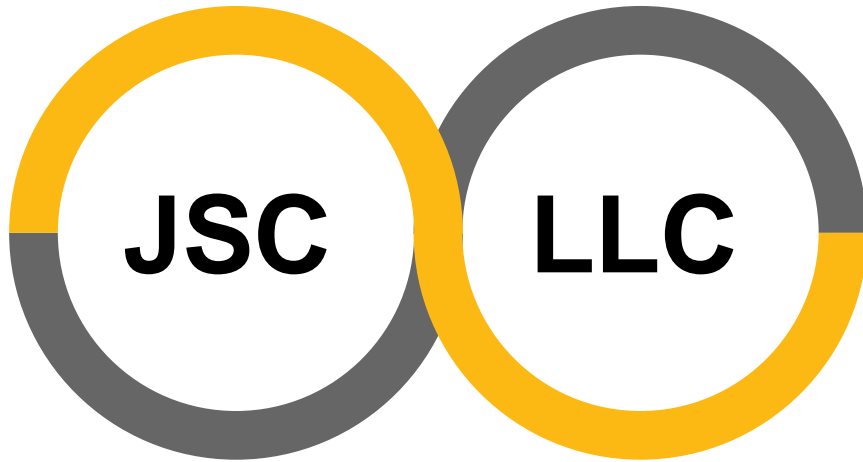
If a share of a JSC is sold after 2 years of its issuance, the income would not be taxable; whereas the income generated from the sale of a LLC share is taxable regardless of the date of its issuance.

Share Transfer Requirements:

The transfer of joint stock companies' shares are much easier (and cheaper) than the transfer of limited liability companies' shares. To explain; the transfer of a JSC share is not required to be notarized or announced by Turkish Trade Registry Gazette ("**TTRG**"), whereas the share transfer of a LLC would not be valid if it is not notarized, registered by the relevant trade registry and announced at TTSG.

A. Corporations

What is the difference?



Public Offerings:

TCC enabled the joint stock companies to go public, unlike the limited liability companies.

Bearer Share Certificates:

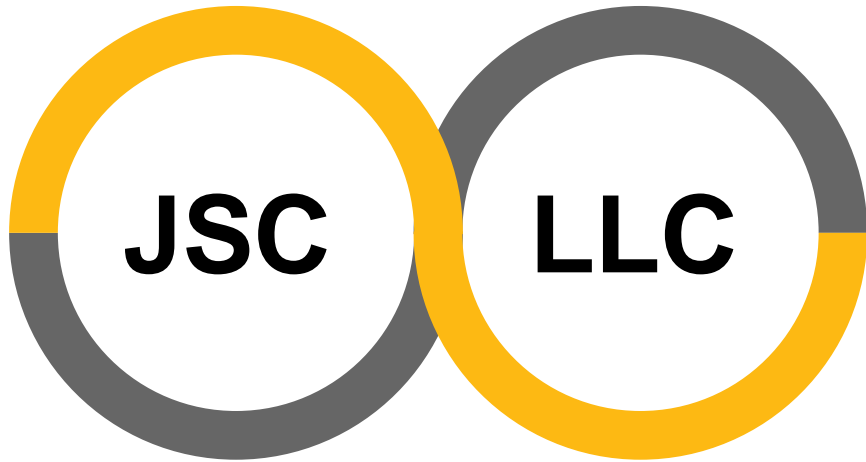
Joint stock companies can legally issue bearer and registered share certificates and whereas limited liability companies can only issue registered share certificates.

Amendment of Articles of Association:

The articles of association of a JSC can be amended by the votes of %50 of its shareholders. Differently, it is only possible to amend a LLC's articles of association with the resolution of 2/3rd shareholders.

A. Corporations

What is the difference?



➤ Liquidation of Joint Stock and Limited Liabile Companies

- **Company liquidation** is established by the shareholders of the [Turkish company](#) in a General Assembly and by amending the company's Articles of Association.
- No matter the type of **liquidation**, the **shareholders** or the court must appoint a **liquidator** or an official receiver to carry out the procedure. The **liquidator** must assess the company's assets and debts and must make sure the company is able to pay those debts. The **liquidator** will compile an inventory and a balance sheet and inform the creditors and the [Turkish Trade Register](#) about the **liquidation of the company**. As soon as liquidators start to perform their duties, they shall examine the situation of the company at the beginning and shall draw up inventory and balance sheet as a consequence. They shall then submit those to the attention and approval of General Assembly of the company. Liquidators than take possession all of the records, documents and the ledgers of the companies and take control of the assets
- The company's name must also be amended during the **liquidation** process by adding the words 'under liquidation'. After the process in completed, records on the company's books must be kept for at least 10 years.
- Finally liquidators shall hand over all of the books and documents of the company to a notary public designated by the Court for preservation for a period of ten years following the liquidation. Naturally relevant tax offices are also informed of the liquidation and company's tax registration is also erased from tax database.

B.Branches



Branches can be incorporated only to continue **the fields of activity of the parent company**. Even though there **is no minimum capital requirement** for Branches, a 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** both can be appointed as branch managers.

C.Liasion Offices

As foreign investors may not be familiar with the Turkish market, they may prefer not to enter the market immediately by establishing a joint stock or a limited liability company. In this case, investors prefer to establish a Liaison Office, which enables the company to **acclimate to the market and acquire a range of customers.**

Liaison Office structure is **not considered as a capital company nor a branch.** According to the Foreign Direct Investment legislation, the establishment of a Liaison Office is subject to the **permission of the Ministry of Economy.**

Most importantly, 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 **needs to be covered by their parent companies.** There is no foreign capital requirement in establishing a liaison office.

A Liaison Office can carry out the activities as listed below:

- 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
- Other



C.Liasion Offices



Liasion offices in Turkey are represented by a **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 permit is obtained from the Ministry of Economy for **up to 3 years and can be extended after expiration**. During the extention stage, all the activities perdomed within the past 3 years should be supported by the activity code.

However, the **activity period** of the Liaison Offices, which are established to engage in activities on **market research and promotion of parent company products or services, cannot be extended** and the **Ministry of Economy** has the right to terminate the establishment permit 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 regarding their previous years' activities **until the end of May** of each relevant year.

Trade Registry of LLC

1-Company Name (Title):

Name of the Entity Should be Determined: – Shareholder's can provide the beginning of the company title (in other words, the main name). The main name and the rest of the title is determined and reserved on the Mersis System. Mersis system is the Trade Registry's online System.

For example; **VESTA** MEDİKAL İÇ VE DIŞ TİCARET LİMİTED ŞİRKETİ *in Turkish*

VESTA MEDICAL DOMESTIC AND FOREIGN TRADE LIMITED COMPANY *in English*

Vesta; presents the main name

Medikal (Medical); represents the main activity

İç ve Dış Ticaret (Domestic and Foreign Trade); Gives more details about the scope of activity. (This is optional)

Limited Şirketi (Limited Company); shows the entity type.

As long as all the activities are listed on the company's articles of association (AoA), the entity can deal with all the stated activities even if the company is determined very shortly as "VESTA MEDİKAL LİMİTED ŞİRKETİ". Therefore, it is always better to keep variety of activities on the AoA.

Trade Registry of LLC

2- Shareholder Structure

Shareholder's can be individual shareholders or legal entity shareholder.

- If the shareholder is an individual, a biometric photo is required.
- If the individual is a foreigner; Turkish and notarized passport copy needs to be presented to the Trade Registry during the establishment process.
- If the shareholder is Turkish; notarized Turkish ID is presented during the establishment stage.
- If the shareholder is a legal entity, recently received apostille certified Trade License (recently received at most in 6 months) should be obtained. However, Turkish and notarized version of the Trade License is presented during the establishment stage.



Trade Registry of LLC

3- Potential Tax ID Numbers

Both for legal **entity shareholder and individual shareholder**, potential tax ID numbers has to be obtained from the Tax Department before the Trade Registry Application.

4- Decision; If the shareholder is a legal entity, legal entity should present an **apostille certified Decision** that states the **name of the company** that will be established in Turkey and the representation. **Representative's full name, passport number, residency address** should be stated fully on the Decision as well.

Decision should comply with the **standard Decision format** that Trade Registry asks. Therefore, founders should definitely ask for the format from the profession who will establish the entity in Turkey.

5- Articles of Association (AoA): AoA is prepared by the profession who will establish the entity in Turkey. The most important point is that before presenting the Turkish version of AoA to the Trade Registry Office, **the approval for its English version** should definitely be received from the Founders by the profession who establishes the entity in Turkey.

Trade Registry of LLC

6- Office Rent Place: A rental office agreement should be arranged for the Turkish entity, before the establishment of an entity. The address on the mutually signed rent contract should be stated on the AoA. A copy of mutually signed version is also presented to the Tax Department during the Company Tax Number Registry.

7- CPA Agreement: A CPA agreement should be arranged for the Turkish entity. The agreement number and the CPA registered data is presented on the establishment forms. A copy of mutually signed version is also presented to the Tax Department during the Company Tax Number Registry.

8- Other Required Documents: Establishment forms are standard forms and filled out by the profession and the signatures are taken **from shareholders and CPA** on these forms. On the forms, **Nace code** (company activity code) is picked from the standard list that Trade Registry Office issues.



Thank You



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