

Turkish Tax Alert

TAX

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Turkish Investment Incentive Regime Expanded to Cover Investments in the Automotive and Energy Generation Sector

Turkey has announced a new Investment Incentive Regimeⁱ in 2012 which replaced the previous investment incentive regulations. Recently, Turkish Council of Ministers announced a further changeⁱⁱ in the Investment Incentive Regime covering qualifying investments in automotive and energy sectors. The summary of the changes are provided below:

Special Incentives for Prioritized Investments

The following definitions for automotive and energy generation investments have been introduced in the list of prioritized investments that can be entitled to special incentives:

Automotive Industry

- Investments in motor vehicle industry with a minimum investment amount of TL 300 million
- Engine production investments with a minimum investment amount of TL 75 million,
- Investments in components of engine, transmission components and their parts, and automotive electronics with a minimum investment amount of TL 20 million.

Electricity generation

- Investments in coal based electricity generation power plants (under a mining and prospecting license – hence only covering electricity generation power plants using local coal resources)

Such qualifying investments are now classified as “Prioritized investments” and can be entitled to the incentives granted for the investments in the 5th region defined in the Investment Incentive Regulations even if the actual investment

may be made in another part of the country. The incentives in the 6th region (i.e. least developed region) can be only entitled if the investments actually take place in this region.

Overview of Incentives Granted for Prioritized Investments in 5th and 6th Regions:

Incentive Types	5 th Region	6 th Region
Value Added Tax exemption	Yes	Yes
Customs duty exemption	Yes	Yes
Corporate tax reduction – contribution to investment ratio*	40% -50%	50% -55%
Social security employer share support	7 years	10 years
Land allocation	Yes	Yes
Interest support on financing	Yes	Yes
Income withholding tax on wages (only in 6th region)	n/a	10 years
Social security employee share support (only in 6th region)	n/a	10 years

**Corporate tax reduction for the investments that are to be started until 31 December 2013 will be entitled to tax reduction in higher amounts.*

General Incentives for Other Investments

- Natural gas based electricity generation power plant investments have been listed as non-qualifying investments and were not entitled to any investment incentives under the new investment incentive regime.
- The natural gas based power plants are now excluded from non-qualifying investments list provided that they have obtained their generation licenses prior to 19 June 2012. Therefore, the natural gas based power plant investments that have obtained license before 19 June 2012 can be entitled to general incentives (i.e. VAT and Customs duty exemption related to investment expenditures)

Application of Incentives Granted in the Scope of Other Legislation/Laws

- Investments that are entitled to incentives in the scope of this legislation cannot benefit from the incentives granted in legislation except for certain specific cases.

Other Highlights

- The amendments will be in force as of 15 February 2013 but effective from 19 July 2012.

Please contact us should you have any questions on the incentives and application of the investment incentives in this bulletin.

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ⁱ Through Decree numbered 2012/3305 and dated 19 June 2012

ⁱⁱ Through Decree numbered 2013/4288 and dated 15 February 2013