

CIRCULAR NOTICE
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Subject:
THE NEW INVESTMENT INCENTIVE SYSTEM

The “Decree concerning State Encouragement to Investment” regarding the new incentives scheme was published on Official Gazette No. 28328 dated 19 June 2012, and entered into force as of the date of its publication.

Investors must apply to the Ministry of Economy and have an **incentive certificate** for the investment to be made in order to be able to benefit from the incentives.

The following must be satisfied in order for the investments to benefit from the investment incentives:

- 1- The investment (except for strategic investments) must not be included within the scope of the “*Unsupported Investments*” as listed in Annex 4 to the decree,
- 2-The investment must satisfy the conditions set out in the “*Investments with Conditional Incentives*” list contained in Annex 4 to the decree.

I – THE INCENTIVE SYSTEM

The following investments will be supported;

- General investment,
- Regional investment,
- Large-scale investment,
- Strategic investment,
- R&D and Environmental investment.

Each of the above-listed receives different incentives. Therefore the investment made will only enjoy the type of incentive that fits the type of the investment.

(1) Regional Investment Incentive Scheme

For the purpose of implementing the incentives within the context of the decree in question, provinces were grouped in six different regions according to their level of socio-economic development. The decree set out different investment conditions for each region and each industry in the same region.



Regions according to the Investment Incentives Scheme

1. Region	2. Region	3. Region	4. Region	5. Region	6. Region
Ankara	Adana	Balıkesir	Afyonkarahisar	Adıyaman	Ağrı
Antalya	Aydın	Bilecik	Amasya	Aksaray	Ardahan
Bursa	Bolu	Burdur	Artvin	Bayburt	Batman
Eskişehir	Çanakkale (Bozcaada ve Gökçeada İlçeleri Hariç)	Gaziantep	Bartın	Çankırı	Bingöl
İstanbul	Denizli	Karabük	Çorum	Erzurum	Bitlis
İzmir	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 ve Gökçeada İlçeleri
			Sivas		

Regional Investment Incentives						
	I.	II.	III.	IV.	V.	VI.
Customs tax exemption	√	√	√	√	√	√
Value added tax (VAT) exemption	√	√	√	√	√	√
Reduced corporate/ income tax rate	√	√	√	√	√	√
Insurance premium employer's share support	√	√	√	√	√	√
Land allocation	√	√	√	√	√	√
Interest support	-	-	√	√	√	√
Income tax withholding support	-	-	-	-	-	√
Insurance premium support	-	-	-		-	√

(2) General Incentives Scheme

Except for regional, large-scale and strategic investments, and the unsupported investment areas as set out in Annex 4 to the Decree, and investment areas that fail to meet the conditions for benefiting from the incentives, investments equal to or more than the following minimum fixed investment amounts will be able to benefit from the incentives scheme **regardless of the region.**

Regions							
Incentives		I.	II.	III.	IV.	V.	VI.
Minimum Fixed Investment Amount		1,000,000	1,000,000	500,000	500,000	500,000	500,000
Customs Duty Exemption		√	√	√	√	√	√
Value Added Tax (VAT) Exemption		√	√	√	√	√	√
Income Tax Withholding Support		-	-	-	-	-	√
Social Security Premium Employer's Share Support		Only for ship building investments of shipyards	Only for ship building investments of shipyards	Only for ship building investments of shipyards	Only for ship building investments of shipyards	Only for ship building investments of shipyards	Only for ship building investments of shipyards

(3) Large-Scale Incentives Scheme

The large-scale investment incentives will become available where investments are made in the industries at the rate of the minimum investment amounts that are given below.

Item No	LARGE SCALE INVESTMENTS	Minimum fixed investment amounts
		(TRY Million)
1	Refined Petroleum Products Production	1.000
2	Chemical Substances and Products Production	200
3	Seaport and Seaport Facilities Investments	200
4	Motor Land Vehicles Production Investments	
	a) Motor Land Vehicles Key Industry Investments	200
	b) Motor Land Vehicles Subsidiary Industry Investments	50
5	Railway and Tramway Locomotives and/or Wagon Production Investments	50
6	Transportation by Transit Pipelines Service Investments	
7	Electronics Industry Investments	
8	Medical Devices, Precision and Optical Devices Production Investments	
9	Medicine Production Investments	
10	Air and Space Crafts and/or Craft Parts Production Investments	
11	Machinery (Electrical Machines and Devices Included) Production Investments	
12	Investments for Metal Production:	
	[investments for production of final metals from ores and/or concentrates of metallic minerals in IV/c group as defined in the Mining Law (including mining investments integrated in these facilities)].	

Large-Scale Investment Incentives	
Customs tax exemption	√
Value added tax (VAT) exemption	√
Reduced corporate/ income tax rate	√
Insurance premium employer's share support	√
Land allocation	√
Income tax withholding support	for investments to be realized in region 6
Insurance premium support	for investments to be realized in region 6

(4) Strategic Incentives Scheme

Strategic investments are investments which **meet all of the criteria** below and which aim at the production of highly import-dependent goods.

a) Minimum fixed investment amount exceeding 50 million Turkish Liras (including the parts of the energy investments, that do not depend on natural gas to be realized exclusively to meet the energy needs of these investments, that will be proportioned with the facility installed power).

b) Total domestic production capacity for the investment product being lower than imports level.

c) Within the framework of principles to be determined by the Ministry, the added value to be provided with the investment being at least 40%.

d) Total import amount for the investment product in the last year exceeding 50 million US Dollars.

Clause (d) of paragraph one shall not apply to investments in the production of goods that are not produced in Turkey. Clause (c) of paragraph one shall not apply to refinery and petrochemical investments.

Regardless of their region, strategic investments will benefit from the following support elements.

Strategic Investment Incentives	
Customs tax exemption	√
Value added tax (VAT) exemption	√
VAT refund	√
Reduced corporate/ income tax rate	√
Insurance premium employer's share support	√
Land allocation	√
Interest support	√
Income tax withholding support	(for investments to be realized in region 6)
Insurance premium support	(for investments to be realized in region 6)

(5) Investments that will benefit from a sub-region support

Investments for which an incentive certificate has been issued within the context of **large-scale investments** or **regional incentives scheme** will be able to benefit from **tax reduction** and **social security premium employer’s share support** at the rate and for the periods that are applicable to the region immediately below the region they exist in, provided that they satisfy **at least one of the following conditions:**

- a) The investment takes place in an organised industrial zone (OIZ)
- b) The investment is made by an investor who has at least five natural or legal entity partners operating in the same industry and the investment will ensure integration in the field of common activity.

In the implementation of the social security premium employer’s share support for large-scale investments and investments within the scope of the regional incentive scheme, which take place in region 6 within the context of this Article, two years will be added to the term that applies to the region; in the application of tax reduction, five points will be added to the contribution to investment rate that is effective in the region.

(6) R&D and Environmental Investments

Regardless of the region, the following incentives will be available to R&D and environmental investments:

R&D and Environmental Investments Incentives	
Customs tax exemption	√
Value added tax (VAT) exemption	√
Interest support	√
Income tax withholding support	for investments to be realized in region 6
Insurance premium support	for investments to be realized in region 6

III- INCENTIVES

(1) Customs duty Exemption

The importation of the machinery and equipment that the incentive certificate contains will be exempt from customs duty.

(2) VAT Exemption and Refund

Under the Value Added Tax Law, the delivery of imported or domestic machinery and equipment to be made within the scope of their incentive certificate to investors who hold an incentive certificate may be made exempt from VAT.

Furthermore, building-construction expenses that are made within the context of **strategic investments** whose fixed investment amount is more than five hundred million TL may benefit from **VAT refund**.

(3) Interest Support

For bank-granted investment loans with a minimum term of one year for investments that will benefit from the incentives within the scope of **regional** incentives, **strategic** investments, and **R&D** and **environmental** investments, if included in the incentive certificate, a certain proportion of the interest to be paid for up to seventy percent of the fixed investment amount that is recorded on the incentive certificate will be supported. The interest support within the scope of the regional incentives scheme is as follows:

Interest Support	Regions					
	I	II	III	IV	V	VI
Interest support term	-	-	A maximum period of 5 years	A maximum period of 5 years	A maximum period of 5 years	A maximum period of 5 years
Interest support upper limit (TL/or its equivalent in TL)	-	-	500,000	600,000	700,000	900,000
Loans in TL	-	-	3 points	4 points	5 points	7 points
Loans in or indexed to FX	-	-	1 points	1 points	2 points	2 points

Regardless of region, the interest support amount may not exceed

- Five hundred thousand TL for R&D and environmental investments;
- Fifty million TL for strategic investments, provided that five percent of the fixed investment amount is not exceeded.

(4) Social Security Premium Employer’s Share Support

For **large scale investments, strategic investments and the investments supported within the scope of the regional incentive scheme, that portion of employer’s share in social security premium corresponding to minimum wage** is compensated from the budget of the Ministry for the below-given employment types, provided that the employment level on the incentive certificate, for which a completion visa has been issued, is not exceeded.

- a) For completely new investments, all employment created through the investment that has been made within the scope of the incentive certificate,
- b) For all other types of investment, following the completion of the investment, employment created through the investment within the scope of the investment certificate and added to the average number of employees notified to the Social Security Institution with the monthly premium and service statement in the last six months before the date of commencement of investment (for investments bearing seasonal characteristics, previous year’s seasonal average employment figures are taken into account).

This term of this support will be as follows for large-scale investment and investments that are supported within the scope of the regional incentives scheme:

Regions	Investments that began on or before 31/12/2013	Investments that begin as of 1/1/2014
I	2 years	-
II	3 years	-
III	5 years	3 years
IV	6 years	5 years
V	7 years	6 years
VI	10 years	7 years

For strategic investments, this support will be given for a period of 10 years in Region IV and for a period of seven years in all other regions.

The amount of social security premium employer’s share support may not exceed the following percentages for investments supported within the scope of the regional incentives scheme and for large-scale investments.

	Regional Incentives Scheme	Large-Scale Investments
Regions	Social Security Premium Employer's Share to Fixed Investment Amount Ratio (%)	Social Security Premium Employer's Share to Fixed Investment Amount Ratio (%)
I	10	3
II	15	5
III	20	8
IV	25	10
V	35	11
VI	50	15

Regardless of their region, **for strategic investments**, the amount of social security premium employer's share support may not exceed fifteen percent of the fixed investment amount.

(5) Social Security Premium Support

In accordance with this Decree, for **additional employment** to be created in Region VI through large-scale investments, strategic investments and investments to be made within the scope of the regional incentives scheme on the basis of the incentive certificate, that portion of the social security premium worker's share corresponding to the minimum wage for the social security premium share, which must be paid to the Social Security Institution by the employer, may be paid from the Ministry's budget on behalf of the employer **for a period of ten years** following the issue of the completion visa, provided that the number of employees specified on the incentive certificate, for which a completion visa has been granted, is not exceeded.

(6) Income Tax Withholding Support

In accordance with this Decree, for additional employment to be created in **Region VI** through investments to be made within the scope of the regional incentives scheme, the income tax to be computed on that portion of the workers' wage that corresponds to the minimum wage will be deducted from the tax that is accrued on the basis of the withholding return **for a period of ten years following the date on which the investment fully or partially commences** , provided that the number of employees specified on the incentive certificate is not exceeded.

(7) Reduced Corporate/ Income Tax Rate

For large-scale investments and investments to be made within the scope of the **regional incentives scheme** the income or corporate tax within Article 32/A of Law No. 5520 shall be applied at the following reduced rates until the projected investment contribution amount is attained.

Regions	Regional Incentives Scheme		Large-Scale Investments	
	Contribution to Investment Rate (%)	Corporate or Income Tax Reduction Rate (%)	Contribution to Investment Rate (%)	Corporate or Income Tax Reduction Rate (%)
I	10	30	20	30
II	15	40	25	40
III	20	50	30	50
IV	25	60	35	60
V	30	70	40	70
VI	35	90	45	90

However, if investment within the scope of the incentive certificates to be issued on the basis of this Decree **has begun on or before 31.12.2013** the following reduction and contribution to investment rates shall apply:

Regions	Regional Incentives Scheme		Large-Scale Investments	
	Contribution to Investment Rate (%)	Corporate or Income Tax Reduction Rate (%)	Contribution to Investment Rate (%)	Corporate or Income Tax Reduction Rate (%)
I	15	50	25	50
II	20	55	30	55
III	25	60	35	60
IV	30	70	40	70
V	40	80	50	80
VI	50	90	60	90

For Strategic investments the income or corporate tax within Article 32/A of Law No. 5520 shall be applied at the following reduced rates until the projected investment contribution amount is attained.

Regions	Strategic Incentives Scheme	
	Contribution to Investment Rate (%)	Corporate or Income Tax Reduction Rate (%)
I	50	90
II	50	90
III	50	90
IV	50	90
V	50	90
VI	50	90

In the enforcement of this Article:

Contribution to Investment Amount refers to the amount of investment to be covered by the State through the tax to be uncollected by way of applying a reduced income or corporate tax;

Contribution to Investment Rate refers to the ratio to be found by dividing the contribution to investment amount to total investment.

On account of the contribution to investment amount to be computed in accordance with his Article, during the investment term reduced income or corporate tax may apply to the income the investor derives from its other activities on the condition not to exceed the investment expenditure made and not to exceed

- 10 percent, 20 percent, 30 percent, 50 percent and 80 percent of the total contribution to investment amount for region 2, region 3, region 4, region 5 and region 6 respectively for large-scale investments and investments within the scope of the regional incentives scheme;
- 80 percent of the total contribution to investment amount in region 6 and 50 percent of the total contribution to investment amount in all other regions for strategic investments.

(8) Investment Land Allocation

A land may be allocated to large-scale, strategic and regional support investments that hold an incentive certificate.

Kind Regards,

**DENGE DENETİM YEMİNLİ
MALİ MÜŞAVİRLİK A.Ş**

(*) The explanations included in our circulars are for informational purposes only. We recommend that you consult opinions and support of a counselor expert in their field prior to taking certain actions on issues of hesitancy. Our counselor shall not be liable for the damages arising from actions taken only on the basis of the explanations included in our circulars.

(**) For any opinion sharing, review of information, and any question to our advisors, please contact according the information given below.

Erkan YETKINER

CPA, Partner

Mazars / Denge Tax Department, Partner

eyetkiner@mazarsdenge.com.tr

Güray OGREDİK

Senior Tax Manager

Mazars / Denge Tax Department, Senior Manager

gogredik@mazarsdenge.com.tr