BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

Turkey has a population of 85.3 million, with a relatively young and growing population, median age being 32.2 years in 2022. The country has more than 3 different ethnic groups composed of Turkish 70-75%, Kurdish 19% and other minorities 6-11% (CIA, latest data available). Nearly 67% of the population is aged between 15 and 64 years old, while 24% is under 14 years old and 9% is over 65 years old; making Turkey a young and a dynamic country (World Bank, 2021). The Turkish population has 50.6% women (Data Reportal, 2022). 77% of the population is concentrated in the urban areas particularly in three cities Istanbul, Ankara and Izmir. The average household size in 2021 was 3.23 members and 18.9% of households were made up by one member (Turkish Statistical Institute). According to the latest UN data, in 2004 6.4% of household were made up by one member, 36% by two to three members, 39% by four to five members and finally 18% by more than five members. As a population, Turks are becoming increasingly educated and urbanised. In certain levels, Turkey has progressed on many standard education indicators in recent years, but it continues to lag behind most other OECD countries. Indeed, in Turkey, only 42% of adults aged 25-64 have completed upper secondary education, much lower than the OECD average of 79% and one of the lowest rates among OECD countries. This is truer of men than women, as 45% of men have successfully completed high-school compared with 38% of women. In terms of employment, 48% of people aged 15 to 64 in Turkey have a paid job, below the OECD employment average of 66%, and one of the lowest figures in the OECD. Some 65% of men are in paid work, compared with 30% of women. Turkish people earn per year on average, much less than the OECD average of USD 49,165. Employment in the industrial sector represents 25% while the service sector employs 57% (World Bank, latest data available).

Purchasing Power

In Turkey, GDP per capita has been rising since 2009 and reached approximately USD 30,472.4 PPP in 2021 (latest World Bank data). Turkish people earn per year on average, much less than the OECD average of USD 49,165. In Turkey, the average household net adjusted disposable income per capita is lower than the OECD average of USD 30,490. The average household net wealth is considerably lower than the OECD average of USD 323,960. Turkey’s Purchasing Power Parity per GDP per capita index value was 64 points for 2021. This value has an average of 100 points in European countries, showing that Turkey is behind them. However, income inequalities do still exist: the income of the richest quintile is 7.5 times higher than the income of the poorest quintile for Turkey. Gini Index in Turkey was reported at 41.9 in 2019, according to latest available data from the World Bank. According to the Gender Gap Index 2022 of World Economic Forum (WEF), Turkey is the 124th country out of 146 countries. The WEF also has a "Gender Gap Calculator," which enables people to see the situation in their countries. According to the calculator, a 30-year-old woman in Turkey would be 194 years old when the country achieved complete equality. For every single US dollar a woman earns, a man earns 2.27 dollars.

Consumer Behaviour

Culturally, Turkish consumers' demographic characteristics are significantly different from those of European and Western consumers in terms of age and cultural aspects. However, like in Europe, most Turkish consumers believe that self-care and following the latest trend is important. Therefore, while there is a demand for cosmetic surgery increasing amongst mid-lifers, there is also a rising interest in social media use affecting consumer habits. In addition, there is a tradition of shopping luxury goods and electronics in Turkey, which increases use of credit cards to purchase products. Looking at the consumer segmentation according to age, young age profile consumer seems to spend more time on computers and increasingly going online to buy toys. Among teenage consumers, the internet is replacing traditional leisure activities. Middle youth and young adults tend to consume tablets and value their car brands. Mid and late-lifers use traditional communication methods, therefore increasing the demand for easier-to-use mobile phones. In addition, price perception of consumers and their value perceptions regarding attributes of the products have an impact on customer satisfaction. In addition, service quality is a necessary but not sufficient condition for customer loyalty in Turkey.

According to the latest McKinsey survey, in Turkey, consumers' income and household finances have been affected by the COVID-19. A majority of Turkish consumers are concerned about personal health, the economy, and the duration of the crisis. Most consumers expect also to shift to online spending for household essentials and personal care.
Nevertheless, country's young and dynamic population is expected to boost the economy in coming years, with the help of greater access to consumer credit. Security concerns and traditional habits still keep many consumers away from high-traffic shopping venues but boost online shopping.

The organic food market in Turkey has experienced a significant growth over the past decade. Consumer willingness to pay for products with organic labels and certified products is up to 36% in Turkey. Even the second-hand market is gaining momentum, though profit is still low (turnover was 693 million Turkish lira in 2019 – Statista, latest data available). Use of collaborative and technological platforms like Uber, and Bitaksi is decreasing due to security reasons but government is favouring the use of common transport.

Consumer Recourse to Credit

Turkey's central bank has raised its key interest rate to 24% in 2018 after a dramatic bid to control rocketing inflation and prevent a currency crisis. Following a big relaxation in the regulative framework towards the end of 2016, which led to a strong performance of consumer lending, new regulations in 2018 that aimed to increase the appeal of consumer credit, led to a positive performance. To revitalise car sales, which continue to register a stagnating performance due to exchange rate fluctuations and rising taxes, the Banking Regulation and Supervision Agency (BDDK) announced a new regulation in 2018 increasing the maximum rate of credit usage on cars.

Accounting for 70% of Turkey's GDP, consumer spending has been the country's primary engine of economic growth in the past decade. Unfortunately, much of this consumer spending has been financed by debt, as with many other areas of Turkey's economy. Personal loans grew at a scorching 61% average annual rate from 2005 to 2008 and barely slowed down after the financial crisis, while loans to households were increasing at a 28% annual rate in 2013. Credit is so free flowing in Turkey that consumers are even able to receive approvals for personal loans via text message and ATM machines. On December, 2018 official amount of consumer credit growth has reached to USD 58.52 Billion.

Growing Sectors

According to the Turkey's Investment office , growing sectors for upcoming years are agriculture, infrastructure, luxury goods, real estate, telecommunications, manufacturing, automotive, chemicals, civil aviation business, knowledge based services and ICT.

Consumers Associations

Consumer Rights Organization
General Directory of Protection of Consumer and Observation Market

IMPORTING & DISTRIBUTING

Import Procedures

Turkish documentation procedures require that a commercial invoice and bill of lading or airway bill accompany all commercial shipments. Depending on the type of product, importers may be required to submit a Certificate of Origin.

An importer needs only a tax number to import all but restricted items, which include firearms, hazardous materials, and other products that may be imported by authorized establishments only or for which approval from relevant Turkish government agencies are required.

In accordance with the import regime enacted in December 2011, Control Certificates are required only for animals, animal products, and certain plants such as seeds, seedlings, saplings and flower bulbs.
Companies selling to the Turkish market must submit evidence of conformity compliance (CE Mark).

For further information, click here to view the website of the Ministry of Trade.

Specific Import Procedures

Alcohol can be imported by the private sector by obtaining license and permission from the Tobacco Products and Alcoholic Drinks Market Regulatory Authority (TAPDK), an independent regulatory body. Nevertheless, non-tariff barriers, arduous documentation requirements, and high duty rates continue to limit trade in alcoholic beverages. Cigarettes can only be imported by cigarette producers, which are permitted by the government under a special decree.
Precious metals may only be imported by members of Istanbul Precious Metals Exchange operating under Borsa Istanbul.
Importing products such as pharmaceuticals require control certificates from the Ministry of Health and Ministry of Agriculture.
Imports of food products into Turkey are permitted only if they conform to regulations related to import controls and the Turkish Food Codex.
Products requiring after-sales service require an import permit from the Ministry of Trade.

Distribution channels

The Republic of Turkey has a young population of 85.3 million people fueling consumption. Grocery sales were USD 76 billion as of the end of 2021 (USDA).
As a result of low presence of organized or modern retailers in smaller towns and villages, traditional grocery retailers such as bakkals (traditional small grocery shops) and pazars (street produce markets), are still the main way of grocery shopping in those places. As the food retail market is very price-sensitive and the profit margins are low, domestic grocery store chains will probably continue to dominate the Turkish market at least for the near term. The traditional grocery retailers accounted for 38.6% of the total revenues in the retail sector in 2021, reaching USD 27 billion.

However, the market share of the modern organized grocery retailers is increasing. Supermarkets continue to dominate the modern food retail sector, with 31.8% market shares (USD 22.3 billion in sales) in 2021. Discounters represent 24.8% of the grocery retailers (USD 17.4 billion in revenues). Convenience stores and hypermarkets accounted for 2.5% and 1.4% of market share each.

Consumers have started to prefer hard discounters or discounters offering private label products, which are on average 30% cheaper than the name brand. Discount grocery retailers such as BIM and A101, are transforming the market and are opening up compact stores everywhere. Grocery supermarket retailers such as Migros and CarrefourSA are opening smaller convenience stores like M-Jet and CarrefourSA Express to compete.

High value imported items are increasing in number and variety in national and international hypermarkets like Migros, Metro, Carrefour and others which cater to higher income consumers.

During the COVID19 pandemic, with the first case declared on March 11th, 2020 in Turkey, grocery stores remained open and operational while shopping malls closed down. Reportedly, major grocery chains have had record sales turnovers of food and beverages due to the pandemic, especially before the mandatory weekend lockdowns in major cities in Turkey. The pandemic situation has given all online grocery retailers a major boost. Migros is the online market leader.

Distribution market players

The food retail sector in Turkey can be put into two major groups: organised and unorganised retailers. Organised retailers include multi-format retailers, local (regional) supermarkets, discount retailers, and gas station stores. Unorganised retailers, also called the traditional market, constitute smaller, individual convenience stores called bakkal in Turkish and open-air bazaars. The top 10 grocery store chains by market shares in 2021 (USDA) :

- BIM with 18.7% market shares - discount market chain
- A 101 with 12.0% - hard discount market chain
- Migros with 9.2% - multi-format supermarket chain
- Sok with 8.3% - discount market chain
- CarrefourSA with 2.6% - joint venture of Carrefour of France and Sabanci Holding of Turkey
- Sec Market with 1%
- Ekomini with 0.9%
- Hakmar with 0.8%
- MacroCenter with 0.6%
- Onur Market with 0.6%

Retail Sector Organisations

Turkish Federation of Shopping Centres and Retailers (TAMPF)
Retailers Council of Istanbul

OPERATING A BUSINESS

Type of companies

The Limited Sirket: Limited Liability Company

Number of partners: Between 1 and 50 partners.
Capital (max/min): TRY 10,000
Shareholders and liability: Liability is limited to the amount of capital contributed.

The Anonim Sirket: Public Limited Company

Number of partners: Minimum of one partner.
Capital (max/min): TRY 50,000
Shareholders and liability: Liability is limited to the amount of capital contributed.

Sahis Sirket: Individual Company

Number of partners: One partner.
Capital (max/min): The assets of the company are merged with those of the head of the company.
Shareholders and liability: The businessperson is indefinitely liable for the professional debts on the whole of his assets.

General Partnership (SCS) or Joint-Stock Company (SCA)

Number of partners: The SCS - SCA is made up of two distinct categories of partners: active partners and silent partners.
Capital (max/min): SCS: Contrary to joint-stock companies (SA, SAS, SCA), no minimum capital is required to constitute an SCS. The partners decide freely the amount of capital to be paid up at the constitution.

SCA: The same rules as for a public limited company.
Shareholders and liability: Silent partners are the shareholders of the company and are only liable for debts according to the amount of capital they have contributed. The shares are registered. The silent partners' assembly follows the same rules as in a public limited company (SA).

Active partners have the status of traders and are appointed by the silent partners. They are indefinitely and jointly liable for debts on their own property.

Setting Up a Company	Türkiye	Eastern Europe & Central Asia
Procedures (number)	7.0	5.3
Time (days)	7.0	11.8

Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage

In July 2022, the national minimum wage in Turkey was fixed at TRY 5,500 per month (around USD 330).

Average Wage

In 2020, the monthly average gross earnings were 4,514 TRY per month (Statistical Institute, latest data available).

Social Contributions

Social Security Contributions Paid By Employers:

Total social contributions paid by employees are 22.5%

- Short-term social security contributions 2%
- Disability, old age, death 11%
- General health insurance 7.5%
- Unemployment 2%

Social Security Contributions Paid By Employees:

All employees, including foreign nationals, are subject to compulsory social security. Total social contributions paid by employees are 15%

- Disability, old age, death 9%
- General health insurance 5%
- Unemployment 1%

Intellectual Property

National Organisations

Turkey is adapting its legal framework of industrial property to fit with the directives of the EU. The main advances in this domain are the creation of the Turkish Patent and Trademark Office (TPTO), the introduction of a regime of penal sanctions and the updating of the Law on Trademarks through a series of decrees.
Turkey continues to implement its intellectual property rights (IPR) law, the Industrial Property Code No. 6769, which entered into force in 2017.

Regional Organisations

For the protection of patents: the European Patents Office.

International Membership

Member of the WIPO (World Intellectual Property Organization)
Signatory to the Paris Convention For the Protection of Intellectual Property
Membership to the TRIPS agreement - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

TAX RATES

Consumption Taxes

Nature of the Tax

Katma Deger Vergisi (KDV) or Value-Added Tax (VAT)

Tax Rate

General VAT rate in Turkey is increased from 18% to 20%.
This respective standard new rate is applicable as of 10 July 2023.

Reduced Tax Rate

As per the Presidential Decree No. 7346 published in the Official Gazette dated 7 July 2023, general VAT and reduced VAT rate, and VAT rates applicable on certain deliveries have been increased.
General VAT rate in Turkey is increased to 20%, from 18%.
Reduced VAT rate of 8% is increased to 10%. Applicable VAT rate on the deliveries of the cleaning products (except toothbrushes, pastes and dental floss) is now increased from 8% to 20%.

The reduced VAT rate of 1% for basic foodstuffs remains the same.
The respective new rates are applicable as of 10 July 2023. (Source: PwC Tax Summary Turkey)

Other Consumption Taxes

OTV or Özel Tüketim Vergisi is a special consumption tax levied on petroleum products, automobiles and other vehicles, tobacco and alcohol and luxury products. Telecommunication services are subject to a special communication tax (Özel İletişim Vergisi).
Motor vehicle taxes are collected as fixed amounts on an annual basis, calculated from the age and engine capacity of the vehicles.

Corporate Taxes

Company Tax

Following the Law number 7456 published in 15 July 2023, the corporate income tax rate has been **increased to 25% from 20% for companies other than those in the financial sector.**

The corporate income tax rate is reduced by 1% for profits derived exclusively from manufacturing activities and export operations.

Tax Rate For Foreign Companies

A company is regarded as a resident entity for Turkish tax purpose if it has its legal seat or place of management located within the country.

Capital Gains Taxation

Long-term capital gains of a company are taxed as ordinary income, with an exemption of 75% of capital gains from the sale of shares in domestic participations (provided that the shares have been held for at least two years and the gains from the sale will be kept in a special reserve account for at least five years).
Capital gains from the sale of immovable property held for a minimum period of two years are exempt from tax up to 50%.

A Turkish international holding company can avoid corporate income tax on capital gains from selling foreign participation, as long as the foreign participation has been held for a minimum of two years. To qualify as an international holding company, the Turkish company needs to meet the following criteria:

- It must be a corporation.
- At least 75% of its total assets (excluding cash) must consist of foreign participations held continuously for at least one year.
- It must own a minimum of 10% of the capital of each foreign participation.
- The foreign participation must be in the form of a corporation or limited liability company.

Main Allowable Deductions and Tax Credits

Expenses that can be deducted from the corporation tax base include ordinary and necessary expenses incurred in the course of general business, real property tax related to business, bad debts, and expenses for research and development. An allowance is available until the end of 2023 to companies that carry out qualifying R&D and design activities (100% of expenditure in addition to a deduction for such expenditure in the statutory accounts). Moreover, 80% of the income tax computed on the wages of R&D and design personnel is exempt from income withholding tax (the rate is increased to 95% for employees with a PhD or master's degree in fundamental sciences, and 90% for employees with a master's degree in any field or an undergraduate degree in fundamental sciences). Companies are also exempt from stamp duty on any R&D-related documents and goods imported to this end are exempt from customs duties. In addition, an increase in R&D expenditure compared to the previous year (at least by 20%) gives rise to further deductions.

Start-up expenses are considered deductible expenses as incurred. Moreover, the taxpayer has the option to capitalise such expenses and depreciate them over five years in equal amounts.

Donations to listed charities and for the construction of schools, hospitals, and scientific research organisations are deductible at up to 5% of the company's gross profit. Under certain conditions, payments for pensions and employee termination benefits are deductible for corporate income tax purposes.

"Strategic" investments (as determined by the government, such as investment in the production of products that rely heavily on imports) give rise to a deduction of up to 100% of corporate tax, along with several other advantages concerning customs duties, employer's social security contributions, etc.

Companies, excluding those in the banking, finance, and insurance sectors, may benefit from a tax incentive called the notional interest deduction when making cash capital contributions. This deduction allows companies to subtract a calculated notional interest, based on their capital amounts contributed after July 1, 2015, from their taxable income. The deduction is equal to 50% of the notional interest calculated on the qualifying capital increase (after accounting for qualifying decreases). However, for capital sourced from abroad, the deduction rate is increased to 75%. The notional interest rate is determined by the annual interest rates announced by the Turkish Central Bank for commercial bank credits.

Tax losses can be carried forward for up to five years. The carryback of losses is prohibited. Charges for royalties and interest paid to foreign affiliates may be deductible for corporate income tax purposes when transfer pricing and thin capitalisation rules are followed.

For further information on available tax incentives, consult the dedicated page on the Revenue Administration portal.

Other Corporate Taxes

Buildings and land owned in Turkey are subject to an annual real estate tax at different rates: 0.2% for buildings, 0.1% for dwellings, 0.1% for land, and 0.3% for building sites (such rates are increased by 100% for buildings and land located within larger cities).
Real estate transfers are subject to a tax calculated as 4% of the acquisition/transfer value, which is split equally between the buyer and the seller.

Stamp tax applies to a wide range of documents, including, financial statements, and payrolls. Stamp tax is levied as a percentage of the value stated on the agreements at rates varying between 0.189% and 0.948%. Salary payments are subject to stamp tax at a rate of 0.759% over the gross amounts.

From 1 March 2020, Turkey levies a "Digital Service Tax" of 7.5% on service providers whose revenue derived from digital services during the previous fiscal year exceeds TRY 20 million in Turkey or EUR 750 million worldwide. The president is authorized to double the rate or reduce it to 1%, depending on the type of digital service.

A banking and insurance transaction tax applies at a general rate of 5% on bank and insurance charges. A Resource Utilisation Support Fund applies on foreign currency-denominated loans at varying rates according to their maturity, as well as on TRY-denominated loans with a maturity of less than a year. Foreign exchange purchases from banks, insurance companies, and foreign exchange offices, are subject to a 0.2% rate.
Other taxes include a tourism share (levied at TRY 2 and TRY 7.5 per TRY 1,000 of total net sales and leasing income) and an accommodation tax (set at 2%, the tax was implemented from 1 January 2023).

Social security contributions for both the employer and the employee total 34.5% of an employee's salary; 14% paid by the employee and 20.5% by the employer. In addition to social security payments, unemployment contribution is 3% of the salary, 1% for the employee and 2% for the employer. The monthly social security ceiling is TRY TRY 75,060 for the period running from 1 January to 31 December 2023.

Other Domestic Resources

Revenue Administration

Doing Business: Turkey, to obtain a summary of taxes and mandatory contributions

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

List of Double Tax Treaties signed by Turkey

Withholding Taxes

Dividends: 0% (resident companies)/10% (resident individuals and non-residents); Interest: 0% (residents and for "financial entities")/10% (interest on loan for non-residents); Royalties: 0% (resident companies)/20% (resident individuals and non-residents)