

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 to; reduce the current account deficit; boost investment support to 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 is 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 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) ¹		+	+	+
Interest Payment Support ²		+		+
Land Allocation		+	+	+
VAT Refund ³				+

¹ Provided that the investment is made in Region 6.

² Provided that the investment is made in Region 3, 4, 5 or 6 within the framework of the Regional Investment Incentives Scheme.

³ Provided that the investment is made within the framework of the Strategic Investment Incentives Scheme with a minimum fixed investment amount over TRY 500 million.

REGIONS

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*	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
	*except for Bozcaada& Gökçeada		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 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:

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 domestically purchased or imported 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 supports varies depending on the level of development in the regions.

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

The terms and rates of supports 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								
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	7points		
			1point	1point	2points	2points		
Social Security Premium Support (Employee's Share)			N/A				10years	
Income Tax Withholding Allowance			N/A				10years	

*OIZ: Organized Industrial Zones

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

- Tourism investments in the Culture and Tourism Conservation and Development Regions determined by the Council of Ministers
- Mining 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
- 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

3- Large-Scale Investment Incentives Scheme

Twelve investment subjects are supported by the instruments of the Large-Scale Investment Incentives Scheme.

Large –Scale Investment Subject	Minimum Fixed Investment Amount (million TRY)
Production of refined petroleum products	1,000
Production of chemical products	200
Harbors and harbor services	200
Automotive OEM	200
Automotive supply industries	50
Production of railway and tram locomotives and/or railway and tram cars // Transit pipeline transportation services // Electronics industry // Production of medical, high-precision and optical equipment // Production of pharmaceuticals // Production of aircraft and spacecraft and/or related parts // Production of machinery (including electrical machinery and equipment) // Mining (including metal production)	50

The terms and rates of supports 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								
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

The following categories of investment within the Regional and Large-Scale Investment Incentives Schemes can benefit from supports granted to a region rated one grade higher, 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:

- 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% percent 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					
Incentive Instruments	Region				
	I	II	III	IV	V
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)			

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.

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.

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 in regards 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.

Interest Payment Support:

Interest payment 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 determined by the Ministry of Finance.

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.