

## Investment Incentives in Turkey

### I. Introduction

The new investment incentives regime (“**Incentives Program**”) was announced by the Turkish government on April 6<sup>th</sup>, 2012 and it became effective on 15.06.2012 by the Council of Ministers decision numbered 2012/3305 (the “**Decree**”). However, the new regime is retroactively effective from January 1<sup>st</sup>, 2012. According to the incentives programme there are four different schemes:

1. General Investment Incentive Scheme
2. Regional Investment Incentive Scheme
3. Large Scale Investment Incentive Scheme
4. Strategic Investment Incentive Scheme

Below are the support measures to be provided to the concerned investors within the framework of the schemes:

1. General Investment Incentive Scheme
  - VAT Exemption
  - Customs Duty Exemption
  - Income Tax Exemption
2. Regional Investment Incentive Scheme
  - VAT Exemption
  - Customs Duty Exemption
  - Tax Reduction
  - Social Security Premium Support for the Employer’s Share
  - Income Tax Withholding Support
  - Social Security Premium Support for the Employee’s Share
  - Interest Support
  - Land Allocation
3. Large Scale Investment Incentive Scheme
  - VAT Exemption
  - Customs Duty Exemption
  - Tax Reduction
  - Social Security Premium Support for the Employer’s Share
  - Income Tax Withholding Support
  - Social Security Premium Support for the Employee’s Share
  - Land Allocation

#### 4. Strategic Investment Incentive Scheme

- VAT Exemption
- Customs Duty Exemption
- Tax Reduction
- Social Security Premium Support for the Employer's Share
- Income Tax Withholding Support
- Social Security Premium Support for the Employee's Share
- Interest Support
- Land Allocation
- VAT Refund

Investment projects can benefit from the above mentioned incentives programme, provided that the investment project is entitled to receive the incentives and granted an Investment Incentive Certificate. Real persons, ordinary partnerships, stock corporations, cooperatives, joint ventures, public institutions and agencies, public professional organizations, associations and foundations, Turkish branches of foreign based companies can benefit from supports if they meet the all requirements for the concerned scheme.

## II. Investment Incentive Schemes

### 1) General Investment Incentive 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 program 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:

#### a) Exemption from customs duties:

Customs tax exemption for imported machinery and equipment for projects with an investment incentive certificate.

#### b) VAT exemption:

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

### 2) Regional Investment Scheme

Investments which are made under “Regional Investment Scheme” can benefit from more incentives when compared with the general incentive scheme. Decree numbered 2012/3305 determines regions, sectors and minimum investment amount to get benefit from the incentive scheme. Decree supports the sectors for the purposes of increasing employment and economic level of the provinces.

The country is divided into 6 regions in terms of regional investment scheme. The regions can be seen as follows:



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

Regional Investment Incentives Scheme Instruments			Region					
Incentive Instruments			I	II	III	IV	V	VI
VAT Exemption			YES					
Customs Duty Exemption			YES					
Tax Reduction	Rate of Contribution to Investment (%)	Out of OIZ*	15	20	25	30	40	50
		Within OIZ*	20	25	30	40	50	55
Social Security Premium Support (Employer's Share)	Support Period	Out of OIZ*	2years	3years	5years	6years	7years	10years
		Within OIZ*	3years	5years	6years	7years	10years	12years
Land Allocation			YES					
Interest Payment Support	Local Loans Foreign Exchange/ FX Denomination Loans	N/A	3points		4points		5points	
			1point		1point		2points	
Social Security Premium Support (Employee's Share)			N/A					10years
Income Tax Withholding Allowance			N/A					10years

\*OIZ: Organized Industrial Zones

The new investment incentives system defines certain investment areas as “priority” and offers them the regional supports extended to Region 5 by the Regional Investment Incentives Scheme regardless of the region of the investment. If priority investments are made in Region 6, the regional incentives available for this particular region shall apply.

**Investment areas with specific priorities to be supported by means of Region 5 instruments regardless of the investment’s region are:**

- Tourism accommodation investments to be made in the Culture and Tourism Conservation and Development Regions determined by the Council of Ministers
- Mine extraction and/or processing investments
- Railroad and maritime freight or passenger transportation investments
- Specific pharmaceutical, defense, and aerospace industry investments with a minimum fixed investment amount of TRY 20 million
- Test facilities, wind tunnel, and similar investments made for the automotive, aerospace or defense industries
- Preschool, primary, secondary, and high school investments made by the private sector
- International trade fair investments with a minimum indoor area of 50,000 square meters
- Investments made in order to produce products developed by an R&D project that is supported by the Ministry of Science, Industry and Technology, TUBITAK and KOSGEB
- Investments in the motor vehicles main industry amounting to 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 the Article 2 of the current Mining Law No. 3213 in scope of a valid mining license and permit issued by the Ministry of Energy and Natural Resources are used as inputs

**3) Large Scale Investment Incentive Scheme**

Decree provides incentives for the large scale investments. Decree determines the investment categories and minimum investment amounts to have benefit from the investment scheme.

12 investment subjects are supported by the instruments of the Large-Scale Investment Incentives Scheme. These investment subjects are shown in the below table:

	<b>Investment Subject</b>	<b>Minimum Fixed Investment Amount (million TRY)</b>
1	Production of refined petroleum products	1.000
2	Production of chemical products	200
3	Harbors and harbor services	200
4	a) Automotive OEM b) Automotive supply industries	200 50
5	Production of railway and tram locomotives and/or railway and 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 requirements and rates of supported incentives provided within the Large Scale Investment Scheme are summarized 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								
Tax Reduction	Rate of Contribution to Investment (%)	Out of OIZ*	25	30	35	40	50	60
		Within OIZ*	30	35	40	50	60	65
Social Security Premium Support (Employer's Share)	Support Period	Out of OIZ*	2years	3years	5years	6years	7years	10years
		Within OIZ*	3years	5years	6years	7years	10years	12years
Land Allocation			YES					
Social Security Premium Support (Employee's Share)			N/A					10years
Income Tax Withholding Allowance			N/A					10years

\*OIZ: Organized Industrial Zones

#### 4) Strategic Investment Incentive Scheme

According to the Decree, there are also strategic investment scheme under which there are the incentives provided without taking into account the regions and sectors.

The main objective of this Scheme is related to support to production of intermediate and final products with high import dependency within the concept of reducing current account deficit. Moreover, it also targets encouraging high-tech and high value added investments with a potential of strengthening Turkey's international competitiveness.

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

- to be made for the production of intermediate and finished goods with high import dependency
- to have a minimum investment amount of TRY 50 million
- to be supplied by at least 50% per cent with imports
- to create a minimum added-value of 40% (this condition is not applicable to refinery and petrochemicals investments)
- to possess an import value of at least USD 50 million during the past one year, for goods to be produced (this condition is not applicable to goods with no domestic production)

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

Strategic Investment Incentives Scheme Instruments		Region					
Incentive Instruments		I	II	III	IV	V	VI
VAT Exemption		YES					
Customs Duty Exemption		YES					
Tax Reduction	Rate of Contribution to Investment (%)	50					
Social Security Premium Support (Employer's Share)	Support Period	7 years					
		(10 years for Region 6)					
Land Allocation		YES					
Interest Payment Support	Local Loans	5 points					
	Foreign Exchange / FX Denomination Loans	2 points					
Social Security Premium Support (Employee's Share)		10 years (only for investments in Region 6)					
Income Tax Withholding Allowance		10 years (only for investments in Region 6)					
VAT Refund		YES (only for investment of TRY 500 million or more)					