

**SUPPORT MEASURES OF NEW INVESTMENT INCENTIVES PROGRAM
(PROVIDED BY THE MINISTRY OF ECONOMY)**

VAT Exemption

VAT exemption is provided for machinery and equipment which are imported and/or locally provided. In addition, the incentive certificate includes selling and renting of intangible rights and software.

Customs Duty Exemption

Custom duty exemption is provided for investment machinery and equipment which are imported as a part of the incentive certificate.

Tax Deduction

From the point of tax deduction, there are contribution rates available from 15 % to 65 %. The income and corporate tax is included within the scope of tax deduction. These taxes are calculated on basis of contribution rates. Contribution rates mean the rates of the whole fixed investment amount which is subject to tax deduction.

Interest Rate Support

Investment incentive certificate allows that a definite portion of the interest share is covered by the Ministry in terms of investment loans. This measure is an instrument for financial support which is provided for investment loans with a period of at least one year.

3-7% for TL credits,

1-2% for foreign currency credits.

Land Allocation

Investment incentive certificate allows that government land may be allocated for the investments. Land allocation depends on the feasibility of government land. Rules and principles are set by the Ministry of Finance.

VAT Refund

This measure is provided within the scope of strategic investment incentives scheme. VAT will be rebated in terms of building and construction expenses. VAT collected on the building & construction expenses will be rebated (with a minimum fixed investment at least TRY 500 million). For 2017-2018, an investment incentive certificate allows that VAT collected on the construction expenses of manufacturing sector investments will be rebated.

Social Security Premium Support (Employee's Share):

If the investment creates additional employment, the government will cover the employee's share of the social security premium which is calculated on basis of the legal lowest wage. This measure is available only to investments which are made in Region 6 within the scope of the investment incentive certificate. There is not an upper limit for the support and it is available for 10 years.

Social Security Premium Support (Employer's Share):

If the investment creates additional employment the government covers the employer's share of the social security premium which is calculated on basis of the legal lowest wage. The instrument is available up to 12 years.

Income Tax Withholding Support:

Within the scope of the investment incentive certificate if the investment creates additional employment, the income regarding the employment will be exempted to withholding taxes. This measure is available only to investments which are made in Region 6 within the scope of the investment incentive certificate. There is not an upper limit for the support and it is available for 10 years.

REGIONAL INVESTMENT INCENTIVES SCHEME

Regional system is aiming to remove economic imbalances between regions by means of encouragement of sectors determined. All of the rates of support measures have been regulated in accordance with the development levels of the each region.

The economic potentials of regions and scales of economies are being taken into consideration in order to identify the investment subjects which will be supported.

For each region, minimum investment amounts are determined separately by taking into consideration of the definite investment subjects in terms of regional investment support. The minimum amount being ;

1 million TL in Regions I and II,
500 thousand TL in Regions III, IV, V and VI.

Please see the map below in that the regions are shown in order to ascertain regional investment incentives scheme for each region.

Regional Investment Incentives Scheme Instruments								
Incentive Instruments		Region						
		I	II	III	IV	V	VI	
VAT Exemption		YES						
Customs Duty Exemption		YES						
Tax Reduction	Tax Reduction Rate (%)	50	55	60	70	80	90	
Rate of Contribution to Investment (%)	Out of OIZ*	15	20	25	30	40	50	
	Within OIZ*	20	25	30	40	50	55	
Social Security Premium Support (Employer's Share)	Support Period	Out of OIZ*	2 years	3 years	5 years	6 years	7 years	10 years
		Within OIZ*	3 years	5 years	6 years	7 years	10 years	12 years
	Upper Limit for Support (%)	Out of OIZ*	10	15	20	25	35	No limit
		Within OIZ*	15	20	25	35	No limit	No limit
Land Allocation		YES						
Interest Rate Support	TRY Denominated Loans (points)	N/A	N/A	3 points	4 points	5 points	7 points	
	FX Loans (points)			1 point	1 point	2 points	2 points	
Social Security Premium Support (Employee's Share)		N/A	N/A	N/A	N/A	N/A	10 years	
Income Tax Withholding Allowance		N/A	N/A	N/A	N/A	N/A	10 years	

*OIZ: Organized Industrial Zones

**INCENTIVES ON RESEARCH AND DEVELOPMENT (R&D) AND DESIGN
ACTIVITIES IN TURKEY (PROVIDED BY THE MINISTRY OF SCIENCE,
INDUSTRY AND TECHNOLOGY)**

1. Amendments on Turkish R&D Legislation

Law on Supporting Research and Development Activities numbered 5746 is the main legislative act regulating R&D activities in Turkey. The Law had been adopted on 28/2/2008 published on March 3, 2016 at Official Gazette numbered 26814. During the period of 2008-2016 the law had been amended several times, but general principles of the Law were reserved. However the last and the main amendment of the Law was made by Regulation on Application and Control for Supporting Research, Development and Design Activities, which had been published on August 10, 2016 at Official Gazette numbered 29797.

It is need to be underlined that the design activities are also taken under the scope of R&D legislation, so the companies performing design activities in accordance with provisions of the Regulation and which have taken Design Centre Certificate could also benefit from incentives.

2. Definition of Design Activity

According to article 4, paragraph 1, item (o) of the Regulation on Application and Control for Supporting Research, Development and Design Activities, which has been issued in Official Gazette dated 10 August 2016 numbered 29797, the design activity is defined as follows;

“All innovative activities which; have the potential of creating added value and competitive advantage, and have the quality of increasing, developing, improving and diversifying the functionality of a product or/and products in industrial area or in the other field approved by the Cabinet”.

Resulting from the 1/8/2016 dated and 2016/9094 numbered Decree of Council of Ministers, “cinema movies, video and television shootings production activities and post-shooting activities” are also considered as design activities so long as they have the capacity to create added value and competition advantage and also directed to increase, improve and differentiate the functionality of product(s).

3. Definition of R&D Activity

Regarding the definition of R&D activities, article 4, paragraph 1, item (a) of the Regulation, determines the following “Research and Development Activity (R&D): creative studies, environment friendly product design or hardware activities conducted on a systematic basis so as to enrich knowledge made up of research and development, knowledge of culture, human and society, and to make use of this in order to design new processes, systems and applications, as well as activities with experimental, scientific and technical content and original outputs, which provide scientific and technical improvement in its field, focus on scientific and technological uncertainty.”

4. Activities are not considered as R&D and design

Before enlighten the tax exemptions and incentives, we should define activities that are not considered as R&D and Design Activities in accordance with article 5 and 6 of aforementioned Regulation in order to avoid possible misunderstandings.

In this regard, activities that are not considered as R&D in brief could be explained as following:

- a) Marketing activities, surveys or sales promotions,
- b) Quality control,
- c) Researches in social sciences,
- d) Oil, natural gas and mine exploration and drillings,
- e) Clinical trials after the drug production permit,
- f) Usage of processes not invented as part of a R&D and innovative activity,
- g) Stylistic changes not intended for R&D and innovative activity,
- h) Ordinary and repetitive software related activities not include the technological and scientific progress,
- i) Costs of research related to establishing and organizing,
- j) Transfer of direct or embedded technology not in the scope of R&D project,

By the way, activities that are not considered as design might be explained as follow:

- a) Marketing activities, surveys or sales promotions,
- b) Quality control,
- c) Usage of processes not invented as part of a R&D and innovative activity,

(1) Costs of research related to establishing and organizing,

- d) Transfer of direct or embedded technology not in the scope of R&D project,
- e) Design activities that includes improper use of emblems and signs,
- f) Design activities against public order or public decency.

b) Tax exemptions and incentives

The Regulation amended the R&D legislation also from the part of tax exemptions on wages. Incentives provided by the Regulation as are follow:

1. Incentive on Income Tax Withholding: For the promotion of quality of personnel employed in R&D centres, different rates of tax exemptions will be introduced for the employees with doctorate diploma, master's degree and bachelor's degree. In this regard, employees with PhD degree and employees with a master's degree from basic sciences (mathematics, physics, chemistry and biology) are free of income tax in amount of 95%, employees with master's degree and undergraduates of basic sciences (mathematics, physics, chemistry and biology) will also be benefiting from wage incentives in amount of 90%. Even the wages earned by R&D and design centres' personnel for the works conducted out of these centres will be subjected to withholding tax incentive provided that these works are related to the activities conducted in such centres. Also, academicians, who are employed to conduct projects under university–industry cooperation programs, will be exempt from income tax.
2. Customs Duty Incentive: For ensuring the completions of R&D projects in shortest time and with lowest cost possible, overseas purchases within the scope of the project will be free of duty, and exempt from stamp tax and legal fee.
3. Stamp Tax Incentives: All documents issued in relation to R&D activities are free of Stamp Tax.
4. Insurance Premium Incentive: Insurance Premium of the employees that are benefiting from the Incentive on Income Tax Withholding, would be paid by the Ministry of Finance in the rate that are calculating from the amount of income tax incentives

5. Permanent work permit for foreign R&D personnel: According to recently enacted International Workforce Law No. 6735 Article 8, paragraph 6; "Work permit applications lodged by foreign nationals who wish to work as R&D personnel in the companies that own R&D Center Certificate in the scope of Law on Support Research and Development Activities, No. 5746, may be accepted upon favourable opinion of Ministry of Science, Industry And Technology

6. Purchase order: Enterprises that are established to conduct their R&D and design activities based on purchase order contracts will be deemed as R&D centres.