

INVESTMENT INCENTIVES PROGRAM

Ministry of Economy

August 2017

Support Measures	General Investment Incentive Scheme	Regional Investment Incentive Scheme	Priority Investment Incentive Scheme	Large Scale Investment Incentive Scheme	Strategic Investment Incentive Scheme
VAT Exemption	✓	✓	✓	✓	✓
Customs Duty Exemption	✓	✓	✓	✓	✓
Tax Deduction		✓	✓	✓	✓
Social Security Premium Support (Employer's Share)		✓	✓	✓	✓
Income Tax Withholding Support *	✓	✓	✓	✓	✓
Social Security Premium Support (Employee's Share) *		✓	✓	✓	✓
Interest Support		✓	✓		✓
Land Allocation		✓	✓	✓	✓
VAT Refund					✓

* Investments in Region 6 are eligible for Income Tax Withholding Allowance and Social Security Premium Support (Employee's Share)



- ❑ **VAT Exemption:** VAT exemption for imported and/or locally provided investment machinery and equipment as well as selling and renting of intangible rights and software within the scope of the incentive certificate.



- ❑ **Customs Duty Exemption:** Custom duty exemption for investment machinery and equipment imported within the scope of the incentive certificate.



- ❑ **Tax Deduction:** In terms of tax deduction, contribution rates available from 15 % to 65 %.



- ❑ **Interest Rate Support:** For investment loans, a certain portion of the interest share covered by the Ministry.

- ❑ 3-7 percentage points for TL credits,
- ❑ 1-2 percentage points for foreign currency credits.



- ❑ **Land Allocation:** Government land allocated for the investments.



- ❑ **VAT Refund:** VAT collected on the building & construction expenses will be rebated (only for strategic investment projects with a fixed investment cost of least TL 500 million).
- Within the year of 2017, VAT collected on the building & construction expenses of manufacturing sector investments with incentive certificate will be rebated.



For the additional employment created by the investment

❑ **Social Security Premium Employer's Share**, certain portions of labor wages corresponding to amount of legal minimum wage covered by the Ministry.

Available up to 12 years



❑ **Social Security Premium Employee's Share**, certain portions of labor wages corresponding to amount of legal minimum wage covered by the Ministry (only for Region 6). **Available for 10 years**



❑ **Income Tax Withholding exemption**, exemption from income tax withholding.
(only for Region 6) **Available for 10 years**

The New Investment Incentives Program

**GENERAL
INVESTMENT
INCENTIVE
SCHEME**

REGIONAL
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INCENTIVE
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PRIORITY
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LARGE SCALE
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STRATEGIC
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GENERAL INVESTMENT INCENTIVE SCHEME

Regardless of region where investment is made, the scheme is available for all investment projects provided that:

- Investment subject is not excluded from the investment incentives programs,
- Requirement of minimum fixed investment amount is met.

The investment projects that are supported from the General Investment Incentives Scheme will benefit only from customs duty and VAT exemptions on their machinery and equipment expenditures.

As a novelty in the new program, additionally income tax withholding allowance will be available on portions of labor wages corresponding to amount of legal minimum wage if investment is made in Region 6.

The New Investment Incentives Program

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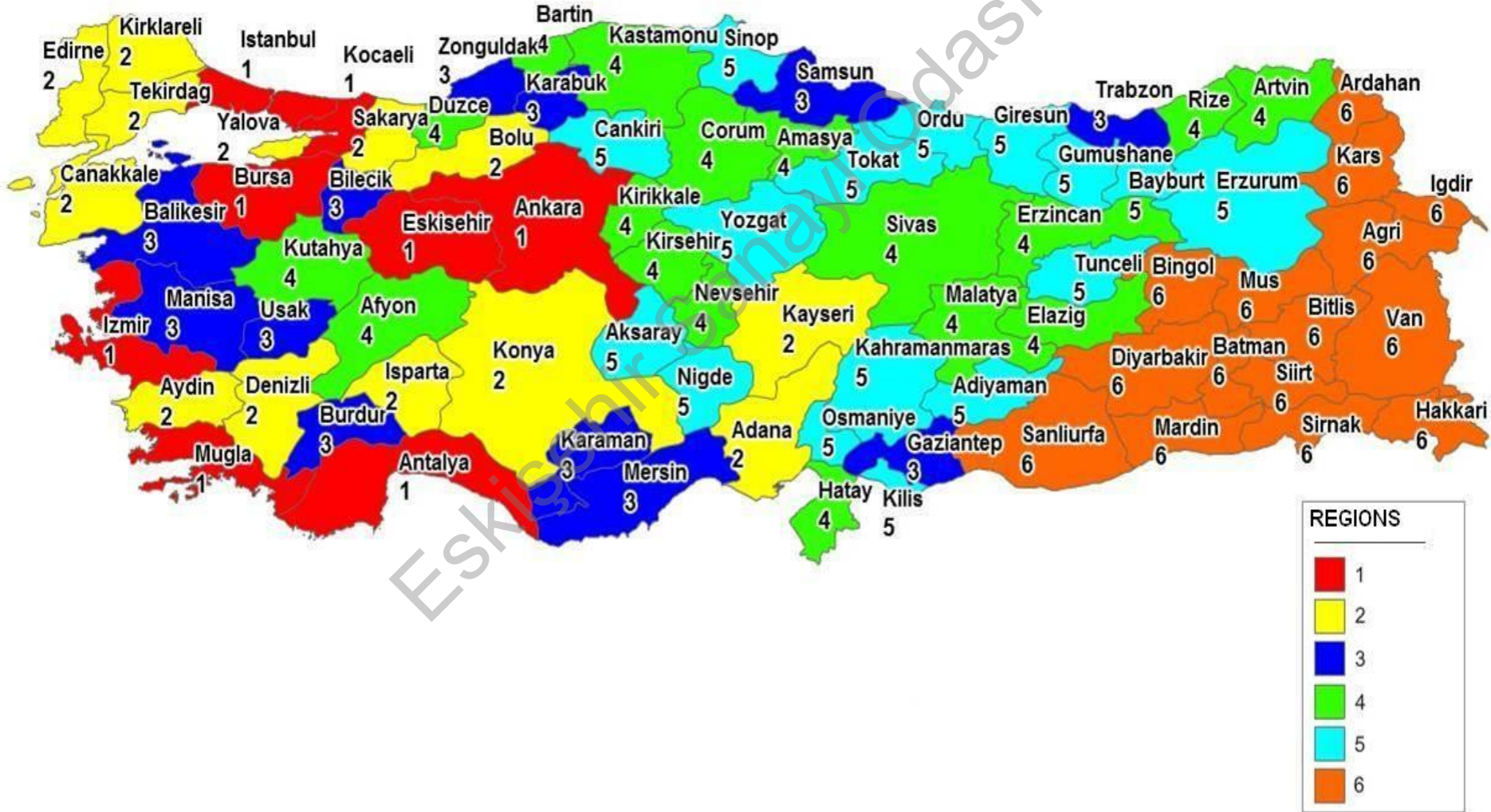
LARGE SCALE
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REGIONAL INVESTMENT INCENTIVE SCHEME

- Regional system aims to eliminate inter-regional imbalances by means of encouragement of sectors determined. Rates of support measures have been differentiated according to the level of development of the regions.
- Investment subjects to be supported have been identified by taking into consideration of the economic potentials of provinces and scales of economies.
- Within the scope of regional investment encouragement, minimum investment amounts are determined for certain investment subjects in each region separately. If there is no defined minimum investment amount, it is;
 - 1 million TL in Regions I and II,
 - 500 thousand TL in Regions III, IV, V and VI.

NEW REGIONAL MAP



Region 1 Provinces	Region 2 Provinces	Region 3 Provinces	Region 4 Provinces	Region 5 Provinces	Region 6 Provinces
Ankara Antalya Bursa Eskişehir İstanbul İzmir Kocaeli Muğla	Adana Aydın Bolu Çanakkale Denizli Edirne Isparta Kayseri Kırklareli Konya Sakarya Tekirdağ Yalova	Balıkesir Bilecik Burdur Gaziantep Karabük Karaman Manisa Mersin Samsun Trabzon Uşak Zonguldak	Afyonkarahisar Amasya Artvin Bartın Çorum Düzce Elazığ Erzincan Hatay Kastamonu Kırıkkale Kırşehir Kütahya Malatya Nevşehir Rize Sivas	Adıyaman Aksaray Bayburt Çankırı Erzurum Giresun Gümüşhane Kahramanmaraş Kilis Niğde Ordu Osmaniye Sinop Tokat Tunceli Yozgat	Ağrı Ardahan Batman Bingöl Bitlis Diyarbakır Hakkari Iğdır Kars Mardin Muş Siirt Şanlıurfa Şırnak Van
8 PROVINCES	13 PROVINCES	12 PROVINCES	17 PROVINCES	16 PROVINCES	15 PROVINCES

Regions	Rate of Contribution to Investment (%)			
	Regional Scheme		Large Scale Scheme	
	Rate of Contribution to Investment* (%)	Tax Deduction Rate** (%)	Rate of Contribution to Investment* (%)	Tax Deduction 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

Within the scope of incentive certificates issued for manufacturing sector (US-97 Code: 15-37), for the investment expenditures that would be realized between the dates of 1/1/2017 and 31/12/2017;

*Rate of contribution to investment for each region shall get 15 points additionally

**Tax deduction rate for each region shall be applied as 100 per cent.

TAX DEDUCTION

- Tax deduction can be applied up to 80 per cent of contribution to investment by investing companies to their earnings obtained from other operations before investment project is completed and starts generating revenue.
- Within the scope of incentive certificates issued for manufacturing sector (US-97 Code: 15-37); Rate of contribution to investment for each region shall get 15 points additionaly and tax deduction rate for each region shall be applied as 100 per cent for the investment expenditures that would be realized between the dates of 1/1/2017 and 31/12/2017.

TAX DEDUCTION IN REGIONAL INVESTMENT INCENTIVE SCHEME

Regions	Rate of Contribution to Investment (%)	Tax Deduction Rate (%)	Investment Contribution Rate to be Applied <u>before</u> and <u>after</u> investment is completed	
			Before	After
Region 1	15	50	80	20
Region 2	20	55	80	20
Region 3	25	60	80	20
Region 4	30	70	80	20
Region 5	40	80	80	20
Region 6	50	90	80	20

TAX DEDUCTION IN LARGE SCALE INVESTMENT INCENTIVE SCHEME

Regions	Rate of Contribution to Investment (%)	Tax Deduction Rate (%)	Investment Contribution Rate to be Applied <u>before</u> and <u>after</u> investment is completed	
			Before	After
Region 1	25	50	80	20
Region 2	30	55	80	20
Region 3	35	60	80	20
Region 4	40	70	80	20
Region 5	50	80	80	20
Region 6	60	90	80	20

SOCIAL SECURITY PREMIUM SUPPORT (Employer's Share)

Regions	Duration	Support Cap (Ratio to Fixed Investment - %)		
		Regional Scheme	Large Scale Scheme	Strategic Scheme
Region 1	2 years	10	3	15
Region 2	3 years	15	5	15
Region 3	5 years	20	8	15
Region 4	6 years	25	10	15
Region 5	7 years	35	11	15
Region 6*	10 years	-	-	-

* In OIZs and IZs in Region 6, the support will be implemented for 12 years.

INTEREST SUPPORT

Regions	Support Rate		Maximum Amount of Support (Thousand TL)
	TL Loans	Loans in Foreign Currency	
Region 1	-	-	-
Region 2	-	-	-
Region 3	3 Points	1 Point	500
Region 4	4 Points	1 Point	600
Region 5	5 Points	2 Points	700
Region 6	7 Points	2 Points	900

REGIONAL INVESTMENT INCENTIVE SCHEME

Incentives		Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
VAT Exemption		✓	✓	✓	✓	✓	✓
Customs Duty Exemption		✓	✓	✓	✓	✓	✓
Tax Deduction	out of OIZ or IZ	15	20	25	30	40	50
Rate of Contribution to Investment* (%)	in OIZ or IZ	20	25	30	40	50	55
Social Security Premium Support (Employer's Share)	out of OIZ or IZ	2 years	3 years	5 years	6 years	7 years	10years
	in OIZ or IZ	3 years	5 years	6 years	7 years	10years	12years
Land Allocation		✓	✓	✓	✓	✓	✓
Interest Support		-	-	✓	✓	✓	✓
Income Tax Withholding		-	-	-	-	-	10 years
Social Security Premium Support (Employee's Share)		-	-	-	-	-	10 years

*Within the scope of incentive certificates issued for manufacturing sector (US-97 Code: 15-37); Rate of contribution to investment for each region shall get 15 points additionally and tax deduction rate for each region shall be applied as 100 per cent for the investment expenditures that would be realized between the dates of 1/1/2017 and 31/12/2017.

OIZ: Organized Industrial Zones

IZ: Manufacturing Investments in Specialized Industrial Zones

MINIMUM WAGE AND DEDUCTIONS (01.01.2017-31.12.2017)

	Components of Labor Cost (Legal Minimum Wage)	Deductible Amounts with Support Measures
Gross Wage	1.777,50 TL	-
Worker's Share of Social Security Premium	248,85 TL	248,85 TL
Worker's Share of Unemployment Insurance Premium	17,78 TL	-
Income Tax Withholding	226,63 TL	226,63 TL
Stamp Duty	13,49 TL	-
Total Deductions	373,44 TL	-
Net Wage	1.404,06 TL	-
EMPLOYER'S SHARE IN MINIMUM WAGE (01.01.2017-31.12.2017)		
Employer's Share in Social Security Premium (% 20.5)	364,38 TL	364,38 TL
Employer's Share of Unemployment Insurance Premium (% 2)	35,55 TL	
LABOR COST TO EMPLOYER	2.088,56 TL	839,86 TL

IMPROVED SUPPORT TO INVESTMENT FINANCE IN REGION 6

Interest Payment Support
up to 900.000 TL

An opportunity to benefit from
Tax Deduction support for
the other operations of investing
company during investment period

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Following priority investments will benefit from terms and rates of the support measures of Region 5 even if they are made in Regions 1, 2, 3, 4.



**Investments of manufacturing
high-tech products**

- ❖ Pharmaceuticals,
- ❖ Office, accounting and computing machinery,
- ❖ Radio, TV and communications equipment,
- ❖ Medical, precision and optical instruments,
- ❖ Aircraft and spacecraft.

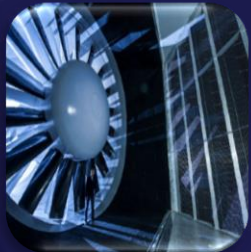
Investment subjects to be benefited from **measures of Region 5**



Investments to manufacture products as an outcome of the R&D



Defense Industry Investments



Test facilities, wind tunnel and similar investments



Specific automotive and engine manufacturing investments



Mining and Mine-Exploring Investments



Education Investments

Investment subjects to be benefited from **measures of Region 5**



Energy efficiency
investments



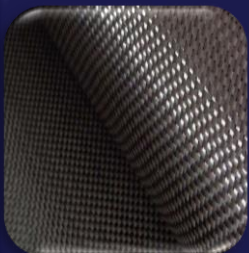
Investments made to generate
electricity through waste heat
recovery



Liquefied natural gas (LNG)
investments and underground
gas storage investments



Investments made to generate
electricity from coal



Investments of carbon fiber or
the composite materials
made from carbon fiber



Railroad transportation
investments

Investment subjects to be benefited from **measures of Region 5**



**Maritime transportation
investments**



**Tourism investments in Cultural
and Touristic Preservation and
Development Regions and
thermal tourism investments**



**International fairground
investments**



**Investments made to
manufacture turbines and
generators for renewable
energy and wind turbine
wings for wind power.**



**Integrated investments
for aluminium flat
products using direct chill
slab casting and hot
rolling methods.**



**Licensed warehousing
investments**

Investment subjects to be benefited from **measures of Region 5**



**Nuclear power plant
Investments.**



**Qualified laboratory
investments**

Eskişehir Sanayi Odası

CLUSTERING AND R&D INVESTMENTS

- ❑ Following investments will benefit from more beneficial one level up regional rates and terms for Tax Deduction and support to employer's share of social security premium in any region:
 - ✓ **Investments in Organized Industrial Zones and Manufacturing Investments in Specialized Industrial Zones,**
 - ✓ **Joint Investments by multiple (at least 5) companies operating in the same sector which establish integration to their activities.**
- ❑ Selected medium-high-technology industries will benefit from terms and rates of the support measures of Region 4 even if they are made in Regions 1 (except Istanbul), 2, 3.

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Goals of the Scheme:

- ✓ Improvement of Technology and R&D Capacity,
- ✓ Provide a competitive advantage in the international arena.

Incentive measures available for Large Scale Investments:

- ✓ **VAT Exemption,**
- ✓ **Customs Duty Exemption,**
- ✓ **Tax Deduction,**
- ✓ **Social Security Premium Support,**
- ✓ **Land Allocation.**

If a large scale investment is made in Region 6, additionally it will benefit from Income Tax Withholding Support and Social Security Premium Employee's Share Support.

Investment Subjects	Minimum Investment Amount (Million TL)
Refined Petroleum Products,	1000
Chemical Products,	200
Harbors and Harbor Services and Airport Investments,	
Automotive OEM Investments,	
Automotive Supply Industries Investments,	
Railway and Tram Locomotives and/or Railway and Tram Cars,	50
Transit Pipe Line Transportation Services,	
Electronics,	
Medical, High Precision and Optical Equipment,	
Pharmaceuticals,	
Aircraft and Aerospace Vehicles and/or Parts,	
Machinery,	
Investments for Final Metal Production	

Large Scale Investment Incentive Scheme

Incentives		Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
VAT Exemption		✓	✓	✓	✓	✓	✓
Customs Duty Exemption		✓	✓	✓	✓	✓	✓
Tax Deduction	out of OIZ or IZ	25	30	35	40	50	60
Rate of Contribution to Investment* (%)	in OIZ or IZ	30	35	40	50	60	65
Social Security Premium Support-Employer's Share	out of OIZ or IZ	2 years	3 years	5 years	6 years	7 years	10 years
(Term of Support-Years)	in OIZ or IZ	3 years	5 years	6 years	7 years	10 years	12 years
Land Allocation		✓	✓	✓	✓	✓	✓
Interest Support		-	-	-	-	-	-
Income Tax Withholding (years)		-	-	-	-	-	10
Social Security Premium Support (Employee's Share)		-	-	-	-	-	-
(Term Of Support- Years)		-	-	-	-	-	10

*Within the scope of incentive certificates issued for manufacturing sector (US-97 Code: 15-37); Rate of contribution to investment for each region shall get 15 points additionally and tax deduction rate for each region shall be applied as 100 per cent for the investment expenditures that would be realized between the dates of 1/1/2017 and 31/12/2017.

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What are the Strategic Investments?

- Investments to be made for production of intermediate or final products of which more than 50% are supplied by imports.
- Energy investments to be made for exclusive use of such strategic investments.

What are the goals of the scheme?

- On the basis of the “Input Supply Strategy” this scheme aims at supporting production of intermediate and final products with high import dependence with a view to reduce current account deficit.
- It also targets encouraging high-tech and high value added investments with a potential of strengthening Turkey’s international competitiveness.

Eligibility criteria for Strategic Investments

- ✓ to be made for production of intermediate and final products
 - ✓ with high import dependence
 - ✓ of which more than 50% are supplied by imports
- ✓ with a minimum investment amount of 50 million TL
- ✓ with a minimum 40% value added (This condition is not applicable to refined petroleum production investments and petrochemicals production investments)
- ✓ With an import of at least 50 million \$ in the last one year period (This condition is not necessary for goods with no domestic production)

Strategic Investment Incentive Scheme

Incentives		All Regions
VAT Exemption		✓
Customs Duty Exemption		✓
Tax Deduction*	Rate of Contribution to Investment (%)	50% (50% of the contribution can be used before the investment is completed)
Social Security Premium Support (Employer's Share) (Term of Support)		7 Years (10 years for Region 6)
Land Allocation		✓
Interest Support	Local Loans	5 points
	Foreign Exchange/ FX denominated loans	2 points
VAT Refund		The building and construction costs of investments of more than 500 million TL
Income Tax Deduction Support		10 years only for Region 6
Social Security Premium Support (Employee's Share) (Term Of Support)		10 years only for Region 6

*Within the scope of incentive certificates issued for manufacturing sector (US-97 Code: 15-37); Rate of contribution to investment for each region shall get 15 points additionally and tax deduction rate for each region shall be applied as 100 per cent for the investment expenditures that would be realized between the dates of 1/1/2017 and 31/12/2017.

Investment Incentives in the Scope of Attraction Centres Program

Investments deemed eligible to be supported by the Development Bank of Turkey under the «Production Facility Transport Support Package» within the scope of Attraction Centres Program, can be supported with following terms.

- ❑ In the event that the additional investment is not made for the production facility which is transported to cities that are in the scope of the Program or the minimum amount of fixed investment and the minimum capacity requirements can not be met with the additional investment;
 - The facilities transported to the 4th and 5th regions shall benefit from the valid duration and amount of Social Security Premium Employer Support -Employer's Share- of these regions.
 - The facilities transported to the 6th region shall benefit from the valid duration and amount of Social Security Premium Support, Social Security Premium Support –Employer's Share- and Income Tax Withholding Support of that region.
- ❑ In the event that the additional investment is made for the transported production facility and minimum amount of fixed investment and the minimum capacity requirements is met;
 - Transported facility shall benefit from aforementioned incentives and the additional investment shall benefit from Customs Duty Exemption, VAT Exemption and Tax Deduction incentives.

INVESTMENT INCENTIVES PROGRAM

Ministry of Economy

General Directorate of Incentives Implementation and

Foreign Direct Investment