

## Setting up a Business in Turkish Free-trade Zones

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### Introduction

Free-trade Zone ("FTZ"), under Turkish Law, is a special economic zone which is exempted from import duties, commercial policy measures and foreign exchange legislation and offers storage, warehousing, distribution facilities, transshipment and re-export operations. FTZs are generally located near geographically advantageous areas for trade, such as large seaports, international airports, and national frontiers. FTZs are regulated under the Free Zones Act (Law No. 3218).

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### Operating in Free-trade Zones

All types of industrial, commercial, and service operations deemed appropriate by the Supreme Planning Board can be conducted in FTZs. According to Circular No. 2009/1, the operations should not

- i. be harmful to human health or environment,
- ii. contain sensitive products determined by the relevant authority,
- iii. have the capability to create a favorable environment for unfair and destructive competition in the domestic market.

Furthermore; the capability to provide employment at a certain capacity, to have a value as foreign direct investment, to contain new or high technology, the capability to support international trade, the compliance with sectoral specialization and clustering are the other criteria to be fulfilled to operate in the FTZs.

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Both local and foreign real persons as well as corporate entities can establish FTZ-based companies, only to operate exclusively within the zone. The applicant must apply to General Directorate of Free Zones, Overseas Investment and Services (“GD”) under the Ministry of Trade with a draft of articles of association (“AoA”) prior to the establishment. Investors can choose between any one of company types provided under Turkish Commercial Code, including the Limited Liability Company and the Joint Stock Company, i.e. the two most preferred business vehicles.

It is also possible for companies to conduct FTZ operations through branch offices. Either way, companies must obtain an operating license granted by the Ministry of Trade to conduct operations.

### **Application Procedure**

The applicant should fill out an application form and deposit the application fee to the special account at the Central Bank of the Republic of Turkey. The application form should be submitted to the Zone Directorate, along with a petition, the application fee receipt and other required documents, including a draft of AoA for the incorporation of FTZ-based companies. The GD evaluates the application and grants the applicant 30 days to conclude a lease agreement and finally issues an operating license upon the delivery of the required documents. In cases where the applicant exceeds the 30-day period to proceed further with the application, the GD cancels the application. The application fee is reimbursed if the applicant is not found eligible.

### **Validity Period**

There are four different validity periods varying according to types of license holders (“LH”). The period of validity for the license is 15 years for tenant LH, 20 years for manufacturer tenant LH, 30 years for investor LH and 45 years for manufacturer-investor LH.

### **Advantages of Free-trade Zones**

Pursuant to the Free Zones Act, some of the Acts are not applicable in FTZs. The non-applicable provisions of the legislation are as follows:

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- Provisions regarding the customs and foreign exchange taxpayers,
- Foreign Direct Investment Law (Law No. 4875),
- Municipal Law (Law No. 5393) (other than the provisions regarding death and fire; construction and repair of sewerage; supply of utility, industrial and potable water; inspection of gas, water and electricity consumption),
- Passport Law (Law No. 5682),
- Law on Residence and Travel of Foreigners (Law No. 5683)
- Provisions of other laws which are contrary to the Free Zones Act,
- State Procurement Law (Law No. 2886) regarding the transactions specified in Article 5/2 of the Free Zones Law.
- Articles 21, 22 and 23 of the International Labor Force Law (Law No. 6735)

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The revenue generated through the sales of the goods produced in FTZs is not subject to income and corporate taxes until the end of the taxation period of the year that Turkey joins EU. Comparably, the manufacturers that export at least 85% of the FOB (Free on Board) value of the goods manufactured in FTZs, are exempt from income tax for the wages of employees.

The transactions and other relevant documents (contracts etc.) concerning the operations in FTZs, are exempt from stamp duties and fees. Property taxes do not apply to the buildings and lands located in FTZs, and the logistical services supplied to third countries are exempted from VAT.

The license holders must have an operating license for manufacturing to enjoy the aforementioned tax exemptions.

There is no permission required to transfer the FTZ-generated revenue abroad, or to Turkey.

Goods sold to FTZs from Turkey are subject to export regime. As a result, the license holders are exempt from the value added tax regarding such goods and services. The trade between FTZs and third countries is not subject to this regime.

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The advantages and incentives are available to all companies. Goods can remain in the FTZs without any time limitations.

### **Employment of Foreigners**

Work permit applications of foreigners wishing to work in a free trade zone in the scope of Free Zones Act shall be made to Ministry of Economy. Foreigners who are deemed appropriate for work permit upon the favorable assessment of Ministry of Economy shall be notified to the Ministry of Family Labour and Social Services, i.e. the competent authority to issue work permits.

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