



# FINANCIAL STRUCTURE OF LIAISON OFFICES IN TURKEY

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**Istanbul CPA**  
Liaison in Turkey



# TABLE OF CONTENTS

LIAISON OFFICES - TURKEY	3
INTRODUCTION	4
DOES A LIAISON OFFICE REALLY PAY NO TAXES?	5
BANK ACCOUNTS SCENARIO: 1	6
BANK ACCOUNTS SCENARIO: 2	7
IS IT POSSIBLE TO GENERATE AN INCOME FOR A LIAISON OFFICE WITHOUT A COMMERCIAL ACTIVITY?	8
A TYPICAL MONTH OF A LIAISON OFFICE IN TERMS OF FINANCIAL ACTIVITIES	9
FUNDING & EXPENSES AND BANK BALANCES	10
LIST OF AUTHORIZED BANKS	11
CONCLUSION AND THE LAST WORDS	12

## Liaison Offices - TURKEY

**What you need to know about bank accounts, payment transactions, and fund transfers for liaison office operations and expenses.**

In this guide, we will specifically look at the impact of Liaison Office Regulations on your

day-to-day accounting and financial activities to highlight the concerns about proper funding.



## Introduction

The relatively recent foreign investment laws and regulations in Turkey have made it easy for foreign companies to set up representative (Liaison) offices in Turkey. Even though liaison offices are not allowed to engage in commercial activities and dealings in Turkey, they are nevertheless an attractive option for companies who would like to gain **regional expertise, develop local networks and even promote their goods and services** to the Turkish market while benefiting from tax exemptions.

The expenditures of a liaison office must be met entirely from foreign currency brought in from abroad. Liaison Office permits are granted for a period of up to three years for the first period, and extension applications must be made at the end of each period of permit. Extension periods vary based on the purpose of the Liaison Office (generally 5 years; for regional management offices 10 years).

# Does a Liaison Office Really Pay No Taxes?



## PAYROLL

**NO**

### EMPLOYEE INCOME TAX

Liaison office employees are exempt from income (withholding) tax.

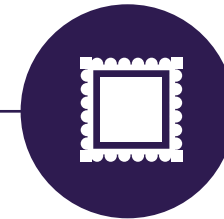


## PROFESSIONAL SERVICES

**YES**

### TAX ON PROFESSIONAL SERVICES

Independent Professional Services means any activity performed by a person who is self-employed. Lawyers, accountants, doctors and similar. In case the landlord or accountant is not individuals, there is no additional tax on their fees. They issue invoices instead of professional service bills.



## STAMP TAX

**YES**

### STAMP TAX

If a Liaison Office concludes a contract in Turkey that is subject to stamp tax liabilities, they are required to pay for the stamp tax at the related tax office.

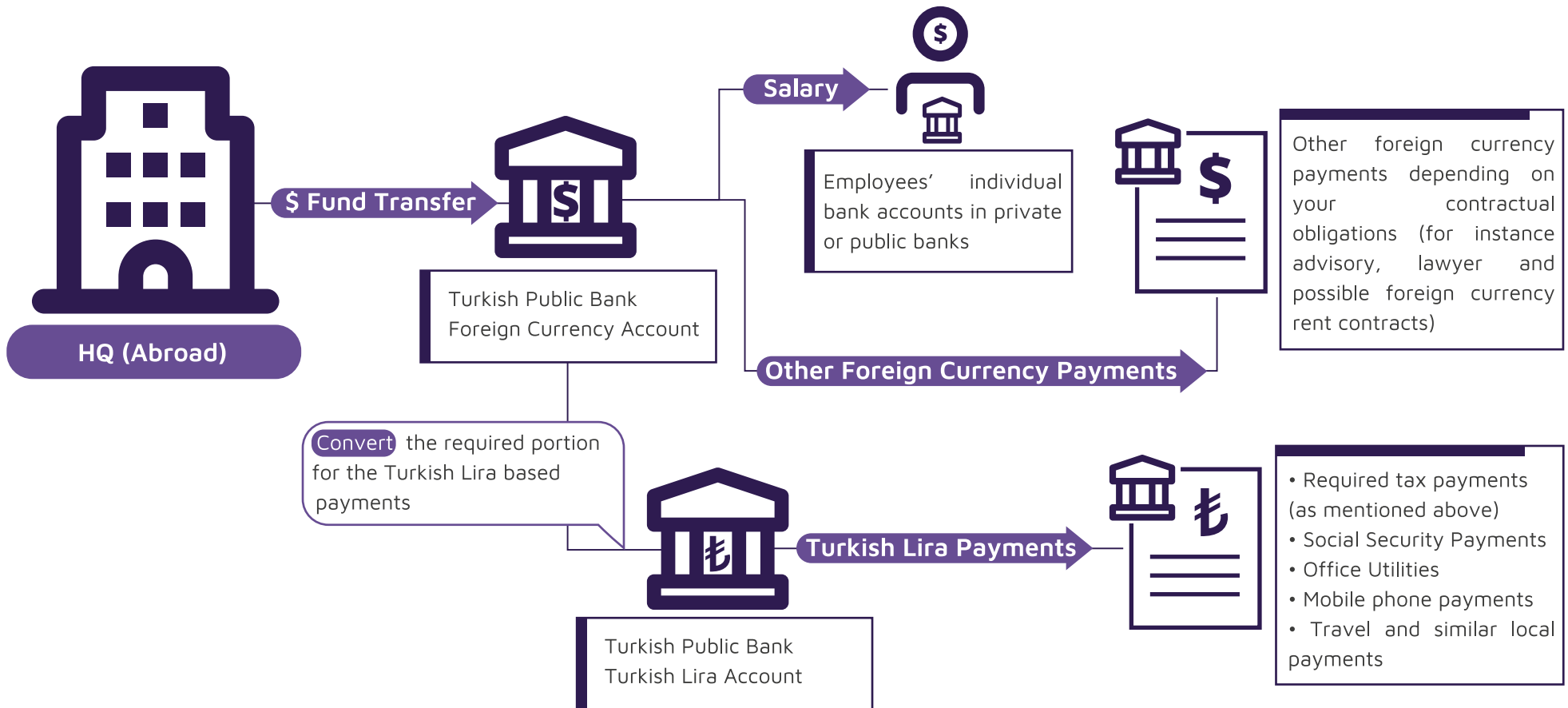
#### EXAMPLE

1,89% on rent contracts (a minor tax)

# Bank Accounts Scenario:1 (Using only one Turkish public bank)

Despite income tax exemption, a liaison office might have some other tax payments regarding the professional services used as mentioned above. Only **the public banks** can collect income (withholding) taxes, duties, and fines. Therefore, you may prefer to set up a bank account directly in a public bank. (please see authorized public bank names at the end of this presentation)

**i** Explanation: \$ sign represents all kind of foreign currencies (EUR, Sterling, Yen). ₺ sign represents Turkish Lira.



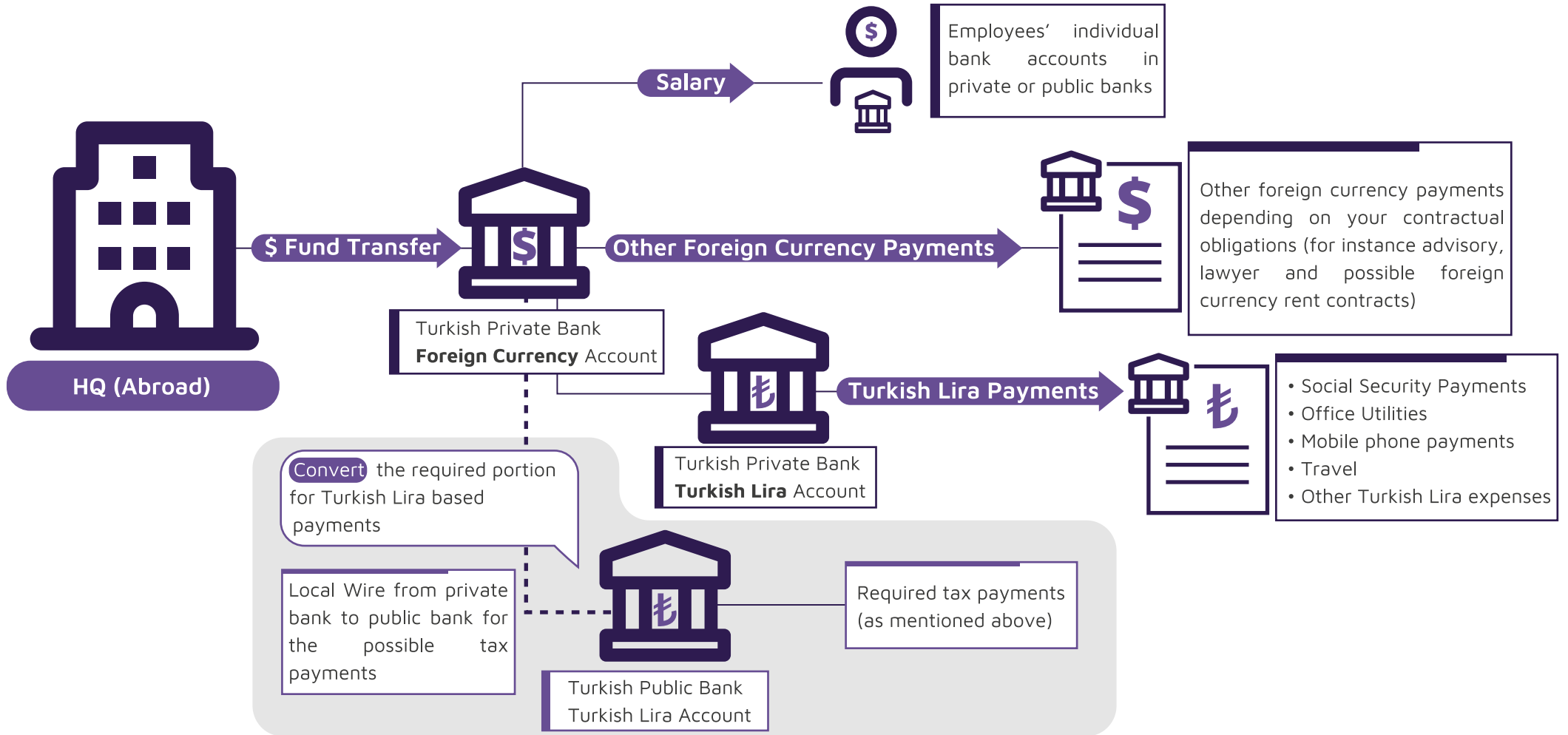
**Note :** The bank must provide all foreign exchange purchase documents and the documents will be required as evidence during liaison office permission extension and annual reporting.



## Bank Accounts Scenario: 2 (Using only one Turkish public bank)

You may prefer to have an account in a private bank because of your company's international banking rules and policies.

**i** Explanation: \$ sign represents all kinds of foreign currencies (EUR, Sterling, Yen). ₺ sign represents Turkish Lira.



**Note :** The bank must provide all foreign exchange purchase documents and the documents will be required as evidence during liaison office permission extension and annual reporting.



# Is it possible to generate an income for a Liaison Office without a commercial activity?

Liaison Offices can have some incidental earnings. The implementation of tax laws differs in terms of the type of **tax residency status**. Both the 193 Numbered Income Tax Code (ITC) and the 5520 Numbered Corporate Income Tax Code **separate taxpayer's residency statuses into two as tax resident & non-resident taxpayers. Accordingly, the related statements in legislations foresee several differences in taxation duties and processes. As per the Turkish Income Tax Legislation, Liaison Offices (LO) are considered as a non-resident taxpayer.**

As per Article 23(14) of the ITC, employees working for Liaison Offices whose registered offices and business centers are not located in Turkey are exempt from income tax, if the following conditions are met;

- The salary is paid out from the earnings and revenues generated abroad. (Also, the cumulative funds required for Liaison Offices' expenses must be sent from abroad as a rule)
- The salary is paid out in the form of foreign currency
- **Salary payments cannot be used as expenses** against profits taxable in Turkey. Accordingly, **how can a Liaison Office make a profit?**

**A simple example can serve to explain the possible income and profits in terms of Liaison Office regulation.** There cannot be any dispute with the legal context of the current regulations that the reimbursement of the expenses can never be income. However, a Liaison Office **can sell a fixture** or asset such as **a testing equipment or an unused office furniture**. In this case, the money received for this sales activity shall be considered as an income (and naturally as a profit). It's highly recommended that this earning should be transferred to HQ without spending it for local expenses. In this situation, the HQ can submit a tax declaration for this incidental earning depending on the amount and the situation (the buyer can be a company or an individual). Liaison Offices must bear this in mind such sale activities cannot be continuous. (the continuity of such actions are considered as a commercial activity)



## A typical month of a Liaison Office in terms of Financial Activities

In terms of Accounting and Finance, the records of a Liaison Office in Turkey are similar to those of normal company types. The only distinction is that the funds transferred from the parent company are recorded in place of incomes, while the expenses are recorded in the same fashion as other company types. All original documents must be kept as an evidence of transactions and must be retained in accordance with legislative and other requirements as set forth in the retention rules in Turkish regulation.

**In order to submit annual activity reports, accounts are tracked under the following main items;**

- ✓ employee salaries
- ✓ office expenses (utilities and similar)
- ✓ representation and hospitality expenses
- ✓ office rents
- ✓ other expenses

# Funding & Expenses and Bank Balances

## FUND

### Received Fund From HQ (USD)

36.000.-

Liaison offices are required to submit an annual activity report to the Ministry to inform them of the foreign currency transferred from abroad and the expenses covered with those received amounts. The fund and the expenses should be equal, therefore it's crucial that the bank account balances should be zero or small amounts at the end of each month (exchange rate differences are acceptable).

## EXPENSES

Expense Item	USD	TRY
Employee Salaries (Net, Social Security and other wage related costs)	20.000.-	140.000.-
Office expenses (utilities and similar)	10.000.-	70.000.-
Representation and hospitality expense	20.000.-	14.000.-
Office Rent (if the landlord is an individual, withholding tax should be included)	1.000.-	7.000.-
Other Expenses	3.000.-	21.000.-
<b>Total</b>	<b>36.000.-</b>	<b>252.000.-</b>

(Assumption: 1 USD = 7 TRY)

## List of Authorized Banks

Following public banks, which were announced by the Revenue Administration, can collect income taxes (as mentioned above, “professional service tax” and similar), duties, fines, and other receivables in addition to any collections made by the cashier offices of the tax offices:

- ✓ T.C. Ziraat Bankası Anonim Şirketi;
- ✓ Türkiye Halk Bankası Anonim Şirketi;
- ✓ Türkiye Vakıflar Bankası Türk Anonim Ortaklığı;
- ✓ Ziraat Katılım Bankası Anonim Şirketi;
- ✓ Vakıf Katılım Bankası Anonim Şirketi;
- ✓ Türkiye Emlak Katılım Bankası Anonim Şirketi; and
- ✓ Posta ve Telgraf Teşkilatı Anonim Şirketi (Turkish Post: «PTT»).

## Conclusion and the last words

The relatively recent foreign investment laws and regulations in Turkey have made it easy for foreign companies to set up representative (Liaison) offices in Turkey. Even though liaison offices are not allowed to engage in commercial activities and dealings in Turkey, they are nevertheless an attractive option for companies who would like to gain regional expertise, develop local networks and even promote their goods and services to the Turkish market while benefiting from tax exemptions. Liaison Offices are not required keep fiscal and legal books such as balance sheet or company books. For the same reason, certification is not necessary. Instead, Liaison Offices need to declare their activities to the Ministry of Industry and Technology once a year, until the end of May.

As Liaison Offices must entirely be financed from abroad, the Ministry requires bank documents that show proof of transaction. In this context, the Ministry accepts 'DAB' (currency exchange receipts) and a letter which indicates:

- ✓ The cumulative funds sent from broad
- ✓ The name and the country of incorporation of the principal company
- ✓ Transaction dates

A top-down illustration of a workspace on a dark blue background. A large white circle is centered on the page. Inside the circle, the text "The art of knowing is knowing what to ignore." is written in white, with "RUMI" below it. Surrounding the circle are various items: a silver laptop on the right, a white keyboard with two hands typing on it at the bottom left, a white mouse on the bottom right, a pair of black-rimmed glasses on the right, a white coffee cup with brown coffee on the bottom right, and a silver pen and a white notepad on the top left.

The art of knowing is knowing what to ignore.

RUMI







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