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ISTANBUL FINANCE CENTER LAW NO. 7412 IS ENTERS INTO FORCE

The regulations of Istanbul Finance Center Law entered into force upon publication in the Official Gazette No. 31880 dated June 28, 2022.

Said law aims to increase the financial competitiveness of the Republic of Turkey in the international arena, to contribute to the development and deepening of financial markets, products and services, to strengthen integration into international financial and capital markets, and to ensure that the Istanbul Financial Center becomes one of the leading global financial centers. The Law regulates the area of the Istanbul Finance Center (IFC), the provisions regarding the management and operation of the Istanbul Finance Center, the activities carried out therein and the incentives, discounts, exemptions and exemptions related to these activities. The advantages regarding tax and other financial liabilities provided by the aforementioned law are explained below:

1- Financial Institution

Financial institutions to operate within the Istanbul Finance Center refer to legal entities engaged in **financial activities**, their branches, liaison offices, representative offices and sovereign wealth funds.

2- Financial Activities

For the purposes of this Law;

Financial activities refer to activities, transactions and services within the scope of:

- 1) Law No. 1567 on the Protection of the Value of Turkish Currency,
- 2) Law No. 4632 on Private Pension Savings and Investment System
- 3) Banking Law No. 5411,
- 4) Bank Cards and Credit Cards Law No. 5464,
- 5) Insurance Law No. 5684,
- 6) Financial Leasing, Factoring, Financing and Savings Financing Companies Law No. 6361,
- 7) Capital Market Law No. 6362,
- 8) Law No. 6493 on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions.

3- Participant and Participant Certificate

Participant refers to natural and legal persons, their branches and representative offices, ordinary partnerships, liaison offices, regional management centers and sovereign wealth funds to operate in the office area by obtaining a Participant certificate. Accordingly, financial institutions that receive a participant certificate will only be able to operate within the region mentioned therein.

Participant certificate: Participant certificate refers to the document that allows the participant to benefit from the relevant independent sections and common areas in the office area; the procedures and principles regarding the issuance, suspension and cancellation of which are determined in the implementation regulation.

The participant certificates will be given by the Presidential Finance Office.

4- Definition of Export of Financial Services

Financial services provided to non-residents by institutions that perform financial activities in the IFC by obtaining a participant certificate are considered as financial service exports, provided that the service is ultimately utilized abroad. Derivative transactions carried out by financial institutions on their own behalf and account, transactions to purchase assets for their portfolios or to sell assets from their portfolios; and activities, services and transactions that take the savings of residents abroad are not considered as exports of financial services.

5- Corporate Tax Exemption

Pursuant to Article 6-1/a of the Law, 75% of the earnings obtained within the scope of financial service export activities carried out within IFC by financial institutions that have received participation certificates are deducted from the corporate profit in the determination of the corporate tax base, provided that it is separately shown on the corporate tax return. As the provisions of the article make clear, the exemption will only be applied to the earnings obtained within the scope of activities deemed financial service exports. The general taxing regime will be applied for the other earnings of the participants in the region. On the other hand, as per the provisional Article 1 of the Law, the exemption rate of 75% will be applied as 100% for the corporate income of the corporations for the taxation periods between 2022 and 2031. These periods cover the accounting periods starting in the relevant years for institutions with special accounting periods.

6- Income Tax Exemption for Salaries

Financial institutions that have obtained participant certificates will be exempt from income tax by 60% of the real net value of the monthly salary paid to their staff at the IFC for those with at least five years of professional experience abroad and 80% for those with at least ten years of professional experience abroad. The exception stated in this paragraph is applied to the salary income of the personnel who have not worked in Turkey in the **last three years** before they started to work at IFC.

7- Banking and Insurance Transactions Tax Exemption

Pursuant to Article 6-1/b of the IFC Law, transactions in the nature of financial service exports carried out within the IFC by financial institutions that have received participant certificates and the money received as proceeds from these transactions are exempt from BITT.

8- Stamp Duty and Fee Exceptions

Pursuant to Article 6-1/c of the Law, transactions in the nature of financial service exports carried out within the IFC by financial institutions that have received participant certificates are exempt from all kinds of fees, and the documents issued in relation to these transactions are exempt from stamp tax. Pursuant to Article 6/3 of the Law, transactions regarding the leasing of immovables in the IFC are exempt from all kinds of fees and the documents issued in relation to these transactions are exempt from stamp tax.

On the other hand, pursuant to the provisional Article 1, Paragraph 2 of the Law, the financial activity fees, which are required to be collected from the headquarters and branches of financial institutions that have obtained participant certificates as per the Law on Fees, will not be collected for five years as of the date of entry into force of this Law. As of the date of entry into force of this law, the accrued fees will not be canceled and the collected ones will not be refunded.

9- Common Arrangements on the Organization of Books and Documents and Contract Law

The Ministry of Treasury and Finance is authorized to regulate the books to be kept and the documents to be issued by the participants in foreign currency, regardless of the provisions of the Tax Procedure Law and the Turkish Commercial Code. In addition, pursuant to Article 7/2 of the Law, flexibilities have been granted regarding the obligation to use Turkish in all kinds of transactions, agreements and communications between the participants and within the scope of the activities carried out within the IFC. Within the scope of the activities carried out by the participants within the IFC, the participants may freely make legal choices in all kinds of transactions and contracts subject to private law, provided that they do not contradict the legislation to which the activities of the participants are subject.

The provisions of Article 6 on exemptions and deductions from tax and other financial obligations and Article 7 on common arrangements shall also apply to regional treasury and financial management centers of participants actively operating in at least three countries.

Sincerely,

**DENGE İSTANBUL YEMİNLİ
MALİ MÜŞAVİRLİK A.Ş.**

APPENDIX

Istanbul Finance Center Law No. 7412

(*) The remarks in our circulars are for information purposes only. We recommend that the opinion and support of a qualified counsellor be received before establishing final transactions on the questionable matters. Our company shall not be held responsible for any damages to be incurred as a result of transactions to be made solely on the basis of the statements in our circular.

(**) For opinions, criticism and questions about our circulars, you can contact our specialists below.

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