

TAX INCENTIVES For The NEW INVESTMENTS in TURKEY

S. Selman TÜNAL

Tax Partner, Certified Public Accountant

JPA International Turkey

Arkan & Ergin Yeminli Mali Müşavirlik A.Ş.

ENVIRONMENT

- Turkey's regulatory environment is extremely business-friendly. You can establish a business in Turkey irrespective of nationality or place of residence. The registration and establishment of a company in Turkey can be completed in a week depending on the gathering of the necessary documentation by the shareholders.
- International companies may start their activities in Turkey in various forms depending on the investor's development strategies.

COMPANY FORMS

The most common types of legal entities in Turkey are listed below.

Company Type	Shareholder Structure	Capital Requirements
<i>Limited Liability Company</i>	Min. 2 shareholders	5.000 TL / 2.300 Eur
<i>Joint Stock Company</i>	Min. 5 shareholders	50.000 TL / 23.000 Eur
<i>Branch office</i>	At least 1 director needed	Symbolic Capital
<i>Liason Office (Representative Office)</i>	At least 1 director needed	No capital

TAX RATES

- **Corporate Tax**

For companies and branch offices, Corporate Tax rate for the net income is %20

- **Income Tax / Withholding Tax**

Income Tax Bracket is for the net earnings of the individual (tax payer) starting from 15% to 35%

- **Value Added Tax Rates**

For general transactions 18%

Reduced Tax Rate for some transactions (education, health 8%)

Reduced Tax Rate for some agricultural products is 1%

EMPLOYMENT

Minimum Montly Wage (gross and net)	
	USD
Net minimum wage	357
(+) Gross Minimum Wage	453
- Social security premium payment (14%)	63
- Payment into unemployment insurance fund (1%)	5
- Income tax (15%)	58
- Minimum living allowance*	-33
- Stamp tax (0.6%)	3
Total deduction	96
Cost For Employer	
- Gross minimum wage	453
- Employer's share of social security premium (19,5%)**	88
- Employer's payment into unemployment insurance fund (2%)	9
(+) Total Cost for Employer	551

*For single individuals without children and may vary according to marital status and number of children.

**Upon certain conditions, as an incentive, a five-point reduction in this rate is possible (down from 19.5% to 14.5%). Thereby the total cost for the employer may be reduced to USD 528.

Source : Ministry of Labor and Social Security of the Republic of Turkey valid for the second half of 2009.

USD 1 = TRY 1.53 as of June 2009

INCENTIVES

- **The Investment Incentives**

New Investment Incentive Regime which was published in Official Gazette 28 July 2009

- **Incentives Components by Sector and Region**

Turkey's incentive system divides Turkey into 4 main regions.

According to the new decree, there are six main components of the new incentives regulation. Not all six incentives are provided to each region all at the same time, therefore the number of incentives varies depending on the region in which the investment will take place





INCENTIVES

Region	Incentive Components
Region I	<ul style="list-style-type: none"> n Customs Duty Exemption n VAT Exemption n Reduced Income/Corporate Tax Rate n Social Security Premium Support (Employer's Portion) n Land Grant Subsidy
Region II	<ul style="list-style-type: none"> n Customs Duty Exemption n VAT Exemption n Reduced Income/Corporate Tax Rate n Social Security Premium Support (Employer's Portion) n Land Grant Subsidy
Region III	<ul style="list-style-type: none"> n Customs Duty Exemption n VAT Exemption n Reduced Income/Corporate Tax Rate n Social Security Premium Support (Employer's Portion) n Land Grant Subsidy n Interest Support
Region IV	<ul style="list-style-type: none"> n Customs Duty Exemption n VAT Exemption n Reduced Income/Corporate Tax Rate n Social Security Premium Support (Employer's Portion) n Land Grant Subsidy n Interest Support
Big Investment Projects	<ul style="list-style-type: none"> n Customs Duty Exemption n VAT Exemption n Reduced Income/Corporate Tax Rate n Social Security Premium Support (Employer's Portion) n Land Grant Subsidy

Big incentive projects will be supported without region limitations.

BASED ON SOCIO-ECONOMIC DEVELOPMENT RANK



-  1. DEGREE DEVELOPED LEVEL 2 REGIONS
-  2. DEGREE DEVELOPED LEVEL 2 REGIONS
-  3. DEGREE DEVELOPED LEVEL 2 REGIONS
-  4. DEGREE DEVELOPED LEVEL 2 REGIONS

BIG INVESTMENT PROJECTS

- Regardless of the region the investment is made in, incentives are provided to investments that are classified as Big Investment Projects (BIP).
- The investment made in these 12 industries are classified as BIP and the investment total should be not less than 50 Million TL, however for some of those investments the minimum investment amount is set above 50 Million TL.

BIG INVESTMENT PROJECTS

INDUSTRY	Minimum Investment Amount (Million TL)
Production of Chemicals and Chemical Products	
* Production of Main Chemical Products	1.000
* Production of Other Chemical Products	300
Production of Refined Petroleum Products	1.000
Transportation Services made via Transit Pipeline	
Motor Vehicle Production (Only those that function on land)	250
Production of railway and tramway locomotive or carriage	
Port and port services	250
Electronics Industry Investments	
* LCD/Plasma Production	1.000
* Module Panel Production	150
* Laser TV, 3D TV, LED TV and similar TV Productions	
* Other Electronics Industry Investments	
Production of medical equipment and sensitive and optical equipments	
Medicine Production	100
Production of Air and Space Vehicles	
Investments related to Machine Investments	
Mining Investments (Excluding the investments related to those metals stated in the Mining Law under IV/c grou)	

INDUSTRIES OUTSIDE THE SCOPE OF THE SUPPORT

- The following companies and investments are kept out of the scope of the reduced Corporate Tax rate incentive.
 - The companies operating in finance and insurance
 - Contracting Businesses
 - The investment made under law No 4283
 - The Build-Operate-Transfer Model
 - The investments made related to contracts that involve the royalty payments to be made to the landowner for the materials extracted from the land (Rodovans Contracts)
 - Other investments (out of scope investment details and sector definition is also published.)

Incentive amount in connection with Reduced Corporate Tax Rate

- The incentive amount that will be computed by applying the reduced corporate tax rate to the net income earned from the new investments.
- The revenues generated through these investments will be subject to the reduced income/corporate tax rate until the forgone tax amount due to the applied reduced rate reaches the investment participation amount which is predetermined by the Cabinet.
- There are two applications for reduced tax rate support depending on the start of the investment date.

Tax Incentives

Investments starting before 31 December 2010

	Regional Investments			Big Project Investments		
Region	Investment Participation Rate (%)	Reduction Amount (%)	Reduced Corporate Income Tax rate (%)	Investment Participation Rate (%)	Reduction Amount (%)	Reduced Corporate Income Tax rate (%)
1	20	50	10	30	50	10
2	30	60	8	40	60	8
3	40	80	4	50	80	4
4	60	90	2	70	90	2

Investments starting after 31 December 2010

	Regional Investments			Big Project Investments		
Regions	Investment Participation Rate (%)	Reduction Amount (%)	Reduced Corporate Income Tax rate (%)	Investment Participation Rate (%)	Reduction Amount (%)	Reduced Corporate Income Tax rate (%)
1	10	25	15	25	25	15
2	15	40	12	30	40	12
3	20	60	8	40	60	8
4	25	80	4	45	80	4

Example

Starting Date of the Investment Project Before the end of 2010

Sector/Region and Investment Budget	State's Participation Rate to the Investment	Participation Amount for the Investment/ Forgone Tax Total	Reduction Rate to be Applied on Corporate Tax Rate	Calculation of the Reduced Corporate Tax Rate	Investment Income that makes the forgone tax amount equal to the State's Participation Total
Machinery Production Region IV 55 million TL	70%	(55mio *70%=) 38,5 mio	90%	(Corporate Tax Rate * Reduction On the Corporate Tax Rate) (20%*90%=) %18 After Reduction (%20 - %18 =) %2 Reduced Tax Rate on Income Gained from New Investments 2%	(38,5 mio / 18%=) 213.888.889

Duration

- The reduced Corporate Tax rate application will start in the accounting period when the investment starts operating either partially or completely. The reduced rate shall be applied until the forgone tax amount due to the applied reduced rate reaches the determined investment participation amount.
- The reduced corporate income tax rate shall only apply on the revenues generated through the new investment. Accordingly standard corporate tax rate (%20) will apply on the revenues generated from operations other than the new investment.

VAT Exemption

- VAT exemption is provided to all investments that exceed the minimum investment amounts.

FIXED INVESTMENT AMOUNTS & MINIMUM CAPACITIES

For an investment to benefit from the incentives stated in the decree, the minimum fixed investment amount should be

- At least 1 Million TL for the investment in region I and II
- At least 0.5 Million TL for the investment in region III and IV
- For the investments that will be made through through a leasing company, the total amount of leased machinery and equipment per each leasing company should be at least 0,3 Million TL.

QUESTIONS?

THANK YOU