Employee Share Plans in Türkiye: Overview

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A Q&A guide to employee share plans in Türkiye.

The Q&A gives a high-level overview of the key practical issues, including whether share plans are common and can be offered by foreign parent companies, the structure and rules relating to the different types of share options, share purchase plans, share award plans, and phantom plans, taxation, corporate governance guidelines, consultation duties, exchange control regulations, prospectus requirements, necessary regulatory consents and filings, and formalities.

Any references to Turkey in this resource or on our site are referring to Türkiye, the official name of the jurisdiction as recognised and implemented by the UN on 3 June 2022. We are in the process of implementing that change in our resources.

Employee Participation

1. Is it common for employees in your jurisdiction to be offered participation in an employee share plan?

There are very few regulations (including case law) under Turkish legislation on employee share plans. However, employee share plans are gaining traction in Türkiye as a strategic tool for companies to incentivise and retain talent. The Turkish legal framework does not have a single, comprehensive piece of legislation solely governing share plans. Tax implications for both employees and employers are governed by various provisions of the *Individual Income Tax Law No. 193* (IIT Law), *Corporate Income Tax Law No. 5520*, and related communiqués. A significant recent development includes the introduction of an income tax exemption for employee share plans of "tech-initiative" companies, signalling a move towards a more favourable environment for these plans.

2. Can employees in your jurisdiction be offered participation in a share plan where the shares to be acquired are in a foreign parent company?

Turkish legislation allows the allocation of shares in a foreign parent company to employees in Türkiye.

If the shares are traded on a foreign stock exchange, the sale of these shares to Turkish employees may require filing an application with, and obtaining the prior approval of, the Capital Markets Board of Türkiye (CMB) (see *Question 33*). However, the legislation states that shares and foreign investment fund units allocated by foreign companies to their employees in Türkiye under employee share option plans and similar schemes do not require a pre-application to the CMB if all the following apply:

- The sales are not executed in Türkiye.
- The allocation is not within the definition of a public offering.
- Information provided to the employees does not contain phrases or expressions giving the impression of a public offering.

(Communiqué on Foreign Capital Market Instruments, Depository Receipts and Foreign Investment Funds Shares (VII-128.4).)

Multinational corporations operating in Türkiye can also offer their Turkish employees shares in the foreign parent company. In these cases, the tax principles remain broadly the same as for share plans granted by Turkish companies. The benefit received by the Turkish employee is considered Turkish-source salary income and is subject to Turkish income tax (see *Question 8*). The two-year holding period for capital gains tax exemption on subsequent sale of the shares also generally applies (see *Question 9*).

Share Option Plans

3.What types of share options can be granted in your jurisdiction?

Share Option Plan

There are no specific rules in Turkish legislation relating to employee share plans, therefore there are no established types of employee share plans.

Although still narrowly applied, a Turkish company can establish an employee share plan (generally, as a share option plan or a share purchase plan) as used in foreign jurisdictions, as long as it complies with Turkish tax, capital markets, employment, and commercial law rules. Share plans are most common in Turkish companies that are partly or wholly owned by foreign investors.

Whether different types of options can be granted under the same plan is not explicitly regulated and there are no regulations and court decisions on this issue. The authors are of the opinion that this can be done under Turkish law. There is no specific taxation of share options and no preferred share option plans under the tax legislation. All share options are considered the same for tax purposes by the tax authorities and advisers.

If a Turkish capital company (limited liability companies and, more frequently, joint stock companies) decides to implement an employee share plan, the company and the employee will often enter into an option agreement, under which the company grants the employee the right to acquire a certain amount of shares in the company through one or a combination of the following structures, on pre-determined terms and conditions.

Conditional share capital increase. The Commercial Code sets out the rules for a conditional share capital increase in Turkish capital companies. The articles of association of the company must set out the details for a conditional capital increase, for example:

- Nominal value of the increased capital.
- Number and group of shares to be issued and privileges to be attached to them.
- Persons who can use a conditional capital increase.
- Restricting the pre-emptive rights of current shareholders.

Once the revised articles of association are registered with the competent Trade Registry Office, the actual capital increase (that is, the issue of shares to employees) can be effected at board of directors' level.

Share capital increase. The share capital of the company is increased at the time of the actual transfer of the shares to the employee. The pre-emptive rights of the current shareholder(s) arising from the capital increase are restricted and the newly issued shares are transferred to the relevant employee. This is more straightforward than a conditional share capital increase, as it does not require any corporate actions to be taken before the share transfer.

Share transfer by the company. Under the Commercial Code, a company is entitled to own up to 10% of its own shares. In this case, the company acquires its own shares and then transfers them to the employee at the time of the award of the shares.

Share transfer by the shareholder(s). The shareholder(s) simply transfers the shares to the employee on exercise at the time of the award of the shares.

Other. In addition, companies can establish trusts and charitable funds for their employees. Trusts founded through contributions from the employees can become shareholders in the company and, therefore, the employees can be indirect shareholders. Likewise, the Commercial Code also allows companies to provide financial assistance to their employees to enable them to acquire shares.

Grant

4. What rules apply to the grant of employee share options?

Share Option Plan

Discretionary/all-employee. Under Article 5 of the *Labour Law No. 4857*, all employees must be treated equally unless there is a reasonable cause for different treatment (for example, seniority and performance). Therefore, as long as there is a reasonable cause, employee share options can be granted on a discretionary basis.

Maximum value of shares. There is no maximum value of shares over which options can be granted, either on a per-company or per-employee basis. However, if a share transfer from the company is chosen (see *Question 3*), the amount of shares to be allocated to employees is limited to 10% of the current capital of the company.

Market value. Options can be granted at a discount. However, shares granted to employee free of charge or at a discount are considered as remuneration and subject to income tax (see *Question 8*).

5. What are the tax and social security implications of the grant of the option?

Share Option Plan

Tax and social security liabilities arise on exercise of the option (see *Question 8*).

Vesting

6. Can the company make the exercise of share options subject to certain performance or time-based vesting conditions?

Share Option Plan

The company can make the exercise of employee share options subject to certain performance or time-based vesting conditions. In practice, conditional options are determined in writing under option agreements with the employee to prevent any possible disputes.

7. What are the tax and social security implications when any performance or time-based vesting conditions are met?

Share Option Plan

Tax and social security liabilities arise on exercise of the option (see *Question 8*).

Exercise

8. What are the tax and social security implications of the exercise of the option?

Share Option Plan

Tax implications. The income recognition and taxable event under the IIT Law arises on the exercise date. Benefits under an employee share option plans are classified as employment income. The Turkish employer must calculate the taxable amount and apply the progressive income tax rates (currently 15% to 40%), and withhold the tax through the monthly payroll, in the same way as for regular salary. If the employee pays for the option, the taxable employment income is the difference between the market value of the shares on the date of acquisition and the option price.

Law No. 7524 on the Amendment of Tax Laws and Certain Laws and Decree-Law No. 375, which entered into force on 2 August 2024, amended the IIT Law and introduced a significant income tax exemption for employees of qualifying technology companies that meet the criteria defined by the Ministry of Industry and Technology. This incentive aims to encourage long-term employee ownership and participation in the growth of innovative companies. Under this exemption, the benefit derived from the acquisition of company shares is exempt from income tax up to the fair market value of the shares on the grant date, provided this does not exceed the employee's gross annual salary. The part of the value that exceeds the employee's gross annual salary is subject to individual income tax. The exemption applies subject to the following holding periods:

- If the shares are sold within three years from the acquisition date: no exemption applies.
- If the shares are sold within four to six years from the acquisition date: 75% of the tax amount is payable.
- If the shares are sold within seven to 12 years from the acquisition date: 25% of the tax amount is payable.
- If the shares are sold more than 12 years from the acquisition date: no tax is payable.

Social security implications. For social security purposes, benefits derived from employee share plans are treated as benefits in kind. Under the *Social Security and General Health Insurance Law No. 5510*, benefits in kind are exempt from social security contributions. Therefore, in a straightforward domestic plan, no social security premiums are payable.

There is an exception for share plans offered by multinational companies. If a foreign parent company grants the shares, and the local Turkish subsidiary reimburses the parent company for the cost of these shares, the Turkish authorities have discretion to recharacterise the nature of the benefit. In this scenario, the benefit qualifies as a monetary benefit provided by the Turkish employer and is subject to both employee and employer social security contributions, up to the applicable monthly social security premium ceiling.

The social security premium rates are 15% for the employee and 22.75% for the employer. The contributions must be paid by the end of the month following the month on which the relevant payment is made to the employee.

Sale

9. What are the tax and social security implications when shares acquired on exercise of the option are sold?

Share Option Plan

When an employee subsequently sells the shares acquired on exercise of the option, any profit made is generally subject to income tax. The employee must declare the taxable portion of the gain (that is, the total gain minus the annual exemption amount) in their personal annual income tax return. This amount is then added to their other income and taxed at the standard progressive income tax rates (ranging from 15% to 40%).

However, if the employee holds the shares for more than two years, any capital gains are fully exempt from income tax. This two-year holding period starts from the date of acquisition (Article 80, IIT Law).

If the shares are traded on Borsa Istanbul, the capital gains are subject to withholding tax at 0%. Additionally, income derived from the sale of shares in Turkish resident companies traded on Borsa Istanbul is exempt from individual income tax, if the shares were held for at least one year (Provisional Article 67/1, IIT Law).

There are no social security implications when the shares are sold.

Share Purchase Plans

10. What types of share purchase plan are operated in your jurisdiction?

Share Purchase Plan

See *Question 3*. Since Turkish legislation does not provide specific rules, there are no types of share purchase plans. If a share purchase plan is implemented, it is generally regulated by an agreement between the employee and the company. Share purchase plans are commonly used in Turkish companies that are partly or wholly owned by foreign investors.

Purchase

11. What rules apply to share purchase plans?

Share Purchase Plan

Discretionary/all-employee. This is not explicitly regulated by Turkish law. The authors believe that share purchase plans can be granted on a discretionary basis.

Maximum value of shares. See *Question 4*.

12. What are the tax and social security implications of the acquisition or purchase of shares?

Share Purchase Plan

For Turkish tax purposes, an acquisition of shares is deemed as employment income (as a benefit-in-kind) and taxed accordingly. The amount of income received is the market value of the shares. If the shares are paid for by the employee, the taxable income is the difference between the market value of the shares and the purchase price. See *Question 8* for information on income tax and social security implications.

Vesting

13. Can the company offer the shares subject to performance or time-based vesting conditions?

Share Purchase Plan

See *Question 6*.

14. What are the tax and social security implications when any performance or time-based vesting conditions are met?

Share Purchase Plan

Tax and social security liabilities arise on acquisition of the shares (see *Question 8*).

Sale

15. What are the tax and social security implications when the shares are sold?

Share Purchase Plan

See *Question 9*.

Share Award Plans

16. What types of share award plans are operated in your jurisdiction?

See *Question 3*. Since Turkish legislation does not provide specific rules, there are no types of share award plans. If a share award plan is implemented, it is generally regulated by an agreement between the employee and the company.

Grant

17. What rules apply to the initial grant of share awards?

Share Award Plan

Discretionary/all-employee. This is not explicitly regulated by Turkish law. The authors believe that share awards can be granted on a discretionary basis.

Maximum value of shares. See *Question 4*.

18. What are the tax and social security implications of the grant of shares?

Share Award Plan

For Turkish tax purposes, the grant of an employee share award plan is an in-kind benefit and taxed accordingly as employment income. The amount of employment income received is the market value of the shares on the date of grant. For more detail on the tax and social security implications of the acquisition of shares, see *Question 8*.

Vesting

19. Can the company grant the share awards subject to performance or time-based vesting conditions?

Share Award Plan

See *Question 6*.

20. What are the tax and social security implications when any performance or time-based vesting conditions are met?

Share Award Plan

See *Question 7*.

Sale

21. What are the tax and social security implications when the shares are sold?

Share Award Plan

See *Question 9*.

Phantom or Cash-Settled Share Plans

22. What types of phantom or cash-settled share plan are operated in your jurisdiction?

Turkish law does not specifically regulate phantom or cash-settled share plans. However, there is an increasing trend for Turkish companies (especially start-ups and IT companies) to enter into contracts similar to cash-settled plans with their employees. These contracts grant employees the right to receive the market value of the shares on an investment or share sale.

Grant

23. What rules apply to the grant of phantom or cash-settled awards?

Turkish law does not specifically regulate phantom or cash-settled share plans.

24. What are the tax and social security implications when the award is made?

Turkish law does not specifically regulate phantom or cash-settled share plans. Phantom and cash-settled awards are taxed on payment (see *Question 27*).

Vesting

25. Can phantom or cash-settled awards be subject to performance or time-based vesting conditions?

Turkish law does not specifically regulate phantom or cash-settled share plans. In practice, it is standard for Turkish employers to make phantom or cash-settled awards subject to performance or time-based conditions. Granting these awards without conditions is extremely rare as it would defeat their primary purposes, that is, employee retention and performance alignment. In Türkiye, start-ups and growth-stage companies are increasingly considering phantom or cash-settled share plans as a flexible alternative to direct share ownership. In practice, these share plans are generally structured with multi-year vesting schedules to promote long-term employee retention and commitment. Rather than being purely time-based, vesting is frequently tied to specific triggering events such as a new investment round, an acquisition, or a founder exit. This reflects a growing trend in the Turkish market to align employee rewards with major liquidity events that significantly enhance the company's valuation.

26. What are the tax and social security implications when any performance or time-based vesting conditions are met?

Turkish law does not specifically regulate phantom or cash-settled share plans. Tax and social security implications arise on payment (see *Question 27*).

Payment

27. What are the tax and social security implications when the phantom or cash-settled award is paid out?

Payment of a phantom or cash settled award is considered a cash premium and taxed in the same way as employment salary (see *Question 8*). The gross award amount is classified as "earnings based on premium" and is subject to both the employee's and employer's share of social security premiums (see *Question 8*).

Corporate Governance Guidelines, Market Rules, or Other Guidelines

28. Are there any corporate governance guidelines, market rules or regulations, approval or disclosure requirements, or other guidelines that apply to all or certain employee share plans?

If the company is a Turkish public company, capital markets legislation requires compliance with the following:

- Adoption of an employee share plan must be disclosed by the company on the *Public Disclosure Platform*, a website operated by the Central Securities Depository of Türkiye.
- The principles for remuneration of board members and senior executives (including any kind of employee share plan granted to them) must be stated in writing, submitted to the shareholders at a shareholders' meeting, and published on the company's website.
- All benefits provided to each board member and senior executives must be disclosed in the company's annual activity report.
- Persons with administrative responsibility in the company and their related persons must disclose all transactions conducted in relation to the company's securities, subject to certain monetary thresholds.

(Communiqué on Corporate Governance (II-17.1) and Communiqué on Material Events (II-15.1).)

Employment Law

29. Is consultation or agreement with, or notification to, employee representative bodies required before an employee share plan can be launched?

Consultation or agreement with, or notification to, employee representative bodies is not required before an employee share plan can be launched.

30. Do participants in employee share plans have rights to compensation for loss of options or awards on termination of employment or other situations that may cause loss?

Turkish law does not specifically regulate these issues and there are not many relevant court decisions. In this respect, the terms and conditions of the plans apply. Under general rules of Turkish law, the authors believe that plans must provide rights to compensation for loss of options or awards on termination of employment and other situations that may cause loss. However, some authors state that if the share plan has a foreign element, a separate assessment should be made under the *International Private Law and Procedural Law No. 5718*.

Exchange Control

31. Do exchange control regulations affect employees sending money from your jurisdiction to another to purchase shares under an employee share plan?

Exchange control regulations do not affect employees sending money from Türkiye to another jurisdiction to purchase shares under an employee share plan. Turkish residents can purchase and sell shares traded in foreign capital markets through banks or duly authorised intermediary institutions and can remit the relevant funds abroad through an approved intermediary bank. Turkish residents who purchase shares traded in foreign capital markets should update the information form available on the Ministry of Trade website in line with the explanations and send it to the Ministry of Trade within three months following the end of each calendar year.

32. Do exchange control regulations permit or require employees to repatriate proceeds derived from selling shares in another jurisdiction?

There are no restrictions in this respect, apart from the fact that the fund transfers must be carried out through an approved intermediary bank.

Securities Laws

33. What are the requirements under securities laws or regulations for the offer of shares, securities, or other rights under, and participation in, an employee share plan?

See *Question 2*.

Generally, under Turkish capital markets legislation, all capital market instruments (including shares) to be publicly offered must be registered with the CMB. This triggers several prospectus and filing requirements and compliance with many rules and obligations, as it is a public offering. However, an employee share plan is not likely to trigger any such filing requirements with the CMB if the following conditions are met:

- The sales are not executed in Türkiye.
- The allocation is not within the definition of a public offering.
- The information provided to the employees does not contain phrases or expressions giving the impression of a public offering.

34. Are there any exemptions from securities laws or regulations for employee share plans? If so, what are the conditions for the exemption(s) to apply?

See *Question 2* and *Question 33*.

Other Regulatory Consents or Filings

35. Are there any data protection requirements or obligations for an offer of shares, securities, or other rights under, and participation in, an employee share plan?

There are no specific data protection requirements or obligations for an offer of shares, securities, or other rights under, and participation in, an employee share plan. A share plan is subject to general data protection laws, in particular:

- The *Personal Data Protection Law No. 6698*.
- The *Regulation on Deletion, Destruction, and Anonymisation of Personal Data*.
- The *Regulation on the Data Controllers Registry*.
- The Regulation on Personal Health Data.

Employers, as data controllers, must comply with the data controller obligations set out in the legislation. In particular:

- Employers cannot process personal data without the express consent of the employees.

- Processing of personal data must be limited to the purpose of the processing and unnecessary data must not be collected.
- Personal data must be stored only for the period necessary for the purpose of processing or for the period set out under legislation.

Employers must inform employees about:

- The identity of the data controller and its representative, if any.
- The purposes for which the personal data will be processed.
- To whom and for which purposes the processed personal data will be transferred.
- The method and legal reason for collection of personal data and rights of the data subject.

Employers must also register with the Data Controllers Registry before processing personal data (if not exempted).

Personal data must be deleted, destroyed, or anonymised when there is no longer any lawful reason to retain or process such data.

Under Turkish legislation, personal data must not be transferred abroad, unless either:

- Sufficient protection is provided in the country where the personal data is to be transmitted (as determined by the Board for the Protection of Personal Data).
- If there is no sufficient protection, the data controller in Türkiye and the recipient of the data abroad have entered into a written agreement to undertake to provide an adequate level of protection, which has been approved by the Board for the Protection of Personal Data.

36. Are there any other regulatory consents and filing requirements or other administrative obligations for an offer of shares, securities, or other rights under, and participation in, an employee share plan?

Depending on the type of company, the way the employee share plan is structured, and the percentage of shareholding granted, an employee share plan may trigger certain administrative obligations. For example, if the company is a regulated entity, such as a bank, an insurance company, or a financial institution, the implementation of an employee share plan may require prior regulatory consent.

In addition, if the company is a limited liability company and the employee share plan is carried out through a share transfer, the vesting must be completed through execution of a share transfer deed before a notary public and registered with the competent Trade Registry Office.

For employee share plans carried out through share capital increases, the capital increase must be registered with the competent Trade Registry Office.

Formalities

37. What are the applicable legal formalities for employee share plans in your jurisdiction?

Translation Requirements

Under the *Law on the Obligatory Use of Turkish in Establishments No. 805*, entities established in Türkiye must conduct their correspondence, execute any kind of document or agreement, and keep their records and books within Türkiye in Turkish. If a document is executed in two languages (for example, English and Turkish), the Turkish version will prevail.

A company that does not comply with these requirements can be subject to a monetary fine and documents not executed in Turkish may not be deemed as evidence in favour of the company in the event of a dispute. This is a small risk, as most courts accept English versions of documents (and only request translations into Turkish during litigation). However, to avoid any risk, it is advisable to execute documents in Turkish or in both English and Turkish.

Email or Online Agreements

If the relevant agreement is in favour of the employee and the employee does not undertake any liability in relation to the agreement, the employee can execute the agreement and be legally bound by it. However, for evidence purposes and to avoid any conflict between the employer and the employee, it is advisable to execute the agreements and obtain the consent of the employee in writing. Alternatively, if the plan does not impose any liabilities on the employees, the employer can unilaterally notify employees about a share plan benefits.

Employees can only enter into agreements to participate in employee share plans electronically (using online application forms or email agreements) if the employees have electronic signatures. Otherwise, the authors are of the opinion that approval via online application forms or email does not have the same effect as a signature.

Witnesses/Notarisation Requirements

Under Turkish law, legal agreements are not required to be witnessed or notarised to be binding. However, if the company is a limited liability company and the employee share plan is carried out through a share transfer, the vesting must be completed through execution of a share transfer deed before a notary public.

Employee Consent

If a share plan requires the employer to make deductions from the employee's salary, the employer must obtain the employee's written consent.

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