

Automotive Industry New Incentive System



The automotive industry has a fairly important prominence within Turkey's 2023 vision. The industry is expected to produce 4 million vehicles per year and export 3 million vehicles per year. In 2023 the industry is expected to reach export levels of 75 Billion USD.

The 2012/3305 numbered addendum regarding the new incentive system that came into force along with the "Decision Regarding Government Supports for Investments" with the Council Of Ministers' Decree has brought a lot of changes and opportunities in automotive industry investments. In 2013 the Turkish government has introduced further new incentives for primary and sub-industry investments with the addendum of the 2013/4288 numbered Council Of Ministers' Decree published in the Official Gazette on 15/02/2013.

What does the new investment incentives offer to automotive industry investments?

1) Minimum Investment Amounts Have Been Decreased

The minimum investment amounts required for the issue of incentive certificates have been decreased with the 2012/3305 numbered Decree in order to increase the number of investments that can benefit from the new incentive system. Accordingly;

- In order companies to benefit from large-scale investments minimum investment amount in "Primary Industry Investments" required for large-scale investments has been decreased from 250 Million TL to 200 Million TL. Minimum investment amount required in "Sub-industry Investments" has also been decreased from 100 Million TL to 50 Million TL.
- The investment amount in sub-industry investments in order companies to benefit from regional investment incentives in every region has been decreased 1 Million Turkish Liras.

2) Some important investments in automotive industry are included in "Priority Investment Incentive" Scope

"Prioritized Investment" concept is among the most important changes brought by the new investment incentive regime. The "Prioritized Investments" are listed under 17th article of the 2012/3305 numbered Decree. **Any investments within the scope of the prioritized investments are eligible to benefit from 5th region investment incentives regardless of the location of the investment.** Companies will be eligible to benefit from the 6th region investment incentives only in

cases when the investment is implemented in the 6th Region. Investments implemented under this scope are provided very strong investment incentives. **"Test centrals, wind tunnels and investments with similar qualifications"**, which are of high importance for the automotive industry, are regarded as prioritized investment under the 2012/3305 numbered Decree.

In addition very substantial and additional incentives have been introduced for primary and sub-industry automotive industry investments above certain amounts with the **15/02/2013 dated and 2013/4288 numbered Decree**. Such investments are included within the scope of prioritized investment and they are:

- **"Primary Industry Investments"** with minimum investment value of 300 Million Turkish Lira
- **"Engine Investments"** with minimum investment value of 75 Million Turkish Lira
- **"Engine components, drive-trains and investments with regards to automotive electronics with these components"** with minimum investment value of 20 Million TL

As mentioned above, all investments implemented within this scope have the opportunity to benefit from incentives provided under the 5th Region investment incentives scheme as per the 2013/4288 numbered Decree regardless of the location of the investment.

Investments incentives for prioritized investments can be listed as below

- VAT exemption
- Customs Tax exemption
- Social Security Premium (SSP) Support Employer's Share for 7 years
- 80% Tax Discount with a 40% rate of contribution to investment
- Interest support up to 700.000 TL,
- Land allocation

In addition investors that perform **such investments can use "50% of the investment contribution" in the investment period.** Incentives provided in the 5th and 6th region are summarized below.

Support Elements	5 th Region	6 th Region
VAT Exemption	+	+
Customs Tax Exemption	+	+
Rate of Contribution to Investments	40	50
Ext. Organized Industrial Zone (%)		
Int. Organized Industrial Zone ¹	50	55
SSP Employer's Share	7 years	10 years
Ext. OIZ		
Int. OIZ ¹	10 years	12 years
Land Allocation	+	+
Interest Support	+	+
Income Tax Withholding Support	-	10 years
SSP Employee's Share	-	10 years

¹ Prioritized investments located in the organized industrial zones can benefit from 5th and 6th region Organized Industrial Zone incentives only in cases when they are located in the 5th and 6th region.

KPMG can deliver;

- Planned investment - Incentive system related advisory services
- Incentives application process management
- Investment process management
- Completion of investment and incentive document closure services

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In below stated table a summary of the incentives are provided under the recently introduced incentive system assuming that the investment is performed in Bursa city which is located in the 1st region.

Support Element	Regional Incentive Supports for the 1 st Region	5 th Region Supports Provided for Prioritized Investments
SSP Employer Share Support	2 YEARS	7 YEARS
Rate of investment Contribution	15 %	40 %
Part of the Investment Contribution Percentage That Can Be Utilized in the Investment Period	None	50% of the Investment Contribution Percentage
Interest Support	Not Provided	Up to 700 Thousand TL

As summarized in the above table recent changes in the investment incentive system has increased the level and duration of supports and enabled companies to benefit from the interest support in contrary to previous incentive exercise.

It is important to point out the fact that the level and duration of some incentives vary according to the period of the investment performed. Investors should consider that according to 2012/3305 numbered Decree, incentives provided to "Prioritized Investment, a type of "Regional Investment Incentives" will benefit from lower and "tax discount and social security premium support employer's share" and also shorter periods for investment they perform after 31/12/2013. Investors should carefully consider timing of their investment in terms of benefits provided in different periods.

3) Investors Have Been Given the Right to Import without Custom Duty In Certain Segments

According to incentive system and with respect to automobile production, In case;

- New investment is made with a minimum of 100.000 units/per year
- or
- The current capacity of present facilities is increased by at least 100.000 units/per year

Investors will be granted permission to import automotives in the A, B and C segments without being subjected to customs duties during the investment period.

In order to obtain supports above ;

- 20% of the fixed investment amount as per registered in the incentive document should be realized.
- The total number of automotive which the import has been permitted within the context of the incentive document, will not exceed 15% of the additional capacity as per registered in the document.

Companies that perform investment with "Engine Production" with incentive document will be allowed to import %15 additional cars of the total engine production capacity.

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