

28 June 2022

INFORMATION NOTE ON ISTANBUL FINANCE CENTER LAW NUMBERED 7412

Istanbul Finance Center Law (“**Law**”) numbered 7412 which aims to make Istanbul Finance Center one of the leading global finance centers, was published on the Official Gazette dated 28.06.2022 and numbered 31880 and entered into force the same day.

You may find the summary of the new regulations coming with the Law below.

I. PURPOSE AND SCOPE OF THE LAW

With the Law, it is intended to increase the financial competitiveness of the Republic of Turkey in the international arena, contribute to the development and deepening of financial markets, products, and services, strengthen integration with international finance and capital markets and because of this make Istanbul Finance Center (“**IFC**”) one of the leading global finance centers.

The Law consists of the area of IFC, articles regarding management and operation of IFC, activities of IFC and incentives, discounts, exceptions, and exemptions of these activities.

II. FINANCIAL INSTITUTIONS THAT ARE ELIGIBLE TO OPERATE IN IFC

The financial institutions that are able to operate in the IFC are legal entities engaged in financial activities, their branches, liaison offices, their representative offices, and sovereign wealth funds.

Financial activities are defined in the Law as the activities, services and transactions specified within the scope of the laws listed below:

- Law on the Protection of the Value of the Turkish Currency numbered 1567,
- Private Pension Savings and Investment System Law numbered 4632,
- Banking Law numbered 5411,
- Debit Cards and Credit Cards Law numbered 5464
- Insurance Law numbered 5684,
- Financial Leasing, Factoring, Financing and Savings Financing Companies Law numbered 6361,
- Capital Markets Law numbered 6362,
- Law on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institution numbered 6493.

However, derivative transactions carried out by financial institutions on their own behalf and account, transactions of buying or selling assets from their portfolios, and activities, services and transactions that take the savings of domestic residents abroad shall not be considered as financial service exports.

III. CONDITIONS OF OPERATING IN THE IFC

The opportunity to benefit from the discounts, exemptions and other tax advantages regulated in the Law is subject to the conditions of (i) obtaining a participant certificate, (ii) being in the office area and (iii) exporting financial services.

(i) Obtaining a participant certificate

Participants who want to operate in the IFC are given a participant certificate by the Presidency Finance Office. The participant refers to the real and legal persons who will operate in the office area by obtaining a participant certificate, their branches and representatives, ordinary partnerships, liaison offices, regional management centers and national wealth funds. The procedures and principles regarding the participant certificate, including the issues regarding the issuance of the participant certificate, the conditions for the exemption of the participant certificate, the suspension and cancellation of the participant certificate, will be regulated in the implementing regulation.

(ii) Being in the office area

The office area is defined as an area that can be used within the boundaries of the IFC and consists of independent sections dedicated to the purpose of the office use. The boundaries of the IFC are determined with the coordinated sketch and list numbered (1) in the appendix of the Law.

(iii) Exporting financial services

Financial services provided by financial institutions to non-residents by obtaining a participant certificate are considered as financial service exports, provided that the service is ultimately utilized abroad.

IV. EXCEPTIONS AND DISCOUNTS TO BE APPLIED AS A RESULT OF OPERATING IN THE IFC

➤ **Exceptions and discounts regarding transactions and activities in the nature of financial service exports:** Below transactions and activities in the nature of financial service export realized at IFC by financial institutions that are in possession of participation certificates;

a) Activities within the scope of which 75% of the earnings obtained are deducted from the corporate income in the determination of the corporate tax base if it is separately shown on the corporate tax return. In accordance with the Provisional Article 1 of the Law, this rate will be applied as 100% for the corporate earnings of the corporations for the taxation periods between 2022 and 2031.

b) Transactions and money received in favor of these transactions are exempt from banking and insurance transactions tax.

c) Transactions related to activities are exempt from all kinds of fees, and papers issued regarding these transactions are exempt from stamp tax.

➤ **Exception regarding employment:** 60% of the actual net value of the monthly wage paid to the personnel employed by the financial institutions that have obtained the participation certificate at the IFC for employees with at least five years of professional experience abroad and 80% for employees with at least ten years of professional experience abroad are exempt from income tax. The exception stated in this paragraph is applied to the wage income of the personnel who did not work in Turkey in the last three years before they started to work at the IFC.

In addition, participants who will operate in the IFC and regional treasury and financial management centers of participants who are active in at least three countries can employ foreign personnel with a work permit issued by the Ministry of Labor and Social Security in accordance with the International Labor Law numbered 6735. Work permit applications to be made in this context are considered exceptional within the framework of Article 16 of Law numbered 6735.

➤ **Exception regarding immovables:** Transactions regarding the leasing of immovable properties in the IFC are exempt from all kinds of fees and the documents issued regarding these transactions are exempt from stamp tax.

V. OTHER COMMON REGULATIONS FOR PARTICIPANTS

The Ministry of Treasury and Finance is authorized to make regulations, regardless of the provisions of the Tax Procedure Law numbered 213 and the Turkish Commercial Code numbered 6102, regarding the keeping and issuing of the books and the documents, that the participants shall keep, in foreign currency.

Articles 1 and 3 of the Law on Compulsory Use of Turkish in Economic Institutions numbered 805 shall not apply to all kinds of transactions, contracts, communications arranged within the scope of the activities carried out by the participants among themselves and at the IFC.

Within the scope of the activities carried out by the participants among themselves at the IFC, provided that the activities of the participants are not contrary to the legislation to which they are subject, a free choice of law can be made in all kinds of transactions and contracts made under private law.

VI. REGULATIONS REGARDING PARTICIPANTS ACTIVELY OPERATING IN AT LEAST THREE COUNTRIES

Exceptions and discounts, explained under the headings IV and V, regarding tax and other financial liabilities together with other common regulations for participants are also applied to the regional treasury and financial management centers of the participants who are active in at least three countries.

VII. ADMINISTRATION AND MANAGEMENT OF THE IFC

A “one-stop shop” will be established in which the relevant units of public institutions and organizations will take charge in order to make applications such as permits, licenses and similar approval applications regarding the activities of the participants, as well as the permits and approvals of their employees and their dependents, and to accelerate these application processes. Representatives of the Ministry of Labor and Social Security, the Ministry of Environment, Urbanization and Climate Change, the Ministry of Treasury and Finance, the Ministry of Interior, the Ministry of Commerce and, if deemed necessary by these ministries, their affiliated, related institutions or representatives of public institutions and organizations under the supervision of these ministries and relevant district municipality representatives take part in the one-stop shop.

The one-stop shop will be managed by the Presidential Finance Office, without prejudice to the provisions of the relevant legislation. In case of need, different ministries, public institutions and organizations can also be included in the one-stop shop. The procedures and principles regarding the operation of the one-stop shop will be regulated in the implementing regulation.

Except for the operation and management of all infrastructure and superstructure, the rental of independent sections and areas, and the areas allocated to the relevant institutions in line with the functions determined in the zoning plan; all kinds of management activities regarding roads, squares, green areas, parks and similar places reserved for public services will be carried out for a period of twenty years by a joint-stock company (managing company) operating under the provisions of private law and to be established by the Turkey Wealth Fund.

VIII. CONCLUSION

The Law seems to be aimed the IFC to become a global center, and in this direction, to ensure competition with financial institutions operating in other international financial centers by providing convenience for the activities of public and private sector banks, portfolio management companies, intermediary institutions, insurance companies, professional service companies and national and international financial institutions from different categories in the form of financial service export and other international financial services.

Finally, the above-mentioned implementing regulation, which will be containing details on the implementation of the Law, is expected to be published shortly.

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Should you have any queries on the above, please do not hesitate to contact us.

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