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Türkiye introduces Istanbul Finance Center

Executive summary

On 1 June 2022, Turkish Parliament members submitted a draft law (the Bill) which introduces the establishment of the Istanbul Finance Center (IFC) to the Turkish Parliament.

The Bill aims to promote Istanbul as an international finance center, to support the economic growth of [Türkiye](#) by increasing financial competitiveness and developing high value-added financial products and services in the financial sector, and to strengthen integration into international financial and capital markets.

Participants of the IFC will have certain tax advantages, including the ability to keep their legal books in foreign currency and the eligibility to freely choose a law of a different jurisdiction as the governing law for their private law contracts.

This Alert summarizes the key provisions of the Bill.

Detailed discussion

Area, participants and participation certificates

The IFC is located in a designated area which comprises two areas: (i) the office area where financial institutions will operate; and (ii) an out-of-scope area that includes commercial and social units where employees and visitors will meet their daily needs.

Participants who would like to operate in the office area will be given a participant certificate by the Presidential Finance Office. The term participant refers to individuals and legal entities, their branches and representatives, ordinary partnerships, liaison offices, regional management centers and national wealth funds, operating in the office area with a participation certificate.

Exportation of financial services

Financial services provided by financial institutions with a participant certificate to nonresidents are considered as exportation of financial services, provided that the services are ultimately benefitted abroad.

Derivative transactions carried out by financial institutions on their own behalf and account, transactions of buying or selling assets of their portfolios, and activities, services and transactions of local residents that take their savings abroad are not considered as exportation of financial services.

Deductions, exemptions and other tax advantages

Participants who operate in the office area, have a participation certificate and perform exportation of financial services will benefit from the deductions, exemptions and other tax advantages.

Under the current Bill, the deductions, exemptions and other tax advantages would include:

- Deduction of 75% from the corporation income of the earnings derived from exportation of financial services carried out at the IFC, provided that it is separately shown on the corporation tax return. This rate is applied at 100% for the taxation periods of 2022 to 2031. For institutions using a special accounting period, these periods cover the accounting periods starting within the relevant years
- Banking and Insurance Transactions Tax (BITT) exemption for transactions related to exportation of financial services carried out at the IFC and the money received in favor of these transactions
- Fee exemption on transactions related to exportation of financial services carried out at the IFC
- Stamp tax exemption on the documents related to the exportation of financial services carried out at the IFC
- Income tax exemption on monthly salaries paid to the personnel employed by the financial institutions that have received the participant certificate at the IFC:
 - 60% exemption for those who have at least five years of professional experience abroad
 - 80% exemption for those who have at least 10 years of professional experience abroad
 - This exemption will be applied to the wage income of the personnel who did not work in Turkey for the prior three years before they started to work at the IFC
- Fee and stamp tax exemptions on transactions and documents regarding leasing of immovable properties in the IFC

The above exemptions will also apply to the regional treasury and financial management centers of the participants who are active in at least three countries.

Additionally, financial activity fees, which are required to be collected from the headquarters and branches of financial institutions according to Fees Law No. 492, will not be collected from financial institutions who have obtained a participant certificate, for five years from the effective date of the law.

Bookkeeping in foreign currency and choice of governing law

The Bill proposes that the Ministry of Treasury and Finance is authorized to make regulations, under which financial institutions operating in the IFC may keep their books and documents in foreign currency, regardless of the provisions of the Tax Procedure Law and the Turkish Commercial Law.

The Bill also proposes that participants may freely choose a governing law for all kinds of transactions and contracts that they will enter into under private law within the scope of the activities they carry out at the IFC among themselves, provided that it is not contrary to the legislation to which they are subject to.

Employment of foreign personnel

The participants operating in the IFC and the regional treasury and financial management centers of the participants who are actively operating in at least three countries will be able to employ foreign personnel with a work permit.

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