



Investment in Turkey: Types of corporate entities in Turkey

Turkey has always been an appealing region for foreign investors, with its densely populated market, variety of sectors and strategic position. If you are seeking for a type of presence for your corporation as an investor in Turkey, we summarize below the most popular ones to meet business needs for direct foreign investment.

A) LIAISON OFFICE:

According to Law No 4875 on Direct Foreign Investment ("Law") and the Regulation on the Implementation of the Foreign Direct Investment Law ("Regulation"), a foreign corporate entity is permitted to incorporate a liaison office (representative office) under certain conditions provided by the Law, Regulation and criteria set forth by the Ministry of Industry and Technology (the "Ministry").

Liaison office does not have its own legal personality, rather, it is acting on behalf of and as the representative of its foreign parent company. It uses the trade name of the parent company and needs to be financed by the parent company. The expenses of a liaison office should be covered and paid by the foreign parent company in foreign currency. Therefore, there is no capital requirement.

There is no necessity to register it with the trade registry. The most important aspect is that a liaison office cannot conduct commercial activities for the purposes of making money. It is not authorized to sign agreements and issue invoices. It is limited to be active only on the permitted purpose of its establishment (activities are limited/prescribed). For the initial period of incorporation, a liaison office is allowed to be active maximum for three years. It may extend its activity duration up to a certain extent.

It is exempt from corporate tax and VAT since it does not get involved in commercial activities (however, it needs to pay VAT for its own purchases). Employees' working for a foreign company that is not established in Turkey are exempt from income tax and withholding tax on their salaries, since their salaries are directly paid by the foreign company in foreign currency. The activities of a liaison office are inspected annually by the Ministry and it is required to submit a data form every year until May.

B) BRANCH OFFICE:

Unlike liaison office, the branch office may conduct business deals and engage in commercial activities. It is opened by way of filing a submission before the trade registry, but it does not require any permission from the Ministry. However, it is subject to a reporting procedure to the Ministry, which should be filed every year until May. Branch office may be



incorporated for an indefinite term, unlike liaison office.

As it is registered as a separate entity, it is allowed to have its own accounting and activities, however, its commercial activities are limited with the activities of its parent company. Branch office does not have any tax exemptions. It is subject to corporate tax and value added tax.

C) LIMITED LIABILITY COMPANY ("LLC")

LLC may be incorporated by at least one shareholder (individual and/or legal entity) and with the contribution of TL 10,000.00 as an initial capital contribution. LLC has a separate legal personality other than its shareholders. The shareholders' responsibility of company debts is limited to the capital they subscribe, and they shall continue to be responsible for the public receivables in the same extent. On the other hand, director(s) is responsible for the company debts (public or private) if the company does not have sufficient assets to cover its debts.

LLC is more suitable for small and medium-sized businesses. LLC may not be offered to the public and there is a limit on the number of shareholders which is up to 50. It may not be active for some sectors privately regulated (for ex. banking activities, financial leasing, insurance companies).

LLC has two mandatory corporate bodies: General Assembly ("GA") and Director(s).

GA is formed by the participation of shareholders, and it has non-delegable authorities given by TCC. It is a body resolving the important decisions of the LCC, particularly the ones which the TCC empowers, exclusively the GA. The second body of the LLC is director and/or board of directors, which is in charge of management and representation of the LLC. LLC should have at least one director, and at least one of the directors should be nominated among the shareholders.

The transfer of LLC shares should be done before the notary public and then should be registered with the trade registry upon the approval of the GA. It also needs to be registered with the share ledger. The transfer is subject to income tax as a gain value increase, regardless of its timing.

D) JOINT STOCK COMPANY ("JSC")

JSC is the most popular type since it offers possibility to grow in every sense. It is allowed to extend its number of shareholders without any restriction, it may be offered to the public, and it may be active in every sector. JSC may



be incorporated with one shareholder (individual and/or legal entity) and with the contribution of TL 50,000.00. The shareholders are responsible for the company debts to the extent of their capital contributions. In contrast to LLC, shareholders are not responsible for the public receivables, only the company itself is responsible with its assets.

JSC should have two mandatory corporate bodies: GA and the Board of Directors. Under certain conditions, it shall be subject to the requirement of mandating an external auditor.

The transfer of company shares shall be executed via endorsement and physical delivery and registration with the share ledger upon the decision of Board of Directors. The transfer shall not be subject to income tax as a gain value after the expiry of two years following the purchase of such shares.

LLC and JSC need to be registered with the trade registry where they are incorporated. The incorporation procedure of both company types needs to be handled by the trade registry following an online registration and appointment via MERSIS (central registry system). It is completed within

latest five days following the duly submission of all the required documents.

E) Employment Matters

Liaison office, branch office, LLC and JSC may employ both Turkish and foreign employees. ***If there shall be foreign employees, it is mandatory to employ at least five Turkish citizens to employ one foreigner to work at the relevant entity.***

Branch office, JSC and LLC are all subject to social security contributions for the employees under the payroll. As an exception for liaison offices, if the foreign employees have social security coverages in their countries and there is a bilateral agreement with the relevant country, there is no need to pay social security premium for them here in Turkey.

The liaison office should have at least one representative who shall be a real person to represent it before third parties and carry out day-to-day activities. Branch office is also required to have at least one manager, and such manager should be a resident of Turkey.

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