

# INVESTMENT INCENTIVES\*

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The investment incentives scheme has been amended in 2003 within the framework of the efforts for the betterment of the investment environment in Turkey and a new draft law is still being worked on.

Investment incentive system in Turkey can be classified under three main headings:

- General Incentive Regime
- Incentives Granted to Small and Medium Sized Enterprises (SMEs)
- Energy Support

General incentive regime is mainly a tax benefit program with some credit possibilities. In addition, incentives granted to SMEs include investment and operational credit support opportunities. Local and foreign investors have equal access to these incentives.

## GENERAL INCENTIVE REGIME

The general incentive regime is applied varying according to the location, scale and subject of investments. In line with the purpose of eliminating regional imbalances, Turkey is divided into three types of regions with different levels of incentives:

**Developed Regions:** Istanbul and Kocaeli city boundaries and the greater municipality boundaries of Ankara, Izmir, Bursa, Adana and Antalya

**Priority Development Regions:** 50 cities\*\* determined by the Council of Ministers.

**Normal Regions:** The remaining cities

The incentives investors can benefit from are:

- I. Exemption from Customs Duties and Fund Levies
- II. Investment Allowance
- III. VAT Exemption for Imported and Locally Purchased Machinery and Equipment
- IV. Exemption from Certain Taxes, Duties and Fees
- V. Credit Allocation from the Budget

In order to qualify for some of these incentives, foreign investors must submit their feasibility studies and proposals to the General Directorate of Foreign Investment (GDFI) of Turkish Treasury to get their incentive certificates.

### I. Exemption from Customs Duties and Fund Levies

For projects found eligible by the Treasury, imports of machinery and equipment, indicated on the machinery and equipment list attached to the incentive certificate, are exempted from customs duties.

### II. VAT Exemption for Imported and Locally Purchased Machinery and Equipment

Imports and local purchases of machinery and equipment within the scope of approved global lists attached to the incentive certificate approved by GDFI are exempted from the VAT.

### III. Credit Allocation from the Budget

Credit allocation can be done, within the limits in compliance with the legislation about state aids on investments, in order to guide and encourage the investments aiming at

- regional development
- investments in priority technology areas determined by Higher Science and Technology Board
- environmental protection
- technology park
- research & development

### **The limit for investment credits is**

- 30% of fixed investment amount not exceeding 4.5 trillion TRL for projects aiming at regional development and
- 50% of fixed investment amount not exceeding 400 billion TRL for research & development, environmental protection, priority technology investments and investments to be moved to organized industrial zones.

Also for manufacturing, agro-industry and mining investments to be realized in priority development regions, investment credit can be provided up to 50% of the fixed investment cost and shall not exceed 500 billion TRL.

After the completion of the investment, operating credit shall be provided to the establishments which create an employment of at least 50 people. Operating credit can also be provided to the current enterprises in the priority development regions with insufficient operational capital and which employs at least 50 workers.

The amount of operating credit shall not exceed 200 billion TRL. In case both investment and operating credits are allocated together, total amount of credit shall not exceed 700 Billion TRL.

- The interest rate is 20% for investment credits and 30% for operational credits. The Term for investment credits is 5 years with a one year grace period (for regional development the term is 6 years including 3 years of grace period)

Credit applications are received and evaluated by various intermediary banks assigned (Halkbank, Turkish Development Bank, Vakif Bank, Ziraat Bank, Turkish Industrial Development Bank) for the allocation of credits.

### **INCENTIVES GRANTED TO SMALL AND MEDIUM SIZED ENTERPRISES (SMEs)**

In the related decree, SMEs are defined as companies

- operating in the manufacturing, agro-industry, tourism, education and health, mining, software industries
- employing (operating in the manufacturing, agro-industry)
  - 50-250 workers (middle size)
  - 10-49 workers (small size)
  - 1-9 workers (micro size)
- holding assets with a total value excluding land and building, including machinery-equipment, installations, vehicles, furniture and office stocks not exceeding 950 billion TRL (operating in the manufacturing and agro-industry)

The purchase of machinery & equipment and raw materials, not exceeding 950 billion TRL, of SMEs are supported. The investors should first apply to the related branch of

- Turkish Development Bank for the investments to be made in the tourism, education, health and agro-industry
- Halkbank and Turkish Industrial Development Bank for the other sectors

After the intermediary bank's approval, necessary documents are passed to the Treasury for Incentive Certificate.

#### **The investments of SMEs benefit from the following incentive measures:**

- I. Credit Allocation from the Budget
- II. Exemption from Customs Duties and Fund Levies
- III. VAT Exemption for Imported and Locally Purchased Machinery and Equipment

The terms of credit allocated to SMEs are more favorable than the market conditions. There are certain ceilings set in respect to the amount of credits to be allocated and the interest rates to be applied depending on the regional location of the investment. The interest rate of investment credits is 10% for the projects in priority development regions and 15% for the projects in other regions. For operational credits, the interest rate is 15% for the projects in priority development regions and 25% for the projects in other regions.

	Priority Development Region	Normal Region	Developed Region
<b>Micro-sized</b>	60%	50%	40%
<b>Small-sized</b>	50%	40%	30%
<b>Medium-sized</b>	40%	30%	20%

Maximum investment credit ratios available to SMEs:

The amount to be allowed can not exceed;

- 475 billion TRL for investment credits
- 75 billion TRL for operational credits and
- 475 billion TRL for investment credits and 190 Billion TRL for operational credits incase both types of credits are allocated together

The maximum maturity period is 4 years for investment credits and 2 years for operational credits. For investment credits, there is no repayment in the 1st year.

## ENERGY SUPPORT

Energy support is provided in the provinces\*\*\* which have a GDP per capita equal to or less than 1500 USD as of 2001. In order to be eligible to benefit from the energy support:

- Companies should be operating in manufacturing industry, mining, animal husbandry (including aquaculture and poultry), greenhouse production, cooling warehouse, tourism, education and health sectors.
- Newly established companies should employ at least 10 workers continuously after starting operation.
- Companies which had started operation before 01.10.2003 in the above mentioned sectors, should increase their employment by 20%. However, after increasing employment by 20%, if total employment remains below 10, it must be increased to 10.

The eligible companies can benefit from the energy support according to the below rates:

- For the newly established companies which employ 10 workers, the energy support rate is 20%. For each additional employment above 10, support rate increases 0.5 point.
- For the existing companies which increase employment by 20%, the energy support rate is 20%. For each additional employment above the determined minimum number, rate increases 0.5 point.

The maximum rate of energy support is 40% of the electricity cost. This rate is applied as 50% for companies established in the Organized Industrial Zones or Industrial Zones.

In order to benefit from the support, companies should apply to the Provincial Directorates of the Ministry of Industry and Trade.

Source: 'Turkish Investment Encouragement System', Undersecretariat of Treasury, October 2004

\*\* 50 cities classified as the Priority Development Regions by the Council of Ministers: Adiyaman, Agri, Aksaray, Amasya, Ardahan, Artvin, Bartin, Batman, Bayburt, Bingöl, Bitlis, Çanakkale (Bozcaada and Gökçeada), Çankiri, Çorum, Diyarbakir, Elazig, Erzincan, Erzurum, Giresun, Gümüşhane, Hakkari, Iğdir, Kahramanmaraş, Karabük, Karaman, Kars, Kastamonu, Kirikkale, Kirsehir, Kilis, Malatya, Mardin, Mus, Nevsehir, Niğde, Ordu, Osmaniye, Rize, Samsun, Siirt, Sinop, Sivas, Sanliurfa, Sirnak, Tokat, Trabzon, Tunceli, Van, Yozgat, Zonguldak

\*\*\* The 36 Provinces classified are as follows: Adiyaman, Afyon, Agri, Aksaray, Amasya, Ardahan, Bartin, Batman, Bayburt, Bingöl, Bitlis, Çankiri, Diyarbakir, Düzce, Erzincan, Erzurum, Giresun, Gümüşhane, Hakkari, Iğdir, Kars, Kirsehir, Malatya, Mardin, Mus, Ordu, Osmaniye, Siirt, Sinop, Sivas, Sanliurfa, Sirnak, Tokat, Usak, Van, Yozgat