

Holding Company

Service : Holding Company Structuring Service

What is the Meaning of a Holding Company? What Kind of Structure Is It?

A holding company is an umbrella entity that aims to distribute the profits obtained from the subsidiaries it participates in to other subsidiaries, thereby managing the distribution activities across all involved entities.

Article 519/4 of the Turkish Commercial Code defines holding companies as "companies whose primary purpose is to participate in other businesses." In this sense, to understand what a holding company is, the terms "participation" or "subsidiary" need to be clarified. The concept of participation refers to an individual or legal entity becoming a shareholder in another business. Whether the participant is an individual or a legal entity, they are a stakeholder in the business they have participated in. In summary, the term "holding" in the legal text refers to a business engaged in participation and activities related to it.

What is the Legal Nature of a Holding Company?

A holding company can be defined as a company that manages other companies by holding shares in one or more of their partners. However, it is important to note that, under Turkish Law, a holding is not considered a special type of commercial company. Nevertheless, it is generally structured as a joint-stock company due to the advantages that will be explained later.

Contrary to common assumptions, there are differences between the concepts of a holding and a corporate group:

- The purpose and focus of a holding company is to participate in other companies. On the other hand, a corporate group refers to the special union of multiple companies, where the dominant company's primary objective is to exert control.
- Unlike a corporate group, a holding company is not required to participate in a minimum number of companies (However, if the holding company owns subsidiary companies as the dominant shareholder, it may be considered part of a corporate group).
- In Turkey, holding companies are only allowed to be established as joint-stock companies.
- While the term "holding" can be used in the commercial title of a company, the term "corporate group" cannot be used in a company's commercial title.

Holding Company

What Are the Relevant Legal Regulations?

- Holding companies can only be established as joint-stock companies (Anonim Şirket) in Turkey.
- To establish a holding company, a single individual (either a real or legal person) is sufficient.
- According to the "Communiqué on Raising the Minimum Capital Amounts for Joint-Stock and Limited Companies, and Determining the Companies Requiring Approval for Establishment and Articles of Association Amendments," published in the Official Gazette No. 28468 on November 5, 2012 ("Communiqué"), holding companies are subject to approval by the Ministry of Customs and Trade for their establishment and amendments to their articles of association. Additionally, it is legally mandatory for a related representative of the Ministry to be present at the general assemblies of holding companies.
- For holding companies, the provisions to the mandatory reserve fund (Article 519/2-c and 519/3 of the Turkish Commercial Code) do not apply. Therefore, for holding companies, the mandatory statutory reserves are considered voluntary reserves.
- In terms of initial capital, holding companies that adopt the fixed capital system must have a minimum starting capital of TRY 250.000 while holding companies that adopt the registered capital system but are not publicly listed must have a minimum initial capital of TRY 500.000.
- With approval from the Ministry of Customs and Trade, an existing company can be converted into a holding company. In this case, changes are made to the company's commercial title and its activities as outlined in the articles of association.
- In Turkey, only pure holding companies are allowed to be established. A pure holding is a type of holding company that does not engage in industrial or commercial activities and whose primary purpose is to participate in other companies.
- The Regulation on Keeping Commercial Books Not Related to Business Accounting in Electronic Environment issued by the Ministry of Trade and the Ministry of Treasury and Finance will enter into force on July 1, 2025. This regulation imposes an obligation on certain commercial companies to maintain their share ledger, board of directors meeting minutes, managers' meeting minutes, and general assembly meeting minutes in electronic form. In this regard, companies registered with the trade registry as of January 1, 2026, will be automatically included in the system upon registration. Joint-stock companies subject to ministry approval (*such as **holdings**, banks, financial leasing companies, insurance companies, etc.*) must, within two months of the obligation arising from July 1, 2025, apply to a notary to obtain the closure approval of their physical books.

Holding Company

What Are the Benefits of a Holding Structure?

- 1. Risk Distribution:** A holding structure enables the combination of multiple companies, thereby distributing the risks associated with any single company. This helps limit potential losses by spreading the risks across different entities.
- 2. Tax Advantages:** The holding company may benefit from tax advantages due to intra-group transactions such as financing of investments, disposal of assets, and cost-sharing arrangements among its subsidiaries.
- 3. Management Efficiency:** A holding company brings together various businesses under one roof, allowing for a centralized management structure. This results in reduced management costs and fosters a more efficient organizational structure.
- 4. Financial Strength:** By consolidating the profits and assets from its subsidiaries, a holding company gains financial strength. This enhances its ability to pursue larger investment opportunities and secure better financing terms through improved credit conditions.
- 5. Strategic Management and Investment:** A holding company can create a diversified portfolio by investing in companies across different sectors. This diversification makes it more resilient to sectoral changes and allows for a focus on long-term strategic goals.
- 6. Collaborations and Synergy:** The holding company can foster collaboration and synergy among its subsidiaries, creating larger opportunities. Shared resources, cost savings, and access to broader markets can arise from these synergies.
- 7. Increase in Company Value:** The holding structure often generates an image of a larger and more powerful company, which can lead to an increase in share values and facilitate easier access to funding.
- 8. Attractiveness to Investors:** Investors may view holding companies as more stable and robust entities. This perception can make the holding company more attractive to investors.

What Are the Tax Benefits of Holding Companies?

Since holding companies are established as joint-stock companies, they are considered subject to Corporate Tax. All the rules and principles applied to Corporate Tax payers generally also apply to holding companies.

One of the advantages of establishing a holding company is the tax benefits it offers. These benefits are not only applicable to holding companies but also extend to capital companies that participate in another fully taxable capital company.

Holding Company

Tax Benefits of Holding Companies

- No income tax/corporate withholding tax is applied on dividends distributed to the holding company. Since the profits of the parent company or the holding company are eventually distributed to the individual shareholders, the tax is paid with a delay. Additionally, no withholding tax is levied on undistributed profits.
- Another important tax advantage is the "Dividend Income Exemption" outlined in Article 5 of the Corporate Tax Law (Kurumlar Vergisi Kanunu - KVK), which aims to prevent double taxation. The dividend income earned by the holding company from its subsidiaries established in Turkey is exempt from taxation.
- In the case of the sale of shares in subsidiaries held by the holding company, 50% (Depending on other conditions as well) of the gain from the sale is exempt from corporate tax (KVK 5/1-e).
- Expenses incurred by the holding company for services provided directly to subsidiary companies can be deducted from the corporate tax base in the calculation of the subsidiary's corporate tax.
- The sale of shares in subsidiaries held in the holding company's assets for a period of 2 years is exempt from Value Added Tax (VAT), just like other corporate entities. Share transfer transactions of subsidiaries that are joint-stock companies are exempt from VAT without any time limitation.
- The exemption provisions in Articles 5/1-c and 5/1-b of the Corporate Tax Law also implicitly describe a holding relationship.
- Furthermore, the concept of controlled foreign company income (CFC - KVK Article 7) and the thin capitalization regulations are also framed within the holding structure for participations.

An important tax regulation that addresses the holding topic is the Corporate Tax General Communiqué. The communiqué makes reference to holding companies in two places. The first refers to the status of holding companies in the exemption for the capital gains from the sale of real estate and shares in subsidiaries, and the second concerns the holding expenses that holding companies allocate to the companies they participate in.

Holding Company

The Status of Holding Companies in the Exemption for Capital Gains from the Sale of Real Estate and Shares in Subsidiaries

According to the Turkish Commercial Code, holding companies, whose primary purpose is to participate in other businesses, will not be eligible for exemptions on the capital gains from the sale of subsidiary shares, except for those shares acquired and held for participation purposes (which must be proven and documented).

In this context, companies are required to track the shares or partnership interests of other companies they acquire in the accounts under the "11-Securities" or "24-Financial Fixed Assets" groups, in accordance with the General Communiqué on the Accounting System. Shares or partnership interests purchased with the aim of benefiting from short-term price fluctuations and held temporarily are recorded under the "11-Securities" group. If holding companies have shares or partnership interests in this account, the capital gains from their sale will not be eligible for the exemption. However, if holding companies have shares recorded in the "24-Financial Fixed Assets" group, and provided that other conditions are met, the capital gains from the sale of these shares may benefit from the exemption.

Nevertheless, since the main activity of holding companies is not real estate trading, gains derived from the sale of real estate held by these companies should still be eligible for the exemption.

Distribution of General Administrative Expenses of Holding Companies to Subsidiaries

Holding companies can provide various services to their subsidiaries, including research and development, financing, marketing and distribution, preparation of investment projects, goal setting, planning, implementation of organizational decisions, IT services, management, financial auditing and tax consulting, market research, public relations, personnel recruitment and training, accounting organization and control, and legal advisory services.

It is mandatory for the holding company to issue invoices for the services provided to the subsidiaries. The amount charged for these services must be determined in accordance with the arm's length principle outlined in Article 13 of the Corporate Tax Law, which ensures that the prices are in line with what would be charged between independent entities.

Holding Company

In order for these services provided by the holding company to be recorded as expenses by the subsidiaries:

- The service must have actually been rendered.
- The type of service must be clearly specified in the invoice.
- If multiple service fees are listed on a single invoice, each service fee must be shown separately.

Provided these conditions are met, the subsidiaries will be able to record the invoice amount issued by the holding company as an expense in their financial records.

Additionally, please be aware that transactions involving invoicing with foreign entities, similar to a 'management fee', will be subject to inquiries from the relevant tax authorities and the limitations regarding withholding tax and expense deductions.

In this article, we aimed to address common yet lesser-known topics from various perspectives. We hope you found it useful and interesting.

If you would like more information or have any questions about our services, please feel free to refer to the "[Questions About Holding Structure](#)" section on the next page and schedule a meeting with us. We would be happy to assist you.

Best regards.

Holding Company

Questions Regarding Holding Structure

1. How do you plan the management structure of the holding company? How will the members of the Board of Directors be selected? Are you considering establishing a separate executive board/committee?
2. How will the relationships and contracts between the holding company and its subsidiaries be structured? What kind of contractual framework do you plan to establish?
3. Do you have a risk management plan for the legal liabilities that may arise from the activities of the holding company?
4. When decisions are made regarding the holding company's subsidiaries, how will the independence of each subsidiary be maintained?
5. How will you establish an audit mechanism to prevent legal inconsistencies between the activities of the holding company and those of its subsidiaries?
6. Do you plan to form partnerships with external investors in the future growth strategies of the holding company?
7. How will the ownership structure in the subsidiaries be determined? Are there any legal restrictions anticipated regarding share transfers or sales?
8. How do you plan to manage information sharing between the holding company and its subsidiaries? Will there be a confidentiality agreement in place to protect trade secrets?
9. What capital amount do you foresee for the establishment of the holding company? Do you plan for capital increases or external financial support?
10. How do you plan to structure the initial financial setup of the holding company? Will it grow through its own equity, or will it rely on borrowing?
11. Have you prepared an appropriate tax planning for the holding structure according to Turkey's tax legislation? Are you aware of the opportunities and risks in this area?
12. How do you plan to set up a system to monitor and report the financial condition of the subsidiaries?
13. How will you structure the financial reporting processes of the holding company? Do you plan to create consolidated financial statements?
14. How will you handle internal audit processes? What measures do you plan to take to prevent financial inconsistencies between subsidiaries?

Holding Company

Questions Regarding Holding Structure

15. What types of investments will be made to achieve the holding company's growth objectives? How will the growth plans of the subsidiaries be financially supported?
16. What criteria will you use to evaluate investment opportunities? How will you manage the risks in the sectors where investments are made?
17. Do you have any existing or planned businesses/companies abroad? Will the business in question have any commercial, managerial, or economic connection with the holding company to be established in Turkey? Do you have tax awareness and knowledge in this regard?
18. Is there any plan for the holding company or its subsidiaries to go public? Do you currently have a publicly traded affiliate?
19. Will there be a family structure within the holding company? Is there a request for the establishment of a family constitution for the holding company? If there will be a different management structure within the subsidiaries, has there been any planning for the positioning of the holding company in relation to this?
20. As part of your growth strategy for the holding company, do you plan to pursue organic growth or grow through mergers and acquisitions (M&A)? How do you plan to manage the potential impacts of these two approaches on risk management and integration processes?

These questions are suggested to address key legal and financial matters that may arise during the holding company formation process and to ensure proper management of the process. Clarifying all relevant details is crucial for establishing a successful holding structure and creating a sustainable growth strategy. In-depth analysis and consulting services from experts are vital for achieving these goals. Please feel free to reach out to us for any additional support or inquiries.

Thank you for taking the time. Each of these questions will open a separate channel and will prepare you for managing potential risks and embracing opportunities.

Best regards.