



INNOVATIVE ENTREPRENEURSHIP



How To Set Up A Business?



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Responses to the questions prepared by the certified public accountant Melih Mevlüt at the Into Business Information Session organised on 18 April 2022. Please see the Info Session video on this link.

What are the business types in the Turkish Cypriot community?

1. Sole Proprietorship

Unincorporated, usually small, a business that can only be set up by Turkish Cypriot community with unlimited liability (making the proprietor liable for the business with all their assets).

Fastest and lowest-cost business type in terms of registration and other costs, whereby all kinds of business lines (trade, services, production, etc.) can be carried out. Generally preferred by those not wishing to conduct business with partners as control in this type of business is concentrated in one person.

2. Private Limited Company

Businesses established with at least two and at most 50 persons through a partnership structure, with the aim of separating ownership and management by setting a capital value and limiting the liabilities of the shareholders to the capital alone.

A business model where the initial investment is expected to be high, and the administrative and sectoral lines are clearly set out through articles of association and bylaws.

3. Partnerships (General and Limited Liability)

General partnerships enable more than one entrepreneur to come together without establishing a limited company and do business through a partnership. In general partnerships, each partner is equally and unlimitedly liable in the business as in sole proprietorships.

In limited liability partnerships, the partners can decide among themselves who will have unlimited liability provided that one person does have unlimited liability. Therefore, while the liable partners undertake management responsibilities, the non-liaible ones can obtain dividends on the basis of an agreement.

4. Foreign Company

Businesses that have their headquarters established abroad; they can do business by setting up branches in the northern part of Cyprus. They are subject to a permit to do business.



5. International Company

Businesses that are established in the Turkish Cypriot community BUT obtain all profit from revenue-generating operations abroad. Foreign real or legal persons and Turkish Cypriot community residing abroad can lodge an application with the relevant office to set up such a business.

What are the legal requirements for setting up a business?

Registration for businesses can be categorized into two: business registration and tax and other registrations.

Business registration procedures are carried out by the body responsible to register companies. A trade name can be registered for sole proprietorships, if desired. Trade names do not create any legal entity, they can be considered as signage or promotional names used by businesses.

For partnerships and limited companies, the partnership structure of the business, the identities of the partners, their residence addresses, the legal address of the business (on a lease contract or other official document, etc.), and the partnership agreement or company articles of association must be registered.

Following business registration, tax and other registrations can be made. For this, the following steps must be followed in an order at the relevant official agencies:

1. Depending on the business address, a business establishment notification must be submitted to the revenue and tax office in the area. A permit must be obtained to issue official documents (i.e. invoices, receipts, cash register slips, etc.). The business becomes a taxpayer on the date, at the address, and in the sectors as notified.
2. The company must become a member of a chamber or union best suited to the line of business to be conducted (Chamber of Shopkeepers and Artisans, Chamber of Commerce, Chamber of Industry, professional organizations, and unions, etc.).
3. An application must be lodged at the local community in the area to obtain a workplace licence.
4. Then, the business must be registered in the tax office, receive a chamber or a union membership, receive a local community permit, and must be registered at the labour, social security, and the pension fund offices.
5. Extra registrations may be required depending on the line of business. E.g., Importer and exporter certificate, live music permit, alcoholic beverage sales license etc.

These registration procedures must be completed for any type of business. Registrations made at the tax, labour, social security and pension fund offices remain valid permanently unless there is a change in the partnership, business address, management setup, etc.



If you are an entrepreneur yourself with no employees, what will be your responsibilities in terms of social security, pension fund, etc.?

The main responsibilities of entrepreneurs working alone are the following: Monthly submission of the VAT returns of the business, monthly social security premium payment as an employer, and the annual declaration of the profit-loss and year-end financial statements of the business.

What are the financial requirements for setting up a business? How much you need to spend to set up a business?

This varies greatly depending on the business type chosen, the initial capital, especially for limited companies, and the membership fees of the chamber or union in line with the business in question.

What are the advantages/disadvantages of different business types?

There are advantages and disadvantages of each business type in terms of cost, process, and functionality. However, it is not possible to say that one business type is wholly better or worse than another. Advantages and disadvantages should be weighed against one another in relation to the business owner's position, vision, and plans.

However, in general terms, the process of setting up a sole proprietorship would take less time and cost less than a partnership or limited company as there is no "registration" stage for sole proprietorships.

The main advantage of establishing a limited company is that the liabilities of the persons involved are limited. In partnerships or sole proprietorships, the person has unlimited liability. In other words, they would be liable for all the loss and damages in case of a failure in the business. Therefore, the main advantage of a limited company would not be a constantly rewarding one, but rather something that would be of worth in case an undesirable event occurs. Another advantage is the separation of ownership and management. In short, it would be more fruitful if people who would like to engage in business in an "investor" capacity but lack the time and capability to manage a business took part in a limited company.

Are there opportunities/incentives for specific sectors/types of businesses (E.g., woman entrepreneurs etc.)?

In accordance with the regulation on supporting employment of local labour, the premium amount corresponding to the lowest social security scale is subsidized for women entrepreneurs who have started work for the first time as employers.



The incentive is provided for 60 months provided that the business does not have any unpaid social security contribution or provident fund dues.

For male entrepreneurs, this period is 48 months and is limited to age 18 to 40.

If the business is registered as a partnership or limited company, the entrepreneurs wishing to benefit from the incentive must possess at least 50% of the partnership or shares.

Footnote: Persons who previously worked as employers but did not avail themselves of the incentive can also have the chance to make use of it provided that they re-establish a business 3 years after the closure of their previous business and fulfil above mentioned conditions.

How do foreigners set up a business in the Turkish Cypriot community?

Foreigners cannot set up a business as a sole proprietorship.

Generally, foreigners engage in business in the Turkish Cypriot community in two different models.

The first option is for a foreign business that is already operational in its headquarters abroad to start a branch in the northern part of Cyprus. In such businesses, the general structure of the company is exactly the same as the structure in the headquarters, and a special permit must be obtained from the responsible body before the branch starts its operations. These types of businesses obtain the authority to start branches in line with a specific purpose.

The second option is a local limited company. It is also made possible for foreigners to do business in the form of a limited company in which at least two persons should be partners. There is a range of different arrangements in terms of capital, blocked capital and sectors for local limited companies whose partners are solely foreigners. Our advice to the interested parties would be to consult experts who would have the most up to date knowledge on current conditions about all the details and technical matters.

