

KPMG TURKEY

The New Investment Incentives in Turkey

kpmg.com.tr
kpmgvergi.com



Contents

1 General Scope of the New Incentive System	4
2 The Available Incentives.....	5
3 The Definition of the Available Incentives	6
3.1 VAT Exemption	6
3.2 Customs Duty Exemption	6
3.3 Corporate Income Tax Reduction.....	6
3.4 Social Security Premium Support (Employer's Share).....	7
3.5 Social Security Premium Support (Employee's Share).....	8
3.6 Income Tax Withholding Allowance.....	8
3.7 Interest Support	8
3.8 Land Allocation	8
3.9 VAT Refund	8
4 Incentive Schemes	9
4.1 General Incentive Scheme	9
4.2 Regional Incentive Scheme	10
4.2.1 Specific Priority Investments	11
4.2.2 Investments Benefited from Level Upgrade	12
4.3 Large Scale Investment Incentive Scheme	12
4.4 Strategic Investment Incentive Scheme.....	13
5 Other Issues	14
5.1 Eligible Expenditures.....	14
5.2 Non Eligible Expenditures.....	14
5.3 Transfer, Sale, Export or Lease of The Machines and Equipment.....	15
5.4. Extension of Investment Period	15
5.5. Financial Leasing	15
5.6 Revision of the IIC and Change on the Price	15
5.7 Completion Visa	15
5.8 Force Major and Lost of Documents	15
5.9 Penalty	15
6 Application	16
6.1 Who Can Apply For IIC ?.....	16
6.2 Required Documents for the Application to IIC.....	16
6.3 Where to Apply to Get IIC?	17
6.4 Application Fee.....	17
6.5 Application to Interest Support	17
7 Final Comments	18

Preface

This publication, “The New Investment Incentives in Turkey”, compiled by KPMG Turkey’s Tax Practice, aims to provide practical information about Turkish investment incentives regime that is invaluable for investors that consider investing and doing business in Turkey.



Abdulkadir Kahraman
Head of Tax,
Tax, KPMG Turkey

An “Investment Incentives Regime” is an important milestone of a development strategy of States for the developing countries to boost economic development by attracting foreign direct investment and supporting internal initiatives, increasing employment rate, lowering regional differences. Countries to manage and support these types of the investments generally use tax and similar fiscal charges, subsidies, supports and free land allocations.

Turkey has also incentive regime for over decades. However, there have been amendments in the incentives system due to the ever changing local and international environment and the recent one has been done in 2012.

Therefore, a new Decree published in 2012 amended the Investment Incentives Regime with which Turkey shifts towards a more sector-specific approach, aiming directly at high value-added, high-tech and export oriented investment to fix its “current account deficit” problem.

It reflects developments to September 2012 and the information herein is not exhaustive. The information contained in this publication is an introduction for the investors that plan to take a look into incentives in Turkey.

I would like to take this opportunity to thank KPMG Turkey Tax Partner Timur Çakmak as the author of this booklet.

Best regards,

1- General Scope of the New Incentive System

The new investment incentive system includes “four different investment schemes”. These are;

- 1- General Investment Incentive Scheme,
- 2- Regional Investment Incentive Scheme,
- 3- Large Scale Investment Incentive Scheme,
- 4- Strategic Investment Incentive Scheme.

The Decree numbered 2002/3305 has entered into force on 19 June 2012, which was published in the Official Gazette of Turkey. However, the new regime is retroactively effective since 1 January 2012 due to its temporary Article 2 of the Decree.

Therefore, the Investment Incentive Certificates granted to an investor before the Decree being published can benefit from the new incentive regime.

2- The Available Incentives

There are four different support schemes under the new regime. The incentive tools generally include; tax and customs duty exemptions, social security premium supports, interest support and free land allocation.

According to incentive schemes, the available incentives to be provided by the Turkish Government can be listed as in the following table.

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

* Provided that the investment is made in the Region 6.

** Provided that the investment is made in the Regions 3, 4, 5 or 6 within the frame of the Regional Investment Incentive Scheme

3- The Definition of the Available Incentives

3.1 VAT Exemption

According to Turkish VAT Law, supply of machinery and equipment to the taxpayer who has Investment Incentive Certificate ("IIC") is exempted from VAT. The exemption is also applicable for the imported machinery and equipment. However, in case of any failure on the investment program all VAT amounts exempted shall be collected with late payment fee and penalty by the Tax Administration.

3.2 Customs Duty Exemption

According to Turkish Customs legislation, customs duty is exempted in case of importation of machinery and equipment provided that all machinery and equipment should be within the scope of the investment encouragement certificate.

3.3 Corporate Income Tax Reduction

Statutory corporate income tax rate in Turkey is 20 %. However, Turkish Corporate Income Tax Law, provides reduced corporate income tax rate for the investments made within the scope of the IIC. Although the reduced corporate income tax is based on the related article of the Corporate Income Tax Law, the authority to determine the detail of the implementation was given to the Council of Ministers. In addition to that the Council of Ministers of Turkish Government has declared its Decree on the 19th of June 2012 through the Decree number 2012/3305.

According to Turkish Corporate Tax Law and the Decree, there are two things that are important to calculate reduced corporate income tax rate. One of them is the rate of contribution to investment and second is the rate of tax reduction. All rates of contribution to investment and all rates of reduced corporate income tax are determined by the Decree according to incentive schemes and regions.

For instance; investment starts before 31.12.2013, within the scope of the IIC and the Decree can benefit up to 90 % tax rate reduction for the statutory corporate income tax rate with the contribution to investment rates of 60 %. Contribution rate to investment calculated as follow.

Contribution Amount to Investment: **The Amount Of Tax Not Collected By The Tax Authority due to the regime**

Rate of Contribution to Investment: $\text{Contribution Amount to Investment} / \text{Total Invested Amount}$

Reduced Corporate Income tax support can only be used for the investments, made under the “Regional, Large Scale Investment schemes and the strategic investments”. There is a limit for reduced corporate tax rates, which is being applied on the taxable income when the total tax benefit reaches the amount of contribution during the investment.

This incentive is also applicable for investors whose income subject to Individual Income Tax Law so long as the nature of the income is “business profit”.

Example: Assume that an investor gets its “IIC” within the scope of the new incentive regime and invests 6th Region under the Large Scale Incentive Scheme. Investor also meets all conditions for a Large Scale Investment.

See the example for the calculation of the tax reduction.

Sample for reduced tax rate		TL
(A) Corp Taxable Income	:	1.000.000
Current Corporate Tax Rate 20 %	:	200.000
Tax Rate Reduction	:	90 %
Reduced Tax Rate [0,20-(0,20*0,90)]	:	2 %
Reduced Tax Amount (1.000.000 X 2 %)	:	20.000
Tax Not To Be Collected By The Tax Office (200.000 – 20.000)	:	180.000
Total Invested Amount	:	500.000
Rate Of Contribution To Investment (180.000 ÷ 500.000) =	:	36 %

According to the Decree, if the rate of contribution is lower than 60 % in the 6th region. The investors can get benefit from the 90 % reduced corporate tax incentive until reach to 60 % rate of contribution to investment.

However, the following expenditures, entities and investments cannot benefit from the Reduced Tax Rate Incentive;

Expenditures on;

- Land,
- Royalty,
- Spare Parts,
- Other expenses not being subject to depreciation.

Entities and Investments;

- Finance and Insurance entities
- Joint ventures
- Investments made in accordance with;

* Investments realized according to Law No: 4283 (BOT) and Law No: 3996

* Rodovans Contract

3.4 Social Security Premium Support (Employer’s Share)

According to the Decree and the Communiqué, there is a social security premium support (employer’s share) and it has broad explanations how to get benefit from the incentive.

The incentive stipulates that in case of additional employment created by the investment made within the scope of the IIC, employer’s share of social security premium on the wages will be covered by the Ministry of Economy, up to the amount of minimum wage.

This incentive applies to employment created by the completely new investments. Therefore, it is applicable to employments created additionally by for the other types of investments. In other words, if the employment level is lower than the current employment, the social security premium support is not applicable.

The maximum amount of social security premium support and applicable terms will be shown on IIC which is determined by the Decree. According to the Decree, this support can be applied for maximum 10 years and it cannot exceed 15% of the total investment amount. This incentive is prosecuted by Turkish Social Security Legislation and it is also based on the “pay and get refund” mechanism. Social Security Institute is responsible for the correction of the information about employment and premium, supported by the Ministry.

3.5 Social Security Premium Support (Employee's Share)

According to the Decree, the only investments made in the Region 6 and made under large scale, strategic investment and regional incentive schemes can benefit from this incentive. The measure stipulates that for the additional employment created by the investment, employee's share of social security premium on wages up to amount of legal minimum wage, will be covered by the Ministry of Economy.

The procedure for the support, mentioned in the Communiqué for the employers is also applicable for the premium of employee's share.

3.6 Income Tax Withholding Allowance

According to the Decree, the income tax withholding allowance on the wages can only be applicable to employee wages within the scope of the investments, made in the Region 6.

If there is additional employment created by the investment within the scope of the IIC, income tax on wages shall not be applicable for 10 years. 10 Year Period begins after partially or completely start-up of a business. Provided that employment figure, registered at the related investment incentive certificate, shall not be exceeded. And the amount of tax benefit shall not be exceeding the taxes calculated on the legal minimum wage.

3.7 Interest Support

Interest support is a kind of financial support, provided only for the loans with a term of at least one year, obtained within the frame of the IIC. The measure requires that a certain portion of the interest/profit share¹ regarding the external financing equivalent of at most 70% of the fixed investment amount, registered in the certificate will be covered by the Ministry of Economy.

This incentive can only be applicable for the loans that are related with the investments made under the regional incentive and strategic investment schemes, R&D and environmental investments. Rates of interest support vary according to investment scheme and region. According to the Decree, interest support for the investments is as follows:

3rd Region	3 %, for the credit in Turkish Lira, 1 % for the credit in foreign currency
4th Region	4 %, for the credit in Turkish Lira, 1 % for the credit in foreign currency
5th Region	5 %, for the credit in Turkish Lira, 2 % for the credit in foreign currency
6th Region	7 %, for the credit in Turkish Lira, 2 % for the credit in foreign currency

Without regional discrimination for **strategic investment, R&D and environmental investments**, interest support will be **5%**, for the Turkish Lira denominated loans and **2%** for the foreign currency denominated loans.

If it's justified by the Ministry of Economy, interest support can be reimbursed for a maximum 5 years from Ministry's recourses. There are limits for the interest support and it shall not be exceeded to the amount for the regions:

3rd Region	500.000 Turkish Lira
4th Region	600.000 Turkish Lira
5th Region	700.000 Turkish Lira
6th Region	900.000 Turkish Lira

3.8 Land Allocation

According to the Decree, investments within the scope of the IIC and within the scope of the large scale investments, strategic investments and regional incentive schemes can be benefited from land allocation support.

Land allocation must be made by the Ministry of Finance (DG National Property) by taking into account of the Add. Article of the Law numbered 4706. Any investment that cannot benefit from the reduced corporate tax reduction, can also not get benefit from land allocation support.

3.9 VAT Refund

Input VAT on the building & construction expenses made within the frame of strategic investments with a fixed investment amount of 500 million TL will be refunded without waiting completion of the whole investment.

This application brought in to force with the change on the VAT Law (with the Law numbered 6322 and effective from 15th of June 2012.) According to the VAT Law, the input VAT paid regarding the building and construction expenses incurred within the strategic investment scheme, first can be offset from output VAT of the investor company. However, any input VAT couldn't be offset from the output VAT due to lack of output VAT until the end of current calendar year then it will be refunded to the investor in the following calendar year. In the case of an investment cannot be completed, investors shall pay all refunded VAT with late payment fee and penalty to the related tax office.

This incentive gives investors an important finance support especially for the investments whose investment period is longer than 2-3 years.

¹ For instance profit share paid under Islamic finance scheme.

4- Incentive Schemes

4.1 General Incentive Scheme

According to the Decree, regardless of in which Region an investment 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.

Investments that are made under the regional, large scale and strategic investment schemes and investment areas or subjects, stated in the Attachment No: 4 of the Decree, cannot get benefit from general investment scheme.

Moreover, the Decree puts minimum investment amounts of the investment according to the regions. 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.

Attachment No: 4 of the Decree has a list of investment areas and subjects that they cannot be supported by the new incentive system or they need to meet some requirements to have incentives. For example, power generation investments based on natural gas, investment on the bus or trailer used for the transportation of passenger or cargo, investment on distribution of oil products and investment on gas stations, investment on car rent services etc. cannot get any incentive under the new incentive system.²

Investments made under general incentive scheme can benefit from the following incentives:

- Customs duty support,
- VAT exemption,
- Withholding tax allowance on the wages (only applicable in 6th region),
- Social security premium support (just for the ship building investments).

4.2 Regional Incentive Scheme

Investment made under “regional incentive scheme” has more incentives when compared with the general incentive scheme. Regions and sectors, also minimum investment amounts has been determined by the Decree numbered 2012/3305. The regions were classified by using its potentials, economic development and intensity of the supports level. Moreover, the sectors supported by the Decree selected in order to increase employment and economic level of these provinces. The picture of the regional distribution of the provinces is as follows.



The distribution list of the provinces and district are show on below.

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

The minimum fixed amount of investment is determined separately for each sector and each region, the lowest amount being 1 million TL in Regions 1 and 2, and 500 thousand TL in the remaining Regions.

For the regional investment incentive scheme; sectors stated in the Attachment No: 2B with related Provinces can benefit from incentives provided that they meet the conditions determined for the provinces in the related regions, explained at the Attachment No: 2A.

² Please look at Attachment of Decree for more investment areas that cannot get benefit from new incentive

The terms and rates of supports within the Regional Investment Incentives Scheme are summarized in the Table below.

REGIONAL INVESTMENTS INCENTIVE SCHEME MEASURES			REGIONS					
INCENTIVES			I	II	III	IV	V	VI
VAT Exemption on machinery & equipment			YES	YES	YES	YES	YES	YES
Customs Duty Exemption			YES	YES	YES	YES	YES	YES
Income Tax Reduction	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
Land Allocation			YES	YES	YES	YES	YES	YES
Interest Support	Local Loans		N/A	N/A	3 Points	4 Points	5 Points	7 Points
	Foreign Currency/ FX denominated loans				1 Points	1 Points	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

4.2.1 Specific Priority Investments

According to the Decree, there is some specific priority investment areas. If an investor interested investing on these areas, investment will be supported by the measures that are applicable for the 5th Region even they are made in 1st, 2nd, 3rd and 4th Regions. This is an upgrading opportunity for the investors. The priority investment sectors under the regime are as follows;

- Tourism investments in Cultural and Touristic Preservation and Development Regions determined by the Council of Ministers Decree,
- Mining extraction investments and mining processing investments,
- Railroad and maritime transportation investments,
- Specific pharmaceutical investments and defense Industry investments with minimum investment amount of 20 Million TL,
- Test facilities, wind tunnels and similar investments made for automotive, space or defense industries,
- International fairground investments with a minimum covered area of 50.000 square meter,
- Primary, Middle and High School investments by private sector,
- Investments made to produce products developed by an R&D Project which is supported by Ministry of Science, Industry and Technology.

4.2.2 Investments Benefited From Level Upgrade

The following categories of investments within the **Regional and Large Scale Investment Incentives Schemes** will get more benefits by getting, level upgrade in regional rates and terms of tax reduction and social security premium support (employer's share):

- Investments in Organized Industrial Zones (OIZ),
- Joint investments to be made by at least 5 companies operating in the same sector with the purpose of integrating these companies to this joint investment.

According to the Decree, in the case of the investment to be made in the 6th Region within the concept of regional and large scale investment scheme; investors can have additional two years for the social security employee's premium support, and reduced tax rate additional five points to the investment contribution rate.

4.3 Large Scale Investment Incentive Scheme

The Decree provides incentives for the large scale investments. Under the scheme, investment subjects and minimum investment amounts has been declared in the Decree.

According to it, there are 12 investment categories determined by the Decree. Investment categories and minimum amount of investment are show in the below table.

Sectors and Subsectors	Minimum Investment Amount (Million TL)
1- Production of Refined Petroleum Products	1000
2 - Production of Chemicals and Chemical Products	200
3- Investment on Harbours and Harbour Services	200
4-a Automotive OEM Investments	200
4-b Automotive Supply Industries Investments	50
5 - Railway and Tram Locomotives and/or Railway and Tram Cars	
6- Transit Pipe Line Transportation Services	50
7 - Electronics	
8 - Medical, High Precision and Optical Equipment	
9- Pharmaceuticals	
10 - Aircraft and Space Vehicles and/or Parts	
11- Machinery (Including Electrical Machinery and Equipment)	
12- Integrated Metal Production	

The requirements and rates of supported incentives provided within the Large Scale Investment Scheme are summarized in the following table.

LARGE SCALE INVESTMENTS INCENTIVE SCHEME MEASURES								
INCENTIVES			REGIONS					
			I	II	III	IV	V	VI
VAT Exemption			YES	YES	YES	YES	YES	YES
Customs Duty Exemption			YES	YES	YES	YES	YES	YES
Tax Reduction	Rate of Contribution to Investment (%)	Out of OIZ	25	30	35	40	50	60
		Within OIZ	30	35	40	50	60	65
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
Land Allocation			YES	YES	YES	YES	YES	YES
Social Security Premium (Employee's Share)			N/A	N/A	N/A	N/A	N/A	10 years
Income Tax Withholding Support			N/A	N/A	N/A	N/A	N/A	10 years

4.4 Strategic Investment Incentive Scheme

According to the Decree, there are also strategic investment scheme under which there are the incentives provided **without taking into account the regions and sectors**.

The main objective of this Scheme is related to support to production of intermediate and final products with high import dependency within the concept of reducing current account deficit. Moreover, it also targets encouraging high-tech and high value added investments with a potential of strengthening Turkey's international competitiveness.

The following investments are classified as "Strategic Investment" and can benefit Strategic Investment Incentive Scheme;

- Minimum investment amount must be 50 Million TL,
- It must be produced or manufactured to intermediate and final goods with high import dependency of which more than 50% of these goods are supplied by imports,
- Investment should be create minimum 40 % value added (This condition is not applicable to refined petroleum production investments and petrochemicals production investments),
- The goods, invested on to be produced must have a minimum importation which is \$50 Million, in the last one year period (This condition is not applicable to goods with no domestic production),
- Investments that are not supported by the new incentive regime, listed in the Attachment No:4 of Decree, also cannot get benefit from this scheme.
- The incentives, given to the investors who would made under strategic incentive investment scheme summarized in the above table.

STRATEGIC INVESTMENTS INCENTIVE SCHEME MEASURES						
INCENTIVES			REGIONS			
			I	II	III	IV
VAT Exemption			YES			
Customs Duty Exemption			YES			
Tax Reduction	Rate of Contribution to Investment (%)	Reduced Tax Rate	50 %		90 %	
		Support Period	7 Years (10 years for 6th region)			
Land Allocation			YES			
Interest Support	Local Loans (in TL)		5 points			
	Foreign Currency loans		2 points			
Social Security Premium Support (Employee's Share)			10 years (only for investments in the Region 6)			
Income Tax Withholding Allowance			10 years (only for investments in the Region 6)			
VAT Refund			YES (only for the input VAT on the expenditures of building for investments over 500 million TL)			

5- Other Issues

General framework of the new investment regime in Turkey explained above sections. However, hereafter we are going to provide some practical information regarding the regime.

5.1 Eligible Expenditures

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

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

Together with these investment expenditures; for the textile investment , if additionally machinery and equipment expenditures excess 100 % of the current assets, these expenditures deemed as complete new investment.³

Importation of used machines and equipments are subject to “the Decrees related to the Import Regime. Accordingly, import of plants within the scope of an IIC is subject to Directorate assessment/evaluation.

5.2 Non Eligible Expenditures

The Communiqué has listed the types of expenditures that cannot get benefit from investment incentives in general. The Following expenditures cannot benefit from investment incentive measures;

- 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.

5.3 Transfer, Sale, Export or Lease of the Machines and Equipment

The Communiqué states that transfer, sale, export and lease of the machines and equipments, purchased within the scope of the IIC before completion of 5 years, subject to permission from the Ministry of Economy.

If investor wants to get permission before to get completion visa related with the investment. In case of cancellation of IIC, the Ministry gets guarantee from investors to cover all investment that the investor benefited. It's allowable that investor can sell investments as a whole after getting completion visa and if 5 years past after start of business related that investment. In this case transfer of investment is not allowed.

Another important arrangement on this issue is that without taking into account whether completion visa is done or not, transfer of the investment, couldn't complete 5 years after start of business, as a whole is possible by just changing the title of the investor company registered on the IIC.

5.4. Extension of Investment Period

Investment should be completed in the given time. But if the time period wouldn't be enough then investor can apply for the extension. In this case and after evaluation by Ministry, time period for the investment could be extended half of normally given time period but shouldn't be less than 1 year.

5.5. Financial Leasing

According to Decree, it is possible to use financial leasing tool to finance investments, made within the scope of the IIC. Further, if investments made by using financial leasing, the total amount of leasing of machinery and equipment shall be minimum 200.000 TL for the each financial leasing company.

Also Communiqué has some rules related with the financial leasing of the machinery or equipment that are needed for investments. In this case there is no need to get IIC by the financial leasing companies. But there should be a contract between investor and financial leasing company. Financial Leasing Companies are responsible for the covered investments together with the investors⁴.

5.6 Revision of the IIC and Change on the Price

Communiqué also regulates the revision of the investment incentive certificate. The investor company may request for the revision of the investment incentive certificate in case of a 50 % change (increase or decrease) in the fixed investment amount registered at the incentive certificate. Machinery and equipment that are purchased after obtaining the IIC can be also added list on the IIC if it's compatible with the investment.

In the case of a 100% increase and 50% decrease in the list of imported and domestically purchased machines and equipments' prices, the exemptions are applied without any revision of the machinery & equipment lists.

5.7 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. Request for time extension up to half of the investment period specified in the IIC is possible if the investment cannot be completed within the specified investment 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 institution⁵.

5.8 Force Major and Lost of Documents

For the continuing transaction from the beginning to the completion of investment incentive certificate, in case of natural catastrophes, fire, strike, and similar situations mentioned in the Communiqué shall be deemed force major situations. And, in case of force major, investors have a right for example not to complete investments in a given period and etc.

If investors lost IIC and its attachments except force major situations, They have to pay 300.TL for each document to get new.

5.9 Penalty

According to the Decree, in case of any investor;

- Act against to incentive legislation or
- Don't meet the all requirements registered at IIC or
- Makes fraudulent transactions or
- Makes change on the IIC or all other related documents
- Prepares or uses fake invoice or similar documents or
- Gives wrong information to get IIC or
- Sells machinery and equipment before determined time or
- Not to complete investments in a given time period or
- Does not comply with minimum investment amount,


Investment incentive certificate will be canceled. And, any incentive benefit will be collected with late payment fee and penalty within the conditions, setup in the Decree. That's why investors should be careful before acting.

³ There are also some exemptions that are not mentioned in the text but they can benefit from investment incentives and thus the Communiqué should be checked or investors should apply their advisors.

⁴ See Article 20 of Communiqué No: 2012/1

⁵ Like, chambers of commerce, banks, local authorities or governors of province.

6- Applications



Application procedure has been defined in the Communiqué. According to Communiqué in order for an investment to benefit from these incentives, investment projects should be accepted as eligible by the Directorate in terms of macro-economic programs, supply-demand balances and industrial, fiscal and technical aspects and the investments should be tied to an investment incentive certificate ("IIC").

6.1 Who Can Apply For IIC ?

Persons eligible to apply for an IIC are as follows:

- Individuals
- Partnerships
- Capital stock companies i.e. a joint stock company
- Cooperatives
- Unions
- Joint ventures
- Public institutions and entities
- Institutions of Professionals that have Public Status.
- Associations and foundations
- Local branches of foreign companies

Please note that a company should have already been incorporated in order to obtain an IIC. Such IIC should be obtained by the investor Company. Hence, the investment should be activated in the balance sheet of the investor Company

6.2 Required Documents for the Application to IIC

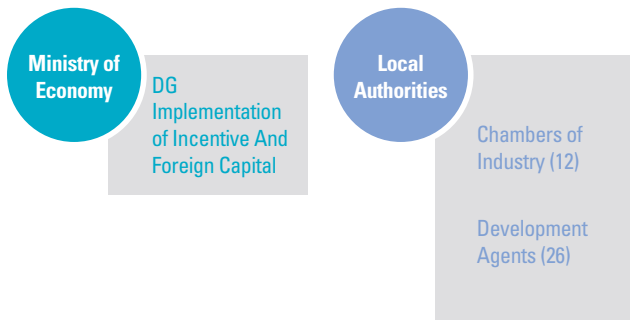
The Documents Required for the Application to IIC are explained in the Communiqué These are;

- Petition for application, signed by investor or person who authorized to act on behalf of the investor.
- Signature statement approved by a Notary for the person, who authorized to act on behalf of the investor, (Attachment no:1 must be used)

- Information form, collateral or guarantee and list of machinery (each page must be signed by person, who authorized to act on behalf of the investor,
- Payment of application fee. (400.- TL) (the bank account number can be found on the Attachment No:9 of Communiqué)
- A document (original copy or notary approved copy of trade registry gazette or Turkish artisan registry gazette) shows final situation of the shareholders and capital structure of the investor company
- A document, obtained from Social Security Institution, about the applicant who doesn't have any social security premium liability,
- A document that includes decision of environmental impact valuation, given by Ministry of Environment and City Planning according to related legislation
- Any documents or information that are needed to be obtained from another public authorities and institutions according to their legislation and documents and information stated in the Communiqué. For the strategic investments, together with sectors, fiscal and technical analysis, feasibility report about whether requirements for the criterion to be met or not by the investor in which they are stated in the Communiqué,
- Other related documents that Ministry may be required later on.

6.3 Where to Apply to Get IIC?

IIC applications are made to Directorate under the Ministry of Economy or Local Authorities. The directorate is DG Implementation of Incentive and Foreign Capital.

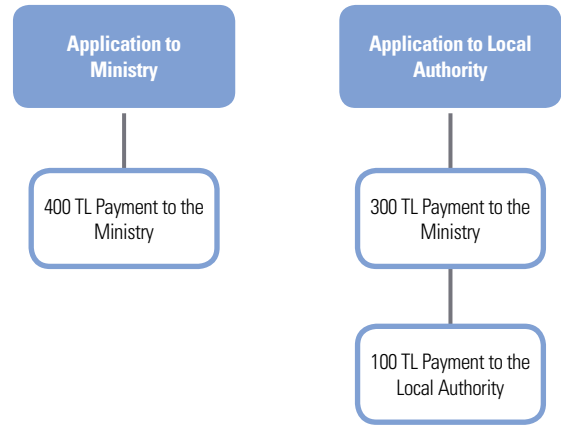


For the application to local authorities 12 chambers of industry are determined. These are Adana, Ankara, Aydın, Balıkesir, Denizli, Aegean District (covers Izmir and Mugla), Eskişehir, Gaziantep, Istanbul, Kayseri, Kocaeli and Konya. Also 26 development agent are authorized for the local application to IIC.

Application to local authorities should be in the general investment incentive scheme and fixed Investment amount shouldn't be over 10 Million TL.

6.4 Application Fee

General application fee is 400.- TL to the Ministry and Local Authority. The following picture shows the how to pay application fee.



Banks	Branch	Branch Code	Account Code	IBAN No
T. Vakıflar Bankası T.A.O	Ministry of Economy	709	158007294005505	TR720001500158007294005505
T. Halk Bankası A.Ş	Necatibey	386	5000029	TR890001200938600005000029

6.5 Application to Interest Support

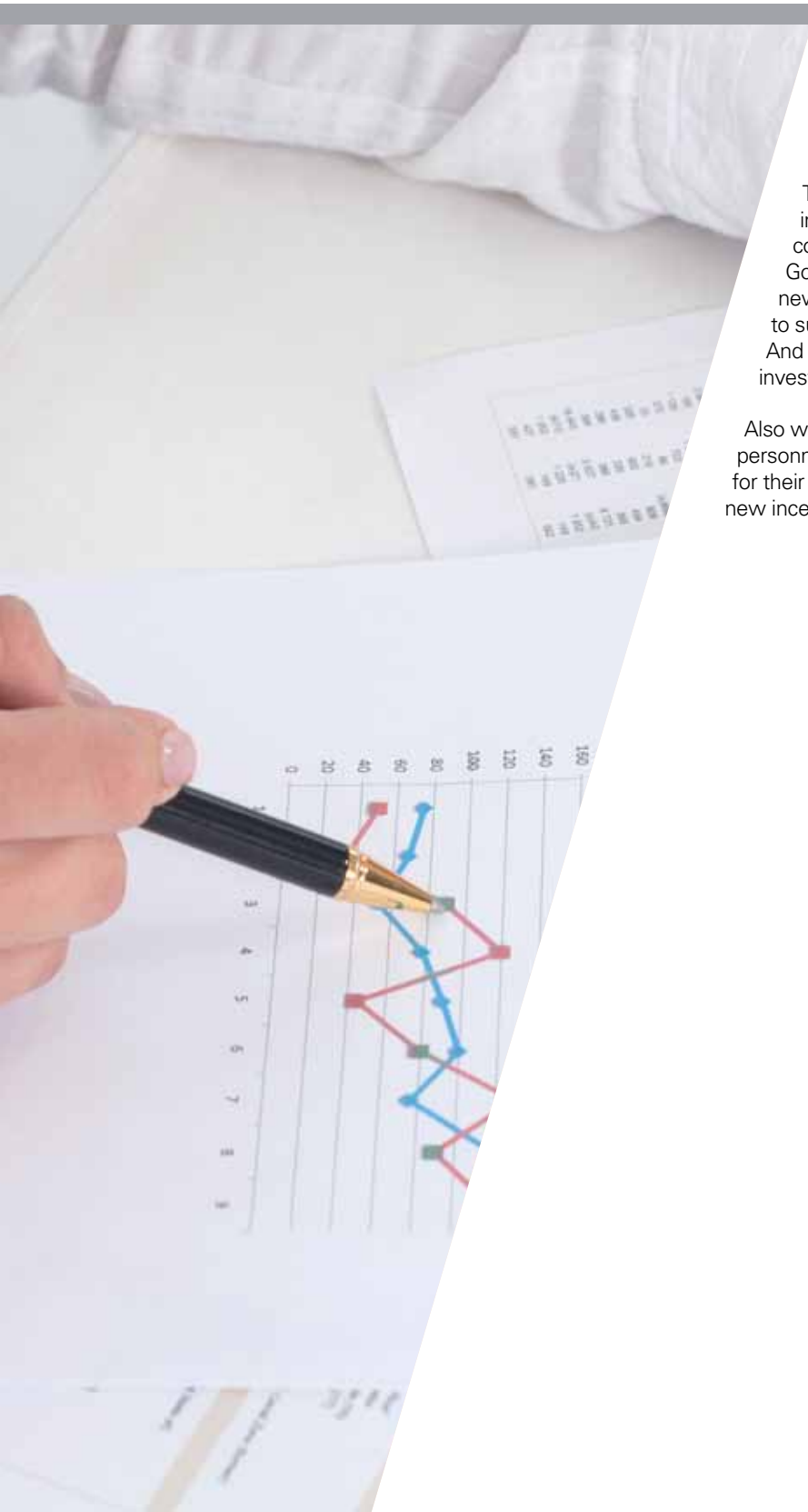
According to Communiqué, the conditions of the interest support will be set up by signing protocol between Ministry and Intermediary entities. And investors who have the right to get interest support registered at their IIC shall apply to one of the intermediaries, signed protocol with Ministry. For the same investment incentive certificate investor cannot apply more than one intermediaries.

To get interest support paid, the investors shouldn't have any unpaid tax and social security premium liability. This situation should be documented by the revenue administration and social security institution.

7- Final Comments

The new Turkish incentive system has been introduced in 2012 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 regime and related legislation we just tried to summarize almost all important points in our publication. And we hope that this publication will be guide for your investment plans in Turkey.

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 program in Turkey.



Contacts

Abdulkadir Kahraman

Partner, Head of Tax

T: +90 216 681 90 04

T: +90 216 681 90 90

E: akahraman@kpmg.com

Timur akmak

Partner, Tax

T: +90 312 491 72 31

F: +90 312 491 71 31

E: tcakmak@kpmg.com

Our Offices

KPMG İstanbul

Kavacık Rüzgarlı Bahe Mah.

Kavak Sok. No: 29

Beykoz 34805 İSTANBUL

T: +90 216 681 90 00

F: +90 216 681 90 90

KPMG Ankara

Turan Güneş Bulvarı,

Galip Erdem Cad. No: 41

Yıldızevler ankaya

06650 Ankara

T: + 90 312 491 72 31

F: + 90 312 491 71 31

KPMG İzmir

1456 Sok. No: 10/1 K:11

Punta İş Merkezi

Alsancak 35220 İzmir

T: + 90 232 464 20 45

F: + 90 232 464 21 45

kpmg.com.tr

kpmgvergi.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation. KPMG International Cooperative, a Swiss entity, Member firms of independent firms are affiliated with KPMG International Cooperative. KPMG International Cooperative provides no client services. No member firm has any authority to obligate or bind KPMG International Cooperative or any other member firm vis-à-vis third parties, nor does KPMG International Cooperative have any such authority or bind any member firm.