TAX TREATMENT OF RESTRICTED STOCK & RSUS

TURKEY

	EMPLOYEE	EMPLOYER
GENERAL	There are no specific rules or regulations relating to employee share plans in Turkey and therefore the tax treatment is unclear under Turkish law. The position set out below assumes that there is no reimbursement between the parent company and local employing company, the options are granted directly by the parent company and that no corporation tax deduction is clamed by the local company.	
GRANT DATE	No tax consequences.	No tax consequences.
VESTING DATE	No tax consequences.	No tax consequences.
WITHHOLDING & PAYMENT OF TAX	No withholding required.	No withholding required.
SOCIAL SECURITY	No employee social security contributions are due.	No employer social security contributions are due.
SALE OF SHARES	The gain arising on the sale of the shares must be declared on the employee's annual income tax return and will be subject to income tax at the employee's applicable rate. There is an income tax exemption for a certain amount of gains in a calendar year but this exemption does not apply to the sale of marketable securities.	None.
REPORTING	The employee must report details of taxable income on the annual individual income tax return by no later than 25 March following the tax year in which the taxable event occurs. Any balance of tax due must be paid in two equal instalments in March and July.	None.

For further information and to register for future updates contact:

globalequity@bdo.com

Defined terms used in this summary:

Restricted Stock - Issued shares transferred to employees on the date of grant which are typically subject to restrictions on sale or forfeiture for example if performance targets are not met.

Restricted Stock Units – Awards where employees receive a right to acquire shares. Shares are only issued following vesting and attainment of performance targets, if applicable.

This summary has been prepared on the basis that employees are resident in Turkey throughout the period from grant of stock awards until the shares are sold and that the employee is employed by a local employer in Turkey, which is a subsidiary of an overseas parent. The potential tax consequences may vary greatly depending on your company's equity plan's design, administration, as well as many other factors.

Should you have a need for a trusted advisor in this area, please contact BDO's Global Equity team.

This information is current as of August 2016.

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TAX TREATMENT OF RESTRICTED STOCK & RSUS

TURKEY

	EMPLOYEE	EMPLOYER
IS A CORPORATION TAX DEDUCTION AVAILABLE?	A corporation tax deduction should be available provided that a written recharge agreement is in place between the Turkish subsidiary and parent company. However if the subsidiary reimburses the parent company this is likely to significantly change the tax, social security, withholding and reporting position, as follows: - The market value of the shares on grant (for restricted stock) and on vesting (for RSUs) is likely to be treated as employment income, giving rise to an income tax liability for the employee which must be withheld by the employer and reported/remitted to the tax authorities accordingly; - The taxable income will be subject to employee social security (to the extent that the employee has not exceeded the maximum cap) and this must be withheld by the employer. Employer social security will also be due.	
"QUALIFYING" PLANS AVAILABLE?	None.	
INTERNATIONALLY MOBILE EMPLOYEES	The above summary has been prepared on the basis that employees are resident in Turkey throughout the period from grant of the RSUs/Restricted Stock until the shares are sold. The rules for internationally mobile employees are complex and there are specific rules applicable to non-resident individuals. If an employee is non-resident the Turkish tax consequences will depend on the type of income (e.g. employment income, capital gains or dividends) and whether there is a Double Taxation Agreement (DTA). Generally, for income of non-resident persons to be subject to Turkish income tax, they must be deemed as "Turkish sourced". It is highly recommended that advice is sought on an individual case by case basis.	
OTHER POINTS FOR CONSIDERATION	This summary is provided by BDO for informational purposes only to provide an outline of the general tax and social security position based on current tax law. There are also a number of legal and regulatory issues to consider on the implementation of any employee equity plan including, but not limited to, employee entitlement claims, exchange controls, securities restrictions, prospectus requirements and data protection regulations. For example: - New data protection laws came into force on 7 April 2016; - Exchange controls: Turkish residents are subject to certain outbound exchange controls. One of these restrictions is that Turkish residents must use a Turkish intermediary bank which has been approved under Turkish Capital Markets Law in order to purchase or sell shares traded on a foreign market. If the employee does not make a payment to acquire the shares these exchange controls should not apply on the acquisition of shares. If cashless settlement is not used, employees must remit funds to purchase shares through an approved intermediary bank when they exercise their option rights. The sale of shares traded on exchanges outside of Turkey must however still be conducted through such an approved intermediary, regardless of the method of acquisition. We recommend that legal advice is obtained prior to the implementation of any employee equity plan.	

KEY ACTION POINTS

- ✓ There are no specific rules or regulations relating to employee share plans in Turkey and therefore the tax treatment is unclear under Turkish law. The position alters significantly when a recharge agreement is in place between the Turkish subsidiary and the parent company and companies should review this closely to determine whether the benefits of using a recharge agreement are outweighed by the tax and social security liabilities and associated withholding and reporting obligations arising as a result.
- ✓ Companies should be aware that employees will be subject to certain outbound exchange controls and should review their employee equity plans to ensure that employees are able to exercise their awards whilst still meeting these exchange controls.