

ENTREPRENEUR'S HANDBOOK



The "Sirketim Project" operates within the framework of the "PEP-Promotion of Economic Prospects" programme which is financed by the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) in cooperation with United Work.

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Objective

This handbook is prepared by United Work within the scope of "Şirketim" project, which is being conducted by **Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)** in coordination with "United Work" within the scope of PEP-Promotion of Economic Prospects for Refugees and Host Community that is being financed by the **German Federal Ministry for Economic Cooperation and Development (BMZ)**. "Şirketim" project provides consultancy services for workplaces of entrepreneurs to continue with their activities in conformity with laws. In conformity with the objective of the project, this handbook includes basic information, which entrepreneurs shall need to maintain their activities legally, with regards to types of commercial entities, legal incorporation processes, taxation systems and legal liabilities of a business enterprise.

1. What is an Entrepreneur?

Entrepreneur is an individual, who produces goods and services by bringing together resources, which are required to produce goods and services, in a systematic and conscious way. Subject work may be comprised of starting a grocery store or a textile workshop. Individual, who invests in effort and capital to produce goods and services, notwithstanding the type or scope of work performed, is an entrepreneur.

2. Which Issues must be Considered while Establishing a Company?

One of the most important questions for entrepreneurs, who wish to establish a new company, is the type of company that they must establish legally. At the stage of incorporation, entrepreneurs must consider many criteria while selecting the type of their company, and must select the company type that fits them the most. Because each company type has pros and cons. Selection made is quite critical in terms of profitability and sustainability of the entity. Therefore, entrepreneurs must be aware of company types thoroughly.

3. What are Entity Types Legally and What are their Characteristics?

Entity types are defined legally by the "Turkish Commercial Code" No.: 6103, and legislation related with their operation is determined. In Figure 1, you may find private entity types that are defined by the law. Although there are many different company types, only two different company types, which are preferred widely in practice, are explained in detail in this handbook, i.e. Sole Corporation and Limited Company. However, other company types may be more advantageous for different individuals. Therefore, it is critical to be knowledgeable with different company types in terms of entity profitability.



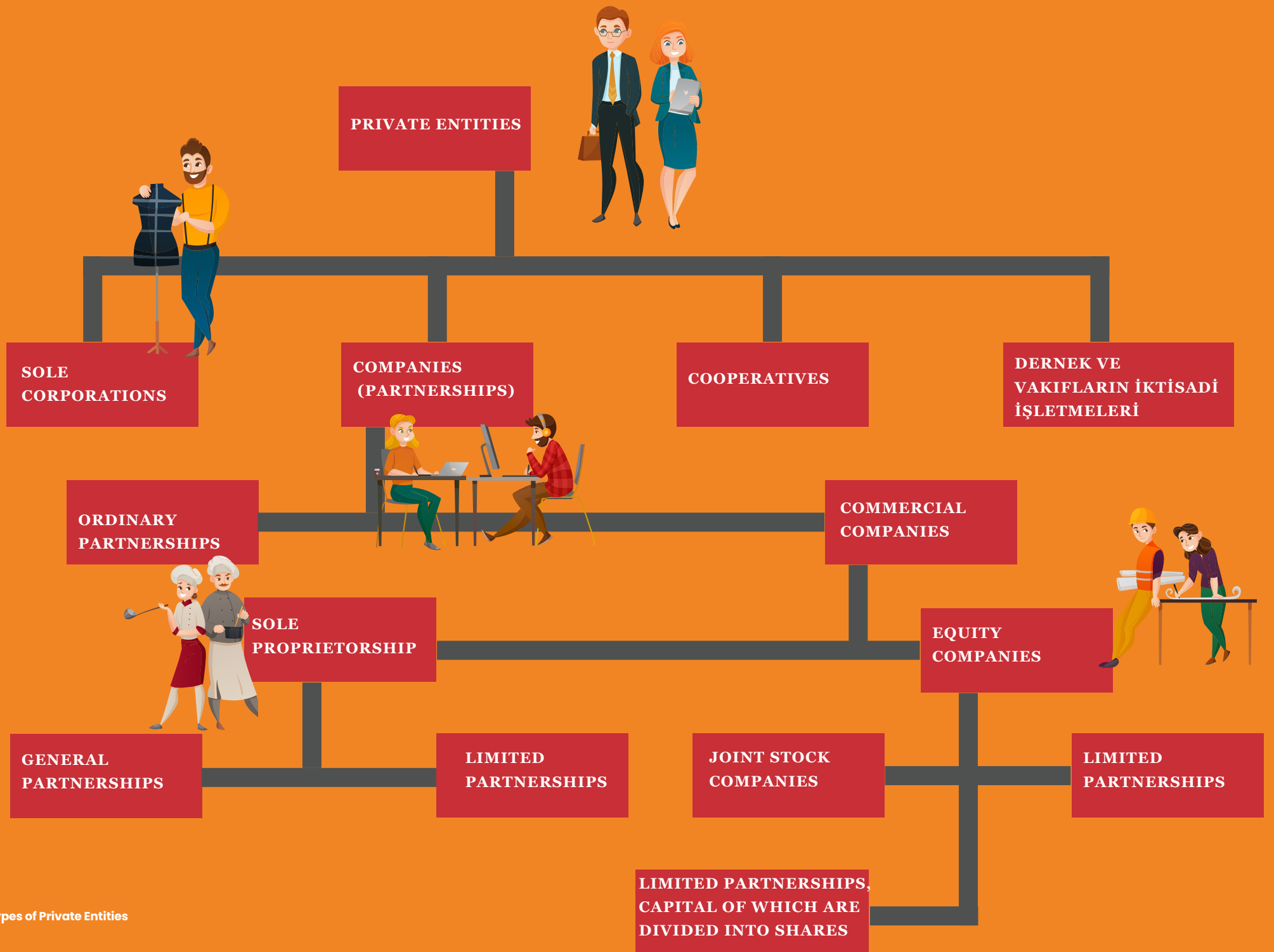


Figure 1. Types of Private Entities

4. What are the Company Types that are Preferred the Most by Small and Medium-Sized Enterprises?

Legal entity types that are preferred the most by small and medium-sized enterprises are “Sole Corporations” and “Limited Companies” in practice. It is very important for entrepreneurs, who are willing to establish a company, to be informed on such entity types and to be aware of differences between them in order to be able to decide on the most suitable company type.

a) Sole Corporations (Artisans and Tradesmen)

It refers to the company type established by a single real person, who acts mostly as an artisan. Such entities may act as artisans, and may also be engaged in any type of production, trade, service, importation or exportation activity, if they are registered to the relative chamber.



b) Limited Companies

It refers to equity companies that are established by one or more real or legal entities under a commercial title.



Specialists suggest entrepreneurs, who wish to establish a new company, to establish a sole proprietorship at first in order to see the capacity of relative business and to be informed on business management. Company type of sole proprietorships may be changed by applying to the Chamber of Commerce, if required.

5. What are the Differences between Sole Corporations and Limited Companies ?

- Sole proprietorships may be incorporated in only 1 day, and may become ready to issue invoices.
- Sole proprietorships are more advantageous compared to limited companies in terms of costs.
- It is easier to close sole proprietorships; sole proprietorships may be incorporated and closed in 1 day. However, it may take up to 6 months to close limited companies, which are listed among equity companies. Even if relative business is closed during period, accounting fee shall continue to be paid since liquidation process continues, and new costs may accrue during such process. Although a limited company may be closed in a shorter period by being converted into a sole proprietorship, this procedure is troublesome and costly.
- In sole proprietorships, monthly accountancy service fee that is paid to accountants is lower than the amount paid to the same for limited companies.
- Sole proprietorships must register to the book-declaration system. Notary fee that is paid annually for certification of the opening and closing book due to being registered to the book-declaration system is not paid by small-scale sole proprietorships (only those, who keep their books by operation account).
- It is not mandatory to register resolutions adopted in relation with sole proprietorships, and to certify the same before the notary public. In limited companies, adopted resolutions must be registered and certified by the notary public. Therefore, extra notary fees and commercial registration costs accrue.
- Sole proprietorships are more advantageous when profitability is low in terms of tax payments, and limited companies are more advantageous when profitability is high. Tax ratio of sole proprietorships vary between 15% and 40%. This ratio is fixed at 22% in limited companies. However, although tax ratio is fixed in limited companies, we may emphasize a tax ratio that reaches to 40% since such revenues shall be subjected to stoppage after profit distribution to shareholders.

- Sole proprietorships are registered to the Chamber of Handicraft, but limited companies are registered to the Chamber of Commerce. Membership fees of Chamber of Handicraft, which must be paid annually, are lower than the membership fees of the Chamber of Commerce.
- In tender applications, limited companies may be more advantageous compared to sole proprietorships.
- Sole proprietorships may not benefit from certain supports provided by various institutions to entities, such as KOSGEB (Small and Medium Enterprises Development Organization) and Exporters' Association etc.
- Owners of sole proprietorships are responsible for debts, which they owe to third parties, with all of their assets, but owners or shareholders of limited companies are only responsible in the ratio of the capital they put in. However, owners and shareholders of limited companies are responsible for debts, which are owed to the public, with all of their assets as well.

In Table 1, you may find basic differences, which are observed between “**Sole Proprietorships**” and “**Limited Companies**”, in brief.



Table 1. Differences between Sole Proprietorships and Limited Companies

Sole Proprietorships	Limited Companies
It is easy to establish.	Its incorporation stage is more challenging.
It is easier to close.	It is harder to close.
It is established by a single individual.	There may be minimum 1 and maximum 50 shareholders.
They are registered to the Chamber of Handicraft.	They are registered to the Chamber of Commerce.
It is subject to the Income Tax Law No.: 193.	They are subject to the Corporate Tax Law No.: 5520.
Company owners are responsible for public receivables with all of their assets.	All of the shareholders are liable in terms of public receivables.
Company owners are responsible for private debts with all of their assets.	Shareholders are not liable for company debts, and they are only liable to pay their share in the principal capital that they subscribed, and to fulfil their liabilities with regards to supplementary payments and extra activities that are stipulated under the articles of association (Article 573/2, Turkish Commercial Code). Companies are liable for their debts and obligations only with their assets (Article 602, Turkish Commercial Code).
It is obligatory to hire an accountant. It is not obligatory to hire a Lawyer.	It is obligatory to hire an accountant. It is not obligatory to hire a Lawyer.
Accounting service fee is lower.	Accounting service fee is higher.
There is no need to submit a capital statement.	It is obligatory to notify a capital of TRY 10.000 in minimum.
There is no need to submit a capital statement.	It is obligatory to notify a capital of TRY 10.000 in minimum.

6. What are Company Incorporation Costs?

When you decide to establish a company, you must reach an agreement with a “Certified Public Accountants and Public Accountants” at first. Such individuals may support you in your legal applications and fulfilment of your liabilities, and may provide you a specialist support on laws and regulations. You must be careful while selecting the person, from whom you will obtain such support. You may come across to persons, who introduce themselves as accountants and who request a fee from you. Certified Public Accountants and Public Accountants, who provide services in Turkey, are registered to relative professional chamber. Therefore, you must make sure that the person you agreed with is registered to the “Chamber of Certified Public Accountants and Public Accountants”.

Based on the type of company that you shall select, you would pay notary fees and chamber registration fees, make payments to the tax office and pay accountant service fee during incorporation of a company.

Notary fees, tax payments and chamber registration fees are determined by authorized institutions annually, and are fixed. Legal lower limit of the incorporation service fee that you shall pay to your accountant is determined by Chambers of Certified Public Accountants annually. However, it is not obligatory for the service fee that your accountant shall request to be equal to the lower limit determined by the professional chamber. Therefore, your accountant may also request a higher fee from you. Yet, it would be beneficial for you to control the lower limit of incorporation services fee at the website of the Chamber of Certified Public Accountants before making a contract. You may visit the website of “Istanbul Chamber of Certified Public Accountants”^{**} for businesses in Istanbul.

For instance, minimum service fee that Istanbul Chamber of Certified Public Accountants determined for incorporation procedures in 2020 is TRY 179 for entities with no personnel, and TRY 228 for entities with personnel. You may obtain the list of detailed minimum service fee tariff, which covers all of the provinces, at the website of Union of Chambers of Certified Public Accountants of Turkey.^{**}

You may come across to persons, who introduce themselves as accountants and who request a fee from you.

a) Steps that shall be followed during incorporation of a Sole Proprietorship and Relative Costs

In order to incorporate a sole proprietorship, you must complete below documents after reaching a settlement with an accountant. When you complete your documents, a contract shall be issued between you and your accountant, and relative applications shall be made.

● Power of attorney for incorporation of a company, issued in the name of financial advisor

You must issue a power of attorney before the notary public in order to allow the financial advisor, with whom you reached a settlement, to perform your incorporation procedures and to follow up the process (As of 2020, this fee is approximately TRY 550-650 (including translation) for Syrian citizens, whose identity numbers start with 99. This fee ranges between TRY 195-250 for the citizens of the Republic of Turkey.)

● Statement of Signature

The person, who shall incorporate a sole proprietorship, must issue a statement of signature before the notary public (As of 2020, this fee is approximately TRY 140-180 for Syrian citizens, whose identity numbers start with 99. This fee ranges between TRY 90-125 for the citizens of the Republic of Turkey.)

● Identity

● Photocopy of the Title Deed or Lease Contract of the Business

Furthermore, stamp duty, which shall be calculated according to the amount indicated in your lease contract, must be paid during registration to the tax office. As of 2020, the fee charged for such registration ranges between TRY 25-75 in average. As you prepare aforementioned documents, your accountant shall make your preliminary applications on the internet, and then, you must deliver your documents to the tax office, to which your business is affiliated. After you perform your registration procedures before the tax office, officers shall visit your business, and shall issue an inspection report. You shall receive the visit date information by SMS before the inspection officer visits your business. You must be available in your business at relative date. Otherwise, you shall have to perform relative procedures again. Such situation shall cause you to incur extra expenses, to lose time and to show extra effort.

* Istanbul Chamber of Certified Public Accountants. www.ismmmo.org.tr

** Union of Chamber of Certified Public Accountants of Turkey - 2020 Minimum Wage Tariff for Public Practice Accounting, Sworn-in Certified Public Accountants and Certified Public Accountants.
https://turmob.org.tr/Arxiv/FCREditor/userfiles/file/2016%20UCRET%20TARIFESI_VAZILAR_6_1_2016/2020_Asgari_UcretTarifi.pdf

b) Steps that shall be followed during incorporation of a Limited Company and Relative Costs

If you shall incorporate your limited company by reaching a settlement with an accountant, you may incorporate your company by performing below procedures.

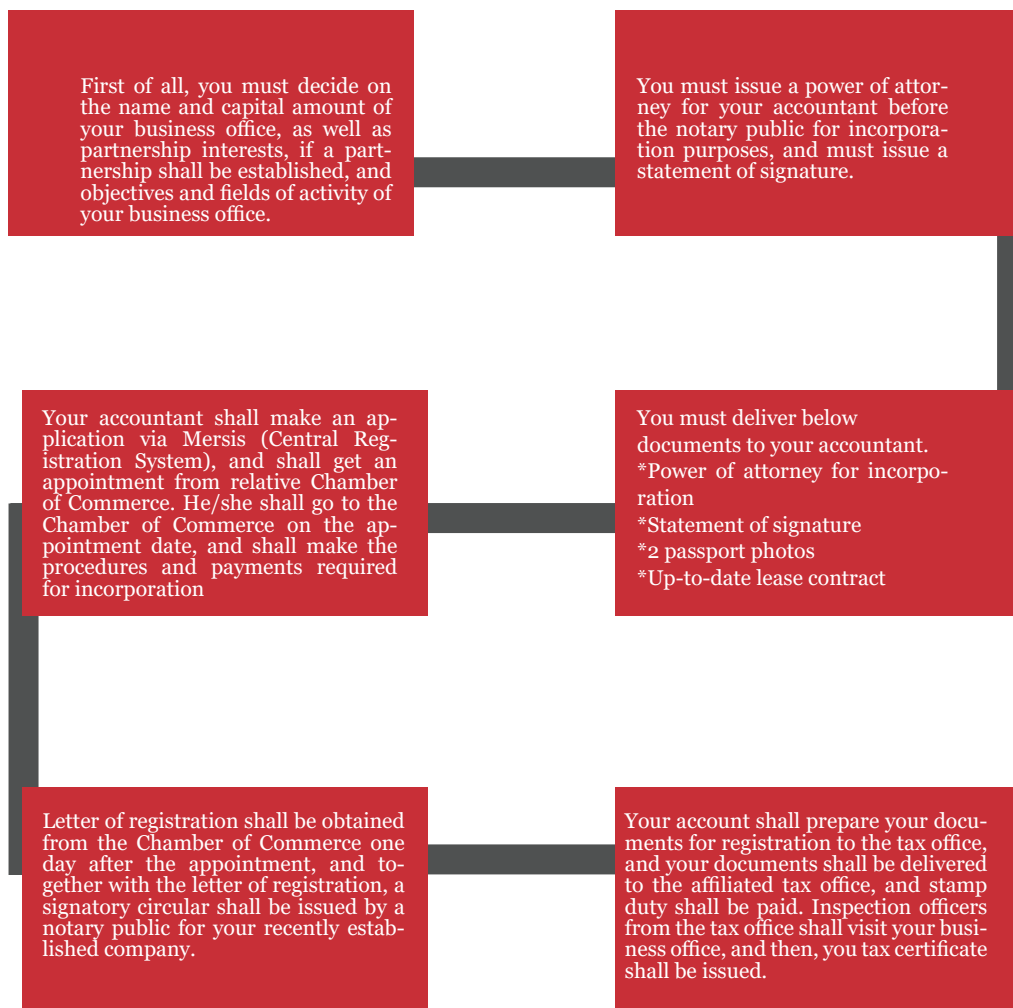


Figure 2. Limited Company Incorporation Process

Limited company incorporation costs are as below;

Notary Costs

- **Fee for the Power of Attorney issued in the name of the Financial Advisor for Company Incorporation Purposes**

You must issue a power of attorney before the notary public in order to ensure that incorporation procedures are performed and followed by the financial advisor, with whom you reached a settlement. (As of 2020, this fee is approximately TRY 275-300 (including translation) for Syrian citizens, whose identity numbers start with 99. This fee ranges between TRY 115-135 for the citizens of the Republic of Turkey.)

- **Signatory Circular**

Owner/shareholder or appointed manager of the incorporated company must have an authorized signatory. Signatory circular must be issued in the name of the person, who is elected as authorized signatory, before the notary public.

Person, from whom a signatory circular is issued by the notary public, shall be authorized to put his/her signature legally in order to make legal applications and procedures related with the company.

(As of 2020, fee for signatory circulars issued in the name of Syrian citizens, whose identity numbers start with 99, ranges between TRY 110-155 approximately based on the number of documents and company officer.)

Costs for the Chamber of Commerce

- **Registration to the Chamber of Commerce, Competition Authority Announcement, 2020 Book Certifications, Contract Approval, Certificate of Activity**

Fees paid to the Chamber of Commerce vary from city to city. As of 2020, total amount of the fee that must be paid to Istanbul Chamber of Commerce is approximately TRY 1.100 for a company with a capital of TRY 10.000 and rental fee of TRY 1.000.

Costs for Tax Office

- **Stamp Duty for Rent, Stamp Duty for the Contract signed with the Financial Advisor**

Stamp Duty that shall be paid to the tax office is TRY 32,00 for a business that pays a rent of TRY 1.000.

Fee for Incorporation Services

- **Financial Advisor Service Fee**

Financial Advisor service fee may vary by cities. For example, as of 2020, as determined by Istanbul Chamber of Certified Public Accountants, service fee for incorporation of a limited company is TRY 722,00 in minimum. This fee is the fee that is recommended by the chamber for incorporation services. Please note that the fee you shall pay for incorporation services must not exceed aforementioned amount a lot. This fee does not include fees that shall be paid to the notary public, chamber of commerce and tax office.



Note: Aforementioned company incorporation costs are provided for a company that is established by a sole proprietor without any shareholders and that shall operate in only one sector. Costs shall increase in case it is a partnership and in case it operates in several sectors.

7. What are the Actions that must be taken during and after Incorporation of a Company?

After registering your company to the Tax Office, please note that it is not sufficient for you to continue with your activities in your business legally.

An entrepreneur assumes one-off liabilities or liabilities that he/she must fulfil regularly in order to be able to continue with his/her activities legally.

An entrepreneur must perform below one-off procedures in order to be engaged in activities legally.

a) Registration of Incorporation of a Company / Registration to the Tax Office

You may initiate your incorporation procedures after deciding on the type of company you shall establish in the direction of aforementioned information.

b) Performing Subscription Procedures of the Business, such as Water, Electricity, Natural Gas and Telephone etc.

You may obtain information, on application methods and documents required for application, from the websites of service providers available in region, to which your business is affiliated.

c) Making Registration of Your Business

You must register your company to Chambers of Handicraft or Chambers of Commerce according to the type of company that you shall establish and type of activity. Foreigners, who are engaged in business activities within the borders of the Republic of Turkey, may also register to chambers.

● Registration of Sole Proprietorships

Sole proprietorships, which are engaged in business activities as artisans, shall be liable to register to artisans registry office and relative chambers in 30 days from the effective date of their tax liability as a coiffeur, grocery store, butcher and tailor etc. Those, who are engaged in activities related with production, importation, exportation and trade, must register to the Chamber of Commerce. Chamber registration fees and annual fees are determined by chambers annually. For example, you may register to Istanbul Union of the Chambers of Handicraft (Bakırköy and Kadıköy) by submitting a photocopy of your ID Card and a photocopy of your Tax Certificate. When you visit the chamber with your documents, you shall be given a document. You may complete your registration procedure by the bank receipt that you shall obtain by making payment of the registration fee before the contracted bank via aforementioned document. As of 2020, fee for registration to Istanbul Union of the Chambers of Handicraft is TRY 734,11 for males, and is TRY 646,10 for females.

● Registration of Limited Companies

During incorporation of limited companies, limited companies are registered to the Trade Registry Office and Chamber of Commerce before becoming a tax payer (see Figure 2).

d) Obtaining work permits (for non-citizens of the Republic of Turkey)

Foreign nationals, who wish to start a business in Turkey or to be involved in the business life as an employee in Turkey, must obtain a work permit in accordance with relative laws. This is an issue that is mistaken by foreign nationals frequently. Registering to the tax office is not sufficient solely to be engaged in business activities legally. Obtaining work permit and making payment of 4B-Bağkur (Social Security Organization for Artisans and the Self-Employed) premiums are other legal liabilities that business owners, who are foreign nationals, must fulfil.



In order to be able to apply for work permit in the name of non-citizens of the Republic of Turkey, e-signature of the company's authorized signatory must be obtained.

Work permits are provided by the Directorate General of International Labour Force affiliated to the "Ministry of Family, Labour and Social Services". Applications for work permit are made in the electronic environment.

Documents required by company type are as below:

● Work Permit Applications Made by Sole Proprietorships

Tax Certificate and Chamber Registration Certificate of the business and ID Card and a Biometric Photo of the person, for whom the application shall be made.

● Work Permit Applications Made by Limited Companies

Various criteria are considered in assessment of work permits. Detailed information may be obtained from the website of concerned institution.*

Assessment results of work permit applications are sent to the e-mail address that is provided. Card fee must be paid to contracted banks in 30 days from obtaining approval by e-mail. Your work permit card shall be sent to your address after making the payment. 4A insurance registration procedures must be performed for employees after receipt of the card. Work permits are provided for 1 year at first, and renewal procedures must be performed annually.

As of **2020**, work permit fee and valuable paper fees are as below (must be paid separately by receipt);

Permits obtained for Temporary Protection ID Holders, whose IDs begin with 99:
TRY 457,10

Permits obtained for Residence Permit Holders: **TRY 1.042,90**

e) Notification of Employees to the Social Security Institution (SGK)

Owners and employees of businesses must work by being registered to the Social Security Institution (SGK). You may find detailed information on registration to the Social Security Institution (SGK) in section 8-a of the present handbook.

f) Obtaining Business Starting and Working License

Businesses must obtain “Business Starting and Working License” from affiliated municipalities. Documents that are required for Business Starting and Working License and license costs are determined by municipalities, to which businesses are affiliated, for the license type consistent with the type of activity of businesses.

However, below documents are the documents that are required for any application in general. These documents may vary by municipality and activity type of businesses, and additional documents may be requested.

- Business Tax Certificate
- Business Lease Contract
- Business Zoning Status Certificate
- Building Use Permit of the Business (Occupancy Permit)
- Photocopy of the ID Card of Business Owner
- Invoice of Fire Extinguisher etc.

After the implementation of aforementioned procedures, your accountant must inform you regularly in relation with procedures that must be performed regularly. Below you may find descriptions of liabilities that you must fulfil regularly. Actions that must be taken may vary by the type of activity and company. Therefore, you may obtain most comprehensive information from your accountant consistent with the type of your business. However, please note that you shall be liable for any defective or inaccurate action that is taken since you are the owner of the company legally. Therefore, it is important that you are aware of your obligations, and that you provide required information and documents to your accountant timely.

Below you may find descriptions of the actions that you must take after your company becomes liable for tax:

- To get a corporate seal,
- To ensure that invoices, dispatch notes and notes of expenses are published by a printing house,



8. Obligations that must be Fulfilled Regularly after the Incorporation of the Company

a) Social Security Institution (SGK) Procedures

Notwithstanding whether they are employees or employers, according to relative laws in Turkey, those, who participate to the business life actively, must be registered to the Social Security Institution (SGK) and must pay premiums. The concepts of tax and insurance are muddled up with each other in practice. Being registered to the insurance system provides security against various situations in short term, such as illnesses, injuries and unemployment etc., and in long term, it gives the opportunity to be retired, and secures individuals by providing regular income and health aids after leaving the business life. Social Security Institution (SGK) secures different persons under different sub-branches of insurance.

These branches are as below;

- 4A- Wageworkers employed by a labour contract,
- 4B- (ex-Bağ-kur (Social Security Organization for Artisans and the Self-Employed)) Self-employed and those insured voluntarily, and
- 4C- Public service personnel.

One of the most critical liabilities of employers is to notify the Social Security Institution on employees, whom they employed, by statement of employment. Person, who is appointed as business' Social Security Institution (SGK) officer, shall be liable to make statements, and such procedures are performed generally by contracted accountants or employed accountants for companies. Employers must submit statements of employment to the Social Security Institution in the electronic environment in maximum 1 day from the start date of employment. However, there are some exceptions on this issue;

- In case of new opened businesses, insured statement of employment may be submitted in 30 days from the registration date of business.

- There are exceptions in construction, agriculture and animal husbandry sectors, and businesses, which have relative NACE code, may submit their statements of employment in the same day.

- Monday is also included to the scope of exceptions for businesses that are active in any sector, and statement of employment may be sent in the same day for persons, who shall start to work on Monday.

One of the questions that is asked frequently by employers is that whether it is obligatory to insure workers within the probation period. According to the Labour Law No.: 4857, probation period is determined as 2 months from the date when an employee starts working. There is no exemption for this period, and employees must be insured.

Employers pay insurance premiums monthly for wageworkers (4A). Employers shall be liable to submit "Monthly Premium and Service Statement" of the employees, whom they employ, to the Social Security Institution (SGK) until the 23rd of following month. Insurance premium payments that are determined in the statement must be paid by contracted banks of Social Security Institution (SGK) or via E-government by credit card.

Minimum fee that shall be paid to employees is determined by the Minimum Wage Determination Commission annually.

The amount of the fee that shall be paid to a full-time employee for 30 days may not be below determined figure.

Below you may find detailed calculations of the wage that shall be paid to any employee, who shall be employed by being paid minimum wage in 2020. Accordingly, amount of minimum wage that shall be paid to an employee in 2020 is TRY 2.324,70, and total cost of such wage is TRY 3.458,03 from the perspective of employers. Below you may find detailed calculation of minimum wage and its cost to the employer in Table 2 and Table 3.

Gross Minimum Wage	TRY 2.943,00
Employees' Contribution to Social Security Institution (SGK) Premium (14%)	TRY 412,02
Employees' Contribution to Unemployment Insurance Premium (1%)	TRY 29,43
Income Tax (15%)	TRY 154,50
Stamp Duty (0,759%)	TRY 22,34
Deductions Total	TRY 618,29
Minimum Living Allowance (Single and No Children)	TRY 220,73
Net Minimum Wage (including Minimum Living Allowance)	TRY 2.324,70

Tablo 2. Brütten Nete Asgari Ücret Hesaplaması

Description: Net Wage that is indicated in Table 2 is the minimum wage that must be obtained by employees. The difference between Gross Wage and Net Wage is comprised of deductions that are paid to governmental institutions in the name of employees.

Gross Minimum Wage	TRY 2.943,00
Social Security Institution (SGK) Premium SGK 15,5% (Employer's Contribution)	TRY 456,17
Social Security Institution (SGK) Premium 2% (Employer's Contribution)	TRY 58,86
Total Cost to the Employer	TRY 3.458,03

Tablo 3. Asgari Ücretin İşverene Maliyeti

Description: Cost of Minimum Wage, which is indicated in Table 3, to the employer is calculated by adding payments, which the employer makes to the state in its name for the employee, to gross minimum wage.

Cost to the employer is an issue that is jumbled up frequently by employers. Therefore, it would be accurate to calculate the cost of the wage, which shall be paid to employees, to the employer when giving a decision on employment.

(4B) registration procedures are performed automatically, during registration of the company, for founders of sole proprietorships and owners of limited companies and their shareholders based on the information obtained from Trade Registry Office. There is no need to submit any other statement. Only 4A-Insurance registration procedures of limited company directors, who are not listed among shareholders of the limited company, must be notified to the institution in the electronic environment. As of 2020, TRY 868,18 must be paid monthly, including a discount of 5%, for those, who pay Bağ-kur (Social Security Organization for Artisans and the Self-Employed) premium regularly and who have no premium debt, and TRY 1015,33 must be paid monthly for those, who fail to pay Bağ-kur (Social Security Organization for Artisans and the Self-Employed) premium debts regularly and who have premium debts.

(4B) Bağ-kur (Social Security Organization for Artisans and the Self-Employed) premium insurance premiums of employers shall be paid by credit card via e-government, website of Social Security Institution (SGK) and via online banking services, and at the cash desks of contracted banks by controlling identity number.

b) Tax Payments

Tax refers to the money that the state and other public institutions collect from individuals and institutions by law in order to cover the costs of public services.

Tax is a duty that is included to the Constitution of the Republic of Turkey and that everyone is held liable to pay in consideration of their ability to pay.

Tax types and payment schedules vary by company type. Below you may find descriptions of statements, which must be submitted by “Sole Proprietorships” and “Limited Companies” according to their types, and taxes that must be paid. Even if you fail to gain income right after incorporation of the company, you are held liable to submit required tax returns and to make relative payments.

● Stamp Duty

Stamp Duty is a type of tax that is collected from various instruments. It must be paid after each statement, and it is paid together with tax. Even if it is detected that you have no unpaid tax within the scope of submitted statement, it is obligatory to pay Stamp Duty.

● Withholding Tax

Withholding Tax, which is a tax payment method, refers to payment of the income, which is obtained by the service provider, to the Tax Office by businesses in the name of income earner in the amount determined by the state before subject income is transferred to relative service provider. Various expenditures of businesses, such as wages that are paid to employees, payment of business rent and self-employed payments etc., are subject to Withholding Tax in different ratios.

For example, withholding tax is calculated as below in the case of payment of business rent;

*If we assume that net rent payment is in the amount of TRY 1.000, Then, gross rent is as below; $1.000 / 0,80 = \text{TRY } 1.250$. Withholding Tax is calculated by the following formula; $\text{gross rent} * 0,2$.*

*Withholding tax shall be as below; $1.250 * 0,2 = \text{TRY } 250$, i.e. net rent with the amount of TRY 1.000 must be paid to the owner of business office monthly, and withholding tax with the amount of TRY 250 must be paid to the tax office (by being declared in conformity with the tax schedule determined by the state).*

● Value Added Tax (VAT)

Another type of tax that must be paid by business owners is the Value Added Tax (VAT). VAT is a consumption tax, and it is indicated on the invoice by being calculated on the basis of relative transaction. Businesses are liable to submit VAT return and to make relative payments monthly. VAT may be in the ratios 1%, 8% and 18% according to the type of transaction. Amount of VAT, which is collected from customers via sales that are made in relative month, and amount of VAT, which is paid for goods and services that are purchased from third persons, are indicated separately in returns. If the amount of VAT that is collected from customers in relative month exceeds the amount of VAT paid for purchases of goods and services, business owners must pay VAT. For example, assume that you own a catering firm, and you shall obtain VAT from your customers when you issue invoice in the name of your customers for catering services you provide. You also pay a VAT to the seller while purchasing the products that you use to cook meals. This is just an example, and there shall be various other goods and services, for which you shall pay VAT.

Therefore, it is important for you to keep various payment documents related with VATs that you pay, such as receipts/invoices etc., and to share the same with your accountant in order to pay less amount of VAT. VAT Returns must be submitted until the night of 26th of relative month, and must be paid until the night of 26th day. If the payment date corresponds to a weekend or a public holiday, then relative payment may be made in the first business day that comes after. Tax payments may be made at the pay desks of public banks, pay desks of tax offices or at “gib.gov.tr” by the credit cards of contracted banks. Therefore, it is beneficial for individuals to open an account in the care of a public bank.

● Temporary Tax

Profit/loss statuses of businesses are declared by “Provisional Tax Returns” quarterly. In case profit is declared on Provisional Tax Returns, paid taxes shall be deducted from Annual Income Tax or Corporate Tax. Ratio of provisional tax is 15% for payers of Income Tax (Sole Proprietorships), and ratio of provisional tax is 22% for payers of Corporate Tax (Limited Companies). Provisional Tax shall be declared until the night of the 14th day of the second month following closing of quarterly periods, and must be paid until the night of 17th day. For example, provisional tax return for the period between January-February-March must be declared until May 14, and must be paid until the night of May 17.

● Annual Income Tax

All of the aforementioned statement types are declared for any type of taxpayers, notwithstanding whether it is a sole proprietorship or a limited company, but Annual Income Tax Return is declared only by the payers of Income Tax. As a payer of Income Tax, sole proprietorships shall be liable to declare the profit or loss for the previous year by annual Income Tax Return annually until March 25. Provisional taxes that are paid in one year shall be set off from the statement. Tax calculated in the Annual Income Tax Return shall be calculated progressively. This section may begin from 15% and increase to 40%. In Table 4, you may find Income Tax ratios that apply to 2020.* Annual Income Tax Return is paid in two instalments, i.e. first instalment is paid until the end of March, and other instalment must be paid until the end of July.

Up to TRY 22.000 TL	%15
TRY 3.300 for TRY 20.000 of TRY 49.000, surplus	%20
TRY 8.700 for TRY 49.000 of TRY 120.000, surplus	%27
TRY 27.870 for TRY 120.000 of TRY 600.000, surplus	%35
TRY 195.870 for TRY 600.000 of TRY 600.000, surplus	%40

Table 4. 2020 Income Tax Ratios

● Basic Procedure Annual Income Tax

Another tax system for sole proprietorships is the Basic Procedure Tax System. If we examine the difference between these two, taxpayers, who are subject to Real Taxation System, pay VAT, Income Tax and Withholding Tax, and taxpayers, who are subject to Basic Procedure, pay only the Income Tax on their commercial gains. Although there is no fixed figure that must be paid in any of these procedures, amount of tax that shall be paid at this point is determined by the gain that shall be obtained. There are certain conditions of being subject to Basic Procedure Tax. According to the "Tax Guideline for Taxpayers Subject to Basic Procedure" that was published by the Revenue Administration in 2020, there are general and special conditions of being subjected to this tax system.

*2020 Income Tax Tariff, Revenue Administration. <https://www.gib.gov.tr/gelir-vergisi-tarifesi-2020>

Below you may find conditions of being subjected to the Basic Procedure Tax System;

General Conditions

- To work or appear actually as a self-employed,
- If the business owner is the holder of the title of business office, imputed rental value must not exceed TRY 11.000, and if rented, annual amount of rent must not exceed TRY 11.000 in metropolitan municipalities for 2020, and must not exceed TRY 7.000 in other places,
- Not to be subject to income tax by real taxation procedure due to commercial, agricultural or professional activities.

Special Conditions

- Regarding those, who are engaged in buying and selling operations, annual purchase amount of those, who sell the goods they purchase as is or after processing, must not exceed TRY 140.000 or annual sales amount of the same must not exceed TRY 220.000 for 2020,
- Gross revenue obtained by those, who are engaged in the service sector, in a year must not exceed TRY 70.000 for 2020,
- In case both buying – selling and service activities are performed together, total amount of annual sales amount and business revenue must not exceed TRY 140.000 for 2020.

There are also certain advantages that are provided by being subject to Basic Procedure tax system. You may visit subject to Basic Procedure Tax Guideline to be informed on such advantages and to see proportions.*



*Tax Guideline for Taxpayers Subject to Basic Procedure, Revenue Administration. https://www.gib.gov.tr/sites/default/files/fileadmin/yayinlar/Basit_usul_rehber_2020.pdf

● Corporate Tax Return

Corporate Tax is a type of tax that must be paid only by payers of Corporate Tax (Limited Companies). Sole proprietorships declare their annual financial profit/loss statuses by Income Tax, and limited companies declare their profit/loss statuses by Corporate Tax. The ratio of Corporate Tax is fixed at 22%, and it is not a progressive tax like Income Tax. Taxes that are paid by Provisional Tax during the year are set off from Corporate Tax Return. Annual Corporate Tax is declared until April 30th of the following year, and is paid in the last day of April. For example, Corporate Tax for 2020 must be declared until April 30th of 2021, and must be paid in the last day of April 2021.

● BA and BS Forms

If your business keeps its book on the basis of balance sheet, you are liable to notify the tax office, to which you are affiliated, on purchases and sales, which are in the amount of TRY 5.000 and above, excluding VAT, in the electronic environment by a monthly statement. There is no liability to make any payment for BA and BS forms. Your accountant shall inform you on whether you are listed among those, who are liable to submit such statement, and on the purchases-sales that constitute the subject of such statement.

● Environment and Cleaning Tax

It is a type of tax that must be paid to the municipality, to which relative business is affiliated, in two instalments annually in the last day of May and November. It is paid by real and legal persons, who are using the business office, within relative period. Tax amounts, which are calculated by the city where business is located, and by degrees and groups of buildings, vary by businesses.

● Announcement and Advertisement Tax

It refers to fees that are collected for announcement and advertisement activities that are performed within the limits of a municipality according to relative article of Municipality Revenues Law. Announcement and Advertisement Tax is collected from images that are used for various purposes, such as signs, post-

ers, boards, announcements, advertisements and on-vehicle advertising etc., and that are implemented within the limits of relative municipality. Business owners, who are engaged in announcement and advertisement activities in their names or who hire third parties to perform such activities, are liable to pay relative taxes. Advertisement and Announcement Tax is determined in consideration of various criteria, such as location of subject business, type and size of advertisement etc. It may be required to obtain permit from the municipality, to which the municipality is affiliated, before being engaged in announcement and advertisement activities. Each municipality has their own unique regulation in this respect. In case the taxpayer is engaged in announcement and advertisement activities in person, then tax returns are imposed and accrued on relative taxpayer until 20th of following month, and in case announcement and advertisement activities are performed by those, who are engaged in advertising business as a profession, then tax returns are imposed and accrued on relative third parties until 20th of following month.

c) Chamber Membership Fees

● Membership Fees of the Chambers of Handicraft and Chambers of Commerce

As it is mentioned above in this handbook, annual membership fee must be paid to Chambers of Handicraft and Chambers of Commerce, to which a registration is made by company type and activity type. Amount of such fees are declared to members after being determined annually by the registered chamber. You may obtain detailed information on membership fees by visiting the website of the chamber, to which you are registered.

Reminder: *Taxes and other fees paid to public institutions are paid via public banks. Therefore, it would be easier to follow transactions by opening a company account in the care of various public banks, such as Halkbank, Ziraat Bankasi and Vakifbank etc.*

Note: *Information that is shared in this section is in the nature of general information, and it may vary by company type and activity type. Please contact your contracted accountant to obtain exact information on the liabilities of your business.*

9. Method of Accounting- What are the Liabilities of Certified Public Accountants?

Although follow-up and reporting of accounting records properly is very critical in terms of ensuring that a company has an efficient financial functioning, firms often overlook this issue. In order to ensure that accounting procedures function properly, it is required to have a good accountancy advisor and it is also required from business owners to fulfil their liabilities by themselves. You may employ your accountant within the body of your company on permanent basis or you may obtain this service from an independent accountant externally. Please note an accountant, who is registered and who holds a legal certificate, must follow the official accounting transactions of your company.

Liabilities of Independent Accountants and Financial Advisors

- To keep books, which must be kept legally, regularly and to ensure that they are notarized by a notary public,
- To ensure that the company submits various taxes and returns to Social Security Institution (SGK) and İŞKUR timely, such as (VAT, Withholding Tax Return, Provisional Taxes, Income Tax and BA/BS),
- To inform company owners/managers on any advantageous taxes and legislative amendments that are made on tax laws, and
- To inform company owners/managers on the financial status of the company and to develop suggestions.

Reminder: *According to Financial Advisors Profession Law and Regulation, accountants are prohibited from obtaining any amount from companies to make payment of fees related with official taxes and other payments related with statements made by the company. Company owners or managers must make such payments to relative institutions and banks. Please note that you must obtain from your accountant the statements that are required to make payments, and that you or your company's legal representatives must make your payments.*



Frequently Asked Questions

Frequently Asked Questions

1. What is the criteria for determining the fee that shall be paid to the Accountant?

As it is determined in section 6 of this handbook, company incorporation fee and monthly service fee that must be paid to accountants are determined by professional associations annually. Fees for various services, such as book keeping, issuance of statement, incorporation procedures, follow up of taxes and SGK (Social Security Institution) procedures, and disputes and arbitration procedures etc., are determined according to the type of company, field of business and number of employees, i.e. monthly fee, which is paid by a company that has employees more than specified figure and that has a higher amount of capital, shall be higher than the monthly fee that is paid by a company, which has a low capital and which has employees below the specified limit.

2. Do I have to have a business office to incorporate a company?

If no business office is required for the sales or production of products and services that you shall provide to your clients, you are not liable to rent a business office by incurring extra costs. However, each company must have an activity address legally. Therefore, you may register the address of your home as the place where your company is engaged in its business activities or you may hire virtual offices that are rather cheap, and indicate it as your business address.

3. If I show my home as my home office, which costs may I reflect as expenditures, and how may I obtain an advantage for tax purposes?

Since your home shall be your business address, you may ensure that any costs, which you shall incur to perform your activities, such as electricity, water, natural gas bills and internet bills that shall be issued for your home, if you are using such service for business purposes, are recognized as your legal expenses.

4. May I establish my own company as I continue to work in another entity as an insured?

If you are working within the body of another company as an insured, such situation does not prevent you legally from establishing your own company or becoming a partner of another company. This would be advantageous for you at the same time because you shall not have to pay an insurance premium within the

scope of 4B in the company, which you shall incorporate when you are working within the body of another company, since the business you are working for shall be already paying your Insurance premiums within the scope of 4A.

5. I quit my job and established my own company as I was working as an insured within the scope of 4A, and I continue to pay premiums within the scope of 4B (Bağ-kur) (Social Security Organization for Artisans and the Self-Employed). Since I established my own company and transferred to the scope of 4B, what would be the status of 4A premiums that were paid in my name when I was working as a wageworker?

You shall not lose any of your rights in connection with your premiums, and all of your premiums shall be assessed during calculation of your pension since subject institutions have merged under the name of Social Security Institution (SGK).

6. Do I have to open a bank account in the name of my firm while establishing a sole proprietorship?

You may use your bank account for your sole proprietorship. Limited and joint stock companies must open a bank account in the name of relative company, but sole proprietorships are not liable to open any bank account.

7. Can I add a title to my sole proprietorship?

You may add a title to your sole proprietorship, which is incorporated only by your name and surname. You may obtain support from your accountant on this issue, and you may also add a title to your company's name via Interactive Tax Office.* If you add a title, please note that you have to change your invoices.

8. Can I transform my sole proprietorship into a limited or joint stock company later?

Sole proprietorships may be transformed into limited companies legally. As it is detailed in this handbook, with regards to low revenues, you may not face too much of a tax burden by establishing a sole proprietorship. However, if you are earning high revenues when you incorporate a sole proprietorship, it would be appropriate for you to transform your company into a limited company since you shall face too much of a tax burden as a sole proprietorship under such circumstances.

* Interactive Tax Office, Revenue Administration. ivd.gib.gov.tr

9. What are the incentives that are provided to entrepreneurs?

If you have not turned 29 as of the date you become a taxpayer, you may benefit from tax and insurance premium supports provided by the state. Your insurance premium payments shall be made by the state within the scope of provided incentives, and you may be exempted from tax for your revenues up to TRY 75.000 for 3 taxation periods. In order to benefit from incentives, you must not have been registered as a taxpayer previously, and business, which you shall register as a taxpayer, must not have been transferred to you from any third party or must not have been inherited to you. You may obtain detailed information from the brochure* available at the website of “Revenue Administration”. Incentive programs related with entrepreneurs are conducted by “Small and Medium Enterprises Development Organization, Republic of Turkey” (KOSGEB) in Turkey. You may visit the website of KOSGEB and application centres for current incentive programs and application conditions.

10. May I purchase a vehicle in the name of sole proprietorship and record its value as a company expense?

As in the case of limited and joint stock companies, a part of the value and costs related with the usage of passenger vehicles, which are purchased in the name of sole proprietorships, may be recorded as an expense. A new tax regulation became effective as of 01/01/2020. You may consult to your consultant about regulations and limits.

11. Are Bağ-kur (Social Security Organization for Artisans and the Self-Employed) debts written off?

State may write off the interests and default penalties related with former periods by making various regulations and including them in the scope of amnesty. However, principal amount of your premium debt shall always survive, and may cause you to experience problems in the future. Therefore, you may suffer losses in the future by failing to make payment assuming that Bağ-kur (Social Security Organization for Artisans and the Self-Employed) debts shall be written off. This is because, it is not known when the state shall make such regulations, and it is not certain whether such regulation shall be made. You may have to pay very high interest rates and default penalties while waiting for amnesty in relation with your debts.

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ŞİRKETİM PROJECT

ENTREPRENEUR'S HANDBOOK

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