

Establishment of a Liaison Office in Turkey

Many foreign companies discovered Turkey as an interesting location for investments by reasons of its economic growth. Especially if the foreign investor does not know the Turkish market it may possibly not recommendable to entry the market by establishing a joint stock or a limited liability company. An option might be the establishment of a liaison office which enables the company to accustom with the market and to acquire a range of customers.

1. General Information

The establishment of a liaison office is mainly recommended, if a foreign investor does not know the Turkish market and first of all wants to acquire a range of customers.

The possibility of establishing a liaison office is only given for foreign companies or institutions and is not admitted for foreign natural persons. All costs of the liaison office have to be settled with foreign currency.

The liaison office does not acquire a legal entity and a jurisdiction in Turkey is not constituted.

The foundation is carried out by an approval procedure at the secretariat of the treasury.

The advantage of a liaison office especially for German companies is that in the framework of the double tax agreement (effective since 1989 between Germany and Turkey in order to avoid double taxation in the area of taxes on income and assets) an exemption from the income tax is effected. Also the employee's wages are exempted from the income tax.

A disadvantage is that the liaison office is not allowed to conduct any trade

businesses. The activity is restricted on the frame which is explicitly given by the granted permission.

The transfer of the gains abroad may only be carried out in case of annulment.

2. Legal Requirements

Law concerning Foreign Direct Investments No. 4875

Article 3: Principles of Foreign Direct Investments

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h) Liaison Offices

Companies which were founded abroad under foreign laws need the approval of the Treasury to open a liaison office in Turkey.

Executive order to the Law concerning Foreign Direct Investments

Article 6: Establishment of a Liaison Office

The secretary of state is authorized to allow the formation of a liaison office of a company founded under foreign laws with the condition that the liaison office does not develop any trade activity in Turkey. The secretary of state is also authorized to extend an already given permission.

The applications to establish a liaison office in the areas which fall under a special legislation, especially in the areas insurance or financial and capital market, will be handled by the responsible institutions or public corporations.

Article 7: Necessary documents for the application

- An activity certificate of the parent company in original, which is certified by the responsible Turkish consulate or in the frame of the regulations of the Haager Convention concerning the annulment of the certification restraint;
- An activity report or a balance sheet and income / expenses account of the

parent company;

- The original of the power of attorney to the person in charge of the direction of the liaison office;
- The power of attorney to a third person in original, in case the formation of the liaison office is handled by a third person.

Article 8: Regulations concerning the operation of the liaison office:

The following principles are mandatory for the operation of a liaison office:

The liaison offices which received an establishment permission have to send a copy of the registration certification to the tax office within one month to the general directorate.

In case of an address change the liaison office has to announce the new address within one month at the General Directorate.

At the latest end of May of each year the liaison office has to inform the secretary of state by filling out an information form about the activity of the last year. Attached to this form certifications have to be submitted, proving that the expenses of the offices were settled by foreign currencies.

The permission for the operation of a liaison office is given for at most three years. An exemption can only be given for further three years under consideration of the activity of the last year and the plans for the future.

If the liaison office shall be closed, a closing certification (control certification) issued by the tax office has to be sent to the General Directorate. In case of liquidation the liaison office can by way of exception send a transaction application in another country. During the business activity this is not permitted.

If a breach of the applicable law was detected the secretary of state is authorized to annul the establishment permission and to send a concerning notification to the

responsible authority.

3. Necessary documents for the establishment of a liaison Office

The following documents are necessary for the establishment of the liaison office:

Trade register excerpt of the parent company, if possible with the stamp of the responsible Turkish General Consulate.

A balance sheet of the parent company of the last business year certified by the tax advisor; helpful and recommendable is the stamp of the responsible Turkish General Consulate.

A short activity report of the company certified by the tax advisor (also possible in form of a summary of the balance sheet); a stamp of the responsible Turkish General Consulate is helpful and recommendable.

A formal obligation signed by the managing director and provided with the company stamp, that all cost from Germany will be transferred to Turkey in foreign exchange and that no business activity will be taken up in Turkey.

Shareholder's resolution with the following content:

- Resolution that a liaison office shall be opened;
- Appointment of a managing director authorized to represent;
- Possibly a resolution, that a third person shall handle the formation formalities.

The shareholder's resolution has to be submitted in original but does not need any further certification.

Declaration why a liaison office shall be founded (e.g. for market research, customer care and support etc.); concerning the formulation it has to be observed that the liaison office is not allowed to be active in commercial ways. The declaration has to be signed by the managing director and has to be provided with the company stamp.

In case of formation by a third person: An according power of attorney signed by the managing director to the third person. The power of attorney has to be certified by the notary and has to be provided with the Apostille from the district court. The notarial certification has to include that the signing managing director is according to the trade register excerpt allowed to represent the company.