

New investment incentives in Turkey

The Turkish Minister of Economy truly excited prospective investors in Turkey. Not only were details regarding the New Investment Incentives Program announced, but also additional news about a second incentive scheme was provided. Further, the Turkish Minister of Industry announced yet another set of incentives, aimed at attracting investors on technology start-ups. In the near future there will furthermore be a new set of incentives introduced, to the benefit of the Media, Cinema and Entertainment sectors and in order to attract foreign production companies.

The introduction of a new investment incentives program every couple of years is a rather common practice in Turkey. This time however, the amendments are different than usual in that they offer a substantial number of new features.

The New Investment Incentives Program (“**New Program**”) is very comprehensive and unlike the former ones, it goes beyond a mere change of rates and dates. For example, the New Program expands the periods and coverage areas of the incentives. The New Program also introduces a fourth ‘pillar’ to the current program, namely incentives for “*strategic investments*”, which investment incentives categorized by regions, sectors, size and the general investment incentives, also strategic investments are incentivized.

The incentive scheme aims for, and will no doubt help to substantially decrease the current account deficit and inter-regional imbalances in Turkey. Also, they will further strengthen the Country’s international competitiveness. We have summarized the latest developments below and categorized the investments into five groups, namely “general”, “regional”, “large scale” “strategic” and “sectorial” investment incentives.

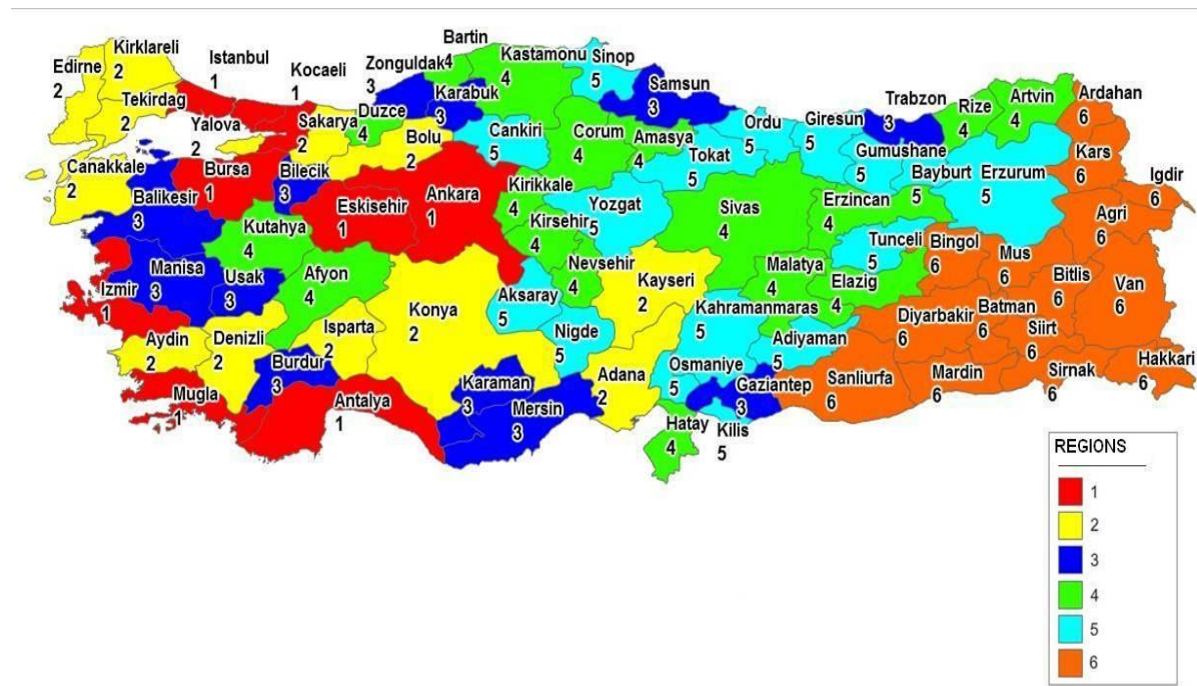
1 GENERAL INVESTMENT INCENTIVES

The General investment incentives apply to all investments in Turkey and irrespective of the sector or region invested in, provided that they are not exempted by the Council of Ministers and fall within the boundary of the minimum fixed investment amount, which is TL 1 million in regions 1 and 2 and TL 500.000 in regions 3 – 6 (for regions, see map below, under 2).

These investments will only be stimulated through VAT and customs duty exemptions on their machinery and equipment expenditures. As a novelty in the new program, income tax withholding allowance will also be available on labor wages, for an amount of the legal minimum wage if investment is made in Region 6 (please see the map below, under 2).

2 REGIONAL INVESTMENT INCENTIVES

In its investment stimulation scheme, the Turkish government makes a distinction between 6 regions. Investment in region 1 is the least strongly stimulated, region 6 the most strongly. As is shown on the map below, investments in the eastern part of Turkey are the most strongly incentivized.



The changes to this regional investment scheme can be categorized into five sub-sections, which will be specified below.

a) Categorization of Regions

The newly tailored incentive map of Turkey is now divided into regions by their levels of potential, economy and development. Also, the New Program's map is city-based rather than categorized by the names of the regions, as was the situation under previous program's incentive map.

b) Updated Incentive Rates and Term of Employer's Share of Social Security Support

The interest support rates and tax reduction rates have both been increased. The new rates are indicated in the tables below. It should be noted that tax reduction will only be applicable for the investors holding an investment encouragement certificate. Investors should apply for this certificate at the Undersecretariat of Treasury, although few exceptions apply.¹ The certificate will be issued depending on the contribution of the investment to the industry and social development.

REGIONS	% CONTRIBUTION TO INVESTMENT			
	Regional scheme		Large Scale Scheme	
	For investment projects to be started till Dec. 31th 2013	For investment projects to be started after Jan. 1st 2014	For investment projects to be started till Dec. 31th 2013	For investment projects to be started after Jan. 1 st 2014
I	15	10	25	20
II	20	15	30	25
III	25	20	35	30
IV	30	25	40	35
V	40	30	50	40
VI	50	35	60	45

Source: Republic of Turkey Ministry of Economy

REGIONS	TAX REDUCTION	IN REGIONAL	INV. INVENTIVE	SCHEME
REGIONS	Rate of Contribution to Investment (%)	Tax Reduction Rate (%)	Investment contribution applied before and after investment is completed	
			Before	After
I	15	50	0	100
II	20	55	10	90
III	25	60	20	80
IV	30	70	30	70
V	40	80	50	50
VI	50	90	80	20

Original source: Republic of Turkey Ministry of Economy

¹ Local manufacturing and agricultural industries with an investment below TL 8.000.000, may apply to the local chamber of industry.

The term of the employer's share of the governmental social security premium support is also increased.

c) Exceptions: Priority Investment Categories

As an exception to the region classification system, there are several categories of investments that can profit from the stronger incentives applied to region 5, even though they take place in region 1 – 4 (which are in principle less strongly incentivized). This exception applies to the following categories:

- Tourism investments in 'Cultural and Touristic Preservation and Development Regions', which are to be determined by the Council of Ministers Decree;
- Mining investments;
- Railroad and maritime transportation investments;
- International fairground investments with a minimum covered area of 50.000 m²;
- Investments made to produce products developed by an R&D Project which is supported by the Ministry of Science, Industry and Technology;
- Specific pharmaceutical investments and Defense Industry investments with a minimum investment amount of 20 Million TL;
- Test facilities, wind tunnel and similar investments made for automotive, space or defense industries; and
- Primary, Middle and High School investments by the private sector.

d) New, Strong Incentives for Region 6

As mentioned before, Region 6 is the most strongly incentivized region. Under the New Program, the sectorial scope is expanded in that all of the sectors within the boundary of minimum fixed investment amount are included into the scope of Regional Investment Incentives Scheme. Further, the income tax withholding allowance and employee's share of social security premium support will not be charged for a 10-year term in the cities within this region. Through these incentives, Region 6 is now the most advantageous region in terms of labor force costs.

e) Miscellaneous

Two particular types of investments will be supported through the employer's share of social security premium and tax reduction incentives. These investments can profit from the rates of one region higher up the sequential list of regions. These are investments in organized industrial zones and joint investments by at least 5 companies operating in the same sector establishing integration to their activities. Below a table is included summarizing the main incentives per region.

INCENTIVES	Region	Region	Region	Region	Region	Region
	I	II	III	IV	V	VI
VAT Exemption	√	√	√	√	√	√
Customs Duty Exemption	√	√	√	√	√	√
Tax Reduction out of OIZ	15	20	25	30	40	50
“Rate of Contribution to investment in OIZ	20	25	30	40	50	55
Social Security out of OIZ	2 years	3 years	5 years	6 years	7 years	10 years
Premium Support (Employer's Share) in OIZ	3 years	5 years	6 years	7 years	10 years	12 years
Land Allocation	√	√	√	√	√	√
Interest Support	N/A	N/A	√	√	√	√
Income Tax Withholding	N/A	N/A	N/A	N/A	N/A	10 years
Social Security Premium Support (Employee's Share)	N/A	N/A	N/A	N/A	N/A	10 years

Original source: Republic of Turkey Ministry of Economy

3 LARGE SCALE INVESTMENT INCENTIVES

As was similar under the former scheme, “large scale investments” form a separate category with applicable incentives. It should firstly be noted that the minimum fixed investment amount is reassessed, of which the result is indicated in the table below. The amount has decreased for certain investment categories.

NO	INVESTMENT SUBJECTS	MINIMUM INVESTMENT AMOUNT (MILLION TL)
1	Refined Petroleum Products	1000
2	Chemical Products	200
3	Harbors and Harbor Services	200
4	Automotive OEM and Side Suppliers	200
4-a	Automotive OEM Investments	
4-b	Automotive Side Suppliers Investments	
5	Railway and Tram Locomotives and/or Railway Cars	50
6	Transit Pipe Line Transportation Services	50
7	Electronics	50
8	Medical, High Precision and Optical Equipment	50
9	Pharmaceuticals	50
10	Aircraft and Space Vehicles and/or Parts	50
11	Machinery (including Electrical Machines And Equipment)	50
12	Integrated Metal Production	50

Original source: Republic of Turkey Ministry of Economy

The VAT and customs duty exemption, tax reduction, employer's share of social security premium support and the land allocation incentive will all remain the same as under the previous incentive program for the incentives applicable to these large investments. The table below summarizes the scheme for large scale investments.

INCENTIVES	Region	Region	Region	Region	Region	Region
	I	II	III	IV	V	VI
VAT Exemption	√	√	√	√	√	√
Customs duty exemption	√	√	√	√	√	√
Tax Reduction out of OIZ	25	30	35	40	50	60
“Rate of Contribution to investment” (%) in OIZ	30	35	40	50	60	65
Social Security Premium Support ou of OIZ	2	3	5	6	7	10
Employer’s Share (Term of Support-Years) in OIZ	3	5	6	7	10	12
Land Allocation	√	√	√	√	√	√
Interest Support	N/A	N/A	N/A	N/A	N/A	N/A
Income Tax Withholding (years)	N/A	N/A	N/A	N/A	N/A	10
Social Security Premium Support (Employee’s Share) (Term of Support-Years)	N/A	N/A	N/A	N/A	N/A	10

Original source: Republic of Turkey Ministry of Economy

Another novelty to the scheme for large scale investments in Region 6 is that the income tax withholding support will be calculated from the minimum wage and that social security premium support will be given to investors.

4 STRATEGIC INVESTMENT INCENTIVES

“Strategic investment incentives” is the newly included category of investments that is stimulated by the Turkish government. These incentives are (like the others) aimed to help decrease Turkey’s account deficit and to support high-tech and high value added investments in order to increase the competition capacity in the international area.

An investment is regarded “strategic” if it is made for the production of “intermediate or final products of which more than 50% is supplied by imports”, or if they are energy investments that are made for the exclusive use of such investments. Further criteria for such investments are that they should: (i) have a minimum investment amount of TL 50 Million; (ii) create a minimum of 40% added value (This condition is not applicable to refined petroleum production investments and petrochemicals production investments); and (iii) have an import amount of at least USD 50 Million for goods to be produced in the last one year term (the latter criterion does not apply to goods that do not have domestic production).

Should the investment fall within this scope, then the following incentives apply.

INCENTIVES		ALL REGIONS
Vat Exemption		√
Customs Duty Exemption		√
Tax Reduction	Rate of Contribution to Investment (%)	50% (50% of the contribution can be used before the investment is completed)
Social Security Premium Support (Employer's Share) (Term of Support)		7 Years (10 years for Region)
Land Allocation		√
VAT Refund		The building and construction costs of investments of more than TL 500 Million
Interest Payment Support		Limited to 5% of total investment amount and with a cap of TL 50 Million
Income Tax Deduction Support		10 years only for Region 6
Social Security Premium Support (Employee's Share) Term of Support)		10 Years only for Region 6

Original source: Republic of Turkey Ministry of Economy

5 SECTORIAL INVESTMENT INCENTIVES

The "sectorial investment incentives" may be divided into two groups, namely the "venture capital incentives" and the "service sector incentives".

a) Incentives For Venture Capital Investors

The New Program introduces a tax support for companies/persons investing in venture capital funds/trusts, on the condition that these funds/trusts have been established according to Capital Markets Board regulations. Further, the capital invested in venture capital funds will be subject to exemption from the income tax, provided that exempted amount does not exceed 10% of the company's/person's annual income. Importantly, venture capital funds and the corporate income derived from these funds are fully exempt from corporate tax.

In accordance with the Government's aim to establish Turkey as a regional technology hub, the Ministry of Industry is about to introduce new incentives regarding venture capital and angel investors.

The media has indicated that venture capital funds/trusts, will be exempt from paying ANY tax up to 5 years. Also, the tech-companies that are to be established in *Teknoparks* (intended to be equivalent of Silicon Valley) will be subject to further benefits and incentives.

b) Incentives For Service Sectors

The New Program also introduced support to the service sector. Half of the income (either corporate or personal) that is derived from the 'export' of the following services will be exempt from income/corporate tax:

- Architecture,
- Engineering,
- Design,
- Software
- Medical Reporting,
- Call Center,
- Data Storage,
- Educational,
- Health.

As indicated before, the Minister of Economy announced that a new set of incentives for sectors such as Media, Cinema and Entertainment will follow soon, in order to attract foreign production companies.

Conclusion

Following the decreased labor force costs and increased support rates, the New Program may act as a driving force for the new and postponed investment plans of Turkey. Furthermore, New Program is expected to be beneficial not only for the Turkish and foreign groups that currently have strategic and large scale investments but also for smaller investments in key sectors.

Güner Law Office...

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