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NEW INVESTMENT INCENTIVE PACKAGE IN TURKEY

The Council of Ministers Decree No. 2012/3305 Concerning State Aids in Investments¹ (the “New Decree”) has been published in the Official Gazette on 19 June 2012. The New Decree provides a number of important incentives for investments in Turkey (the “New Incentive Package”). The New Decree will be applied retroactively to investments for which an incentive certificate application was made subsequent to 1 January 2012.

The previous Council of Ministers Decree No. 2009/15199 Concerning State Aids in Investments² (the “Previous Decree”) regulated the general incentives for investments (i.e., VAT exemptions, corporate tax reductions, customs duty exemptions, support for employer’s social security contributions and land allocations) (the “Previous Incentive Scheme”).

The New Incentive Package also provides the above incentives, depending on type, size and region; however, it also introduces new incentives, such as VAT refunds, support for income tax withholding as well as support for employee’s social security contributions for certain investments depending on their type and region, as further explained below.

The New Incentive Package is based on four main pillars:

1. General Incentive Scheme

Regardless of region or type of investment, the VAT and customs duty exemptions are available for investments over a certain threshold, TL 1,000,000 for Regions 1 and 2, and TL 500,000 for other regions. This incentive was available in the Previous Incentive Scheme as well.

2. Regional Incentive Scheme

In accordance with the New Incentive Package, Turkish provinces are now divided into six regions (as compared to four regions under the Previous Incentive Scheme) based upon the priority of incentives, considering the levels of the provinces, and ranked in terms of socio-economic development. The most developed provinces are in the first group whereas the sixth group consists of underdeveloped eastern and southeastern provinces which accordingly receive the highest state aids. The following map shows the provinces in each group:

¹ Published in Official Gazette No. 28328 dated 19 June 2012.

² Published in Official Gazette No. 27290 dated 16 July 2009.



Another reform brought by the New Incentive Package relates to the opportunity to benefit from a corporate tax reduction. Corporate tax reduction refers to the application of a reduced corporate tax ratio (“Tax Reduction Ratio”) until the total reduction reaches the tax contribution amount. The tax contribution amount is calculated by the multiplication of the rate of contribution with the investment amount (“Rate of Contribution”). Under the Previous Incentive Scheme, investors could benefit from a corporate tax reduction solely for income generated from the relevant investment at the construction phase, whereas the New Investment Package provides the opportunity to apply for a corporate tax reduction during both the investment and operation periods with differentiating rates; i.e., for revenues generated from other activities of the investor at the construction phase (except for Region 1 investments).

Furthermore, investments in an Organized Industrial Zone (“OIZ”) will receive more advantageous rates and terms for the tax reduction and the employer’s social security contribution support depending on the region. For example, investments carried out in OIZs shall benefit from the incentives of the next lower region in terms of tax reduction and the employer’s social security contribution support.

Under the New Incentive Package, support will be provided for employee’s social security contributions for investments made in Region 6. Moreover, the time period set forth for the employer’s social security contribution support has been extended and the interest support, which is available for Regions 3, 4, 5 and 6, has been increased.

The New Incentive Package also provides a category of investments called prioritized sectors. These include certain mining, automotive, aerospace and aviation, rail and sea transport, pharmaceuticals, education, tourism and defense sector investments. Investments in these sectors can benefit from the terms and rates of the support measures in Region 5 even if they fall within the scope of Regions 1, 2, 3 and 4.

A summary of the regional incentives is as follows:

REGIONAL INVESTMENT INCENTIVE SCHEME								
INCENTIVE		REGION						
		I	II	III	IV	V	VI	
VAT Exemption		√	√	√	√	√	√	
Customs Duty Exemption		√	√	√	√	√	√	
Corporate Tax Reduction (%) *	Tax Reduction Ratio	50	55	60	70	80	90	
	Rate of Contribution	Non OIZ	15	20	25	30	40	50
		OIZ	20	25	30	40	50	55
Employer's Social Security Contribution Support		Non OIZ	2 years	3 years	5 years	6 years	7 years	10 years
		OIZ	3 years	5 years	6 years	7 years	10 years	12 years
Land Allocation		√	√	√	√	√	√	
Interest Support		N/A	N/A	√	√	√	√	
Income Tax Withholding Support		N/A	N/A	N/A	N/A	N/A	10 years	
Employee's Social Security Contribution Support		N/A	N/A	N/A	N/A	N/A	10 years	

* For investments commenced by 31/12/2013.

3. Large-Scale Investment Incentive Scheme

This scheme is applicable for investments which fulfill higher investment thresholds depending on the investment sector. The New Incentive Package decreases the said thresholds for several investment sectors such as the chemical, medical, pharmaceutical, machinery, aerospace, refined petroleum products, electronic, port and port services sectors.

A summary of these incentives is as follows:

LARGE SCALE INVESTMENT INCENTIVE SCHEME								
INCENTIVE		REGION						
		I	II	III	IV	V	VI	
VAT Exemption		√	√	√	√	√	√	
Customs Duty Exemption		√	√	√	√	√	√	
Corporate Tax Reduction (%) *	Tax Reduction Ratio	50	55	60	70	80	90	
	Rate of Contribution	Non OIZ	25	30	40	50	55	60
		OIZ	30	40	50	55	60	65
Employer's Social Security Contribution Support		Non OIZ	2 years	3 years	5 years	6 years	7 years	10 years
		OIZ	3 years	5 years	6 years	7 years	10 years	12 years
Land Allocation		√	√	√	√	√	√	

Interest Support	N/A	N/A	N/A	N/A	N/A	N/A
Income Tax Withholding Support	N/A	N/A	N/A	N/A	N/A	10 years
Employee's Social Security Contribution Support	N/A	N/A	N/A	N/A	N/A	10 years

* For investments commenced by 31/12/2013.

4. Strategic Investment Incentive Scheme

The strategic investment incentive scheme is a new pillar in the Turkish incentive regime. A strategic investment is defined as an investment which fulfills all of the following conditions: (i) it must have a minimum investment of TL 50,000,000; (ii) it must relate to the production of a good whose import is higher than its domestic production; (iii) it must create at least 40% added value (not required for petro-chemistry investments); and (iv) the import amount of the product must be over USD 50,000,000 in the previous year (not required for products that do not have any domestic production). Furthermore, energy investments (except for natural gas based power plants) to be carried out solely to meet the energy needs of these investments shall also benefit from the incentives of this scheme.

STRATEGIC INVESTMENT INCENTIVE SCHEME	
INCENTIVE	ALL REGIONS
VAT Exemption	√
Customs Duty Exemption	√
Corporate Tax - Rate of Contribution	50%
Employer's Social Security Contribution Support	Period of Time 7 years (10 years in Region 6)
Land Allocation	√
VAT Refund	for building and construction expenses over 500 million TL
Interest Support	up to 50 million TL on the condition that it shall not exceed 5% of the total investment
Income Tax Withholding Support	only for Region 6 - for 10 years
Employee's Social Security Contribution Support	only for Region 6 - for 10 years

This support may be up to 69% of the investment depending on the investment amount and the number of employees employed for such investment. ⊕