

ESTABLISHING A LIAISON OFFICE

Introduction

Liaison office is a type of entity which has structural differences both from a company and branch office of a foreign company.

Liaison offices are for those investors who want to have a point of observation where they can observe the market for a period of time and first have a better understanding of the country's economic atmosphere rather than directly jumping into the business in an unfamiliar territory. By doing so, they can gain very valuable local expertise and improve the number and quality of their connections while searching for investment opportunities in the Turkish market on behalf of their parent companies.

Legal Personality

A liaison office cannot be considered as a legal entity under Turkish law. It does not have a legal personality separate from its parent company. Naturally, a liaison office does not have its own articles of association.

As a result of not having a separate legal personality, the rights and liabilities of the liaison office directly belong to its parent company.

Similarly, the trade name of the liaison office must include the name of the parent company. So, the liaison office of a foreign company named "ABC Manufacturing Ltd." may have a name like "ABC Manufacturing Ltd. Türkiye İstanbul İrtibat Bürosu" ("ABC Manufacturing Ltd. Türkiye İstanbul Liaison Office").

Activities

The liaison offices cannot engage in commercial activities which generate income. This is strictly forbidden under Turkish law and if a liaison office does not obey such rule, its permit will be cancelled by the relevant governmental body. In that context, a liaison office cannot make business deals,

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issue invoices or make advertisements for any goods and services.

The liaison offices can carry out the following activities:

- a) Market research,
- b) Promotion of the goods and services of the parent company,
- c) Representation and hosting,
- d) Control of the suppliers,
- e) Technical support,
- f) Communication and information transfer,
- g) Regional management centre, and
- h) Other similar activities.

Capital

A liaison office does not have its own capital and as a result, there is no mandatory minimum capital requirement for the liaison offices under Turkish law.

All the funds the liaison office will require, be it for rent, salaries of the employees or any other expenses incurred for its activities, must be provided by the parent company.

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Liaison Office Representative and Employees

All liaison offices must have a representative. The representative is a real person who manages and represents the liaison office towards third parties and responsible for the day-to-day activities of the liaison office and other tasks given by the parent company. A foreigner who has a permit to work in Türkiye can be appointed as representative as well.

The liaison office representative can be dismissed, or his powers can be restricted any time by the parent company. Although liaison offices are considered workplaces, they do not have the title of employer. The employer of the workers working in the liaison office is the parent company abroad.

The Turkish labour laws stipulate that a company must employ five local employees for each foreign employee it employed. There is an exception to this general rule for the liaison offices. Provided that an amount equal to 200,000 USD

has been transferred from abroad within the previous year, one person authorized by the parent company will be given a work permit without triggering the said general rule.

Liability

As a result of not having a separate legal personality, the rights and obligations of the liaison office directly belong to its parent company. Therefore, the parent company is fully liable for the debts and obligations of its liaison office irrespective of the funds transferred to the accounts in the name of the liaison office in Türkiye.

It is not possible to delimit the liability of the parent company for its liaison office in Türkiye, either through the funds allocated to the liaison office or any other arrangements.

Tax

As the liaison offices, by definition, are not allowed to engage in income generating commercial activities, it is not possible for them to have any profits. Naturally, this will cause an automatic exemption from corporate tax.

The liaison offices do not have to make VAT (Value Added Tax) declarations to the tax office as they cannot issue invoices. But this does not mean that they are exempt from VAT. They have to pay VAT once they purchase goods or services in Türkiye. Similarly, when a liaison office becomes party to a contract in Türkiye that is subject to stamp duty, they have to pay it. They are not exempt from stamp duty as well.

Salaries of the liaison office's employees are also exempt from income and withholding taxes provided that the funds for these salaries are transferred from abroad in a foreign currency. Hence, the employee salaries will be subject to income tax if they are paid in Turkish liras.

Even though the liaison office is exempt from corporate tax, it must register in the local tax office and keep its statutory records and accounts properly.

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Social Security

Social security contributions for the Turkish employees of the liaison office must be paid.

Unless the foreigner employee of the liaison office is the citizen of a country which has a bilateral social security agreement with the Republic of Türkiye and he already has social security coverage in his country, he must be registered in the social security system and the social security contributions for him must be paid as well.

Permit to Establish a Liaison Office

The General Directorate of Incentive Implementation and Foreign Investment within the Ministry of Industry and Technology is the governmental body that issues and extends the permits for the liaison offices. The same governmental body is also responsible for supervising the liaison offices.

There is no application fee for the permit to establish a liaison office.

The application file must include the following documents:

- a) The Application Form,
- b) The Letter of Commitment. A document proving the authority of the official who signed the letter of commitment on behalf of the parent company must also be annexed.
- c) The Certificate of Good Standing of the parent company,
- d) The annual report or balance sheet and income statement of the parent company,
- e) The authorization document for the person who was appointed to carry out the activities of the liaison office, and
- f) The power of attorney granted to the person who will follow the establishment procedures before the general directorate.

It should be noted that the documents issued abroad must either be apostilled or if the country where the parent company is domiciled is not a party to the Apostille Convention, attested by the Turkish consulate in that country. Such documents must also be officially translated and notarized in Türkiye.

In case the parent company is operating in one of the certain industries that have specific regulation, such as banking, capital markets, insurance, etc., the general directorate may consult relevant governmental bodies before granting the permit for the liaison office.

In order to be granted a permit for the liaison office, the parent company should in most cases be operational for at least one year. Therefore, a recently founded company's application to establish a liaison office in Türkiye will most probably be rejected.

The initial permit for the liaison offices is issued for a period of three years at most.

The decision for the applications is given by the general directorate within 15 days following the application, provided that the file is properly prepared.

Inspection

The liaison offices are under constant supervision of the general directorate. In that context, the Data Form for Liaison Offices Activities and accompanying documents (such as a letter from the bank where the account of the liaison office is held) regarding the activities of the liaison office must be submitted to the general directorate every year. Otherwise, the permit may be directly cancelled or will not be extended once the initial period is over.

The general directorate not only has the authority to grant permissions or extend them but also carry out inspections, either per se or after receiving notices from the relevant institutions. The conformity of the liaison office's activities to the regulations will be inspected, namely whether the liaison office engages in commercial activities or if the liaison office operates within the field of activity determined in its permit or not.

The general directorate cancels the permits of those liaison offices which engage in commercial activities. On the other hand, for a non-compliant liaison office operating in a field of activity that is outside the scope of its permit, a certain period of time is given in order to let the parent company apply for

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the inclusion of such field of activity which was not covered in the permit.

The liaison office must notify the general directorate within one month at the latest when it changes its address or representative or its parent company changes its commercial name. The new rental agreement, the authorization document of the new representative or the document showing the new commercial name of the parent company should be annexed.

Extension

Before the expiration of the initial period, an application for extension can be made.

The application for extension is evaluated within the scope of the activities of the liaison office in the previous year, business plans and aims of the parent company, current and estimated expenditure, number of employees, etc. So, the extension application file should include supporting evidence as well. A bank letter indicating that the funds in the account of the liaison office was transferred from the parent company abroad, documents showing the relationship with the Turkish counterparts such as reference letters, documents proving that the liaison office attended fairs, conferences, etc. as host or representative, reports by the liaison office to its parent company regarding the Turkish market or any similar documents should be annexed to the application.

The current regulation explicitly prohibits the extension of the permits granted for market research or promotion of the products or services of the parent company.

The permits given for representation and hosting; control, inspection and provision of local suppliers, technical support, communication and transfer of information and regional management centres, depending on their chosen field of activity, can be extended up to 5 or 10 years.

Duration of Extension

The below table illustrates how many years of extension are permitted for each specific field of activity:

Field of Activity	Duration
Representation and Hosting (Representation of the parent company at sectoral institutions and relevant organizations, coordination of business contacts of the company officers, etc.)	5 years
Control, Inspection and Provision of Local Suppliers (Provision of local producers and products for the parent company and inspection of those suppliers in terms of the quality standards, etc.)	5 years
Technical Support (Provision of training and technical support services for distributors, supporting local suppliers for their enhancement of quality standards)	5 years
Communication and Transfer of Information (Collection and transmission of information to the parent company having business contacts in Türkiye such as the market conditions, consumption trends, sales of competitors, performance of distributors, etc.)	5 years
Regional Management Centre (Particularly oriented to other units of the parent company in foreign countries; coordination and management of some operations such as strategies, planning, promotion, sales, after sales services, brand management, financial management, technical support, R&D, training of personnel, etc.)	10 years

The decision for the extension applications is given by the general directorate within 15 days following the application, provided that the file is properly prepared.

Termination

Liaison offices may cease to exist in two ways: the company may decide to liquidate the liaison office on its own will, or the operating license of the liaison office that goes beyond the permitted activities is revoked.

When a company decides to terminate the activities of its liaison office decides to terminate its activities in Türkiye, a “Termination and Examination of Business Note” has to be received from the tax office the liaison office is registered with and sent to the General Directorate of Incentive Implementation and Foreign Capital. After that, a liquidation process takes place.

The liaison office can transfer abroad the balance left in its accounts at the time of the termination.

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