

# The New Incentive System in Turkey



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Incentive system is necessary especially for the developing countries to boost economy and development by attracting foreign direct investment and supporting internal initiatives, increasing employment rate, lowering regional differences etc. Countries to manage and support these types of the investments generally use tax and similar charges, subsidies, supports, free land allocations and etc. Turkey has also incentive practice for a long time. Time to time the incentive system has been changed and final change has been made in 2012.

## **What is new?**

Turkey has introduced its new incentive system by declaring Council of Ministers' Decree on 19 June 2012. Then Ministry of Economy has introduced secondary legislation on the 20 June 2012. Another important legislation related with the new incentive system is based on the Law Numbered 6322, effective from the date of 15<sup>th</sup> June 2012. The last legislation on the incentive is 2<sup>nd</sup> Council of Ministers Decree, published on 13 October 2012.

The new incentive system has four different incentive schemes. And these four different schemes have different supports and different level of incentives. These are general, regional, large scale investment and strategic investment schemes.

## **General Scope of the New Incentive System**

The new investment incentive system includes Four Different Schemes. These are;

- I-General Investment Incentive Scheme
- II-Regional Investment Incentive Scheme
- III-Large Scale Investment Incentive Scheme
- IV-Strategic Investment Incentive Scheme

The new incentive system is effective from the 1st of January 2012

## **Incentive Support Tools**

Incentive measures consist of 9 different tools and applicability of these tools is differing according to investment scheme and regions. These are;

- VAT Exemption on importation of machinery and equipment
- Customs Duty Exemption
- Corporate Income Tax Reduction
- Social Security Premium Support (Employer's Share)
- Social Security Premium Support (Employee's Share)
- Income Tax Withholding Allowance
- Interest Support
- Land Allocation
- VAT Refund

All these support measures have different requirement and different applicability.

## **The New Investment Incentive Schemes:**

### **I-General Incentive Scheme**

Regardless of in which Region an investment is made all projects which meet conditions of specific capacity and the following minimum fixed investment amount will be supported within the frame of the General Investment Incentives Scheme. Some investments that are made under the regional, large scale and strategic investment schemes and investment areas or subjects, cannot get benefit from general investment scheme. The minimum fixed investment amount is **1.000.000 TL in Region 1 and 2** and **500.000. - TL in Regions 3, 4, 5 and 6**. Further, investments made under general incentive scheme need to meet minimum capacity or fixed investment amount and other requirements.

### **II-Regional Incentive Scheme**

Investment made under regional incentive scheme has more incentive as it's compared with the general incentive scheme. Regions and investment sectors, also minimum investment amounts has been determined by Decree, 2012/3305. All requirements set up by Decree need to be met by investors Turkey has been divided by six regions for investment purposes. And investments made in these regions get different supports. The more support given to investments made in Region 6.

### **Specific Priority Investments**

Some areas determined by Decree has specific priority investment rule. According to this rule if an investor invest on these areas, investment will be supported by the measures that are applicable for the 5<sup>th</sup> Region even they are made **in 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> Regions**.

### **III-Large Scale Incentive Scheme**

Investment subjects and minimum investment amounts has been determined by Decree. There are 12 category of investment has been determined by the Cabinet under Large Scale Investment Incentive Scheme. Large scale investment amount is minimum 50 million TL and subjects consist of automotive, petroleum refinery, electronics, aircraft, transit pipeline, railway and tram locomotives and cars, medical equipments, pharmaceuticals and integrated metal production.

#### **IV- Strategic Incentive Scheme**

According to Decree if the investments meet the requirements, can get benefit from strategic incentive scheme **without taking into account the regions**. The aim of this Scheme is on the basis of the “Input Supply Strategy”, support to production of intermediate and final products with high import dependency within the concept of reducing current account deficit. And, it also targets encouraging high-tech and high value added investments with a potential of strengthening Turkey’s international competitiveness.

#### **Eligible Expenditures**

According to Communiqué, the following expenditures can benefit from investment incentive measures; these are including;

- Complete New Investments
- Expansive investment expenditures
- Modernization expenditures
- Product diversification expenditures

#### **Non Eligible Expenditures**

Also Communiqué has listed the types of expenditures that cannot get benefit from investment incentives in general. These are;

- Incomplete investments
- The investments started prior to application to an IIC
- Raw materials,
- Intermediate products,
- Operating supplies,
- Used domestic machines and equipments,
- Road Transportation Vehicles and every kind of car
- Except transportation of passenger and cargo purposes, investment on aircrafts,
- Kitchen utensils produced with ceramics and glass,

#### **Completion Visa**

Investors must apply to the Directorate for the “closing certification of investment”, within 6 months after the time period set on the IIC. The Directorate requests for an expertise report in order to approve the completion of the investment. **Also expertise report on completion of the investment prepared by a Sworn in Public Accountant is accepted.** Evaluation of the completion of an investment is made by the Directorate or Authorized institution<sup>1</sup>.

#### **Final Comments**

The new Turkish incentive system has been introduced in this year and all necessary legislation have been completed and published on the official gazette by Turkish Government and Ministry of Economy. Regarding with the new incentive system and related legislation we just tried to summarize general framework of the new incentive system in Turkey. For the detailed information please look at our KPMG’s publication “[The New Investment Incentives in Turkey](#)”.

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<sup>1</sup> Like chambers of commerce, banks, local authorities or governors of province.

Also we want to imply that KPMG Turkey with its experienced personnel and with its all departments is ready to help investors for their investments at the all stages to get benefit from the new incentive system in Turkey.