

Incentives

Turkey's Investment Incentives System

The new investment incentives scheme is specifically designed to encourage investments with the potential to reduce dependency on the importation of intermediate goods vital to the country's strategic sectors.

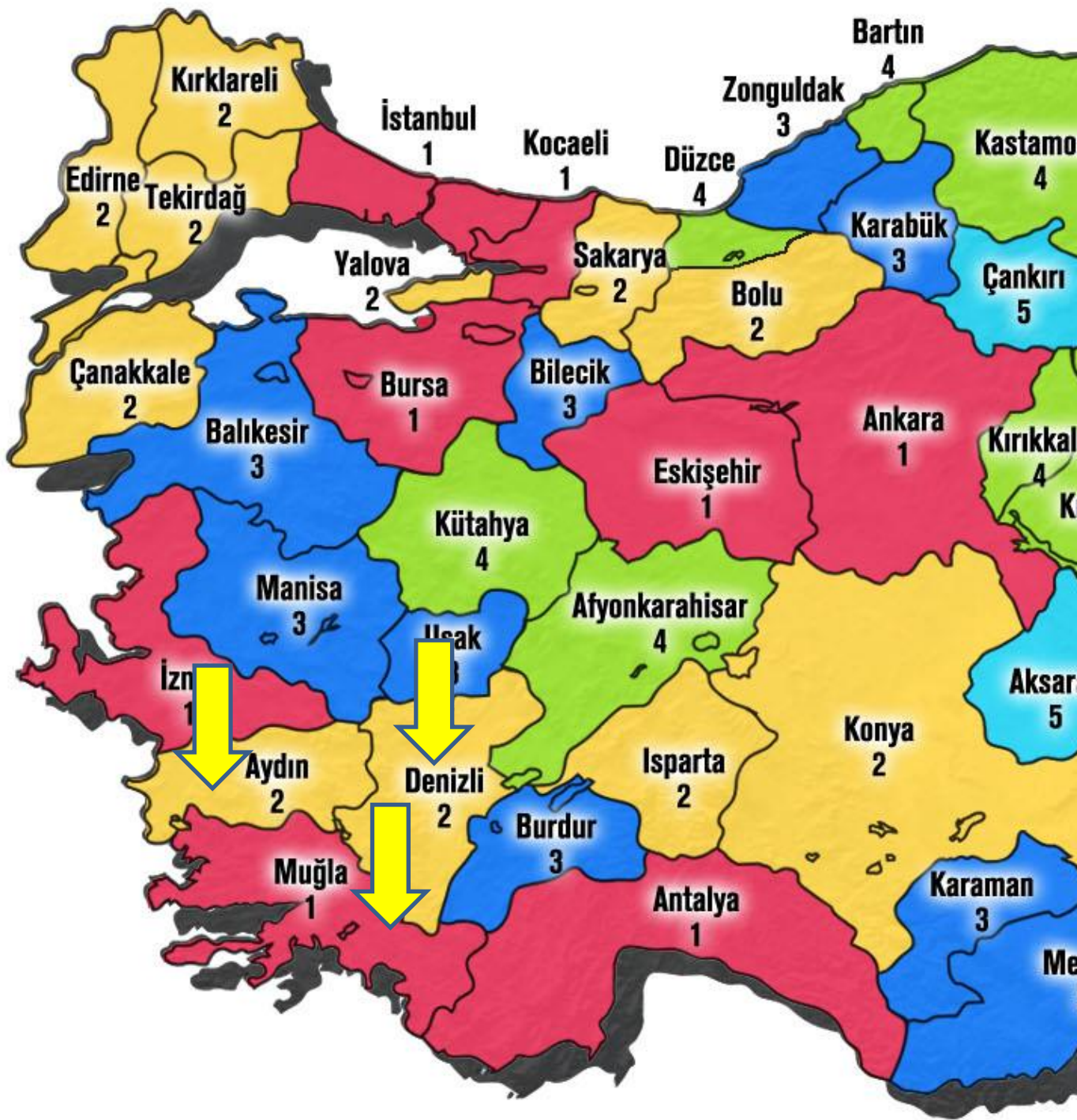
Amongst the primary objectives of the new investment incentives scheme are: reduce the current account deficit; boost investment support for lesser developed regions; increase the level of support instruments; promote clustering activities; and to support investments that will create the transfer of technology.

Effective as of January 1, 2012, the new investment incentives system has been comprised of four different schemes. Local and foreign investors have equal access to:

- 1- **General Investment Incentives Scheme**
- 2- **Regional Investment Incentives Scheme**
- 3- **Large-Scale Investment Incentives Scheme**
- 4- **Strategic Investment Incentives Scheme**

The support instruments to be provided within the framework of the various investment incentives schemes are shown in the following table:

Support Instruments	General Investment Incentives Scheme	Regional Investment Incentives Scheme	Large-Scale Investment Incentives Scheme	Strategic Investment Incentives Scheme
VAT Exemption	+	+	+	+
Customs Duty Exemption	+	+	+	+
Tax Reduction		+	+	+
Social Security Premium Support (Employer's Share)		+	+	+
Income Tax Withholding Allowance *		+	+	+
Social Security Premium Support (Employee's Share) *		+	+	+
Interest Rate Support **		+		+
Land Allocation		+	+	+



Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
Ankara	Adana	Balıkesir	Afyonkarahisar	Adıyaman	Ağrı
Antalya	Aydın	Bilecik	Amasya	Aksaray	Ardahan
Bursa	Bolu	Burdur	Artvin	Bayburt	Batman
Eskişehir	Çanakkale (Bozcaada & Gökçeada excluded)	Gaziantep	Bartın	Çankırı	Bingöl
Istanbul	Denizli	Karabük	Çorum	Erzurum	Bitlis
Izmir	Edirne	Karaman	Düzce	Giresun	Diyarbakır
Kocaeli	Isparta	Manisa	Elazığ	Gümüşhane	Hakkari
Muğla	Kayseri	Mersin	Erzincan	Kahramanmaraş	Iğdır
	Kırklareli	Samsun	Hatay	Kilis	Kars
	Konya	Trabzon	Kastamonu	Niğde	Mardin
	Sakarya	Uşak	Kırıkkale	Ordu	Muş
	Tekirdağ	Zonguldak	Kırşehir	Osmaniye	Siirt
	Yalova		Kütahya	Sinop	Şanlıurfa
			Malatya	Tokat	Şırnak
			Nevşehir	Tunceli	Van
			Rize	Yozgat	Bozcaada & Gökçeada
			Sivas		

1- General Investment Incentives Scheme

Regardless of the region where investment takes place, all projects meeting both the specific capacity conditions and the minimum fixed investment amount are supported within the framework of the General Investment Incentives Scheme. Some types of investments are excluded from the investment incentives system and would not benefit from this scheme.

The minimum fixed investment amount is TRY 1 million in Region 1 and 2, and TRY 500,000 in Region 3, 4, 5 and 6.

Major investment incentive instruments are:

1) Exemption from customs duties: Customs tax exemption for imported machinery and equipment for projects with an investment incentive certificate.

2) VAT exemption: VAT exemption for imported or domestically purchased machinery and equipment for projects with an investment incentive certificate.

2- Regional Investment Incentives Scheme

The sectors to be supported in each region are determined in accordance with regional potential and the scale of the local economy, while the intensity of support varies depending on the level of development in the region.

The minimum fixed investment amount is defined separately for each sector and region with the lowest amount being TRY 1 million for Region 1 and 2, and TRY 500,000 for the remaining regions.

The terms and rates of support provided within the Regional Investment Incentives Scheme are shown in the following table.

Regional Investment Incentives Scheme Instruments								
Incentive Instruments		Region						
		I	II	III	IV	V	VI	
VAT Exemption		YES						
Customs Duty Exemption		YES						
Tax Reduction	Tax Reduction Rate (%)	30	40	50	60	70	90	
	Reduced Tax Rate (%)	14	12	10	8	6	2	
Rate of Contribution to Investment (%)	Out of OIZ*	10	15	20	25	30	35	
	Within OIZ*	15	20	25	30	35	40	
Social Security	Support Period	Out of OIZ*	-	-	3 years	5 years	6 years	7 years
		Within OIZ*	-	3 years	5 years	6 years	7 years	9 years
Premium Support (Employer's Share)	Upper Limit for Support (%)	Out of OIZ*	10	15	20	25	35	No limit
		Within OIZ*	15	20	25	35	No limit	No limit
Land Allocation		YES						
Interest Rate Support	TRY Denominated Loans (points)	N/A	N/A	3 points	4 points	5 points	7 points	
	FX Loans (points)	N/A	N/A	1 point	1 point	2 points	2 points	
Social Security		N/A	N/A	N/A	N/A	N/A	10 years	
Premium Support (Employee's Share)		N/A	N/A	N/A	N/A	N/A	10 years	
Income Tax Withholding Allowance		N/A	N/A	N/A	N/A	N/A	10 years	

*OIZ: Organized Industrial Zones

Contribution Rate to Investment Applicable During Investment / Operating Periods

Under Regional Investment Incentives Scheme

Regions	Investment Period	Operating Period
I	50 %	50 %
II	55 %	45 %
III	60 %	40 %
IV	65 %	35 %
V	70 %	30 %
VI	80 %	20 %

The new investment incentives system defines certain investment areas as “priority” and offers them the regional support extended to Region 5 by the Regional Investment Incentives Scheme, regardless of the region of the investment. If the fixed investment amount in priority investments is TRY 1 billion or more, tax reduction will be applied by adding 10 points on top of the “rate of contribution to investment” available in Region 5. If priority investments are made in Region 6, the regional incentives available for this particular region shall apply.

Fields of investment with specific priorities to be supported with Region 5 instruments regardless of the investment’s region are:

- Tourism accommodation investments in Cultural and Tourism Preservation and Development Regions and investments that could benefit from regional incentives with regard to thermal tourism
- Mine extraction and/or processing investments
- Mining exploration investments to be made in the licensed areas by investors with a valid Exploration License or Certificate issued pursuant to the Mining Law
- Railroad and maritime freight or passenger transportation investments
- Investments in the defense industry to be made with respect to the project approval received from the Undersecretariat for Defense Industry.
- Test centers, wind tunnels, and similar investments made for the automotive, aerospace or defense industries
- Investments made by the private sector for kindergartens and day-care centers, as well as preschools, primary, elementary, and high schools
- International trade fair investments with a minimum indoor area of 50,000 square meters (excluding accommodation and shopping center units)
- Investments for the manufacturing of products or parts developed by an R&D project that is supported by the Ministry of Science, Industry and Technology, TUBITAK or KOSGEB
- Investments in the motor vehicles main industry worth a minimum amount of TRY 300 million, engine investments worth a minimum amount of TRY 75 million, and investments for motor engine parts, transmission components/parts and automotive electronics worth a minimum amount of TRY 20 million
- Investments for power generation where metals stated in the 4-b group of Article 2 of the current Mining Law No. 3213 within the scope of a valid mining license and permit issued by the Ministry of Energy and Natural Resources are used as inputs

- Energy efficiency investments that would reduce energy consumption in unit production by a minimum of 20 percent for at least 5 years in existing manufacturing facilities with an annual consumption of least 500 tons of oil equivalent (toe) energy
- Investments for electricity generation through waste heat recovery in a facility (excluding natural gas-fired electricity generation plants)
- Liquefied natural gas (LNG) investments and underground gas storage investments with a minimum amount of TRY 50 million
- Investments for the production of carbon fiber or composite materials made from carbon fiber provided that it takes place along with carbon fiber production
- Investments for the production of items in high-tech industry segment stipulated in the Organization for Economic Cooperation and Development’s (OECD) definition for technology intensity
- Priority investments with a minimum fixed investment amount of more than TRY 3 billion are considered to be strategic investments. Yet, the amount of interest support for these investments cannot exceed TRY 700,000
- Investments for the production of turbines and generators used in renewable energy generation, as well as investments for the production of blades used in wind energy generation

3- Large-Scale Investment Incentives Scheme

12 investment subjects, which will potentially foster Turkey’s technology, R&D capacity and competitiveness, are supported by Large-Scale Investment Incentives Scheme instruments.

Large-Scale Investments		
	Investment Subject	Minimum Fixed Investment Amount (million TRY)
1	Production of refined petroleum products	1,000
2	Production of chemical products	200
3	Harbors and harbor services	200
4	a) Automotive main industry	200
	b) Automotive supply industry	50
5	Production of railway and tram locomotives and/or tram cars	50
6	Transit pipeline transportation services	
7	Electronics industry	
8	Production of medical, high-precision and optical equipment	
9	Production of pharmaceuticals	
10	Production of aircraft and spacecraft and/or related parts	

11	Production of machinery (including electrical machinery and equipment)	
12	Mining (including metal production)	

The terms and rates of support provided within the Large-Scale Investment Incentives Scheme are shown in the following table.

Large-Scale Investment Incentives Scheme Instruments									
Incentive Instruments		Region							
		I	II	III	IV	V	VI		
VAT Exemption		YES							
Customs Duty Exemption		YES							
Tax Reduction	Tax Reduction Rate (%)	30	40	50	60	70	90		
	Reduced Tax Rate (%)	14	12	10	8	6	2		
Rate of Contribution to Investment (%)	Out of OIZ*	20	25	30	35	40	45		
	Within OIZ*	25	30	35	40	45	50		
Social Security	Support Period	Out of OIZ*	-	-	3 years	5 years	6 years	7 years	
		Within OIZ*	-	3 years	5 years	6 years	7 years	9 years	
Premium Support (Employer's Share)	Support Period	Upper Limit for Support (%)	Out of OIZ*	3	5	8	10	11	No limit
		Within OIZ*	5	8	10	11	No limit	No limit	
Land Allocation		YES							
Social Security		N/A	N/A	N/A	N/A	N/A	10 years		
Premium Support (Employee's Share)		N/A	N/A	N/A	N/A	N/A	10 years		
Income Tax Withholding Allowance		N/A	N/A	N/A	N/A	N/A	10 years		

*OIZ: Organized Industrial Zones

Contribution Rate to Investment Applicable During Investment / Operating Periods		
Under Large-Scale Investment Incentives Scheme		
Regions	Investment Period	Operating Period
I	50 %	50 %
II	55 %	45 %
III	60 %	40 %
IV	65 %	35 %
V	70 %	30 %
VI	80 %	20 %

The following categories of investment within the Regional and Large-Scale Investment Incentives Schemes can benefit from support granted to a one-grade lower region in terms of tax reduction and social security premium support (employer’s share).

- Investments in Organized Industrial Zones (OIZ)
- Joint investments to be made by at least five companies operating in the same sector with the purpose of greater integration

E.g.: A Region 3-level investment in an OIZ can take advantage of the tax reduction level in Region 4. Similarly, a Region 6-level investment may benefit from an additional 5% contribution to the investment.

4- Strategic Investment Incentives Scheme

Investments meeting the criteria below are supported within the framework of the Strategic Investment Incentives Scheme:

- The domestic production capacity for the product to be manufactured with the investment shall be less than the import of the product.
- The investment shall have a minimum investment amount of TRY 50 million.
- The investment shall create a minimum added-value of 40% (this condition is not applicable to refinery and petrochemicals investments).
- The total import value of the product to be manufactured with the investment shall be minimum of USD 50 million as of the past one year (excluding products that are not locally produced).

The terms and rates of support provided within the Strategic Investment Incentives Scheme are shown in the following table.

Strategic Investment Incentives Scheme Instruments						
Incentive Instruments		Region				
		I	II	III	IV	V
VAT Exemption		YES				
Customs Duty Exemption		YES				
Tax Reduction	Tax Reduction Rate (%)	90				
	Reduced Tax Rate (%)	2				
Rate of Contribution to Investment (%)		50				
Social Security Premium Support (Employer’s Share)	Support Period	7 years (10 years for Region 6)				
	Upper Limit for Support (%)	15 (No limit for Region 6)				

Land Allocation		YES	
Interest Rate Support	TRY Denominated Loans (points)	5	5
	FX Loans (points)	2	2
	Maximum Support Amount (*)	TRY 50 million	TRY 50 million
Social Security		10 years (for investments in Region 6)	
Premium Support (Employee's Share)			
Income Tax Withholding Allowance		10 years (for investments in Region 6)	
VAT Refund		YES (for construction expenditures of the strategic investments over TRY 500 million)	

*Provided that it will not exceed 5 percent of the investment amount

Contribution Rate to Investment Applicable During Investment / Operating Periods		
Under Strategic Investment Incentives Scheme		
Regions	Investment Period	Operating Period
I, II, III, IV, V	70 %	30 %
VI	80 %	20 %

Support Instruments

VAT Exemption:

VAT is exempt for imported and/or domestically delivered machinery and equipment within the scope of the investment incentive certificate.

Customs Duty Exemption:

Customs duty is exempt for imported machinery and equipment within the scope of the investment incentive certificate.

Tax Reduction:

The income or corporate tax is calculated on basis of reduced rates until the total amount of reduced tax reaches the amount of contribution to the investment. The rate of contribution to investment refers to the rate of the total fixed investment amount that is subject to tax reduction.

Social Security Premium Support (Employee's Share):

For additional employment created by the investment, the employee's share of the social security premium calculated on basis of the legal minimum wage will be covered by the government. The instrument is applicable only to investments made in Region 6 within the scope of the investment incentive certificate. There is no upper limit for Social Security Premium Support and it is applicable for 10 years.

Social Security Premium Support (Employer's Share):

For additional employment created by the investment, the employer's share of the social security premium calculated on basis of the legal minimum wage will be covered by the government.

Income Tax Withholding Allowance:

The income tax with regard to additional employment created by the investment, within the scope of the investment incentive certificate, will not be liable to withholding taxes. The instrument is applicable only to investments made in Region 6 within the scope of the investment incentive certificate. There is no upper limit for income tax withholding allowance and it is applicable for 10 years.

Interest Rate Support:

Interest rate support is a financial support instrument provided for investment loans with a term of at least one year obtained within the scope of an investment incentive certificate. A portion of the interest/profit share regarding the loan equivalent, at most 70 percent of the fixed investment amount registered in the investment incentive certificate, will be covered by the government.

Land Allocation:

Land may be allocated for investments, with an investment incentive certificate, in accordance with the rules and principles set by the Ministry of Finance, depending on the availability of such land.

VAT Refund:

VAT collected on construction expenses, made within the scope of strategic investments with a minimum fixed investment amount of TRY 500 million, will be rebated.

R&D support

1) R&D Law

The R&D Law provides special incentives for R&D investment projects in Turkey provided that a minimum of 30 personnel are employed in an R&D center. The incentives within the new law will remain in effect until 2024 and include:

- 100 percent deduction of R&D expenditure from the tax base if the number of researchers exceeds 500, then in addition to the 100 percent deduction, half of the R&D expenditure increase incurred in the operational year compared to the previous year will also be deducted.
- Income withholding tax exemption for employees (this item will be effective until December 31, 2023.)
- 50 percent social security premium exemption for employers
- Stamp duty exemption for applicable documents
- Techno-initiative capital for new scientists up to TRY 100,000
- Deduction from the tax base of certain funds granted by public bodies and international organizations

2) Support for Technology Development Zones

The advantages in Technology Development Zones are:

- Profits derived from software development and R&D activities are exempt from income and corporate taxes until 31.12.2023.
- Sales of application software produced exclusively in TDZs are exempt from VAT until 31.12.2023. Examples include software for systems management, data management, business applications, different business sectors, the Internet, mobile phones and military command control.
- Wages of R&D and support personnel employed in the zone are exempt from all taxes until 31.12.2023. The number of the support personnel covered by the exemption shall not exceed 10 percent of the number of the R&D personnel.
- Investments for the production of the technological product obtained as a result of the R&D projects conducted in the zone may be made in the TDZ, if deemed suitable by the operator company and allowed by the Ministry.
- 50 percent of the employer's share of the social security premium will be paid by the government for 5 years until 31.12.2024.

3) TUBITAK (Scientific and Technological Research Council of Turkey) and TTGV (Turkish Technology Development Foundation) both compensate or grant R&D related expenses and capital loans for R&D projects.

Projects eligible for TUBITAK incentives:

- Concept development
- Technological research & technical feasibility research
- Laboratory studies in the translation of a concept into a design
- Design and sketching studies
- Prototype production
- Construction of pilot facilities
- Test production
- Patent and license studies
- Activities concerning the removal of post-sale problems arising from product design

Support for SMEs

SMEs are defined as companies employing less than 250 employees and earning less than TRY 40 million in revenue or turnover per year.

Incentives granted to SMEs include:

1. Exemption from customs duties
2. VAT exemption for imported and domestically purchased machinery and equipment
3. Credit allocation from the budget
4. Credit guarantee support

In order to meet financial needs of SMEs, a TRY 1 billion fund was transferred to the Credit Guarantee Fund (KGF) by the Treasury to create credit capacity worth TRY 10 billion. The guarantee limit is TRY 1,500,000 per SME and TRY 2,000,000 for the risk group that the SME related to. KGF covers up to 80 percent of the loan.

5. KOSGEB support to SMEs (www.kosgeb.gov.tr)

The Small and Medium Sized Industry Development Organization (KOSGEB) makes significant contributions to strengthening SMEs by various support instruments in financing, loan interest, R&D, common facilities, market research, investment site, marketing, export, consultancy, promotion, designing, industrial property, licensing and training.

Industrial Thesis (SANTEZ) program

Direct financial support for new technology adaptation, process development, quality improvement and environmental modification projects to be achieved via university partnerships:

- Up to 85 percent of the project budget could be supported by direct grants
- Project term is 2 years, with a possible extension of 6 months
- Expenditure on staff, travel, consumable materials, machinery equipment, consultancy and relevant service procurements, transportation, insurance and customs are supported
- The application file could be approved within 4 months, and the project supervision committee is independent

Loans for technology development projects

The Technology Development Foundation of Turkey (TTGV) offers long term interest-free loans for technology development, renewable energy production, energy efficiency improvement and environmental impact-reduction projects.

Exemplary support for environmental projects:

- The maximum contribution rate is 50 percent per project
- Maximum budget of USD 1 million per project
- The pay-back term is 4 years in total after project execution, including a one-year grace period

Training support

ISKUR, the National Recruitment Agency, may support vocational training projects for a maximum period of 6 months.

- Direct salary support for interns, and unemployed candidates that are registered at ISKUR, (partial wage=TRY 25/day) during the pre-employment training session
- Social security premium expenses (Occupational accidents and occupational diseases) are covered by ISKUR.
- Program expenses such as the trainer's fee, energy and water bills are partially paid to the employer by ISKUR. The total amount is calculated by the cost per trainee and the employer must bill ISKUR for the services given.
- ISKUR considers the employer (company) the legal party in this training program.
- A certain number (percentage) of trainees must be employed after the program.

The Ministry of National Education cooperates for:

- Vocational schools with the desired programs could be opened according to the decision of the Ministry.

- The general cost of a trainee team for the adaptation of every requested program on a present vocational high school could be supported by the Ministry.

State aid for exports

The main aims of this scheme are to encourage exports and to increase the competitiveness of companies in international markets. This specific package mainly covers R&D activities, market research, participation in exhibitions and international fairs, and expenditure for patents, trademarks and industrial design.

Referance: <http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/Incentives.aspx>