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Türkiye confirms non-taxable status of liaison offices that are licensed to perform regional management center activities and that do not perform any commercial activities

- *Liaison offices established in Türkiye by foreign investors under a specific license and that do not perform any activities other than the ones permitted or any commercial activities, are not subject to corporation tax in Türkiye and the salaries paid to the liaison office employees are exempt from income tax.*
- *In the latest tax ruling issued by the Turkish Revenue Administration, it was clarified that a liaison office licensed as a “regional management center” will not be subject to corporation tax, will not constitute a permanent establishment and the salaries paid to their employees will be exempt from income tax, if the liaison office is licensed to perform regional management center activities and does not engage in commercial or any other income-generating activities or any activities other than those permitted in its license.*
- *If the conditions are not met, liaison offices would be required to be registered as a corporate taxpayer as of 1 January 2022 for the liaison offices existing as of 1 January 2019.*

Türkiye’s “Foreign Direct Investment Code” No. 4875 and its secondary legislation called the “Regulation on the Implementation of the Foreign Direct Investment Code” regulate liaison offices that can be established in Türkiye by foreign investors to perform certain specific activities other than commercial ones. Liaison offices that are established under Code No. 4875 and licensed in Türkiye by the Ministry of Industry and Technology are not subject to corporation tax as they do not perform commercial activities in Türkiye.

The above-mentioned legislation classifies regional management center activities as part of liaison office activities. Liaison offices established in Türkiye can perform regional management center activities that include the provision of coordination and management of certain activities to foreign investor’s other units in a specified region.

A liaison office's activities are limited to the ones that are listed in its license and regional management center activity could be one of the activities that may be performed by a liaison office under a license granted by Ministry of Industry and Technology.

In a latest tax ruling issued by the Turkish Revenue Administration, it was clarified that Regional Management Centers will not be subject to corporation tax if a liaison office is licensed to operate as a regional management center and does not engage in commercial or any other income-generating activities or any activities other than those permitted in its license. If the aforementioned conditions are not met, such liaison offices existing as of 1 January 2019 will have to be registered as a corporate taxpayer as of 1 January 2022.

In addition to the non-taxable corporation tax status, the latest tax ruling confirms that salaries paid to the personnel employed in a liaison office established as a Regional Management Center with the license obtained from the Ministry of Industry and Technology can also be exempt from income tax provided that the liaison office does not engage in commercial or any other income-generating activities or any activities other than those permitted in its license and provided that the conditions stated in the Income Tax Code are met.

Accordingly, if liaison offices perform activities that are listed in their licenses and do not engage in any other commercial or income generating activities, it is clarified that the liaison offices will not constitute a permanent establishment, will not have corporation tax liability in Türkiye and salaries paid to the personnel will be exempt from income tax.

If the activities go beyond the licensed activities, then there would be a corporation tax liability and the salaries paid to the personnel would be taxable in Türkiye. Therefore, foreign investors should consider performing an in-depth tax analysis on the activities of their liaison offices established in Türkiye to understand the potential tax implications by considering the activities that they are actually performing under such structures.

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