

Free Zones Law

Law Nr. 3218

Approved: June 6, 1985

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SECTION ONE GENERAL PROVISIONS

Objectives and Scope

ARTICLE 1 - This Law encompasses matters related to the establishment of free zones; the determination of their location and boundaries; their management; the scope of their activities; their operation; and the establishment of installations and facilities within the zone; with the objective of increasing export-oriented investment and production in Turkey; accelerating the entry of foreign capital and technology; procuring inputs of the economy in an economic and orderly fashion; and increasing the utilization of external finance and trade possibilities.

Authority

ARTICLE 2 - The Council of Ministers has the authority to determine the location and boundaries of the free zones.

The Council of Ministers grants permission for the establishment and operation of free zones to public institutions and agencies, resident or non-resident real persons or legal entities.

Definitions

ARTICLE 3 - In the implementation of this Law:

- a) Operator signifies the public institution and agency; the resident and non-resident real persons or legal entities operating the free zone.
- b) User signifies the real and legal person bearing an Operating License and having a specific place of business within the free zone.
- c) Foreign exchange refers to all currencies, or all types of accounts or bills, considered as being convertible by the Central Bank of the Republic of Turkey.

Activities

ARTICLE 4 - Any kind of industrial, commercial and service activities approved by the Supreme Coordination Council Of Economic Affairs may be carried out within free zones.

Any authority regarding prices, quality and standards granted to public institutions and agencies by laws or by other legislation is not valid in the free zones.

SECTION TWO ORGANIZATION OF FREE ZONES

Principles Related to the Organization of the Zone

ARTICLE 5 *- Land and facilities needed within the declared free zones may be acquired pursuant to the provisions of the Expropriation Law.

Domestic or foreign real persons or legal entities may be active within free zones on the condition that the Undersecretariat of Foreign Trade grants an operating license to them. All other permits and licenses regarding the use of land as well as the design, construction and utilization of buildings and installations within the free zone are issued and supervised by the regional directorate.

Security services for free zones are provided by the police.

Exemptions and Incentives

ARTICLE 6* -** Free zones are regarded as being outside of the customs territory.

Legislative provisions pertaining to customs and foreign exchange obligations are not applicable in these zones.

Regarding the account books the users must keep and documents they draw up, Ministry of Finance is authorized to make necessary arrangements independent from the provisions of the Tax Procedures Law No. 213 dated 4.1.1961.

During the investment and production stages of their activities, operators and users may qualify for incentives other than tax incentives, determined by the Council of Ministers.

Revenues and Expenditure of the Free Zones

Article 7 **- From the revenues obtained from the free zones;

- a) Fees to be collected for operating licenses and permits,
- b) Fees to be paid in advance amounting to 0.5 percent of the CIF value of goods entering the zone from abroad and leaving the zone towards Turkey,
- c) Payments specified in the contracts made with real persons and legal entities operating the free zones,
- d) Other revenues obtained from the zone activities,

Are deposited in the Special Account to be opened with the Central Bank of the Republic of Turkey, after deducting the income share transfers specified in the contracts made with the legal entities by the interested administration. After reducing the rejections and returns, the rest of the amount collected in this account is deposited in the account of the Main Treasurers Office, which is in charge of the payments of the Undersecretariat for Foreign Trade. The

amount deposited in the account of the Main Treasurers Office is registered as revenue to the budget. (*****)

Goods utilized during the investment and construction stages, goods brought into the zone for renovation and capacity building purposes, as well as goods, which are not owned by the users, brought into the zone for maintenance and repairing purposes, temporarily brought instruments, tools and equipment, and goods brought for the purpose of outsourced material processing are not subject to the payments specified in paragraph (b) of this Article. However, a fee is charged on the value added created during the maintenance, repairing, and outsourced material processing.

Procedures and principles concerning the management of the Special Account opened with the Central Bank of the Republic of Turkey are determined by a regulation of the Undersecretariat for Foreign Trade upon the approval of the Ministry of Finance. Revenues not deposited in due course, are subject to the provisions of the Law Nr. 6183 on the Procedures on the Collection of Public Receivables. (*****)

SECTION THREE GOODS AND SERVICES

Goods In Free Zones

ARTICLE 8 - Trade conducted between a free zone and other regions of Turkey is subject to the foreign trade regime. Upon request, goods originating from Turkey of less than 500 US \$ value may be exempted from export procedures. The foreign trade regime is not applicable for trade conducted between free zones and other countries, or other free zones.

Foreign Exchange and Services

ARTICLE 9 - All payments related to free zone activities are made in the form of foreign exchange. The Council of Ministers may decide that payments be also made in the form of Turkish Lira.

Shipping and port services in free zones are provided either by the operator or assigned to public institutions and agencies or to real persons or legal entities.

SECTION FOUR LABOR AND SOCIAL SECURITY, REPEALED AND INAPPLICABLE PROVISIONS, AND REGULATIONS

Labor and Social Security Provisions

ARTICLE 10 - firms operating in a free zone may employ foreign managers and qualified personnel. Governing statutes specifies related principles.

Provisions of the Social Security Regulations of the Republic of Turkey are applied in free zones.

Repealed Provisions

ARTICLE 11 - The Free Zones Law Nr. 6209 dated December 21, 1953, is hereby repealed.

Inapplicable Provisions

ARTICLE 12 **- In free zones, all provisions of Municipality Law Nr. 1580 except paragraphs 5, 22, 25, 32 and 47 of Article 15; Passport Law Nr. 5682; Law Nr. 5683 for Foreigners Traveling and Residing in Turkey and Law Nr. 2007 on Professions and Services Allocated for Turkish Citizens including its Annexes and Amendments; Foreign Investment and Encouragement Law No 6224; Law Nr. 2677 on the Implementation of Duties and Services at the Civilian Airports, Ports and Border Gates, and provisions of other laws contrary to this Law are not applicable.

Free Zone Governing Regulation

ARTICLE 13 ** - Where the arrangement of matters in this Law are left to governing regulations, concerning any organization, duties, authority and/or responsibilities of operators who are active in free zones, or granting and cancellation of any Operating Licenses provided to such operators and/or users; concerning the maintenance of their industry and commercial registers; concerning any payments they make to the Special Account; concerning principles governing conduct of activities in a free zone; concerning zone entry permits and identity cards; residence permits; and concerning work principles and other matters pertaining to the operation of free zones are determined by governing regulations.

INTERIM ARTICLE 1 – (Abolished, Law Nr: 4771, Official Gazette dated August 9, 2002 numbered 24841)

INTERIM ARTICLE 2 - This Law is effective for each free zone upon the commencement of operations in that free zone.

The date of commencement of operations is the date when the construction of the perimeter fence, tower and gate are completed and the regional directorate, police and customs units assume their duties.

INTERIM ARTICLE 3****

By the date this article comes into effect, the taxpayers, who obtained licence to operate in the free zones that were established according to this Law, are

- a) Exempted from income or corporate taxes on the earnings generated through their activities in these zones, within the limits of the period specified in their operating licences as of the date this article comes into effect. This exemption does not affect the deduction carried out within the scope of sub clause (b) of sub paragraph 6 under the first paragraph of the article 94 of the Income Tax Law No. 193 dated 31.12.1960.
- b) Exempted from the income tax on the wages they pay to their workers until 31.12.2008. However, if the validity period of their operating licence ends before 31.12.2008, the date of completion of the operating licence period is taken into consideration regarding this exemption.

- c) exempted from all taxes, levies and duties on their activities related to their free zone operations until 31.12.2008.

The earnings of the income or corporate taxpayers, generated through the sales of the goods they produced in these zones, are exempted from the income or corporate taxes until the end of the taxation year including the date of the realization of the full membership of Turkey to the European Union. This exemption does not affect the deduction carried out within the scope of sub clause (b) of sub paragraph 6 under the first paragraph of the article 94 of the Income Tax Law No. 193 dated 31.12.1960.

Entry into Force

ARTICLE 14 - This Law goes into effect on the date of its publication.

Execution

ARTICLE 15 - The provisions of this Law are enforced by the Council of Ministers.

*As amended by the Law No.4059, published in the Official Gazette dated 20.12.1994

**As amended by the Law No.4684, published in the Official Gazette dated 03.07.2001

*** As amended by the Law No. 5084 on the Encouragement of Investments and Employment and Amendment of Certain Acts, published in the Official Gazette dated 06.02.2004, No. 25365.

**** As annexed to the Free Zones Law No. 3218 by the Law No. 5084 on the Encouragement of Investments and Employment and Amendment of Certain Acts, published in the Official Gazette dated 06.02.2004, No. 25365.

*****As amended by the Law No.5217, published in the Official Gazette dated 23.07.2004